

National Tyre & Wheel Limited and its controlled entities

Appendix 4E

Preliminary final report



1. Company details

| | |
|-------------------|---------------------------------|
| Name of entity: | National Tyre & Wheel Limited |
| ABN: | 97 095 843 020 |
| Reporting period: | For the year ended 30 June 2020 |
| Previous period: | For the year ended 30 June 2019 |

2. Results for announcement to the market

| | 30 Jun 2020 \$'000 | 30 Jun 2019 \$'000 | Change % |
|--|-----------------------|-----------------------|---------------------|
| Revenues from ordinary activities | 158,857 | 168,365 | (5.6%) |
| Net profit from ordinary activities attributable to shareholders | 4,551 | 6,391 | (28.8%) |
| | <i>Cents</i> | <i>Cents</i> | <i>Change %</i> |
| Basic earnings per share | 4.42 | 6.22 | (28.9%) |
| Diluted earnings per share | 4.36 | 6.22 | (29.9%) |
| <i>Dividends</i> | <i>Cents</i> | <i>Cents</i> | <i>Change %</i> |
| Interim dividend - fully franked | 1.25 | 1.25 | 0.0% |
| Final dividend - fully franked | - | 2.05 | (100.0%) |
| Special dividend - fully franked | - | 1.50 | (100.0%) |
| | <u>1.25</u> | <u>4.80</u> | <u>(74.0%)</u> |

A final dividend has not been declared for FY2020 due to the Tyres4U acquisition subsequent to balance date and further working capital investment.

Comments

An explanation of the above figures is contained within the 'Review of operations' section of the Directors' Report, which is part of the attached Annual Report.

3. Net tangible assets

| | Reporting Period Cents | Prior Period Cents |
|--|---------------------------|-----------------------|
| Net tangible assets ¹ per ordinary security | <u>49.77</u> | <u>49.01</u> |

¹ Net tangible assets includes the right-of-use assets and lease liabilities required to be accounted for in adopting AASB 16 Leases.

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Refer to note 22 in the attached Annual Report.

7. Dividend reinvestment plans

The dividend reinvestment plan ('DRP') dated 6 November 2017 has been suspended.

8. Details of associates and joint venture entities

Not applicable.

9. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements have been audited and an unqualified opinion has been issued.

10. Attachments

Details of attachments (if any):

The Annual Report of National Tyre & Wheel Limited for the year ended 30 June 2020 is attached.

11. Signed

Signed  _____

Murray Boyte
Chairman

Date: 25 August 2020



National Tyre & Wheel Limited and its controlled entities

ABN 97 095 843 020

Annual Report - 30 June 2020

National Tyre & Wheel Limited and its controlled entities

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National Tyre & Wheel Limited and its controlled entities
Directors' report
30 June 2020



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', 'NTD' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2020.

Directors

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

| | |
|----------------|---|
| Murray Boyte | Non-Executive Chairman |
| Peter Ludemann | Chief Executive Officer and Managing Director |
| Terry Smith | Executive Director |
| Bill Cook | Non-Executive Director |
| Robert Kent | Non-Executive Director |

Principal activities

The principal activity of the Group during the financial year ended 30 June 2020 was the distribution and marketing of motor vehicle tyres, wheels, tubes and related products throughout Australia, New Zealand and South Africa.

NTAW is the holding company for the following operating subsidiaries:

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

Subsequent to year end, two new wholly owned subsidiaries were incorporated, being Tyres4U Pty Ltd and Tyres4U (NZ) Limited. Further disclosure related to these subsidiaries are made later in the Directors' report.

There have been no significant changes in the nature of the Group's activities during this period.

Dividends

Dividends paid during the financial year were as follows:

| | Consolidated | |
|------------------|---------------------|---------------|
| | 2020 | 2019 |
| | \$'000 | \$'000 |
| Final dividend | 2,573 | 2,353 |
| Special dividend | 1,080 | - |
| Interim dividend | 1,286 | 1,283 |
| | 4,939 | 3,636 |

A final dividend has not been declared for FY2020 due to the Tyres4U acquisition subsequent to balance date disclosed below and further working capital investment.

Operating and financial review

Review of operations

The Group has reported a strong result, particularly in the context of extraordinary business interruptions and adverse trading environments arising from the COVID-19 pandemic. The result is underpinned by the diversity of the Group's businesses, which has meant strength in some regions and segments has offset the impact of external difficulties encountered in others.

During the year, the Group achieved the following key strategic objectives:

- expanded the Statewide business into Western Australia, via the acquisition of the net working capital assets of Industrial Tyre Services Pty Limited;
- continued rolling out the Blacklion range of budget tyres in Australia, including the establishment of a new Statewide branch covering the Eastern states;
- shifted the manufacture of some key products to Asia, reducing import prices to enhance the competitiveness of the relevant products;
- expanded the online e-commerce offering in South Africa including new agreements with tyre retailers to provide fulfilment services;
- introduced structural and tactical changes to sales teams and processes, rolling out new customer care initiatives and consolidating sales management in fewer people; and
- reduced overheads and increased efficiencies throughout the Group, saving \$4.1m during the year (excluding the impact from the adoption of AASB 16 *Leases*).

Prior to the COVID-19 pandemic, sales of wheels and budget tyres in Australia grew strongly, to some extent offsetting declining sales of premium SUV and passenger products due to generally negative consumer sentiment, many regional economies operating in drought and continued discounting by competitors. Key suppliers to the Group in the premium category remained unwilling to match offers made by competitors.

Price rises within the Group in Australia in July 2019 had a negative impact on sales volume, leading to the reversal of some increases. Volumes were recovering before the pandemic in some categories but at a lower gross margin. Sales of premium SUV and passenger tyres did not recover as this category proved to be particularly difficult.

Performance in New Zealand before the pandemic was exceeding expectations with growth in passenger/SUV tyre sales, particularly in Auckland. In South Africa, sales remained sluggish along with a generally poor economic outlook and the continuing effects of changes to the product assortment sold there.

The pandemic caused lock downs in New Zealand and South Africa as well as substantial trading restrictions in Australia. Sales lost in most businesses in April and May resulted in less activity as well as lower product purchases and reduced expenses. Uncertainties that emerged then remain today with supply chains disrupted and consumer demand remaining unpredictable.

Financial assistance from Governments in NZ and Australia allowed Group businesses in those countries to retain people and maintain service levels. But for that assistance, the relevant businesses would have reduced costs further than they did.

It is apparent that the tyre and wheel industry can recover quickly from trading restrictions, offering evidence that the industry is essential and resilient. This resilience was more obvious in the budget product segments. The Group performed strongly in Australia and New Zealand in May and June, with solid turnover producing high net profit margins due to lower overheads.

Results highlights

NTAW has reported total revenue of \$158.9m (2019: \$168.4m) for the financial year, a decrease of \$9.5m (5.6%) on the prior year resulting from the COVID-19 global pandemic and subsequent government imposed trading restrictions, continued price competition and a tightening retail environment for premium products.

The Board has considered the appropriateness of the carrying value of assets attributed to the TyreLife Solutions (a 50% owned subsidiary in South Africa) cash-generating unit. Those assets include intangible assets (goodwill, customer relationships and importation rights) with a value of \$2.2m. Given the uncertainties associated with future earnings from TLS in the prevailing circumstances, and having regard to issues that had emerged prior to the pandemic, the Board considers the intangible assets to be impaired and has recorded an impairment expense of \$2.2m in FY2020 (2019: \$Nil). This expense does not impact on the underlying operating profit of the Group.

NTAW's statutory profit for the Group after providing for impairment charges, income tax and non-controlling interest amounted to \$4.2m (2019: \$6.4m).

NTAW has a strong balance sheet with net assets of \$68.8m (2019: \$70.7m). Total equity to total assets is 55.0% (2019: 59.8%) and net cash increasing significantly to \$13.6m from \$6.5m in 2019 as a result of inventory management, lower product purchases and reduced expenses during the second half of the year.

Key operating metrics

| | FY2020 | FY2019 |
|---------------------------------------|---------------|---------------|
| Gross profit margin | 26.0% | 28.7% |
| Operating costs as % of total revenue | 16.9% | 21.1% |
| Reported EBITDA ¹ margin | 7.7% | 7.6% |
| Operating EBITDA ² margin | 7.4% | 7.6% |

1 EBITDA means earnings before interest, tax, depreciation and amortisation.

2 Refer to reconciliation between Reported EBITDA and Operating EBITDA below.

NTAW has reported a gross profit margin of 26.0% and an Operating EBITDA margin of 7.4%, with gross profit margin and Operating EBITDA margin being less than that achieved in the prior year. In addition to the COVID-19 impact on our businesses, the decreased gross profit margin in the year was derived from higher than expected USD imported prices and less favourable than expected exchange rates between the AUD and USD, although this did start to improve at the end of the financial year. The Group's operating costs as a percentage of sales of 16.9% was significantly lower than prior year (21.1%) due to a reduction in employment expenses, more targeted advertising and promotion activities (collectively \$4.1m less than the prior period) and the impact on classification of expenditure due to the adoption of AASB 16 *Leases* (amounting to a reduction in occupancy costs of \$3.1m).

Key financial results

| \$'000 | FY2020 | FY2019 |
|---|---------------|---------------|
| Sales revenue ¹ | 158,857 | 168,365 |
| Gross profit | 41,263 | 48,305 |
| Reported EBITDA | 12,184 | 12,824 |
| Operating EBITDA | 11,786 | 12,728 |
| NPATA attributable to NTAW ² | 5,665 | 7,968 |

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

2 NPATA excludes non-controlling interest and amortisation on a tax effected basis.

Operating EBITDA

The Group has reported an EBITDA of \$12.2m (2019: \$12.8m). The result for FY2020 includes an impairment charge of \$2.2m and unrealised foreign exchange loss on foreign exchange contracts and foreign currency denominated suppliers of \$0.5m (2019: loss of \$0.1m).

AASB 16 *Leases* was adopted for the first time in this reporting period, resulting in \$3.1m of lease expenses (i.e. rent within occupancy costs) being classified "below" EBITDA, largely as depreciation (of the right-of-use assets recognised on the Statement of financial position). Therefore, EBITDA reported in the current period excludes costs which were included in the EBITDA of prior reporting periods as these have not been restated to reflect the application of AASB 16.

After taking into account the above items, an Operating EBITDA of \$11.8m was earned in FY2020 (FY2019: \$12.7m) as shown in the following table:

| \$'000 | FY2020 | FY2019 |
|---|---------------|---------------|
| Net profit after tax | 4,228 | 6,677 |
| Depreciation and amortisation | 5,121 | 2,628 |
| Finance costs (net) | 828 | 544 |
| Income tax expense | 2,007 | 2,975 |
| Reported EBITDA | 12,184 | 12,824 |
| Impact on Occupancy costs due to adopting AASB 16 | (3,082) | - |
| Impairment charges on intangible assets related to South African subsidiary | 2,210 | - |
| Unrealised foreign exchange losses | 474 | (96) |
| Operating EBITDA | 11,786 | 12,728 |

Financial Position

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

| | 30 June 2020 | 30 June 2019 |
|--------------------------------|--------------|--------------|
| Total assets (\$'000) | 123,431 | 118,204 |
| Net assets (\$'000) | 68,845 | 70,743 |
| Net cash/(debt) (\$'000) | 13,636 | 6,494 |
| Shares on issue ('000) | 102,891 | 102,891 |
| Dividends per security (cents) | 1.25 | 4.80 |

Significant balance movements during the financial year were as follows:

- Net cash has increased \$7.1m with cash and cash equivalents of \$25.9m at 30 June 2020.
- Right-of-use assets and lease liabilities have been recognised at 1 July 2019 resulting in a net impact on net assets of \$0.7m at 30 June 2020.
- A final dividend has not been declared for FY2020 due to the Tyres4U acquisition subsequent to balance date disclosed below and further working capital investment. The prior year included a special dividend payment of 1.5 cents per share.

Outlook

On 4 August 2020, NTAW completed the purchase of the net working capital assets of Tyres4U (acquiring assets and assuming liabilities). This transaction increased the scale and diversity of the Group's operations with NTAW and Tyres4U combining for sales of more than 2.5m units and \$450m of revenue in FY2020.

In particular, the transaction means the Group is more interested in the outlook for commercial products and services in the truck & bus, agricultural, off the road and industrial segments as well as the consumer markets (passenger, SUV and 4WD) in which it has traditionally operated. The Group's outlook will also be affected by the extent to which various businesses are integrated and any synergies are captured.

NTAW intends to continue operating Tyres4U as a separate business in the same way that other businesses in the Group operate independently from each other. This approach has been successful because the preservation of business models and cultures in the operating entities has appealed to all stakeholders.

The Tyres4U acquisition was based on acquiring net working capital assets for a price that corresponded to their book value. A review of the Tyres4U business is being conducted to settle upon a strategy to utilise those assets more profitably. The outlook for future Tyres4U earnings will be determined in September after that review has been completed.

The overall outlook for the Group remains difficult to predict. General macro indicators are negative with all relevant countries experiencing economic contractions larger than any encountered since the Great Depression. Unemployment is expected to remain historically high leading to weak consumer sentiment and demand. The pandemic remains out of control with global cases and deaths continuing to rise. Most countries, including those particularly relevant to the Group, look set to regularly relax and reinstate trading restrictions until a vaccine is found or some other solution emerges.

On the other hand, the Group stands to benefit from other forces at play. Many regional areas of Australia have received drought breaking rains, increasing demand for truck and agricultural tyres. Truck movements have not been adversely affected by trading restrictions and the movement of goods has generally been exempt from those restrictions, maintaining tyre demand in this segment. Lower use of public transport and having to holiday in Australia might, subject to the impact of border closures, increase tyre wear rates due to more domestic travel. Fewer options for discretionary spending (travel, accommodation, entertainment etc.) might increase spending on necessities like tyres and wheels. More consumers may see the purchase of tyres and wheels as an accessory, putting them in the frame to purchase premium products.

On balance, the Group expects existing operations (i.e. Group businesses excluding Tyres4U) in FY2021 to perform in line with FY2020 with the benefits of various strategic initiatives (near source manufacture, budget tyre expansion, wheel product growth and operational efficiencies) being potentially offset by potential trading restrictions imposed by governments to manage the pandemic. Expectations for Tyres4U will be determined in September after the completion of a strategic review of that business.

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

On 4 August 2020, the Group completed the transformative acquisition of the business assets and operations of Tyres4U in Australia and New Zealand. Consideration totalled \$48.7m which was paid in cash and NTD shares. To assist with the acquisition, NTD renegotiated its debt facilities with Commonwealth Bank of Australia which has increased the total debt facility to \$68.5m. A total of 11.3m shares were issued (bringing the total number of ordinary shares to 114.2m) using NTD's available capacity under ASX Listing Rule 7.1 and are subject to voluntary escrow of 18 months from the date of issue.

No other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments and expected results of operations

The Group will continue to pursue growth in revenue in the next financial year as it seeks to continue its recovery and adapt to the changing market in light of the COVID-19 pandemic. Additionally the integration of the Tyres4U businesses into the Group and realising revenue and cost synergies will be a key focus for the Group in the 2021 financial year and beyond.

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 party to a long-term formal distribution and licence agreement with Cooper Tires for the supply of many premium 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 Tires to access the brand. The Group proactively engages in maximising its key relationships to mitigate such risks. The Tyres4U acquisition introduces the Group to many new suppliers, significantly reducing the risk of supplier dependency.

- **Foreign exchange risk** – a significant proportion of the Group's costs and expenses are transacted in foreign currencies. Adverse movements between the Australian Dollar, New Zealand Dollar and South African Rand against the US Dollar may increase the price at which the Group acquires its trading stock and result in volatility in profitability to the extent that the Group may or may not be able to pass on price changes to its customers (after allowing for the impact inventory cycles have on the time it takes for exchange rate movements to impact on cost of goods sold and the behaviour of competitors). The Group 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 in recent years including the Tyres4U acquisition after the balance date. 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. Although this risk has been further reduced as a consequence of the Tyres4U acquisition, the Group proactively manages its customer relationships and has established value adding customer loyalty programs.
- **Risk of competition** – the tyre and wheel wholesale market is highly competitive. Competition is based on factors including price, service, quality, performance standards, range and the ability to provide customers with an appropriate range of quality products in a timely manner. A failure by the Group to effectively compete with its competitors may adversely affect the Group's future financial performance and position.
- **COVID-19 pandemic** – the Group is subject to the current and potential economic impacts due to the COVID-19 pandemic and government imposed responses (e.g. mandatory trading shutdowns). Management is monitoring operating activities to ensure that the appropriate level of working capital (including cash) is maintained to meet customer demands. The Group continues to enforce the safe working practices implemented during the year to mitigate risks to employees and other stakeholders.

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

National Tyre & Wheel Limited and its controlled entities

Directors' report

30 June 2020



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: Mr Ludemann joined the Group as a director in 2012 and became 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, TLS and Tyres4U after the balance date. Mr Ludemann has been responsible for the execution of a succession plan for NTAW founders that has included the distribution of retained earnings, the creation of a public company corporate structure, the IPO and listing of NTAW as well as generational change within the Group.

Other current directorships: Nil
Former directorships (last 3 years): Nil
Special responsibilities: Nil
Interests in shares: 2,759,928 ordinary shares
Interests in options: 180,000 options

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

Other current directorships: Nil
Former directorships (last 3 years): Nil
Special responsibilities: Member of Remuneration and Nominations Committee
Interests in shares: 27,255,297 ordinary shares
Interests in options: Nil

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

Other current directorships: Nil
Former directorships (last 3 years): Nil
Special responsibilities: Chair of Audit and Risk Committee; Member of Remuneration and Nominations Committee
Interests in shares: 403,132 ordinary shares
Interests in options: Nil

National Tyre & Wheel Limited and its controlled entities

Directors' report

30 June 2020



| | |
|--------------------------------------|--|
| Name: | Robert Kent |
| Title: | Independent, Non-Executive Director |
| Qualifications: | Bachelor of Business degree (Marketing) from the Queensland University of Technology and is a Graduate of the Australian Institute of Company Directors. |
| Experience and expertise: | Mr Kent was the Managing Director of Publicis Mojo (Queensland), part of a global advertising firm, from 2000 to 2017. He was also a member of the Publicis National Board of Management. Rob is an experienced marketing executive who has managed many campaigns involving sales, promotion and brand building. He was also Managing Director of Personalised Plates Queensland from 2013 to 2017. |
| Other current directorships: | Nil |
| Former directorships (last 3 years): | Nil |
| Special responsibilities: | Chair of Remuneration and Nominations Committee; Member of Audit and Risk Committee |
| Interests in shares: | 204,901 ordinary shares |
| Interests in options: | Nil |

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

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

Company secretaries

Jason Lamb

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

Laura Fanning

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

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 2020, and the number of meetings attended by each director were:

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

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

* Attended by invitation only

Remuneration Report (audited)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Remuneration report (audited) (continued)

Non-executive directors' remuneration

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

Under NTAW's constitution, the directors decide the total amount paid to all directors as remuneration for their services. However, under the ASX listing rules, the aggregate non-executive directors' remuneration (i.e. 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. An additional fee of \$10,000 per annum has been paid to the chairman of each Board committee. Directors may also be reimbursed for all travelling and other expenses incurred in connection with their Company duties. Total annual fees payable to non-executive directors for FY2020 is \$250,000 (FY2019: \$250,000).

Executive director remuneration

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

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 framework includes the following components:

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

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

2020 STI Program

During FY2020, senior executives' entitlement to an STI was based on achievement of agreed performance objectives including:

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

Remuneration report (audited) (continued)

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

The Board applies the following general principles when determining and measuring performance targets and any STI incentive:

| | |
|-------------|--|
| STI Pool | The size of the STI pool is determined by the Board, upon advice from the Remuneration and Nominations Committee, having regard to individual employment contracts. In consultation with the Remuneration and Nominations Committee, the Board assesses the Group's financial performance and the performance of key management personnel against agreed performance objectives. |
| Structure | The STI available is split between the achievement of financial gateway hurdles (at a group and/or individual operating entity level) and non-financial KPIs. The proportion of the STI between financial and non-financial varies between key management personnel. The financial gateway hurdles are based on Operating EBITDA which the Board believes is an acceptable proxy for overall operating performance. Operating EBITDA is calculated by adjusting Reported EBITDA for the impact of the adoption of AASB 16 <i>Leases</i> and non-operational related items, which included impairment charges and unrealised foreign exchange gains/losses for FY2020. |
| Achievement | The achievement of financial and non-financial KPIs vary between key management personnel. The Board retains discretion in relation to the impact that non-recurring or unusual items may have on achievement of the STIs. |

The actual amount received by key management personnel, as a result of achieving the pre-determined financial hurdles and non-financial KPIs, are listed in the remuneration tables below.

2020 LTI Program

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

During FY2020, 1,845,000 options were granted to senior executives, including 960,000 issued to certain key management personnel, pursuant to the ESOP on the specific key terms:

- The Vesting Date of the options is 30 September 2022, subject to meeting the Performance Conditions.
- The Performance Period for the Performance Conditions is the period from the Grant Date until the Vesting Date (inclusive of each of those dates).
- The performance conditions were as follows:

1) Earnings per share ("EPS") condition – the Company's EPS for the year ended 30 June 2021 was to be at least 10% higher than its EPS for the year ended 30 June 2019.

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

The Board determined that the FY2019 base EPS for the Options would be 7.74 cents per share. This was based upon the Company's 2019 NPATA attributable to NTAW shareholders. The target EPS for the 2021 financial year (based upon the Company's NPATA attributable to NTAW shareholders) is 8.51 cents per share.

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

- The Expiry Date of the options was 30 September 2024 which is two years after the Vesting Date, if not lapsed earlier.
- If the Performance Conditions are not met before the end of the Performance Period, the options will lapse.

Remuneration report (audited) (continued)

It is the Board's intention to grant options to senior executives for the FY2021 LTI. The specific terms of the grant are expected to be finalised in September 2020, and, in the case of the Managing Director, will be subject to shareholder approval.

(b) Details of remuneration

The key management personnel of the Group in FY2020 consisted of the following directors of National Tyre & Wheel Limited:

- Murray Boyte – Chairman
- Peter Ludemann - Chief Executive Officer and Managing Director
- Terry Smith - Executive Director
- Bill Cook – Non-Executive Director
- Robert Kent – Non-Executive Director

And the following persons:

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

Amounts of remuneration

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

| | <i>Short-term benefits</i> | | | <i>Post-employment benefits</i> | <i>Long-term benefits</i> | <i>Share-based payments</i> | <i>Total</i> |
|--|---|-------------------|---------------------|---------------------------------|---------------------------|-----------------------------|------------------|
| | <i>Cash salary and fees¹</i> | <i>Cash Bonus</i> | <i>Non-monetary</i> | <i>Super-annuation</i> | <i>Long service leave</i> | <i>Equity-settled</i> | |
| 2020 | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| <i>Non-Executive Directors:</i> | | | | | | | |
| M Boyte | 82,192 | - | - | 7,808 | - | - | 90,000 |
| W Cook | 73,093 | - | - | 6,944 | - | - | 80,037 |
| R Kent | 56,350 | - | - | 23,650 | - | - | 80,000 |
| <i>Executive Directors:</i> | | | | | | | |
| T Smith | 86,227 | - | - | 8,192 | - | - | 94,419 |
| P Ludemann | 507,181 | 126,415 | - | 25,000 | 15,283 | 5,603 | 679,482 |
| <i>Other Key Management Personnel:</i> | | | | | | | |
| J Lamb | 277,710 | 86,426 | - | 25,000 | 5,367 | 4,980 | 399,483 |
| C Skead ² | 275,631 | 8,213 | - | 24,982 | 1,402 | 4,825 | 315,053 |
| C Hummer | 186,126 | 63,694 | - | 21,830 | 4,446 | 4,825 | 280,921 |
| G Schramm | 326,887 | - | - | - | - | - | 326,887 |
| T Wren ³ | 215,420 | 53,438 | 11,575 | 22,094 | 47,000 | 4,825 | 354,352 |
| R Chelvaratnam | 174,880 | 3,960 | - | 16,461 | 3,317 | 4,825 | 203,443 |
| | 2,261,697 | 342,146 | 11,575 | 181,961 | 76,815 | 29,883 | 2,904,077 |

1 Including movement in annual leave provisions.

2 Classified as key management personnel from 1 July 2019.

3 Cash bonus includes a discretionary bonus of \$50,000 resulting from specific business unit achievements which were accrued in FY2020.

Remuneration report (audited) (continued)

| | Short-term benefits | | | Non-monetary | Post-employment benefits | Long-term benefits | Share-based payments | Total |
|--|-----------------------------------|--------------------------------|--------------------------------|---------------|--------------------------|--------------------|----------------------|------------------|
| | Cash salary and fees ³ | Cash bonus FY2019 ² | Cash bonus FY2018 ¹ | | Super-annuation | Long service leave | Equity-settled | |
| 2019 | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| <i>Non-Executive Directors:</i> | | | | | | | | |
| M Boyte | 82,192 | - | - | - | 7,808 | - | - | 90,000 |
| W Cook | 73,060 | - | - | - | 6,940 | - | - | 80,000 |
| R Kent | 55,000 | - | - | - | 25,000 | - | - | 80,000 |
| <i>Executive Directors:</i> | | | | | | | | |
| T Smith | 83,014 | - | - | - | 8,192 | - | - | 91,206 |
| P Ludemann | 464,215 | - | 138,806 | 7,059 | 25,000 | 16,522 | - | 651,602 |
| <i>Other Key Management Personnel:</i> | | | | | | | | |
| J Lamb | 278,627 | - | 65,506 | - | 25,000 | 13,673 | - | 382,806 |
| C Hummer | 151,502 | - | - | - | 15,502 | 10,614 | - | 177,618 |
| G Schramm | 364,054 | 20,488 | - | 20,119 | - | - | - | 404,661 |
| T Wren | 165,312 | 20,000 | - | - | 16,594 | 16,755 | - | 218,661 |
| R Chelvaratnam | 157,944 | - | - | - | 16,461 | 3,998 | - | 178,403 |
| | 1,874,920 | 40,488 | 204,312 | 27,178 | 146,497 | 61,562 | - | 2,354,957 |

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

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

3 Including movement in annual leave provisions.

The relative proportion of the total remuneration opportunity of key management personnel of the Group is as follows:

| Name | Fixed remuneration | | At risk - STI | | At risk - LTI | |
|--|--------------------|------|---------------|------|---------------|------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| <i>Non-Executive Directors:</i> | | | | | | |
| M Boyte | 100% | 100% | - | - | - | - |
| W Cook | 100% | 100% | - | - | - | - |
| R Kent | 100% | 100% | - | - | - | - |
| <i>Executive Directors:</i> | | | | | | |
| T Smith | 100% | 100% | - | - | - | - |
| P Ludemann | 67% | 77% | 30% | 23% | 3% | - |
| <i>Other Key Management Personnel:</i> | | | | | | |
| J Lamb | 65% | 80% | 30% | 20% | 5% | - |
| C Skead | 66% | - | 29% | - | 5% | - |
| C Hummer | 66% | 80% | 27% | 20% | 7% | - |
| G Schramm | 100% | 100% | - | - | - | - |
| T Wren | 66% | 87% | 26% | 13% | 8% | - |
| R Chelvaratnam | 67% | 82% | 25% | 18% | 8% | - |

Remuneration report (audited) (continued)

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

| Name | Cash bonus paid/payable | | Cash bonus forfeited ¹ | |
|--|-------------------------|------|-----------------------------------|------|
| | 2020 | 2019 | 2020 | 2019 |
| <i>Executive Directors:</i> | | | | |
| P Ludemann | 56% | - | 44% | 100% |
| <i>Other Key Management Personnel:</i> | | | | |
| J Lamb | 63% | - | 37% | 100% |
| C Skead | 6% | - | 94% | - |
| C Hummer | 83% | - | 17% | 100% |
| G Schramm | - | 100% | 100% | - |
| T Wren | 78% | 78% | 22% | 22% |
| R Chelvaratnam | 6% | - | 94% | 100% |

1 Forfeited cash bonuses are not accrued in the relevant year's result.

(c) Relationship between remuneration and Company performance

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

| Metric | FY2020 | FY2019 | FY2018 |
|---|-----------|-----------|-----------|
| Sales revenue (\$'000) | 158,857 | 168,365 | 153,402 |
| Net profit after tax attributable to shareholders (\$'000) ¹ | 4,551 | 6,391 | 9,314 |
| Operating EBITDA (\$'000) | 11,786 | 12,728 | 12,016 |
| Share price at end of year (cents) | 38 | 37 | 123 |
| Basic earnings per share (cents) | 4.12 | 6.22 | 5.25 |
| Dividends paid (cents per share) | 1.25 | 4.80 | 3.30 |
| Key management personnel remuneration (\$) | 2,904,077 | 2,354,957 | 3,650,352 |

1 FY2018 is the pro-forma net profit after tax attributable to shareholders as disclosed in the 2018 financial report.

(d) Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements with no fixed tenure requirements. Details of these agreements for the FY2020 year are as follows:

| | |
|----------|--|
| Name: | Peter Ludemann |
| Title: | Chief Executive Officer and Managing Director |
| Details: | Mr Ludemann has an annual total fixed remuneration (TFR) of \$503,700 consisting of base salary, superannuation and other benefits. Under the terms of his employment contract, he is eligible to receive short term incentives (STI) with a maximum opportunity of 45% of TFR per annum (at maximum performance levels). The STI will be in the form of an annual cash bonus, subject to the achievement of key performance indicators as determined by the Board. Subject to shareholder approval, Mr Ludemann will also be awarded long term incentives (LTI) under NTAW's Employee Share Option Plan. He has statutory leave entitlements and is entitled to 5 weeks annual leave per year. Either party may terminate the contract on 6 months' notice. In the case of termination by NTAW, NTAW may provide payment in lieu of notice. Mr Ludemann's employment contract does not contain any express redundancy provisions. Mr Ludemann's contract contains a 5 year non-compete restraint within Australia and New Zealand and a 12 month non-solicitation of employees, contractors and clients who deal with NTAW. |

Remuneration report (audited) (continued)

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

Name: Jason Lamb
Title: Chief Financial Officer and joint Company Secretary
Details: Mr Lamb has an annual total fixed remuneration (TFR) of \$303,644 consisting of base salary, superannuation and other benefits. Under the terms of his employment contract, he is eligible to receive short term incentives (STI) with a maximum opportunity of 45% of TFR per annum (at maximum performance levels). The STI will be in the form of an annual cash bonus, subject to the achievement of key performance indicators as determined by the Board. Mr Lamb will also be awarded long term incentives (LTI) under NTAW's Employee Share Option Plan. He is eligible for short term incentives as determined by the Board. Mr Lamb has statutory leave entitlements. Either party may terminate the contract on 6 months' notice. In the case of termination by NTAW, NTAW may provide payment in lieu of notice. He is entitled to redundancy pay in accordance with NTAW's legal obligations. Mr Lamb's contract contains a 6 month non-compete restraint within Australia and a 6 month non-solicitation of employees, contacts and clients with whom he has contact with, or influence over.

Name: Colin Skead
Title: Chief Executive Officer, ETD
Details: Mr Skead has an annual total fixed remuneration (TFR) of \$287,700 consisting of base salary, superannuation and other benefits. Under the terms of his employment contract, he is eligible to receive short term incentives (STI) with a maximum opportunity of 45% of TFR per annum (at maximum performance levels). The STI will be in the form of an annual cash bonus, subject to the achievement of key performance indicators as determined by the Board. Mr Skead will also be awarded long term incentives (LTI) under NTAW's Employee Share Option Plan. He has statutory leave entitlements. Either party may terminate the contract on 3 months' notice. In the case of termination by ETD, ETD may provide payment in lieu of notice. Mr Skead is entitled to redundancy pay in accordance with the Company's legal obligations. Mr Skead's contract contains a 6 month non-compete restraint within as specified geographical area and a 6 month non-solicitation of employees, contacts and clients with whom he has contact with, or influence over.

Name: Chris Hummer
Title: Managing Director, Dynamic
Details: Mr Hummer has an annual total fixed remuneration (TFR) of \$192,720 consisting of base salary, superannuation and other benefits. Under the terms of his employment contract, he is eligible to receive short term incentives (STI) with a maximum opportunity of 40% of TFR per annum (at maximum performance levels). The STI will be in the form of an annual cash bonus, subject to the achievement of key performance indicators as determined by the Board. Mr Hummer will also be awarded long term incentives (LTI) under NTAW's Employee Share Option Plan. He has statutory leave entitlements. Either party may terminate the contract on 3 months' notice. In the case of termination by Dynamic, Dynamic may provide payment in lieu of notice. Mr Hummer is entitled to redundancy pay in accordance with the Company's legal obligations. Mr Hummer's contract contains a 12 month non-compete restraint within as specified geographical area and a 12 month non-solicitation of employees, contacts and clients with whom he has contact with, or influence over.

Remuneration report (audited) (continued)

Name: Georg Schramm
Title: Managing Director, TLS (South Africa)
Details: Mr Schramm's employment contract is governed by South African law. His fixed remuneration package is R3,094,000 per annum and he is entitled to car and mobile phone allowances totalling R353,000 per annum. Either party may terminate the contract on 6 months' notice. Where Mr Schramm is terminated due to operational requirements, the termination will be governed by TLS policies or practices or, if no policy or practice exists, in accordance with the law.

Name: Trevor Wren
Title: Managing Director, Statewide
Details: Mr Wren has an annual total fixed remuneration (TFR) of \$171,915 consisting of base salary, superannuation and other benefits. Under the terms of his employment contract, he is eligible to receive short term incentives (STI) with a maximum opportunity of 40% of TFR per annum (at maximum performance levels). The STI will be in the form of an annual cash bonus, subject to the achievement of key performance indicators as determined by the Board. Mr Wren will also be awarded long term incentives (LTI) under NTAW's Employee Share Option Plan. He has statutory leave entitlements. Either party may terminate the contract on 3 months' notice. In the case of termination by Statewide, Statewide may provide payment in lieu of notice. Mr Wren is entitled to redundancy pay in accordance with the Company's legal obligations. Mr Wren's contract contains a 6 month non-compete restraint within as specified geographical area and a 6 month non-solicitation of employees, contacts and clients with whom he has contact with, or influence over.

Name: Roshan Chelvaratnam
Title: Managing Director, MPC
Details: Mr Chelvaratnam has an annual total fixed remuneration (TFR) of \$196,005 consisting of base salary, superannuation and other benefits. Under the terms of his employment contract, he is eligible to receive short term incentives (STI) with a maximum opportunity of 35% of TFR per annum (at maximum performance levels). The STI will be in the form of an annual cash bonus, subject to the achievement of key performance indicators as determined by the Board. Mr Chelvaratnam will also be awarded long term incentives (LTI) under NTAW's Employee Share Option Plan. He has statutory leave entitlements. Either party may terminate the contract on 6 months' notice. In the case of termination by MPC, MPC may provide payment in lieu of notice. He may not terminate within the first 3 years of his employment. Mr Chelvaratnam is entitled to redundancy pay in accordance with the Company's legal obligations. Mr Chelvaratnam's contract contains a 6 month non-compete restraint within Australia and a 12 month non-solicitation of employees, contacts and clients with whom he has contact with, or influence over.

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

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

(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 2020 (2019: Nil).

Remuneration report (audited) (continued)

Options

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

| Name | Number of options granted | Grant date | Vesting date and exercise date | Expiry date | Exercise price | Fair value per option at grant date |
|----------------|---------------------------|------------|--------------------------------|-------------|----------------|-------------------------------------|
| J Ludemann | 180,000 | 8 Nov 19 | 30 Sep 22 | 30 Sep 24 | \$0.37 | \$0.14 |
| J Lamb | 160,000 | 8 Nov 19 | 30 Sep 22 | 30 Sep 24 | \$0.37 | \$0.14 |
| C Skead | 155,000 | 8 Nov 19 | 30 Sep 22 | 30 Sep 24 | \$0.37 | \$0.14 |
| C Hummer | 155,000 | 8 Nov 19 | 30 Sep 22 | 30 Sep 24 | \$0.37 | \$0.14 |
| R Chelvaratnam | 155,000 | 8 Nov 19 | 30 Sep 22 | 30 Sep 24 | \$0.37 | \$0.14 |
| T Wren | 155,000 | 8 Nov 19 | 30 Sep 22 | 30 Sep 24 | \$0.37 | \$0.14 |

(f) Equity instruments held by key management personnel

Shareholding

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

| | Balance at the start of the year | Received as part of remuneration | Additions | Disposals - Off-market | Balance at the end of the year |
|------------------------|----------------------------------|----------------------------------|----------------|------------------------|--------------------------------|
| Ordinary shares | | | | | |
| Murray Boyte | 156,237 | - | - | - | 156,237 |
| Peter Ludemann | 2,759,928 | - | - | - | 2,759,928 |
| Terry Smith | 27,255,297 | - | - | - | 27,255,297 |
| Bill Cook | 303,132 | - | 100,000 | - | 403,132 |
| Robert Kent | 204,901 | - | - | - | 204,901 |
| Jason Lamb | 363,722 | - | - | - | 363,722 |
| Colin Skead | 3,500 | - | - | - | 3,500 |
| Chris Hummer | 4,652,522 | - | - | - | 4,652,522 |
| Trevor Wren | 655,737 | - | - | - | 655,737 |
| Roshan Chelvaratnam | 3,929,250 | - | - | (196,463) | 3,732,787 |
| | 40,284,226 | - | 100,000 | (196,463) | 40,187,763 |

Remuneration report (audited) (continued)

Options

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:

| | <i>Balance at the start of the year</i> | <i>Granted</i> | <i>Exercised</i> | <i>Lapsed</i> | <i>Balance at the end of the year</i> |
|---------------------|---|----------------|------------------|------------------|---|
| Options | | | | | |
| Murray Boyte | - | - | - | - | - |
| Peter Ludemann | 180,000 | 180,000 | - | (180,000) | 180,000 |
| Terry Smith | - | - | - | - | - |
| Bill Cook | - | - | - | - | - |
| Robert Kent | - | - | - | - | - |
| Jason Lamb | 160,000 | 160,000 | - | (160,000) | 160,000 |
| Colin Skead | - | 155,000 | - | - | 155,000 |
| Chris Hummer | 140,000 | 155,000 | - | (140,000) | 155,000 |
| Trevor Wren | 100,000 | 155,000 | - | (100,000) | 155,000 |
| Roshan Chelvaratnam | 110,000 | 155,000 | - | (110,000) | 155,000 |
| | 690,000 | 960,000 | - | (690,000) | 960,000 |

(g) Other transactions with key management personnel

Related party leases

During the financial year, the Group leased business premises owned by closely related parties of key management personnel. One lease expires on 30 May 2023 and has two 5 year renewal options and the other lease ending during the year. Rent payments for FY2020 totalled \$214,845 (2019: \$329,900), with \$Nil outstanding at 30 June 2020 (2019: \$Nil).

During the 2019 financial year, Terry and Susanne Smith (co-founders of Exclusive Tyre Distributors Australia Pty Ltd) and Chris and Christine Hummer (co-founders of Dynamic Wheel Co Pty Ltd), transferred a total of 319,666 of their personally owned National Tyre & Wheel Limited (NTD) shares to a number of employees of the Group. The gifts were made as a gesture of thanks and appreciation for the employees' efforts and support for the business prior to NTD's listing on the ASX in December 2017. The transfers occurred following the release of the shares from voluntary escrow during the year and were valued at 45 cents per share at that time.

Loans to key management personnel

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

This concludes the Remuneration Report, which has been audited.

Shares under option

There were 1,845,000 unissued ordinary shares of National Tyre & Wheel Limited under option outstanding at the date of this report.

Shares issued on the exercise of options

There were no ordinary shares of National Tyre & Wheel Limited issued on the exercise of options during the year ended 30 June 2020 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 31 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 31 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 (including Independence Standards)* issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the Company who are former partners of Pitcher Partners

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

National Tyre & Wheel Limited and its controlled entities
Directors' report
30 June 2020



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.

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

25 August 2020
Brisbane

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

Auditor's Independence Declaration

In relation to the independent audit for the year ended 30 June 2020, to the best of my knowledge and belief there have been:

- (i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) No contraventions of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

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



PITCHER PARTNERS



WARWICK FACE
Partner

Brisbane, Queensland
25 August 2020

National Tyre & Wheel Limited and its controlled entities
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2020



| | Note | 2020 \$'000 | 2019 \$'000 |
|--|------|----------------|----------------|
| Revenue from contracts with customers | 5 | 158,857 | 168,365 |
| Other income | 6 | 1,313 | 236 |
| Expenses | | | |
| Cost of goods sold | | (117,594) | (120,060) |
| Employee benefits and other related costs | | (17,106) | (18,081) |
| Depreciation and amortisation | 7 | (5,121) | (2,628) |
| Marketing | | (3,691) | (5,899) |
| Occupancy | | (1,692) | (5,195) |
| Professional fees and insurance | | (1,478) | (1,669) |
| Other | | (4,046) | (4,752) |
| Finance | 7 | (997) | (665) |
| Impairment loss | 15 | (2,210) | - |
| Profit before income tax expense | | 6,235 | 9,652 |
| Income tax expense | 8 | (2,007) | (2,975) |
| Profit after income tax expense for the year | | 4,228 | 6,677 |
| Other comprehensive income | | | |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | | |
| Foreign currency translation | | (1,096) | 398 |
| Other comprehensive income for the year, net of tax | | (1,096) | 398 |
| Total comprehensive income for the year | | 3,132 | 7,075 |
| Profit for the year is attributable to: | | | |
| Non-controlling interest | | (323) | 286 |
| Owners of National Tyre & Wheel Limited | | 4,551 | 6,391 |
| | | 4,228 | 6,677 |
| Total comprehensive income for the year is attributable to: | | | |
| Non-controlling interest | | (323) | 286 |
| Owners of National Tyre & Wheel Limited | | 3,455 | 6,789 |
| | | 3,132 | 7,075 |
| | | Cents | Cents |
| Basic earnings per share | 25 | 4.42 | 6.22 |
| Diluted earnings per share | 25 | 4.36 | 6.22 |

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

National Tyre & Wheel Limited and its controlled entities
Statement of financial position
As at 30 June 2020



| | Note | 2020 \$'000 | 2019 \$'000 |
|--|------|----------------|----------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 9 | 25,859 | 19,554 |
| Trade and other receivables | 10 | 23,215 | 24,679 |
| Inventories | 11 | 41,487 | 48,563 |
| Derivative financial instruments | 12 | - | 24 |
| Prepayments | | 1,580 | 1,280 |
| Income tax refund due | | - | 212 |
| Total current assets | | <u>92,141</u> | <u>94,312</u> |
| Non-current assets | | | |
| Property, plant and equipment | 13 | 3,615 | 3,579 |
| Right-of-use assets | 14 | 11,800 | - |
| Intangible assets | 15 | 16,739 | 20,313 |
| Deferred tax | 8 | 900 | - |
| Total non-current assets | | <u>33,054</u> | <u>23,892</u> |
| Total assets | | <u>125,195</u> | <u>118,204</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 16 | 24,930 | 29,425 |
| Borrowings | 17 | - | 1,915 |
| Lease liabilities | 18 | 3,298 | 125 |
| Provisions | 19 | 3,652 | 3,192 |
| Derivative financial instruments | 12 | 943 | - |
| Current tax liability | | 902 | - |
| Total current liabilities | | <u>33,725</u> | <u>34,655</u> |
| Non-current liabilities | | | |
| Borrowings | 17 | 12,223 | 11,145 |
| Lease liabilities | 18 | 9,172 | 150 |
| Provisions | 19 | 1,230 | 1,357 |
| Deferred tax | 8 | - | 152 |
| Total non-current liabilities | | <u>22,625</u> | <u>12,804</u> |
| Total liabilities | | <u>56,350</u> | <u>47,461</u> |
| Net assets | | <u>68,845</u> | <u>70,743</u> |
| Equity | | | |
| Issued capital | 20 | 65,272 | 65,272 |
| Reserves | 21 | (859) | 182 |
| Retained earnings | | 1,378 | 1,912 |
| Equity attributable to the owners of National Tyre & Wheel Limited | | <u>65,791</u> | <u>67,366</u> |
| Non-controlling interest | | 3,054 | 3,377 |
| Total equity | | <u>68,845</u> | <u>70,743</u> |

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

National Tyre & Wheel Limited and its controlled entities
Statement of changes in equity
For the year ended 30 June 2020



| | Issued capital \$'000 | Foreign currency translation reserve \$'000 | Share-based payments reserve \$'000 | Retained earnings \$'000 | Non- controlling interest \$'000 | Total equity \$'000 |
|--|-----------------------------|---|--|--------------------------------|---|------------------------|
| Balance at 1 July 2018 | 64,761 | (216) | - | (974) | 3,091 | 66,662 |
| Profit after income tax expense for the year | - | - | - | 6,391 | 286 | 6,677 |
| Other comprehensive income for the year, net of tax | - | 398 | - | - | - | 398 |
| Total comprehensive income for the year | - | 398 | - | 6,391 | 286 | 7,075 |
| <i>Transactions with owners in their capacity as owners:</i> | | | | | | |
| Share-based payments (note 24) | - | - | 132 | - | - | 132 |
| Transfers | - | - | (132) | 132 | - | - |
| Dividends reinvested | 511 | - | - | - | - | 511 |
| Dividends paid (note 22) | - | - | - | (3,637) | - | (3,637) |
| Balance at 30 June 2019 | 65,272 | 182 | - | 1,912 | 3,377 | 70,743 |
| Balance at 1 July 2019 | 65,272 | 182 | - | 1,912 | 3,377 | 70,743 |
| Initial adoption of AASB 16 (refer to note 2 and note 18) | - | - | - | (146) | - | (146) |
| Balance at 1 July 2019 - restated | 65,272 | 182 | - | 1,766 | 3,377 | 70,597 |
| Profit after income tax expense for the year | - | - | - | 4,551 | (323) | 4,228 |
| Other comprehensive income for the year, net of tax | - | (1,096) | - | - | - | (1,096) |
| Total comprehensive income for the year | - | (1,096) | - | 4,551 | (323) | 3,132 |
| <i>Transactions with owners in their capacity as owners:</i> | | | | | | |
| Share-based payments (note 24) | - | - | 55 | - | - | 55 |
| Dividends paid (note 22) | - | - | - | (4,939) | - | (4,939) |
| Balance at 30 June 2020 | 65,272 | (914) | 55 | 1,378 | 3,054 | 68,845 |

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

National Tyre & Wheel Limited and its controlled entities
Statement of cash flows
For the year ended 30 June 2020



| | Note | 2020 \$'000 | 2019 \$'000 |
|--|------|----------------------|----------------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 173,453 | 186,025 |
| Payments to suppliers and employees | | <u>(155,221)</u> | <u>(177,306)</u> |
| | | 18,232 | 8,719 |
| Interest received | | 169 | 123 |
| Interest and other finance costs paid | | (997) | (665) |
| Income taxes paid | | <u>(1,881)</u> | <u>(4,100)</u> |
| Net cash from operating activities | 23 | <u>15,523</u> | <u>4,077</u> |
| Cash flows from investing activities | | | |
| Payments for property, plant and equipment | | (1,265) | (721) |
| Proceeds from disposal of property, plant and equipment | | 229 | 329 |
| Transfers from term deposits | | <u>-</u> | <u>600</u> |
| Net cash (used in)/from investing activities | | <u>(1,036)</u> | <u>208</u> |
| Cash flows from financing activities | | | |
| Dividends paid | 22 | (4,939) | (3,127) |
| Repayment of lease liabilities | | (2,558) | - |
| Repayment of borrowings | | <u>(360)</u> | <u>(1,577)</u> |
| Net cash used in financing activities | | <u>(7,857)</u> | <u>(4,704)</u> |
| Net increase/(decrease) in cash and cash equivalents | | 6,630 | (419) |
| Cash and cash equivalents at the beginning of the financial year | | 19,077 | 19,608 |
| Effects of exchange rate changes on cash and cash equivalents | | <u>152</u> | <u>(112)</u> |
| Cash and cash equivalents at the end of the financial year | 9 | <u>25,859</u> | <u>19,077</u> |

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

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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 ('AUD'), 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 25 August 2020. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

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

Basis of preparation

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

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss and derivative financial instruments.

Critical accounting estimates

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

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

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

AASB16 Leases

The Group has early adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 *Leases* and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA ("Earnings before interest, tax, depreciation and amortisation") results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

Note 2. Significant accounting policies (continued)

Impact of adoption

AASB 16 was adopted using the modified retrospective approach and as such comparatives have not been restated. The impact of adoption on opening retained earnings as at 1 July 2019 was as follows:

| | 1 July 2019 \$'000 |
|--|-----------------------|
| Operating lease commitments disclosed at 30 June 2019 | 5,154 |
| Discounted using the lessee's incremental borrowing rate of at the date of initial application | 4,687 |
| Add: finance lease liabilities recognised at 30 June 2019 | 275 |
| Less: short-term leases not recognised as a lease liability | (521) |
| Lease liability recognised as at 1 July 2019 | 4,441 |

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019. There were no onerous lease contracts that required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

| | 30 June 2020 \$'000 | 1 July 2019 \$'000 |
|---------------------------|------------------------|-----------------------|
| Land and buildings | 11,486 | 3,982 |
| Equipment | 115 | 109 |
| Motor vehicles | 199 | 111 |
| Total right-of-use assets | 11,800 | 4,202 |

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

- property, plant and equipment - decrease by \$247,000
- right-of-use assets - increase by \$4,202,000
- deferred tax assets - increase by \$65,000
- borrowings - decrease \$275,000
- lease liabilities - increase by \$4,441,000

The net impact on retained earnings on 1 July 2019 was a decrease of \$146,000.

The weighted average incremental borrowing rate applied at transition was 4.3%.

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 34.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of National Tyre & Wheel Limited as at 30 June 2020 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 translation reserve in equity.

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

Revenue recognition

The Group recognises revenue as follows:

Revenue from contracts with customers

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

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

Note 2. Significant accounting policies (continued)

Sale of goods

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

Other income

Interest income

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 income

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

Government grants

Government grants are recognised when conditions attached to the grants have been complied with and the right to receive the grant has been established. Government grants received during the financial year were limited to funds received from the Australian Government under the JobKeeper Payment scheme. These have been classified as other income.

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, M.P.C 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.

Note 2. Significant accounting policies (continued)

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

Current and non-current classification

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

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

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

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

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

Trade and other receivables

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

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

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

Inventories

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

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

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.

Note 2. Significant accounting policies (continued)

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 30% |
| Capital work in progress | 0% until in use |

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

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

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.

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are amortised on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the amortisation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Lease liabilities

As explained earlier in this note, the Group has adopted AASB 16 *Leases* from 1 July 2019. As of this date, a lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

The Group has applied the following practical expedients permitted by AASB 16:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis;
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- not to assess all rent concessions received during the year as a direct consequence of the COVID-19 pandemic as lease modifications and recorded any concessions to the profit or loss as received.

Note 2. Significant accounting policies (continued)

Prior to 1 July 2019, leases of property, plant and equipment where the group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in current and non-current borrowings. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the shorter of the asset's useful life and the lease term if there was no reasonable certainty that the group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

Intangible assets

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

Goodwill

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

Brand name

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

Customer relationships

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

Importation rights

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

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 ("CGU") 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.

Note 2. Significant accounting policies (continued)

Borrowings

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

Finance costs

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

Provisions

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

Employee benefits

Short-term employee benefits

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

Other long-term employee benefits

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

Defined contribution superannuation expense

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

Share-based payments

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

Equity-settled transactions are awards of shares, or options over shares, which 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.

Note 2. Significant accounting policies (continued)

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

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

Fair value measurement

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

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

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

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

Issued capital

Ordinary shares are classified as equity.

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

Dividends

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

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.

Note 2. Significant accounting policies (continued)

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

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

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

Comparative information

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

Rounding of amounts

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

New Accounting Standards and Interpretations not yet mandatory or early adopted

Other than those discussed previously, no other 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 2020. 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.

New Conceptual Framework for Financial Reporting

A revised Conceptual Framework for Financial Reporting has been issued by the AASB and is applicable for annual reporting periods beginning on or after 1 January 2020. The application of new definition and recognition criteria as well as new guidance on measurement will result in amendments to several accounting standards. The issue of AASB 2020-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*, also applicable from 1 January 2020, includes such amendments. Where the Group has relied on the conceptual framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under Australian Accounting Standards, the Group may need to revisit such policies. The Group will apply the revised conceptual framework from 1 July 2020 and is yet to assess its impact.

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.

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 acquisition date present value of expected future cash flows associated with the brand and the recurring current customers covering a period of 5 to 12 years. These cash flows have been calculated using annual growth rates of between 2.0%-4.0% (2019: 3.8%-6.9%), a terminal growth rate of 2.0% (2019: 1.50%-2.0%) and a pre-tax discount rate of between 14.3%-15.5% (2019: 16.3%-18.6%).

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

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 (refer to note 15).

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 value-in-use calculations, which incorporate a number of key estimates and assumptions, with the future impact of the COVID-19 pandemic considered when making estimates and assumptions. In the 2020 financial year, the Group recognised an impairment loss on goodwill, customer relationships and importation rights (refer to note 15) belonging to a particular CGU (refer to note 15).

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 0.9% (2019: 2.0%), volatility of share price of 58.9% (2019: 65.0%) and assumed vesting period from grant date (refer to note 24).

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 (refer to note 19).

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 (refer to note 8).

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.

Non-current assets

As at 30 June 2020, \$29,299,000 (2019: \$20,628,000) of the Group's non-current assets (excluding deferred taxes) were held in Australia, with \$2,603,000 held in New Zealand (\$565,000) and \$252,000 (\$2,698,000) held in South Africa, respectively.

Major customers

During the year ended 30 June 2020, none of the Group's external revenue was derived from sales of greater than 10% to any customer (2019: none).

Note 5. Revenue from contracts with customers

| | 2020 \$'000 | 2019 \$'000 |
|---------------|------------------------------|------------------------------|
| Sale of goods | 158,857 | 168,365 |
| | 158,857 | 168,365 |

Disaggregation of revenue

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

| | | |
|--------------|----------------|----------------|
| Australia | 130,642 | 136,711 |
| New Zealand | 16,193 | 16,421 |
| South Africa | 12,022 | 15,233 |
| | 158,857 | 168,365 |

During the 2020 and 2019 financial years, all revenue from sale of goods was recognised as the goods were transferred at a point in time.

Note 6. Other income

| | 2020 \$'000 | 2019 \$'000 |
|-------------------|------------------------------|------------------------------|
| Government grants | 1,072 | - |
| Interest income | 169 | 123 |
| Other income | 72 | 113 |
| | 1,313 | 236 |

Note 7. Expenses

| | 2020 | 2019 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| Profit before income tax includes the following specific expenses: | | |
| <i>Depreciation</i> | | |
| Leasehold improvements | 35 | 4 |
| Plant and equipment | 391 | 377 |
| Motor vehicles | 341 | 393 |
| Right-of-use assets | 2,990 | - |
| Total depreciation | <u>3,757</u> | <u>774</u> |
| <i>Amortisation</i> | | |
| Customer relationships | 558 | 644 |
| Importation rights | 806 | 1,204 |
| Other intangibles | - | 6 |
| Total amortisation | <u>1,364</u> | <u>1,854</u> |
| Total depreciation and amortisation | <u>5,121</u> | <u>2,628</u> |
| <i>Finance costs</i> | | |
| Interest and finance charges paid/payable for lease liabilities | 427 | 42 |
| Interest and finance charges paid/payable for financial liabilities | 570 | 623 |
| Finance costs expensed | <u>997</u> | <u>665</u> |
| <i>Net foreign exchange loss</i> | | |
| Net foreign exchange loss | <u>235</u> | <u>51</u> |
| <i>Expense relating to leases</i> | | |
| Expense relating to short-term leases | 466 | - |
| Expense relating to leases of low value assets | 12 | - |
| Expense relating to operating leases | - | 4,196 |
| | <u>478</u> | <u>4,196</u> |
| <i>Superannuation expense</i> | | |
| Defined contribution superannuation expense | <u>1,081</u> | <u>1,126</u> |
| <i>Share-based payments expense</i> | | |
| Share-based payments expense | <u>55</u> | <u>132</u> |
| <i>Bad debts</i> | | |
| Bad debts expense | <u>67</u> | <u>160</u> |

Note 8. Income tax

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| <i>Income tax expense</i> | | |
| Current tax | 3,059 | 3,066 |
| Deferred tax | (1,002) | 156 |
| Under/(over) provision in prior years | (50) | (247) |
| Income tax expense | 2,007 | 2,975 |
| Deferred tax included in income tax expense comprises: | | |
| Decrease/(increase) in deferred tax assets | (1,002) | 156 |
| <i>Numerical reconciliation of income tax expense and tax at the statutory rate</i> | | |
| Profit before income tax expense | 6,235 | 9,651 |
| Tax at the statutory tax rate of 30% | 1,871 | 2,895 |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Sundry items | 204 | 360 |
| | 2,075 | 3,255 |
| Adjustment recognised for prior periods | (50) | (247) |
| Difference in overseas tax rates | (18) | (33) |
| Income tax expense | 2,007 | 2,975 |
| <i>Deferred tax</i> | | |
| Net deferred tax comprises temporary differences attributable to: | | |
| Capital raising costs | 441 | 690 |
| Provisions | 1,528 | 1,355 |
| Property, plant and equipment | (48) | (116) |
| Intangibles | (1,608) | (2,118) |
| Right-of-use assets | (3,461) | - |
| Other | 159 | 5 |
| Lease liabilities | 3,668 | 63 |
| Foreign currency exchange | 221 | (31) |
| Deferred tax (liability)/asset | 900 | (152) |
| Movements: | | |
| Opening balance | (152) | 4 |
| Adoption of AASB 16 Leases | 65 | - |
| Credited/(charged) to profit or loss | 1,002 | (156) |
| Foreign exchange differences | (15) | - |
| Closing balance | 900 | (152) |

Note 9. Cash and cash equivalents

| | 2020 \$'000 | 2019 \$'000 |
|--------------|----------------|----------------|
| Cash at bank | 25,859 | 19,554 |
| | 25,859 | 19,554 |

Reconciliation to cash and cash equivalents at the end of the financial year

The above figures are reconciled to cash and cash equivalents at the end of the financial year as shown in the statement of cash flows as follows:

| | | |
|--|---------------|---------------|
| Balances as above | 25,859 | 19,554 |
| Bank overdraft (refer to note 17) | - | (477) |
| Balance as per statement of cash flows | 25,859 | 19,077 |

Note 10. Trade and other receivables

| | | |
|--|---------------|---------------|
| Trade receivables | 23,259 | 24,714 |
| Less: Allowance for expected credit losses | (44) | (35) |
| | 23,215 | 24,679 |

Allowance for expected credit losses

The Group has recognised a net loss of \$67,000 (2019: \$160,000) in 'other' expenses for the current year for specific debtors for which such evidence exists. Trade receivables past due but not impaired amount to \$2,952,000 (2019: \$4,535,000).

At 30 June 2020 an ageing analysis of those trade receivables are as follows:

| | | |
|-----------------------|---------------|---------------|
| Not overdue | 20,263 | 20,144 |
| 1 to 30 days overdue | 2,528 | 4,038 |
| 31 to 60 days overdue | 149 | 315 |
| 61 plus days overdue | 275 | 182 |
| | 23,215 | 24,679 |

Refer to note 28 for further information on financial instruments.

Note 11. Inventories

| | | |
|--------------------------------|---------------|---------------|
| Finished goods - at cost | 30,594 | 37,252 |
| Less: Provision for impairment | (13) | (22) |
| | 30,581 | 37,230 |
| Stock in transit - at cost | 10,906 | 11,333 |
| | 41,487 | 48,563 |

Note 12. Derivative financial instruments

| | 2020 \$'000 | 2019 \$'000 |
|------------------------------------|----------------|----------------|
| Forward foreign exchange contracts | (943) | 24 |

Refer to note 29 for further information on fair value measurement.

Note 13. Property, plant and equipment

| | | |
|-------------------------------------|---------------------|---------------------|
| Leasehold improvements - at cost | 425 | 321 |
| Less: Accumulated depreciation | (66) | (266) |
| | <u>359</u> | <u>55</u> |
| Plant and equipment - at cost | 5,060 | 4,826 |
| Less: Accumulated depreciation | (3,334) | (3,067) |
| | <u>1,726</u> | <u>1,759</u> |
| Motor vehicles - at cost | 2,764 | 3,104 |
| Less: Accumulated depreciation | (1,234) | (1,395) |
| | <u>1,530</u> | <u>1,709</u> |
| Capital works in progress - at cost | - | 56 |
| | <u>3,615</u> | <u>3,579</u> |

Reconciliations

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

| | <i>Leasehold improvements</i> \$'000 | <i>Plant and equipment</i> \$'000 | <i>Motor vehicles</i> \$'000 | <i>Capital works in progress</i> \$'000 | <i>Total</i> \$'000 |
|----------------------------------|---|--|-------------------------------------|--|------------------------|
| Balance at 1 July 2018 | 59 | 1,864 | 1,994 | - | 3,917 |
| Additions | - | 268 | 397 | 56 | 721 |
| Disposals | - | (8) | (303) | - | (311) |
| Exchange differences | - | 12 | 14 | - | 26 |
| Depreciation expense | (4) | (377) | (393) | - | (774) |
| Balance at 30 June 2019 | 55 | 1,759 | 1,709 | 56 | 3,579 |
| Additions | 283 | 431 | 552 | - | 1,266 |
| Disposals | - | (14) | (174) | - | (188) |
| Transfers | 56 | - | - | (56) | - |
| Transfers to right-of-use assets | - | (50) | (197) | - | (247) |
| Depreciation expense | (35) | (391) | (341) | - | (767) |
| Exchange differences | - | (9) | (19) | - | (28) |
| Balance at 30 June 2020 | <u>359</u> | <u>1,726</u> | <u>1,530</u> | <u>-</u> | <u>3,615</u> |

Property, plant and equipment secured under finance leases

As of 1 July 2019, property, plant and equipment secured under finance leases are classified as right-of-use assets, refer to note 14.

Note 14. Right-of-use assets

| | 2020 \$'000 | 2019 \$'000 |
|------------------------------------|----------------------|-----------------|
| Land and buildings - right-of-use | 17,061 | - |
| Less: Accumulated depreciation | (5,575) | - |
| | <u>11,486</u> | <u>-</u> |
| Plant and equipment - right-of-use | 185 | - |
| Less: Accumulated depreciation | (70) | - |
| | <u>115</u> | <u>-</u> |
| Motor vehicles - right-of-use | 405 | - |
| Less: Accumulated depreciation | (206) | - |
| | <u>199</u> | <u>-</u> |
| | <u>11,800</u> | <u>-</u> |

Reconciliations

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

| | Land and buildings \$'000 | Plant and equipment \$'000 | Motor vehicles \$'000 | Total \$'000 |
|---|---------------------------------|----------------------------------|--------------------------|----------------------|
| Recognition of assets on adoption of AASB 16 on 1 July 2019 | 3,982 | 109 | 111 | 4,202 |
| Transfers from property, plant and equipment | - | 50 | 197 | 247 |
| Additions | 10,326 | 10 | - | 10,336 |
| Lease modifications | 76 | - | 44 | 120 |
| Disposals | - | - | (44) | (44) |
| Depreciation expense | (2,862) | (40) | (88) | (2,990) |
| Foreign exchange differences | (36) | (14) | (21) | (71) |
| | <u>11,486</u> | <u>115</u> | <u>199</u> | <u>11,800</u> |
| Balance at 30 June 2020 | <u>11,486</u> | <u>115</u> | <u>199</u> | <u>11,800</u> |

Note 15. Intangible assets

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------------|----------------------|
| Goodwill - at cost | 8,878 | 8,878 |
| Less: Accumulated impairment loss | <u>(1,311)</u> | <u>-</u> |
| | 7,567 | 8,878 |
| Brand name - at cost | <u>2,393</u> | <u>2,393</u> |
| Customer relationships - at cost | 4,798 | 4,798 |
| Less: Accumulated amortisation and impairment loss | <u>(1,831)</u> | <u>(1,062)</u> |
| | 2,967 | 3,736 |
| Importation rights - at cost | 12,106 | 12,106 |
| Less: Accumulated amortisation and impairment loss | <u>(8,294)</u> | <u>(6,800)</u> |
| | 3,812 | 5,306 |
| Other intangibles - at cost | 14 | 14 |
| Less: Accumulated amortisation | <u>(14)</u> | <u>(14)</u> |
| | - | - |
| | <u>16,739</u> | <u>20,313</u> |

Reconciliations

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

| Consolidated | <i>Goodwill</i> \$'000 | <i>Brand name</i> \$'000 | <i>Customer relationships</i> \$'000 | <i>Importation rights</i> \$'000 | <i>Other intangibles</i> \$'000 | <i>Total</i> \$'000 |
|-------------------------|---------------------------|-----------------------------|---|-------------------------------------|------------------------------------|------------------------|
| Balance at 1 July 2018 | 8,878 | 2,393 | 4,380 | 6,510 | 6 | 22,167 |
| Amortisation expense | - | - | <u>(644)</u> | <u>(1,204)</u> | <u>(6)</u> | <u>(1,854)</u> |
| Balance at 30 June 2019 | 8,878 | 2,393 | 3,736 | 5,306 | - | 20,313 |
| Amortisation expense | - | - | <u>(558)</u> | <u>(806)</u> | - | <u>(1,364)</u> |
| Impairment loss | <u>(1,311)</u> | - | <u>(211)</u> | <u>(688)</u> | - | <u>(2,210)</u> |
| Balance at 30 June 2020 | <u>7,567</u> | <u>2,393</u> | <u>2,967</u> | <u>3,812</u> | <u>-</u> | <u>16,739</u> |

Impairment of intangible assets

An impairment loss of \$2,210,000 (2019: \$Nil) was recognised in relation to the Top Draw Tyres Pty Ltd cash-generating unit. This CGU included goodwill, customer relationships and importation rights intangible assets, all of which have been impaired to \$Nil. The pre and post COVID-19 pandemic performance of the CGU as well as continuing uncertainty of its future prospects, has resulted in the impairment being recognised this financial year.

Note 15. Intangibles assets (continued)

Impairment testing

For the purpose of impairment testing, goodwill and brand names are allocated to the respective cash-generating units:

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Goodwill | | |
| CGU: | | |
| - Tyres and wheels | 5,228 | 5,228 |
| - M.P.C Mags and Tyres Pty Ltd ("MPC") | 2,339 | 2,339 |
| - Top Draw Tyres Pty Ltd | - | 1,311 |
| | <u>7,567</u> | <u>8,878</u> |
| Brand names | | |
| CGU: | | |
| - M.P.C Mags and Tyres Pty Ltd ("MPC") | <u>2,393</u> | <u>2,393</u> |

The Group tests whether goodwill and brand names have suffered any impairment on an annual basis. The recoverable amount of the CGUs was determined based on value-in-use calculations which require the use of assumptions. The calculations are conducted using a discount cash flow methodology based on financial budgets approved by the Board of Directors for the 2021 financial year which have been reduced on those in prior periods. The 2021 cashflow budgets have then been extrapolated using estimated annual growth rates, together with terminal growth rates. These growth rates are considered reasonable in light of the reduced 2021 base cashflows, and are consistent with forecasts included in industry reports specific to the industry in which each CGU operates.

The following table sets out the key assumptions for those CGUs that have significant goodwill and brand names allocated to them, which have not been impaired during the year:

| | 2020 | | 2019 | |
|--------------------------------|------------------------------|-----------------|------------------------------|-----------------|
| | <i>Tyres and wheels</i> % | <i>MPC</i> % | <i>Tyres and wheels</i> % | <i>MPC</i> % |
| Average annual growth rate (%) | 3.0% | 3.0% | 3.8% | 1.9% |
| Terminal growth rate (%) | 2.0% | 2.0% | 1.5% | 1.5% |
| Pre-tax discount rate (%) | 14.7% | 15.8% | 16.3% | 16.8% |

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

| Assumption | Approach used to determine values |
|----------------------|--|
| Annual growth rate | Average annual growth rate over the five-year forecast period beyond the 2021 financial year is based on the reduced cashflow budgets, past performance and management's expectations of market development. |
| Terminal growth rate | Terminal growth rate was based on the reduced 2021 forecast cashflows and management's expectations of long-term growth. |
| Discount rate | A post-tax estimate based on NTD's weighted average cost of capital. |

Significant estimate: Impact of possible changes in key assumptions

A sensitivity analysis was performed on key assumptions, as follows:

- Average annual growth rates – reduction by 1% No impairment in either the Tyres & Wheels CGU or MPC CGU
- Terminal growth rate – reduction by 1% No impairment in either the Tyres & Wheels CGU or MPC CGU
- Discount rate – increase by 1.0% No impairment in Tyres & Wheels CGU, but for the MPC CGU, the Group would have had to recognise an impairment against the carrying value of goodwill of \$700,000.

In the prior year, there were no reasonably possible changes in any of the key assumptions that would have resulted in an impairment in any CGU.

Note 16. Trade and other payables

| | 2020 \$'000 | 2019 \$'000 |
|-----------------------------|----------------|----------------|
| Trade payables | 21,581 | 27,383 |
| GST payable | 432 | 197 |
| Other payables and accruals | 2,917 | 1,845 |
| | <u>24,930</u> | <u>29,425</u> |

Refer to note 28 for further information on financial instruments.

Note 17. Borrowings

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| Current | | |
| Bank overdraft | - | 477 |
| Bank loans | - | 1,438 |
| | <u>-</u> | <u>1,915</u> |
| Non-current | | |
| Bank loans | 12,223 | 11,145 |
| | <u>12,223</u> | <u>11,145</u> |
| <i>Total secured liabilities</i> | | |
| The total secured liabilities are as follows: | | |
| Bank overdraft | - | 477 |
| Bank loans | 12,223 | 12,583 |
| | <u>12,223</u> | <u>13,060</u> |

The bank loan facility has an expiry date of 31 May 2023.

Refer to note 28 for further information on financial instruments.

Assets pledged as security

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

Financing arrangements

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

| | | |
|------------------|---------------|---------------|
| Total facilities | | |
| Bank overdraft | - | 477 |
| Bank loans | 12,223 | 12,583 |
| Bank guarantee | 4,157 | 4,157 |
| | <u>16,380</u> | <u>17,281</u> |

Note 17. Borrowings (continued)

| | 2020 \$'000 | 2019 \$'000 |
|------------------------------|----------------|----------------|
| Used at the reporting date | | |
| Bank overdraft | - | 477 |
| Bank loans | 12,223 | 12,583 |
| Bank guarantee | 1,945 | 2,892 |
| | <u>14,168</u> | <u>16,016</u> |
| Unused at the reporting date | | |
| Bank overdraft | - | - |
| Bank loans | - | - |
| Bank guarantee | 2,212 | 1,265 |
| | <u>2,212</u> | <u>1,265</u> |

Note 18. Lease liabilities

Current

| | | |
|----------------------|--------------|------------|
| Property leases | 3,162 | - |
| Equipment leases | 51 | 17 |
| Motor vehicle leases | 85 | 108 |
| | <u>3,298</u> | <u>125</u> |

Non-current

| | | |
|----------------------|--------------|------------|
| Property leases | 9,016 | - |
| Equipment leases | 58 | 47 |
| Motor vehicle leases | 98 | 103 |
| | <u>9,172</u> | <u>150</u> |

The Group has leases for warehouse and office facilities, warehouse equipment and motor vehicles. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. All variable payments are linked to an index. The lease liabilities are secured by the related underlying asset.

Leasing activities

The table below describes the nature of the Group's leasing activities by type of right-of-use asset.

| Right-of-use asset | No. of leases | Range of remaining term (yrs) | Average remaining term (yrs) | No. of leases with extension options | No. of leases with purchase options | No. of leases with variable payments linked to an index | No. of leases with termination options |
|---------------------|---------------|-------------------------------|------------------------------|--------------------------------------|-------------------------------------|---|--|
| Land and buildings | 11 | 0.2 - 6.3 | 3.0 | 10 | - | 5 | - |
| Plant and equipment | 5 | 1.9 - 3.9 | 2.3 | - | 1 | - | - |
| Motor vehicles | 12 | 0.1 - 2.3 | 0.9 | - | 12 | - | - |

Future minimum lease payments at 30 June 2020 were as follows:

| \$'000 | Within 1 year | 1-2 years | 2-3 years | 3-4 years | 4-5 years | After 5 years | Total |
|----------------------|---------------|--------------|--------------|--------------|--------------|---------------|---------------|
| Gross lease payments | 3,731 | 3,409 | 2,392 | 1,874 | 1,270 | 881 | 13,558 |
| Finance charges | (433) | (294) | (184) | (108) | (49) | (19) | (1,088) |
| Net present value | <u>3,298</u> | <u>3,115</u> | <u>2,208</u> | <u>1,766</u> | <u>1,221</u> | <u>862</u> | <u>12,470</u> |

Note 18. Lease liabilities (continued)

The total cash outflow for leases in the 2020 financial year was \$2,988,000.

The gains recognised in the Statement of profit or loss and other comprehensive income in the 2020 financial year reflecting changes in lease payments that arose from rent concessions received as direct consequence of the COVID-19 pandemic was \$130,000.

In the 2019 financial year, the Group only recognised lease liabilities in relation to leases that were classified as 'finance leases' under AASB 117 *Leases*. The corresponding assets were presented in property, plant & equipment and liabilities as part of borrowings. Refer to note 2 for details on adjustments recognised on adoption of AASB 16 *Leases* on 1 July 2019.

Note 19. Provisions

| | 2020 \$'000 | 2019 \$'000 |
|--------------------|----------------|----------------|
| Current | | |
| Employee benefits | 2,748 | 2,305 |
| Warranties | 904 | 887 |
| | <u>3,652</u> | <u>3,192</u> |
| Non-current | | |
| Employee benefits | 230 | 272 |
| Warranties | 1,000 | 1,085 |
| | <u>1,230</u> | <u>1,357</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.

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 (current and non-current) during the current financial year, other than employee benefits, are set out below:

| | 2020 \$'000 |
|--|----------------|
| Warranties | |
| Carrying amount at the start of the year | 1,972 |
| Additional provisions recognised | 489 |
| Amounts used | <u>(556)</u> |
| Carrying amount at the end of the year | <u>1,904</u> |

Note 20. Issued capital

| | 2020 Shares | 2019 Shares | 2020 \$'000 | 2019 \$'000 |
|------------------------------|--------------------|--------------------|----------------|----------------|
| Ordinary shares - fully paid | <u>102,891,313</u> | <u>102,891,313</u> | <u>65,272</u> | <u>65,272</u> |

Movements in ordinary share capital

| Details | Date | Shares | Issue price | \$'000 |
|--|----------------|--------------------|-------------|---------------|
| Balance | 1 July 2018 | 102,321,143 | | 64,761 |
| Issue of shares per Dividend Reinvestment Plan | 8 October 2018 | 332,809 | \$1.1700 | 390 |
| Issue of shares per Dividend Reinvestment Plan | 4 April 2019 | <u>237,361</u> | \$0.5100 | <u>121</u> |
| Balance | 30 June 2019 | <u>102,891,313</u> | | <u>65,272</u> |
| Balance | 30 June 2020 | <u>102,891,313</u> | | <u>65,272</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.

Capital risk management

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

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

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

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

The capital risk management policy remains unchanged from the 30 June 2019 Annual Report.

Note 21. Reserves

| | 2020 | 2019 |
|--------------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Foreign currency translation reserve | (914) | 182 |
| Share-based payments reserve | 55 | - |
| | <u>859</u> | <u>182</u> |

Foreign currency translation 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 as part of their remuneration. Share-based payments reserve is transferred to share capital upon exercising of options, and is transferred to retained earnings upon lapsing or forfeiture of options.

Note 22. Dividends

Dividends paid during the financial year were as follows:

| | | |
|------------------|--------------|--------------|
| Final dividend | 2,573 | 2,353 |
| Special dividend | 1,080 | - |
| Interim dividend | 1,286 | 1,284 |
| | <u>4,939</u> | <u>3,637</u> |

Refer to note 20 for details of shares issued pursuant to the Company's Dividend Reinvestment Plan during the 2019 financial year.

Franking credits

| | | |
|--|---------------|---------------|
| Franking credits available for subsequent financial years based on a tax rate of 30% | <u>15,811</u> | <u>15,350</u> |
|--|---------------|---------------|

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

Note 23. Cash flow information

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

| | 2020 | 2019 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| Profit after income tax expense for the year | 4,228 | 6,676 |
| Adjustments for: | | |
| Depreciation and amortisation | 5,121 | 2,628 |
| Impairment of intangible assets | 2,210 | - |
| Net loss/(gain) on disposal of property, plant and equipment | (14) | (44) |
| Share-based payments | 55 | 132 |
| Impairment of receivables | 67 | 156 |
| Foreign exchange differences | (288) | 951 |
| Change in operating assets and liabilities: | | |
| Decrease/(increase) in trade and other receivables | 1,434 | 1,062 |
| Decrease/(increase) in inventories | 7,075 | (813) |
| Decrease/(increase) in other assets | (300) | (102) |
| Increase/(decrease) in trade and other payables | (4,519) | (5,586) |
| Increase/(decrease) in other provisions | 328 | 142 |
| Increase/(decrease) in provision for income tax | 1,114 | (1,281) |
| Decrease/(increase) in deferred tax assets | (988) | 156 |
| Net cash from operating activities | 15,523 | 4,077 |

Note 24. Share-based payments

Employee Share Option Plan ("ESOP")

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

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

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

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

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

Note 24. Share-based payments (continued)

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.

Note 24. 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:

2020

| <i>Grant date</i> | <i>Expiry date</i> | <i>Exercise price</i> | <i>Balance at start of year</i> | <i>Granted</i> | <i>Lapsed</i> | <i>Exercised</i> | <i>Balance at end of year</i> |
|-------------------|--------------------|-----------------------|---------------------------------|------------------|--------------------|------------------|-------------------------------|
| 08/11/2019 | 07/11/2024 | \$0.3735 | - | 1,845,000 | - | - | 1,845,000 |
| 07/12/2018 | 30/09/2023 | \$1.1724 | 1,630,000 | - | (1,630,000) | - | - |
| | | | <u>1,630,000</u> | <u>1,845,000</u> | <u>(1,630,000)</u> | <u>-</u> | <u>1,845,000</u> |

2019

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

The weighted average remaining contractual life of options outstanding at the end of the financial year was 4.25 years (2019: Nil years).

Options lapsed during the 2020 financial year as the performance conditions were not met.

The performance conditions were as follows:

- 1) Earnings per share condition – the Company's EPS for the year ended 30 June 2021 was to be at least 10% higher than its EPS for the year ended 30 June 2019.

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

The Board determined that the FY2019 base EPS for the Options would be 7.74 cents per share. This was based upon the Company's 2019 NPATA attributable to NTAW shareholders. The target EPS for the 2021 financial year (based upon the Company's NPATA attributable to NTAW shareholders) is 8.51 cents per share.

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

Note 24. Share-based payments (continued)

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 |
|------------|-------------|---------------------------|----------------|---------------------|----------------|-------------------------|--------------------------|
| 08/11/2019 | 07/11/2024 | \$0.4200 | \$0.3735 | 58.90% | 7.40% | 0.88% | \$0.1400 |
| 07/12/2018 | 30/09/2023 | \$0.4900 | \$1.1724 | 65.00% | 8.70% | 2.00% | \$0.0810 |

Employee Gifted Shares

During the 2019 financial year, Terry and Susanne Smith (co-founders of Exclusive Tyre Distributors Australia Pty Ltd) and Chris and Christine Hummer (co-founders of Dynamic Wheel Co Pty Ltd), transferred a total of 319,666 of their personally owned National Tyre & Wheel Limited shares to a number of employees of the Group. The gifts were made as a gesture of thanks and appreciation for the employees' efforts and support for the business, prior to NTD's listing on the ASX in December 2017. The transfers occurred following the release of the shares from voluntary escrow during the year and were valued at 45 cents per share at that time.

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:

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Options issued under the NTAW Employee Share Option Plan | 55 | - |
| Employee gifted shares | - | 132 |
| Total expense recognised from share-based payment transactions in employee benefits expense | 55 | 132 |

Note 25. Earnings per share

| | 2020 \$'000 | 2019 \$'000 |
|--|--------------------|--------------------|
| Profit after income tax | 4,228 | 6,677 |
| Non-controlling interest | 323 | (286) |
| Profit after income tax attributable to the owners of National Tyre & Wheel Limited | 4,551 | 6,391 |
| | Number | Number |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 102,891,313 | 102,676,530 |
| Adjustments for calculation of diluted earnings per share: | | |
| Options over ordinary shares | 1,439,071 | - |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 104,330,384 | 102,676,530 |
| | Cents | Cents |
| Basic earnings per share | 4.42 | 6.22 |
| Diluted earnings per share | 4.36 | 6.22 |

Note 26. Key management personnel disclosures

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

| | 2020 | 2019 |
|------------------------------|-------------------------|-------------------------|
| | \$'000 | \$'000 |
| Short-term employee benefits | 2,639,068 | 2,146,898 |
| Post-employment benefits | 158,311 | 146,497 |
| Long-term benefits | 76,815 | 61,562 |
| Share-based payments | 29,883 | - |
| | <u>2,904,077</u> | <u>2,354,957</u> |

Note 27. Related party transactions

Parent entity

National Tyre & Wheel Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 33.

Key management personnel

Disclosures relating to key management personnel are set out in note 26 and the remuneration report included in the directors' report.

Transactions with related parties

During the financial year, the Group leased business premises owned by closely related parties of key management personnel. One lease expires on 30 May 2023 and has two 5 year renewal options and the other lease ending during the year. Rent payments for the financial year totalled \$214,845 (2019: \$329,900), with \$Nil outstanding at 30 June 2020 (2019: \$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 28. 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.

Note 28. Financial instruments (continued)

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 2020, the Group had forward foreign exchange contracts to acquire USD \$10,700,000 (2019: USD \$15,900,000). These are due to mature within 5 months of balance date. The fixed exchange rates on these contracts ranged from 0.5970 to 0.6972 (2019: 0.6675 to 0.7154).

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

| | 2020 \$'000 | 2019 \$'000 |
|---|-----------------|-----------------|
| Cash | 235 | - |
| Trade payables | (12,405) | (20,094) |
| Buy foreign currency (held for trading) | (943) | 24 |
| | <u>(13,113)</u> | <u>(20,070)</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:

| | % change | AUD strengthened Effect on profit | | % change | AUD weakened Effect on profit | |
|-------------|----------|--------------------------------------|------------------|----------|----------------------------------|------------------|
| | | before tax | Effect on equity | | before tax | Effect on equity |
| 2020 | | | | | | |
| USD | 10% | <u>1,192</u> | <u>834</u> | 10% | <u>(1,457)</u> | <u>(1,020)</u> |
| 2019 | | | | | | |
| USD | 10% | <u>1,825</u> | <u>1,277</u> | 10% | <u>(2,230)</u> | <u>(1,561)</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 2020 was \$235,000 (2019: loss of \$51,000).

Price risk

The Group is not exposed to any significant price risk.

Note 28. Financial instruments (continued)

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:

| | 2020 | 2019 |
|--|----------------------|----------------------|
| | \$'000 | \$'000 |
| Bank overdraft | - | 477 |
| Borrowings | <u>12,223</u> | <u>12,583</u> |
| Net exposure to cash flow interest rate risk | <u><u>12,223</u></u> | <u><u>13,060</u></u> |

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

The weighted average interest rate on borrowings during the year ended 30 June 2020 was 0.91% (2019: 1.30%).

For the Group the bank loans outstanding, totalling \$12,223,000 are interest only payment loans (2019: \$12,583,000 principal and interest payment loans). An official increase/decrease in interest rates of 50 (2019: 50) basis points would have an adverse/favourable effect on profit before tax of \$61,000 (2019: \$63,000) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts forecasts. No minimum principal repayments (2019: \$1,438,000) are due during the subsequent 12 month period.

Credit risk

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

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

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

Liquidity risk

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

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

Financing arrangements

Unused borrowing facilities at the reporting date:

| | 2020 | 2019 |
|----------------|---------------|---------------|
| | \$'000 | \$'000 |
| Bank guarantee | <u>2,212</u> | <u>1,265</u> |

Note 28. Financial instruments (continued)

The bank guarantee facilities may be drawn at any time and have a weighted average maturity of 2.24 years (2019: 2.21 years).

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.

| | <i>1 year or less</i> | <i>Between 1 and</i> | <i>Between 2 and</i> | <i>Over 5 years</i> | <i>Remaining</i> |
|--|-----------------------|----------------------|----------------------|---------------------|--------------------|
| | <i>\$'000</i> | <i>2 years</i> | <i>5 years</i> | <i>\$'000</i> | <i>contractual</i> |
| 2020 | | <i>\$'000</i> | <i>\$'000</i> | <i>\$'000</i> | <i>maturities</i> |
| | | | | | <i>\$'000</i> |
| Non-derivatives | | | | | |
| <i>Non-interest bearing</i> | | | | | |
| Trade payables | 21,581 | - | - | - | 21,581 |
| Other payables | 1,372 | - | - | - | 1,372 |
| <i>Interest-bearing - variable</i> | | | | | |
| Bank overdraft | - | - | - | - | - |
| Bank loans | - | - | 12,233 | - | 12,233 |
| <i>Interest-bearing - fixed rate</i> | | | | | |
| Lease liability | 3,298 | 3,115 | 5,195 | 860 | 12,468 |
| Total non-derivatives | <u>26,251</u> | <u>3,115</u> | <u>17,428</u> | <u>860</u> | <u>47,654</u> |
| Derivatives | | | | | |
| Forward foreign exchange contracts net settled | (943) | - | - | - | (943) |
| Total derivatives | <u>(943)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(943)</u> |
| | <i>1 year or less</i> | <i>Between 1 and</i> | <i>Between 2 and</i> | <i>Over 5 years</i> | <i>Remaining</i> |
| | <i>\$'000</i> | <i>2 years</i> | <i>5 years</i> | <i>\$'000</i> | <i>contractual</i> |
| 2019 | | <i>\$'000</i> | <i>\$'000</i> | <i>\$'000</i> | <i>maturities</i> |
| | | | | | <i>\$'000</i> |
| Non-derivatives | | | | | |
| <i>Non-interest bearing</i> | | | | | |
| Trade payables | 27,383 | - | - | - | 27,383 |
| Other payables | 608 | - | - | - | 608 |
| <i>Interest-bearing - variable</i> | | | | | |
| Bank loans | 477 | - | - | - | 477 |
| | 1,460 | 1,460 | 9,727 | - | 12,647 |
| <i>Interest-bearing - fixed rate</i> | | | | | |
| Lease liability | - | - | - | - | - |
| Total non-derivatives | <u>108</u> | <u>78</u> | <u>25</u> | <u>-</u> | <u>211</u> |
| Derivatives | | | | | |
| Forward foreign exchange contracts net settled | 24 | - | - | - | 24 |
| Total derivatives | <u>24</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>24</u> |

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

Note 29. 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

| 2020 | <i>Level 1</i> \$'000 | <i>Level 2</i> \$'000 | <i>Level 3</i> \$'000 | <i>Total</i> \$'000 |
|--|--------------------------|--------------------------|--------------------------|------------------------|
| Forward foreign exchange contracts - derivatives | - | (943) | - | (943) |
| Total liabilities | - | (943) | - | (943) |
| | <i>Level 1</i> \$'000 | <i>Level 2</i> \$'000 | <i>Level 3</i> \$'000 | <i>Total</i> \$'000 |
| 2019 | | | | |
| Forward foreign exchange contracts - derivatives | - | 24 | - | 24 |
| Total assets | - | 24 | - | 24 |

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.

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 30. Commitments

| | 2019 \$'000 |
|---|------------------------------|
| <i>Capital commitments</i> | |
| Committed at the reporting date but not recognised as liabilities, payable: | |
| Property, plant and equipment | 283 |
| <i>Lease commitments - operating</i> | |
| Committed at the reporting date but not recognised as liabilities, payable: | |
| Within one year | 2,279 |
| One to five years | 2,874 |
| | 5,153 |
| | |
| | 2019 \$'000 |
| <i>Lease commitments - finance</i> | |
| Committed at the reporting date and recognised as liabilities, payable: | |
| Within one year | 116 |
| One to five years | 109 |
| Total commitment | 225 |
| Less: Future finance charges | (14) |
| Net commitment recognised as liabilities | 211 |
| | |
| Representing: | |
| Lease liability - current | 108 |
| Lease liability - non-current | 103 |
| | 211 |

From 1 July 2019, the group has recognised right-of-use assets for these leases, except for short-term and low-value leases. Refer to further information in note 2 and note 18.

Note 31. Remuneration of auditors

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

| | 2020 \$ | 2019 \$ |
|---|-----------------------|-----------------------|
| <i>Audit services - Pitcher Partners</i> | | |
| Audit or review of the financial statements | 200,998 | 200,000 |
| <i>Other services - Pitcher Partners</i> | | |
| Transaction services | 115,000 | 145,451 |
| Tax compliance services | 118,620 | 128,612 |
| IT consulting services | 4,800 | - |
| | <u>238,420</u> | <u>274,063</u> |
| | <u>439,418</u> | <u>474,063</u> |
| <i>Audit services - network firms</i> | | |
| Audit or review of the financial statements | 27,222 | 18,882 |
| <i>Other services - network firms</i> | | |
| Other assurance services | 12,923 | 592 |
| | <u>40,145</u> | <u>19,474</u> |

Note 32. Contingent liabilities

The Group has given bank guarantees as at 30 June 2020 of \$1,945,000 (2019: \$2,892,000) to various landlords and suppliers for standby letters of credit.

Note 33. 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 | |
|---|---|--------------------|-----------|
| | | 2020 % | 2019 % |
| Exclusive Tyres Distributors Pty Ltd | Australia | 100.00% | 100.00% |
| Exclusive Tyres Distributors (NZ) Limited | New Zealand | 100.00% | 100.00% |
| Dynamic Wheel Co Pty Limited | Australia | 100.00% | 100.00% |
| M.P.C Mags and Tyres Pty Ltd | Australia | 100.00% | 100.00% |
| Top Draw Tyres Proprietary Limited | South Africa | 50.00% | 50.00% |
| Statewide Tyre Distribution Pty Ltd | Australia | 100.00% | 100.00% |

Note 34. Parent entity information

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

| | Parent Entity | |
|---|----------------------|----------------------|
| | 2020 | 2019 |
| | \$'000 | \$'000 |
| <i>Statement of profit or loss and other comprehensive income</i> | | |
| Profit/(loss) after income tax | 1,539 | (524) |
| Total comprehensive income | <u>1,539</u> | <u>(524)</u> |
| <i>Statement of financial position</i> | | |
| Total current assets | 2,538 | 1,230 |
| Total assets | 57,340 | 56,136 |
| Total current liabilities | 8,690 | 5,197 |
| Total liabilities | 20,957 | 16,408 |
| Equity | | |
| Issued capital | 65,272 | 65,272 |
| Reserves | 55 | - |
| Accumulated losses | (28,944) | (25,544) |
| Total equity | <u>36,383</u> | <u>39,728</u> |

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 2020 and 30 June 2019. Refer to note 35.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2020 and 30 June 2019.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2020 and 30 June 2019.

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 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; and
 Exclusive Tyres Distributors (NZ) Limited.

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'.

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

| | Closed Group | |
|---|---------------------|---------------|
| | 2020 | 2019 |
| | \$'000 | \$'000 |
| Statement of profit or loss and other comprehensive income | | |
| Revenue | 98,927 | 110,442 |
| Other income | 3,020 | 107 |
| Cost of goods sold | (73,184) | (78,409) |
| Employee benefits and other related costs | (10,686) | (11,647) |
| Depreciation and amortisation | (3,800) | (1,625) |
| Professional fees and insurance | (1,101) | (1,210) |
| Marketing | (3,322) | (5,176) |
| Occupancy | (435) | (3,335) |
| Other | (2,826) | (3,465) |
| Finance | (804) | (641) |
| | <u>5,789</u> | <u>5,041</u> |
| Profit before income tax expense | 5,789 | 5,041 |
| Income tax expense | (1,845) | (2,576) |
| | <u>3,944</u> | <u>2,465</u> |
| Profit after income tax expense | 3,944 | 2,465 |
| Other comprehensive income | | |
| Foreign currency translation | (89) | 132 |
| | <u>(89)</u> | <u>132</u> |
| Other comprehensive income for the year, net of tax | (89) | 132 |
| | <u>(89)</u> | <u>132</u> |
| Total comprehensive income for the year | 3,855 | 2,597 |
| | <u>3,855</u> | <u>2,597</u> |
| Equity – retained earnings | | |
| Retained earnings at the beginning of the financial year | 1,201 | 2,373 |
| Profit after income tax expense | 3,944 | 2,465 |
| Dividends paid | (4,939) | (3,637) |
| Transfer from share-based payments reserve | (129) | - |
| | <u>78</u> | <u>1,201</u> |
| Retained earnings at the end of the financial year | <u>78</u> | <u>1,201</u> |

Note 35. Deed of cross guarantee (continued)

| Statement of financial position | Closed Group | |
|----------------------------------|----------------------|----------------------|
| | 2020 \$'000 | 2019 \$'000 |
| Current assets | | |
| Cash and cash equivalents | 18,803 | 14,747 |
| Trade and other receivables | 14,728 | 16,883 |
| Inventories | 19,068 | 26,299 |
| Derivative financial instruments | - | 19 |
| Prepayments | 538 | 543 |
| Income tax refund due | - | 225 |
| | <u>53,137</u> | <u>58,716</u> |
| Non-current assets | | |
| Other financial assets | 33,567 | 33,567 |
| Property, plant and equipment | 2,667 | 2,575 |
| Right-of-use assets | 10,694 | - |
| Intangible assets | 7,233 | 7,922 |
| Deferred tax | 1,870 | 1,363 |
| | <u>56,031</u> | <u>45,427</u> |
| Total assets | <u>109,168</u> | <u>104,143</u> |
| Current liabilities | | |
| Trade and other payables | 15,253 | 21,631 |
| Borrowings | - | 1,458 |
| Provisions | 2,290 | 2,077 |
| Derivative financial instruments | 740 | - |
| Lease liabilities | 2,894 | - |
| Current tax liability | 894 | - |
| | <u>22,071</u> | <u>25,166</u> |
| Non-current liabilities | | |
| Borrowings | 12,223 | 11,213 |
| Lease liabilities | 8,451 | - |
| Provisions | 1,159 | 1,291 |
| | <u>21,833</u> | <u>12,504</u> |
| Total liabilities | <u>43,904</u> | <u>37,670</u> |
| Net assets | <u><u>65,264</u></u> | <u><u>66,473</u></u> |
| Equity | | |
| Issued capital | 65,272 | 65,272 |
| Reserves | (86) | - |
| Retained earnings | 78 | 1,201 |
| | <u>65,264</u> | <u>66,473</u> |
| Total equity | <u><u>65,264</u></u> | <u><u>66,473</u></u> |

Note 36. Events after the reporting period

On 4 August 2020, the Group completed the transformative acquisition of the business assets and operations of Tyres4U in Australia and New Zealand. Consideration totalled \$48.7m which was paid in cash and NTD shares. To assist with the acquisition, NTD renegotiated its debt facilities with Commonwealth Bank of Australia which has increased the total debt facility to \$68.5m. A total of 11.3m shares were issued (bringing the total number of ordinary shares to 114.2m) using NTD's available capacity under ASX Listing Rule 7.1 and are subject to voluntary escrow of 18 months from the date of issue.

No other matter or circumstance has arisen since 30 June 2020 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.

National Tyre & Wheel Limited and its controlled entities
Directors' declaration
30 June 2020



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 2020 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

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

Murray Boyte
Chairman

25 August 2020
Brisbane

**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 its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2020, 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, 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 2020 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 (including Independence Standards)* "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 Company, 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.

| Key Audit Matter | How our audit addressed the key audit matter |
|--|--|
| Impairment of goodwill and separately identifiable intangible assets | |
| Refer to Note 15: Intangibles | |
| <p>As part of business combinations completed during prior years, the Group 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 & 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, key estimates and significant judgements such as growth rate, discount rate and terminal value.</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"> • Understanding and evaluating management's processes and controls; • 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; • Comparing the cash flow forecasts used in the value-in-use calculations to Board approved budgets for the 2021 financial year and the Group's historic actual performance; • Assessing the significant judgements and key estimates used for the impairment assessment, in particular, those judgements relating to the discount rate, terminal value and cash flow forecasts; • Checking the mathematical accuracy of the impairment testing model and agreed relevant data to the latest budgets; • Performing sensitivity analysis by varying significant judgements and key estimates, including the discount rate and growth rate inputs, for the CGUs to which goodwill relates; and • Assessing the adequacy of the Group's disclosures in respect of impairment testing of goodwill and indefinite useful life intangible assets. |

Adoption of Australian Accounting Standard AASB 16 Leases

Refer to Note 14: Right-of-use assets & Note 18 Lease Liabilities

The 30 June 2020 financial year was the first year of adoption for Australian Accounting Standard AASB 16 Leases. The Group has entered into a significant volume of leases by number and value, over properties, motor vehicles and equipment as a lessee.

The Group elected to apply the modified retrospective approach. Effective on the date of transition, a \$4,441,000 Lease Liability and \$4,202,000 of Right of Use Assets were recognised, with an after-tax adjustment of \$146,000 impacting retained earnings.

Given the financial significance to the Group of its leasing arrangements, the complexity and management's judgements involved in the application of AASB 16, such as, the Incremental Borrowing Rate, inputs within lease calculations and the transition requirements of the standard, this was assessed as a key audit matter.

Our procedures included, amongst others:

- Understanding and evaluating management's processes and controls related to the identification, recognition and measurement of lease liabilities and right of use assets;
- Assessing the integrity of the management's AASB 16 lease calculation model, including the accuracy of formulas;
- Agreeing management's inputs into the AASB 16 lease calculation model, using audit sampling to agree the lease term, fixed and variable rent payments, renewal options and lease incentives back to underlying executed lease agreements;
- Assessing the reasonableness of management's assumptions in relation to the accounting treatment of lease renewal options under AASB 16;
- Assessing the reasonableness of the Incremental Borrowing Rate used to discount future lease payments to present value; and
- Reviewing whether the Group's new accounting policy satisfied the requirements of AASB 16 including the adoption of practical expedients applied by management for the transitional accounting.

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 2020, 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 Company 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, actions taken to eliminate threats or safeguards applied.

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 9 to 20 of the directors' report for the year ended 30 June 2020. In our opinion, the Remuneration Report of National Tyre & Wheel for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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



PITCHER PARTNERS



WARWICK FACE
Partner

Brisbane, Queensland
25 August 2020

National Tyre & Wheel Limited and its controlled entities
Shareholder information
30 June 2020



The shareholder information set out below was applicable as at 18 August 2020.

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 | 70 |
| 1,001 to 5,000 | 339 |
| 5,001 to 10,000 | 233 |
| 10,001 to 100,000 | 451 |
| 100,001 and over | 76 |
| | <u>1,169</u> |
| Holding less than a marketable parcel | <u>62</u> |

Equity security holders

Twenty largest quoted equity security holders

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

| | Ordinary shares % of total shares issued | |
|--|---|--------------|
| | Number held | |
| ST Corso Pty Ltd | 26,750,297 | 23.42 |
| J P Morgan Nominees Australia Pty Limited | 13,429,417 | 11.76 |
| EM Australia 2021 Pty Ltd (previously Tyres4U Pty Ltd) | 10,617,107 | 9.30 |
| Sandhurst Trustees Ltd (Collins St Value Fund A/C) | 4,794,267 | 4.20 |
| HSBC Custody Nominees (Australia) Limited | 4,108,139 | 3.60 |
| National Nominees Limited | 4,095,737 | 3.59 |
| Roshan Charles Chelvaratnam | 3,732,787 | 3.27 |
| BNP Paribas Nominees Pty Ltd (IB AU Noms Retailclient DRP) | 3,292,643 | 2.88 |
| Mr John Peter Ludemann | 2,589,928 | 2.27 |
| S.N. Tyre Wholesalers Pty Ltd | 2,487,440 | 2.18 |
| Mr Christian James Haustead | 1,110,000 | 0.97 |
| Mrs Christine Lorraine Hummer | 1,048,929 | 0.92 |
| Mrs Christine Lorraine Hummer | 1,048,928 | 0.92 |
| Mr Christopher John Hummer | 1,048,928 | 0.92 |
| Mr Christopher John Hummer | 1,011,337 | 0.89 |
| Altor Capital Management Pty Ltd (Altor Alpha Fund A/C) | 1,000,000 | 0.88 |
| Tyre & Tube Australia (Services) Pty Ltd | 698,796 | 0.61 |
| Citicorp Nominees Pty Limited | 695,048 | 0.61 |
| Trevor John Wren | 655,737 | 0.57 |
| Mrs Tracey Lee Cunningham (The Avebury Family A/C) | 600,000 | 0.53 |
| | <u>84,815,465</u> | <u>74.29</u> |

Unquoted equity securities

There are 1,845,000 unquoted unissued ordinary shares of National Tyre & Wheel Limited under option at the date of this report.

National Tyre & Wheel Limited and its controlled entities
Shareholder information
30 June 2020



Substantial holders

Substantial holders in the Company are set out below:

| | Ordinary shares | % of total |
|--|------------------------|-------------------|
| | Number held | shares |
| | | issued |
| ST Corso Pty Ltd atf the Smith Trading Trust, Terence Smith & Susanne Smith (together Smith Group) | 38,789,779 | 33.96 |
| National Tyre & Wheel Limited | 11,534,482 | 10.10 |
| EM Australia 2021 Pty Ltd (previously Tyres4U Pty Ltd) | 10,617,107 | 9.30 |
| Forager Funds Management Pty Ltd | 6,637,661 | 5.81 |

Voting rights

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

Ordinary shares

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

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

Securities subject to voluntary escrow

| Class | Expiry date | Number of shares |
|-----------------|--------------------|-------------------------|
| Ordinary shares | 31 May 2021 | 218,579 |
| Ordinary shares | 4 February 2022 | 11,315,903 |
| | | <u>11,534,482</u> |

National Tyre & Wheel Limited and its controlled entities

Corporate directory

30 June 2020



| | |
|---|---|
| Directors | Murray Boyte - Chairman Peter Ludemann - Chief Executive Officer and Managing Director Terry Smith Bill Cook Robert Kent |
| Company secretaries | Jason Lamb Laura Fanning |
| Registered office and principal place of business | 30 Gow Street Moorooka QLD 4105 Telephone: (07) 3212 0950 Facsimile: (07) 3212 0951 |
| Share register | Computershare Investor Services Pty Limited Level 4 60 Carrington Street Sydney NSW 2000 Telephone: 1300 787 272 |
| Auditor | Pitcher Partners Level 38 345 Queen Street Brisbane QLD 4000 |
| Solicitors | Dentons 77 Castlereagh Street Sydney NSW 2000 |
| Bankers | Commonwealth Bank of Australia Ground Floor Tower 1 201 Sussex Street Sydney NSW 2000 |
| Stock exchange listing | National Tyre & Wheel Limited shares are listed on the Australian Securities Exchange (ASX code: NTD) |
| Website | www.ntaw.com.au |
| 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: http://www.ntaw.com.au/Corporate-Governance/</p> |