METAIR
INVESTMENTS LIMITED

automotive | industrial | retail

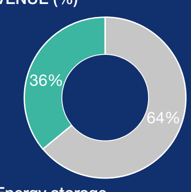
METAIR INVESTMENTS LIMITED
(Incorporated in the Republic of South Africa)
("Metair" or "the group" or "the company")

(Reg No. 1948/031013/06)
JSE and A2X share code: MTA • ISIN: ZAE000090692

CONDENSED UNAUDITED CONSOLIDATED INTERIM RESULTS

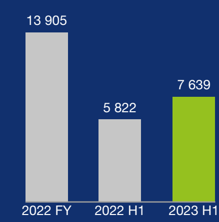
FOR THE SIX MONTHS ENDED 30 JUNE 2023

SEGMENTAL CONTRIBUTION REVENUE (%)*

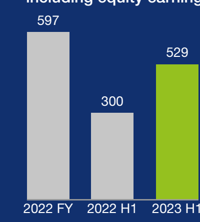


* Includes Hesto

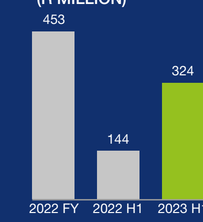
REVENUE (R'MILLION)



EBITDA (R'MILLION) including equity earnings



OPERATING PROFIT (R'MILLION)



CONSOLIDATED GROUP ASSESSED at **B-BBEE Level 1** and South African subsidiaries at level 4 or better

Revenue increased 31% to	**R7.6 bn**
Operating profit increased 124% to	**R324 m**
HEPS decreased 9% to	**41 cps**

75 years strong

CONDENSED CONSOLIDATED INCOME STATEMENT	Six months ended 30 June 2023 R'000 Unaudited	Six months ended 30 June 2022 R'000 Unaudited	Year ended 31 December 2022 R'000 Audited
Revenue	7 639 052	5 821 975	13 905 467
Cost of sales	(6 759 373)	(5 404 919)	(12 667 166)
Gross profit	879 679	417 056	1 238 301
Other operating income	119 836	351 120	537 323
Distribution, administrative and other operating expenses	(675 921)	(623 797)	(1 322 916)
Operating profit	323 594	144 379	452 708
Interest income	32 540	8 954	33 981
Interest expense	(312 252)	(133 527)	(410 747)
Net monetary gain arising from hyperinflation in Türkiye	179 604	252 822	398 066
Share of results and impairment of associates	(9 922)	(37 974)	(239 403)
Profit before taxation	213 564	234 654	234 605
Taxation	(105 088)	(138 994)	(238 517)
Profit/(loss) for the period	108 476	95 660	(3 912)
Attributable to:			
Equity holders of the company	92 919	79 980	(40 385)
Non-controlling interests	15 557	15 680	36 473
	108 476	95 660	(3 912)
Included in operating expenses above are:			
Depreciation and amortisation	212 428	183 534	372 951
Rentals on short-term and low value assets	17 623	12 294	29 579
Impairment loss on financial assets	278	105	5 724
Disaggregation of revenue from contracts with customers			
Primary geographical markets			
South Africa	5 016 807	3 085 913	7 299 507
Türkiye and UK	1 779 239	1 936 352	4 913 635
Romania	843 006	799 710	1 692 325
	7 639 052	5 821 975	13 905 467
Major product and service lines			
Automotive batteries	3 414 314	3 448 276	8 020 828
Automotive components, parts and customer tooling	3 895 837	2 088 408	5 273 089
Industrial and non-automotive products	328 901	285 291	611 550
	7 639 052	5 821 975	13 905 467
Timing of revenue recognition			
Products transferred at a point in time	4 757 757	3 944 424	8 846 805
Products and services transferred over time	2 881 295	1 877 551	5 058 662
	7 639 052	5 821 975	13 905 467
Earnings per share			
Basic earnings/(loss) per share (cents)	48	41	(21)
Headline earnings/(loss) per share (cents)	41	45	(17)
Diluted earnings per share			
Diluted earnings/(loss) per share (cents)	47	41	(21)
Diluted headline earnings/(loss) per share (cents)	41	44	(17)
Number of shares in issue ('000)	198 986	198 986	198 986
Number of shares in issue excluding treasury shares ('000)	193 770	193 581	193 770
Weighted average number of shares in issue ('000)	193 770	193 350	193 483
Adjustment for dilutive shares ('000)	2 167	2 761	3 678
Number of shares used for diluted earnings calculation ('000)	195 937	196 111	197 161
Calculation of headline earnings			
Net profit/(loss) attributable to ordinary shareholders	92 919	79 980	(40 385)
(Profit)/loss on disposal of property, plant and equipment – net	(17 953)	(598)	722
Reversal of impairment of property, plant and equipment		(2 786)	(3 057)
Impairment of associate and investment	5 199	10 440	10 440
Headline earnings/(loss)	80 165	87 036	(32 280)

CONDENSED CONSOLIDATED BALANCE SHEET	Six months ended 30 June 2023 R'000 Unaudited	Six months ended 30 June 2022 R'000 Unaudited	Year ended 31 December 2022 R'000 Audited
ASSETS			
Non-current assets			
Property, plant and equipment	3 930 224	3 449 288	3 770 774
Intangible assets	991 529	979 669	1 039 850
Investment in associates	314 670	510 185	301 060
Loan to associate	203 572	188 562	192 574
Deferred taxation	37 105	17 125	36 599
	5 477 100	5 144 829	5 340 857
Current assets			
Inventory	3 071 150	2 807 619	2 688 876
Trade and other receivables	3 348 586	2 131 401	2 874 995
Contract assets	698 857	525 238	620 069
Taxation	19 642	1 069	7 437
Derivative financial assets	16 792	15 171	1 558
Cash and cash equivalents	817 668	725 819	1 298 608
	7 972 695	6 206 317	7 491 543
Total assets	13 449 795	11 351 146	12 832 400
EQUITY AND LIABILITIES			
Capital and reserves			
Stated capital	1 497 931	1 497 931	1 497 931
Treasury shares	(106 974)	(110 202)	(106 974)
Reserves	(1 382 009)	(1 218 855)	(1 296 052)
Retained earnings	5 057 862	4 741 283	4 972 604
Ordinary shareholders' equity	5 066 810	4 910 157	5 067 509
Non-controlling interests	146 156	131 227	129 986
Total equity	5 212 966	5 041 384	5 197 495
Non-current liabilities			
Borrowings	367 568	320 187	350 180
Post-employment benefits	73 280	70 500	93 305
Deferred taxation	355 986	413 322	333 054
Deferred grant income	100 744	98 657	88 991
Provisions for liabilities and charges	49 556	41 035	46 793
	947 134	943 701	912 323
Current liabilities			
Trade and other payables	3 382 374	2 368 257	2 995 674
Contract liabilities	17 445	33 109	11 775
Borrowings	3 101 616	2 687 286	3 234 734
Taxation	50 617	66 142	43 754
Provisions for liabilities and charges	102 456	72 201	110 297
Derivative financial liabilities	5 764	1 161	8 050
Bank overdrafts	629 423	137 905	318 298
	7 289 695	5 366 061	6 722 582
Total liabilities	8 236 829	6 309 762	7 634 905
Total equity and liabilities	13 449 795	11 351 146	12 832 400
Net asset value per share (cents)	2 615	2 536	2 615
Capital expenditure	282 011	249 911	621 510
Capital commitments:			
– Contracted	133 206	584 724	143 823
– Authorised but not contracted	262 384	152 179	527 095

CONDENSED CONSOLIDATED SEGMENT REVIEW	Revenue – Six months ended 30 June 2023 R'000 Unaudited	Revenue – Six months ended 30 June 2022 R'000 Unaudited	Revenue – Year ended 31 December 2022 R'000 Audited	Profit before interest and taxation – Six months ended 30 June 2023 R'000 Unaudited	Profit before interest and taxation – Six months ended 30 June 2022 R'000 Unaudited	Profit before interest and taxation – Year ended 31 December 2022 R'000 Audited
Energy storage						
Automotive	3 414 314	3 448 276	8 020 828	151 907	(28 837)	231 153
Local	2 385 151	2 230 735	5 221 134	117 174	(62 220)	133 368
Direct export	1 029 163	1 217 541	2 799 694	34 733	33 383	97 785
Industrial	324 163	280 192	598 252	(31 051)	(15 209)	(36 456)
Local	321 328	276 807	592 277	(31 110)	(15 521)	(37 151)
Direct export	2 835	3 385	5 975	59	312	695
Total energy storage	3 738 477	3 728 468	8 619 080	120 856	(44 046)	194 697
Automotive components						
Local	6 558 119	2 644 611	7 006 218	(449 766)	177 194	34 744
Original equipment	6 094 412	2 384 502	6 401 488	(477 448)	140 257	(43 242)
Aftermarket	458 969	255 010	591 432	27 541	37 686	79 245
Non-auto	4 738	5 099	13 298	141	(749)	(1 259)
Direct exports	22 501	23 305	50 843	2 068	5 922	9 827
Original Equipment	120	2 054	2 141	64	1 180	1 279
Aftermarket	22 381	21 251	48 702	2 004	4 742	8 548
Total automotive components	6 580 620	2 667 916	7 057 061	(447 698)	183 116	44 571
Total segment results	10 319 097	6 396 384	15 676 141	(326 842)	139 070	239 268
Managed associates*	(2 680 045)	(574 409)	(1 770 674)	711 383	60 649	348 623
Amortisation and depreciation arising from business combinations acquired				(17 725)	(17 416)	(36 904)
Other reconciling items**				(43 222)	(37 924)	(98 279)
Total group results	7 639 052	5 821 975	13 905 467	323 594	144 379	452 708
Share of results and impairment of associates				(9 922)	(37 974)	(239 403)
Net finance costs				(279 712)	(124 573)	(376 766)
Net monetary gain arising from hyperinflation in Türkiye				179 604	252 822	398 066
Profit before taxation				213 564	234 654	234 605

** The results of Hesto Harnesses Pty (Ltd) ("Hesto") have been included in the segment review at 100%. Metair has a 74.9% equity interest in Hesto but is responsible for the operational management and is accordingly treated as a group company.*
*** Other reconciling items relate to Metair head office and corporate costs.*

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	Six months ended 30 June 2023 R'000 Unaudited	Six months ended 30 June 2022 R'000 Unaudited	Year ended 31 December 2022 R'000 Audited
Profit/(loss) for the period	108 476	95 660	(3 912)
Other comprehensive (loss)/income			
– Actuarial losses recognised – net	(14 794)		(21 630)
– Foreign exchange translation movements including the effect of hyperinflation	(63 557)	1 233 094	1 520 538
Net other comprehensive (loss)/income	(78 351)	1 233 094	1 498 908
Total comprehensive income for the period	30 125	1 328 754	1 494 996
Attributable to:			
Equity holders of the company	13 955	1 313 338	1 457 937
Non-controlling interests	16 170	15 416	37 059
	30 125	1 328 754	1 494 996

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	Six months ended 30 June 2023 R'000 Unaudited	Six months ended 30 June 2022 R'000 Unaudited	Year ended 31 December 2022 R'000 Audited
Balance at beginning of the period	5 197 495	3 874 354	3 874 354
Net profit/(loss) for the period	108 476	95 660	(3 912)
Other comprehensive (loss)/income for the period	(78 351)	1 233 094	1 498 908
Total comprehensive income for the period	30 125	1 328 754	1 494 996
Employee share option scheme	(15 540)	13 869	22 971
Vesting of share-based payment obligation			
– Estimated taxation effects of utilisation of treasury shares		(1 170)	(1 667)
Dividend*		(174 423)	(192 096)
Foreign currency translation, including the effect of hyperinflation	886		(1 063)
Balance at end of the period	5 212 966	5 041 384	5 197 495

** No ordinary dividend was declared for the year ended 31 December 2022. No ordinary dividend is being declared for the six months ended 30 June 2023 (30 June 2022: Rnil).*
** An ordinary dividend of R0.90 per share was declared and paid in 2022 in respect of the year ended 31 December 2021.*

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS	Six months ended 30 June 2023 R'000 Unaudited	Six months ended 30 June 2022 R'000 Unaudited	Year ended 31 December 2022 R'000 Audited
Operating activities			
Operating profit	323 594	144 379	452 708
Depreciation and amortisation	212 459	183 534	372 951
Equity earnings, before impairment	(9 922)	(27 534)	(239 403)
Net movement in provisions and similar items	(16 272)	(31 686)	19 858
Other items	(16 302)	(69 151)	206 308
Working capital changes	(535 548)	(559 237)	(661 227)
Cash (utilised)/generated from operations	(41 991)	(359 695)	151 195
Interest paid	(312 705)	(130 311)	(391 297)
Taxation paid	(102 215)	(133 722)	(269 100)
Dividends paid		(174 423)	(192 096)
Dividend income from associates		58 113	61 551
Net cash outflow from operating activities	(456 911)	(740 038)	(639 747)
Investing activities			
Interest received	21 542	8 954	33 981
Acquisition of property, plant and equipment	(274 954)	(227 232)	(424 715)
Loan to related party		(188 562)	(197 674)
Net cash utilised in other investing activities	22 345	4 712	(11 767)
Net cash flow from investing activities	(231 067)	(402 128)	(600 175)
Financing activities			
Borrowings raised – net	36 579	803 100	1 356 701
Net cash utilised in other financing activities	(28 897)	(1 170)	(36 702)
Net cash flow from financing activities	7 682	801 930	1 319 999
Net (decrease)/increase in cash and cash equivalents	(680 296)	(340 236)	80 077
Cash and cash equivalents at beginning of the period	980 310	961 895	961 895
Exchange loss and hyperinflation impact on cash and cash equivalents	(111 769)	(33 745)	(61 662)
Cash and cash equivalents at end of the period	188 245	587 914	980 310

NOTES TO THE CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Basis of preparation

The condensed unaudited consolidated interim results for the six months ended 30 June 2023 have been prepared in accordance with and containing the information required by IAS 34: Interim Financial Reporting, as well as the Financial Pronouncements as issued by the Financial Reporting Standards Council and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee. The interim results do not include all the notes of the type normally included in an annual financial report prepared in accordance with the International Financial Reporting Standards ("IFRS"). Accordingly, this report is to be read in conjunction with the consolidated annual financial statements for the year ended 31 December 2022, which have been prepared in accordance with IFRS and comply with the JSE Limited Listings Requirements, the requirements of the Companies Act, 71 of 2008 and any public announcements made by Metair during the interim reporting period.

Accounting policies

The accounting policies applied are in terms of IFRS and are consistent with accounting policies used in the preparation of the 31 December 2022 consolidated annual financial statements. The interim results have not been reviewed or audited by the group's auditors.

Contingencies

There has been no other material change in the group's contingent liabilities since period-end.

Borrowings

During the period the group repaid borrowings of R521.3 million (H1'22: R510.4 million) and raised borrowings of R557.9 million (H1'22: R1 332.8 million).

Post-balance sheet events

The shareholders of Hesto have resolved to provide further financial guarantees, on behalf of lenders, over a general banking facility of R68.5 million to Hesto. There has been no material change since period-end.

The interim results presentation will be available on the company's website (www.metair.co.za)
Live webcast: A live webcast of the presentation will be available at 14h00 (SAST) on Thursday, 14 September 2023 at https://www.corpcam.com/Metair14092023

REGISTRARS
Computershare Investor Services (Pty) Limited
Rosebank Towers, 15 Biermann Avenue,
Rosebank, 2196

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Signed on behalf of the Board in Johannesburg on 13 September 2023.

TN Mgoduso – Chairperson

S Douwenga – Chief Executive Officer

The condensed unaudited consolidated interim results were produced under the supervision of Mr A Jogia (CFO) CA(SA).

EXECUTIVE DIRECTORS: S Douwenga (CEO); A Jogia (CFO)
INDEPENDENT NON-EXECUTIVE DIRECTORS: TN Mgoduso (Chairperson); B Mawasha (Lead Independent); PH Giliam; N Medupe; NL Mkhondo; MH Muell (German); A Sithebe; S Sithole (Zimbabwean) (Alternate director to NL Mkhondo)
COMPANY SECRETARY: SM Vermaak

Interim Results Commentary

Introduction

Metair successfully navigated challenging operational environments within all the geographies it operates in. Management's active engagement helped stabilise the group, and the group's operating results have demonstrated the robustness of our business model in coping with numerous challenges including the Russia/Ukraine war, onset of hyperinflation in Türkiye, and more recently, the short-term market impact of the earthquake in Türkiye, as well as extremely high borrowing costs within that region. Additionally, we continued the launch of Metair's single largest Original Equipment Manufacturer ("OEM") project in South Africa ("SA"). Within SA, OEM customer production volumes (and Metair market share) continued to improve, supported by new vehicle launches and strong export volumes. As expected, upon the launch of any major project, volume variability and market instability negatively impacted manufacturing efficiencies. Most of the group's investee companies performed well, however, the performance of the group's major associate investment, Hesto Harnesses ("Hesto"), proved to be the most impacted with significant manufacturing complexities during the ramp-up of the Ford project mainly due to customer design and product mix changes. The results of Mutlu Akü ("Mutlu"), the group's major battery manufacturer in Türkiye, were stronger operationally but volumes were impacted by the loss of exports, most notably to Russia and the United States of America ("US"). Turkish economic policies pre and post elections have resulted in a continuation of high inflation and commercial interest rates increased significantly in the country. Banking liquidity regulations also made the availability of working capital facilities very expensive and therefore impacted after tax profits from Mutlu.

Group performance

Group revenue increased 31% to R7.6 billion (H1'22: R5.8 billion), reflecting the recovery in local OEM volumes following the KZN floods and the resulting loss of sales to the group's key customer in FY'22. The group also commenced mass production and volume ramp-up for new customer vehicle models, most notably for FMCSA ("Ford"). Group operating profit increased by R180 million to R324 million (H1'22: R144 million) and operating margin improved to 4.2% (H1'22: 2.5%). Group earnings before interest, tax, depreciation, and amortisation ("EBITDA") (including equity earnings, but excluding impairments) increased to R529 million (H1'22: R300 million) and EBITDA margin improved to 6.9.% (H1'22: 5.2%). The increase in operating profit is mainly because of stronger SA OEM vehicle production and higher profitability from Mutlu. Net finance expenses increased by 125% to R280 million (H1'22: R125 million) due to increased interest rates in the geographies we operate in, specifically in Türkiye where market interest rates on average exceed 40%, combined with higher net debt levels to support customer expansion and high working capital investments. Headline earnings per share declined 9% to 41 cents per share (H1'22: 45 cents per share) mainly due to the high interest charges. Return on invested capital ("ROIC") was 5.3% (H1'22: 11.7%), as a result of the high investment in new projects and profitability still to be realised.

Share of equity losses from associates amounted to R10 million (H1'22 R38 million loss). Hesto incurred an operating loss of R711 million for the period, largely due to higher-than-expected ramp-up costs resulting from product design complexities (higher work content and overall design) associated with the Ford business. The group's proportionate share of Hesto post-tax equity losses amounted to R427 million. However, in terms of equity accounting rules under IFRS (IAS28), if there are no contractual obligations for shareholders to directly fund Hesto's operating losses, the share of losses exceeding the carrying value of the underlying investment are capped until sufficient profits are generated to reverse the accumulated loss position. Therefore, Hesto losses are not included in the group's results, but are included for segment reporting and debt covenant calculations.

Segmental and operational review

Automotive Components Vertical

The Automotive Components Vertical experienced strong revenue growth, contributing R6.6 billion (H1'22 R2.6 billion), an increase of 147% from H1'22. OEM market production increased by 11% to c. 293 000 vehicles, and the group's major customers' volumes increased 21% from H1'22 driven by new models and post KZN flood recovery. The group successfully launched full start of production for the Ford Ranger however, production at Hesto was extremely challenging and complicated with significant design and engineering changes post-production. A model facelift which significantly impacted the harness design and manufacturing was also introduced in April. This complexity necessitated higher than expected up-front costs, labour and line capacity as well as inventory at Hesto, which we aim to correct and recover in line with commercial negotiations with our customer. Unfortunately, further once-off airfreight and labour costs (c. R465 million), resulted in an overall operating loss of R448 million (H1'22: R183 million profit). Other subsidiaries with automotive operations performed well given the ramp-up of a major new customer, generating operating profit of R264 million (H1'22: R244 million) at a margin of c. 6.8%, slightly impacted by customer volume and mix variability.

Energy Storage Vertical

Automotive battery volumes remained robust in a tough market and operating conditions as inflationary cost pressures and geo-political factors dampened local aftermarket and export sales. Total units sold declined 10% to 3.58 million units (H1'22: 3.99 million units), mainly from lower export sales to Russia and US. The European Union sanction regulations imposed on Russia, resulted in listing of automotive batteries being designated as banned products. Mutlu is a Turkish operation and has exposure to European suppliers and customers and therefore undertook a detailed legal and risk assessment on the impact. Unfortunately, due to complex legal, supplier and customer compliance considerations, Mutlu imposed self-sanction protocols to terminate export sales to Russia. Sales orders from a key customer in the US were cancelled due to lower market demand and loss of an aftermarket wholesale contract.

Total export volumes therefore decreased c. 32% to 1.1 million units for the period, impacting hard currency earnings, largely for Mutlu. Total local aftermarket sales were flat at 1.17 million units, stronger First Battery ("FB", previously First National Battery) sales compensated for the impact of dampened consumer confidence and rising living costs in Türkiye and Romania. OEM sales volumes increased by 9% from H1'22 to 1.3 million units for the period.

Reported Energy Storage Vertical revenue amounted to R3.74 billion (H1'22: R3.73 billion), generating operating profit of R121 million (H1'22: R44 million loss) and operating margins increased from -1.2% to 3.2%. On a pre-hyperinflation basis, operating profit increased to R291 million (H1'22: R273 million) with a margin of 7.2% (H1'22: 7.7%). Mutlu recovered from a reported operating loss of R160 million in H1'22 to a profit of R49 million, contributing to group operating profit improvement. Mutlu's local currency (pre-hyperinflation) operating profit increased by 59% to 239 million Turkish Lira ("TL") 239 million, at an operating profit margin of 10.8% (H1'22: 9.1%) resulting in South African Rand ("ZAR") translated operating profit of R220 million (H1'22: R156 million). The TL currency devalued on average by 12% against the ZAR and Türkiye's inflation rate rose to 19.8% in H1'23, less severe than the prior comparative period of 42.5%. FB's operating profit decreased to R83 million from R94 million in H1'23, margins declined to 7.4% (H1'22: 9.5%) as FB strategise to improve local market share. Rombat incurred an operating loss of R11 million due to continued lower aftermarket sales as a result of regional instability and high inflation. Sales of industrial batteries increased to R324 million (H1'22: R280 million) and FB expanded its traded product portfolio to increase the range of standby, renewable energy applications and industrial backup solutions.

Financial position

Group net asset value per share remained at 2 615 cents (FY'22: 2 615 cents). Net working capital increased by R543 million to R3.72 billion (FY'22: R3.18 billion), impacted by various factors namely, supply chain instability resulting in increased safety stock levels for long lead times on imported components, higher raw materials on hand because of variability in customer call offs, build-up of battery stocks in anticipation of second half seasonality and higher trade receivables following normalisation in automotive revenues. Cash utilised in operations amounted to R42 million (H1'22: utilised R360 million) and free cash flow consumed amounted to R384 million (H1'22 R567 million). Cash and cash equivalents declined to R188 million from R980 million in FY'22. Group net debt (borrowings less cash and cash equivalents) increased to R3.2 billion (FY'22: R2.6 billion) primarily due to the higher working capital levels, debt funding on capital expenditure for new customer models and efficiency and expansion projects. Approximately 28% of net debt arises in the international battery businesses and 72% in SA. Loss of export revenues in Türkiye, combined with the higher OEM sales mix impacted cash generation and working capital cycle of Mutlu. The group's net debt to equity ratio increased to 64% (FY'22: 51%), but net debt to EBITDA decreased to 3.9 times (FY'22: 4.4 times). On a normalised basis, group net debt to EBITDA amounted to 2.3 times (after adjusting for the impact of hyperinflation and once-off Ford project ramp-up costs).

Financial guarantees

During the period under review the group provided additional financial guarantees, amounting to c. $57 million, for funding and trade credit support advanced to Hesto by the controlling shareholder, Yazaki Corporation. The funding support is subordinated in favour of external funders.

Going concern and debt covenants

The group's revolving credit facilities ("RCFs") of R1 275 million (RCF 1, R750 million maturing August 2026 and RCF 2, R525 million maturing April 2024) and preference share funding of R840 million (maturing December 2024) are subject to covenant methodology and classified as current debt since covenants were breached at balance sheet date. On a covenant funding basis, which includes Hesto's results and debt, group net debt amounted to R4.9 billion. The group's major funder has waived the current covenant breaches (including Hesto) and efforts are underway to correct the position. In principle, covenant levels will be adjusted to accommodate for the significant new model ramp-up losses incurred at Hesto and allow for additional headroom. In terms of the revised principles and adjustments to EBITDA, priority debt cover amounts to 1.8 times (required to be not more than 2 times), gearing amounts to 3.6 times cover (required to be not more than 4 times) and interest cover amounts to 2.1 times (required to be not less than 2 times). Efforts are underway to resolve the covenant position going forward.

Unutilised credit facilities amounted to R569 million (H1'22: R919 million) in SA, R1 033 million (H1'22: R796 million) at Rombat and Mutlu, and R40 million (H1'22: R280 million) remaining in the SA RCF facility. Management continues to closely monitor the group's financial position and is focused on effective cash management, especially in the areas of working capital, cost control and capital expenditures as the business normalises.

The Metair board of directors re-assessed the long-term viability of the Ford project, and in particular Hesto. Together with the support of our technical partner, customer, commercial alignment processes, and cost reduction and efficiency improvements, the project remains sustainable over the remaining model life. Management has determined that there is no material uncertainty or significant doubt upon the group's ability to continue as a going concern and sufficient facilities are available for ongoing operational requirements within the group.

Capital expenditure (including Hesto)

Capital expenditure spent was R316 million of which R110 million was allocated to maintenance, R185 million to expansion and R21 million health and safety related. 57% was spent in SA while 43% was spent in our international battery businesses. Majority of the capital expenditure focused on capacity expansion for the Automotive Components Vertical to invest in facilities, tooling and machinery required to support planned new model launches and facelifts, and technology enhancements in the Energy Storage Vertical to improve competitive position, efficiency, and heavy-duty battery capacity.

New model and facelift launches are expected to drive meaningful growth over the medium to long term, most notably the ongoing contract to support Ford's investment into the SA automotive industry.

Hyperinflation in Türkiye

The impact of IAS 29 on Mutlu's pre-hyperinflationary results and consequently on Metair's consolidated results are as follows:

- Operating profit decline of c. R182 million (H1'22 decline of R328 million)
- Profit after tax gain of c. R9 million (H1'22 loss of R95 million), arising from restatements of net non-monetary assets, liabilities and equity through profit and loss
- A net monetary gain amounting to c. R180 million (H1'22 R253 million) through profit and loss
- Cumulative uplift in assets of R1.8 billion and R1.7 billion in equity relating to foreign currency translation gains within other comprehensive income.

Outlook and prospects

Metair's priority is to achieve efficient steady state manufacturing of new models and facelifts in the period ahead. As such, effective project management, improved operating efficiencies, cost and working capital control will be focus areas as OEM production volumes grow. The outlook for the year is therefore dependent on the production stability and the successful normalisation of Hesto manufacturing margins. Margins should still improve towards the Metair market guidance of operating profit between 7% and 9%. The Automotive Components Vertical continues to benefit from strong underlying operational performance with growth in OEM volumes in years to come.

The Energy Storage Vertical continues to focus on improving volumes, securing new hard currency export markets, and expanding its traded industrial portfolio in SA. A major focus for Mutlu will be managing the current inflationary and higher interest rate pressures in H2'23, cost recovery and mitigation in line with current lower production volumes while sourcing new export customers. FB in SA continues efforts to successfully improve competitiveness, market share, and scaling the renewable energy business. The group expects Rombat to return to profitability in H2'23 during peak seasonality cycle.

Metair continues to actively work towards value creation opportunities within both business Verticals including the potential exit of the Li-ion line in Romania.

The group will be focused on improving profitability, lowering debt and effectively managing working capital levels. However, the group will continue to experience elevated finance costs due to recent investments in new customer vehicle models, high working capital levels and higher interest rates in all our markets, particularly in Türkiye.