Continental Tyre South Africa (Pty) Ltd
(Registration number 1998/005020/07)
Annual Financial Statements
for the year ended 31 December 2021
These annual financial statements were prepared by:
Casey-Anne Isaacs CA (SA)
Finance Manager
Issued 26 April 2022

General Information

Country of incorporation and domicile	South Africa
Nature of business and principal activities	The company is engaged principally in the manufacture and distribution of a wide range of vehicle tyres for the local and export markets
Directors	Mr. M. Buday Mrs. G.L. Jozaffe-Naidoo Dr. V. Pillay Mr. F. Hoyos
Registered office	Cadle Street New Brighton West Port Elizabeth 6001
Business address	Cadle Street New Brighton West Port Elizabeth 6001
Postal address	P.O. Box 699 Port Elizabeth 6000
Holding company	Continental Global Holding Netherlands B.V. incorporated in the Netherlands
Bankers	First National Bank, a division of First Rand Bank Limited
Auditors	PricewaterhouseCoopers Inc
Company registration number	1998/005020/07
Tax reference number	9506422840
Preparer	The annual financial statements were internally compiled by: Casey-Anne Isaacs CA (SA) Finance Manager
Issued	26 April 2022

Index

Directors' Responsibilities and Approval

The Directors are required in terms of the Companies Act, 71 of 2008 to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards and the Companies Act, 71 of 2008.The external auditors are engaged to express an independent opinion on the financial statements.

The annual financial statements are prepared in accordance with International Financial Reporting Standards and the Companies Act, 71 of 2008 and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the Directors to meet these responsibilities, the Board of Directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Directors have reviewed the company's cash flow forecast for the year to 31 December 2022 and, in light of this review and the current financial position, they are satisfied that the company has or had access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the company's financial statements. The financial statements have been examined by the company's external auditors and their report is presented on pages 7 to 9.

The annual financial statements set out on page 4-62, which have been prepared on the going concern basis, were approved by the Board on 26 April 2022 and were signed on their behalf by:

Signed on behalf of the Board of Directors by:

Mr. F. Hoyos

Directors' Report

The Directors have pleasure in submitting their report on the annual financial statements of Continental Tyre South Africa (Pty) Ltd for the year ended 31 December 2021.

1. Nature of business

Continental Tyre South Africa (Pty) Ltd was incorporated in South Africa with interests in the Manufacturing industry. The company operates in South Africa.

The company is engaged in the manufacture and distribution of a wide range of vehicle tyres for the local and export market.

As an integrated part of Continental AG Corporation, the governance of the company is based on corporate standard by laws, and corporate policies.

There have been no material changes to the nature of the company's business from the prior year.

2. Review of financial results and activities

The annual financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 71 of 2008. The accounting policies have been applied consistently compared to the prior year.

Full details of the financial position, results of operations and cash flows of the company are set out in these annual financial statements.

3. Share capital

There have been no changes to the authorised or issued share capital during the year under review.

4. Dividends

The company's dividend policy is to consider an interim and a final dividend in respect of each financial year. At its discretion, the Board may consider a special dividend, where appropriate. Depending on the perceived need to retain funds for expansion or operating purposes, the Board may pass on the payment of dividends.

Given the current state of the global economic environment, the Board believes that it would be more appropriate for the company to conserve cash and maintain adequate debt headroom to ensure that the company is best placed to withstand any prolonged adverse economic conditions. Therefore the Board has resolved not to declare a dividend for the financial year ended 31 December 2021.

5. Insurance and risk management

The company follows a policy of reviewing the risks relating to assets and possible liabilities arising from business transactions with its insurers on an annual basis. Wherever possible assets are automatically included.
All risks are considered to be adequately covered.

6. Directorate

The directors in office at the date of this report are as follows:

Directors	Office	Designation	Nationality	Changes
Mr. M. Buday	Director	Executive	Slovakian	Appointed 1 March 2021
Mr. J.J. Dowling	Director	Executive	South African	Resigned 1 March 2021
Mrs. G.L. Jozaffe-Naidoo	Director	Executive	South African	
Dr. V. Pillay	Director	Non-executive Independent	South African	
Mr. P.W.U.G. von Hirschheydt	Chairperson	Non-executive	German	Resigned 1 January 2022
Mr. F. Hoyos	Chairperson	Non-executive	German	Appointed 1 January 2022

Directors' Report

Mr. J.J. Dowling temporarily appointed on 8 October 2020 as the Managing Director resigned on 1 March 2021.
Mr. M. Buday was appointed as his successor on 1 March 2021.

Mr. P.W.U.G. von Hirschheydt was replaced by Ferdinand Hoyos as chairperson of the board on 1 January 2022.

7. Property, plant and equipment

There was no change in the nature of the property, plant and equipment of the company or in the policy regarding their use.

At 31 December 2021 the company's investment in property, plant and equipment amounted to R551 969 000 (2020: R 564 830 000) of which R110 899 000 (2020: R109 744 000) was added in the current year through acquisitions.

8. Holding company

The company's holding company is Continental Global Holding Netherlands B.V. which holds 100% (2020: 100%) of the company's equity. Continental Global Holding Netherlands B.V. is incorporated in the Netherlands.

9. Special resolutions

No special resolutions, the nature of which might be significant to the shareholders in their appreciation of the state of affairs of the company, were made by the company during the period covered by this report.

10. Events after the reporting period

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

The 2022 Budget Speech was delivered by the Minister of Finance in February 2022. The corporate tax rate will be reduced from 28% to 27% for years of assessment commencing on or after 31 March 2023. The impact of the tax rate reduction will only apply in the 2023 financial year.

The political war between Russia and Ukraine commenced in February 2022. The ongoing war does not directly impact the operations of the company to date.

11. Going concern

The credit risk and payment behaviour of debtors have not been materially impacted. No changes in credit terms were made with suppliers.

Management is reviewing the cash flows of the Company on a continuous basis and conditions that affect, or may affect, the future performance of the Company. In making the going concern assessment, management considered the period up to 12 months after the end of the reporting period.

The ongoing Russia / Ukraine war has not directly impacted the performance of the company to date and therefore does not cast doubt on the company's ability to continue as a going concern.

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Directors' Report

12. Contingent liability

The company becomes involved from time to time in claims incidental to the ordinary course of business.

In 2010, the Competition Commissioner referred a complaint to the Competition Tribunal against the Tyre Manufacturing Industry for alleged contraventions of the Competition Act 89 of 1998. The alleged activities in the industry, span the years between 1999 and 2007 and relate to the revenue streams that generated income in the OE market, replacement market and the State Tender Board. The Commissioner seeks a penalty against Continental of 10% of annual turnover for the 2008 financial year which may be limited to one or more of the above-mentioned streams. The matter was meant to proceed to trial from 31st January until 3rd March 2022. The tribunal was however unable to hear all the oral evidence in the time allocated and the remaining evidence will be heard in September 2022. Continental Tyre South Africa continues to defend the matter.

13. Auditors

Pricewaterhouse Coopers have been appointed as the independent external auditors of the company for the 2021 financial year.

Independent auditor's report

To the Shareholder of Continental Tyre South Africa (Pty) Ltd

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Continental Tyre South Africa (Pty) Ltd (the Company) as at 31 December 2021, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Continental Tyre South Africa (Pty) Ltd's financial statements set out on pages 10 to 62 comprise:

- the statement of financial position as at 31 December 2021;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled Continental Tyre South Africa (Pty) Ltd Annual Financial Statements for the year ended 31 December 2021, which includes the Directors' Report as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements 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 statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are 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 ISAs 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 these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, 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 Company'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 Company'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 statements 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the business activities within the Entity to express an opinion on the entity financial statements. We are responsible for the direction, supervision and performance of the 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.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: CF Lane
Registered Auditor
Gqeberha, South Africa
26 April 2022

Statement of Financial Position as at 31 December 2021

	Note(s)	2021 R '000	Restated 2020 R '000
Assets			
Non-Current Assets			
Property, plant and equipment	3	551,969	564,830
Right-of-use assets	4	95,008	19,331
		646,977	**584,161**
Current Assets			
Inventories	5	597,924	367,982
Trade and other receivables	6	411,810	377,621
Other financial assets	7	13,191	1,501
Current tax receivable	8	-	177
Non-current assets held for sale and assets of disposal groups	9	-	24,918
Amounts owing by group companies	10	61,343	39,921
Cash and cash equivalents	11	566,990	587,051
		1,651,258	**1,399,171**
Total Assets		**2,298,235**	**1,983,332**
Equity and Liabilities			
Equity			
Stated capital	12	115,470	115,470
Reserves	14&13	289,379	291,566
Retained income		997,523	810,708
		1,402,372	**1,217,744**
Liabilities			
Non-Current Liabilities			
Lease liabilities	15	91,821	13,869
Retirement benefit obligation	36&29	29,980	27,142
Deferred tax	16	37,733	39,035
		159,534	**80,046**
Current Liabilities			
Trade and other payables	17	209,588	205,337
Lease liabilities	15	14,026	7,020
Current tax payable	8	884	-
Provisions	18	1,543	6,521
Other current liabilities	19	163,846	126,568
Amounts due to group companies	20	346,442	340,096
		736,329	**685,542**
Total Liabilities		**895,863**	**765,588**
Total Equity and Liabilities		**2,298,235**	**1,983,332**

Statement of Profit or Loss and Other Comprehensive Income

	Note(s)	2021 R '000	2020 R '000
Revenue	22	3,105,618	2,259,092
Cost of sales		(2,371,493)	(1,863,902)
Gross profit		**734,125**	**395,190**
Other income	23	124,195	85,498
Impairment loss	9	(28,985)	-
Other operating expenses		(586,069)	(526,769)
Operating profit / (loss)	24	**243,266**	**(46,081)**
Investment income	25	58,278	61,496
Finance costs	26	(45,286)	(58,114)
Profit / (Loss) before taxation		**256,258**	**(42,699)**
Taxation	27	(69,443)	12,088
Profit / (Loss) for the year		**186,815**	**(30,611)**
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Defined benefit plan actuarial (loss)/gain		(3,038)	4,755
Income tax relating to other comprehensive income		851	(1,331)
Total items that may be reclassified to profit or loss		**(2,187)**	**3,424**
Other comprehensive income for the year net of taxation	29	**(2,187)**	**3,424**
Total comprehensive income / (loss) for the year		**184,628**	**(27,187)**

Statement of Changes in Equity

	Share Capital R '000	Share Premium R '000	Total Stated Capital R '000	Special Reserve R '000	Fair Value Reserve R '000	Share Buy Back Reserve R '000	Total reserves R '000	Retained income R '000	Total equity R '000
Balance at 01 January 2020	**201**	**115,269**	**115,470**	**65,594**	**(17,452)**	**240,000**	**288,142**	**841,319**	**1,244,931**
Loss for the year	-	-	-	-	-	-	-	(30,611)	(30,611)
Other comprehensive income	-	-	-	-	3,424	-	3,424	-	3,424
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**3,424**	**-**	**3,424**	**(30,611)**	**(27,187)**
Balance at 01 January 2021	**201**	**115,269**	**115,470**	**65,594**	**(14,028)**	**240,000**	**291,566**	**810,708**	**1,217,744**
Profit for the year	-	-	-	-	-	-	-	186,815	186,815
Other comprehensive income	-	-	-	-	(2,187)	-	(2,187)	-	(2,187)
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(2,187)**	**-**	**(2,187)**	**186,815**	**184,628**
Balance at 31 December 2021	**201**	**115,269**	**115,470**	**65,594**	**(16,215)**	**240,000**	**289,379**	**997,523**	**1,402,372**
Notes	12	12	12	13		14			

Statement of Cash Flows

	Note(s)	2021 R '000	Restated 2020 R '000
Cash flows from operating activities			
Cash generated from operations	28	170,800	417,388
Interest received	25	58,278	61,496
Interest paid	26	(42,450)	(52,571)
Income taxes paid	8	(69,185)	(174)
Net cash from operating activities		**117,443**	**426,139**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(110,899)	(109,744)
Proceeds from sale of property, plant and equipment	3	1,135	2,841
Proceeds from sale of assets held for sale	9	8,591	475
BBBEE loans advanced	7	(13,191)	(1,501)
BBBEE loans repaid	7	1,501	2,116
Net cash from investing activities		**(112,863)**	**(105,813)**
Cash flows from financing activities			
Payment on lease liabilities	15	(24,641)	(29,298)
Total cash and cash equivalents movement for the year		**(20,061)**	**291,028**
Cash and cash equivalents at the beginning of the year		587,051	296,023
Total cash and cash equivalents at the end of the year	11	**566,990**	**587,051**

Accounting Policies

1. Significant accounting policies

The principal accounting policies applied in the preparation of these annual financial statements are set out below.

1.1 Basis of preparation

The financial statements have been prepared on the going concern basis in accordance with, and in compliance with, International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective at the time of preparing these financial statements and the requirements of the Companies Act of South Africa.

The financial statements have been prepared on the historic cost convention, unless otherwise stated in the accounting policies which follow and incorporate the principal accounting policies set out below. They are presented in Rands, which is the company's functional currency.

These accounting policies are consistent with the previous period, except for the changes set out in the note dealing with International Financial Reporting Standards.

1.2 Significant judgements and sources of estimation uncertainty

The preparation of annual financial statements in conformity with IFRS requires management, from time to time, to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses.

These judgements, estimates and assumptions were applied to the provision for credit loss; the useful lives, residual values and impairment of property, plant and equipment; the extent and value of deferred tax, deferred income, post retirement medical liability and contingent liabilities.

These estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

1.3 Property, plant and equipment

Property, plant and equipment are tangible assets which the company holds for its own use or for rental to others and which are expected to be used for more than one year.

An item of property, plant and equipment is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the company, and the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost. Cost includes all of the expenditure which is directly attributable to the acquisition or construction of the asset and adjustments in respect of hedge accounting, where appropriate.

Expenditure incurred subsequently for major services, additions to or replacements of parts of property, plant and equipment are capitalised if it is probable that future economic benefits associated with the expenditure will flow to the company and the cost can be measured reliably. Day to day servicing costs are included in profit or loss in the year in which they are incurred.

Property, plant and equipment is subsequently stated at cost less accumulated depreciation and any accumulated impairment losses, except for land which is stated at cost less any accumulated impairment losses.

Accounting Policies

1.3 Property, plant and equipment (continued)

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the asset's economic benefits are consumed by the company. Leased assets are depreciated in a consistent manner over the shorter of their expected useful lives and the lease term. Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognised.

Land is a non-depreciable asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Buildings	Straight line	5 - 25 years
Plant and machinery	Straight line	1 - 20 years
Furniture and fixtures	Straight line	10 years
Motor vehicles	Straight line	4 years
IT equipment	Straight line	4 years
Computer software	Straight line	2 - 4 years
Moulds	Straight line	4 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate.

Impairment tests are performed on property, plant and equipment when there is an indicator that they may be impaired. When the carrying amount of an item of property, plant and equipment is assessed to be higher than the estimated recoverable amount, an impairment loss is recognised immediately in profit or loss to bring the carrying amount in line with the recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of property, plant and equipment, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in profit or loss when the item is derecognised.

1.4 Intangible assets

An intangible asset is recognised when:
- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Accounting Policies

1.4 Intangible assets (continued)

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life. Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	3 years

1.5 Financial instruments

Financial instruments held by the company are classified in accordance with the provisions of IFRS 9 Financial Instruments.

Broadly, the classifications adopted by the company, as applicable, are as follows:

Financial assets which are equity instruments:
- Mandatorily at fair value through profit or loss; or
- Designated as at fair value through other comprehensive income. This designation is not available to equity instruments which are held for trading or which are contingent consideration in a business combination.

Financial assets which are debt instruments:
- Amortised cost. This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is met by holding the instrument to collect contractual cash flows; or
- Fair value through other comprehensive income. This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is achieved by both collecting contractual cash flows and selling the instruments; or
- Mandatorily at fair value through profit or loss. This classification automatically applies to all debt instruments which do not qualify as at amortised cost or at fair value through other comprehensive income; or
- Designated at fair value through profit or loss. This classification option can only be applied when it eliminates or significantly reduces an accounting mismatch.

Derivatives which are not part of a hedging relationship:
- Mandatorily at fair value through profit or loss.

Financial liabilities:
- Amortised cost; or
- Mandatorily at fair value through profit or loss. This applies to contingent consideration in a business combination or to liabilities which are held for trading; or
- Designated at fair value through profit or loss. This classification option can be applied when it eliminates or significantly reduces an accounting mismatch; the liability forms part of a group of financial instruments managed on a fair value basis; or it forms part of a contract containing an embedded derivative and the entire contract is designated as at fair value through profit or loss.

Note 37 Financial instruments and risk management presents the financial instruments held by the company based on their specific classifications.

Accounting Policies

1.5 Financial instruments (continued)

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

The specific accounting policies for the classification, recognition and measurement of each type of financial instrument held by the company are presented below:

Loans receivable at amortised cost

Classification

Loans, are classified as financial assets subsequently measured at amortised cost.

They have been classified in this manner because the contractual terms of these loans give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the company's business model is to collect the contractual cash flows on these loans.

Recognition and measurement

Loans receivable are recognised when the company becomes a party to the contractual provisions of the loan. The loans are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost.

The amortised cost is the amount recognised on the loan initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

Application of the effective interest method

Interest income is calculated using the effective interest method, and is included in profit or loss in investment income (note 25).

The application of the effective interest method to calculate interest income on a loan receivable is dependent on the credit risk of the loan as follows:

- The effective interest rate is applied to the gross carrying amount of the loan, provided the loan is not credit impaired. The gross carrying amount is the amortised cost before adjusting for a loss allowance.
- If a loan is purchased or originated as credit-impaired, then a credit-adjusted effective interest rate is applied to the amortised cost in the determination of interest. This treatment does not change over the life of the loan, even if it is no longer credit-impaired.
- If a loan was not purchased or originally credit-impaired, but it has subsequently become credit-impaired, then the effective interest rate is applied to the amortised cost of the loan in the determination of interest. If, in subsequent periods, the loan is no longer credit impaired, then the interest calculation reverts to applying the effective interest rate to the gross carrying amount.

Impairment

The company recognises a loss allowance for expected credit losses on all loans receivable measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective loans.

The company measures the loss allowance at an amount equal to lifetime expected credit losses (lifetime ECL) when there has been a significant increase in credit risk since initial recognition. If the credit risk on a loan has not increased significantly since initial recognition, then the loss allowance for that loan is measured at 12 month expected credit losses (12 month ECL).

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a loan. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a loan that are possible within 12 months after the reporting date.

Accounting Policies

1.5 Financial instruments (continued)

In order to assess whether to apply lifetime ECL or 12 month ECL, in other words, whether or not there has been a significant increase in credit risk since initial recognition, the company considers whether there has been a significant increase in the risk of a default occurring since initial recognition rather than at evidence of a loan being credit impaired at the reporting date or of an actual default occurring.

Significant increase in credit risk

In assessing whether the credit risk on a loan has increased significantly since initial recognition, the company compares the risk of a default occurring on the loan as at the reporting date with the risk of a default occurring as at the date of initial recognition.

The company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information.

Irrespective of the outcome of the above assessment, the credit risk on a loan is always presumed to have increased significantly since initial recognition if the contractual payments are more than 30 days past due, unless the company has reasonable and supportable information that demonstrates otherwise.

By contrast, if a loan is assessed to have a low credit risk at the reporting date, then it is assumed that the credit risk on the loan has not increased significantly since initial recognition.

The company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increases in credit risk before the amount becomes past due.

Definition of default

For purposes of internal credit risk management purposes, the company consider that a default event has occurred if there is either a breach of financial covenants by the counterparty, or if internal or external information indicates that the counterparty is unlikely to pay its creditors in full (without taking collateral into account).

Irrespective of the above analysis, the company considers that default has occurred when a loan instalment is more than 90 days past due unless there is reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Accounting Policies

1.5 Financial instruments (continued)

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default.

The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. The exposure at default is the gross carrying amount of the loan at the reporting date.

Lifetime ECL is measured on a collective basis in cases where evidence of significant increases in credit risk are not yet available at the individual instrument level. Loans are then grouped in such a manner that they share similar credit risk characteristics, such as nature of the loan, external credit ratings (if available), industry of counterparty etc.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

If the company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the company measures the loss allowance at an amount equal to 12 month ECL at the current reporting date, and visa versa.

An impairment gain or loss is recognised for all loans in profit or loss with a corresponding adjustment to their carrying amount through a loss allowance account.

Credit risk

Details of credit risk related to loans receivable are included in the specific notes and the financial instruments and risk management note 37.

Trade and other receivables

Classification

Trade and other receivables, excluding, when applicable, VAT and prepayments, are classified as financial assets subsequently measured at amortised cost (note 6).

They have been classified in this manner because their contractual terms give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the company's business model is to collect the contractual cash flows on trade and other receivables.

Recognition and measurement

Trade and other receivables are recognised when the company becomes a party to the contractual provisions of the receivables. They are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost.

The amortised cost is the amount recognised on the receivable initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

Accounting Policies

1.5 Financial instruments (continued)

Application of the effective interest method

For receivables which contain a significant financing component, interest income is calculated using the effective interest method, and is included in profit or loss in investment income (note 25).

The application of the effective interest method to calculate interest income on trade receivables is dependent on the credit risk of the receivable as follows:

- The effective interest rate is applied to the gross carrying amount of the receivable, provided the receivable is not credit impaired. The gross carrying amount is the amortised cost before adjusting for a loss allowance.
- If a receivable is a purchased or originated as credit-impaired, then a credit-adjusted effective interest rate is applied to the amortised cost in the determination of interest. This treatment does not change over the life of the receivable, even if it is no longer credit-impaired.
- If a receivable was not purchased or originally credit-impaired, but it has subsequently become credit-impaired, then the effective interest rate is applied to the amortised cost of the receivable in the determination of interest. If, in subsequent periods, the receivable is no longer credit impaired, then the interest calculation reverts to applying the effective interest rate to the gross carrying amount.

Trade and other receivables denominated in foreign currencies

When trade and other receivables are denominated in a foreign currency, the carrying amount of the receivables are determined in the foreign currency. The carrying amount is then translated to the Rand equivalent using the spot rate at the end of each reporting period. Any resulting foreign exchange gains or losses are recognised in profit or loss in other operating gains (losses).

Details of foreign currency risk exposure and the management thereof are provided in the financial instruments and risk management note.

Impairment

The company recognises a loss allowance for expected credit losses on trade and other receivables, excluding VAT and prepayments. The amount of expected credit losses is updated at each reporting date.

The company measures the loss allowance for trade and other receivables at an amount equal to lifetime expected credit losses (lifetime ECL), which represents the expected credit losses that will result from all possible default events over the expected life of the receivable.

Measurement and recognition of expected credit losses

The company makes use of a provision matrix as a practical expedient to the determination of expected credit losses on trade and other receivables. The provision matrix is based on historic credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current and forecast direction of conditions at the reporting date, including the time value of money, where appropriate.

The customer base is widespread and does not show significantly different loss patterns for different customer segments. The loss allowance is calculated on a collective basis for all trade and other receivables in totality.

An impairment gain or loss is recognised in profit or loss with a corresponding adjustment to the carrying amount of trade and other receivables, through use of a loss allowance account. The impairment loss is included in other operating expenses in profit or loss as a movement in credit loss allowance (note 24).

Write off policy

The company writes off a receivable when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Receivables written off may still be subject to enforcement activities under the company recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Accounting Policies

1.5 Financial instruments (continued)

Credit risk

Details of credit risk are included in the trade and other receivables note (note 6) and the financial instruments and risk management note 37.

Derecognition

Refer to the derecognition section of the accounting policy for the policies and processes related to derecognition.

Any gains or losses arising on the derecognition of trade and other receivables is included in profit or loss in the derecognition gains (losses) on financial assets at amortised cost line item.

Trade and other payables

Classification

Trade and other payables (note 17), excluding VAT and amounts received in advance, are classified as financial liabilities subsequently measured at amortised cost.

Recognition and measurement

They are recognised when the company becomes a party to the contractual provisions, and are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or where appropriate, a shorter period, to the amortised cost of a financial liability.

If trade and other payables contain a significant financing component, and the effective interest method results in the recognition of interest expense, then it is included in profit or loss in finance costs (note 26).

Trade and other payables expose the company to liquidity risk and possibly to interest rate risk. Refer to the financial risk exposure and management note 37 setting out details thereof.

Trade and other payables denominated in foreign currencies

When trade payables are denominated in a foreign currency, the carrying amount of the payables are determined in the foreign currency. The carrying amount is then translated to the Rand equivalent using the spot rate at the end of each reporting period. Any resulting foreign exchange gains or losses are recognised in profit or loss in the other operating gains (losses).

Details of foreign currency risk exposure and the management thereof are provided in the financial instruments and risk management note 37.

Derecognition

Refer to the "derecognition" section of the accounting policy for the policies and processes related to derecognition.

Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, 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. These are initially recorded at fair value and subsequently measured at amortised cost, using the effective interest rate method.

Accounting Policies

1.6 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit or tax loss.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting profit nor taxable profit or tax loss.

A deferred tax asset is recognised for the carry forward of unused tax losses and unused STC credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused STC credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:
- a transaction or event which is recognised, in the same or a different period, to other comprehensive income, or
- a business combination.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

1.7 Leases

The company assesses whether a contract is, or contains a lease, at the inception of the contract.

A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

In order to assess whether a contract is, or contains a lease, management determine whether the asset under consideration is "identified", which means that the asset is either explicitly or implicitly specified in the contract and that the supplier does not have a substantial right of substitution throughout the period of use. Once management has concluded that the contract deals with an identified asset, the right to control the use thereof is considered. To this end, control over the use of an identified asset only exists when the company has the right to substantially all of the economic benefits from the use of the asset as well as the right to direct the use of the asset.

In circumstances where the determination of whether the contract is or contains a lease requires significant judgement, the relevant disclosures are provided in the significant judgments and sources of estimation uncertainty section of these accounting policies.

Accounting Policies

1.7 Leases (continued)

Company as lessee

A lease liability and corresponding right-of-use asset are recognised at the lease commencement date, for all lease agreements for which the company is a lessee, except for short-term leases of 12 months or less, or leases of low value assets. For these leases, the company recognises the lease payments as an operating expense (note 24) on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The various lease and non-lease components of contracts containing leases are accounted for separately, with consideration being allocated to each lease component on the basis of the relative stand-alone prices of the lease components and the aggregate stand-alone price of the non-lease components (where non-lease components exist).

However as an exception to the preceding paragraph, the company has elected not to separate the non-lease components for leases of land and buildings.

Details of leasing arrangements where the company is a lessee are presented in note 15 Leases (company as lessee).

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:
- fixed lease payments, including in-substance fixed payments, less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the company under residual value guarantees;
- the exercise price of purchase options, if the company is reasonably certain to exercise the option;
- lease payments in an optional renewal period if the company is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease, if the lease term reflects the exercise of an option to terminate the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability (or right-of-use asset). The related payments are recognised as an expense in the period incurred and are included in operating expenses.

The lease liability is presented as a separate line item on the Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made. Interest charged on the lease liability is included in finance costs (note 26).

The company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) when:
- there has been a change to the lease term, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- there has been a change in the assessment of whether the company will exercise a purchase, termination or extension option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- there has been a change to the lease payments due to a change in an index or a rate, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
- there has been a change in expected payment under a residual value guarantee, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate;
- a lease contract has been modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised payments using a revised discount rate.

Accounting Policies

1.7 Leases (continued)

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognised in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Right-of-use assets

Right-of-use assets are presented as a separate line item on the Statement of Financial Position.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. However, if a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of a lease.

For right-of-use assets which are depreciated over their useful lives, the useful lives are determined consistently with items of the same class of property, plant and equipment. Refer to the accounting policy for property, plant and equipment for details of useful lives.

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate. Each part of a right-of-use asset with a cost that is significant in relation to the total cost of the asset is depreciated separately.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

1.8 Inventories

Inventories are measured at the lower of cost and net realisable value on the first-in-first-out basis.

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.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

When inventories are sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Accounting Policies

1.9 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets or disposal groups held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

A non-current asset is not depreciated or amortised while it is classified as held for sale, or while it is part of a disposal group classified as such.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in profit or loss.

1.10 Impairment of non-financial assets

The company assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the company estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the company also:
- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.
- tests goodwill acquired in a business combination for impairment annually.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the units. The impairment loss is allocated to reduce the carrying amount of the assets of the unit in the following order:
- first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit and
- then, to the other assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.11 Share capital and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Accounting Policies

1.11 Share capital and equity (continued)

Ordinary shares are recognised at par value and classified as 'share capital' in equity. Any amounts received from the issue of shares in excess of par value is classified as 'share premium' in equity. Dividends are recognised as a liability in the company in which they are declared.

1.12 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the company's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected unit credit method.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the statement of changes in equity and in the balance sheet.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the company is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In profit or loss, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduced by the fair value of plan assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan. For defined contribution plans, the company pays contributions to publicly or privately administered medical aid plans on a mandatory, contractual or voluntary basis. The company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Accounting Policies

1.13 Provisions and contingencies

Provisions are recognised when:
- the company has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Provisions are not recognised for future operating losses.

If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the business or part of a business concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for terminating their services;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised.

1.14 Government grants

Government grants are recognised when there is reasonable assurance that:
- the company will comply with the conditions attaching to them; and
- the grants will be received.

Both conditions are equally important for the recognition and both have to be fulfilled. To comply with the conditions attached to the grant, this requires that the company's performance is complete and that there is a high probability to fulfil the conditions for a non-reimbursement.

A grant relating to assets is deducted from acquisition costs reducing future depreciation charges.

Production rebates earned under the Automotive Productive Plan (APDP) are recognised on the accrual basis.

1.15 Revenue from contracts with customers

The company recognises revenue from the following major sources:
- Sale of manufactured goods

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The company recognises revenue when it transfers control of a product or service to a customer.

Accounting Policies

Revenue from contracts with customers (continued)

The sale of manufactured goods

The company sells various manufactured tyres. Revenue is recognised at a point in time for sales of goods. For sales of goods to customers, revenue is recognised when control of the goods has transferred, being at the point the customer accepts delivery of the goods. Payment of the transaction price is due within the payment term period, applicable for each individual customer, at the point the customer accepts delivery of the goods. A receivable is recognised for these customers accordingly. No financing element is recognised as the payment terms are within the payment term period. The maximum payment terms provided to local customers is 60 days and export customers 90 days.

Warranties

The company makes provision for warranties on the sale of tyres to customers. The provision for warranty claims as at 31 December 2021 were raised for expected warranty claims on tyres sold during the last five years, as the group provides five year warranties for tyres manufactured. The provision has been calculated by weighing all possible outcomes by their associated probabilities, as derived from past experience.

1.16 Cost of sales

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.17 Translation of foreign currencies

Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in Rands, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period:
- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

In circumstances where the company receives or pays an amount in foreign currency in advance of a transaction, the transaction date for purposes of determining the exchange rate to use on initial recognition of the related asset, income or expense is the date on which the company initially recognised the non-monetary item arising on payment or receipt of the advance consideration.

If there are multiple payments or receipts in advance, company determines a date of transaction for each payment or receipt of advance consideration.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous annual financial statements are recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised to other comprehensive income and accumulated in equity, any exchange component of that gain or loss is recognised to other comprehensive income and accumulated in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Cash flows arising from transactions in a foreign currency are recorded in Rands by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

Accounting Policies

1.18 Finance income / expense

Finance income comprises interest income on funds invested and changes in fair value of financial assets and liabilities at fair value through profit or loss. Interest income is recognised as it accrues in profit and loss, using the effective interest method.

Finance costs comprise interest expense on loans and borrowings and changes in the fair value of financial assets and liabilities at fair value through profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit and loss using the effective interest method.

1.19 Research and development expenditure

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit and loss as incurred.

Development expenditure is capitalised only if the expenditure can be measured reliably; the product or process is technically and commercially feasible; the future economic benefits are probable; and the company intends to and has sufficient resources to complete development and to use or sell the asset.

Otherwise, it is recognised in profit or loss as incurred.

Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

Notes to the Annual Financial Statements

2. New Standards and Interpretations

2.1 New and amended standards adopted in the current year

The company has applied the following amendments for the first time for their annual reporting period commencing 1 January 2021:
• Covid-19-Related Rent Concessions – amendments to IFRS 16, and
• Interest Rate Benchmark Reform – Phase 2 – amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

2.2 New Standards and Interpretations not yet adopted

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the company. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Notes to the Annual Financial Statements

3.

Property, plant and equipment

	2021			2020		
	Cost R'000	**Accumulated depreciation** R'000	**Carrying value** R'000	**Cost** R'000	**Accumulated depreciation** R'000	**Carrying value** R'000
Land	1,425	-	1,425	1,425	-	1,425
Buildings	118,020	(70,575)	47,445	118,015	(65,348)	52,667
Plant and machinery	1,802,480	(1,374,177)	428,303	1,553,042	(1,142,004)	411,038
Computer software	14,973	(14,759)	214	14,954	(14,371)	583
Capital work in progress	74,582	-	74,582	99,117	-	99,117
Total	**2,011,480**	**(1,459,511)**	**551,969**	**1,786,553**	**(1,221,723)**	**564,830**

Reconciliation of property, plant and equipment - 2021

	Opening balance R'000	**Additions** R'000	**Disposals** R'000	**Transfers** R'000	**Depreciation** R'000	**Impairment loss** R'000	**Total** R'000
Land	1,425	-	-	-	-	-	1,425
Buildings	52,667	5	-	-	(5,227)	-	47,445
Plant and machinery	411,038	56,418	(1,135)	78,144	(116,162)	-	428,303
Computer software	583	-	-	114	(483)	-	214
Capital work in progress	99,117	54,476	-	(78,258)	-	(753)	74,582
	564,830	**110,899**	**(1,135)**	**-**	**(121,872)**	**(753)**	**551,969**

Notes to the Annual Financial Statements

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance R'000	Additions R'000	Disposals R'000	Transfers R'000	Depreciation R'000	Total
Land	1,425	-	-	-	-	1,425
Buildings	55,882	-	-	1,987	(5,202)	52,667
Plant and machinery	444,686	1,193	(1,467)	90,391	(123,765)	411,038
Computer software	1,158	-	-	219	(794)	583
Capital work in progress	83,163	108,551	-	(92,597)	-	99,117
	586,314	**109,744**	**(1,467)**	**-**	**(129,761)**	**564,830**

Details of properties

Land and buildings
Freehold land and buildings comprise the following properties, at cost:

Remainder of Erf 119 New Brighton West, Port Elizabeth, Eastern Cape

In the extent of 18,9055 hectares		
First registered by Certificate of Consolidated Tile T34054/1985		
- Purchase price: 1 December 2005	1,425	1,425
- Additions since purchase or valuation	118,020	118,015
	119,445	**119,440**

The open market value placed on the Company's land and buildings by the local municipal authorities as at 11 February 2022 was R121,200,000 (2020: R121,200,000).

Notes to the Annual Financial Statements

4. Right-of-use assets

	2021			2020		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
	R'000	R'000	R'000	R'000	R'000	R'000
Buildings	148,659	(56,774)	91,885	67,410	(49,531)	17,879
Plant and Machinery	5,932	(2,809)	3,123	3,785	(2,333)	1,452
	154,591	**(59,583)**	**95,008**	**71,195**	**(51,864)**	**19,331**

Reconciliation of right-of-use assets - 2021

	Buildings	Plant and machinery	Total
	R'000	R'000	R'000
At 1 January 2021	17,879	1,452	19,331
Additions	103,218	3,912	107,130
Depreciation	(20,458)	(2,026)	(22,484)
Impairment	(8,753)	-	(8,753)
Disposal	-	(216)	(216)
At 31 December 2021	**91,886**	**3,122**	**95,008**

Reconciliation of right-of-use assets - 2020

	Buildings	Plant and machinery	Total
	R'000	R'000	R'000
At 1 January 2020	39,788	3,148	42,936
Additions	57	252	309
Depreciation	(21,966)	(1,867)	(23,833)
Impairment	-	(81)	(81)
At 31 December 2020	**17,879**	**1,452**	**19,331**

Depreciation recognised on right-of-use assets

Buildings	20,458	21,966
Plant and machinery	2,026	1,867
	22,484	**23,833**

Depreciation recognised on each class of right-of-use assets, is presented above.

Nature of leasing activities (in the capacity as lessee)

The company leases properties (buildings) in the jurisdiction from which it operates. It is customary for these lease contracts to provide for payments to increase each year by a determined percentage.

The company also leases certain motor vehicles (categorised under plant and machinery). It is customary for these lease contracts to comprise of only fixed payments over the lease terms.

Notes to the Annual Financial Statements

	2021 R '000	2020 R '000

5. Inventories

Raw materials	139,522	74,989
Work in progress	55,350	46,402
Finished goods	385,587	239,414
Goods in transit	17,465	7,177
	597,924	**367,982**

An amount of R9,776,622 (2020: R9,580,297) has been provided against finished goods, and the inventory is reflected at net realisable value. An amount of R278,000 (2020: Rnil) has been written down in the current year.

6. Trade and other receivables

Financial instruments:		
Trade receivables	279,676	297,733
Provision for credit loss	(17,058)	(16,882)
Trade receivables at amortised cost	262,618	280,851
Other receivables	26,579	15,908
Non-financial instruments:		
Government grants receivable	114,357	76,084
VAT receivable	8,256	4,778
Total trade and other receivables	**411,810**	**377,621**

Categorisation of trade and other receivables

Trade and other receivables are categorised as follows in accordance with IFRS 9: Financial Instruments:

At amortised cost	289,197	296,759
Non-financial instruments	122,613	80,862
	411,810	**377,621**

Exposure to credit risk

Trade receivables inherently expose the company to credit risk, being the risk that the company will incur financial loss if customers fail to make payments as they fall due.

In order to mitigate the risk of financial loss from defaults, the company only deals with reputable customers with consistent payment histories. Each customer is analysed individually for creditworthiness before terms and conditions are offered. Customer credit limits are in place and are reviewed and approved by credit management. The exposure to credit risk and the creditworthiness of customers, is continuously monitored.

There have been no significant changes in the credit risk management policies and processes since the prior reporting period.

A loss allowance is recognised for all trade receivables, in accordance with IFRS 9 Financial Instruments, and is monitored at the end of each reporting period. In addition to the loss allowance, trade receivables are written off when there is no reasonable expectation of recovery, for example, when a debtor has been placed under liquidation. Trade receivables which have been written off are not subject to enforcement activities.

	2021 R '000	2020 R '000

6. Trade and other receivables (continued)

The company measures the loss allowance for trade receivables by applying the simplified approach which is prescribed by IFRS 9. In accordance with this approach, the loss allowance on trade receivables is determined as the lifetime expected credit losses on trade receivables. A provision matrix has been developed by making use of past default experience of debtors but also incorporates forward looking information and general economic conditions of the industry as at the reporting date.

The loss allowance provision is determined as follows:

Expected credit loss rate:	2021 Estimated gross carrying amount at default R'000	2021 Loss allowance (Lifetime expected credit loss) R'000	2020 Estimated gross carrying amount at default R'000	2020 Loss allowance (Lifetime expected credit loss) R'000
Performing - no default history	238,639	51	271,950	47
Less than 15 days past due: 0.02% (2020: 0.02%)	1,033	1	2,046	2
15 - 30 days past due: 0.0% (2020: 0.14%)	-	-	1,821	3
30 - 60 days past due: 0.0% (2020: 0.25%)	-	-	2,620	8
60 - 90 days past due: 0.61% (2020: 0.0%)	14,587	31	-	-
90 - 120 days past due: 0.72% (2020: 0.0%)	341	2	-	-
More than 120 days past due: 5.76% (2020: 0,00%)	8,200	97	2,626	151
Specific debtors	16,876	16,876	16,670	16,671
	279,676	**17,058**	**297,733**	**16,882**

7. Other financial assets

	2021 R '000	2020 R '000
Loans and receivables		
Engeli Enterprise Development (Pty) Ltd	8,794	1,001

The above loan is secured by a cession and pledge agreement in favour of Continental Tyre South Africa (Pty) Ltd to the right, title and interest in monies of Engeli Enterprise Development (Pty) Ltd held in theAbsa fixed deposit account number 20-8012-4947 to the extent of R8 794 305. The aforementioned amount is unencumbered.

The loan between Continental Tyre South Africa (Pty) Ltd and Engeli Enterprise Development (Pty) Ltd is interest free and is repayable within 12 months.

Engeli Finance Solutions (Pty) Ltd	4,397	500

The above loan is secured by a cession and pledge agreement in favour of Continental Tyre South Africa (Pty) Ltd to the right, title and interest in monies of Engeli Finance Solutions (Pty) Ltd held in the Absa fixed deposit account number 20-8009-8990 to the extent of R4 397 153. The aforementioned amount is unencumbered.

The loan between Continental Tyre South Africa (Pty) Ltd and Engeli Enterprise Development (Pty) Ltd is interest free and is repayable within 12 months.

	13,191	**1,501**
Current assets		
At amortised cost	13,191	1,501

Notes to the Annual Financial Statements

	2021 R '000	2020 R '000

8. Current tax payable (receivable)

Balance at the beginning of the year	(174)	13
Current tax for the year recognised in profit or loss	(69,895)	(10)
Balance at the end of the year	884	(177)
Tax paid	**(69,185)**	**(174)**
Current tax payable	884	-

9. Non-current assets held for sale and assets of disposal group

Assets of the disposal group held for sale

The carrying amount of the assets that only consist of Property, plant and equipment are Rnil (2020: R 24,918,224).

Cummulative income or expenses in Other Comprehensive Income ("OCI")

There are no cumulative income or expenses included in OCI relating to the disposal group.

Reconciliation of non-current assets held for sale		
Balance at the beginning of the year	24,918	25,393
Disposals	(4,686)	(475)
Impairment	(20,232)	-
	-	**24,918**

10. Amounts owing by group companies

Inter-company receivables		
Continental Tire the Americas LLC	25,646	4,131
ContiTrade Africa (Pty.) Ltd	14,246	17,419
Other group companies (refer to Note 35)	20,496	17,871
Continental Reifen Deutschland GmbH	955	500
	61,343	**39,921**

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash at bank	566,990	587,051

Refer to Financial Risk Management note 37 for details regarding facilities and guarantees held with financial institutions.

12. Stated capital

Authorised		
385,000 Ordinary shares of R1 each (2020: 385,000)	385	385

Issued		
201,420 Ordinary shares of R1 each fully paid (2020: 201,420)	201	201
Share premium	115,269	115,269
	115,470	**115,470**

The unissued shares are under the control of the directors until the next Annual General Meeting of the company.

Notes to the Annual Financial Statements

	2021 R '000	2020 R '000

13. Special reserve

The reserve was created pursuant to the Shareholders Agreement, and has not been distributed by way of a dividend as at 31 December 2021.

	65,594	65,594

14. Share buy back reserve

The Share Buy back reserve was funded through an inter-company loan of R240,000,000, which was subsequently converted into Equity.

The reserve was not distributed as at 31 December 2021.

	240,000	240,000

15. Lease liabilities

	2021 R '000	2020 R '000
Minimum lease payments due		
- within one year	21,069	8,270
- in second to fifth year inclusive	92,188	8,845
- later than five years	18,102	10,517
	131,359	27,632
less: future finance charges	(25,512)	(6,743)
Present value of minimum lease payments	**105,847**	**20,889**
Amounts recognised in statement of cash flows		
Lease payments for leases under IFRS16	24,641	29,298
Lease payments for short term or low value assets	7,945	13,869
	32,586	**43,167**
Non-current liabilities	91,821	13,869
Current liabilities	14,026	7,020
	105,847	**20,889**

	2021 R '000	2020 R '000

15. Lease liabilities (continued)

Reconciliation of lease liability - 2021

	Buildings R'000	Plant and Machinery R'000	Total R'000
At 1 January 2021	17,260	3,629	20,889
Additions	104,301	1,384	105,684
Interest expense	3,660	255	3,915
Lease payments	(22,710)	(1,931)	(24,641)
At 31 December 2021	**102,511**	**3,337**	**105,847**

Reconciliation of lease liability - 2020

	Buildings R'000	Plant and Machinery R'000	Total R'000
At 1 January 2020	42,163	5,224	47,387
Additions	-	(56)	(56)
Interest expense	2,365	207	2,572
Lease payments	(27,268)	(2,030)	(29,298)
Disposals	-	284	284
At 31 December 2020	**17,260**	**3,629**	**20,889**

Refer to note 4 for the nature of the leases.

16. Deferred tax asset / (liability)

Deferred tax liability

	2021 R '000	2020 R '000
Capital Allowances	(70,185)	(89,636)
Deferred Expenditure	(44)	(3)
Total deferred tax liability	**(70,229)**	**(89,639)**

Deferred tax asset

	2021 R '000	2020 R '000
Assessed Loss	-	13,165
Provisions	15,933	29,839
Post Retirement Medical Benefit	8,394	7,600
Deferred tax balance from temporary differences other than unused tax losses	24,327	50,604
Leases	2,824	436
	27,151	51,040
Advanced payment from debtors	5,345	5,100
Total deferred tax asset, net of valuation allowance recognised	**32,496**	**56,140**

	2021 R '000	2020 R '000
Deferred tax liability	(70,229)	(89,639)
Deferred tax asset	32,496	56,140
Total net deferred tax liability	**(37,733)**	**(33,499)**

Notes to the Annual Financial Statements

	2021 R '000	2020 R '000

16. Deferred tax asset / (liability) (continued)

Reconciliation of deferred tax liability

	2021	2020
At the beginning of year	(39,035)	(49,802)
Prior year adjustment (signage and IFRS16 lease liability)	-	624
Current year adjustment for amounts recognised in profit and loss	14,751	5,651
Current year adjustment for amounts recognised in other comprehensive income	851	(1,331)
Assessed loss movement	(14,299)	5,823
	(37,733)	**(39,035)**

17. Trade and other payables

Financial instruments:	2021	2020
Trade payables	165,317	168,938
Recycling fee accrual	41,618	30,870
Other accrued expenses	2,653	5,529
	209,588	**205,337**

Fair value of trade and other payables

The carrying amount of trade and other payables approximates its fair value.

18. Provisions

Reconciliation of provisions - 2021

	Opening balance	Additions	Utilised during the year	Total
Restructuring	5,380	-	(5,380)	-
Provision for warranties	1,141	402	-	1,543
	6,521	**402**	**(5,380)**	**1,543**

Reconciliation of provisions - 2020

	Opening balance	Additions	Utilised during the year	Reversed during the year	Total
Restructuring	8,438	-	-	(3,058)	5,380
Provision for warranties	4,357	3,345	(6,561)	-	1,141
	12,795	**3,345**	**(6,561)**	**(3,058)**	**6,521**

Restructuring

In 2019 the decision was made to restructure the company's current operations. As part of this restructure it was resolved to stop the production of Commercial Speciality Tyres. The committed budgeted cost of the restructure was R55,000,000 and was raised as provision, with the actual costs utlised to date amounting to R46,562,000. R3,058,542 was released during 2020 and R5,379,458 released in the current year.

Warranties

The company makes provision for warranties on the sale of tyres to customers. The provision for warranty claims as at 31 December 2021 were raised for expected warranty claims on tyres sold during the last five years, as the group provides five year warranties for tyres manufactured. The provision has been calculated by weighing all possible outcomes by their associated probabilities, as derived from past experience.

Notes to the Annual Financial Statements

	2021 R '000	2020 R '000

19. Other current liabilities

Customers (Rebates / Settlement Discounts / Advance Receipts)	42,646	37,251
Employees (Incentives / Leave Pay / Other)	53,571	34,774
PAYE	12,221	10,791
General accruals	55,408	43,752
	163,846	**126,568**

20. Amounts due to group companies

Inter-company payables		
Barum Continental s.r.o	35,679	52,247
S.C. Continental Automotive Products S.R.L.	2,786	5,330
Continental France SNC	4,955	7,860
Continental Matador Rubber s.r.o.	28,884	10,694
Continental Mabor Industria de Pneus S.A.	4,209	25,102
Continental Tires Holding Singapore Pte. Ltd.	30,526	17,693
Continental Reifen Deutschland GmbH	131,446	149,363
Continental Matador Truck Tires s.r.o.	12,661	4,818
Other group companies (refer to Note 35)	84,912	50,612
Conti Machinery	812	3,042
Conti Trade Africa (Pty.) Ltd	2,571	1,826
Continental Tire the Americas LLC	2,183	6,956
Continental Aktiengesellschaft	4,818	4,553
	346,442	**340,096**

21. Pension fund commitments

Defined contribution scheme

The company has established a pension scheme that covers substantially all employees. All retirement funds are defined contribution schemes. The assets of all the funds are held in separate trustee administered funds.

22. Revenue

Revenue from contracts with customers		
Sale of goods	3,105,618	2,259,092

Notes to the Annual Financial Statements

	2021 R '000	2020 R '000

22. Revenue (continued)

Disaggregation of revenue from contracts with customers

The company disaggregates revenue from customers according to business units of Passenger, Light Truck Tyres, Truck Tyres, Commercial Specialty Tyres and Compound.

	2021 R '000	2020 R '000
Sale of goods		
Sale of goods	3,105,618	2,259,092
Revenue from sales of product groups		
Passenger & light truck Tyre sales Original Equipment Manufacturers	702,415	505,445
Passenger & light truck Tyre sales Replacement Equipment	1,393,520	1,060,729
Truck Tyre sales Original Equipment Manufacturers & Replacement Equipment	111,354	68,415
Commercial Specialty Tyre sales	27,333	23,502
Offtake Tyre Sales	709,026	512,510
Compound Sales	161,970	88,491
	3,105,618	**2,259,092**

Timing of revenue recognition

	2021 R '000	2020 R '000
At a point in time		
Sale of goods	3,105,618	2,259,092

23. Other income

	2021 R '000	2020 R '000
Other rental income	(1,303)	-
Profit and loss on asset disposals	3,904	1,374
Government grants	121,594	84,124
	124,195	**85,498**

Profit on asset disposals in the current year comprise:

-

Fixed Assets : R3 904 235 (2020: R89 268)

- Moulds : Rnil (2020: R1 284 699)

24. Operating profit (loss)

Operating profit / (loss) for the year is stated after crediting the following, amongst others:

	2021 R '000	2020 R '000
Auditor's remuneration - external		
Audit fees	1,174	1,600
Leases		
Short term or low value assets		
Forklifts	2,117	2,252
Computer equipment	5,004	6,135
Motor vehicles	824	1,165
	7,945	**9,552**
Credit loss allowance	**176**	**7,426**

Notes to the Annual Financial Statements

	2021 R '000	2020 R '000

24. Operating profit (loss) (continued)

	2021 R '000	2020 R '000
Depreciation		
Depreciation of property, plant and equipment	145,109	153,594
Impairment loss		
Non-current assets held for sale	20,232	-
Right-of-use assets	8,753	-
	28,985	**-**
Expenses by nature		
Raw materials used	1,452,692	1,191,402
Repairs and maintenance	48,702	29,117
Transportation costs	369,633	248,309
Salaries & Wages	397,384	312,521
Rates and Taxes	103,082	82,553
Employee benefit expenses	238,373	199,571
Depreciation	145,109	153,594
Leases	7,945	13,869
Royalties	35,229	-

25. Investment income

	2021 R '000	2020 R '000
Interest income		
Financial institutions	17,207	11,174
Leases	551	-
Foreign exchange gains - realised	40,520	46,152
Foreign exchange gains - unrealised	-	4,170
Total interest income	**58,278**	**61,496**

26. Finance costs

	2021 R '000	2020 R '000
Leases	3,915	2,572
SARS interest & penalties	877	-
Foreign exchange losses - realised	32,311	52,571
Interest on post retirement fund	2,836	2,971
Foreign exchange losses - unrealised	5,347	-
Total finance costs	**45,286**	**58,114**

27. Taxation

Major components of the tax (income) expense

	2021 R '000	2020 R '000
Current		
Local income tax	69,895	-
Local income tax - prior year	-	10
	69,895	**10**
Deferred		
Deferred tax - current year	(452)	(11,474)
Deferred tax - prior year	-	(624)
	(452)	**(12,098)**
	69,443	**(12,088)**

Notes to the Annual Financial Statements

	2021 R '000	2020 R '000

27. Taxation (continued)

Reconciliation of the tax expense

Reconciliation between applicable tax rate and average effective tax rate.

	2021	2020
Statutory rate	28.00 %	28.00 %
Normal tax prior year adjustment	- %	(0.10)%
Total non-temporary difference	(0.48)%	(1.10)%
Under provision - Deferred tax	(0.43)%	1.50 %
	27.09 %	**28.30 %**

28. Cash generated from operations

	2021	2020
(Loss) profit before taxation	256,258	(42,699)
Adjustments for:		
Depreciation and amortisation	145,109	153,594
Profit on disposal of property, plant and equipment	(3,904)	(1,374)
Finance cost - Leases (IFRS16)	3,915	2,572
Forex loss - unrealised portion	5,347	-
Forex gain - unrealised portion	-	(4,170)
Interest received - investment	(58,278)	(57,326)
Finance costs	36,024	52,571
Impairment loss	28,985	-
Movements in provisions	(4,978)	(6,274)
Post retirement medical benefits recognised in other comprehensive income	-	4,755
Amounts due to group companies	6,346	122,217
Amounts due by group companies	(21,422)	8,917
Changes in working capital:		
Inventories	(229,942)	212,650
Trade and other receivables	(34,189)	(10,186)
Trade and other payables	4,251	(8,639)
Other current liabilities	37,278	(9,220)
	170,800	**417,388**

29. Post retirement medical benefits

The Company provides post-retirement medical subsidies to certain retired employees and is responsible for the provision of post-retirement medical benefits to eligible current and past employees. The value of funded liabilities is recognised in full in the financial statements.

	2021	2020
Actuarially determined present value of total obligation at 31 December		
Actuarially determined present value of total obligation at 31 December	59,123	55,409
Fair value of the fund assets at 31 December	(29,143)	(28,267)
Liability raised (Refer to Note 21)	**29,980**	**27,142**

	2021	2020
Net liability for funded obligations at the beginning of the year	27,142	29,834
Loss taken to profit and loss	2,838	(2,692)
Net liability of funded obligations at the end of the year (Refer to Note 21)	**29,980**	**27,142**

	2021	2020
Reconciliation of obligations		
Obligation at the beginning of the year	55,409	59,526
Current service cost	464	592
Benefits paid	(3,712)	(3,407)

Notes to the Annual Financial Statements

	2021 R '000	2020 R '000

29. Post retirement medical benefits (continued)

Interest cost	5,609	5,770
Actuarial loss / (gain)	1,353	(7,072)
Obligation at the end of the year	**59,123**	**55,409**

Reconciliation of plan assets

Assets at fair market value at the beginning of the year	28,267	29,692
Actuarial loss	(1,685)	(2,317)
Contributions paid	3,500	1,500
Expected return on plan assets	2,773	2,799
Benefits paid	(3,712)	(3,407)
Assets at fair market value at the end of the year	**29,143**	**28,267**

Loss/(profit) available to be taken to the statement of comprehensive income

Net actuarial loss / (gain) recognised in the year	3,038	(4,755)
Expected return on plan assets	(2,773)	(2,799)
Contributions paid	(3,500)	(1,500)
Interest cost	5,609	5,770
Current service cost	464	592
	2,838	**(2,692)**

Principal actuarial assumptions for the post-retirement medical aid obligations

Net discount rate	3.10 %	3.70 %
Subsidy inflation	7.40 %	6.80 %
Return on plan assets	10.50 %	10.50 %

Sensitivity - the recalculated liability to show the effect of a one percentage point decrease or increase in the rate of health care costs inflation is as follows:

Current cost plus interest cost

Central assumption	59,123	55,409
Central assumption + 1%	53,037	50,075
Central assumption -1%	65,676	61,790

30. Capital commitments

Capital commitments

Commitments in respect of contracts placed	39,476	30,868
Approved by the directors in addition to contracts placed	41,168	31,105
	80,644	**61,973**

It is intended to finance capital expenditure from existing borrowing facilities and working capital generated by the Company. The capital commitments are for plant and machinery

31. Short-term or low value leases

Short-term or low value leases

Not later than 1 year	220	241

The future minimum lease payments under non-cancellable operating leases are presented above. The operating leases include passenger motor vehicles and building leases.

Notes to the Annual Financial Statements

	2021 R '000	2020 R '000

32. Events after the reporting period

The Russian war on Ukraine started in February 2022. The company consistently reviews our supply of raw materials. We currently have six raw materials sourced from Russia. We have now found alternative suppliers and have substituted other materials where required. For now, we are able to support the plant requirements.

The 2022 Budget Speech was delivered by the Minister of Finance in February 2022. The corporate tax rate will be reduced from 28% to 27% for years of assessment commencing on or after 31 March 2023. The impact of the tax rate reduction will only apply in the 2023 financial year.

33. Going concern

Management is reviewing the cash flows of the Company on a continuous basis and conditions that affect, or may affect, the future performance of the Company. In making the going concern assessment, management considered the period up to 12 months after the end of the reporting period.

The Russian/Ukraine war has not directly impacted the performance of the company to date and therefore does not cast doubt on the company's ability to continue as a going concern.

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

34. Contingent liabilities

Competition commission

In 2010, the Competition Commissioner referred a complaint to the Competition Tribunal against the Tyre Manufacturing Industry for alleged contraventions of the Competition Act 89 of 1998. The alleged activities in the industry, span the years between 1999 and 2007 and relate to the revenue streams that generated income in the OE market, replacement market and the State Tender Board.

The Commissioner seeks a penalty against Continental of 10% of annual turnover for the 2008 financial year which may be limited to one or more of the above-mentioned streams.

The matter was meant to proceed to trial from 31st January until 3rd March 2022. The tribunal was however unable to hear all the oral evidence in the time allocated and the remaining evidence will be heard in September 2022. Continental Tyres South Africa continues to defend the matter.

35. Related parties

Relationships

Ultimate holding company	Continental Aktiengesellschaft
Holding company	Continental Global Holding Netherlands B.V.
Group companies	AlMutlak Continental Company
	A-Z Formen-und Maschinenbau Gmbh
	Conti Machinery Hanover
	ContiTrade Africa (Pty) Ltd
	ContiTech Africa (Pty) Ltd
	ContiTech Elastomer - Beschichtungen Gmbh
	ContiTech Schlauch Gmbh
	Continental Barum s.r.o.
	Continental Benelux SPRL
	Continental Däck Sverige AB
	Continental Daek Danmark A/S
	Continental Dekk Norge A/S
	Continental do Brasil Produtos
	Continental France SNC
	Continental Hungaria Kft.
	Continental India Private Limited
	Continental - Industria Textil do ave, S.A.
	Continental Italia S.p.A.
	Continental Mabor Indústria de Pneus S.A.
	Continental Matador Rubber s.r.o.
	Continental Matador Truck Tires s.r.o.
	Continental Middle East DMCC
	Continental of Taiwan Co. Ltd
	Continental Opony Polska Sp. z o.o.
	Continental Pneus (Portugal) S.A.
	Continental Rengas Oy
	Continental Suisse S.A.
	Continental Tire Andina S.A.
	Continental Tire Canada, Inc.
	Continental Reifen Deutschland GmbH
	Continental Tire Colombia S.A.S.
	Continental Tire de México, S.A. de C.V.
	Continental Tire Japan Co. Ltd
	Continental Tire Korea Co. Ltd
	Continental Tire the Americas LLC
	Continental Tire Toronto Inc.
	Continental Tire West Africa Limited
	Continental Tires (China) Co.
	Continental Tires Holding Singapore Pte. Ltd
	Continental Tires España S.L.
	Continental Trading Gmbh
	Continental Tyre AS Malaysia Sdn. Bhd.
	Continental Tyre PJ Malaysia Sdn. Bhd.
	Continental Tyre Group Ltd.
	Continental Tyre Technology Centre Malaysia Sdn.
	Continental Tyres (Thailand) Co. Ltd.
	Continental Tyres of Australia (Pty) Ltd
	OOO "Continental Tires RUS"
	OOO "Continental Kaluga"
	Otomotiv Lastikleri Tevzi AS
	Powertrain Canada, ULC
	REG Reifen-Entsorgungsgesellschaft Gmbh
	S.C. Continental Automotive S.R.L.
	Semperit Reifen Gesellschaft Gmbh
	Continental Automotive Products

Notes to the Annual Financial Statements

35. Related parties (continued)

Related party balances

	2021 R '000	2020 R '000
Amounts owing by group companies		
Inter-company receivables		
ContiTrade Africa (Pty) Ltd	14,246	17,419
Continental Tire the Americas LLC	25,646	4,131
Continental Reifen Deutschland GmbH	955	500
Other group companies include:		
Continental Tires (China) Co.	563	-
Continental Adria pnevmatike	86	1
ContiTech Africa (Pty) Ltd	10,817	5,988
S.C. Continental Automotive S.R.L.	266	-
Continental Benelux SPRL	-	394
Continental Daek Danmark A/S	-	5
Continental Dekk Norge A/S	49	-
Continental do Brasil Produtos Automotivos Ltda.	31	2
Continental Middle East DMCC	-	28
Continental Matador Truck Tire	1,735	-
Continental of Taiwan Co. Ltd	-	3
Continental Opony Polska Sp. z o.o.	74	174
Continental Pneus (Portugal) S.A.	-	2
Continental Rengas Oy	246	6
Continental Suisse S.A.	174	-
Continental Tire Canada, Inc.	-	1,403
Continental Tire Chile SpA	72	(37)
Continental Tire de México, S.A. de C.V.	-	1,207
Continental Tire West Africa Limited	-	6,706
Vitesco technologies Canada, U	-	22
Continental Tires España S.L.	-	279
Continental Tyre AS Malaysia Sdn. Bhd.	-	219
Continental Tyre Group Ltd.	-	655
Continental Tyre PJ Malaysia Sdn. Bhd.	4,443	716
Continental Tyres of Australia (Pty) Ltd	1,900	2
Contiental Hungaria Kft.	38	-
Otomotiv Lastikleri Tevzi AS	2	96
	20,496	17,871
Amounts due to group companies		
Inter-company payables		
Continental AG	4,818	4,553
Continental Barum s.r.o.	35,679	52,247
Continental Tire the Americas LLC	2,183	-
Conti Machinery Hanover	812	3,042
ContiTrade Africa (Pty) Ltd	2,571	1,826
Continental France SNC	4,955	7,860
Continental Mabor Indústria de Pneus S.A.	4,209	25,102
Continental Matador Rubber s.r.o.	28,884	10,694
Continental Matador Truck Tires s.r.o.	12,661	4,818
Continental Reifen Deutschland GmbH	131,446	149,363
Continental Tire the Americas LLC	-	6,956
Continental Tires Holding Singapore Pte. Ltd	30,526	17,693
S.C. Continental Automotive S.R.L.	2,786	5,330
Other group companies include:		
Continental Global Holding	35,229	-

	2021 R '000	2020 R '000
35. Related parties (continued)		
Continental Tires (China) Co. ltd	732	-
Continental Tire Japan Co. Ltd	2,245	-
Powertrain Canada, ULC	3,365	-
ContiTech Africa (Pty) Ltd	385	2,944
Continental Adria pnevmatike	-	9
ContiTech Schlauch Gmbh	87	62
Continental Benelux SPRL	6,562	4,610
Continental Italia S.p.A.	7,306	2
Continental Middle East DMCC	1,012	5,089
Continental - Industria Textil	-	402
Continental Tyres of Australia	-	102
Continental Däck Sverige AB	52	21
Continental Tires España S.L.	132	-
Continental Tire Toronto Inc.	336	-
Continental Tire Chile SpA	-	62
Continental France SNC	1,845	-
Continental Tyre AS Malaysia Sdn. Bhd.	-	9,666
Continental Tire Andina S.A.	-	53
Eu-Retec (Pvt) Ltd	138	1,190
A-Z Formen - und Maschinenbau Gmbh	1,936	872
Continental Opony Polska Sp. z o.o.	-	4,169
Continental Pneus (Portugal) S.A.	51	40
Continental Rengas Oy	-	111
Continental of Taiwan Co. Ltd	1,110	-
Continental Tire de México, S.A. de C.V.	2,392	34
Continental Tire Korea Co. Ltd	433	4
Continental Tyre Group Ltd.	11,223	12,913
Continental Tyre PJ Malaysia Sdn. Bhd.	7,592	8,254
Continental Tyres (Thailand) Co. Ltd	7	-
Otomotiv Lastikleri Tevzi AS	315	-
Semperit Reifen Gesellschaft m	427	2
OOO "Continental Tires RUS"	-	1
	84,912	50,612

Related party transactions

	2021 R '000	2020 R '000
Key Management Personnel Compensation		
Short term employee benefits	14,916	12,794
Other long term employee benefits	1,506	898
Inter-company transactions		
Sale of inventory		
ContiTech Africa (Pty) Ltd	180,955	94,631
ContiTech Australia	857	-
ContiTrade Africa (Pty) Ltd	47,225	43,177
Continental Barum s.r.o.	922	1,281
Continental Benelux SPRL	128,485	112,573
Continental Däck Sverige AB	90	(17)
Continental do Brasil Produtos Automotivos Ltda.	2,597	1,373
Continental France SNC	10,713	9,709
Continental Matador Truck Tires s.r.o.	281	498
Continental Middle East DMCC	6,592	3,612
Continental of Taiwan Co. Ltd	8,037	7,449
Continental Reifen Deutschland GmbH	113,964	66,501
Continental Tire Andina S.A.	171	(55)
Continental Tire Chile SpA	(397)	(20)
Continental Tire Colombia S.A.S.	692	(55)

Notes to the Annual Financial Statements

	2021 R '000	2020 R '000
35. Related parties (continued)		
Continental Tire de México, S.A. de C.V.	17,902	5,317
Continental Tire Japan Co. Ltd	17,602	10,858
Continental Tire Korea Co. Ltd	1,169	1,746
Continental Tire the Americas LLC	377,663	224,350
Continental Tyre West Africa	1,916	15,756
Continental AG	-	63
Continental Tires España S.L.	10,316	3,069
Continental Tyre Group Ltd.	96,051	12,591
Continental Tyre PJ Malaysia Sdn. Bhd.	12,025	13,014
Continental Italia S.p.A.	(7,684)	157
Continental Tyres of Australia	9,076	9,010
OOO "Continental Tires RUS"	-	(9)
Continental Suisse S.A.	(12)	(2)
Continental Reifen Austria Gmbh	(394)	(1,119)
Powertrain Canada, ULC	21,501	7,227
Continental Pneus (Portugal) S.A.	(22)	1,939
Continental Rengas Oy	387	(112)
Continental Dekk norge A/S	85	33
Continental Daek Danmark A/S	-	(3)
Continental Opony Polska Sp. z o.o.	4,048	(4,292)
Continental Kaluga	-	53
Continental Hungaria Kft.	97	178
Otomotiv Lastikleri Tevzi AS	(19)	(14)
Continental Adria pnevmatike d.o.o.	103	(10)
Continental Tyres (China) Co. Ltd	549	-
Continental Mabor Indústria de Pneus S.A.	383	-
Continental Automotive Products	2,683	-
Continental Matador Rubber s.r.o.	104	-
Purchases and payments for services		
A-Z Formen - und Maschinenbau Gmbh	4,631	1,703
Conti Machinery Hanover	5,492	6,704
Continental - Industria Textil do ave, S.A.	492	2,036
Continental AG	6,403	5,902
Continental Barum s.r.o.	199,893	110,768
Continental Benelux SPRL	8,375	5,899
Continental do Brasil Produtos Automotivos Ltda.	57	-
Continental France SNC	23,746	9,510
Continental Mabor Indústria de Pneus S.A.	92,727	48,942
Continental Matador Rubber s.r.o.	48,295	15,239
Continental Matador Truck Tires s.r.o.	13,780	14,566
Continental Middle East DMCC	8,241	-
Continental Reifen Deutschland GmbH	301,649	229,467
Continental Tire Andina S.A.	53	-
Continental Tire de México, S.A. de C.V.	35	944
Continental Tire the Americas LLC	23,357	17,633
Continental Tires (China) Co. Ltd	20	16
Continental Tires España S.L.	412	585
Continental Tires Holding Singapore Pte. Ltd	173,716	75,258
Continental Trading Gmbh	-	29
Continental Tyre AS Malaysia Sdn. Bhd.	9,666	3,692
Continental Tyre PJ Malaysia Sdn. Bhd.	10,198	2,911
Continental Tyre Technology Centre Malaysia Sdn. Bhd.	1	1
Continental Tyres (Thailand) Co. Ltd	-	1,235
ContiTech Schlauch Gmbh	287	272
ContiTech Africa (Pty) Ltd	7,758	4,482
ContiTrade Africa (Pty) Ltd	15,484	17,122
OOO "Continental Kaluga"	-	11

Notes to the Annual Financial Statements

	2021 R '000	2020 R '000
35. Related parties (continued)		
Continental India Private Limited	-	124
S.C. Continental Automotive Products S.R.L.	28,108	10,228
Eu-Retec (Pvt) Ltd	1,895	-
Continental Aftermarket & Sales	7	-
Royalties paid		
Continental Global Holding Netherlands B.V.	35,229	-

36. Restatement of comparative information

The retirement benefit obligation in respect of post retirement medical aid (refer Note 29) was previously presented as other current liabilities, this has been reclassified as a non-current liability and accordingly the comparative information has been similarly amended.

In the Statement of cash flow, lease payments of R29,298,000 were previously presented as Cash flows from operating activities. This has been reclassified to Cash flows from financing activities.

In the Statement of cash flow, lease payments of R29,298,000 were previously presented as Cash flows from operating activities. This has been reclassified to Cash flows from financing activities.For comparability, additional comparative information was included in the following notes to the annual financial statements for Right-of-use-assets (refer Note 4), Deferred tax liability (refer Note 16), Expenses by nature (refer Note 24), Directors' and prescribed officers emoluments (refer Note 38) and Financial instruments and risk management (Refer Note 37 - Categories of financial assets, Categories of financial liabilities, Gearing ratio calculation, Credit risk exposure profile, Movement in provision for impairment of trade and other receivables, Liquidity risk maturity profile).

37. Financial instruments and risk management

Categories of financial instruments

Categories of financial assets

2021

	Note(s)	**Amortised cost**	**Total**
Trade and other receivables	6	289,197	289,197
Cash and cash equivalents	11	566,990	566,990
Amounts owing by group companies	10	61,343	61,343
Other financial assets	7	13,191	13,191
		930,721	**930,721**

2020

	Note(s)	**Amortised cost**	**Total**
Trade and other receivables	6	296,759	296,759
Cash and cash equivalents	11	587,051	587,051
Amounts owing by group companies	10	39,921	39,921
Other financial assets	7	1,501	1,501
		925,232	**925,232**

Notes to the Annual Financial Statements

	2021 R '000	2020 R '000

37. Financial instruments and risk management (continued)

Categories of financial liabilities

2021

	Note(s)	Amortised Cost	Total
Trade and other payables	17	209,588	209,588
Amounts due to group companies	20	346,442	346,442
Lease liabilities	15	105,847	105,847
Other current liabilities	19	151,336	151,336
		813,213	**813,213**

2020

	Note(s)	Amortised cost	Total
Trade and other payables	17	205,337	205,337
Amounts due to group companies	20	340,096	340,096
Lease liabilities	15	20,889	20,889
Other current liabilities	19	115,777	115,777
		682,099	**682,099**

Notes to the Annual Financial Statements

37. Financial instruments and risk management (continued)

Pre tax gains and losses on financial instruments

Gains and losses on financial assets

2021

	Note(s)	Amortised cost	Leases	Total
Recognised in profit or loss:				
Interest income	25	57,727	551	58,278

2020

	Note(s)	Amortised cost	Total
Recognised in profit or loss:			
Interest income	25	61,496	61,496

Gains and losses on financial liabilities

2021

	Note(s)	Amortised cost	Leases	Total
Recognised in profit or loss:				
Finance costs	26	(32,311)	(3,915)	(36,226)

2020

	Note(s)	Amortised cost	Leases	Total
Recognised in profit or loss:				
Finance costs	26	(52,571)	(2,572)	(55,143)

		2021 R '000	2020 R '000

37. Financial instruments and risk management (continued)

Capital risk management

The company's objective when managing capital (which includes share capital, borrowings, working capital and cash and cash equivalents) is to maintain a flexible capital structure that reduces the cost of capital to an acceptable level of risk and to safeguard the company's ability to continue as a going concern while taking advantage of strategic opportunities in order to maximise stakeholder returns sustainably.

The company manages capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain the capital structure, the company may adjust the amount of dividends paid to the shareholder, return capital to the shareholder, repurchase shares currently issued, issue new shares, issue new debt, issue new debt to replace existing debt with different characteristics and/or sell assets to reduce debt.

The company monitors capital utilising a number of measures, including the gearing ratio. The gearing ratio is calculated as net borrowings (total borrowings less cash) divided by shareholders' equity.

The capital structure and gearing ratio of the company at the reporting date was as follows:

		2021 R '000	2020 R '000
Trade and other payables	17	209,588	205,337
Amounts due to group companies	20	346,442	340,096
Lease liabilities	15	105,847	20,889
Other current liabilities	19	163,557	126,568
Total borrowings		**825,434**	**692,890**
Cash and cash equivalents	11	(566,990)	(587,051)
Net borrowings		**258,444**	**105,839**
Equity		1,402,372	1,217,744
Gearing ratio		18 %	9 %

Financial risk management

Overview

The company is exposed to the following risks from its use of financial instruments:
- Credit risk;
- Liquidity risk; and
- Market risk (currency risk, interest rate risk and price risk).

The board of Directors has the overall responsibility for the establishment and oversight of the company's risk management policies.

The company's risk management policies are established to identify and analyse the risks faced by the company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the company's activities.

Credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This risk arises primarily from the companies receivables from customers.

The company is exposed to credit risk on loans receivable, trade and other receivables, and cash and cash equivalents.

37. Financial instruments and risk management (continued)

Credit risk for exposures other than those arising on cash and cash equivalents, are managed by making use of credit approvals, limits and monitoring. The company only deals with reputable counterparties with consistent payment histories. Sufficient collateral or guarantees are also obtained when necessary. Each counterparty is analysed individually for creditworthiness before terms and conditions are offered. The analysis involves making use of information submitted by the counterparties as well as external bureau data, where available. Counterparty credit limits are in place and are reviewed and approved by credit management. The exposure to credit risk and the creditworthiness of counterparties is continuously monitored.

Credit risk exposure arising on cash and cash equivalents is managed through dealing with well-established financial institutions with high credit ratings. The credit ratings for FNB is BBB- and Citibank is A.

Credit loss allowances for expected credit losses are recognised for all debt instruments.

In order to calculate credit loss allowances, management determine whether the loss allowances should be calculated on a 12 month or on a lifetime expected credit loss basis. This determination depends on whether there has been a significant increase in the credit risk since initial recognition. If there has been a significant increase in credit risk, then the loss allowance is calculated based on lifetime expected credit losses. If not, then the loss allowance is based on 12 month expected credit losses. This determination is made at the end of each financial period. Thus the basis of the loss allowance for a specific financial asset could change year on year.

Management apply the principle that if a financial asset's credit risk is low at year end, then, by implication, the credit risk has not increased significantly since initial recognition. In all such cases, the loss allowance is based on 12 month expected credit losses. Credit risk is assessed as low if there is a low risk of default (where default is defined as occurring when amounts are 90 days past due). When determining the risk of default, management consider information such as payment history to date, industry in which the customer is employed, period for which the customer has been employed, external credit references average of actual losses over the past 3 years. In any event, if amounts are 30 days past due, then the credit risk is assumed to have increased significantly since initial recognition. Credit risk is not assessed to be low simply because of the value of collateral associated with a financial instrument. If the instrument would not have a low credit risk in the absence of collateral, then the credit risk is not considered low when taking the collateral into account. Trade receivables which do not contain a significant financing component are the exceptions and are discussed below.

Where necessary, the assessment for a significant increase in credit risk is made on a collective basis. Management typically adopt this approach when information relevant to the determination of credit risk is not available on an individual instrument level. Often, the only information available on individual instruments which could indicate an increase in credit risk, is "past due" information. It is typical that more forward-looking information is generally more readily available on a collective basis. Therefore, making the determination on a collective basis, helps to ensure that credit loss allowances are determined on the basis of lifetime expected credit losses before they reach the point of being past due. Forward looking, macro-economic information is applied on a collective basis when it is readily available without undue cost or effort. When loss allowances are determined on a collective basis, management determines the loss allowances by grouping financial instruments on the basis of shared credit risk characteristics.

For trade receivables which do not contain a significant financing component, the loss allowance is determined as the lifetime expected credit losses of the instruments. For all other trade receivables and lease receivables, IFRS 9 permits the determination of the credit loss allowance by either determining whether there was a significant increase in credit risk since initial recognition or by always making use of lifetime expected credit losses. Management have chosen as an accounting policy, to make use of lifetime expected credit losses. Management does therefore not make the annual assessment of whether the credit risk has increased significantly since initial recognition for trade receivables.

Notes to the Annual Financial Statements

37. Financial instruments and risk management (continued)

The maximum exposure to credit risk of the company is presented in the table below:

		2021			2020		
		Gross carrying amount	**Credit loss allowance**	**Amortised cost**	**Gross carrying amount**	**Credit loss allowance**	**Amortised cost**
Trade and other receivables	6	306,255	(17,058)	289,197	313,641	(16,882)	296,759
Cash and cash equivalents	11	566,990	-	566,990	587,051	-	587,051
Amounts owing by group companies	10	61,343	-	61,343	39,921	-	39,921
Other financial assets	7	13,191	-	13,191	1,501	-	1,501
		947,779	**(17,058)**	**930,721**	**942,114**	**(16,882)**	**925,232**

Amounts are presented at amortised cost or fair value depending on the accounting treatment of the item presented. The credit loss allowance is only shown for disclosure purposes.

The company's credit risk is influenced mainly by the individual characteristics of each customer. The company's customer base comprises three distinct markets, for which credit risk relating to customer concentration per market segmentation is presented as follows:

- Replacement Trade: 66% (2020: 70%)
- Original Equipment: 19% (2020: 21%)
- Exports: 15% (2020: 9%)

There is no specific concentration of credit risk within each market. In the case of customers falling within the export market, Letters of Credit are established or credit guarantee insurance is put in place. Once a credit limit has been established, it may only be increased by the Credit Manager. For customers who are considered to be to pose payment default risk, such customers are placed on on a prepayment basis.

The company has established an allowance provision of R17,057,558 (2020: R16,882,000) for possible impairment at reporting date. The remaining balances are considered recoverable.No significant losses have been incurred during the financial year.

The maximum exposure to credit risk for trade and other receivables at the reporting date per the age analysis was:

Gross carrying amounts		
Replacement Trade	184,605	207,882
Original Equipment	51,866	61,729
Exports - Third Parties	43,205	28,121
Total exposure to Group and Third Parties	**279,676**	**297,732**

Past due balances in Trade and other receivables		
Past due 0-30 days	1,033	3,867
Past due 31-60 days	-	2,620
Past due 61-90 days	14,587	-
Past due >91 days	8,541	2,626
	24,161	**9,113**

Notes to the Annual Financial Statements

37. Financial instruments and risk management (continued)

Maximum exposure to credit risk per geographical region within receivables at reporting date was:

Australia	2,742	(101)
Belguim	1,332	(1,010)
Brazil	963	-
Canada	(301)	1,463
Czech Republic	(2)	(1)
Chile	69	(62)
China	(514)	-
Austria	(420)	(2)
Argentina	-	3
Denmark	939	5
Domestic	321,320	282,314
France	(1)	-
Germany	17,338	(6,164)
Ghana	2,150	7,046
Finland	242	(111)
Italy	(7,197)	(2)
Hungary	38	-
Japan	889	-
Malaysia	(1,459)	(2,153)
Mauritius	2,087	3,081
Mexico	-	1,244
Middle East	(123)	(506)
Norway	49	-
Other Sub Saharan Africa regions	21,619	12,396
Poland	72	(4,169)
Portugal	(50)	(40)
Reunion	11,395	12,644
Romania	265	-
Slovenia	85	(8)
South Korea	-	(3)
Spain	(1)	216
Sweden	(52)	(21)
Switzerland	167	-
Taiwan	-	7
Turkey	(10)	124
United Kingdom	(6,937)	(12,732)
United States of America	70,841	4,274
Total exposure to Third Parties	**437,535**	**297,732**

Movement in provision for impairment of Trade and Other receivables

Opening Balance	16,882	9,456
Increase in provision	7,699	7,426
Less: amounts written off as irrecoverable	(7,523)	-
Closing balance	**17,058**	**16,882**

The average credit period on sales of goods is 48 days (2020: 56 days). The company has provided for specific receivables balances of R17,057,558 (2020: R16,882,000) mainly due to the economic circumstances. The balance of the impairment loss as at 31 December 2021 relates to replacement trade receivables and are provided for based on estimated irrecoverable amounts from these sales.

Before accepting any new customer, the company uses Industry-based trade references to assess the potential customer's credit quality and defines limits by customer. Credit limits attributed to customers are reviewed on an ongoing basis.

Notes to the Annual Financial Statements

37. Financial instruments and risk management (continued)

In determining the recoverability of a trade receivable, the company considers any change in the credit quality of the trade receivable from the date credit was initially granted to the reporting date. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Liquidity risk

The company is exposed to liquidity risk, which is the risk that the company will encounter difficulties in meeting its obligations as they become due.

The company manages its liquidity risk by effectively managing its working capital, capital expenditure and cash flows. The financing requirements are met through a mixture of cash generated from operations and long and short term borrowings. Committed borrowing facilities are available for meeting liquidity requirements and deposits are held at central banking institutions. The company's cash flow position is monitored daily, and cash is deposited or borrowed at optimum rates. A cash flow forecast is prepared and reviewed monthly.

There have been no significant changes in the liquidity risk management policies and processes since the prior reporting period.

The maturity profile of contractual cash flows of non-derivative financial liabilities, and financial assets held to mitigate the risk, are presented in the following table. The cash flows are undiscounted contractual amounts.

2021

		Less than 1 year	2 to 5 years	Over 5 years	Total	Carrying amount
Current liabilities						
Trade and other payables	17	209,588	-	-	209,588	209,588
Lease liabilities	15	21,069	92,188	18,101	131,358	105,847
Amounts due to group companies	20	346,442	-	-	346,442	346,442

37. Financial instruments and risk management (continued)

2020

		Less than 1 year	1 to 2 years	2 to 5 years	Total	Carrying amount
Current liabilities						
Trade and other payables	17	205,337	-	-	205,337	205,337
Lease liabilities	15	8,270	8,845	10,517	27,632	20,889
Amounts due to group companies	20	340,096	-	-	340,096	340,096

The company has the following credit facilities in place at the reporting date:

Financing facilities

ABSA		
Vehicle Management Solutions	8,000	8,000
CITIBANK		
Short Term Money Market	205,000	205,000
Short Term (FEC's)	47,780	24,000
Corporate Credit Card	7,000	7,000
	259,780	**236,000**
FIRST NATIONAL BANK		
Short Term Contingent (Guarantees)	7,000	7,000
Short Term (FEC's)	5,000	5,000
Settlement (EFT's)	125,000	125,000
Settlement (FEC's)	50,000	50,000
Short term Direct (Wesbank)	660	660
	187,660	**187,660**
STANDARD BANK OF SOUTH AFRICA		
Derivative products (FEC's)	28,000	28,000
RAND MERCHANT BANK		
Department of Finance	387	387
The Commissioner - Customes and Excise	53	53
SARS	5,750	5,750
South African Transport Services	46	46
City of Johannesburg	2	2
Mobeni Town Council	10	10
NUMSA	-	90
	6,248	**6,338**

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the company's income or value of its holdings of financial instruments.

Notes to the Annual Financial Statements

37. Financial instruments and risk management (continued)

Foreign currency risk

The company is exposed to foreign currency risk as a result of certain transactions and borrowings which are denominated in foreign currencies. The company is primarily exposed to foreign currencies of the United States Dollar, and Euro.

The company does not cover foreign exchange exposures. In terms of Group requirements, subsidiaries run open positions for foreign exposures, foreign exposures are therefore dealt at Spot.

There have been no significant changes in the foreign currency risk management policies and processes since the prior reporting period.

Exposure in Rand

The net carrying amounts, in Rand, of the various exposures, are denominated in the following currencies. The amounts have been presented in Rand by converting the foreign currency amounts at the closing rate at the reporting date below.

Current assets:		
ARS	-	13
AUD	241	(9)
BRL	349	-
CAD	(25)	124
CHF	10	-
CZK	(3)	-
DKK	-	2
EUR	2,605	729
GBP	(446)	(602)
GHS	-	2,608
HUF	778	-
JPY	5,850	-
KRW	-	(251)
MXN	-	1,635
MYR	(1,714)	(543)
NOK	27	-
PLN	19	(1,011)
RUB	-	(6)
SEK	(29)	(11)
RON	73	-
TRY	(7)	49
TWD	-	8
USD	5,159	438
Current liabilities:		
EUR	(2,704)	(2,714)
USD	(5,472)	(4,240)
	4,711	**(3,781)**

Exposure in foreign currency amounts

The net carrying amounts, in foreign currency of the above exposure have been presented in the accompanying table.

Notes to the Annual Financial Statements

37. Financial instruments and risk management (continued)

Exchange rates

The following exchange rates were applied during the financial year:

Rand per unit of foreign currency:		
AUD	11.100	11.309
ARS	-	0.233
BRL	2.739	-
CAD	11.788	12.251
CHF	16.166	17.489
COP	-	0.445
CZK	0.682	0.708
DKK	-	2.511
EUR	17.481	18.718
GBP	20.331	21.074
GHS	-	2.855
HUF	0.049	0.050
ISK	12.144	-
JPY	0.135	0.154
KRW	-	0.139
MXN	0.729	0.765
MYR	3.566	3.910
NOK	1.720	1.747
PLN	3.828	4.215
RUB	-	0.227
RON	3.552	-
SEK	1.723	1.784
THB	-	0.525
TRY	1.665	2.337
TWD	-	0.557
USD	14.778	16.414
Foreign currency per Rand		
AUD	11.565	11.344
BRL	2.858	-
CAD	12.518	11.511
CHF	17.454	16.646
COP	-	0.043
CZK	0.727	0.686
DKK	-	2.420
EUR	18.037	18.009
GBP	21.496	20.055
GHS	-	2.501
HUF	0.488	0.494
ISK	12.220	-
JPY	0.138	0.142
KRW	-	0.014
MXN	0.779	0.739
MYR	3.824	3.648
NOK	1.807	1.722
PLN	3.924	3.949
RON	3.640	-
RUB	-	0.196
SEK	1.760	1.799
THB	-	0.489
TRY	1.187	1.963
TWD	-	0.522
Other	15.927	14.666

Notes to the Annual Financial Statements

37. Financial instruments and risk management (continued)

Interest rate risk

Fluctuations in interest rates impact on the value of investments and financing activities, giving rise to interest rate risk.

Short-term financial instruments result in a risk of rising interest rates for interest-bearing financial liabilities and falling interest rates for interest-bearing financial investments. These interest-rate risks are valued and assessed as part of our interest-rate management activities, partly on the basis of continuing monitoring of current and anticipated long-term and short-term interest-rate developments.

There have been no significant changes in the interest rate risk management policies and processes since the prior reporting period.

Details of interest rate risk exposure are contained in the relevant notes throughout these financial statements.

Operational risk

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall company standards for the management of operational risk in the following areas:
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- ethical and business standards;
- risk mitigation, including insurance where it is effective.

Compliance with the company standards is supported by a program of periodic reviews undertaken by local management. The results of these reviews are discussed with the heads of the business department to which they relate.