Continental Tyre South Africa (Pty) Ltd
(Registration number 1998/005020/07)
Annual Financial Statements
for the year ended 31 December 2022
These annual financial statements were prepared by:
Casey-Anne Isaacs CA (SA)
Finance Manager
Issued 21 April 2023

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	Mrs. G.L. Jozaffe-Naidoo Mr. F. Hoyos Dr. A.C. Anderson Mr. M.C. Livigni
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	21 April 2023

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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 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 2023 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 4-63, which have been prepared on the going concern basis, were approved by the Board on 21 April 2023 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 2022.

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 standards 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 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 2022.

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	Resigned 31 December 2022
Mrs. G.L. Jozaffe-Naidoo	Director	Executive	South African	
Dr. V. Pillay	Director	Independent Non-executive	South African	Resigned 2 June 2022
Mr. F. Hoyos	Chairperson	Non-executive	German	
Dr. A.C. Anderson	Director	Independent Non-executive	South African	Appointed 1 July 2022
Mr. M.C. Livigni	Director	Executive	American	Appointed 1 January 2023

Directors' Report

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 2022 the company's investment in property, plant and equipment amounted to R539 259 000 (2021: R551 969 000) of which R112 777 000 (2021: R110 899 000) 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% (2021: 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.

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 factual evidence was concluded in the period 19 to 22 September 2022. The next step in the process is for a competitor and the Competition Commission to present the evidence of their respective expert economists. The Tribunal has not yet allocated dates for the expert evidence, but it is expected to be heard in the first quarter of 2023. After the expert evidence has been led, the parties will exchange heads of argument in the second quarter of 2023. with final argument to be heard by the Tribunal possibly in the third quarter. Our best estimate at this stage is that The Tribunal is expected to issue its decision on the merits of the matter by the end of 2023.

13. Auditors

PricewaterhouseCoopers Inc. continued in office as auditors of the company for the 2022 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 2022, 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 63 comprise:

- the statement of financial position as at 31 December 2022;
- 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)*.

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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 2022", 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
21 April 2023

Statement of Financial Position as at 31 December 2022

	Note(s)	2022 R '000	2021 R '000
Assets			
Non-Current Assets			
Property, plant and equipment	3	539,259	551,969
Right-of-use assets	4	69,236	95,008
Lease receivables	21	8,017	-
		616,512	**646,977**
Current Assets			
Inventories	5	784,742	597,924
Trade and other receivables	6	390,576	411,810
Other financial assets	7	16,020	13,191
Lease receivables	21	647	-
Current tax receivable	8	8,630	-
Amounts owing by group companies	10	101,708	61,343
Cash and cash equivalents	11	572,979	566,990
		1,875,302	**1,651,258**
Total Assets		**2,491,814**	**2,298,235**
Equity and Liabilities			
Equity			
Stated capital	12	115,470	115,470
Reserves	13&14	291,512	289,379
Retained income		1,215,186	997,523
		1,622,168	**1,402,372**
Liabilities			
Non-Current Liabilities			
Lease liabilities	15	76,574	91,821
Retirement benefit obligation	30	30,380	29,980
Deferred tax	16	32,450	37,733
		139,404	**159,534**
Current Liabilities			
Trade and other payables	17	262,282	209,588
Lease liabilities	15	15,859	14,026
Current tax payable	8	-	884
Provisions	18	1,328	1,543
Other current liabilities	19	170,547	163,846
Amounts due to group companies	20	280,226	346,442
		730,242	**736,329**
Total Liabilities		**869,646**	**895,863**
Total Equity and Liabilities		**2,491,814**	**2,298,235**

Statement of Profit or Loss and Other Comprehensive Income

	Note(s)	2022 R '000	2021 R '000
Revenue	23	3,658,936	3,105,618
Cost of sales		(2,989,538)	(2,371,493)
Gross profit		**669,398**	**734,125**
Other income	24	181,517	124,195
Impairment reversal / (loss)	9	10,047	(28,985)
Other operating expenses		(569,006)	(586,069)
Operating profit	25	**291,956**	**243,266**
Investment income	26	96,589	58,278
Finance costs	27	(87,324)	(45,286)
Profit before taxation		**301,221**	**256,258**
Taxation	28	(83,558)	(69,443)
Profit for the year		**217,663**	**186,815**
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Defined benefit plan actuarial gain/(loss)		3,231	(3,038)
Income tax relating to other comprehensive income		(1,098)	851
Total items that may be reclassified to profit or loss		**2,133**	**(2,187)**
Other comprehensive income for the year net of taxation	30	**2,133**	**(2,187)**
Total comprehensive income for the year		**219,796**	**184,628**

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 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 01 January 2022	**201**	**115,269**	**115,470**	**65,594**	**(16,215)**	**240,000**	**289,379**	**997,523**	**1,402,372**
Profit for the year	-	-	-	-	-	-	-	217,663	217,663
Other comprehensive income	-	-	-	-	2,133	-	2,133	-	2,133
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**2,133**	**-**	**2,133**	**217,663**	**219,796**
Balance at 31 December 2022	**201**	**115,269**	**115,470**	**65,594**	**(14,082)**	**240,000**	**291,512**	**1,215,186**	**1,622,168**
Notes	12	12	12	13		14			

Statement of Cash Flows

	Note(s)	2022 R '000	2021 R '000
Cash flows from operating activities			
Cash generated from operations	29	219,362	170,800
Interest received	26	94,077	58,278
Interest paid	27	(85,914)	(42,450)
Income taxes paid	8	(97,685)	(69,185)
Net cash from operating activities		**129,840**	**117,443**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(111,546)	(110,899)
Proceeds from sale of property, plant and equipment	3	685	1,135
Proceeds from sale of assets held for sale	9	10,047	8,591
BBBEE loans advanced	7	(16,020)	(13,191)
BBBEE loans repaid	7	13,191	1,501
Proceeds from lease receivables		1,140	-
Net cash from investing activities		**(102,503)**	**(112,863)**
Cash flows from financing activities			
Payment on lease liabilities	15	(21,348)	(24,641)
Total cash and cash equivalents movement for the year		**5,989**	**(20,061)**
Cash and cash equivalents at the beginning of the year		566,990	587,051
Total cash and cash equivalents at the end of the year	11	**572,979**	**566,990**

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 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, 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
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:

Other financial assets

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 26).

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, but including amounts owing by group companies are classified as financial assets subsequently measured at amortised cost (note 6 and note10).

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 26).

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 25).

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

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risk and rewards of ownership.

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 and note 20), excluding VAT and amounts received in advance, but including amounts owing to group companies 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 27).

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

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability.

The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Accounting Policies

1.5 Financial instruments (continued)

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.

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.

The deferred tax assets and the deferred tax liability relate to income tax in the same jurisdiction, and the law allows net settlement. Therefore, they have been offset in the statement of financial position

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.

Accounting Policies

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.

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 25) 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 27).

Accounting Policies

1.7 Leases (continued)

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.

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 on a straight-line basis. 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.

Accounting Policies

1.7 Leases (continued)

Company as lessor

Leases for which the company is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases. Lease classification is made at inception and is only reassessed if there is a lease modification.

When the company is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the company applies the exemption described previously, then it classifies the sub-lease as an operating lease.

The various lease and non-lease components of contracts containing leases are accounted for separately, with consideration being allocated by applying IFRS 15.

The company sub-lets the Bestdrive building in William Moffett Port Elizabeth to Kelston Motors Proprietary Limited. The sub-lease commenced 3 January 2022 and will continue to 30 November 2030.The head lease is between Continental Tyre South Africa Proprietary Limited and Boundary Financing Proprietary Limited

Finance leases

Amounts due from lessees are recognised from commencement date at an amount equal to the company net investment in the lease. They are presented as lease receivables (note 21) on the statement of financial position.

The interest rate implicit in the lease is used to measure the net investment in the lease. If the interest rate implicit in a sublease cannot be readily determined for a sublease, then the discount rate used for the head lease (adjusted for any initial direct costs associated with the sublease) is used to measure the net investment in the sublease.

The interest rate implicit in the lease is defined in a manner which causes the initial direct costs to be included in the initial measurement of the net investment in the lease.

Lease payments included in the measurement of the net investment in the lease comprise the following:
- fixed lease payments, including in-substance fixed payments, less any lease incentives payable;
- 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 receivable by the company from the lessee, a party related to the lessee or a third party unrelated to the company under residual value guarantees (to the extent of third parties, this amount is only included if the party is financially capable of discharging the obligations under the guarantee);
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the option;
- penalties for early termination of a lease, if the lease term reflects the exercise of an option to terminate the lease.

The company recognises finance income over the lease term, based on a pattern that reflects a constant periodic rate of return on the net investment in the lease. Finance income recognised on finance leases is included in investment income in profit or loss (note 26).

The company applies the impairment provisions of IFRS 9 to lease receivables. Refer to the accounting policy for trade and other receivables as lease receivables are impaired on a consistent basis with that accounting policy.

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.

Accounting Policies

1.8 Inventories (continued)

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.

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.

Accounting Policies

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.

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 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 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.

The sale of goods

The company sells various manufactured and imported 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 - 120 days.

Warranties

The company makes provision for warranties on the sale of tyres to customers. The provision for warranty claims as at 31 December 2022 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.

Accounting Policies

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.

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 the annual reporting period commencing 1 January 2022:

• Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
• Onerous Contracts – Cost of Fulfilling a Contract – Amendments to IAS 37
• Annual Improvements to IFRS Standards 2018-2020, and
• Reference to the Conceptual Framework – Amendments to IFRS 3.

The company also elected to adopt the following amendments early:
• Deferred Tax related to Assets and Liabilities arising from a Single Transaction – amendments to IAS 12 13, and
• Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2.

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 2022 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.

There is no material impact on the entity as a result of IFRS 17

Notes to the Annual Financial Statements

3. Property, plant and equipment

	2022			2021		
	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	120,182	(74,365)	45,817	118,020	(70,575)	47,445
Plant and machinery	1,736,909	(1,340,878)	396,031	1,802,480	(1,374,177)	428,303
Computer software - Intangible assets	15,011	(14,907)	104	14,973	(14,759)	214
Capital work in progress	95,882	-	95,882	74,582	-	74,582
Total	**1,969,409**	**(1,430,150)**	**539,259**	**2,011,480**	**(1,459,511)**	**551,969**

Reconciliation of property, plant and equipment - 2022

	Opening balance R'000	Additions R'000	Disposals R'000	Transfers R'000	Depreciation R'000	Total R'000
Land	1,425	-	-	-	-	1,425
Buildings	47,445	3,631	-	-	(5,259)	45,817
Plant and machinery	428,303	8,234	(7)	79,575	(120,074)	396,031
Computer software - Intangible assets	214	37	-	-	(147)	104
Capital work in progress	74,582	100,875	-	(79,575)	-	95,882
	551,969	**112,777**	**(7)**	**-**	**(125,480)**	**539,259**

Notes to the Annual Financial Statements

3. Property, plant and equipment (continued)

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
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 - Intangible assets	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**

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	120,182	118,020
	121,607	**119,445**

The open market value placed on the Company's land and buildings by the local municipal authorities as at 31 December 2022 was R185,600,000 (2021: R121,200,000).

There are no restrictions on title on property plant and equipment.

No Borrowing costs were incurred and capitalised to Capital work in progress.

Notes to the Annual Financial Statements

4. Right-of-use assets

	2022			2021		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
	R'000	R'000	R'000	R'000	R'000	R'000
Buildings	127,843	(61,173)	66,670	148,659	(56,774)	91,885
Plant and Machinery	5,039	(2,472)	2,566	5,923	(2,809)	3,123
	132,882	**(63,645)**	**69,236**	**154,582**	**(59,583)**	**95,008**

Reconciliation of right-of-use assets - 2022

	Buildings	Plant and machinery	Total
	R'000	R'000	R'000
At 1 January 2022	91,886	3,122	95,008
Additions	-	914	914
Depreciation	(16,000)	(1,470)	(17,470)
Disposal	(9,216)	-	(9,216)
At 31 December 2022	**66,670**	**2,566**	**69,236**

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**

Depreciation recognised on each class of right-of-use assets

Buildings	16,000	20,458
Plant and machinery	1,470	2,026
	17,470	**22,484**

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.

There are no restrictions on title on right-of-use assets.

Notes to the Annual Financial Statements

	2022 R '000	2021 R '000

5. Inventories

Raw materials	222,427	139,522
Work in progress	67,945	55,350
Finished goods	494,370	385,587
Goods in transit	-	17,465
	784,742	**597,924**

An amount of R14,420,975 (2021: R9,776,622) has been provided against finished goods, and the inventory is reflected at net realisable value. An amount of R16,119,800 (2021: R6,047,200) has been written down in the current year.

6. Trade and other receivables

Financial instruments:		
Trade receivables	218,898	279,676
Provision for credit loss	(7,473)	(17,058)
Trade receivables at amortised cost	211,425	262,618
Other receivables	24,617	26,579
Non-financial instruments:		
Government grants receivable	154,534	114,357
VAT receivable	-	8,256
Total trade and other receivables	**390,576**	**411,810**

Categorisation of trade and other receivables

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

At amortised cost	236,042	289,197
Non-financial instruments	154,534	122,613
	390,576	**411,810**

Refer to note 37 for foreign currency exposures on foreign debtors.

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.

Notes to the Annual Financial Statements

	2022 R '000	2021 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:	2022 **Estimated gross carrying amount at default R'000**	2022 **Loss allowance (Lifetime expected credit loss) R'000**	2021 **Estimated gross carrying amount at default R'000**	2021 **Loss allowance (Lifetime expected credit loss) R'000**
Performing - no default history 0.04% (2021: 0.0%)	196,895	100	238,639	51
Less than 15 days past due: 0.32% (2021: 0.02%)	8,415	27	1,033	1
15 - 30 days past due: 0.17% (2021: 0.0%)	1,888	3	-	-
30 - 60 days past due: 0.4% (2021: 0.0%)	599	2	-	-
60 - 90 days past due: 0.87% (2021: 0.61%)	1,227	11	14,587	31
90 - 120 days past due: 1,16% (2021: 0.72%)	-	-	341	2
More than 120 days past due: 6.16% (2021: 5.76%)	2,619	75	8,200	97
Specific debtors	7,255	7,255	16,876	16,876
	218,898	**7,473**	**279,676**	**17,058**

7. Other financial assets

	2022	2021
Loans and receivables		
Engeli Enterprise Development (Pty) Ltd	10,680	8,794

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 the Absa fixed deposit account number 20-8077-1776 and 20-8080-0886 to the extent of R8 965 000 and R1 715 000 respectively. The aforementioned amounts are 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.

	2022	2021
Engeli Finance Solutions (Pty) Ltd	5,340	4,397

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 20-8078-1478 and 20-8080-0860 to the extent of R4 483 000 and R857 000 respectively.The aforementioned amounts are 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.

	2022	2021
	16,020	**13,191**

Notes to the Annual Financial Statements

	2022 R '000	2021 R '000

7. Other financial assets (continued)

Current assets		
At amortised cost	16,020	13,191

8. Current tax payable (receivable)

Balance at the beginning of the year	884	(174)
Current tax for the year recognised in profit or loss	(89,939)	(69,895)
Balance at the end of the year	(8,630)	884
Tax paid	**(97,685)**	**(69,185)**
Current tax (receivables) / payable	(8,630)	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 (2021: Rnil).

Cumulative 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
Disposals	(10,047)	(4,686)
Impairment reversal / (loss)	10,047	(20,232)
	-	-

10. Amounts owing by group companies

Disclosure on aging, provision for credit loss and foreign currency exposure is in note 37. Management have assessed the Expected Credit Loss on amounts due from group companies and found it to be immaterial.

Inter-company receivables		
Continental Tire the Americas LLC	44,881	25,646
ContiTrade Africa (Pty) Ltd	13,783	14,246
Other group companies (refer to Note 36)	43,044	20,496
Continental Reifen Deutschland GmbH	-	955
	101,708	**61,343**

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash at bank	572,979	566,990

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

Notes to the Annual Financial Statements

	2022 R '000	2021 R '000

12. Stated capital

Authorised		
385,000 Ordinary shares of R1 each (2021: 385,000)	385	385
Issued		
201,420 Ordinary shares of R1 each fully paid (2021: 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.

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 2022.

	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 2022.

	240,000	240,000

15. Lease liabilities

Minimum lease payments due		
- within one year	21,905	21,069
- in second to fifth year inclusive	77,873	92,188
- later than five years	11,163	18,102
	110,941	131,359
less: future finance charges	(18,508)	(25,512)
Present value of minimum lease payments	**92,433**	**105,847**
Amounts recognised in statement of cash flows		
Lease payments for leases under IFRS16	21,348	24,641
Lease payments for short term or low value assets	8,909	7,945
	30,257	**32,586**
Non-current liabilities	76,574	91,821
Current liabilities	15,859	14,026
	92,433	**105,847**

Notes to the Annual Financial Statements

	2022 R '000	2021 R '000

15. Lease liabilities (continued)

Reconciliation of lease liability - 2022

	Buildings R'000	Plant and Machinery R'000	Total R'000
At 1 January 2022	102,511	3,337	105,847
Additions	-	855	855
Interest expense	6,920	158	7,078
Lease payments	(19,784)	(1,564)	(21,348)
At 31 December 2022	**89,647**	**2,786**	**92,432**

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**

Refer to note 4 for the nature of the leases.

16. Deferred tax asset / (liability)

Deferred tax liability

	2022	2021
Capital Allowances	(70,538)	(70,185)
Deferred Expenditure	-	(44)
Total deferred tax liability	**(70,538)**	**(70,229)**

Deferred tax asset

	2022	2021
Provisions	20,135	15,933
Post Retirement Medical Benefit	8,203	8,394
Deferred tax balance from temporary differences other than unused tax losses	28,338	24,327
Leases	5,821	2,824
	34,159	27,151
Advanced payment from debtors	3,930	5,345
Total deferred tax asset, net of valuation allowance recognised	**38,089**	**32,496**

	2022	2021
Deferred tax liability	(70,538)	(70,229)
Deferred tax asset	38,089	32,496
Total net deferred tax liability	**(32,449)**	**(37,733)**

Notes to the Annual Financial Statements

	2022 R '000	2021 R '000

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

Reconciliation of deferred tax liability

	2022 R '000	2021 R '000
At the beginning of year	(37,732)	(39,035)
Current year adjustment for amounts recognised in profit and loss	6,187	14,751
Current year adjustment for amounts recognised in other comprehensive income	(905)	851
Assessed loss movement	-	(14,299)
	(32,450)	**(37,732)**

17. Trade and other payables

	2022 R '000	2021 R '000
Financial instruments:		
Trade payables	217,399	165,317
Recycling fee accrual	41,674	41,618
Other accrued expenses	3,176	2,653
Non-financial instruments:		
VAT	33	-
	262,282	**209,588**

Refer to note 37 for disclosure on foreign currency exposure on foreign creditors.

Fair value of trade and other payables

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

18. Provisions

Reconciliation of provisions - 2022

	Opening balance	**Additions**	**Utilised during the year**	**Total**
Provision for warranties	1,543	1,812	(2,027)	1,328

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**

Restructuring

In 2019 the decision was made to restructure the company's current operations and stop the production of Commercial Speciality Tyres.

Warranties

The company makes provision for warranties on the sale of tyres to customers. The provision for warranty claims as at 31 December 2022 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

	2022 R '000	2021 R '000

19. Other current liabilities

	2022 R '000	2021 R '000
Customers (Rebates / Settlement Discounts / Advance Receipts)	41,760	42,646
Employees (Incentives / Leave Pay / Other)	47,653	53,571
PAYE	13,739	12,221
General accruals	67,395	55,408
	170,547	**163,846**

20. Amounts due to group companies

	2022 R '000	2021 R '000
Inter-company payables		
Barum Continental s.r.o	42,765	35,679
S.C. Continental Automotive Products S.R.L.	-	2,786
Continental France SNC	10	4,955
Continental Matador Rubber s.r.o.	5,754	28,884
Continental Mabor Industria de Pneus S.A.	9,008	4,209
Continental Tires Holding Singapore Pte. Ltd.	19,651	30,526
Continental Reifen Deutschland GmbH	131,817	131,446
Continental Matador Truck Tires s.r.o.	1,398	12,661
Other group companies (refer to Note 36)	57,166	84,912
Conti Machinery	438	812
Conti Trade Africa (Pty.) Ltd	6,611	2,571
Continental Tire the Americas LLC	172	2,183
Continental Aktiengesellschaft	5,436	4,818
	280,226	**346,442**

21. Lease receivables

	2022 R '000	2021 R '000
Non-current assets	8,017	-
Current assets	647	-
	8,664	**-**

The company sub-lets the Bestdrive building in Port Elizabeth to the Kelston Motors Proprietary Limiited. The term of the lease is 9 years commencing 3 January 2022 and ending 30 November 2030

Other information regarding lease receivables:

	2022 R '000	2021 R '000
Interest income recognised on net investment in the lease	589	551

22. Provident fund commitments

Defined contribution scheme

The company has established a provident fund 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.

The total contributions paid by the company for the 2022 year amounted to R36,566,115.

Notes to the Annual Financial Statements

	2022 R '000	2021 R '000

23. Revenue

	2022 R '000	2021 R '000
Revenue from contracts with customers		
Sale of goods	3,658,936	3,105,618

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.

	2022 R '000	2021 R '000
Sale of goods		
Sale of goods	3,658,936	3,105,618
Revenue from sales of product groups		
Passenger & light truck Tyre sales Original Equipment Manufacturers	732,933	702,415
Passenger & light truck Tyre sales Replacement Equipment	1,474,769	1,393,520
Truck Tyre sales Original Equipment Manufacturers & Replacement Equipment	95,361	111,354
Commercial Specialty Tyre sales	33,449	27,333
Offtake Tyre Sales	1,105,897	709,026
Compound Sales	216,527	161,970
	3,658,936	**3,105,618**

Timing of revenue recognition

	2022 R '000	2021 R '000
At a point in time		
Sale of goods	3,658,936	3,105,618

24. Other income

	2022 R '000	2021 R '000
Other rental income	(1,140)	(1,303)
Profit on asset disposals	679	3,904
Government grants	181,978	121,594
	181,517	**124,195**

Profit on asset disposals in the current year comprise:

-

Fixed Assets : R10 481 076 (2021: R3 904 235)

Moulds : R244 490 (2021: Rnil)

25. Operating profit (loss)

Operating profit for the year is stated after crediting the following, amongst others:

	2022 R '000	2021 R '000
Auditor's remuneration - external		
Audit fees	1,547	1,174

Leases

	2022 R '000	2021 R '000
Short term or low value assets		
Forklifts	2,686	2,117
Computer equipment	5,173	5,004
Motor vehicles	1,050	824
	8,909	**7,945**

Notes to the Annual Financial Statements

	2022 R '000	2021 R '000
25. Operating profit (loss) (continued)		
Credit loss allowance	**-**	**176**
Depreciation		
Depreciation of property, plant and equipment	125,480	121,872
Depreciation of right-of-use assets	17,470	22,484
Total depreciation and amortisation	**142,950**	**144,356**
Impairment (reversal) / loss		
Non-current assets held for sale	(10,047)	20,232
Right-of-use assets	-	8,753
	(10,047)	**28,985**
Expenses by nature		
Raw materials used	1,941,674	1,452,692
Repairs and maintenance	44,164	48,702
Transportation costs	443,477	369,633
Salaries & Wages	435,233	397,384
Rates and Taxes	108,528	103,082
Employee benefit expenses	258,929	238,373
Depreciation	142,950	144,356
Leases	8,909	7,945
Royalties	41,345	35,229

26. Investment income

	2022 R '000	2021 R '000
Interest income		
Financial institutions	23,680	17,207
Leases	589	551
Foreign exchange gains - realised	69,808	40,520
Foreign exchange gains - unrealised	2,512	-
Total interest income	**96,589**	**58,278**

27. Finance costs

	2022 R '000	2021 R '000
Leases	7,078	3,915
SARS interest & penalties	12,076	877
Foreign exchange losses - realised	63,619	32,311
Interest on post retirement fund	3,134	2,836
Foreign exchange losses - unrealised	1,410	5,347
Total finance costs	**87,317**	**45,286**

Notes to the Annual Financial Statements

	2022 R '000	2021 R '000

28. Taxation

Major components of the tax (income) expense

	2022 R '000	2021 R '000
Current		
Local income tax	96,123	69,895
Prior year over provision	(6,184)	-
	89,939	**69,895**
Deferred		
Deferred tax - current year	(6,381)	(452)
	83,558	**69,443**

Reconciliation of the tax expense

Reconciliation between applicable tax rate and average effective tax rate.

	2022	2021
Statutory rate	28.00 %	28.00 %
Total non-temporary difference	1.45 %	(0.48)%
Under provision - Deferred tax	0.17 %	(0.43)%
Over provision - Current tax	(1.22)%	- %
Rate change	(0.35)%	- %
	28.05 %	**27.09 %**

29. Cash generated from operations

	2022 R '000	2021 R '000
Profit before taxation	301,221	256,258
Adjustments for:		
Depreciation and amortisation	142,950	145,109
Profit on disposal of property, plant and equipment	(679)	(3,904)
Income on termination of right of use assets	8,753	-
Finance cost - Leases (IFRS16)	7,085	3,915
Forex loss - unrealised portion	1,410	5,347
Forex gain - unrealised portion	(2,512)	-
Interest received - investment	(94,077)	(58,278)
Finance costs	78,830	36,024
Impairment (reversal) / loss	(10,047)	28,985
Movements in provisions	(215)	(4,978)
Interest Income - Leases (IFRS16)	(589)	-
Changes in working capital:		
Inventories	(186,817)	(229,942)
Trade and other receivables	21,234	(34,189)
Trade and other payables	52,694	4,251
Other current liabilities	6,702	37,278
Amounts due to group companies	(66,216)	6,346
Amounts due by group companies	(40,365)	(21,422)
	219,362	**170,800**

30. 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.

Notes to the Annual Financial Statements

	2022 R '000	2021 R '000
30. Post retirement medical benefits (continued)		
Actuarially determined present value of total obligation at 31 December		
Actuarially determined present value of total obligation at 31 December	58,987	59,123
Fair value of the fund assets at 31 December	(28,607)	(29,143)
Liability raised	**30,380**	**29,980**
Net liability for funded obligations at the beginning of the year	29,980	27,142
Loss taken to statement of comprehensive income	400	2,838
Net liability of funded obligations at the end of the year	**30,380**	**29,980**
Reconciliation of obligations		
Obligation at the beginning of the year	59,123	55,409
Current service cost	497	464
Benefits paid	(3,836)	(3,712)
Interest cost	5,993	5,609
Actuarial (gain)/ loss	(2,790)	1,353
Obligation at the end of the year	**58,987**	**59,123**
Reconciliation of plan assets		
Assets at fair market value at the beginning of the year	29,143	28,267
Actuarial loss / (gain)	441	(1,685)
Contributions paid	-	3,500
Expected return on plan assets	2,859	2,773
Benefits paid	(3,836)	(3,712)
Assets at fair market value at the end of the year	**28,607**	**29,143**
Loss/(profit) available to be taken to the statement of comprehensive income		
Net actuarial (gain) / loss recognised in the year	(3,231)	3,038
Expected return on plan assets	(2,859)	(2,773)
Contributions paid	-	(3,500)
Interest cost	5,993	5,609
Current service cost	497	464
	400	**2,838**
Principal actuarial assumptions for the post-retirement medical aid obligations		
Net discount rate	3.30 %	3.10 %
Subsidy inflation	7.30 %	7.40 %
Return on plan assets	10.60 %	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:

	2022 R '000	2021 R '000
Current cost plus interest cost		
Central assumption	58,987	59,123
Central assumption + 1%	53,461	53,037
Central assumption -1%	65,711	65,676

31. Capital commitments

	2022 R '000	2021 R '000
Capital commitments		
Commitments in respect of contracts placed	128,120	39,476
Approved by the directors in addition to contracts placed	128,052	41,168
	256,172	**80,644**

Notes to the Annual Financial Statements

	2022 R '000	2021 R '000

31. Capital commitments (continued)

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.

32. Short-term or low value leases

Short-term or low value leases		
Not later than 1 year	306	220

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

33. Events after the reporting period

At the date of finalisation of the annual financial statements, there were no material events that occurred subsequent to the reporting date that required adjustments to the amounts recognised in the financial statements.

34. 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.

35. 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 factual evidence was concluded in the period 19 to 22 September 2022. The next step in the process is for a competitor and the Competition Commission to present the evidence of their respective expert economists. The Tribunal has not yet allocated dates for the expert evidence, but it is expected to be heard in the first quarter of 2023. After the expert evidence has been led, the parties will exchange heads of argument in the second quarter of 2023. with final argument to be heard by the Tribunal possibly in the third quarter. Our best estimate at this stage is that The Tribunal is expected to issue its decision on the merits of the matter by the end of 2023.

Notes to the Annual Financial Statements

36. 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 Reifen Deutschland GmbH
	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
	Eu-Retec (Pvt) Ltd

36. Related parties (continued)

	Dekkmann A/S
	Continental Automotive Trading UK
	ContiTech Elastomere
	Continental Reifen Austria
Members of key management	Directors & prescribed officers

Related party balances

Amounts owing by group companies	101,708	61,343
Inter-company receivables		
ContiTrade Africa (Pty) Ltd	13,783	14,246
Continental Tire the Americas LLC	44,881	25,646
Continental Reifen Deutschland GmbH	-	955
Other group companies include:		
Continental Tires (China) Co.	-	563
Continental Adria pnevmatike	-	86
ContiTech Africa (Pty) Ltd	29,896	10,817
S.C. Continental Automotive S.R.L.	2,329	266
Continental Daek Danmark A/S	81	-
Continental Dekk Norge A/S	-	49
Continental do Brasil Produtos Automotivos Ltda.	-	31
Continental France SNC	510	-
Continental Middle East DMCC	46	-
Continental Matador Truck Tire	-	1,735
Continental Mabor Indústria de Pneus S.A.	104	-
Continental of Taiwan Co. Ltd	47	-
Continental Opony Polska Sp. z o.o.	225	74
Continental Rengas Oy	174	246
Continental Suisse S.A.	-	174
Continental Tire Canada, Inc.	351	-
ContiTech Schlauch Gmbh	69	-
Continental Matador Rubber s.r.o.	8	-
Continental Tire Chile SpA	30	72
Eu-Retec (Pvt) Ltd	325	-
Continental Tire Japan Co. Ltd	8	-
Vitesco technologies Canada, U	22	-
Continental Tyre PJ Malaysia Sdn. Bhd.	4,359	4,443
Continental Tire Korea Co. Ltd	114	-
Continental Tyres of Australia (Pty) Ltd	4,233	1,900
Dekkmann A/S	113	-
Contiental Hungaria Kft.	-	38
Otomotiv Lastikleri Tevzi AS	-	2
	43,044	20,496
Amounts due to group companies	280,226	346,442
Inter-company payables		
Continental AG	-	4,818
Continental Barum s.r.o.	42,765	35,679
Continental Tire the Americas LLC	-	2,183
Conti Machinery Hanover	438	812
ContiTrade Africa (Pty) Ltd	6,611	2,571
Continental France SNC	10	-
Continental France SNC	-	4,955
Continental Mabor Indústria de Pneus S.A.	9,008	4,209
Continental Matador Rubber s.r.o.	5,754	28,884
Continental Matador Truck Tires s.r.o.	1,398	12,661
Continental Reifen Deutschland GmbH	131,817	131,446

Notes to the Annual Financial Statements

	2022 R '000	2021 R '000
36. Related parties (continued)		
Continental Tire the Americas LLC	172	-
Continental Tires Holding Singapore Pte. Ltd	19,651	30,526
S.C. Continental Automotive S.R.L.	-	2,786
Continental Aktiengesellschaft	5,436	-
Other group companies include:		
Continental Global Holding	41,345	35,229
Continental Tires (China) Co. ltd	871	732
Continental Tire Japan Co. Ltd	1	2,245
Powertrain Canada, ULC	-	3,365
ContiTech Africa (Pty) Ltd	118	385
Continental Adria pnevmatike	10	-
ContiTech Schlauch Gmbh	-	87
Continental Benelux SPRL	3,649	6,562
Continental Italia S.p.A.	-	7,306
Continental Middle East DMCC	-	1,012
Continental Däck Sverige AB	115	52
Continental Tires España S.L.	9	132
Continental Tire Toronto Inc.	-	336
Continental France SNC	-	1,845
Eu-Retec (Pvt) Ltd	-	138
A-Z Formen - und Maschinenbau Gmbh	2,589	1,936
Continental Pneus (Portugal) S.A.	264	51
Continental Reifen Austria GmbH	398	-
Continental of Taiwan Co. Ltd	-	1,110
Continental Tire de México, S.A. de C.V.	6,860	2,932
Continental Tire Korea Co. Ltd	-	433
Continental Tyre Group Ltd.	-	11,223
Continental Tyre PJ Malaysia Sdn. Bhd.	676	7,592
Continental Tyres (Thailand) Co. Ltd	-	7
Otomotiv Lastikleri Tevzi AS	29	315
Continental Tyre Technology Centre Malaysia Sdn.	10	-
Continental Suisse S.A.	222	-
Semperit Reifen Gesellschaft m	-	427
	57,166	85,452

Related party transactions

	2022 R '000	2021 R '000
Key Management Personnel Compensation		
Short term employee benefits	21,415	14,916
Other long term employee benefits	1,908	1,506
Inter-company transactions		
Sale of inventory		
ContiTech Africa (Pty) Ltd	244,102	180,955
ContiTech Australia	-	857
ContiTrade Africa (Pty) Ltd	47,235	47,225
Continental Barum s.r.o.	-	922
Continental Benelux SPRL	145,333	128,485
Continental Däck Sverige AB	-	90
Continental do Brasil Produtos Automotivos Ltda.	9,353	2,597
Continental France SNC	2,292	10,713
Continental Matador Truck Tires s.r.o.	-	281
Continental Middle East DMCC	13,830	6,592
Continental of Taiwan Co. Ltd	7,972	8,037
Continental Reifen Deutschland GmbH	152,307	113,964
Continental Tire Andina S.A.	1,919	171

Notes to the Annual Financial Statements

	2022 R '000	2021 R '000
36. Related parties (continued)		
Continental Tire Chile SpA	20	(397)
Continental Tire Colombia S.A.S.	2,853	692
Continental Tire de México, S.A. de C.V.	25,789	17,902
Continental Tire Japan Co. Ltd	18,778	17,602
Continental Tire Korea Co. Ltd	2,371	1,169
Continental Tire the Americas LLC	643,736	377,663
Continental Tyre West Africa	(536)	1,916
Continental Tires España S.L.	2,781	10,316
Continental Tyre Group Ltd.	44,358	96,051
Continental Tyre PJ Malaysia Sdn. Bhd.	4,932	12,025
Continental Italia S.p.A.	7,879	(7,684)
Continental Tyres of Australia	31,901	9,076
Continental Suisse S.A.	-	(12)
Continental Reifen Austria Gmbh	-	(394)
Powertrain Canada, ULC	-	21,501
Continental Pneus (Portugal) S.A.	-	(22)
Continental Rengas Oy	264	387
Continental Dekk norge A/S	7	85
Continental Daek Danmark A/S	81	-
Continental Opony Polska Sp. z o.o.	370	4,048
Continental Hungaria Kft.	-	97
Otomotiv Lastikleri Tevzi AS	-	(19)
Continental Adria pnevmatike d.o.o.	203	103
Continental Tyres (China) Co. Ltd	-	549
Continental Mabor Indústria de Pneus S.A.	237	383
Continental Automotive Products	2,135	2,683
Continental Matador Rubber s.r.o.	77	104
Dekkmann A/S	210	-
Continental Tyres (Thailand) Co. Ltd.	842	-
Continental Tire Canada, Inc.	83,073	-
Continental do Brasil Produtos	17	-
Continental Automotive Trading UK	361	-
Purchases and payments for services		
A-Z Formen - und Maschinenbau Gmbh	5,252	4,631
Conti Machinery Hanover	4,300	5,492
Continental - Industria Textil do ave, S.A.	2,952	492
Continental AG	7,688	6,403
Continental Barum s.r.o.	215,050	199,893
Continental Benelux SPRL	10,172	8,375
Continental do Brasil Produtos Automotivos Ltda.	1	57
Continental France SNC	26,257	23,746
Continental Mabor Indústria de Pneus S.A.	67,266	92,727
Continental Matador Rubber s.r.o.	65,746	48,295
Continental Matador Truck Tires s.r.o.	38,631	13,780
Continental Middle East DMCC	886	8,241
Continental Pneus (Portugal) S.A.	75	-
Continental Reifen Deutschland GmbH	339,927	301,649
Continental Tire Andina S.A.	-	53
Continental Tire de México, S.A. de C.V.	26	35
Continental Tire the Americas LLC	26,699	23,357
Continental Tires (China) Co. Ltd	1,608	20
Continental Tires España S.L.	834	412
Continental Tires Holding Singapore Pte. Ltd	190,113	173,716
Continental Tyre Group Ltd.	843	-
Continental Tyre AS Malaysia Sdn. Bhd.	-	9,666
Continental Tyre PJ Malaysia Sdn. Bhd.	4,745	10,198
Continental Tyre Technology Centre Malaysia Sdn. Bhd.	-	1

Notes to the Annual Financial Statements

	2022 R '000	2021 R '000
36. Related parties (continued)		
ContiTech Elastomere	24	-
ContiTech Schlauch Gmbh	192	287
ContiTech Africa (Pty) Ltd	773	7,758
ContiTrade Africa (Pty) Ltd	12,158	15,484
S.C. Continental Automotive Products S.R.L.	13,680	28,108
Eu-Retec (Pvt) Ltd	240	1,895
Continental Aftermarket & Sales	5	7
Continental Tyres (Thailand) Co. Ltd.	7	-
Continental Suisse S.A.	135	-
Continental Däck Sverige AB	122	-
Continental Tyre West Africa	536	-
Otomotiv Lastikleri Tevzi AS	340	-
Continental Hungaria Kft.	42	-
Continental Global Holding Netherlands B.V.	40,186	-
Continental Reifen Austria	531	-
Royalties paid		
Continental Global Holding Netherlands B.V.	41,345	35,229

37. Financial instruments and risk management

Categories of financial instruments

Categories of financial assets

2022

	Note(s)	Amortised cost	Total
Lease receivables	21	8,664	8,664
Trade and other receivables	6	236,042	236,042
Cash and cash equivalents	11	572,979	572,979
Amounts owing by group companies	10	101,708	115,721
Other financial assets	7	16,020	16,020
		935,413	**949,426**

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**

Notes to the Annual Financial Statements

	2022 R '000	2021 R '000

37. Financial instruments and risk management (continued)

Categories of financial liabilities

2022

	Note(s)	**Amortised Cost**	**Total**
Trade and other payables	17	262,282	262,282
Amounts due to group companies	20	280,226	280,226
Lease liabilities	15	92,433	92,433
Other current liabilities	19	170,547	170,547
		805,488	**805,488**

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	163,846	163,846
		825,723	**825,723**

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

2022

	Note(s)	Amortised cost	Leases	Total
Recognised in profit or loss:				
Interest income	26	93,488	589	94,077

2021

	Note(s)	Amortised cost	Leases	Total
Recognised in profit or loss:				
Interest income	26	57,727	551	58,278

Gains and losses on financial liabilities

2022

	Note(s)	Amortised cost	Leases	Total
Recognised in profit or loss:				
Finance costs	27	(63,619)	(7,085)	(70,704)

2021

	Note(s)	Amortised cost	Leases	Total
Recognised in profit or loss:				
Finance costs	27	(32,311)	(3,915)	(36,226)

		2022 R '000	2021 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 company is funding all capital expenditure, it is not in a borrowing situation. Should the need arise, the Group prefers to fund by means of an Intercompany Loan (in ZAR currency) with surplus cash in the Group. In this instance, an application for approval is submitted to the South African Reserve Bank providing the Loan Agreement, repayment term and the interest charged. The interes rate cannot exceed the current lending rate for ZAR within South Africa.

In the event that the above not be possible, funding will be sourced from a local bank.

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

Trade and other payables	17	262,282	209,588
Amounts due to group companies	20	280,226	346,442
Lease liabilities	15	92,433	105,847
Other current liabilities	19	170,547	163,846
Total borrowings		**805,488**	**825,723**
Cash and cash equivalents	11	(572,979)	(566,990)
Net borrowings		**232,509**	**258,733**
Equity		1,622,168	1,402,372
Gearing ratio		14 %	18 %

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.

Notes to the Annual Financial Statements

37. Financial instruments and risk management (continued)

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 other financial assets, trade and other receivables, lease receivables and cash and cash equivalents. The company believes that the level of credit risk on each of the above (other financial assets, trade and other receivables, and cash and cash equivalents) is low.

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 Ba1 and Citibank is Aa3.

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.

37. Financial instruments and risk management (continued)

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

		2022			2021		
		Gross carrying amount	**Credit loss allowance**	**Amortised cost**	**Gross carrying amount**	**Credit loss allowance**	**Amortised cost**
Lease receivables	21	8,664	-	8,664	-	-	-
Trade and other receivables	6	243,515	(7,473)	236,042	306,255	(17,058)	289,197
Cash and cash equivalents	11	572,979	-	572,979	566,990	-	566,990
Amounts owing by group companies	10	101,708	-	101,708	61,343	-	61,343
Other financial assets	7	16,020	-	16,020	13,191	-	13,191
		942,886	**(7,473)**	**935,413**	**947,779**	**(17,058)**	**930,721**

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: 61% (2021: 66%)
- Original Equipment: 13% (2021: 19%)
- Exports: 26% (2021: 15%)

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 a prepayment basis.

The company has established an allowance provision of R7,473,000 (2021: R17,057,558) 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 receivables at the reporting date per the age analysis was:

Gross carrying amounts		
Replacement Trade	132,198	184,605
Original Equipment	28,984	51,866
Exports - Third Parties	57,716	43,205
Total exposure to Group and Third Parties	**218,898**	**279,676**
Past due balances in Trade receivables		
Past due 0-30 days	10,303	1,033
Past due 31-60 days	599	-
Past due 61-90 days	1,227	14,587
Past due >91 days	2,619	8,541
	14,748	**24,161**

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	5,303	2,742
Belguim	6,387	1,332
Brazil	5,144	963
Canada	372	(301)
Czech Republic	(225)	(2)
Chile	30	69
China	1,902	(514)
Austria	(398)	(420)
Columbia	651	-
Denmark	80	939
South Africa	124,267	321,320
France	(10)	(1)
Germany	7,891	17,338
Ghana	3,493	2,150
Finland	174	242
Italy	-	(7,197)
Hungary	-	38
Japan	2,990	889
Malaysia	4,171	(1,459)
Mauritius	2,970	2,087
Mexico	(3,156)	-
Middle East	46	(123)
Norway	112	49
Other Sub Saharan Africa regions	22,573	21,619
Poland	225	72
Portugal	(159)	(50)
Reunion	13,926	11,395
Romania	398	265
Slovakia	8	85
Slovenia	(9)	-
South Korea	454	-
Spain	-	(1)
Sweden	(115)	(52)
Switzerland	(222)	167
Taiwan	47	-
Thailand	665	-
Turkey	(29)	(10)
United Kingdom	2,625	(6,937)
United States of America	78,037	70,841
Total exposure to Third Parties	**280,618**	**437,535**

Movement in provision for impairment of Trade and Other receivables

Opening Balance	17,058	16,882
Increase in provision	-	7,699
Less: amounts written off as irrecoverable	(9,585)	(7,523)
Closing balance	**7,473**	**17,058**

The average credit period on sales of goods is 48 days (2021: 48 days). The company has provided for trade and other receivables balances of R7,473,000 (2021: R17,057,558) mainly due to the economic circumstances. The balance of the impairment loss as at 31 December 2022 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.

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.

2022

		Less than 1 year	2 to 5 years	Over 5 years	Total	Carrying amount
Current liabilities						
Trade and other payables	17	262,282	-	-	262,282	262,282
Lease liabilities	15	21,905	77,873	11,163	110,941	92,433
Amounts due to group companies	20	280,226	-	-	280,226	280,226
Other current liabilities	19	170,547	-	-	170,547	170,547

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
Other current liabilities		163,846	-	-	163,846	163,846

Notes to the Annual Financial Statements

37. Financial instruments and risk management (continued)

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)	50,945	47,780
Corporate Credit Card	7,000	7,000
	262,945	**259,780**
FIRST NATIONAL BANK		
Short Term Contingent (Guarantees)	7,000	7,000
Short Term (FEC's)	5,000	5,000
Settlement (EFT's)	175,000	125,000
Settlement (FEC's)	-	50,000
Short term Direct (Wesbank)	660	660
	187,660	**187,660**
STANDARD BANK OF SOUTH AFRICA		
Derivative products (FEC's)	-	28,000
RAND MERCHANT BANK		
Department of Finance	387	387
The Commissioner - Customs 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
	6,248	**6,248**

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.

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.

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.

	2022 R '000	2021 R '000
Current assets:		
AUD	455	241
BRL	1,521	349
CAD	34	(25)
CHF	(12)	10
COP	184,644	-
CZK	(304)	(3)
DKK	33	-
EUR	3,788	2,605
GBP	40	(446)
HUF	-	778
JPY	24,489	5,850
KRW	35,300	-
MXN	(3,360)	-
MYR	(114)	(1,714)
NOK	66	27
PLN	58	19
SEK	(69)	(29)
RON	108	73
THB	1,383	-
TRY	(31)	(7)
TWD	72	-
USD	5,069	5,159
Current liabilities:		
EUR	(3,549)	(2,704)
USD	(4,179)	(5,472)
	245,442	**4,711**

Exposure in foreign currency amounts

The net carrying amounts, in foreign currency of the above exposure have been calculated 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:

	2022 R '000	2021 R '000
Rand per unit of foreign currency average rates:		
AUD	11.342	11.100
BRL	3.163	2.739
CAD	12.557	11.788
CHF	17.116	16.166
COP	0.385	-
CZK	0.682	0.682
DKK	2.312	-
EUR	17.202	17.481
GBP	20.173	20.331
HUF	-	0.049
ISK	-	12.144
JPY	0.125	0.135
KRW	0.127	-
MXN	0.811	0.729
MYR	3.716	3.566
NOK	1.703	1.720
PLN	3.670	3.828
RON	3.488	3.552
SEK	1.618	1.723
THB	0.462	-
TRY	0.987	1.665
USD	16.328	14.778
Rand per unit of foreign currency spot rates:		
AUD	11.539	11.565
BRL	3.212	2.858
CAD	12.544	12.518
CHF	18.419	17.454
COP	0.352	-
CZK	0.727	0.727
DKK	2.437	-
EUR	18.119	18.037
GBP	20.457	21.496
HUF	-	0.488
ISK	-	12.220
JPY	0.129	0.138
KRW	0.013	-
MXN	0.870	0.779
MYR	3.855	3.824
NOK	1.725	1.807
PLN	3.866	3.924
RON	3.662	3.640
SEK	1.628	1.760
THB	0.462	-
TRY	0.907	1.187

2022 R '000
2021 R '000

37. Financial instruments and risk management (continued)

Foreign currency sensitivity analysis

The following sensitivity analysis shows the impact of an increase or decrease in the exchange rate on the profit of the year. The sensitivity rate is the rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated amounts and adjusts their translation at the reporting date.

Increase or decrease in rate	2022 Increase	2022 Decrease
Accounts Payable		
USD 5%	(74,511)	(67,414)
EUR 5%	(67,524)	(61,093)
Accounts Receivable		
USD 5%	90,352	81,747
EUR 5%	72,072	65,208
AUD 5%	5,517	4,992
BRL 5%	5,132	4,643

Interest rate risk

Fluctuations in interest rates impact on the value of investments and financing activities, giving rise to interest rate risk. Interest rate risk is managed by entering into fixed rate contracts are used where possible.

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.

Interest rate sensitivity analysis

The following sensitivity analysis shows the impact of an increase or decrease in the interest rate on the profit of the year.

Increase or decrease in rate	2022 Increase	2022 Decrease
Cash and cash equivalents		
2% Variation	11,460	(11,460)
Lease liability		
2% Variation	1,849	(1,849)