



# Annual Report

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## 2018

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# Chairman's Letter



Dear Shareholder

The 2018 financial year was a transformational year for your Company as it undertook a \$59 million initial public offering (IPO), listed on the Australian Securities Exchange and completed multiple business acquisitions.

The Company achieved a pro forma profit result that exceeded the forecast published in the prospectus, issued as part of its IPO. By any measure, it has been a busy and successful year for the Company.

The acquisition transactions were the culmination of a plan made four years ago to increase the scale and diversity of the Company's activities, while continuing to grow the original Exclusive Tyre Distributors business, to reduce risk, create an opportunity for founding shareholders to realise some of the value they had built and facilitate other expansionary outcomes.

During the 2018 financial year, the Company acquired three new businesses and the remaining shares in two others as follows:

- Cotton Tyre Service;
- 50% of TyreLife Solutions (South Africa);
- the remaining shares in MPC Mags & Wheels Pty Ltd and Dynamic Wheel Co Pty Ltd; and
- Statewide Tyre Distribution Pty Ltd (Statewide).

The Company has successfully executed organic growth strategies focused on the importation and wholesale distribution of wheels and tyres. These core activities are substantial and service a wide array of consumers and businesses using an extensive range of vehicles. The various operating entities owned by the Company concentrate on being leaders in their respective market segments.

Our prime objective is to assure employees, customers, suppliers and shareholders that the Company is a stable, secure and durable entity, determined to serve their interests and dedicated to rewarding the differing investments each of them makes. I am pleased to report that these goals were achieved in the 2018 year.

During the 2018 financial year, the Company generated annual revenue on a pro forma basis of \$153.4 million (\$173.4 million including Statewide) from its business base covering tyre and wheel importing and original equipment supplying, with a sectoral focus on 4WD, SUV and cars. In the 2018 financial year, the Company converted this activity to a pro forma EBITDA of \$16.9 million, which exceeded the pro forma forecast set out in its prospectus.

The Company's balance sheet is strong with net cash at 30 June 2018 of \$5.2 million and a debt to equity ratio of 22%.

Directors declared a final dividend of 2.3 cents per share (fully franked) which was paid to shareholders on 8 October 2018, bringing the full year dividend to 3.3 cents (fully franked). The full year dividend represents a payout ratio of 58% of net profit after tax but before amortisation (NPATA), which is consistent with the Company's policy of paying out 40% - 60% of NPATA.

The Company now employs more than 200 people in three countries (Australia, New Zealand and South Africa), operates 11 distribution centres and utilises another seven third-party distribution facilities. The business now sells more than 1,000,000 tyres and wheels annually to over 2,000 customers.

Your Company will continue to expand its operations organically in its chosen market segments and will continue to evaluate business acquisition opportunities.

“

The Company now employs more than 200 people in three countries (Australia, New Zealand and South Africa).

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During the year, I was appointed Chairman of the Board and Mr Robert Kent joined as a non-executive director. The results achieved by the Company in a year filled with executing multiple transactional and organic growth strategies are outstanding and a testament to the dedicated hard work and commitment of all of our Directors, management and staff. I thank them all for their contribution.

I would also like to thank our customers, suppliers and shareholders for the support they have delivered over the past year.

Yours faithfully

**Murray Boyte**  
Chairman



# Managing Director's Report



## Introduction

The Company welcomed over 2,000 new shareholders as part of an initial public offering (IPO) and listing on the Australian Securities Exchange which were completed on 15 December 2017. The IPO was completed according to a prospectus dated 24 November 2017. The Company is a holding

Company for a number of operating subsidiaries (the "Group").

At the same time as the ASX listing, the Group expanded via the acquisition of:

- the assets of Cotton Tyre Service;
- 50% of TyreLife Solutions, a South African tyre importer/wholesaler;
- 45.6% of Dynamic Wheel Co that the Company did not already own; and
- 50% of MPC Mags & Wheels that the Company did not already own.

The prospectus included 3 years of pro forma accounts for the Group to provide a normalised basis of comparing financial performance over that period. This Annual Report includes references to those pro forma accounts.

The Company acquired Statewide Tyre Distribution in May 2018 and the FY18 results include a brief period of trading by that business.

## Operations

The Company carries on the business of importing and wholesaling tyres and wheels in Australia, New Zealand and South Africa. We employ over 200 people and sell to over 2,000 customers. Figure A below describes our distribution footprint.

During the year, we combined the warehouse operations of Dynamic Wheel Company and Cotton Tyre Service in Adelaide.

The Group is engaged in the following businesses:

- premium 4WD, SUV and passenger tyre importing and wholesaling (Exclusive Tyre Distributors in Australia and New Zealand as well as TyreLife Solutions in South Africa);
- wheel importing and wholesaling (Dynamic Wheel Co);
- supplying tyres and wheels as original equipment to caravan manufacturers (MPC); and
- broad based and budget tyre importing and wholesaling (Statewide).

Figure B (right) illustrates these entities, and some of the brands they sell.

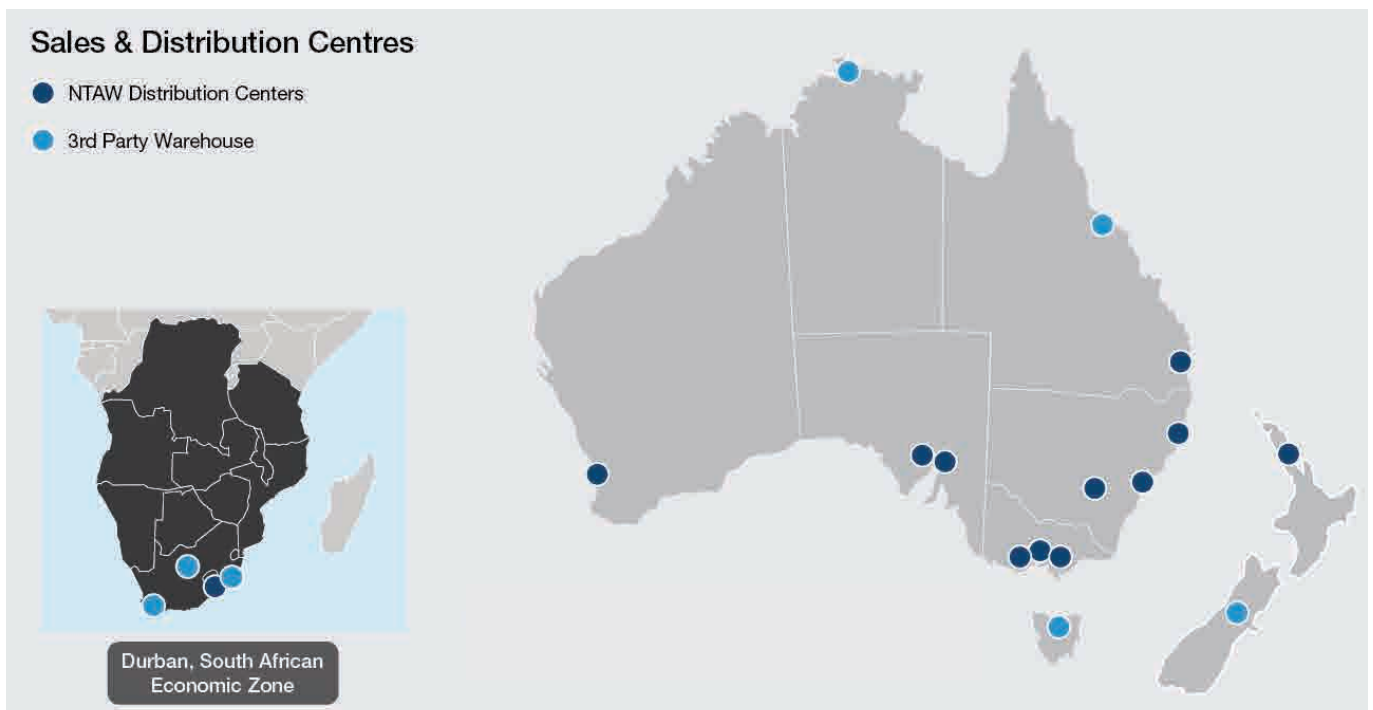


Figure A



## A diversified tyre and wheel wholesaler



Figure B

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

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

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

In FY18, the Company's organic growth was underpinned by:

- increased sales of new SUV and passenger products introduced by ETD and ETD NZ in September 2016;
- retail customers increasingly adopting a loyalty program (the 360° Partner Program) introduced by ETD and ETD NZ in 2016;
- a program to differentiate key products by their technical features and benefits (the TCC Program);
- growing demand for steel wheels;
- increased caravan manufacture;

- geographic expansion of wheel sales (NSW and New Zealand); and
- new customers and a growing market share in South Africa.

### Acquisition Strategy

The tyre and wheel markets can be segmented in various ways – by vehicle type, vehicle use, geography and price/quality position. The Company does not yet operate in certain segments such as truck and bus tyres, agricultural tyres, industrial tyres (e.g. fork trucks) and lower price tyres outside South Australia. It is also underweight in other segments such as passenger car tyres.

The Company aspires to acquire other tyre and wheel wholesale businesses that operate in these segments to expand its supplier and customer bases, build economies of scale, capture revenue and cost synergies and diversify its streams of revenue and earnings.

Like the acquisitions completed to date, there are other wholesale businesses that meet these acquisition criteria.











# Managing Director's Report cont...

## Results

In FY18 the Group delivered solid growth in units sold, revenue, gross profit, EBITDA and NPATA (all on a pro forma basis).

	FY17 Actual	FY18 Prospectus Forecast	FY18 Actual	Growth %
<b>Tyre Units</b>	720,566	783,550	776,123	7.7%
<b>\$'000</b>				
<b>Revenue</b>	144,464	155,232	153,402	6.2%
<b>Gross Profit</b>	47,121	49,033	50,078	6.3%
<b>GP (%)</b>	32.6%	31.6%	32.6%	0.0%
<b>EBITDA</b>	15,599	16,381	16,940	8.6%
<b>EBITDA Margin</b>	10.8%	10.6%	11.0%	2.3%
<b>NPAT</b>	8,839	9,327	9,741	10.2%
<b>NPATA attributable to shareholders</b>	9,843	10,269	10,740	9.1%

### Highlights included:

-  a 7.7% increase in tyre unit volume;
-  Over 1 million units were sold;
-  FY18 Pro Forma NPATA \$10.7 million, ahead of FY18 full year prospectus forecast NPATA \$10.3 million;
-  FY18 Pro Forma EBITDA \$16.9 million (FY18 full year prospectus forecast \$16.4 million);
-  FY18 Pro forma gross margin = 32.6% and EBITDA:Revenue = 11.0%
-  Net Cash at 30 June 2018 of \$5.2 million;
-  Final dividend of 2.3c per share (fully franked) confirmed, taking the fully franked annual dividend to 3.3c per share;
-  Acquired businesses delivered on each investment case with no problematic integration issues;
-  Completion of the Statewide acquisition; and
-  FY18 Pro Forma NPAT of \$9.7 million was also ahead of the prospectus forecast of \$9.3 million.





## Outlook

The tyre market is expected to grow as the vehicle fleet increases in Australia, New Zealand and South Africa, with growth in target segments (especially SUV) growing faster than others. Distances travelled and, consequently the rate at which tyres are changed, may increase if the depreciating domestic currencies in these markets (relative to the USD) keeps travellers in the relevant country. Price competition has been intense in each region for over three years and we don't expect any significant change to that market dynamic.

The devaluation of the domestic currencies against the US dollar since January 2018 will increase import prices for the vast majority of importers. Tyre prices in markets beyond the Group's territories have increased due to higher raw material costs and we expect those increases will flow through to our markets in due course. Typically, suppliers understand that higher import prices have an impact on competitiveness, regardless of how those increases are caused. As import price changes of this kind eventually affect all industry participants, competitors move more or less in unison and we don't expect import price changes to have any long term impact on our performance.

The strategic direction of our operating entities will not change substantially in FY19. We expect organic business growth opportunities will be underpinned by

- The launch of a new generation Cooper AT3 (an all-terrain 4WD tyre and our largest selling product) in Australia, New Zealand and South Africa;
- The launch of a new all-terrain tyre in Q3;
- Continuing sales growth driven by the 360 loyalty program;
- New wheel products (Dynamic and MPC);
- Selling by some businesses into new geographic markets;
- Cross selling between business units; and
- Initiatives dealing with the changing nature of consumer purchase pathways (e.g. accessing information online).

The Company has identified businesses that fit the acquisition principles outlined earlier and we will be seeking to negotiate transactions that meet our criteria.



“

FY18 Pro Forma NPATA of \$10.7 million was ahead of the prospectus forecast of \$10.3 million

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## Acknowledgements

FY18 was obviously a watershed moment in the history of the Company. To have completed a public share offer, ASX listing, numerous acquisition transactions and grown all business units in one year is an outstanding achievement.

These outcomes were made possible by the contributions of our people, suppliers, customers and advisors, as well as the support we received from new and departing shareholders. Everyone involved will be rightly proud of what has been achieved.

**Peter Ludemann**  
*Managing Director*

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These outcomes were made possible by the contributions of our people, suppliers, customers and advisors, as well as the support we received from new and departing shareholders. Everyone involved will be rightly proud of what has been achieved.

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Financial Report

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**2018**



# Directors' Report

30 June 2018

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of National Tyre & Wheel Limited (referred to hereafter as the 'Company', 'NTAW' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2018.

## Directors

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

Murray Boyte (appointed 24 October 2017)	Non-Executive Chairman
(John) Peter Ludemann	Chief Executive Officer and Managing Director
Terence (Terry) Smith	Executive Director
William (Bill) Cook	Non-Executive Director
Robert Kent (appointed 27 September 2017)	Non-Executive Director
Susanne Smith (resigned 26 October 2017)	Former Executive Director

## Principal activities

The principal activity of the Group during the financial year ended 30 June 2018 was the distribution and marketing of motor vehicle tyres, wheels, tubes and related products in Australia, New Zealand and South Africa.

## Dividends

Dividends paid during the financial year were as follows:

	Consolidated	
	2018	2017
	\$'000	\$'000
Final dividend for the year ended 30 June 2017 (declared and paid prior to the IPO)	15,000	3,804
Interim dividend for the year ended 30 June 2018 of 1.0 cents per ordinary share	1,011	-
Dividends to non-controlling interests	656	457
	<u>16,667</u>	<u>4,261</u>

At the date of signing these financial statements, the Company has declared a fully franked final dividend of 2.3 cents per share with a record date of 13 September 2018 and a payment date of 8 October 2018. The total dividend payable is \$2.35 million. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2018 and will be recognised in subsequent financial reports.

## Review of operations

NTAW (ASX:NTD) successfully listed on the Australian Stock Exchange on 15 December 2017 following an initial public offer ("IPO") of 24,922,767 new shares and the sale of 34,077,233 existing shares at a price of \$1.00 per share, raising a total of \$59 million. NTAW published a Prospectus dated 24 November 2017 ("Prospectus") in connection with that offer.

NTAW is the holding company for the following operating subsidiaries:

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

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

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



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

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

Statewide is a leading wholesaler of passenger, van and truck tyres based in South Australia. Statewide supplies less expensive products than NTAW's existing wholesale businesses and operates in the truck and bus tyre segment.

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

In addition to the results from the operation of these well established businesses, the Group is executing growth strategies developed over the past two years which include:

- ETD and ETDNZ introducing a wider range of Cooper branded products that are suitable for SUV and passenger vehicles (these entities historically focussed on the 4WD segment) and, in the process, they are repositioning the Cooper brand;
- A loyalty program for ETD and ETDNZ customers launched in 2016;
- Tapping into new consumer pathways arising from access consumers now have to information via the internet;
- Dynamic is introducing new alloy wheel products and expanding into geographic markets including Western Australia, New South Wales and New Zealand. It is also undertaking feasibility studies for sales into South Africa.
- MPC is seeking new customers for tyre and wheel packages suitable for trailer manufacturers.
- Statewide is focussing on improving business processes to enhance customer experiences.
- Top Draw Tyres recently launched the Mickey Thompson range of products in South Africa and, having been in business for less than 5 years, continues to grow by attracting new customers in its territory.
- NTAW also plans to grow by acquiring other wholesale wheel and/or tyre businesses in Australia and New Zealand.

NTAW's Board and management are pleased to report that the results for the financial year are in line with the pro forma forecast set out in the Prospectus.

## **Result highlights**

### *Statutory results*

NTAW has reported total revenue of \$147.5 million for the financial year, an increase of \$27.0 million (22.4%) on the prior year resulting from the increased sales across all business units and the acquisition of several entities during the year. Details of the businesses acquired are contained on page 7.

NTAW's statutory profit for the Group after providing for income tax and non-controlling interest amounted to \$4.5 million (30 June 2017: \$5.5 million).

The profit for the previous financial year reflects a different capital structure and no public company costs. The current financial year profit was impacted by the one-off costs associated with the IPO, pre-IPO acquisition expenses, recognition of share based payment expenses relating to an existing option plan and other items as described in the results highlight below. NTAW's financial year result was also impacted by permanent tax differences including the non-deductibility of share based payments expenses on the existing option plan exercised on IPO. Refer to Note 6 to the financial statements for further details.

The combined effect of these differences and effects is \$4.8 million (see Table 2, difference in FY2018 pro forma and statutory actual, NPAT attributable to NTAW).

### *Pro forma results*

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

NTAW's pro forma result for the financial year was a profit after providing for income tax and non-controlling interests and excluding amortisation (NPATA) of \$10.74 million compared with a Prospectus forecast pro forma NPATA for the year ending 30 June 2018 of \$10.27 million.

# Directors' Report

30 June 2018

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

## **Key operating metrics of NTAW**

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

NTAW sold 776,123 tyre units in the financial year compared with 720,566 in the 2017 financial year and forecast sales of 783,550 tyre units. While the Group achieved year on year growth, 4WD tyre unit sales growth in Australia was below expectations due to recent releases of new competing products. A new generation version of ETD's biggest selling 4WD product will be launched in September 2018. The Group has reported a pro forma full year gross profit margin of 32.6% and a strong EBITDA margin of 11.0%, which are above the Prospectus forecast margins of 31.6% and 10.6% respectively. The gross profit margin is derived from lower than expected USD imported prices and more favourable than expected exchange rates between the AUD and USD. The Group's operating costs as a percentage of sales was slightly higher than forecast. This was the result of timing of costs associated with employment expenses and advertising and promotion activities.

<b>Table 1</b>	<b>Pro-forma Historical FY2017</b>	<b>Pro-forma Forecast FY2018</b>	<b>Pro-forma Actual FY2018</b>	<b>Statutory Forecast FY2018</b>	<b>Statutory Actual FY2018</b>
Number of tyres sold	720,566	783,550	776,123		
Tyres sold growth %	6.7%	8.7%	7.7%	-	-
Revenue growth %	5.2%	7.5%	6.2%	-	-
Gross profit growth %	18.0%	4.1%	6.3%	-	-
Gross profit margin	32.6%	31.6%	32.6%	31.8%	31.9%
Operating costs as % of total revenue	22.1%	21.2%	21.8%	24.2%	24.8%
EBITDA growth %	45.3%	5.0%	8.6%	-	-
EBITDA margin	10.8%	10.6%	11.0%	7.7%	7.8%

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

Table 2 below sets out the unaudited pro forma Historical FY2017, Pro forma Forecast FY2018 and Pro forma Actual FY2018.

NTAW has reported full year pro forma sales revenue of \$153.4 million (FY2018 pro forma forecast \$155.2 million) and gross profit on sales of \$50.1 million (FY2018 pro forma forecast \$49.0 million). The Group has reported a full year pro forma EBITDA of \$16.9 million (FY2018 pro forma forecast \$16.4 million).



# Directors' Report

30 June 2018



Table 2 \$'000	Pro-forma			Statutory	
	Historical FY2017	Forecast FY2018	Actual FY2018	Forecast FY2018	Actual FY2018
Sales revenue <sup>1</sup>	144,464	155,232	153,402	145,801	146,184
Cost of sales	(97,343)	(106,199)	(103,324)	(99,445)	(99,595)
<b>Gross profit</b>	<b>47,121</b>	<b>49,033</b>	<b>50,078</b>	<b>46,356</b>	<b>46,589</b>
Other revenue <sup>2</sup>	377	180	227	146	1,029
Employee benefits expense	(16,150)	(16,589)	(16,826)	(17,556)	(18,156)
Advertising & promotions	(5,517)	(5,519)	(5,761)	(5,005)	(5,061)
Occupancy expense	(3,543)	(3,802)	(3,749)	(3,754)	(3,662)
Other expenses	(6,689)	(6,922)	(7,029)	(8,908)	(9,351)
<b>EBITDA</b>	<b>15,599</b>	<b>16,381</b>	<b>16,940</b>	<b>11,279</b>	<b>11,388</b>
Depreciation	(797)	(880)	(707)	(840)	(696)
Amortisation of intangibles	(1,514)	(1,514)	(1,639)	(1,361)	(1,431)
<b>EBIT</b>	<b>13,288</b>	<b>13,987</b>	<b>14,594</b>	<b>9,078</b>	<b>9,261</b>
Share of net profit of associate	-	-	-	78	133
Interest (net)	(228)	(228)	(357)	(203)	(339)
<b>Profit before tax</b>	<b>13,060</b>	<b>13,759</b>	<b>14,237</b>	<b>8,953</b>	<b>9,055</b>
Income tax expense	(4,221)	(4,432)	(4,496)	(3,851)	(3,700)
<b>NPAT</b>	<b>8,839</b>	<b>9,327</b>	<b>9,741</b>	<b>5,102</b>	<b>5,355</b>
Non-controlling interests	(335)	(397)	(427)	(610)	(878)
<b>NPAT attributable to NTAW</b>	<b>8,504</b>	<b>8,930</b>	<b>9,314</b>	<b>4,492</b>	<b>4,477</b>
Amortisation [addback]	1,339	1,339	1,426	1,232	1,280
<b>NPATA attributable to NTAW</b>	<b>9,843</b>	<b>10,269</b>	<b>10,740</b>	<b>5,724</b>	<b>5,757</b>
<b>EBITDA attributable to NTAW</b>	<b>15,039</b>	<b>15,728</b>	<b>16,307</b>		

Notes to Table 2

1 Revenue from sale of goods only, excluding interest income and other revenue.

2 Other revenue includes a marketing contribution that has been included in Cost of sales in the pro forma numbers.

Table 3 below sets out the movement from the unaudited pro forma revenue in Table 2 to the statutory revenue as reported in note 4 to the financial statements.

Table 3 \$'000	Notes	FY2017 Historical Revenue	FY2018 Forecast Revenue	FY2018 Actual Revenue
<b>Pro forma revenue</b>		<b>144,464</b>	<b>155,232</b>	<b>153,402</b>
Revenue relating to acquired businesses:				
- MPC		(8,785)	-	-
- Cotton		(9,729)	(3,262)	(3,193)
- Top Draw Tyres		(13,779)	(8,446)	(8,804)
- Statewide (not included in Prospectus Forecast)		-	-	1,968
Inter-company eliminations	1	7,226	2,227	2,812
<b>Statutory revenue</b>		<b>119,397</b>	<b>145,751</b>	<b>146,184</b>

Notes to Table 3

1 Inter-company eliminations – reflects transactions by NTAW with the Acquired Business from 1 July 2016 to the dates on which they became controlled which is required to be eliminated (to the extent such trading was not already included in the FY2017 statutory financials for NTAW, or the FY2018 statutory forecast)

# Directors' Report

30 June 2018

Table 4 sets out the movement from the unaudited Pro Forma NPAT in Table 2 statutory NPAT as reported on page 23 of this report.

\$'000	Notes	FY2017 Historical NPAT	FY2018 Forecast NPAT	FY2018 Actual NPAT
Pro forma NPAT		8,839	9,327	9,741
NPAT relating to acquired businesses:	1			
- MPC		(1,059)	-	-
- Cotton		(530)	(127)	(140)
- Top Draw Tyres		(670)	(415)	(414)
Equity accounting Top Draw Tyres	2	-	(78)	133
Unrealised FX Translation	3	-	-	(628)
Offer costs	4	-	(1,531)	(1,455)
Public company costs	5	241	28	28
Share based payments	6	(444)	(2,052)	(2,057)
Other pro forma adjustments	7	(97)	-	(44)
Net interest	8	(78)	18	18
Taxation adjustment	9	(195)	(68)	172
<b>Statutory NPAT</b>		<b>6,007</b>	<b>5,102</b>	<b>5,355</b>

Notes to Table 4:

- 1 NPAT relating to acquired businesses - reflects the trading of the Group from 1 July 2016 to the dates on which they became controlled (to the extent such trading was not already included in the FY2017 statutory financials for NTAW, or the FY2018 statutory forecast).
- 2 Equity accounting Top Draw Tyres - reflects the equity accounted share of Top Draw Tyres profit for the period from 1 November 2017 until the date of control 13 December 2017.
- 3 Unrealised FX translations – reflects the non-cash accounting for foreign exchange translations at 31 December 2017 in accordance with AASB 121.
- 4 Offer costs – reflects the amounts forecast to be expensed in FY2018 in relation to the Prospectus offer (fees payable to advisors, Lead Manager and tax, accounting and legal fees) and the listing on the ASX. Note that \$1.475 million of the offer costs (relating to the primary issue) are tax effected and netted off against issued capital.
- 5 Public company costs – reflects the increase in corporate costs expected as a consequence of the Company becoming ASX listed. The costs principally relate to Board and governance (additional non-executive Directors, Audit and Remuneration Committee), additional professional, legal and company secretarial costs as well as an increase in administrative resources and investor relations. The FY2018 adjustment reflects the incremental costs that have not been incurred prior to completion but are included in the pro forma forecast.
- 6 Share based payments – reflects a share based payments remuneration expense based upon the LTI scheme operating prior to the IPO after ignoring the costs associated with a new LTI scheme, incorporating "at risk" share based remuneration to key management personnel and to other employees under a proposed Employee Equity Plan to be implemented from and including the 2019 financial year. The statutory forecast for the 2018 financial year included a share based expense of approximately \$2.652 million which is the expense for the option package for senior management of NTAW prior to the IPO. This package does not reflect the expense of the share based equity scheme post IPO. 50% of the post IPO scheme has been represented in the pro forma adjustment. All options under the pre IPO plan have been exercised and held as ordinary shares and were either to be sold through the offer or held in escrow.
- 7 Other pro forma adjustments – includes one-off costs that are considered to be non-recurring as well as Group elimination entries.
- 8 Interest (net) – Interest (net) reflects the expense on the corporate debt facility and finance leases at completion, offset by interest income on cash.
- 9 Taxation adjustment – Net taxation effect of other residual items between forecast pro forma taxation expense (including recurring non-deductible items) and taxation statutory expense.

## Significant changes in the state of affairs

### *Change of Company name and listing*

On 19 October 2017, in readiness for the Company's listing on the Australian Securities Exchange ('ASX'), the Company changed its name from National Tyre & Wheel Pty Limited to National Tyre & Wheel Limited and changed from a proprietary company to an unlisted public company.

On 15 December 2017, the Company was admitted to the official list of the Australian Securities Exchange under ASX code NTD and became a public listed company.

# Directors' Report

30 June 2018



## Business acquisitions

Several business acquisitions were completed during the financial year:

- Top Draw Tyres - On 30 September 2017, NTAW acquired 34% of the ordinary shares in Top Draw Tyres, the importer and distributor of tyres in South Africa. NTAW subsequently acquired a further 16% in Top Draw Tyres on 13 December 2017. Top Draw Tyre's balance sheet was consolidated into the Group accounts on 31 December 2017.
- S.N Tyre Wholesaler Pty Ltd ('Cotton') - On 31 October 2017, the Group acquired 100% of the business assets from Cotton, a distributor of tyres in South Australia and Northern Territory.
- MPC - On 14 December 2017, NTAW acquired the remaining 50% of the shares in MPC, a previously recognised controlled entity.
- Dynamic - On 14 December 2017, NTAW acquired the remaining 45.6% of the shares in Dynamic, a previously recognised controlled entity.
- Statewide - On 31 May 2018, the Group acquired 100% of the ordinary shares in Statewide, the importer and distributor of tyres in South Australia, New South Wales and the Northern Territory.

Further details of these acquisitions are included in Note 33 to the financial statements.

## Capital management – debt & equity

The Group's debt facility was increased by \$7.5 million to \$14.38 million with an expiry date of 21 May 2021 during the financial year, to assist with the acquisition of Statewide. Repayments during the financial year have reduced the facility limit to \$14.0 million at the end of the year. Further facility details are contained in note 20 to the financial statements.

The Group raised \$59.0 million (prior to transaction costs) during the financial year as part of the IPO process, which included the issue of 24.9 million shares. In addition, 15.75 million shares were issued as part consideration for business acquisitions to the vendors of those businesses, and 7.58 million shares were issued to employees, prior to the IPO, upon the exercise of previously issued options.

Other than the matters discussed in the Directors' report, there were no other significant changes in the state of affairs of the Group during the financial year.

## Financial position

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

	30 Jun 2018	30 Jun 2017
Total Assets (\$'000)	121,592	84,139
Net Assets (\$'000)	66,663	43,373
Cash and cash equivalents (\$'000)	19,608	14,765
Debt (\$'000)	14,021	7,780
Shares on issue ('000)	102,321	68,002
Dividends per security (cents) – post IPO only, including final dividend declared	3.3	-

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

- Total assets increased by \$37.5 million, primarily due to the acquisition of businesses during the financial year and the resulting recognition of intangible assets and associated business assets, including inventory.
- Total liabilities increased by \$14.2 million due to the net increase in borrowings (\$6.2 million) for the Statewide business acquisition and an increase in trade payables following business acquisitions.
- Issued capital increased by \$45.8 million which included the issue of new shares as noted above.

## Matters subsequent to the end of the financial year

Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

## Likely developments and expected results of operations

The Group will continue to pursue growth in revenue and profit in the next financial year as it seeks to further diversify its business and build the scale of its operations in the importation and wholesale distribution of tyres and wheels in Australia, New Zealand and South Africa. Focus areas will include organic growth in the markets within which it operates, including capitalising on the opportunities for revenue and cost synergies associated from the businesses already acquired, and considering further acquisition growth over time.



# Directors' Report

30 June 2018

## Material business risks

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

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

## Environmental regulation

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

## Information on directors

Name:	Murray Boyte
Title:	Independent, Non-Executive Chairman
Experience and expertise:	Murray has over 35 years' experience in merchant banking and finance, undertaking company reconstructions, mergers and acquisitions in Australia, New Zealand, North America and Hong Kong. In addition, he has held executive positions and Directorships in the transport, horticultural, financial services, investment, property industries, and health service.
Other current directorships:	Abano Healthcare Group Limited (NZ); Eureka Group Holdings Limited (ASX: EGH)
Former directorships (last 3 years):	Unity Pacific Group (ASX: UPG)
Special responsibilities:	Member of Audit and Risk Committee; Member of Remuneration and Nominations Committee
Interests in shares:	112,500 ordinary shares
Interests in options:	Nil

# Directors' Report

30 June 2018



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

Other current directorships: Nil  
Former directorships (last 3 years): Nil  
Special responsibilities: Nil  
Interests in shares: 2,589,928 ordinary shares  
Interests in options: Nil

Name: Terence (Terry) Smith  
Title: Executive Director  
Experience and expertise: Terry has over 40 years' experience in tyre importing, wholesaling and retailing. Terry's career is one of successful entrepreneurship, as he and wife Susanne, were responsible for taking Exclusive Tyre Distributors ('ETD') from a start-up business to one of the largest independent national tyre wholesalers in Australia.

Other current directorships: Nil  
Former directorships (last 3 years): Nil  
Special responsibilities: Member of Remuneration and Nominations Committee  
Interests in shares: 27,032,371 ordinary shares  
Interests in options: Nil

Name: William (Bill) Cook  
Title: Independent, Non-Executive Director  
Experience and expertise: Bill is an Independent Non-Executive Director of NTAW. Bill commenced his career at Ford Motor Company in finance. He worked for Consolidated Press Holdings with the late Kerry Packer from 1983 to 1996 as Head of M&A and worldwide reporting. After two years as General Manager of Qantas Flight Catering's Sydney business he undertook Private Equity investment consulting roles, and subsequently joined AMP Capital as an investment manager in the Private Equity team. Since leaving AMP, Bill has served as non-executive director for a number of companies, including NTAW since 2013.

Other current directorships: Nil  
Former directorships (last 3 years): Nil  
Special responsibilities: Chair of Audit and Risk Committee; Member of Remuneration and Nominations Committee  
Interests in shares: 203,132 ordinary shares  
Interests in options: Nil

# Directors' Report

30 June 2018

Name:	Robert (Rob) Kent
Title:	Independent, Non-Executive Director
Qualifications:	Bachelor of Business degree (Marketing) from the Queensland University of Technology and is a member of the Australian Institute of Company Directors.
Experience and expertise:	Rob was the Managing Director of Publicis Mojo (Queensland), part of a global advertising firm, from 2000 to 2017. He was also a member of the Publicis National Board of Management. Rob is an experienced marketing executive who has managed many campaigns involving sales, promotion and brand building. He was also Managing Director of Personalised Plates Queensland from 2013 to 2017. Under his management, sales grew by 34% over 4 years with internet traffic providing 75% of revenue. Rob was a Director of ACT for Kids (a charity) from 2001 to 2013 and member of the Board of South Bank Business Association in Brisbane from 2002 to 2009.
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Special responsibilities:	Chair of Remuneration and Nominations Committee; Member of Audit and Risk Committee
Interests in shares:	100,000 ordinary shares
Interests in options:	Nil

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

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

## Company secretaries

### *Jason Lamb*

Jason is the Chief Financial Officer and joint Company Secretary. Jason has 17 years' accountancy experience. He is a Certified Practising Accountant with a Bachelor of Commerce (Accounting) and a Bachelor of Economics from the University of Queensland. Jason was responsible for setting up the financial accounting systems for NTAW. He has also been responsible for all financial due diligence work relating to business acquisitions and the establishment of financial reporting systems for those operating entities. Jason is a member of the senior management committees at ETD (Australia) and ETD (New Zealand) which oversees significant strategic decisions for those operating entities. He participates in all Board meetings for NTAW and each operating entity as well as overseeing the production of financial reports for all entities.

### *Laura Fanning*

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

## Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2018, and the number of meetings attended by each director were:

	Full Board		Remuneration and Nomination Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Murray Boyte	11	11	4 <sup>1</sup>	4 <sup>1</sup>	3	3
Peter Ludemann	15	15	4 <sup>1</sup>	4 <sup>1</sup>	3 <sup>1</sup>	3 <sup>1</sup>
Terence Smith	15	15	4	4	2 <sup>1</sup>	2 <sup>1</sup>
William Cook	14	15	4	4	3	3
Robert Kent	12	12	4	4	3	3
Susanne Smith	1	1	-	-	-	-

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



## Remuneration report (audited)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### *Non-executive directors' remuneration*

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



# Directors' Report

30 June 2018

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

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

As disclosed in the Prospectus, one of the non-executive directors received options pursuant to NTAW's former share option plan, which vested and were exercised prior to completion of the IPO, resulting in shares being issued on 14 December 2017. Further details of the options granted are contained on page 18, and the shares issued are included in the relevant disclosures on page 19.

## *Executive remuneration*

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

The executive remuneration and reward framework has four main components:

- fixed remuneration, comprising base salary, superannuation and non-monetary benefits;
- short-term performance incentives (STIs);
- long-term performance incentives (LTIs), including share-based payments; and
- other remuneration such as long service leave.

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, is reviewed annually by the Remuneration and Nomination Committee for the Managing Director and senior executives, based on individual and business unit responsibilities and performance, the overall performance of the Group and comparable market remuneration.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the Group and provides additional value to the executive.

The STI program is designed to align the annual targets of the business units with the performance hurdles of executives. STI payments are granted to executives based on financial and non-financial key performance indicators ('KPI's') being achieved. KPI's may include profit contribution, customer satisfaction, leadership contribution and product management.

The LTI program includes share-based payments. The objective of the LTI program is to align the interests of key management personnel to those of the company and its shareholders.

On listing, the Board adopted the executive remuneration framework and the executives' service contracts as outlined in the Prospectus and disclosed on pages 17 to 18 of this report.

STIs paid during the financial year were in the nature of cash bonuses, determined by the Board, having regard to the Company's strategy and ability to achieve the pro-forma net profit targets contained in the Prospectus.

In relation to LTIs, prior to the IPO, options that were issued by NTAW to management pursuant to NTAW's former share option plan, vested and were exercised, resulting in shares being issued to employees on 14 December 2017. Peter Ludemann and Jason Lamb were two of the recipients of these options and shares. Further details of the options granted are contained on page 18, and the shares issued are included in the relevant disclosures on page 19. The share based payments expense included in the results for the financial year relates solely to this pre-IPO arrangement.

No further LTIs were issued for the financial year.

## *Remuneration review*

During the financial year, the Remuneration and Nomination Committee undertook a review of the Group's executive remuneration framework ('Remuneration Review'). The Group engaged Egan and Associates (remuneration consultants), to review its existing STI and LTI policies and provide recommendations on how to improve these.



Fees paid to Egan and Associates during the financial year in relation to this work amounted to \$15,750.

Following this review, the Board intends to adopt a new executive remuneration framework, including new STI and LTI programs with effect from and including the financial year ending 30 June 2019. The new framework is expected to include the following components:

- Fixed remuneration – will continue to comprise base salary, superannuation contributions and other benefits, having regard to comparable market benchmarks;
- STI program – will be an 'at risk' component of remuneration where, if individual, business unit and Group performance measures are met, senior executives will be awarded cash bonuses equal to a percentage of their fixed remuneration. Performance measures will include a financial gateway hurdle and non-financial KPIs. The percentage of fixed remuneration received as an STI will be capped, but may vary, depending on the level of performance achieved.
- LTI program – will be an 'at risk' component of remuneration where senior executives are awarded options which are subject to an earnings per share (EPS) performance condition and a service condition. The number of options to be awarded will be determined by the Board having regard to the overall amount of executive remuneration and the annual profit impact of the options awarded.

The Board believes that this remuneration framework will ensure that remuneration outcomes link to Company performance and the long-term interests of Shareholders.

Details of these plans are still being finalised, with completion expected in September 2018.

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

Options may be granted under the existing ESOP which was adopted on 6 November 2017. The details of the ESOP are summarised as follows:

- Options may be granted under the ESOP to any person who is, or is proposed to be, a full-time or part-time employee, a non-executive director, a contractor (40% full-time equivalent ('FTE')) or a casual employee (40% FTE) of the Company or any of its associated bodies corporate, and whom the Board determines to be an eligible person for the purposes of participation in the ESOP (referred to as an 'Eligible Person').
- An option may not be granted under the ESOP if, immediately following its grant, the shares to be received on exercise of the option, when aggregated with the number of shares which would be issued if each unvested option granted under the ESOP or any other employee incentive scheme of the Company were to vest and be exercised and the number of shares issued in the previous three years under the ESOP or any other employee incentive scheme of the Company, exceeds 5% of the total number of issued shares at the time of grant (or any varied limit if permitted under the Corporations Act 2001, ASX Listing Rules and ASIC instruments). Certain offers of options may be excluded from the calculation as permitted under Class Order 14/1000, including excluded offers under section 708 of the Corporations Act 2001 and offers under a disclosure document.
- Each option entitles the participant to subscribe for one ordinary share in the Company.
- The specific terms relevant to the grant of options are set out in an offer from the Company to the Eligible Person which contains details of the application price (if any) (which must not be for more than nominal consideration), the expiry date, the exercise price, the vesting date, any applicable performance conditions and other specific terms relevant to those options.
- Unless otherwise specified in the offer of an option, if a "Change of Control Event" occurs before the vesting date of an option, that option immediately vests and ceases to be subject to any performance condition to which it was subject. A Change of Control Event means the occurrence of one or more of the following events:
  - a person who has offered to acquire all shares in the Company acquires Control (as defined in section 50AA of the Corporations Act 2001) of the Company;
  - any other event occurs which causes a change in Control of the Company;
  - unless the Board determines otherwise, a takeover bid is recommended by the Board or a scheme of arrangement which would have a similar effect to a full takeover bid is announced by the Company; and
  - any other event which the Board reasonably considers should be regarded as a Change of Control Event.

# Directors' Report

30 June 2018

- Options may only be transferred:
  - to a legal personal representative on the death of the participant or to the participant's trustee in bankruptcy on the bankruptcy of the participant; or
  - pursuant to an off-market takeover bid, in various compulsory acquisition scenarios under Chapter 6A of the Corporations Act 2001, under a creditor's scheme of arrangement under section 411 of the Corporations Act 2001 or if approved by the Board.
- An option does not confer any rights to participate in a new issue of shares by the Company.
- If the Company conducts a rights issue, the exercise price of options will be adjusted in accordance with the adjustment formula for pro rata issues set out in the Listing Rules.
- If the Company makes a bonus issue of securities to holders of shares, the rights of a holder in respect of an unexercised option will be modified such that the participant will receive, upon exercise of an option, one share plus such additional securities which the participant would have received had the participant exercised the option immediately before the record date for that bonus issue and participated in the bonus issue as the holder of the share.
- If the Company's issued capital is reorganised (including consolidation, subdivision, reduction, or return), then the number of options, the exercise price or both or any other terms will be reorganised in a manner determined by the Board which complies with the listing rules.
- Any shares issued under the ESOP rank equally in all respects with the shares of the same class on issue, subject to the restrictions on the transfer of shares.
- Shares issued on exercise of options are not transferable for the period (if any) specified in the offer from the Company to the Eligible Person.
- An unvested option lapses upon the first to occur of the following:
  - its expiry date;
  - any applicable performance condition not being satisfied prior to the end of any prescribed performance period;
  - a transfer or purported transfer of the option in breach of the rules;
  - 30 days following the day the participant ceases to be employed or engaged by the Company or an associated body corporate by resigning voluntarily and not recommencing employment with the Company or an associated body corporate before the expiration of that 30 days;
  - 30 days following the day the participant ceases to be employed or engaged by the Company or an associated body corporate by reason of his or her death, disability, bona fide redundancy, or any other reason with the approval of the Board and the participant has not recommenced employment with the Company or an associated body corporate before the expiration of those 30 days, however the Board has a discretion to deem all or any of the options to have vested; or
  - termination of the participant's employment or engagement with the Company or an associated body corporate on the basis the participant acted fraudulently, dishonestly, in breach of the participant's obligations or otherwise for cause.
- A vested but unexercised option lapses upon the first to occur of the following:
  - its expiry date;
  - a transfer or purported transfer of the option in breach of the rules; or
  - termination of the participant's employment or engagement with the Company or an associated body corporate on the basis the participant acted fraudulently, dishonestly, in breach of the participant's obligations or otherwise for cause.
- Subject to the ASX Listing Rules and the law, the Board may at any time by resolution amend or add to the rules of the ESOP. However, the consent of a participant is required for any change to the rules or option terms which prejudicially affects the rights of the participant in relation to the option (except for certain changes, including changes to benefit the administration of the Plan or to comply with laws, ASX Listing Rules or regulations).

# Directors' Report

30 June 2018



## (b) Details of remuneration

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

- Murray Boyte - Chairman (appointed 24 October 2017)
- Peter Ludemann - Chief Executive Officer and Managing Director
- Terence Smith - Executive Director
- William Cook - Non Executive Director
- Robert Kent - Non Executive Director (appointed 27 September 2017)
- Susanne Smith - Former Executive Director (resigned 26 October 2017)

And the following persons:

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

## Amounts of remuneration

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

Prior to listing the Company on the ASX, National Tyre & Wheel Limited was not required to prepare a remuneration report in accordance with the Corporations Act 2001. As such, remuneration information below is presented for the year ended 30 June 2018 only.

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

\* Remuneration is from date of appointment to 30 June 2018

\*\* Remuneration is from 1 July 2017 to date of resignation

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

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



# Directors' Report

30 June 2018

The proportion of remuneration linked to performance and the fixed proportion are as follows:

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

\* 2018 LTI comprises the options that vested and were exercised prior to the IPO, and does not reflect the future LTI program to be adopted.

\*\* Fixed remuneration from the date of listing to 30 June 2018 comprised 100% of amounts received during that period.

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

Name	Cash bonus paid/payable 2018	Cash bonus forfeited 2018
<i>Executive Directors:</i>		
P Ludemann	100%	-
<i>Other Key Management Personnel:</i>		
J Lamb	100%	-
R Chelvaratnam	100%	-

## (c) Relationship between remuneration and Company performance

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

Metric	2018
Statutory net profit after tax attributable to shareholders (\$)	4,477,000
Pro forma sales revenue (\$)	153,402,000
Pro forma net profit after tax attributable to shareholders (\$) *	9,314,000
Change in share price **	23%
Earnings per share (cents)	5.25
Total dividends paid (\$)	1,011,121
Key management personnel remuneration (\$) ***	3,650,652

\* Pro forma results are as presented on pages 3 to 6 of the Directors' Report and enable the results for the financial year to be compared to the financial information contained in NTAW's Prospectus.

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

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



## **(d) Service agreements**

Remuneration and other terms of employment for key management personnel are formalised in service agreements with no fixed tenure requirements, unless otherwise disclosed below. Details of these agreements (prior to changes for the proposed remuneration framework) are as follows:

Name: Peter Ludemann  
Title: Chief Executive Officer and Managing Director  
Details: Peter's fixed remuneration package is a base salary of \$406,793 including superannuation contributions. Under the terms of his employment contract, he is eligible for short term incentives as determined by the Board plus 9.5% superannuation on any incentive bonus amount, has statutory leave entitlements and is entitled to 5 weeks annual leave per year. Either party may terminate the contract on 6 months' notice. In the case of termination by NTAW, NTAW may provide payment in lieu of notice. Peter's employment contract does not contain any express redundancy provisions. Peter's contract contains a 5 year non-compete restraint within Australia and New Zealand and a 12 month non-solicitation of employees, contractors and clients who deal with NTAW.

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

Name: Jason Lamb  
Title: Chief Financial Officer and joint Company Secretary  
Details: Jason's fixed remuneration package is a base salary of \$213,000 plus the minimum statutory superannuation contributions and a car allowance of \$22,300. He is eligible for short term incentives as determined by the Board. Jason has statutory leave entitlements. Either party may terminate the contract on 6 months' notice. In the case of termination by NTAW, NTAW may provide payment in lieu of notice. He is entitled to redundancy pay in accordance with NTAW's legal obligations. Jason's contract contains a 6 month non-compete restraint within Australia and a 6 month non-solicitation of employees, contacts and clients with whom he has contact with, or influence over.

Name: Chris Hummer  
Title: Managing Director, Dynamic  
Details: Chris' fixed remuneration package is a base salary of \$160,000 plus statutory superannuation contributions. Under the terms of his employment contract, he is entitled to a bonus if Dynamic achieves targets set by the Board. He has statutory leave entitlements. Either party may terminate the contract on 3 months' notice. In the case of termination by Dynamic, Dynamic may provide payment in lieu of notice. Chris is entitled to redundancy pay in accordance with the Company's legal obligations. Mr Hummer's contract contains a 12 month non-compete restraint within as specified geographical area and a 12 month non-solicitation of employees, contacts and clients with whom he has contact with, or influence over.

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

# Directors' Report

30 June 2018

Name: Roshan Chelvaratnam  
Title: Managing Director, MPC  
Details: Roshan's fixed remuneration package is a base salary of \$173,276 plus minimum statutory superannuation contributions. Under the terms of his employment contract, he is entitled to a bonus if MPC achieves targets set by the Board. He has statutory leave entitlements. Either party may terminate the contract on 6 months' notice after the expiry of the initial term of 3 years (from 1 April 2017). In the case of termination by MPC, MPC may provide payment in lieu of notice. He may not terminate within the first 3 years of his employment. Roshan is entitled to redundancy pay in accordance with the Company's legal obligations. Roshan's contract contains a 6 month non-compete restraint within Australia and a 12 month non-solicitation of employees, contacts and clients with whom he has contact with, or influence over.

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

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

## **(e) Share-based compensation**

### *Issue of shares*

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2018.

### *Options*

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

Name	Number of options granted	Grant date	Vesting date and exercisable date	Expiry date	Exercise price <sup>1</sup>	Fair value per option at grant date
Peter Ludemann	566,547	1 July 2017 - 21 November 2017	14 December 2017	1 July 2022	\$0.0278	\$0.78
William Cook	203,132	1 July 2017 - 21 November 2017	14 December 2017	1 July 2022	\$0.5022	\$0.49
Jason Lamb	107,338	1 July 2017 - 21 November 2017	14 December 2017	1 July 2022	\$0.0073	\$0.78

<sup>1</sup> The exercise price is the weighted average of the exercise prices for the options granted on different dates

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

### *Shareholding*

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



# Directors' Report

30 June 2018



	Balance at the start of the year	Share consolidation and split	Received as part of Remuneration <sup>6</sup>	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>						
Murray Boyte <sup>7</sup>	-	-	-	112,500	-	112,500
Peter Ludemann <sup>1</sup>	-	-	4,316,547	-	(1,726,619)	2,589,928
Terence Smith <sup>1</sup>	68,000,002	(13,935,260)	-	-	(27,032,371)	27,032,371
William Cook <sup>1</sup>	-	-	203,132	-	-	203,132
Robert Kent <sup>7</sup>	-	-	-	100,000	-	100,000
Jason Lamb <sup>2</sup>	-	-	476,003	94,000	(211,401)	358,602
Chris Hummer <sup>3,5</sup>	-	-	-	4,261,714	-	4,261,714
Roshan Chelvaratnam <sup>4,5</sup>	-	-	-	7,858,500	(3,929,250)	3,929,250
	<u>68,000,002</u>	<u>(13,935,260)</u>	<u>4,995,682</u>	<u>12,426,714</u>	<u>(32,899,641)</u>	<u>38,587,497</u>

1 Balance of shares escrowed until the earlier of the date 5 Business Days after the date that NTAW releases to the ASX its interim results for the 6 months ending 31 December 2018 and 22 April 2019 ('CY18 Restriction Period').

2 285,602 shares escrowed until the CY18 Restriction Period.

3 1,048,929 shares escrowed until the CY18 Restriction Period. 1,048,929 shares escrowed until the earlier of the date 5 Business Days after the date that NTAW releases to the ASX its final results for the 12 months ending 30 June 2019 and 7 November 2019 ('FY19 Restriction Period').

4 1,964,625 shares escrowed until the CY18 Restriction Period. 1,964,625 shares escrowed until the FY19 Restriction Period.

5 Includes shares issued as consideration for business acquisition.

6 Shares received following the exercise of options.

7 Additions relate to shares purchased on IPO at the IPO Offer Price.

## Option holding

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

	Balance at the start of the year	Granted	Exercised <sup>1</sup>	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
Peter Ludemann	3,750,000	566,547	(4,316,547)	-	-
William Cook	-	203,132	(203,132)	-	-
Jason Lamb	368,665	107,338	(476,003)	-	-
	<u>4,118,665</u>	<u>877,017</u>	<u>(4,995,682)</u>	<u>-</u>	<u>-</u>

1 As all options were exercised just prior to the IPO, the value of each option on the exercise date is considered to be the share price at the time of listing, less the exercise price paid.

## (g) Other transactions with key management personnel

### Related party leases

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

### Loans to key management personnel

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

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

### Shares under option

There were no unissued ordinary shares of National Tyre & Wheel Limited under option outstanding at the date of this report.

# Directors' Report

30 June 2018

## Shares issued on the exercise of options

The following ordinary shares of National Tyre & Wheel Limited were issued during the year ended 30 June 2018 (prior to the IPO) on the exercise of options granted:

Date options granted	Exercise price	Number of shares issued
01 July 2012	\$0.0000	1,487,945
01 July 2014	\$0.0000	77,305
01 July 2016	\$0.5022	220,000
01 July 2016	\$0.5022	2,150,000
01 July 2016	\$0.0000	1,324,339
30 June 2017	\$0.0000	1,000,000
1 July 2017	\$0.0000	1,006,470
1 July 2017	\$0.5022	200,000
21 November 2017	\$0.0000	76,663
21 November 2017	\$0.5022	40,242
		<hr/>
		<u>7,582,964</u>

No further shares were issued on the exercise of options granted during the year ended 30 June 2018 and up to the date of this report.

## Indemnity and insurance of officers

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

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

## Indemnity and insurance of auditor

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

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

## Proceedings on behalf of the Company

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

## Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 27 to the financial statements.

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

The directors are of the opinion that the services as disclosed in note 27 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

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

# Directors' Report

30 June 2018



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

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

## **Rounding of amounts**

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

## **Auditor's independence declaration**

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

## **Auditor**

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

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

On behalf of the directors

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

Murray Boyte  
Chairman

29 August 2018  
Brisbane



# PITCHER PARTNERS

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Brisbane, Queensland 4000

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

## Auditor's Independence Declaration

As lead auditor for the audit of National Tyre & Wheel Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

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

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

PITCHER PARTNERS

N BATTERS  
Partner

Brisbane, Queensland  
29 August 2018

Ken Ogden  
Nigel Fischer  
Mark Nicholson

Peter Camenzuli  
Jason Evans  
Ian Jones

Kylie Lamprecht  
Norman Thurecht  
Brett Headrick

Warwick Face  
Nigel Batters  
Cole Wilkinson

Simon Chun  
Jeremy Jones  
Tom Splatt

James Field  
Daniel Colwell



# Statement of profit or loss and other comprehensive income

For the year ended 30 June 2018



	Note	Consolidated	
		2018 \$'000	2017 \$'000
<b>Revenue</b>	5	147,466	120,453
<b>Expenses</b>			
Changes in inventories		(3,572)	(1,458)
Raw materials and consumables used		(96,023)	(79,922)
Employee benefits expense		(18,156)	(13,841)
Depreciation and amortisation expense	6	(2,127)	(1,651)
Legal and professional fees		(768)	(237)
Marketing expenses		(5,061)	(4,919)
Occupancy expenses		(3,662)	(3,292)
Insurance costs		(536)	(335)
Listing costs		(2,078)	-
Other expenses		(5,969)	(4,827)
Finance costs	6	(459)	(470)
<b>Profit before income tax expense</b>		9,055	9,501
Income tax expense	7	(3,700)	(3,297)
<b>Profit after income tax expense for the year</b>		5,355	6,204
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(446)	(2)
Other comprehensive income for the year, net of tax		(446)	(2)
<b>Total comprehensive income for the year</b>		<u>4,909</u>	<u>6,202</u>
Profit for the year is attributable to:			
Non-controlling interest		878	674
Owners of National Tyre & Wheel Limited		4,477	5,530
		<u>5,355</u>	<u>6,204</u>
Total comprehensive income for the year is attributable to:			
Non-controlling interest		878	674
Owners of National Tyre & Wheel Limited		4,031	5,528
		<u>4,909</u>	<u>6,202</u>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	38	5.25	8.13
Diluted earnings per share	38	5.05	7.52

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

# Statement of financial position

As at 30 June 2018

	Note	Consolidated 2018 \$'000	2017 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	8	19,608	14,765
Trade and other receivables	9	25,900	19,840
Inventories	10	47,754	31,348
Derivative financial instruments	11	463	-
Other	12	1,779	269
Total current assets		<u>95,504</u>	<u>66,222</u>
<b>Non-current assets</b>			
Property, plant and equipment	13	3,917	3,245
Intangibles	14	22,167	14,591
Deferred tax	7	4	-
Other		-	81
Total non-current assets		<u>26,088</u>	<u>17,917</u>
<b>Total assets</b>		<u>121,592</u>	<u>84,139</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	15	35,018	25,361
Borrowings	16	1,615	1,355
Derivative financial instruments	17	-	399
Income tax		1,069	733
Provisions	18	3,107	1,976
Other		-	48
Total current liabilities		<u>40,809</u>	<u>29,872</u>
<b>Non-current liabilities</b>			
Payables	19	-	2,151
Borrowings	20	12,820	6,812
Deferred tax	7	-	636
Provisions	21	1,300	1,295
Total non-current liabilities		<u>14,120</u>	<u>10,894</u>
<b>Total liabilities</b>		<u>54,929</u>	<u>40,766</u>
<b>Net assets</b>		<u>66,663</u>	<u>43,373</u>
<b>Equity</b>			
Issued capital	22	64,761	18,942
Reserves	23	(215)	1,967
Retained profits/(accumulated losses)		(974)	16,025
Equity attributable to the owners of National Tyre & Wheel Limited		<u>63,572</u>	<u>36,934</u>
Non-controlling interest		3,091	6,439
<b>Total equity</b>		<u>66,663</u>	<u>43,373</u>

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

# Statement of changes in equity

For the year ended 30 June 2018



<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Foreign currency translation reserve \$'000</b>	<b>Share-based payments reserve \$'000</b>	<b>Other reserves \$'000</b>	<b>Retained profits \$'000</b>	<b>Non-controlling interest \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2016	18,942	233	1,948	(356)	14,144	2,561	37,472
Profit after income tax expense for the year	-	-	-	-	5,530	674	6,204
Other comprehensive income for the year, net of tax	-	(2)	-	-	-	-	(2)
Total comprehensive income for the year	-	(2)	-	-	5,530	674	6,202
<i>Transactions with owners in their capacity as owners:</i>							
Options issued	-	-	1,044	-	-	-	1,044
Options forfeited	-	-	(745)	-	-	-	(745)
Non-controlling interest on acquisition of subsidiary	-	-	-	-	-	3,661	3,661
Transfers	-	-	(155)	-	155	-	-
Dividends paid (note 24)	-	-	-	-	(3,804)	(457)	(4,261)
Balance at 30 June 2017	<u>18,942</u>	<u>231</u>	<u>2,092</u>	<u>(356)</u>	<u>16,025</u>	<u>6,439</u>	<u>43,373</u>

<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Foreign currency translation reserve \$'000</b>	<b>Share-based payments reserve \$'000</b>	<b>Other reserves \$'000</b>	<b>Accumulated losses \$'000</b>	<b>Non-controlling interest \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2017	18,942	231	2,092	(356)	16,025	6,439	43,373
Profit after income tax expense for the year	-	-	-	-	4,477	878	5,355
Other comprehensive income for the year, net of tax	-	(446)	-	-	-	-	(446)
Total comprehensive income for the year	-	(446)	-	-	4,477	878	4,909
<i>Transactions with owners in their capacity as owners:</i>							
Contributions of equity, net of transaction costs (note 22)	39,907	-	-	-	-	-	39,907
Options issued	-	-	2,657	-	-	-	2,657
Options exercised	5,912	-	(4,601)	-	-	-	1,311
Reversal of option forfeiture	-	-	400	-	-	-	400
Non-controlling interest on acquisition of subsidiary	-	-	-	-	-	2,828	2,828
Acquisition of non-controlling interest of existing subsidiaries	-	-	-	-	(5,657)	(6,398)	(12,055)
Transfers	-	-	(548)	356	192	-	-
Dividends paid (note 24)	-	-	-	-	(16,011)	(656)	(16,667)
Balance at 30 June 2018	<u>64,761</u>	<u>(215)</u>	<u>-</u>	<u>-</u>	<u>(974)</u>	<u>3,091</u>	<u>66,663</u>

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

# Statement of cash flows

For the year ended 30 June 2018

	Note	Consolidated 2018 \$'000	2017 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		162,009	132,543
Payments to suppliers and employees		<u>(148,475)</u>	<u>(122,853)</u>
		13,534	9,690
Interest received		120	131
Interest and other finance costs paid		(291)	(327)
Income taxes paid		<u>(4,461)</u>	<u>(2,977)</u>
Net cash from operating activities	36	<u>8,902</u>	<u>6,517</u>
<b>Cash flows from investing activities</b>			
Payment for purchase of business, net of cash acquired	33	(13,355)	(3,917)
Final payments for prior year business acquisition		(2,051)	-
Payments for property, plant and equipment		(845)	(584)
Proceeds from disposal of property, plant and equipment		228	223
Transfers from term deposits		<u>-</u>	<u>307</u>
Net cash used in investing activities		<u>(16,023)</u>	<u>(3,971)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		26,234	-
Listing costs		(3,552)	-
Proceeds from borrowings		7,471	4,000
Repayment of borrowings		(1,583)	(2,911)
Dividends paid	24	<u>(16,667)</u>	<u>(4,261)</u>
Net cash from/(used in) financing activities		<u>11,903</u>	<u>(3,172)</u>
Net increase/(decrease) in cash and cash equivalents		4,782	(626)
Cash and cash equivalents at the beginning of the financial year		14,765	15,381
Effects of exchange rate changes on cash and cash equivalents		<u>61</u>	<u>10</u>
Cash and cash equivalents at the end of the financial year	8	<u><u>19,608</u></u>	<u><u>14,765</u></u>

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



# Notes to the financial statements

30 June 2018



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# Notes to the financial statements

30 June 2018

## Note 1. General information

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

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

30 Gow Street  
Moorooka QLD 4105

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 29 August 2018. The directors have the power to amend and reissue the financial statements.

## Note 2. Significant accounting policies

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

### New or amended Accounting Standards and Interpretations adopted

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

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

### Basis of preparation

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

#### *Historical cost convention*

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

#### *Critical accounting estimates*

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

### Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 32.

### Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of National Tyre & Wheel Limited as at 30 June 2018 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.



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

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

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

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

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

### **Operating segments**

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

### **Foreign currency translation**

#### *Foreign currency transactions*

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

#### *Foreign operations*

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

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

### **Revenue recognition**

Revenue is recognised when it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

#### *Sale of goods*

Sale of goods revenue is recognised at the point of sale, which is where the customer has taken delivery of the goods, the risks and rewards are transferred to the customer and there is a valid sales contract. Amounts disclosed as revenue are net of sales returns and trade discounts.

#### *Interest*

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

#### *Other revenue*

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

# Notes to the financial statements

30 June 2018

## Note 2. Significant accounting policies (continued)

### Income tax

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

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

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

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

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

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

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

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

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

### Current and non-current classification

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

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

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

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





## Note 2. Significant accounting policies (continued)

### Cash and cash equivalents

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

### Trade and other receivables

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

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

### Inventories

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

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

### Derivative financial instruments

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

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

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

### Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted.

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

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

#### *Impairment of financial assets*

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

# Notes to the financial statements

30 June 2018

## Note 2. Significant accounting policies (continued)

The amount of the impairment allowance for loans and receivables carried at amortised cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. If there is a reversal of impairment, the reversal cannot exceed the amortised cost that would have been recognised had the impairment not been made and is reversed to profit or loss.

### Property, plant and equipment

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

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

Leasehold improvements	2.5% to 15%
Plant and equipment	5% to 60%
Motor vehicles	13.5% to 25%

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

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

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

### Leases

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

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

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

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

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

### Intangible assets

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



## Note 2. Significant accounting policies (continued)

### *Goodwill*

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

### *Brand name*

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

### *Customer relationships*

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

### *Importation rights*

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

### **Impairment of non-financial assets**

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

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

### **Trade and other payables**

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

### **Borrowings**

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

### **Finance costs**

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

### **Provisions**

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

### **Employee benefits**

#### *Short-term employee benefits*

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

# Notes to the financial statements

30 June 2018

## Note 2. Significant accounting policies (continued)

### *Other long-term employee benefits*

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

### *Defined contribution superannuation expense*

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

### *Share-based payments*

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

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

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

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

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

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

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

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

### **Fair value measurement**

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

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





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

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

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

### **Issued capital**

Ordinary shares are classified as equity.

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

### **Dividends**

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

### **Business combinations**

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

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

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

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

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

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

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

# Notes to the financial statements

30 June 2018

## Note 2. Significant accounting policies (continued)

### Earnings per share

#### *Basic earnings per share*

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

#### *Diluted earnings per share*

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

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

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

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

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

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

### Rounding of amounts

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

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

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2018. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

Accounting Standard	Nature of change	Impact on the financial statements
AASB 9 'Financial Instruments' (effective for the accounting period starting 1 July 2018)	AASB 9 introduces various new concepts including: <ul style="list-style-type: none"><li>• Amended rules for hedge accounting;</li><li>• Changes to the categorisation and measurement of financial assets particularly affecting those measured as available for sale ('AFS') or held to maturity ('HTM');</li><li>• New methods of calculating impairment losses of financial assets; and</li><li>• A change to the rules surrounding the modification of financial liabilities measured at amortised cost.</li></ul>	These changes are not expected to have a material impact since the Group: <ul style="list-style-type: none"><li>• Does not hedge account;</li><li>• Has no financial assets measured as AFS or HTM;</li><li>• Does not have significant financial assets to impair and only have insignificant provisions for doubtful debts; and</li><li>• Does not intend to modify existing financial liabilities.</li></ul>



## Note 2. Significant accounting policies (continued)

Accounting Standard	Nature of change	Impact on the financial statements
AASB 15 'Revenue from Contracts with Customers' (effective for the accounting period starting 1 July 2018)	AASB 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer. This new standard requires a five step analysis of transactions to determine whether, how much and the point at which revenue is recognised. It applies to all contracts with customers except leases, financial instruments and insurance contracts.	AASB 15 is not expected to have a material impact on the Group since revenue principally comprises sale of goods revenue which will continue to be recognised at point of sale of the goods.
AASB 16 'Leases' (effective for the accounting period starting 1 July 2019)	AASB 16 requires recognition of a right-of-use asset along with the associated lease liability where the entity is a lessee. An interest expense will be recognised in the profit or loss using the effective interest rate method, and the right-of use asset will be depreciated. Lessor accounting will largely remain unchanged.	<p>AASB 16 is not expected to have a material impact since the Group are not lessees. The Group are significant lessors, however, there is little change to lessor accounting under AASB 16.</p> <p>If AASB 16 were adopted from 1 July 2019 based on the leases in effect at 30 June 2018, this would have a material impact on the transactions and balances recognised in the financial statements, specifically:</p> <ul style="list-style-type: none"> <li>• Right-of-use assets and lease liabilities on the balance sheet would increase on 1 July 2018 by approximately \$7.6m and \$8.2m, respectively;</li> <li>• Retained earnings would be reduced on 1 July 2018 by approximately \$0.6m because the carrying value of the assets reduce more quickly than the carrying amount of the lease liabilities; and</li> <li>• Total expenses for FY19 would be approximately \$0.1 million less, as amortisation and interest expense would increase by approximately \$2.5m but rent expense would decrease by approximately \$2.6m.</li> </ul> <p>We do not intend to adopt AASB 16 before its effective date.</p>

AASB 9, AASB 15 and AASB 16 will each introduce expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosure about its financial instruments, revenue and leases respectively, particularly in the year the new standard is adopted.

### *IASB revised Conceptual Framework for Financial Reporting*

The revised Conceptual Framework has been issued by the International Accounting Standards Board ('IASB'), but the Australian equivalent has yet to be published. The revised framework is applicable for annual reporting periods beginning on or after 1 January 2020 and the application of the new definition and recognition criteria may result in future amendments to several accounting standards. Furthermore, entities who rely on the conceptual framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under Australian Accounting Standards may need to revisit such policies. The Group will apply the revised conceptual framework from 1 July 2020 and is yet to assess its impact.

# Notes to the financial statements

30 June 2018

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

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

### *Business combinations*

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

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

Brand names, importation rights and customer relationships have been recognised on the acquisition of subsidiaries. The valuation of these assets is based on the present value of expected future cash flows associated with the brand and the recurring current customers covering a period of 5-10 years. These cashflows have been calculated using an average growth rates of between 3-6.3% and a discount rate of between 17-20%.

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

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

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

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

### *Share-based payment transactions*

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

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

### *Income tax*

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



# Notes to the financial statements

30 June 2018



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

### Warranty provision

In determining the level of provision required for warranties the Group has made judgements in respect of the expected performance of the products, the number of customers who will actually claim under the warranty and how often, and the costs of fulfilling the conditions of the warranty. The provision is based on estimates made from historical warranty data associated with similar products.

## Note 4. Operating segments

### Identification of reportable operating segments

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

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

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

### Major customers

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

### Geographical information

	Sales to external customers		Geographical non-current assets	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Australia	123,219	106,935	25,410	17,392
New Zealand	14,704	12,464	597	525
South Africa	8,261	-	77	-
	<u>146,184</u>	<u>119,399</u>	<u>26,084</u>	<u>17,917</u>

The geographical non-current assets above are exclusive of, where applicable, financial instruments, deferred tax assets, post-employment benefits assets and rights under insurance contracts.

## Note 5. Revenue

	Consolidated	
	2018 \$'000	2017 \$'000
<i>Sales revenue</i>		
Sale of goods	<u>146,184</u>	<u>119,399</u>
<i>Other revenue</i>		
Interest	120	132
Other revenue	<u>1,162</u>	<u>922</u>
	<u>1,282</u>	<u>1,054</u>
Revenue	<u>147,466</u>	<u>120,453</u>

# Notes to the financial statements

30 June 2018

## Note 6. Expenses

	Consolidated	
	2018	2017
	\$'000	\$'000
Profit before income tax includes the following specific expenses:		
<i>Cost of sales</i>		
Cost of sales	99,595	81,380
<i>Depreciation</i>		
Leasehold improvements	6	42
Plant and equipment	361	330
Motor vehicles	329	289
Total depreciation	696	661
<i>Amortisation</i>		
Customer relationships	361	57
Importation rights	1,067	930
Other intangibles	3	3
Total amortisation	1,431	990
Total depreciation and amortisation	2,127	1,651
<i>Finance costs</i>		
Interest and finance charges paid/payable	437	299
Amortisation of borrowing costs	-	143
Finance lease charges	22	28
Finance costs expensed	459	470
<i>Net foreign exchange loss</i>		
Net foreign exchange loss	657	160
<i>Net loss/(gain) on disposal</i>		
Net loss/(gain) on disposal of property, plant and equipment	2	(36)
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	3,398	3,241
<i>Superannuation expense</i>		
Defined contribution superannuation expense	1,026	1,047
<i>Share-based payments expense</i>		
Share-based payments expense	2,657	699



# Notes to the financial statements

30 June 2018

## Note 7. Income tax (continued)

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Deferred tax</i>		
Net deferred tax comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Capital raising costs	837	-
Employee benefits	789	470
Property, plant and equipment	(115)	(84)
Intangibles	(2,321)	(1,603)
Accruals and provisions	567	536
Other	60	32
Finance lease liability	67	43
Foreign currency exchange	120	(30)
	<u>4</u>	<u>(636)</u>
Deferred tax asset/(liability)		
	<u>4</u>	<u>(636)</u>
Movements:		
Opening balance	(636)	903
Credited to profit or loss	903	64
Credited to equity	442	-
Additions through business combinations (note 33)	(705)	(1,603)
	<u>4</u>	<u>(636)</u>
Closing balance		
	<u>4</u>	<u>(636)</u>

## Note 8. Current assets - cash and cash equivalents

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash on hand	2	2
Cash at bank	19,606	14,763
	<u>19,608</u>	<u>14,765</u>

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

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade receivables	26,026	19,740
Less: Provision for impairment of receivables	(127)	-
	<u>25,899</u>	<u>19,740</u>
Receivable from employees	1	100
	<u>25,900</u>	<u>19,840</u>

### *Impairment of receivables*

The Group has recognised a loss of \$42,000 (2017: \$64,000) in profit or loss in respect of impairment of receivables.

# Notes to the financial statements

30 June 2018



## Note 9. Current assets - trade and other receivables (continued)

The ageing of the impaired receivables provided for above are as follows:

	Consolidated	
	2018 \$'000	2017 \$'000
3 to 6 months overdue	66	-
Over 6 months overdue	61	-
	<u>127</u>	<u>-</u>

Movements in the provision for impairment of receivables are as follows:

	Consolidated	
	2018 \$'000	2017 \$'000
Additional provisions recognised	42	-
Additions through business combinations	127	64
Receivables written off during the year as uncollectable	(42)	(64)
Closing balance	<u>127</u>	<u>-</u>

### *Past due but not impaired*

Customers with balances past due but without provision for impairment of receivables amount to \$6,483,000 as at 30 June 2018 (\$3,838,000 as at 30 June 2017).

The Group did not consider a credit risk on the aggregate balances after reviewing the credit terms of customers based on recent collection practices.

The ageing of the past due but not impaired receivables are as follows:

	Consolidated	
	2018 \$'000	2017 \$'000
Less than 30 days overdue	5,096	3,287
31 to 60 days overdue	813	226
Over 61 days overdue	574	325
	<u>6,483</u>	<u>3,838</u>

## Note 10. Current assets - inventories

	Consolidated	
	2018 \$'000	2017 \$'000
Finished goods - at cost	47,904	31,348
Less: Provision for impairment	(150)	-
	<u>47,754</u>	<u>31,348</u>



# Notes to the financial statements

30 June 2018

## Note 11. Current assets - derivative financial instruments

	Consolidated	
	2018	2017
	\$'000	\$'000
Forward foreign exchange contracts	463	-

Refer to note 26 for further information on fair value measurement.

## Note 12. Current assets - other

	Consolidated	
	2018	2017
	\$'000	\$'000
Prepayments	1,135	142
Other deposits	600	-
Other current assets	44	127
	<u>1,779</u>	<u>269</u>

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

	Consolidated	
	2018	2017
	\$'000	\$'000
Leasehold improvements - at cost	321	321
Less: Accumulated depreciation	(262)	(256)
	<u>59</u>	<u>65</u>
Plant and equipment - at cost	4,625	3,881
Less: Accumulated depreciation	(2,761)	(2,164)
	<u>1,864</u>	<u>1,717</u>
Motor vehicles - at cost	3,308	2,536
Less: Accumulated depreciation	(1,314)	(1,073)
	<u>1,994</u>	<u>1,463</u>
	<u>3,917</u>	<u>3,245</u>

# Notes to the financial statements

30 June 2018



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

### Reconciliations

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

<b>Consolidated</b>	Leasehold improvements \$'000	Plant and equipment \$'000	Motor vehicles \$'000	Total \$'000
Balance at 1 July 2016	107	1,607	1,437	3,151
Additions	-	207	450	657
Additions through business combinations (note 33)	-	238	48	286
Disposals	-	(5)	(183)	(188)
Depreciation expense	(42)	(330)	(289)	(661)
Balance at 30 June 2017	65	1,717	1,463	3,245
Additions	-	315	738	1,053
Additions through business combinations (note 33)	-	221	344	565
Disposals	-	(16)	(210)	(226)
Exchange differences	-	(12)	(12)	(24)
Depreciation expense	(6)	(361)	(329)	(696)
Balance at 30 June 2018	<u>59</u>	<u>1,864</u>	<u>1,994</u>	<u>3,917</u>

### Property, plant and equipment secured under finance leases

Refer to note 29 for further information on property, plant and equipment secured under finance leases.

## Note 14. Non-current assets - intangibles

	<b>Consolidated 2018 \$'000</b>	<b>2017 \$'000</b>
Goodwill - at cost	8,878	3,094
Brand name - at cost	2,393	2,393
Customer relationships - at cost	4,798	2,951
Less: Accumulated amortisation	(418)	(57)
	<u>4,380</u>	<u>2,894</u>
Importation rights - at cost	12,106	10,730
Less: Accumulated amortisation	(5,596)	(4,529)
	<u>6,510</u>	<u>6,201</u>
Other intangibles - at cost	14	14
Less: Accumulated amortisation	(8)	(5)
	<u>6</u>	<u>9</u>
	<u>22,167</u>	<u>14,591</u>

# Notes to the financial statements

30 June 2018

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

### Reconciliations

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

<b>Consolidated</b>	Goodwill \$'000	Brand name \$'000	Customer relation- ships \$'000	Importation rights \$'000	Other intangibles \$'000	Total \$'000
Balance at 1 July 2016	755	-	-	7,131	-	7,886
Additions	-	-	-	-	12	12
Additions through business combinations (note 33)	2,339	2,393	2,951	-	-	7,683
Amortisation expense	-	-	(57)	(930)	(3)	(990)
Balance at 30 June 2017	3,094	2,393	2,894	6,201	9	14,591
Additions through business combinations (note 33)	5,784	-	1,847	1,376	-	9,007
Amortisation expense	-	-	(361)	(1,067)	(3)	(1,431)
Balance at 30 June 2018	<u>8,878</u>	<u>2,393</u>	<u>4,380</u>	<u>6,510</u>	<u>6</u>	<u>22,167</u>

### Impairment testing

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

Goodwill and intangibles with indefinite useful lives are allocated to the following cash generating units (CGU):

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Goodwill</b>		
CGU:		
- Exclusive Tyres Distributors Pty Ltd	2,735	-
- M.P.C Mags and Tyres Pty Ltd	2,339	2,339
- Dynamic Wheel Co Pty Ltd	755	755
- Top Draw Tyres Pty Ltd	1,311	-
- Statewide Tyre Distribution Pty Ltd	1,738	-
	<u>8,878</u>	<u>3,094</u>
	<b>Consolidated</b>	<b>Consolidated</b>
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Brand names</b>		
CGU:		
- M.P.C Mags and Tyres Pty Ltd	<u>2,393</u>	<u>2,393</u>

The recoverable amount of assets including goodwill and brand name assets is determined based on value in use calculations at the individual CGU level at 30 June 2018. The value in use assessment is conducted using a discount cash flow (DCF) methodology derived from managements forecast for FY19. This has been based on management and Directors past experience, current performance and market conditions to estimate the future cashflows that are expected to arise at the CGU level.

# Notes to the financial statements

30 June 2018



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

The DCF model adopted by the directors was based on the FY19 approved budget. The key assumptions used in the testing for impairment are:

- Post tax discount rate 14%;
- Terminal value of 6 times multiple; and
- Budgeted EBITDA growth rate of 4% per annum.

No reasonable change in any if the key assumptions would result in an impairment.

The Directors' assessment of 2018 goodwill and brand names were that they are not impaired.

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

	Consolidated	
	2018 \$'000	2017 \$'000
Trade payables	31,096	23,325
GST payable	133	104
Deferred consideration	-	300
Other payables and accruals	3,789	1,632
	<u>35,018</u>	<u>25,361</u>

Refer to note 25 for further information on financial instruments.

Deferred consideration at 30 June 2017 related to the amount owing as part of the acquisition of the Group's 50% shareholding in M.P.C Mags and Tyres Pty Ltd in the 2017 financial year. This consideration was paid in full during the 2018 financial year.

## Note 16. Current liabilities - borrowings

	Consolidated	
	2018 \$'000	2017 \$'000
Bank loans	1,436	1,200
Lease liability	179	155
	<u>1,615</u>	<u>1,355</u>

Refer to note 20 for further information on assets pledged as security and financing arrangements.

Refer to note 25 for further information on financial instruments.

## Note 17. Current liabilities - derivative financial instruments

	Consolidated	
	2018 \$'000	2017 \$'000
Forward foreign exchange contracts	-	399

Refer to note 25 for further information on financial instruments.

Refer to note 26 for further information on fair value measurement.

# Notes to the financial statements

30 June 2018

## Note 18. Current liabilities - provisions

	Consolidated	
	2018 \$'000	2017 \$'000
Employee benefits	2,343	1,294
Warranties	764	682
	<u>3,107</u>	<u>1,976</u>

### Warranties

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

Consolidated - 2018	Warranties \$'000
Carrying amount at the start of the year	682
Additional provisions recognised	<u>82</u>
Carrying amount at the end of the year	<u>764</u>

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

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

## Note 19. Non-current liabilities - payables

	Consolidated	
	2018 \$'000	2017 \$'000
Deferred consideration	-	1,750
Other payables	-	<u>401</u>
	<u>-</u>	<u>2,151</u>

Refer to note 25 for further information on financial instruments.

Deferred consideration at 30 June 2017 related to the amount owing as part of the acquisition of the Group's 50% shareholding in M.P.C Mags and Tyres Pty Ltd in the 2017 financial year. This consideration was paid in full during the 2018 financial year.

## Note 20. Non-current liabilities - borrowings

	Consolidated	
	2018 \$'000	2017 \$'000
Bank loans	12,585	6,580
Lease liability	<u>235</u>	<u>232</u>
	<u>12,820</u>	<u>6,812</u>

Refer to note 25 for further information on financial instruments.



# Notes to the financial statements

30 June 2018



## Note 20. Non-current liabilities - borrowings (continued)

### Total secured liabilities

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

	Consolidated	
	2018 \$'000	2017 \$'000
Bank loans	14,021	7,780
Lease liability	414	387
	<u>14,435</u>	<u>8,167</u>

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

### Assets pledged as security

The bank loan is secured over the assets of National Tyre & Wheel Limited and the following subsidiaries - Exclusive Tyre Distributors Pty Ltd, MPC Mags & Tyres Pty Ltd and Dynamic Wheel Co Pty Limited. The bank requires security over the assets of Exclusive Tyre Distributors (NZ) Ltd and Statewide Tyre Distribution Pty Ltd to be provided within 30 days of NTAW's 2018 AGM.

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

### Financing arrangements

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

	Consolidated	
	2018 \$'000	2017 \$'000
Total facilities		
Bank loans	14,021	7,780
Bank guarantee	4,157	-
	<u>18,178</u>	<u>7,780</u>
Used at the reporting date		
Bank loans	14,021	7,780
Bank guarantee	2,466	-
	<u>16,487</u>	<u>7,780</u>
Unused at the reporting date		
Bank loans	-	-
Bank guarantee	1,691	-
	<u>1,691</u>	<u>-</u>

## Note 21. Non-current liabilities - provisions

	Consolidated	
	2018 \$'000	2017 \$'000
Employee benefits	291	276
Warranties	1,009	1,019
	<u>1,300</u>	<u>1,295</u>

# Notes to the financial statements

30 June 2018

## Note 21. Non-current liabilities - provisions (continued)

### Warranties

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

### Movements in provisions

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

<b>Consolidated - 2018</b>	Warranties \$'000
Carrying amount at the start of the year	1,019
Amounts used	(10)
Carrying amount at the end of the year	<u>1,009</u>

## Note 22. Equity - issued capital

	2018 Shares	Consolidated 2017 Shares	2018 \$'000	2017 \$'000
Ordinary shares - fully paid	<u>102,321,143</u>	<u>68,000,002</u>	<u>64,761</u>	<u>18,942</u>

### Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2016	<u>68,000,002</u>		<u>18,942</u>
Balance	30 June 2017	68,000,002		18,942
Consolidation of existing shares (pre-IPO)	21 November 2017	(14,768,755)		-
Split of existing shares (pre-IPO)	21 November 2017	833,495		-
Issue of shares on IPO capital raising	14 December 2017	24,922,767	\$1.00	24,923
Issue of shares on acquisition of business	14 December 2017	14,541,654	\$1.00	14,542
Issue of shares per Employee Option Plan	14 December 2017	7,582,964	\$0.78	5,912
Issue of shares for acquisition of Statewide Tyre Distribution Pty Ltd	31 May 2018	553,279	\$1.22	675
Issue of shares for acquisition of Statewide Tyre Distribution Pty Ltd	18 June 2018	655,737	\$1.22	800
Share issue transaction costs, net of tax				<u>(1,033)</u>
Balance	30 June 2018	<u>102,321,143</u>		<u>64,761</u>

### Ordinary shares

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

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

### Share buy-back

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



## Note 22. Equity - issued capital (continued)

### *Capital risk management*

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

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

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

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

## Note 23. Equity - reserves

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Foreign currency reserve	(215)	231
Share-based payments reserve	-	2,092
Other reserves	-	(356)
	<u>(215)</u>	<u>1,967</u>

### *Foreign currency reserve*

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

### *Share-based payments reserve*

The share-based payments reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration. Share-based payment reserves have been transferred to share capital upon exercising.

### *Other reserves*

The other reserve is used to record transactions with owners in their capacity as owners and transfers to the non-controlling interest. These have been transferred to retained earnings following the 100% acquisition of Dynamic Wheel Co. Pty Ltd during the year.

## Note 24. Equity - dividends

### *Dividends*

Dividends paid during the financial year were as follows:

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Final dividend for the year ended 30 June 2017 (declared and paid prior to the IPO)	15,000	3,804
Interim dividend for the year ended 30 June 2018 of 1.0 cents per ordinary share	1,011	-
Dividends to non-controlling interests	656	457
	<u>16,667</u>	<u>4,261</u>

# Notes to the financial statements

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## Note 24. Equity - dividends (continued)

At the date of signing these financial statements, the Company has declared a fully franked final dividend of 2.3 cents per share with a record date of 13 September 2018 and a payment date of 8 October 2018. The total dividend payable is \$2.35 million. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2018 and will be recognised in subsequent financial reports.

### Franking credits

	Consolidated	
	2018	2017
	\$'000	\$'000
Franking credits available for subsequent financial years based on a tax rate of 30%	6,049	9,453

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

## Note 25. Financial instruments

### Financial risk management objectives

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

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

### Market risk

#### Foreign currency risk

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

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

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

At 30 June 2018, the Group had forward foreign exchange contracts to acquire \$15,355,000 of USD (2017: \$16,725,000). These are due to mature within 3 months of balance date. The fixed exchange rates on these contracts ranged from 0.7335 to 0.8046 (2017: 0.7190 to 0.7664).

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

# Notes to the financial statements

30 June 2018



## Note 25. Financial instruments (continued)

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash	1	218
Trade payables	(29,984)	(22,797)
Buy foreign currency (held for trading)	463	(399)
	<u>(29,520)</u>	<u>(22,978)</u>

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

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

<b>Consolidated - 2017</b>	<b>% change</b>	<b>AUD strengthened</b>		<b>% change</b>	<b>AUD weakened</b>	
		<b>Effect on profit before tax</b>	<b>Effect on equity</b>		<b>Effect on profit before tax</b>	<b>Effect on equity</b>
USD	10%	<u>2,105</u>	<u>1,474</u>	(10%)	<u>(2,573)</u>	<u>(1,801)</u>

The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations. The actual foreign exchange loss for the year ended 30 June 2018 was \$657,000 (2017: loss of \$160,000).

### Price risk

The Group is not exposed to any significant price risk.

### Interest rate risk

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

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

<b>Consolidated</b>	<b>2018</b>	<b>2017</b>
	<b>Balance</b>	<b>Balance</b>
	<b>\$'000</b>	<b>\$'000</b>
Borrowings	14,021	7,180
Net exposure to cash flow interest rate risk	<u>14,021</u>	<u>7,180</u>

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

For the Group the bank loans outstanding, totalling \$14,021,000 (2017: \$7,180,000), are principal and interest payment loans. An official increase/decrease in interest rates of 50 (2017: 50) basis points would have an adverse/favourable effect on profit before tax of \$70,000 (2017: \$39,000) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts forecasts. In addition, minimum principal repayments of \$1,436,000 (2017:\$1,200,000) are due during the subsequent 12 month period.



# Notes to the financial statements

30 June 2018

## Note 25. Financial instruments (continued)

### **Credit risk**

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

### **Liquidity risk**

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

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

### **Financing arrangements**

Unused borrowing facilities at the reporting date:

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Bank guarantee	1,691	-

### **Remaining contractual maturities**

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

<b>Consolidated - 2018</b>	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
<b>Non-derivatives</b>					
<i>Non-interest bearing</i>					
Trade payables	31,096	-	-	-	31,096
Other payables	1,299	-	-	-	1,299
<i>Interest-bearing - variable</i>					
Bank loans	1,436	1,436	11,149	-	14,021
<i>Interest-bearing - fixed rate</i>					
Lease liability	179	235	-	-	414
<b>Total non-derivatives</b>	<b>34,010</b>	<b>1,671</b>	<b>11,149</b>	<b>-</b>	<b>46,830</b>

# Notes to the financial statements

30 June 2018



## Note 25. Financial instruments (continued)

<b>Consolidated - 2017</b>	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
<b>Non-derivatives</b>					
<i>Non-interest bearing</i>					
Trade payables	23,325	-	-	-	23,325
Other payables	244	401	-	-	645
Deferred consideration	300	1,750	-	-	2,050
<i>Interest-bearing - variable</i>					
Bank loans	1,200	1,200	5,380	-	7,780
<i>Interest-bearing - fixed rate</i>					
Lease liability	168	243	-	-	411
Total non-derivatives	<u>25,237</u>	<u>3,594</u>	<u>5,380</u>	<u>-</u>	<u>34,211</u>
<b>Derivatives</b>					
Forward foreign exchange contracts net settled	-	399	-	-	399
Total derivatives	<u>-</u>	<u>399</u>	<u>-</u>	<u>-</u>	<u>399</u>

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

## Note 26. Fair value measurement

### *Fair value hierarchy*

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

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

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

Level 3: Unobservable inputs for the asset or liability

<b>Consolidated - 2018</b>	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Assets</i>				
Forward foreign exchange contracts - derivatives	-	463	-	463
Total assets	<u>-</u>	<u>463</u>	<u>-</u>	<u>463</u>
<b>Consolidated - 2017</b>				
<i>Liabilities</i>				
Forward foreign exchange contracts - derivatives	-	399	-	399
Total liabilities	<u>-</u>	<u>399</u>	<u>-</u>	<u>399</u>

There were no transfers between levels during the financial year.

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

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

# Notes to the financial statements

30 June 2018

## Note 26. Fair value measurement (continued)

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

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

## Note 27. Remuneration of auditors

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

	Consolidated	
	2018	2017
	\$	\$
<i>Audit services - Pitcher Partners</i>		
Audit or review of the Group's annual financial statements	185,000	71,426
Audit or review of the Exclusive Tyre Distributors (NZ) Ltd's annual financial statements	15,000	15,000
	<u>200,000</u>	<u>86,426</u>
<i>Other services - Pitcher Partners</i>		
Investigating Accountant's Report	276,236	-
Transaction services	248,486	25,481
Tax compliance services	113,000	20,040
	<u>637,722</u>	<u>45,521</u>
	<u><u>837,722</u></u>	<u><u>131,947</u></u>

## Note 28. Contingent liabilities

The Group has given bank guarantees as at 30 June 2018 of \$2,466,000 (2017: \$2,366,000) to various landlords.

# Notes to the financial statements

30 June 2018



## Note 29. Commitments

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	3,178	2,650
One to five years	4,196	4,584
	<u>7,374</u>	<u>7,234</u>
<i>Lease commitments - finance</i>		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	194	168
One to five years	253	243
	<u>447</u>	<u>411</u>
Less: Future finance charges	(33)	(24)
	<u>414</u>	<u>387</u>
Net commitment recognised as liabilities	<u>414</u>	<u>387</u>
Representing:		
Lease liability - current (note 16)	179	155
Lease liability - non-current (note 20)	235	232
	<u>414</u>	<u>387</u>

Operating lease commitments includes contracted amounts for various warehouses and offices under non-cancellable operating leases expiring within four years (2017: five years) with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

Finance lease commitments includes contracted amounts for various motor vehicles with a written down value of \$617,000 (2017: \$612,000) under finance leases expiring within one to three years (2017: one to four years). Under the terms of the leases, the Group has the option to acquire the leased assets for predetermined residual values on the expiry of the leases.

## Note 30. Key management personnel disclosures

### *Compensation*

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

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	1,929,696	1,339,871
Post-employment benefits	126,424	-
Long-term benefits	(14,805)	-
Share-based payments	1,609,337	-
	<u>3,650,652</u>	<u>1,339,871</u>

## Note 31. Related party transactions

### *Parent entity*

National Tyre & Wheel Limited is the parent entity.

# Notes to the financial statements

30 June 2018

## Note 31. Related party transactions (continued)

### *Subsidiaries*

Interests in subsidiaries are set out in note 34.

### *Key management personnel*

Disclosures relating to key management personnel are set out in note 30 and the remuneration report included in the directors' report.

### *Transactions with related parties*

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

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

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

### *Loans to/from related parties*

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

### *Terms and conditions*

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

## Note 32. Parent entity information

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

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

	Parent	
	2018 \$'000	2017 \$'000
Loss after income tax	(2,203)	(1,175)
Total comprehensive income	(2,203)	(1,175)

### *Statement of financial position*

	Parent	
	2018 \$'000	2017 \$'000
Total current assets	3,141	1,788
Total assets	62,814	31,713
Total current liabilities	6,960	7,934
Total liabilities	19,567	14,528
Equity		
Issued capital	64,761	18,942
Share-based payments reserve	-	2,092
Accumulated losses	(21,514)	(3,849)
Total equity	43,247	17,185





## Note 32. Parent entity information (continued)

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

The parent entity had a deed of cross guarantee in place in relation to certain subsidiaries at 30 June 2018 and 30 June 2017 (refer to note 35).

### *Contingent liabilities*

The parent entity had no contingent liabilities as at 30 June 2018 and 30 June 2017.

### *Capital commitments - Property, plant and equipment*

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2018 and 30 June 2017.

### *Significant accounting policies*

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

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

## Note 33. Business combinations

### 2018

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

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

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

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

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

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

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

The assets acquired and liabilities assumed in the above business combinations have been accounted for on a provisional basis as at year end.

# Notes to the financial statements

30 June 2018

## Note 33. Business combinations (continued)

Details of the acquisitions are as follows:

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

### Other

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

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

# Notes to the financial statements

30 June 2018



## Note 33. Business combinations (continued)

### 2017

#### *M.P.C Mags and Tyres Pty Ltd*

On 31 March 2017, the Group acquired 50% of the assets and liabilities of M.P.C Mags and Tyres Pty Ltd. This was subsequently increased to 100% with the remaining 50% acquired on 14 December 2017.

The goodwill on acquisition comprises the value of the workforce, future revenues from those customers which are not current and expected and future synergies to be realised as part of the Group. If the acquisition occurred on 1 July 2016, the full year contributions would have been revenues of \$12,001,000 and profit before tax of \$2,204,000. The purchase price allocation for M.P.C Mags and Tyres Pty Ltd has been finalised resulting in a decrease of goodwill of \$86,000.

Goodwill is not deductible for tax purposes.

Details of the acquisition are as follows:

	Fair value \$'000
Cash and cash equivalents	33
Trade receivables	992
Inventories	3,272
Plant and equipment	238
Motor vehicles	48
Brand name	2,393
Customer relationships	2,951
Trade payables	(578)
Other payables	(291)
Deferred tax liability	(1,603)
Provisions	(133)
	<hr/>
Net assets acquired	7,322
Goodwill	2,339
	<hr/>
Acquisition-date fair value of the total consideration transferred	9,661
	<hr/> <hr/>
Representing:	
Cash paid or payable to vendor	3,950
Deferred consideration	2,050
Non-controlling interest	3,661
	<hr/>
	9,661
	<hr/> <hr/>
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	9,661
Less: cash and cash equivalents	(33)
Less: deferred consideration	(2,050)
Less: non-controlling interest	(3,661)
	<hr/>
Net cash used	3,917
	<hr/> <hr/>

# Notes to the financial statements

30 June 2018

## Note 34. Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		2018 %	2017 %
Exclusive Tyres Distributors Pty Ltd	Australia	100.00%	100.00%
Exclusive Tyres Distributors (NZ) Ltd	New Zealand	100.00%	100.00%
Dynamic Wheel Co Pty Ltd	Australia	100.00%	54.40%
M.P.C Mags and Tyres Pty Ltd	Australia	100.00%	50.00%
Top Draw Tyres Proprietary Limited	South Africa	50.00%	-
Statewide Tyre Distribution Pty Ltd	Australia	100.00%	-

## Note 35. Deed of cross guarantee

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

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

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

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

# Notes to the financial statements

30 June 2018



## Note 35. Deed of cross guarantee (continued)

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

	2018 \$'000	2017 \$'000
<b>Statement of profit or loss and other comprehensive income</b>		
Revenue	113,466	106,003
Raw materials and consumables used	(73,151)	(71,802)
Employee benefits expense	(14,079)	(11,791)
Depreciation and amortisation expense	(1,588)	(1,508)
Legal and professional fees	(719)	(235)
Marketing expenses	(4,719)	(4,795)
Occupancy expenses	(3,121)	(3,073)
Insurance costs	(392)	(328)
Listing costs	(2,078)	-
Other expenses	(8,372)	(3,827)
Finance costs	(485)	(461)
	<hr/>	<hr/>
<b>Profit before income tax expense</b>	4,762	8,183
Income tax expense	(1,516)	(2,743)
	<hr/>	<hr/>
<b>Profit after income tax expense</b>	3,246	5,440
<b>Other comprehensive income</b>		
Foreign currency translation	(133)	(2)
	<hr/>	<hr/>
Other comprehensive income for the year, net of tax	(133)	(2)
	<hr/>	<hr/>
<b>Total comprehensive income for the year</b>	<u>3,113</u>	<u>5,438</u>
	<hr/>	<hr/>
<b>Equity - retained profits</b>	<b>2018 \$'000</b>	<b>2017 \$'000</b>
Retained profits at the beginning of the financial year	14,947	13,156
Profit after income tax expense	3,246	5,440
Dividends paid	(16,011)	(3,804)
Transfer from share-based payments reserve	548	155
Transfer from other reserves	(356)	-
	<hr/>	<hr/>
Retained profits at the end of the financial year	<u>2,374</u>	<u>14,947</u>

# Notes to the financial statements

30 June 2018

## Note 35. Deed of cross guarantee (continued)

Statement of financial position	2018 \$'000	2017 \$'000
<b>Current assets</b>		
Cash and cash equivalents	15,896	12,571
Trade and other receivables	20,691	17,682
Inventories	26,710	24,900
Derivative financial instruments	557	-
Other	420	269
	<u>64,274</u>	<u>55,422</u>
<b>Non-current assets</b>		
Receivables	-	80
Other financial assets	33,567	8,832
Property, plant and equipment	2,897	2,549
Intangibles	9,010	6,202
Deferred tax	1,764	858
	<u>47,238</u>	<u>18,521</u>
<b>Total assets</b>	<u>111,512</u>	<u>73,943</u>
<b>Current liabilities</b>		
Trade and other payables	25,755	24,297
Borrowings	1,529	1,277
Income tax	1,289	385
Provisions	1,990	1,678
Other financial liabilities	-	388
Other	-	48
	<u>30,563</u>	<u>28,073</u>
<b>Non-current liabilities</b>		
Payables	-	2,151
Borrowings	12,716	6,646
Provisions	1,230	1,217
	<u>13,946</u>	<u>10,014</u>
<b>Total liabilities</b>	<u>44,509</u>	<u>38,087</u>
<b>Net assets</b>	<u>67,003</u>	<u>35,856</u>
<b>Equity</b>		
Issued capital	64,761	18,942
Reserves	(132)	1,967
Retained profits	2,374	14,947
	<u>67,003</u>	<u>35,856</u>
<b>Total equity</b>	<u>67,003</u>	<u>35,856</u>



# Notes to the financial statements

30 June 2018



## Note 36. Reconciliation of profit after income tax to net cash from operating activities

	Consolidated	
	2018 \$'000	2017 \$'000
Profit after income tax expense for the year	5,355	6,204
Adjustments for:		
Depreciation and amortisation	2,129	1,651
Net loss/(gain) on disposal of property, plant and equipment	2	(36)
Share-based payments	2,657	699
Listing costs recognised in profit after income tax	2,078	-
Profit recognised for equity accounted investments	(132)	-
Amortisation of capitalised borrowing costs	167	143
Bad debts	42	64
Foreign exchange differences	(2,166)	264
Change in operating assets and liabilities:		
Increase in trade and other receivables	(546)	(446)
Increase in inventories	(3,572)	(1,458)
Increase in deferred tax assets	(902)	(64)
Increase in other operating assets	(884)	(106)
Increase/(decrease) in trade and other payables	5,473	(883)
Increase in provision for income tax	141	385
Increase/(decrease) in other provisions	(892)	316
Decrease in other operating liabilities	(48)	(216)
Net cash from operating activities	<u>8,902</u>	<u>6,517</u>

## Note 37. Non-cash investing and financing activities

	Consolidated	
	2018 \$'000	2017 \$'000
Acquisition of plant and equipment by means of finance leases	<u>211</u>	<u>73</u>

# Notes to the financial statements

30 June 2018

## Note 38. Earnings per share

	Consolidated	
	2018	2017
	\$'000	\$'000
Profit after income tax	5,355	6,204
Non-controlling interest	(878)	(674)
Profit after income tax attributable to the owners of National Tyre & Wheel Limited	<u>4,477</u>	<u>5,530</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	85,245,148	68,000,002
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	<u>3,402,889</u>	<u>5,573,529</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>88,648,037</u>	<u>73,573,531</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	5.25	8.13
Diluted earnings per share	5.05	7.52

## Note 39. Share-based payments

Two employee option plans were in existence during the financial year.

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

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

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

This plan has been discontinued following the IPO.

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

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

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

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

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



## Note 39. Share-based payments (continued)

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

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

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

Options may only be transferred:

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

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

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

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

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

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

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

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

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

# Notes to the financial statements

30 June 2018

## Note 39. Share-based payments (continued)

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

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

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

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

2018

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

<sup>1</sup> The Exercise price was adjusted during the financial year as a result of the share consolidation and share split that occurred prior to the IPO.

2017

Grant date	Expiry date	Exercise price	Balance at start of year	Granted	Option split	Forfeited	Exercised	Balance at end of year
01/07/2012	01/07/2022	\$0.0000	1,800,000	-	-	(312,055)	-	1,487,945
01/07/2013	01/07/2022	\$1.0000	1,000,000	-	-	(1,000,000)	-	-
01/07/2014	01/07/2022	\$0.7600	2,060,000	-	-	(2,060,000)	-	-
01/07/2014	01/07/2022	\$0.0000	77,305	-	-	-	-	77,305
01/07/2015	01/07/2022	\$0.6200	90,000	-	-	(90,000)	-	-
01/07/2016	01/07/2022	\$0.5100	-	220,000	-	-	-	220,000
01/07/2016	01/07/2022	\$0.5100	-	2,150,000	-	-	-	2,150,000
01/07/2016	01/07/2022	\$0.0000	-	1,324,339	-	-	-	1,324,339
30/06/2017	01/07/2022	\$0.0000	-	1,000,000	-	-	-	1,000,000
			<u>5,027,305</u>	<u>4,694,339</u>	<u>-</u>	<u>(3,462,055)</u>	<u>-</u>	<u>6,259,589</u>

# Notes to the financial statements

30 June 2018



## Note 39. Share-based payments (continued)

Set out below are the options exercisable at the end of the financial year:

Grant date	Expiry date	2018 Number	2017 Number
01/07/2012	01/07/2022	-	1,487,945
01/07/2014	01/07/2022	-	77,305
01/07/2016	01/07/2022	-	220,000
01/07/2016	01/07/2022	-	2,150,000
01/07/2016	01/07/2022	-	1,324,339
30/06/2017	01/07/2022	-	1,000,000
			6,259,589
		-	6,259,589

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

The weighted average remaining contractual life of options outstanding at the end of the financial year was nil years (2017: 5 years).

### Valuation model inputs

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

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
01/07/2017	01/07/2022	\$0.78	\$0.00	60.00%	-	1.94%	\$0.78
01/07/2017	01/07/2022	\$0.78	\$0.51	60.00%	-	1.94%	\$0.49

### Expenses recognised from share-based payment transactions

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

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Options issued under the NTAW Senior Executive Option plan	2,657	1,044
Options forfeited during the year	-	(745)
Cash payments made / accrued on forfeiture of options	-	400
	2,657	699
Total expense recognised from share-based payment transactions in employee benefits expense	2,657	699

## Note 40. Events after the reporting period

Apart from the dividend declared as disclosed in note 24, no other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

# Directors' Declaration

30 June 2018



In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 35 to the financial statements.

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

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

On behalf of the directors

---

Murray Boyte  
Chairman

29 August 2018  
Brisbane





# PITCHER PARTNERS

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## Independent Auditor's Report

### To the Shareholders of National Tyre & Wheel Limited

#### Report on the Audit of the Financial Report

##### *Opinion*

We have audited the financial report of National Tyre & Wheel Limited and controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- (a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

##### *Basis for Opinion*

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

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

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

##### *Key Audit Matters*

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

Ken Ogden  
Nigel Fischer  
Mark Nicholson

Peter Camenzuli  
Jason Evans  
Ian Jones

Kylie Lamprecht  
Norman Thurecht  
Brett Headrick

Warwick Face  
Nigel Batters  
Cole Wilkinson

Simon Chun  
Jeremy Jones  
Tom Splatt

James Field  
Daniel Colwell

Key audit matter	How our audit addressed the matter
<b>Acquisition of businesses</b> <i>Refer to Note 36: Business Combinations</i>	
<p>During the year, National Tyre &amp; Wheel Limited completed the following acquisitions:</p> <ul style="list-style-type: none"> <li>▪ acquired 100% of the business assets and liabilities of Cotton Tyre Services;</li> <li>▪ acquired a 50% interest in Top Draw Tyres Proprietary Limited; and</li> <li>▪ acquired a 100% interest in Statewide Tyre Distribution Pty Ltd.</li> </ul> <p>Accounting for these transactions is a complex and judgemental exercise, requiring management's use of estimates in determining the fair value of consideration transferred, the fair value of assets and liabilities acquired, and in particular determining the allocation of purchase consideration to the fair value of identifiable intangible assets and goodwill.</p> <p>It is due to the size of the acquisitions and the estimation process involved in accounting for the purchase price allocation that this is a key area of audit focus.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>▪ Obtaining an understanding of the relevant controls associated with identifying and accounting for business acquisitions within the financial statements;</li> <li>▪ Reading the sale and purchase agreements to understand key terms and conditions;</li> <li>▪ Recalculating the purchase consideration for each transaction;</li> <li>▪ Assessing the fair value of tangible assets acquired and liabilities assumed;</li> <li>▪ Evaluating the estimates and methodology in management's calculation of the fair value of the intangible assets acquired, including forecast revenues, EBITDA margin, discount rates and other judgemental inputs;</li> <li>▪ Comparing the valuation estimates with external benchmarks (e.g. discount rates, royalty rates); and</li> <li>▪ Assessing the adequacy of the Group's disclosures in respect of business combinations.</li> </ul>

Key audit matter	How our audit addressed the matter
<b>Impairment of goodwill and separately identifiable intangible assets</b>	
<i>Refer to Note 14: Intangibles</i>	
<p>As part of business combinations completed during the year, the Group has recognised goodwill and other intangible assets valued at \$8,878,000 and \$13,283,000, respectively.</p> <p>These intangible assets relate to the acquisition of various subsidiaries of National Tyre &amp; Wheel Ltd, with these subsidiaries being the basis of management’s determination of Cash-Generating Units (“CGU”) in the Group.</p> <p>The carrying amount of Goodwill and the intangible assets is supported by value-in-use calculations prepared by management which are based on budgeted future cash flows and key estimates such as growth and discount rates.</p> <p>This is a key area of audit focus as the value of the intangible assets is material and the evaluation of the recoverable amount of these assets requires significant judgement in determining the key estimates supporting the expected future cash flows of the CGUs and the utilisation of the relevant assets.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>▪ Assessing management’s determination of the Group’s CGUs based on our understanding of the nature of the Group’s business and the identifiable groups of cash generating assets;</li> <li>▪ Comparing the cash flow forecasts used in the value-in-use calculations to Board approved budgets for the 2019 financial year. We compared the current year’s forecasts to actual results to assess the accuracy of the forecasting process;</li> <li>▪ Assessing the significant judgements and key estimates used for the impairment assessment, in particular, those judgements relating to the discount rate and cash flow forecasts;</li> <li>▪ Checking the mathematical accuracy of the impairment testing model and agreed relevant data to the latest budgets;</li> <li>▪ Performing sensitivity analysis by varying key estimates, including the discount rate and growth rate inputs, for the CGUs to which goodwill relates; and</li> <li>▪ Assessing the adequacy of the Group’s disclosures in respect of impairment testing of goodwill and indefinite useful life intangible assets.</li> </ul>

### *Other Information*

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

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

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

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

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

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

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

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

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

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

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

material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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

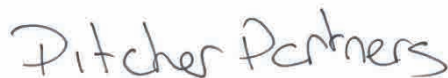
## **Report on the Remuneration Report**

### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 11 to 19 of the directors' report for the year ended 30 June 2018. In our opinion, the Remuneration Report of National Tyre & Wheel Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

### *Responsibilities*

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



PITCHER PARTNERS



NIGEL BATTERS

Partner

Brisbane, Queensland

29 August 2018

# Shareholder information

30 June 2018

The shareholder information set out below was applicable as at 17 August 2018.

## Distribution of equitable securities

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

	Number of holders of ordinary shares
1 to 1,000	31
1,001 to 5,000	345
5,001 to 10,000	415
10,001 to 100,000	454
100,001 and over	36
	<hr/>
	1,281
	<hr/> <hr/>
Holding less than a marketable parcel	13
	<hr/> <hr/>

## Equity security holders

### *Twenty largest quoted equity security holders*

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

	Ordinary shares % of total shares issued	
	Number held	%
ST Corso Pty Ltd	27,032,371	26.42
HSBC Custody Nominees (Australia) Limited	14,514,583	14.19
J P Morgan Nominees Australia Limited	8,347,570	8.16
National Nominees Limited	6,122,816	5.98
Citicorp Nominees Pty Limited	5,873,439	5.74
Roshan Charles Chelvaratnam	3,929,250	3.84
BNP Paribas Noms Pty Ltd (DRP)	3,353,324	3.28
Mr John Peter Ludemann	2,589,928	2.53
S.N. Tyre Wholesalers Pty Ltd	2,487,440	2.43
Mrs Christine Lorraine Hummer	2,097,857	2.05
BNP Paribas Noms (NZ) Ltd (DRP)	1,374,368	1.34
Mr Christopher John Hummer	1,048,929	1.03
Mr Christopher John Hummer	1,048,928	1.03
Trevor John Wren	655,737	0.64
John William Weeks	553,279	0.54
CS Fourth Nominees Pty Limited (HSBC Cust Nom AU Ltd 11 A/C)	477,192	0.47
Mr Bradley Joseph Smith	387,484	0.38
Dr David John Ritchie + Dr Gillian Joan Ritchie (D J Ritchie Super Fund A/C)	334,432	0.33
Mrs Tracey Lee Cunningham (The Avebury Family A/C)	330,345	0.32
BNP Paribas Nominees Pty Ltd (Agency Lending DRP A/C)	323,204	0.32
	<hr/>	
	82,882,476	81.02
	<hr/> <hr/>	

### *Unquoted equity securities*

There are no unquoted equity securities.



# Shareholder information

30 June 2018



## Substantial holders

Substantial holders in the Company are set out below:

	<b>Number held</b>	<b>Ordinary shares % of total shares issued</b>
National Tyre & Wheel Limited and its subsidiaries	40,609,068	39.69
ST Corso Pty Ltd atf the Smith Trading Trust, Terence Smith & Susanne Smith (together Smith Group)	40,609,068	39.69
Perpetual Limited and its related bodies corporate	5,636,909	5.51

## Voting rights

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

### *Ordinary shares*

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

There are no other classes of equity securities.

## Securities subject to voluntary escrow

<b>Class</b>	<b>Expiry date</b>	<b>Number of shares</b>
Ordinary shares	Earlier of five business days after the Company releases to the ASX its interim results for the half-year ended 31 December 2018 and 22 April 2019	35,696,057
Ordinary shares	31 May 2019	218,579
Ordinary shares	Earlier of five business days after the Company releases to the ASX its final results for the year ended 30 June 2019 and 7 November 2019	4,257,274
Ordinary shares	31 May 2020	218,579
Ordinary shares	31 May 2021	218,579
		<u>40,609,068</u>

# Corporate directory

30 June 2018



Directors	Murray Boyte - Chairman John Peter Ludemann - Chief Executive Officer and Managing Director Terence Smith William Cook Robert Kent
Company secretaries	Jason Lamb Laura Fanning
Registered office and principal place of business	30 Gow Street Moorooka QLD 4105 Telephone: (07) 3255 6595
Share register	Computershare Investor Services Pty Limited Level 4 60 Carrington Street Sydney NSW 2000 Telephone: 1300 787 272
Auditor	Pitcher Partners Level 38 345 Queen Street Brisbane QLD 4000
Solicitors	Dentons 77 Castlereagh Street Sydney NSW 2000
Bankers	Commonwealth Bank of Australia Ground Floor Tower 1 201 Sussex Street Sydney NSW 2000
Stock exchange listing	National Tyre & Wheel Limited shares are listed on the Australian Securities Exchange (ASX code: NTD)
Website	<a href="http://www.ntaw.com.au">www.ntaw.com.au</a>
Business objectives	National Tyre & Wheel Limited has used cash and cash equivalents held at the time of listing, in a way consistent with its stated business objectives.
Corporate Governance Statement	<p>The Company's directors and management are committed to conducting the Group's business in an ethical manner and in accordance with the highest standards of corporate governance. The Company has adopted and substantially complies with the ASX Corporate Governance Principles and Recommendations (3rd Edition) ('Recommendations') to the extent appropriate to the size and nature of the Group's operations.</p> <p>The Company has prepared a Corporate Governance Statement which sets out the corporate governance practices that were in operation since listing, identifies any Recommendations that have not been followed, and provides reasons for not following such Recommendations.</p> <p>The Company's Corporate Governance Statement and policies, which is approved at the same time as the Annual Report, can be found on its website: <a href="http://www.ntaw.com.au/Corporate-Governance/Corporate-Governance-Statement.pdf">http://www.ntaw.com.au/Corporate-Governance/Corporate-Governance-Statement.pdf</a></p>







