METAIR INVESTMENTS LIMITED
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("**Metair**" or the "**Group**")

VOLUNTARY OPERATIONAL UPDATE

The Automotive Components Vertical and Energy Storage Vertical are performing well relative to their challenging operating environments. Key projects remain on track in the Automotive Components Vertical despite the impact of global supply chain disruptions, semi-conductor shortages and shipping constraints, including Transnet port disruptions. The Energy Storage Vertical continues to deliver strong automotive battery volumes and revenues despite the Turkish and Romanian operations navigating through short term inflationary cost pressures and the ongoing war in Ukraine. Inflation in Turkey rose dramatically during the first half of the year, as indicated during the interim reporting period, with the annual inflation rate reaching 85.5% in October 2022. Despite the ongoing economic challenges in Turkey, Mutlu Akü remains resilient with management interventions yielding positive results.

Automotive Components Vertical

The temporary suspension of production at Toyota South Africa Manufacturing ("**Toyota SA**"), following the severe flooding in KwaZulu-Natal ("**KZN**") in April 2022, impacted the South African operations significantly, however production levels resumed during September 2022 and have stabilised at pre-flood levels. The recovery of the Toyota SA Prospecton plant, which was severely damaged by floods, is a huge accomplishment by Toyota SA and was critical to the wider industry, specifically suppliers from the automotive component manufacturing sector. The Group business interruption insurance claim progressed well with R400 million in cash received to date. The total claim is capped at R500 million and is expected to be finalised in January 2023, with the final claim currently under review by the insurers.

Production of the Group's major new model investment, the next-generation Ford Ranger, commenced on Wednesday, 16 November 2022 at Ford's Silverton assembly plant. Metair subsidiaries have entered production and ramp-up phases with peak production levels planned from January 2023. The vertical expects to incur pre-production and engineering (project) cash costs of up to R475 million related to the new model in FY2022, of which we expect at least 35% will be capitalised.

Raw material shortages (including semi-conductor chips), supply chain delays and the loss of Toyota SA production time due to the KZN flooding have impacted Original Equipment Manufacturer ("**OEM**") volumes. While there is a degree of uncertainty around the short-term volume fluctuation for the remainder of the year, volume expectations over the model lives remain unchanged. Metair expects 2022 industry OEM production volumes to be ahead of 2021 volumes, at c.550 000 cars, which represents c. 90% of 2019 (pre-Covid) volumes. Metair expects OEM production volumes to be progressively increasing in excess of c. 700,000 from 2023, subject to supply chain stability.

Management interventions to curb the impact of short-term operational pressures are in place and ongoing investments are expected to deliver returns in line with Metair's targets over the life of the contracts. New model and facelift launches are expected to drive meaningful growth over the medium to long term, most notably the ongoing contract into Ford's investment into the South African automotive industry, supporting incremental revenue for the Metair Group of an estimated R46bn over model life.

Energy Storage Vertical

The Energy Storage Vertical continues to perform resiliently under tough operating conditions, including high inflation fuelled by unprecedented energy and labour cost increases across both Turkey and Romania. Although these costs have generally been recovered from customers following a slight time lag, margins have been negatively impacted in the short term. Market demand has remained strong and international demand for lead acid batteries across all sales channels, but especially Turkey, remains resilient. Hard currency export sales provide a natural hedge to limit the impact of foreign exchange volatility and inflationary pressures.

The last quarter of the calendar year is the most volume sensitive time for the business and final annual volumes will depend on the final sales volumes achieved in this last quarter. Currently, total automotive battery volumes sold are expected to reach between 8.5 million and 9.0 million units for the full year, as we anticipate Mutlu Akü export volumes increasing by at least 17% from FY2021. Volumes from Rombat are expected to be c. 15% lower mainly due to dampened consumer confidence from the ongoing conflict in Ukraine. With efforts to improve competitiveness and market share progressing, sales volumes for First National Battery in South Africa are expected to be on par with FY2021.

Hyperinflation in Turkey

As previously reported, the Group applies hyperinflationary accounting (IAS 29) for amounts reported by Mutlu Akü in Turkey. Under IAS 29, Turkish Lira results and non-monetary asset and liability balances (including undistributed profits) are restated to present value equivalent local currency amounts (adjusted based on CPI) before translation to ZAR at reporting-date exchange rate. Although operations remain unchanged, with a substantial portion of commodity input costs and sales being hard currency denominated and not directly subject to Turkish inflation, as well as Mutlu Akü's strong non-monetary asset base, the accounting impact on profit and loss is negative as IAS 29 requires the restatement of Mutlu Akü's retained income within current year earnings. Mutlu Akü continues to grow both volumes and prices in FY2022, and strategies are in place to manage hyperinflation operationally.

Although Turkey's central bank cut its benchmark interest rate by 1.5 percentage points to 9% despite the country's high inflation rate, the Turkish banking system has not passed on the lower interest rates to customers due to the high inflation. Although there are currently no restrictions on remittances of dividends from Turkey and access to foreign currencies remains unrestricted, the Turkish government has issued new banking regulations which include a rule that forces exporters to sell 40% of their foreign-currency revenue to the central bank. Mutlu Akü has assessed the impact of the financial regulations and is developing measures to minimise interest rate and foreign exchange volatilities.

Financial position

The Group is in a satisfactory financial position to support current expansion projects, and has the required lending facilities in place to support operations as well as the expansion programmes. The consequences of supply chain disruptions and availability of raw materials have necessitated a greater inventory holding strategy to mitigate shipping delays and airfreight costs. The Group formally received the covenant waiver from lenders and adjustments to the covenant calculations, mainly for hyperinflation (IAS 29) impacts are under consideration.

Value unlock opportunities

Metair continues to actively work towards value unlock opportunities in the short and long term within both business Verticals. The consideration of a value unlock process within Energy Storage for stakeholders has not translated into an executable transaction, largely due to the geopolitical climate within Eastern Europe. The Board will revisit its strategic options as and when the operating climate improves.

In the interim, Metair remains focused on maximising the value potential of the Energy Storage vertical and on executing on the growth and expansion opportunities available for the Automotive Components vertical.

The information contained in this announcement is the responsibility of the directors of Metair and does not constitute an earnings forecast. Such information has not been audited, reviewed, or reported on by the Group's external auditors.

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Sponsor
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