Mercedes-Benz South Africa Limited

(Registration number 1962/000271/06)
Consolidated Financial Statements
for the year ended 31 December 2021

Mercedes-Benz South Africa Limited

(Registration number 1962/000271/06)
Consolidated Financial Statements for the year ended 31 December 2021

Contents

General Information

Directors	Initial and surname	Designation	Appointments/resignations
	Mr A Engling	Chief Executive Officer	
	Mr KM Eser	Chief Financial Officer	
	Mr AM Kgotle	Executive	
	Mr J Fritz	Executive	Resigned 1 September 2021
	Mr M Raine	Co-chief Executive Officer	Appointed 1 September 2021
	Mrs B Seeger	Non-executive	
	Dr J Burzer	Non-executive	
	Dr JW Schmidt	Independent non-executive	
	Amb N January-Bardill	Independent non-executive	
	Ms S Zilwa	Independent non-executive	
	Ms FT De Buck	Independent non-executive	
	Ms N Mbhele	Independent non-executive	
	Mr M Lührs	Alternate to Mrs B Seeger	
	Mr F Hohenwater	Alternate to Dr J Burzer	

Registered office	123 Wierda Road R576/M10 West Zwartkop Pretoria 0002
Holding company	Mercedes-Benz AG incorporated in Germany
Ultimate holding company	Mercedes-Benz Group AG incorporated in Germany
Sponsor	The Standard Bank of South Africa Limited

General Information

Abbreviations used in the financial statements

AIS	Automotive Investment Scheme
APDP	Automotive Production and Development Programme
CBU	Completely Built Units
CIPC	Companies and Intellectual Property Commission
Consolidated Financial Statements	Consolidated financial statements of MBSA and its subsidiaries
CSI	Corporate Social Investment
DAG	Daimler AG
DMTN	Domestic Medium Term Note
DTAG	Daimler Truck AG
DTBSA	Daimler Trucks and Buses Southern Africa Proprietary Limited
DTFS	Daimler Truck Financial Services South Africa Proprietary Limited
EBIT	Earnings Before Interest and Tax
ECL	Expected Credit Loss
EU	European Union
Group	Collectively MBSA and its subsidiaries
IBNR	Incurred But Not Reported
IBOR	Interbank Offered Rate
IFRS	International Financial Reporting Standards
Income Tax Act	Income Tax Act No. 58 of 1962
JIBAR	Johannesburg Interbank Agreed Rate
JSE	Johannesburg Stock Exchange
King IV	The King Code on Corporate Governance
Koppieview	Koppieview Property Proprietary Limited
MBAG	Mercedes-Benz AG
MBFS	Mercedes-Benz Financial Services South Africa Proprietary Limited
MBGAG	Mercedes-Benz Group AG
MBSA	Mercedes-Benz South Africa Limited
NCI	Non-Controlling Interest
OCI	Other Comprehensive Income
PRC	Production Rebate Certificate
PRCC	Production Rebate Credit Certificate
PSI	Portfolio Specific Impairment
SMH	Sandown Motor Holdings Proprietary Limited
The Companies Act	Companies Act, No. 71 of 2008
USA	United States of America
VAA	Volume Assembly Allowance
VALA	Volume Assembly Localisation Allowance

Mercedes-Benz South Africa Limited

(Registration number 1962/000271/06)
Consolidated Financial Statements for the year ended 31 December 2021

Preparation of Consolidated Financial Statements

The consolidated financial statements contained in this document, are also available on the group's website: www.mercedes-benz.co.za, and have been prepared under the supervision of Mr KM Eser (Chief Financial Officer and Executive Director - Finance and Controlling).

The consolidated financial statements have been audited in compliance with Section 30 of the Companies Act.

These consolidated financial statements were published on 26 April 2022.

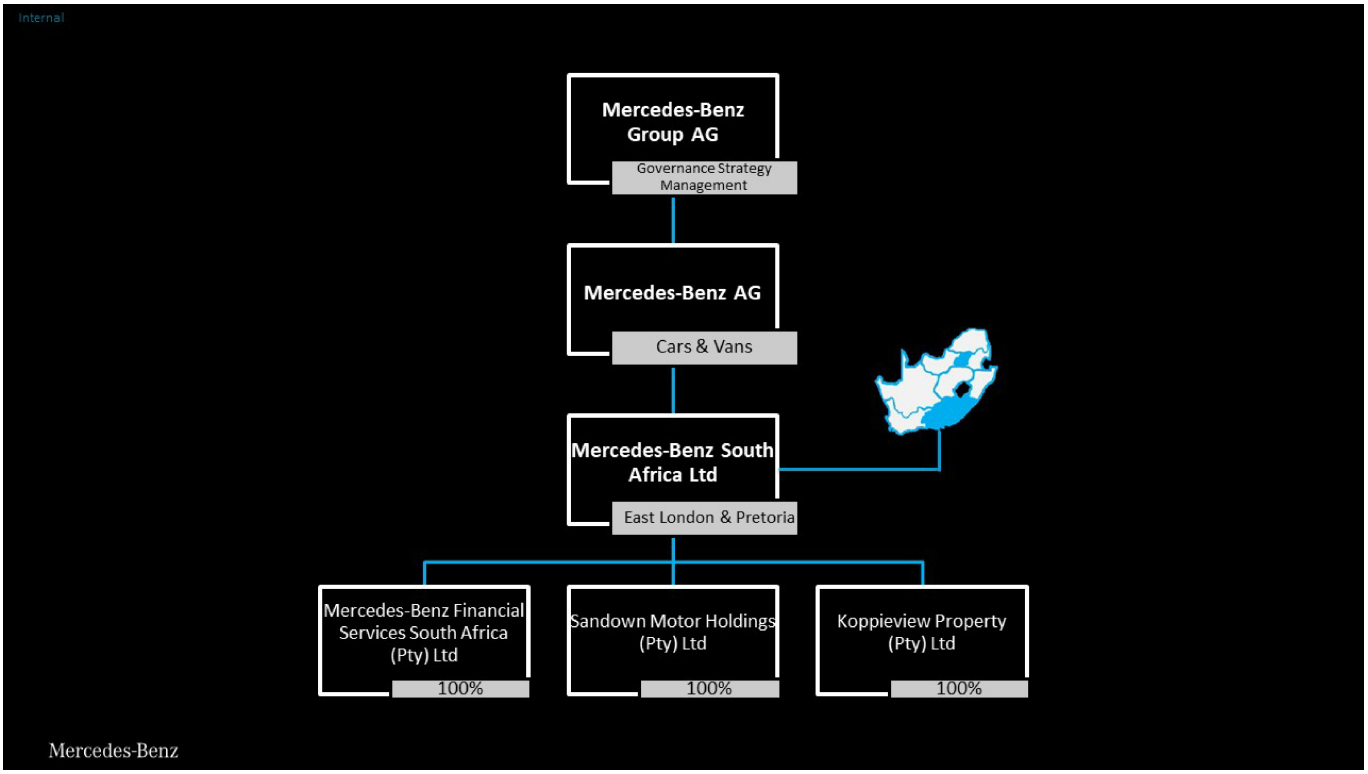
Company Secretary's Certification

In terms of Section 88(2)(e) of the Companies Act of South Africa, as amended, I certify that, to the best of my knowledge and belief, Mercedes-Benz South Africa Limited has, in respect of the financial year ended 31 December 2021, lodged with the CIPC all returns and notices as are required of a public company in terms of the Companies Act and that all returns are true, correct and up to date.

Denis Peterson
Signed by: Denis Peterson
EMail: denis.peterson@mercedes-benz.com
Signing time: 25-04-2022 16:43:27 (+02:00)
IP address: 196.25.19.21

D Peterson
Company Secretary

Simplified Group Organogram



The principal place of business and country of incorporation for all MBSA group entities is South Africa.

Audit Committee Report

This report is provided by the audit committee appointed in respect of the 2021 financial year of Mercedes-Benz South Africa Limited.

The audit committee was nominated by the board of directors and appointed by the shareholder.

The audit committee met four times in the financial year ended 31 December 2021. The external auditor attended these meetings as an invitee and presented the formal reports, as required by the audit committee. All three members of the audit committee are independent, non-executive directors, with permanent guests from the internal finance and control functions. The audit committee and the board of directors complied with all of its responsibilities as set out in the Companies Act, King IV and the governing charter of the audit committee. The board of directors are satisfied that the audit committee has complied with all of the aforementioned responsibilities for the financial year ended 31 December 2021. The audit committee provided, among others, independent oversight on the effectiveness of the group's assurance functions and services with particular focus on external assurance service providers, internal audit and controls and the finance function in general. Where it refers to the audit committee it will include the board of directors who also considered matters as contained in this report.

1. Internal controls

The audit committee is satisfied with the design and implementation of internal controls, as supported and confirmed by the management of the group. The design, implementation and execution of internal controls are monitored in order to ensure that any weaknesses are addressed to mitigate material loss, fraud or errors.

The audit committee and the board of directors considered the reports from the information technology department which could have an impact on the control environment of the group. It is satisfied that management action plans are in place in relation to information technology controls.

The audit committee considered the reports from the MBGAG corporate internal audit function and is satisfied with management action plans in response thereto. The audit committee is satisfied with the effectiveness of the internal audit arrangements in place.

2. External auditor

The audit committee considered and assessed the suitability of KPMG Inc. and Mr F von Eckardstein, as per the requirements of the JSE, with regard to their current appointment. The audit committee is satisfied that the appointment of the external auditor, Mr F von Eckardstein, complies with the legislative and regulatory requirements and the audit committee is satisfied with his independence. Adequate policies and controls are in place to address the provision of non-audit services by the external auditor to ensure compliance with legislation and other corporate governance guidelines or regulations. The audit committee considered the audit quality controls based on the Independent Regulatory Board for Auditors reports as well as the relevant JSE requirements.

Non-audit services were reviewed, as approved in the non-audit services catalogue of MBGAG, and did not become significant to call into question the independence of the external auditor or the firm, KPMG Inc.

The audit committee, in consultation with executive management, agreed to the terms of the engagement. The audit committee approved and reviewed the fees proposed by the external auditor, taking into consideration such factors as the timing of the audit, the extent of the work required and the scope. It further, on an ongoing basis, reviewed the scope, independence and impartiality of the external auditor. KPMG has been the independent auditors of the group for 37 years. The mandatory designated audit partner rotation has taken place in 2021 with the appointment of Mr F von Eckardstein.

There were no reportable irregularities identified or reported by the external auditor to the audit committee.

3. Compliance with legal and regulatory requirements

The audit committee is satisfied that, to the best of its knowledge, all regulatory and legislative requirements with regard to its function, duties and obligations has been complied with.

4. Key audit matters

The audit committee performs the duties laid upon it by Section 94(7) of the Companies Act by holding meetings with the key role players on a regular basis and by the unrestricted access granted to the external auditors.

The audit committee noted and considered the key audit matters set out in the report of the independent auditor included in these consolidated annual financial statements. The audit committee is satisfied with the appropriateness of the key audit matters reported on by the independent auditor.

COVID-19 matters are dealt with under the going concern note (refer note 6) of the directors' report and note 31 of the notes to the consolidated financial statements.

Audit Committee Report

5. Consolidated Financial Statements

The audit committee is satisfied that, to the best of its knowledge, the consolidated financial statements for the financial year ended 31 December 2021 fairly reflect the financial position and results of the group.

The pro-active monitoring, which was completed by the JSE was considered. The result of such monitoring was presented to the audit committee, which satisfied itself that the findings and focus areas were adequately addressed in the consolidated financial statements for the year ended 31 December 2021 and that all of the debt listing requirements were complied with.

6. Accounting practices

The audit committee is satisfied that the consolidated financial statements have been prepared in accordance with relevant accounting practices, the Mercedes-Benz South Africa Limited group accounting policies, and are fully compliant with International Financial Reporting Standards.

The audit committee is satisfied that the group has appropriate financial reporting procedures and that these procedures are operating and being monitored.

7. Effectiveness of finance function

The audit committee is satisfied with the qualifications, effectiveness and performance of the chief financial officer and the finance function in general.

On behalf of the audit committee

Zikile De Buck
Signed by: Zikile De Buck
EMail: extern.de_buck@daimler.com
Signing time: 26-04-2022 14:03:04 (+02:00)
IP address: 163.116.164.120

Ms FT De Buck
Chairperson: Audit Committee

Directors' Report

The directors are pleased to present their report which forms part of the consolidated annual financial statements of the group for the year ended 31 December 2021.

1. Nature of business

The group holds a manufacturing and distribution agreement from Mercedes-Benz Group AG (MBGAG) / Mercedes-Benz AG (MBAG) for the importation, assembly and distribution of Mercedes-Benz, Mercedes-AMG and Mercedes-Maybach product ranges. MBFS, a subsidiary of MBSA, provides financing and insurance solutions over MBGAG products.

A simplified group organogram has been provided, additional information on the group's operating entities is available on request.

The group's business can be best described, in general, as follows:

1.1 Financial services

These operations provide financing and insurance solutions over MBGAG products and group entities.

1.2 Wholesale and retail vehicle operations

These operations market and sell vehicles in the product portfolio, primarily through the authorised agent network.

1.3 Manufacturing and component exports operations

These operations, situated in East London, manufacture Mercedes-Benz C-Class sedans for the local and selected international markets.

1.4 Other operations

These operations include the group's property portfolio as well as other non-core operations and functions.

2. Financial results for year under review

Full details of the financial position, results of operations and cash flows of the group are set out in these consolidated financial statements.

	2021 R mil	2020 R mil	Difference year on year R mil	Change year on year %
Income measures				
Vehicles and related services	42 777	44 184	(1 407)	(3.18)
Financial services	1 077	1 107	(30)	(2.71)
Profitability measures				
Net income before other income and expenses	1 994	4 172	(2 178)	(52.21)
Operating profit	965	1 456	(491)	(33.72)
Loss for the year	(10)	(274)	264	(96.35)
Financial position measures				
Total assets	50 318	56 113	(5 795)	(10.33)
Total liabilities	32 923	38 673	(5 750)	(14.87)
Total equity	17 395	17 440	(45)	(0.26)

Separation from Daimler commercial vehicle business

Effective 1 January 2021 the MBSA Group sold the DTBSA subsidiary to Daimler Truck AG as part of the restructuring of the global group. Subsequently the commercial vehicle financial services business of MBFS was sold to the newly created DTFS entity effective 1 December 2022. Effective 10 December 2021 Mercedes-Benz Group AG (formerly known as Daimler AG) split from its commercial vehicle counterpart Daimler Truck Holding AG, which began trading its shares separately on the Frankfurt Stock Exchange.

3. Availability of MBSA separate annual financial statements

The MBSA separate annual financial statements have been prepared and signed on 26 April 2022.

The MBSA separate annual financial statements have been prepared in accordance with the requirements of the Companies Act and the company's independent auditors, KPMG Inc., have expressed an unqualified opinion thereon.

Directors' Report

4. Corporate governance

The directors have adopted the principles as provided for in King IV for the financial year 2021. The principle summary King IV report is published on the website of MBSA.

The Board is satisfied that there is an appropriate mix of knowledge, skills, experience, diversity and independence.

Mr D Peterson is the company secretary of Mercedes-Benz South Africa Limited. The board is satisfied with the competence, qualifications and experience of the company secretary. The board has access to the company secretary and such arrangements are effective.

Mr D van der Bank is appointed as the Debt Officer.

The Board has a policy in place for the management of conflict of interests, which is the Integrity Code of the group. This Integrity Code is available on the website of the company. Board members submit, at least annually, their respective declarations concerning personal interests and is required at each meeting to indicate whether a conflict of interest may arise with a matter to be discussed. The board can confirm that there are no material and enduring personal conflicts of interest noted from any member.

5. Directorate

The directors in office at the date of approval of these annual financial statements are as follows:

Directors	Designation	Changes
Mr A Engling**	Executive (Chief Executive Officer)	
Mr KM Eser	Executive (Chief Financial Officer)	
Mr AM Kgotle	Executive	
Mr J Fritz	Executive (Co-chief Executive Officer)	Resigned 1 September 2021
Mr M Raine	Executive (Co-chief Executive Officer)	Appointed 1 September 2021
Mrs B Seeger	Non-executive	
Dr J Burzer	Non-executive	
Dr JW Schmidt	Chairperson of the board Non-executive independent	
Amb N January-Bardill**	Non-executive Independent	
Ms S Zilwa***	Non-executive Independent	
Ms FT De Buck***	Non-executive Independent	
Ms N Mbhele*	Non-executive Independent	
Mr M Lührs	Alternate non-executive	
Mr F Hohenwater	Alternate non-executive	

* Member of the audit committee.
** Member of the social and ethics committee.
*** Member of the audit committee and social and ethics committee.

Active directors' curriculum vitae's are published on the website of Mercedes-Benz South Africa Limited.

Attendance register of directors' meetings is available in the King IV report.

6. Going concern

The consolidated financial statements for the year ended 31 December 2021 have been prepared on a going concern basis, which assumes that the group will be able to meet its obligations for the foreseeable future and for at least 12 months from the date of this report. The group has recognised a net loss after tax of R 103 million for the year ended 31 December 2021 (2020: R 323 million) and, as at that date, the group has a capital ratio of 34.57% (2020: 31.08%).

Management believes that the group will be able to meet all its obligations for the 2022 period. Management further believes that proceeds received during 2022 will be sufficient to meet the repayment requirements. Management has performed forecasts and based on these forecasts the expectation is that the group will be profitable for the 2022 financial year. The company and the group will therefore be solvent and liquid for at least the 12 months from the date of this report.

Management has the full support of the holding company, MBAG, to support its operations. To this extent, MBGAG issued a guarantee with regards to the notes issued under the DMTN programme.

Semi-conductor shortages

During 2021 MBSA experienced the effects of the global semi-conductor shortage. This affected both the import of vehicles for local sale and the export of vehicles from the production plant. The shortages lead to reduced stock availability in the local sales market and increased stock of unfinished export vehicles. Management believes that the semi-conductor shortages and bottlenecks will continue during 2022, however it is expected that the situation will improve during the course of 2022 with increased availability of semi-conductors.

COVID-19 consideration

Management has taken necessary steps to ensure that it will continuously monitor the global situation, regarding the COVID-19 pandemic, and make any necessary adjustments to ensure business continuity. Further to this the group has access to funding from the holding company, Mercedes-Benz AG.

Management acknowledges that uncertainty exists as a result of the current global situation. However, management has a reasonable expectation that the group has adequate resources to continue operating as a going concern for the foreseeable future.

Effective midnight 5 April 2022 government lifted the state of disaster that was implemented at the start of the COVID-19 pandemic. This lifted certain restraints on business operations.

7. Events after the reporting period

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

Bonds and bank loans issued and redeemed

Subsequent to year end, no bonds and bank loans have been issued.

Further, subsequent to year end, bonds and bank loans with a value of R 2.5 billion have matured and been redeemed with issue dates between 26 February 2019 and 27 March 2019 and maturity dates between 26 February 2022 and 27 March 2022.

Russia-Ukraine War

Russia has been at war with Ukraine since end of February 2022 (Russia-Ukraine War). The effects of the Russia-Ukraine War represent a value-affecting event after the reporting period and therefore have no impact on the recognition and measurement of assets and liabilities as at the reporting date.

On 2 March 2022, the Mercedes-Benz Group (Global) decided to discontinue the export of cars and vans to Russia as well as local production in Russia until further notice. Effects on profitability, cash flows and financial position in 2022 cannot be ruled out at this time. Due to the volatile geopolitical situation, the effects cannot be quantified at present.

Semi-conductor shortages

Given the macroeconomic conditions, the global car market is likely to grow once again in 2022. However, it currently looks as if the semi-conductor-related supply bottlenecks will continue to affect the global market. Although the situation is likely to improve gradually during the year, we anticipate only a slight increase in the global car market in 2022.

Tax rate change

In February 2022 the South African finance minister announced that the corporate income tax rate will be reduced from 28% to 27% for years of assessments commencing on or after 1 April 2022.

SMH Sale of passenger vehicle division

In December 2021 management committed to a plan to sell the passenger vehicle division of the SMH subsidiary to an external party as part of an asset sale transaction. Accordingly the assets and liabilities are presented as a disposal group of assets and liabilities held for sale. The sale is expected to be concluded in the second quarter of 2022.

Approval of consolidated annual financial statements

These consolidated financial statements, which have been prepared on the going concern basis, were supervised by the board and approved by the audit committee, as per the audit committee charter, on 21 April 2022 and are signed by:

Dr. Joachim Schmidt
Signed by: Joachim Schmidt
EMail: joachimwernerschmidt@gmail.com
Signing time: 25-04-2022 17:45:45 (+01:00)
IP address: 62.28.192.178

Dr JW Schmidt
Chairperson
Authorised Director

ANDREAS ENGLING
Signed by: Andreas Engling
EMail: andreas.engling@daimler.com
Signing time: 26-04-2022 12:46:27 (+02:00)
IP address: 196.25.19.21

Mr A Engling
Chief Executive Officer
Authorised Director

Independent Auditor's Report

To the Shareholder of Mercedes-Benz South Africa Limited Consolidation

Independent Auditor's Report

Insert audit report

Independent Auditor's Report

Insert audit report

Independent Auditor's Report

Insert audit report

Independent Auditor's Report

Insert audit report

Independent Auditor's Report

Insert audit report

Independent Auditor's Report

Insert audit report

Independent Auditor's Report

Insert audit report

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	2021 R mil	2020 R mil
Continuing operations			
Income from sale of vehicles and related services			
Revenue	4	42 777	44 184
Cost of goods sold	5	(41 860)	(41 119)
		917	**3 065**
Income from financial and other services			
Interest received	4	1 554	1 809
Interest paid	4	(1 031)	(1 399)
Reversal of impairment losses on loans and advances to customers	4	16	38
Non-interest revenue	4	1 457	2 013
Non-interest expenditure	4	(927)	(1 364)
Income other than from contracts with customers	4	8	10
		1 077	**1 107**
Net income before other income and expenses		**1 994**	**4 172**
Other income		1 429	114
Movement in allowance for impairment of loans and advances to customers		413	(222)
Movement in allowance for impairment of trade and receivables		19	7
Operating expenses		(1 137)	(1 541)
Selling expenses		(1 753)	(1 074)
Operating profit	6	**965**	**1 456**
Finance income	7	83	53
Finance costs	8	(362)	(618)
Reversal of impairment/(impairment) on investment	10	92	(955)
Loss on sale of portion of business	16	(461)	-
Profit/(loss) before taxation		**317**	**(64)**
Taxation	9	(276)	(259)
Profit (loss) from continuing operations		**41**	**(323)**
(Loss)/profit from discontinued operations	10	(51)	49
Loss for the year		**(10)**	**(274)**
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurements on net defined benefit liability/asset	18	46	92
Items that may be reclassified to profit or loss			
Movement in cash flow hedges	14	(41)	(56)
Other comprehensive income for the year, net of taxation		**5**	**36**
Total comprehensive loss for the year		**(5)**	**(238)**
Loss attributable to			
Owners of the parent			
From continuing operations		41	(278)
From discontinued operations		(51)	49
Non-controlling interest from continuing operations		-	(45)
		(10)	**(274)**
Total comprehensive income attributable to			
Owners of the parent		(5)	(193)
Non-controlling interest		-	(45)
		(5)	**(238)**

Consolidated Statement of Financial Position as at 31 December 2021

	Note	2021 R mil	2020 R mil
Assets			
Assets held for sale	10	917	2 812
Cash and cash equivalents	11	569	3 996
Trade and other receivables	12	3 257	4 510
Inventories	13	15 443	7 939
Derivatives and other financial assets	14	94	153
Current tax receivable		189	17
Amounts receivable from group companies	15	3 698	738
Loans and advance to customers	16	10 043	19 492
Deferred initial direct cost		102	136
Right-of-use assets	17	294	537
Assets leased under operating leases	17	2 293	3 868
Property, plant and equipment	17	12 425	10 785
Goodwill		133	145
Retirement benefit asset	18	184	111
Deferred tax	19	677	874
Total Assets		**50 318**	**56 113**
Equity and Liabilities			
Liabilities			
Liabilities held for sale	10	525	1 869
Bank overdraft	11	8	18
Trade and other payables	20	3 398	3 146
Amounts payable to group companies	21	2 849	1 338
Provisions	22	894	1 277
Contract liabilities	23	3 042	2 909
Current tax payable		-	51
Interest-bearing borrowings	24	21 828	27 713
Post-retirement medical aid benefit obligation	18	379	352
Total Liabilities		**32 923**	**38 673**
Equity			
Share capital	26	5 417	5 417
Reserves		(359)	(364)
Retained income		12 337	12 294
		17 395	17 347
Non-controlling interest		-	93
Total Equity		**17 395**	**17 440**
Total Equity and Liabilities		**50 318**	**56 113**

Consolidated Statement of Changes in Equity

	Share capital and premium R mil	Actuarial reserve R mil	Hedging reserve R mil	Total reserves R mil	Retained income R mil	Attributable to equity holders R mil	Non-controlling interest R mil	Total equity R mil
Balance at 1 January 2020	**1 417**	**13**	**(413)**	**(400)**	**12 523**	**13 540**	**138**	**13 678**
Loss for the year	-	-	-	-	(229)	(229)	(45)	(274)
Other comprehensive income	-	92	(56)	36	-	36	-	36
Total comprehensive income for the year	**-**	**92**	**(56)**	**36**	**(229)**	**(193)**	**(45)**	**(238)**
Equity contribution by holding company	4 000	-	-	-	-	4 000	-	4 000
Balance at 31 December 2020	**5 417**	**105**	**(469)**	**(364)**	**12 294**	**17 347**	**93**	**17 440**
Balance at 1 January 2021	**5 417**	**105**	**(469)**	**(364)**	**12 294**	**17 347**	**93**	**17 440**
Loss for the year	-	-	-	-	(10)	(10)	-	(10)
Other comprehensive income	-	46	(41)	5	-	5	-	5
Total comprehensive loss for the year	**-**	**46**	**(41)**	**5**	**(10)**	**(5)**	**-**	**(5)**
Acquisition of minority interest	-	-	-	-	53	53	(93)	(40)
Balance at 31 December 2021	**5 417**	**151**	**(510)**	**(359)**	**12 337**	**17 395**	**-***	**17 395**
Note	26	18	14					

* During 2021, MBSA purchased the remaining shareholding in SMH to increase its ultimate shareholding to 100%, this resulted in the release of the non-controlling interest. The non-controlling interest was purchased for R 40 million.

Mercedes-Benz South Africa Limited

(Registration number 1962/000271/06)
Consolidated Financial Statements for the year ended 31 December 2021

Consolidated Statement of Cash Flows

	Note	2021 R mil	2020 R mil
Cash flows from operating activities			
Cash flows from the sale of vehicles and related services			
Cash received from customers before changes in operating assets and liabilities		45 530	43 576
Changes in operating assets and liabilities			
Decrease in trade and other receivables		82	1 805
(Increase)/decrease in amounts receivable from group companies		(2 959)	350
Increase in contract liabilities		793	893
Cash received from customers		**43 446**	**46 624**
Cash paid to suppliers and employees before changes in operating assets and liabilities		(44 590)	(44 527)
Changes in operating assets and liabilities			
(Increase)/decrease in inventories		(7 376)	5 278
Increase in trade and other payables		233	6
Increase/(decrease) in amounts payable to group companies		1 511	(994)
Cash paid to suppliers and employees		**(50 222)**	**(40 237)**
Cash flows from financial services			
Interest received		1 569	1 809
Interest paid		(1 031)	(1 399)
Non-interest revenue		1 458	2 013
Non-interest expenditure		(927)	(1 364)
Decrease in loans and advances to customers		9 862	300
Purchase of motor vehicles for operating leases		(1 043)	(1 108)
Proceeds on disposal of rental and operating lease assets		2 083	1 284
Cash inflow from financial services		**11 971**	**1 535**
Other cash flows			
Finance income received		63	48
Finance costs paid		(348)	(670)
Taxation paid/(refunded)		(305)	110
Net cash inflow from operating activities		**4 605**	**7 410**
Cash flows from investing activities			
Purchase of property, plant and equipment		(3 202)	(3 748)
Proceeds from disposal of property, plant and equipment		13	4
Receipts of government grants		119	8
Disposal of assets held for sale		943	-
Acquisition of NCI		(40)	-
Net cash outflow from investing activities		**(2 167)**	**(3 736)**
Cash flows from financing activities			
Equity contribution	26	-	4 000
Interest-bearing borrowings raised	24	4 500	10 050
Interest-bearing borrowings repaid	24	(10 355)	(14 125)
Net cash inflow from financing activities		**(5 855)**	**(75)**
(Decrease)/increase in cash and cash equivalents for the year		**(3 417)**	**3 599**
Cash and cash equivalents at the beginning of the year		3 978	379
Net cash and cash equivalents at the end of the year	11	**561**	**3 978**

Notes to the Consolidated Financial Statements

1. Corporate information

Reporting entity	Mercedes-Benz South Africa Limited is the holding company of the Mercedes-Benz South Africa group
Reporting period	Financial year ended 31 December 2021
Domicile	The Republic of South Africa
Authorised by the board of directors	26 April 2022

2. Basis of preparation

These accounting policies, and those included in the notes, represent a summary of the significant accounting policy elections of the group.

These consolidated financial statements have been prepared in accordance with:
- IFRS, SAICA Financial Reporting Guides and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC") standards and interpretations;
- the JSE listing Requirements and the Companies Act;
- the principle of going concern; and
- the historical cost and fair value basis of accounting, where applicable.

These consolidated financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards on a basis consistent with that of the previous year.

These consolidated financial statements can be obtained from the company secretary at the company's registered address. Separate financial statements for the company are also prepared and can be obtained at the company's registered address.

2.1 Functional and presentation currency

The functional currency of Mercedes-Benz South Africa Limited group and the presentation currency of the group is South African Rand ("Rand").

2.2 Rounding policy

All amounts in the consolidated financial statements are presented in Rand million ("R mil").

The group has a policy of rounding in increments of R 500 000. Amounts less than R 500 000 will therefore round to R nil and are presented as a dash.

2.3 Foreign currency translation

Procedures followed to translate to presentation currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

At the end of the reporting period:
- monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date;
- non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined; and
- non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

Foreign exchange gains or losses are recognised in profit or loss unless they relate to qualifying cash flow hedges, in which case they are recognised in other comprehensive income to the extent that the hedges are effective.

Notes to the Consolidated Financial Statements

3. Presentation of financial statements

3.1 Group accounting

Group structure

Holding company	Mercedes-Benz South Africa Limited
Subsidiaries	Mercedes-Benz Financial Services South Africa Proprietary Limited
	Sandown Motor Holdings Proprietary Limited
	Mercedes-Benz Risk Management Solutions South Africa Proprietary Limited
	Koppieview Property Proprietary Limited

Consolidation

Subsidiaries are entities controlled by the group. Control is achieved when the group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The group also considers the following facts and circumstances in assessing whether it has power over an entity:
- rights arising from contractual arrangements; and
- the group's voting rights and potential voting rights.

The group reassesses whether or not it controls an entity if facts and circumstances indicate changes to the elements of control.

Subsidiaries - recognition and measurement

Business combinations are accounted for using the acquisition method. When the group acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the group's accounting policies as well as the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Subsidiaries are consolidated from the date of acquisition, which is the date on which the group obtains control of the subsidiary and continue to be consolidated until the date that control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Non-controlling interest

NCI is measured at its proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Subsequently changes in the group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Goodwill

Goodwill arises from business combinations and is initially measured at cost. Subsequently, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is tested annually for impairment with any impairment recognised in other operating expenses within profit or loss.

Intercompany transactions

All intergroup balances, transactions, income and expenses are eliminated in full in the consolidated financial statements.

3.2 Retained earnings

Retained earnings comprises of accumulated profits or losses less dividends to equity holders. Dividends are included in the statement of changes in equity in the year in which they are declared.

Notes to the Consolidated Financial Statements

3. Presentation of financial statements (continued)

3.3 Accounting estimates, judgements and assumptions

In preparing these consolidated consolidated financial statements, management has made estimates, judgements and assumptions that affect the reported amounts of assets, liabilities, income and expenses. These estimates, judgements and assumptions are guided by the application of IFRS while also taking into account the knowledge and experience of management.

Management believes that the estimates, judgements and assumptions made are appropriate considering the facts and circumstances available. However, the actual results may differ with subsequent changes to the underlying facts and circumstances.

Estimates, judgements and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. All estimates, judgements and assumptions are consistent with prior year, except where otherwise indicated.

3.3.1 Significant accounting estimates, judgements and assumptions

The following estimates, judgements and assumptions made in applying the accounting policies that have the most significant effect on the amounts recognised in these financial statements are:

Revenue from contracts with customers (note 4)

The group sells motor vehicles with a maintenance and service obligation to customers. Whilst the sale of the motor vehicle is recognised immediately as revenue, the maintenance and service revenue is recognised as contract liabilities and released into revenue upon the performance of a maintenance and service obligation. These maintenance and service obligations are completed within the lesser of 100 000 kilometres or five years. Prior to 18 February 2019, all maintenance and service obligations sold were completed within the lesser of 100 000 kilometres or six years, which will be honoured as per the agreements. Subsequent to 18 February 2019 all new additions to maintenance and service obligations carry the lesser of 100 000 kilometres or five year period of obligation. Contract liabilities and prepaid expenses are not financial instruments because they are settled by the delivery or receipt of goods and services.

Assumptions that affect the company's estimate for maintenance and service obligations include:
- distribution cost
- discount rate
- inflation rate
- scrapping ratio
- part sales
- labour, parts and repair factors
- profit margin on parts

Assets leased under operating leases (note 17)

Lease classification

The group leases motor vehicles to external customers. The factors that have been taken into consideration in determining the classification as operating leases are:
- ownership of the underlying motor vehicle is retained by the holding company during, and in most cases, at the end of the lease term;
- there is no bargain purchase option offered to the customer;
- the lease term is shorter than the majority of the economic life of the asset;
- at the inception of the lease, the present value of the minimum lease payments does not amount to at least substantially all of the fair value of the underlying motor vehicle; and
- the leased assets are not specialised in nature.

Management has assessed that the significant risks and rewards incidental to ownership of the underlying motor vehicles in these lease arrangements have not transferred to the customer. Additionally, the residual value of the motor vehicle is guaranteed by MBSA.

The requirement to recognise a sale with a residual value guarantee by MBSA as a lease, only applies if the respective residual value guarantee is material. A residual value guarantee is considered to be material if the present value of the residual value guarantee is greater than 10% of the original selling price of the motor vehicle.

Residual values

The group regularly reviews the factors applied in determining the values of its leased motor vehicles. In particular, it is necessary to estimate the residual values of the motor vehicles at the end of their leases, which constitutes a substantial part of the expected future cash flows from the motor vehicles.

Notes to the Consolidated Financial Statements

3. Presentation of financial statements (continued)

Assumptions have been made regarding the future supply of, and demand for, motor vehicles; as well as trends in future motor vehicle prices. These assumptions are, in part, informed by publications provided by expert third parties, and supported by internal information.

Management updates residual value estimates quarterly based on calculations which use a combination of externally obtained market data which is enhanced with actual trade and retail values, as well as internal data obtained locally as well as from MBGAG. A Residual Value Steering Committee meets and approves the revised residual values on a quarterly basis. This committee has fixed terms of reference and its members comprise a group of persons with suitable qualifications and experience.

The residual values determined serve as a key input into the depreciation charge. Changes in residual values lead either to prospective adjustments of the depreciation charge or, in the case of a significant decline in expected residual values, to impairment.

If depreciation is prospectively adjusted, changes in the estimates of residual values do not have a direct effect, but are equally distributed over the remaining periods of the lease contracts.

Depreciation

The depreciation rates applied to manufactured lease assets is consistent with the lease terms, and ranges from approximately 2 to 5 years.

Economic life

The lease term is understood to mean the period between the sale with residual value guarantee and the earliest date on which the residual value guarantee can be redeemed under the terms of the contract. If this period is less than 75% of the economic life of the asset, it is assumed that substantially all the risks and rewards incidental to ownership of the asset have remained with the company.

Present value of future minimum lease payments

The total minimum lease payments are considered to be the difference between the company's sales proceeds and the guaranteed residual value; in other words, the present value of the residual value guarantee must be greater than 10% of the original selling price to cause the present value of minimum lease payments to be less than 90% of the fair value.

In this case, it is assumed that substantially all the risks and rewards incidental to ownership of the asset have remained with the company. The determination of present value is based on a market related interest rate for similar leases.

Production incentives receivables (note 12)

Production incentives are recognised as a receivable when all of the conditions relating to the underlying incentive scheme have been complied with, even though the physical certificates may not yet have been received from the issuing authority. Management believe this treatment to be appropriate as the process of receiving the certificates is, for the most part, clerical and there are seldom cases where certificates are withheld.

During 2021 the South African government implemented the APDP Phase 2 programme (1 July 2021) to replace the previous APDP programme. With this implementation some of the calculation methods were adjusted. MBSA successfully implemented the Phase 2 programme to receive the relevant production incentives.

Production incentives receivables are measured based on the planned utilisation of the incentives. The utilisation plan considers the method of realisation of the incentive, the planned production of the plant and the planned future import of parts and fully built up motor vehicles.

Furthermore the measurement takes into account, among others, the industry from which the incentive was derived (e.g. vulnerable versus non-vulnerable) and the export location to which the incentive will be applied (e.g. EU versus non-EU country).

These factors each have an impact on the value of the certificate as they affect:

- whether the incentive can be used or will expire and become void;
- whether the incentive should be sold, thus realising a different value;
- at what value the incentive is raised as the originating industry drives its creation value; and
- at what value the incentive can be realised, as the use of the incentive for imports from different locations drives its value on realisation.

When determining the valuation of the incentives management apply a weighting to each of the factors and using this weighting determine an overall recognition percentage of the value of the incentive based on the prescribed legislation.

3. Presentation of financial statements (continued)

VALA

The portion expected to be used to rebate future custom's accounts is valued at the applicable percentage subject to discounting over the expected recovery period.

Any excess VALA that will be converted to a PRCC/PRC should be impaired by the penalty on conversion and then valued as a PRCC/PRC.

PRCC's/PRC's

These are financial instruments and are valued in accordance with the expected manner of recovery. The portion is used to rebate future CBU imports at the weighted average customs duty.

The remaining portion is expected to be sold at the agreed contractual rates or current market values, as applicable. The values are subject to discounting and impairment.

Allowance for impairment of loans and advances to customers (note 16)

The group regularly estimates the risk of default on advances to customers. Many factors are taken into consideration in this context, including historical loss experience, the size and composition of certain portfolios, current economic events and conditions and the estimated fair values and adequacy of collaterals. Changes in economic conditions can lead to changes in our customers' creditworthiness and to changes in used vehicle prices, which would have a direct effect on the market values of the vehicles assigned as collateral. Changes to the estimation and assessment of these factors influence the allowance for credit losses with a resulting impact on the group's profit or loss.

Scoring systems are applied for the assessment of the default risk of retail and small business customers. Corporate customers are evaluated using internal rating instruments. Both evaluation processes use external credit bureau data if available. The scoring and rating results as well as the availability of security and other risk mitigation instruments, such as advance payments, guarantees and, to a lower extent, residual debt insurances, are essential elements for credit decisions.

Loans and finance lease receivables related to retail or small business customers are grouped into homogeneous pools and collectively assessed for impairment. Impairments are required for example if there are adverse changes in the payment status of the borrowers included in the pool, adverse changes in expected loss frequency and severity, and adverse changes in economic conditions.

Significant loans and leases to corporate customers are tested individually for impairment. An individual loan or lease is considered impaired when there is objective evidence that the group will be unable to collect all amounts due as specified by the contractual terms. Examples of objective evidence that loans or lease receivables may be impaired include the following factors: significant financial difficulty of the borrower, a rising probability that the borrower will become bankrupt, delinquency in their installment payments, and restructured or renegotiated contracts to avoid immediate default.

In determining the amount of the impairment the group considers the following:

- the probability of default which is a measure of the expectation of how likely the customer is to default;
- the exposure at default which is the expected amount outstanding at the point of default; and
- the loss given default which is the expected loss that will be realised at default after taking into account recoveries through collateral and guarantees.

3.3.2Key sources of estimation uncertainty

These judgements and estimates may not individually have a significant effect on the amounts recognised in the consolidated consolidated financial statements. However, the input factors considered are in certain instances complimentary in such a way that the estimates and judgements may, at times, result in an additive effect. This effect would thus become significant to amounts recognised across the consolidated statement of financial position or profit or loss as a whole. Furthermore the amounts recognised in the consolidated consolidated financial statements to which these judgements and estimates relate are considered material to management.

Property, plant and equipment (note 17)

Useful lives

Land is not depreciated as it is deemed to have an indefinite useful life.

The useful life of an asset is the period in which the group expects to utilise the benefits embodied in the assets, and not necessarily the assets' economic life. Useful lives of assets are reviewed annually. The group uses the following indicators to determine useful life:

- expected usage of assets;
- expected physical wear and tear; and
- technical and commercial obsolescence.

Notes to the Consolidated Financial Statements

3. Presentation of financial statements (continued)

The estimated useful lives assigned to the categories of property, plant and equipment are as follows:

Item	Average useful life (years)
Buildings	25
Plant and equipment	4 – 12
Other factory equipment and furniture	3 – 10
Motor vehicles	5 – 10
Assets leased under operating leases	3 – 5
Right-of-use assets	over the term of the lease

Residual values

An estimate is made of the amount the group would expect to receive currently for the asset if the asset were already of the age and condition expected at the end of its useful life, which is considered to be its residual value. Residual values are reviewed annually.

Impairment

Management assesses changes in interest rates, currency exchange rates as well as the state of affairs in the motor manufacturing sector as indicators that impairment testing may need to be performed.

Provisions (note 22)

Guaranteed residual value provision

The group is exposed to the risk that leased motor vehicles are returned at a value less than the residual value guaranteed to customers under the terms of each respective lease agreement. Accordingly, a provision is raised to the extent that the carrying values of leased motor vehicles are impaired through residual values not being fully recoverable.

Uncertainties that affect the provision amount include:
- return-rates of leased motor vehicles;
- penetration rates;
- lease duration; and
- market conditions.

Furthermore, the group periodically reviews its exposure to the underwritten portfolio to changes in market conditions since inception of the agreements and ensure satisfactory coverage of motor vehicles' projected valuations to underwritten values. Where risks are identified the group develops strategies to manage the risk position of the particular assets and further ensures provision is made for such potential loss.

Warranty provision

The provision is measured on the basis of past warranty expenses. The provision amount represents total warranty credits and costs required to investigate and settle warranty claims. The amount of the provision for warranty arrangements is determined based on the amount expected to be required to settle the warranty claims. Possible recall or buyback campaigns are excluded from this provision, as these are fully reimbursed by MBAG.

Miscellaneous

This provision relates to provisions for contributions to the AITF fund, provisions for supplier volume reduction and onerous contracts as a result of W205 model run-out.

Notes to the Consolidated Financial Statements

3. Presentation of financial statements (continued)

Employee benefits defined benefit schemes (note 18)

Defined benefit schemes

The following assumptions are applied in determining the present value of the defined benefit obligation as well as the fair value of the plan assets:

Actuarial assumptions for defined benefit schemes

	2021	2020
Discount rates used		
Pre-retirement discount rate	10.87 %	11.96 %
Post-retirement discount rate	5.26 %	6.14 %
Inflation rates used		
General inflation rate	6.67 %	6.85 %
Salary inflation rate	6.67 %	6.85 %
Average age		
Average age (in years)	56	55
Average age of pensioners (in years)	75	74

Post-retirement medical aid benefit

The following assumptions are applied in determining the present value of the post-retirement medical aid benefit:

Actuarial assumptions for post-retirement medical aid benefit

Health care cost inflation	8.54 %	9.58 %
Mortality		
Pre-expected retirement age	SA 1985 - 90 light	
Post-retirement age	PA(90) - 2	

	2021 R mil	2020 R mil

4. Revenue and income from financial services and other

4.1 Revenue allocation

Income from sale and leasing of vehicles and related services		
Vehicles and spare parts	42 777	44 184
Income from financial and other services		
Interest received		
Instalment sales	1 152	1 323
Finance leases	281	320
Wholesale funding and other	121	166
	1 554	**1 809**
Interest paid		
Interest-bearing borrowings at amortised cost	(1 031)	(1 399)
Reversal of impairment losses on loans and advances to customers		
Legal loss recovery	16	38

Notes to the Consolidated Financial Statements

	2021 R mil	2020 R mil
4. Revenue and income from financial services and other (continued)		
Non-interest revenue		
Operating lease instalments	972	1 184
Remarketing revenue	373	702
Agent income	56	59
Insurance commission	30	41
Acceptance and initiation fee	25	27
Other revenue	1	-
	1 457	**2 013**
Non-interest expenditure		
Remarketing cost of sales	(137)	(456)
Direct costs from financial services	(790)	(908)
	(927)	**(1 364)**
Other income		
Other	8	10
4.2 Disaggregation of revenue		
The group disaggregates revenue from customers as follows:		
Sale of goods		
Manufacturing and component parts export	31 089	32 051
Wholesale and retail of vehicles and spare parts	11 073	11 872
	42 162	**43 923**
Rendering of services		
Financial services		
Non-interest revenue*	1 457	2 013
Interest received*	1 554	1 809
Legal loss recovery	16	38
	3 027	3 860
Other services		
Maintenance and service contracts	615	261
	3 642	**4 121**
	45 804	**48 044**

* These items include lease income.

4.3 Timing of revenue recognition		
At a point in time		
Sale of goods	42 162	43 923
Non-interest revenue	485	829
Legal loss recovery	16	38
	42 663	**44 790**
Over time		
Interest received	1 554	1 809
Operating lease instalments	972	1 184
Maintenance and service contracts	615	261
	3 141	**3 254**
	45 804	**48 044**

Notes to the Consolidated Financial Statements

4. Revenue and income from financial services and other (continued)

4.4 Income from contracts with customers

4.4.1 Income from sale and leasing of vehicles and other related services

This income includes revenue and leasehold income generated on the sale (new and used) or lease of vehicles and the sale of related spare parts, as well as vehicle services, after-sale services and other related income.

MBSA uses a variety of sales promotion programs dependent on various market conditions during the year as well as the respective product life cycles and product-related factors (such as amounts of discounts offered by competitors, excess industry production capacity, the intensity of market competition and consumer demand for the products). These programs comprise cash offers to dealers and customers, as well as lease subsidies or loans at reduced interest rates.

Revenue is recognised as control is passed, either over time or at a point in time.

Recognition and measurement

Sale of vehicles, service parts and other related products:

Revenues from the sale of products are recognised when the performance obligations are met and ownership of the goods are transferred to the customer depending on the terms and conditions of the contract. Revenue is recognised when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and costs incurred or to be incurred in respect of the sale can be measured reliably. Revenue is recognised net of sales reductions such as cash discounts and sales incentives granted.

Revenue is measured at the transaction price of the consideration received/receivable which the company is entitled in exchange for transferring promised goods or services to the customer (net of discounts, cash incentives, customer bonuses and rebates granted - which are payable to third parties).

Rendering of services:

Rendering of services is recognised over time, most appropriate to the type of service:

- servicing fees included in the price of products sold are recognised by reference to the proportion of the cost to the total cost of providing the servicing for the product sold, taking into account historical trends in the number of services actually provided on past goods sold;
- time and material contracts are recognised at the contractual rates as labour hours are delivered and direct expenses are incurred; and
- the group offers extended, separately priced warranties for certain products. Revenue from these contracts is deferred and recognised over the contract period in proportion to the costs expected to be incurred based on historical information.

Lease of vehicles:

Lease income is recognised on a straight-line basis over the lease term.

Lease income is measured at the fair value of the operating lease instalments received adjusted for the effect of straight-lining and excluding any contingent rentals received. Revenue is generated from lease payments on the basis of the underlying leasing contracts and is significantly impacted by the residual value as determined in note , Assets leased under operating leases.

4.4.2 Income from financial services

Interest received

Interest received consists of interest earned on finance leases, installment sale agreements and wholesale funding provided to customers and dealers of MBSA products.

Interest received is recognised on the time proportion basis, using the effective interest method.

Interest received is measured at the interest rate that exactly discounts the estimated future cash receipts through the expected life of the underlying financial instrument.

Where the financial instrument has been impaired interest income continues to be recognised on the impaired value based on the original effective interest rate.

Interest paid

Interest paid consists of external interest cost associated with the financial services activities of the group.

Notes to the Consolidated Financial Statements

4. Revenue and income from financial services and other (continued)

Interest paid is recognised on the time proportion basis, using the effective interest method.

Interest paid is measured at the interest rate that exactly discounts the estimated future cash payments through the expected life of the underlying financial instrument.

Impairment losses

Impairments raised on financial assets in the financial services business (excluding operating lease product assets), include the movement in allowances for credit losses, less any recoveries of previously written off amounts. Impairments related to any assets which do not form part of the financial services activities are included in operating expenses in profit or loss.

Non-interest revenue

Revenue generated by the financial services business which is non-interest in nature and includes:
- income from the leasing business;
- sales revenue from the sale of vehicles at the end of lease contract (remarketing revenue); and
- fees and commissions earned from related financial services activities.

Non-interest revenue is recognised on:
- the straight-line basis over the period of the lease;
- vehicles sales as noted above; and
- fees and commissions on a time proportion basis over the contract term.

Non-interest revenue is measured:
- at the effective yield on the net investment outstanding;
- for vehicles sales as noted above; and
- at the fair value of the consideration received/receivable.

Non-interest expenditure

These expenses are related and incremental to the non-interest revenue generated and include, among others:
- fees paid to dealers;
- depreciation and impairment charges on the operating lease assets;
- expenses related to fleet management; and
- the residual value of the vehicle at the date of sale.

4.4.3 Other income

Other income is recognised when the right to receive reimbursement has been established.

Other income is measured at the fair value of the consideration received/receivable.

4.4.4 Dealer incentive commission

The group pays motor dealerships trading in relevant group products commissions for engaging in financial services activities through the group's financing business. These commissions are initially capitalised within loans and advances to customers and subsequently expensed to profit or loss on a straight-line basis over the term of the related financial contract. Where contracts are terminated early any remaining balance is immediately expensed to profit or loss.

Notes to the Consolidated Financial Statements

	2021 R mil	2020 R mil

5. Cost of good sold

	41 860	**41 119**

Cost of goods sold includes the following:

- costs incurred in relation to the rendering of services included in revenue;
- depreciation on plant, equipment and manufacturing facilities as well as operating leased assets;
- overheads incurred as part of the production activities;
- inventories utilised in the manufacture and sale of vehicles, parts and components;
- write down of inventories to net realisable value and any loss of inventory or reversals of previous write-downs or losses are recognised in cost of sales in the period the write-down, loss or reversal occurs; and
- reduced by the value of government grants received which are set off against the cost of the inventories or materials to which they relate. Refer to government grant policy for further details.

Income and expense based grants

PRCC/PRC

PRCC's/PRC's for vehicles and components are recognised on the sale of export vehicles and components.

These PRCC's/PRC's are then utilised to offset the import duties payable on the sale of locally sold vehicles. Excess PRCC's/PRC's are sold into the market at a discounted rate.

The measurement of PRCC's/PRC's is dependent on the utilisation factors applied. PRCC's/PRC's are recognised as a reduction in the cost of the inventories or material to which they relate, and measured at the value of the costs avoided.

VALA

VALA's are recognised on sale as a reduction in the cost of the inventories or materials to which they relate.

VALA's are measured at the value of the costs avoided.

AIS

Reasonable assurance exists when conditions for the receipt of government grants are actually met and the grant has either been received by the company or official confirmation regarding its future receipt by the issuing authority is available.

AIS is measured at the value of the grant amount received from the issuing authority, presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset.

The receivables relating to the various production incentives are recognised in note 12.

	2021 R mil	2020 R mil

6. Operating profit

Operating profit for the year includes:

Staff costs

Cost of goods sold	1 942	1 546
Operating expenses	252	251
Selling expenses	454	451
Total staff costs	**2 648**	**2 248**

Notes to the Consolidated Financial Statements

6. Operating profit (continued)

Employee benefits

Short-term employee benefits

Short-term employee benefits includes salaries, wages and costs of temporary employees, paid vacation leave, sick leave, bonuses and non-monetary benefits such as medical care. It is recognised as an expense and included in staff costs as services are rendered.

Long–term service benefits

The group's net obligation in respect of long–term service benefits, other than pension plans, is the amount of future benefits that employees have earned in return for their services in the current and prior periods. The obligation is calculated using the projected unit credit method, is discounted to its present value and the fair value of any related assets is deducted. The discount rate used is based upon the rate for high quality corporate bonds at the valuation date. Remeasurements are recognised in profit or loss in the period when they arise.

	Note	2021 R mil	2020 R mil
Expenses/(income)			
Foreign exchange movements - realised		36	(127)
Foreign exchange movements - unrealised		(39)	3
Loss on sale of property, plant and equipment and assets leased under operating leases		28	4
Legal fees		11	20
Defined contributions plans		151	117
Impairment/(impairment reversal) of operating assets	17	24	(7)
Production support income		(1 032)	-

7. Finance income

Interest earned on		
Bank accounts	58	46
Retirement benefit assets	19	7
Tax authorities	6	-
Total interest income	**83**	**53**

Finance income consists of interest earned on bank deposits, short term cash investments and on defined benefit plan assets.

Interest received is accrued on a time basis, by reference to the principal amount outstanding using the effective interest method.

The effective interest rate is applied, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount

8. Finance costs

Interest expense on/to		
Interest-bearing borrowings - non-financial activities	229	471
Group companies	67	47
Preference dividends	-	4
Retirement benefit obligations	41	37
Tax authorities	-	2
Other interest	25	57
Total finance costs	**362**	**618**

Interest paid represents the external interest cost of the group excluding the interest cost of funding the financial services activities and includes the interest cost on defined benefit liabilities.

Interest paid is accrued on a time basis, by reference to the principal amount using the effective interest method, as the interest rate that exactly discounts the estimated future cash payments through the expected life of the underlying financial instrument.

Notes to the Consolidated Financial Statements

	2021 R mil	2020 R mil

9. Taxation

Major components of the tax expense

Current		
Charge for current year	120	291
Over provision from the previous period	(12)	(5)
	108	**286**
Deferred		
Charge for the current year	177	(58)
(Over)/under provision from the previous period	(9)	31
	168	**(27)**
	276	**259**

Reconciliation of the tax expense

Reconciliation between applicable tax rate and average effective tax rate.

Applicable tax rate	28 %	(28)%
Non-deductible expenses		
Capital expenses	1 %	424 %
Dividends	- %	2 %
Loss on sale of assets	41 %	- %
Impairment of subsidiaries	23 %	- %
Donation	1 %	- %
Other	(2)%	- %
Non-taxable income		
Interest and fines paid on taxes	2 %	(26)%
Assessed loss	- %	(7)%
Prior year adjustment - current taxation	(4)%	(8)%
Prior year adjustment - deferred taxation	(3)%	48 %
	87 %	**405 %**

* Capital expenses for 2020 mainly relate to the impairment of the DTBSA investment.

Management assesses the extent to which it is probable that taxable profit will be available against which deductible temporary differences can be utilised.

The calculation of the group's tax charge and provision for income taxes necessarily involves a degree of estimation and judgement. There are transactions and tax computations for which the ultimate tax treatment or result is uncertain, or in respect of which the relevant tax authorities may or could indicate disagreement with the group's treatment and accordingly the final tax charge cannot be determined until resolution has been reached with the relevant tax authority.

The group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due, based on appropriate external advice. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the reporting period in which such determination is made.

The group considered the following criteria in assessing the probability that taxable profit will be available against which the unused tax losses can be utilised whether:

- the entity has sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, which will result in taxable amounts against which the unused tax losses can be utilised;
- it is probable that the entity will have taxable profits before the unused tax losses expire; and
- the unused tax losses result from identifiable causes which are unlikely to recur.

To the extent that it is not probable that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised, the deferred tax asset is not recognised. To determine the probability that taxable profit will be available against which the unused tax losses can be utilised, the group reviewed its forecasts for the foreseeable future and compared that to its total tax losses.

Notes to the Consolidated Financial Statements

10. Discontinued operations

Koppieview

As of the end of 2021 the MBSA group embarked on the process of selling all of the properties that are owned by Koppieview. The three properties owned by Koppieview are as follows:

- Zwartkops Property containing MBSA head office - To be sold to a third party
- Highveld office park in centurion - To be sold to DTBSA
- Constantiakloof Mercedes-Benz Dealership - To be sold as part of the sale of the SMH passenger vehicle division

All these properties are actively marketed or in the process of sale and management therefore decided to classify these properties according to IFRS 5 Assets held for sale. At the end of 2021 buyers have been identified for all properties, however the sales transactions have yet to be finalised. This is expected to be completed around Quarter 2 of 2022.

SMH

In December 2021 management committed to a plan to sell the passenger vehicle division of the SMH subsidiary to an external party as part of an asset sale transaction.

Accordingly the assets and liabilities are presented as a disposal group of assets and liabilities held for sale. The sale is considered highly probably and expected to be concluded towards Quarter 2 of 2022, depending on negotiations with potential buyers.

DTBSA

In December 2020 management committed to sell the group's investment in DTBSA, in-line with a directive by the ultimate holding company, MBGAG. The transaction entailed selling the entire commercial vehicle business related to the selling of trucks and buses. This decision was taken as a strategic step to increase focus on the respective business areas from a global perspective. The sale was concluded on 1 January 2021.

Impairment losses of R 955 million were recognised in 2020 in order to bring the investment in-line with its fair value less costs to sell. The impairment has been recognised in profit or loss. The impairment losses has been applied proportionally against the carrying value of the subsidiary.

As at 31 December 2020 the disposal asset was stated at fair value less costs to sell. At 1 January 2021 the investment was sold to DTAG for R 943 million, resulting in R 92 million reversal of impairment being realised in 2021.

	2021 R mil	2020 R mil
10.1 Assets held for sale		
Koppieview assets held for sale		
Land and buildings	140	-
Other equipment, factory and office equipment	1	-
	141	**-**
SMH assets held for sale		
Property, plant and equipment	88	-
Inventories	325	-
Right-of-use assets	299	-
Trade and other receivables	27	-
Deferred tax	37	-
	776	**-**

Notes to the Consolidated Financial Statements

	2021 R mil	2020 R mil
10. Discontinued operations (continued)		
DTBSA assets held for sale		
Assets leased under operating leases	-	92
Cash and cash equivalents	-	776
Trade and other receivables	-	305
Inventories	-	1 227
Current tax receivable	-	10
Amount receivable from group companies	-	7
Right-of-use assets	-	1
Property, plant and equipment	-	17
Retirement benefit asset	-	13
Deferred tax asset	-	364
	-	**2 812**
10.2 Liabilities held for sale		
SMH liabilities held for sale		
Lease liabilities	371	-
Trade and other payables	154	-
	525	**-**
DTBSA liabilities held for sale		
Trade and other payables	-	245
Amounts payable to group companies	-	645
Provisions	-	24
Contract liabilities	-	898
Post-retirement medical aid obligation	-	57
	-	**1 869**
10.3 (Loss)/profit form discontinued operations		
SMH discontinued operations		
Revenue	2 022	-
Cost of goods sold	(1 687)	-
Gross profit	**335**	**-**
Other income	6	-
Operating expenses	(361)	-
Loss before net finance costs and taxation	**(20)**	**-**
Finance expenses	(42)	-
Loss before taxation	**(62)**	**-**
Tax	11	-
Loss from discontinued operations	**(51)**	**-**
DTBSA discontinued operations		
Revenue	-	5 679
Cost of goods sold	-	(5 279)
Other income	-	15
Operating expenses	-	(70)
Selling expenses	-	(217)
Finance income	-	25
Finance expense	-	(35)
Taxation	-	(69)
	-	**49**

Notes to the Consolidated Financial Statements

	2021 R mil	2020 R mil

10. Discontinued operations (continued)

10.4 Cash flows from discontinued operations

Net cash flows from operating activities	(21)	812
Net cash flows from investing activities	(7)	(3)
Net cash flows fro financing activities	-	(144)
	(28)	**665**

The group classifies non-current assets or disposal groups as held for sale if the carrying amount will be recovered principally through a sale transaction rather than through continuing use. In this case, the assets or disposal groups are no longer depreciated but measured at the lower of carrying amount and fair value less costs to sell. Immediately before classification as held for sale, the carrying amount of the asset is determined in accordance with the applicable individual requirements. If fair value less costs to sell subsequently increases, any impairment loss previously recognised is reversed. This reversal is restricted to the impairment loss previously recognised for the assets or disposal group concerned. The group generally discloses these assets or disposal groups separately in the consolidated statement of financial position.

Fair value determination

Koppieview sale of properties

The fair values of the properties being sold was determined based on the offers received from potential buyers. Based on the offers received the fair values of the properties can be considered Level 1 fair values in terms of IFRS 13.

SMH sale of passenger vehicle business

The fair values of the passenger vehicle division being sold was determined based on the offers received from potential buyers.

Based on the offers received the fair values of the assets related to the passenger vehicle division can be considered Level 1 fair values in terms of IFRS 13.

Sale of DTBSA 2020

The valuation was performed based on internationally accepted valuation principles consistent with IDW S1 (Institut der Wirtschaftsprüfer standardised valuation procedures). The fair market value calculated was an objectively determined amount.

In order to determine the fair value of DTBSA, a discounted cash flow valuation was performed. The valuation was performed using projected cash flows for a 5 year period. Projected cash flows were based on budgeted results taking into account historic trends and future expectations.

Risk rates applied took into account adjusted German A sovereign bond yields and inflation (5.5%). The Beta applied was derived based on entities in the same business environment as DTBSA. The terminal growth applied took into account expected South African inflation rates.

Based on the inputs used, the fair value of the entity can be considered a Level 3 fair value in terms of IFRS 13.

11. Cash and cash equivalents

Cash and cash equivalents and bank overdrafts comprise coins and bank notes, money at call and short notice and balances with commercial banks and overdraft facilities. All balances included in cash and cash equivalents have a maturity date of less than three months from the date of acquisition. Money at short notice constitutes amounts withdrawable in 24 hours or less.

These instruments are considered financial assets or financial liabilities carried at amortised cost.

Notes to the Consolidated Financial Statements

	2021 R mil	2020 R mil

12. Trade and other receivables

Financial instruments		
Trade receivables, net of allowance for impairment	1 350	1 250
Production incentives	1 194	2 365
Other receivables	213	331
Trade receivables at amortised cost	**2 757**	**3 946**
Non-financial instruments		
VAT	458	519
Prepayments	42	45
Total trade and other receivables	**3 257**	**4 510**

Trade and other receivables were transferred to assets held for sale as part of the disposal of the SMH passenger vehicle division in 2021 and DTBSA disposal in 2020, refer to note 10.

Loss allowance

Trade receivables inherently expose the group to credit risk, being the risk that the group will incur financial loss if customers fail to make payments as they fall due.

In order to mitigate the risk of financial loss from defaults, the group only deals with reputable customers with consistent payment histories. Sufficient collateral or guarantees are also obtained when appropriate. Each customer is analysed individually for creditworthiness before terms and conditions are offered. Statistical credit scoring models are used to analyse customers. These models make use of information submitted by the customers as well as external bureau data (where available). Customer credit limits are in place and are reviewed and approved by credit management committees. The exposure to credit risk and the creditworthiness of customers, is continuously monitored.

There have been no significant changes in the credit risk management policies and processes since the prior reporting period.

A loss allowance is recognised for all trade receivables and is monitored at the end of each reporting period. In addition to the loss allowance, trade receivables are written off when there is no reasonable expectation of recovery, for example, when a debtor has been placed under liquidation. Trade receivables which have been written off are not subject to enforcement activities.

The group measures the loss allowance for trade receivables by applying the simplified approach. In accordance with this approach, the loss allowance on trade receivables is determined as the lifetime expected credit losses on trade receivables. These lifetime expected credit losses are estimated using a provision matrix. The provision matrix has been developed by making use of past default experience of debtors, but also incorporates forward looking information and general economic conditions of the industry as at the reporting date.

	2021 R mil	2020 R mil
Movement in allowance for impairment of doubtful receivables		
Opening balance	**27**	**33**
Amounts written off	(2)	(14)
Additional allowance raised	8	37
Unused amounts reversed	(22)	(3)
Transfers to assets held for sale	(3)	(26)
Closing balance	**8**	**27**

Financial assets at amortised cost

These instruments include cash and cash equivalents and trade and other receivables, which comprise short term receivables from customers and group companies arising from the day to day trading activities.

All financial assets are initially measured at fair value including transaction costs, except for those classified fair value through profit or loss in which case the transaction costs are expensed upfront in profit or loss, usually as part of other operating expenses. Any upfront income earned on financial instruments is recognised as deferred income, depending on the underlying nature of the income.

Notes to the Consolidated Financial Statements

12. Trade and other receivables (continued)

Financial assets are subsequently measured at amortised cost using the effective interest method, less any impairment losses.

Financial assets - Business model management

The group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. This information includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate portfolio, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the group's management;
- the risk that affects the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reason for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for the derecognition are not considered for this purpose, consistent with the group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at fair value through profit and loss.

Financial assets - Assessment whether contractual cash flows are solely payments of principal and interest

For the purpose of this assessment, the "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative cost), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal, interest, the group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that is would not meet the condition. In making this assessment, the group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayments and extension features; and
- terms that limit the group's claim to cash flows from specified assets.

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Transfers and derecognition

Financial instruments are derecognised when the contractual rights or obligations expire or are extinguished, are discharged or cancelled for example an outright sale or settlement.

For financial assets this includes assets transferred that meet the derecognition criteria.

Fair value of trade and other receivables

The fair value of trade and other receivables approximates their carrying amounts. This is due to the short-term nature of the instruments.

Notes to the Consolidated Financial Statements

	2021 R mil	2020 R mil

13. Inventories

Raw materials	6 725	2 891
Work in progress	6 115	1 434
Finished goods	2 775	3 914
	15 615	8 239
Allowance for impairment of inventories	(172)	(300)
	15 443	**7 939**

Inventories were transferred to assets held for sale as part of the disposal of the SMH passenger vehicle division in 2021 and the disposal of DTBSA in 2020, refer to note 10.

Inventories expensed during the year	32 594	31 803
Inventories (reversed)/written down during the year	(84)	1

Inventories are measured at the lower of cost or net realisable value on a first in first out basis. For manufactured inventories capitalised manufacturing costs include an allocated portion of production overheads which are directly attributable to the cost of manufacturing such inventory. The allocation is determined based on the normal production capacity.

14. Derivatives and other financial assets

Financial derivatives	17	75
Other financial assets	77	78
	94	**153**

In the normal course of business, the MBGAG group, on behalf of MBSA, enters into commodity swap contracts for hedging financial risks that arise from its commercial business activities related to the procurement of precious metals used in production. These derivative transactions are measured at fair value and designated as cash flow hedges. The maturities of the cash flow hedges correspond with those of the underlying transactions. These derivatives will mature within one year. The cash flows relating to these hedges occur during the manufacturing process.

These derivatives are managed, as a whole, from a group level by MBGAG. The group does not have any influence over the transactions, all information and agreements are managed from MBGAG and pushed down to the group. Hedging activities and instruments held are insignificant to MBSA's operations.

For derivatives used in fair value hedges, changes in the fair value of the derivatives are recorded in profit or loss as part of other operating expenses, together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

For derivatives used in cash flow hedges, the effective portion of changes in the fair value of derivatives is recognised in the hedging reserve in other comprehensive income and reclassified to cost of goods sold in profit or loss in the periods in which the hedged item affects profit or loss; the ineffective portion is recognised immediately in profit or loss as part of other operating expenses.

The group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions at the inception of the transaction. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows or items affect profit or loss.

The effective hedging portion is recognised in other comprehensive income

The group manages its credit risk exposure in connection with derivative financial instruments through a limit system, which limits and diversifies the credit risk. The group is, therefore, only exposed to credit risk with respect to its derivative financial instruments.

Notes to the Consolidated Financial Statements

	2021 R mil	2020 R mil

14. Derivatives and other financial assets (continued)

Reconciliation of the movement in the hedging reserve

Balance at the beginning of the year	(469)	(413)
Other comprehensive income, net of tax		
Effective portion of the changes in fair value recognised directly in OCI	(57)	(77)
Deferred taxation	16	21
	(41)	**(56)**
Balance at the end of the year	**(510)**	**(469)**

Other financial assets

Other financial assets consist of insurance cell assets measured at fair value.

MBSA consolidates its attributable share of an insurance cell captive managed on behalf of MBSA by Centriq Insurance. The net assets reserved within the cell captive are to be utilised against insurance claims arising within MBSA not covered by third-party insurances.

The value of the insurance cell asset is equal to the balance held by Centriq Insurance. This is a level 1 fair value.

Financial instruments (assets and liabilities) at fair value through profit or loss

Financial instruments (assets and liabilities) are initially measured at fair value including transaction costs, except for those classified at fair value through profit or loss in which case the transaction costs are expensed upfront in profit or loss, usually as part of other operating expenses. Any upfront income earned on financial instruments is recognised as deferred income, depending on the underlying nature of the income.

The carrying value of these assets approximates the fair value of the assets.

Fair value items are measured at fair value at reporting date. The fair value gains or loss are recognised in profit or loss. The effective hedging portion is recognised in other comprehensive income.

15. Amounts receivable from group companies

Trade receivables from group companies

Mercedes-Benz AG	3 621	449
Mercedes-Benz Group AG	61	269
Daimler Servicios Corporativos Mexico S. de R.L. de C.V.	4	-
Mercedes-Benz US International	4	13
Mercedes-Benz Bank Russia	2	1
Mercedes-Benz Vietnam	2	-
Mercedes-AMG GmbH	1	-
Mercedes-Benz Financial Services UK Ltd	1	3
Mercedes-Benz Malaysia Sdn. Bhd.	1	-
Mercedes-Benz Manufacturing (Thailand) Limited	1	-
Mercedes-Benz Mobility AG	-	1
Mercedes-Benz Australia/Pacific Pty Ltd	-	1
Mercedes-Benz Financial Services Korea	-	1
	3 698	**738**

Amounts receivable from group companies were transferred to assets held for sale as part of the disposal of DTBSA, refer to note 10.

No allowance for non-collectable amounts was raised as the amounts carry minimal credit risk. Credit risk is minimal as current group policies manage intergroup debts. In 2021 the interest rates on these "on-demand" trade receivables are between 3.45% and 4.56%.

Financial assets at amortised cost are initially measured at fair value including transaction costs, except for those classified at fair value through profit or loss, in which case transaction costs are expensed upfront in profit or loss, usually as part of other operating expenses.

Notes to the Consolidated Financial Statements

	2021 R mil	2020 R mil

15. Amounts receivable from group companies (continued)

Upfront income earned on financial instruments is recognised as deferred income, depending on the underlying nature of the income.

Financial assets are subsequently measured at amortised cost using the effective interest method, less any impairment losses.

Fair value of amounts receivable from group companies

The fair value of amounts receivable from group companies approximates their carrying amounts. This is due to the short-term nature of the instruments.

16. Loans and advance to customers

Instalment sale receivables	9 176	14 487
Finance lease receivables	495	3 399
Wholesale vehicle financing receivables	731	2 378
Gross loans and advances to customers	**10 402**	**20 264**
Impairment losses	(359)	(772)
	10 043	**19 492**

Effective 1 December 2021, the commercial vehicle financial services business of MBFS was sold to the newly created DTFS. The asset portfolio relating to the commercial vehicle business was sold to DTFS for the consideration of R 9 995 million, the net value of the portfolio was established at R 10 456 million, resulting in a loss on sale of assets of R 461 million.

The above loan portfolio has not been pledged as security for any liabilities or contingent liabilities.

Maturity profile for instalment sale and lease receivables

	2021			2020		
	Gross investment R mil	Unearned finance income R mil	Net advances R mil	Gross investment R mil	Unearned finance income R mil	Net advances R mil
Less than one year	2 908	(455)	2 453	6 162	(760)	5 402
Between one and five years	8 606	(1 388)	7 218	14 703	(2 219)	12 484
	11 514	**(1 843)**	**9 671**	**20 865**	**(2 979)**	**17 886**

Summary of loss allowance

At Friday, 31 December 2021, loans and advances to customers of R 359 million (2020: R 772 million) were impaired and provided for.

Classification	**Stage 1**	**Stage 2**	**Stage 3**	
2021	**12-month ECL R mil**	**Lifetime ECL not credit impaired R mil**	**Lifetime ECL credit impaired R mil**	**Total R mil**
Loan retail	45	36	155	236
Finance leases	1	1	5	7
Wholesale vehicle financing receivables	-	-	-	43
Finance leases - expected stage growth	-	-	-	1
Loan retail - expected stage growth	-	-	-	50
Loan retail - re-calibration impact future expectation	-	-	-	21
Loan retail - corporate dealers	-	-	-	1
	46	**37**	**160**	**359**

Notes to the Consolidated Financial Statements

16. Loans and advance to customers (continued)

2020	Stage 1	Stage 2	Stage 3	
	12-month ECL R mil	Lifetime ECL not credit impaired R mil	Lifetime ECL credit impaired R mil	Total R mil
Loan retail	94	96	239	429
Finance leases	25	8	39	72
Wholesale vehicle financing receivables	-	-	-	75
Finance leases - matured portfolio	-	-	-	18
Finance leases - terminated not yet written off	-	-	-	4
Finance leases - expected stage growth	-	-	-	24
Loan retail - expected stage growth	-	-	-	147
Loan retail - repeated payment deferrals	-	-	-	1
Loan retail - corporate dealers	-	-	-	2
	119	**104**	**278**	**772**

Loss allowance per category 2021	Finance lease R mil	Loan and retail R mil	Wholesale R mil	Total R mil
Corporate financing	-	4	-	4
Corporate dealers	-	1	-	1
Retail small business	4	120	-	124
Retail portfolio financing	3	111	43	157
COVID-19 - expected stage growth	1	50	-	51
COVID-19 - rec-calibration impact future expectation	1	21	-	22
	9	**307**	**43**	**359**

2020	Finance lease R mil	Loan and retail R mil	Non-specific provision Finance lease R mil	Non-specific provision Loan and retail R mil	Wholesale R mil	Total R mil
Corporate dealers	45	110	-	-	-	155
Corporate financing	-	2	-	-	-	2
Retail portfolio financing	5	109	-	-	75	189
Retail small business	22	210	-	-	-	232
COVID-19 - expected stage growth	-	-	24	147	-	171
COVID-19 - repeated payment deferrals	-	-	-	1	-	1
Matured portfolio	-	-	18	-	-	18
Terminated not yet written off	-	-	4	-	-	4
	72	**431**	**46**	**148**	**75**	**772**

	2021 R mil	2020 R mil
Movement in allowance for impairment losses on loans and advances to customers		
Opening balance	772	550
Additional allowance raised	228	644
Amounts written off	(267)	(116)
Transfers to DTFS	(374)	-
Other	-	(306)
Closing balance	**359**	**772**

Notes to the Consolidated Financial Statements

16. Loans and advance to customers (continued)

Impairment of loans and advances to customers

The adequacy of impairments of advances is assessed through the ongoing review of the quality of credit exposures. For amortised cost advances, impairments are recognised through the use of the allowance account method and an impairment charge in the consolidated statement of profit or loss and other comprehensive income.

Specific impairments

Created for non-performing loans where there is objective evidence that an incurred loss event will have an adverse impact on the estimated future cash flows from the advance.

Potential recoveries from guarantees and collateral are incorporated into the calculation of impairment figures.

Portfolio impairments

Created with reference to performing advances. The impairment provision on the performing portfolio is split into two parts:

- an IBNR provision i.e. the portion of the performing portfolio where an incurred impairment event is inherent in a portfolio of performing advances but has not specifically been identified; and
- the PSI which reflects the decrease in estimated future cash flows for the sub-segment of the performing portfolio where there is objective evidence of impairment.

Write-offs

When an advance is uncollectable, it is written off against the related allowance account. Such advances are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the “impairment losses” in profit or loss.

The following table sets out the group policy on the ageing of advances (i.e. when an advance is considered past due or non-performing):

Description	Type of advance	Group policy on past due/impaired
Past due advances	The past due analysis is only performed for advances with specific expiry or installment repayment dates or demand loans for which payment has been demanded. The analysis is not applicable to overdraft products or products where no specific due date is determined. The level of risk on these types of products is assessed with reference to the counterparty ratings of the exposures and reported as such. The full outstanding amount is reported as past due even if part of the balance is not yet due.	
	Loans with a specific expiry date (term loans etc.) and consumer loans repayable by regular instalments (personal loans)	Treated as overdue where one full installment is in arrears for one day or more and remains unpaid as at the reporting date. Advances on which partial payments have been made are included in neither past due nor impaired until such time as the sum of the unpaid amounts equal a full installment, at which point it is reflected as past due.
	Loans payable on demand (bank overdrafts and overnight facilities)	Treated as overdue where a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction.
Non-performing loans	Retail loans	Individually impaired if three or more instalments are due or unpaid or if there is evidence before this event that the customer is unlikely to repay the obligations fully.
	Wholesale advances to motor vehicle dealerships	Analysed on a case-by-case basis taking into account breaches of key loan conditions, excesses and similar risk indicators.

Notes to the Consolidated Financial Statements

16. Loans and advance to customers (continued)

Description	Type of advance	Group policy on past due/impaired
Renegotiated advances	Past due advances which have been re-negotiated i.e. due to deterioration in the counterparty's financial condition, the group granted a concession where the original terms and conditions of the facility were amended and the counterparty is within the new terms of the advance.	Separately classified as neither past due nor impaired assets and remain classified as such until the terms of the re-negotiated contract expire.
	Excludes advances extended or renewed as part of the ordinary course of business for similar terms and conditions as the original.	Non-performing advances cannot be reclassified as re-negotiated but current unless the arrears balance has been repaid. Re-negotiated advances are considered as part of the collective evaluation of impairment where advances are grouped on the basis of similar credit risk characteristics. The adherence to the new terms and conditions is closely monitored.

17. Property, plant and equipment

	2021			2020		
	Cost R mil	Accumulated depreciation/ impairment losses R mil	Carrying value R mil	Cost R mil	Accumulated depreciation/ impairment losses R mil	Carrying value R mil
Land and buildings	3 200	(553)	2 647	1 792	(653)	1 139
Plant and equipment	12 187	(2 995)	9 192	6 913	(5 016)	1 897
Other factory equipment and furniture	78	(65)	13	200	(105)	95
Motor vehicles	40	(21)	19	39	(25)	14
Assets under construction	554	-	554	7 640	-	7 640
Property, plant and equipment	**16 059**	**(3 634)**	**12 425**	**16 584**	**(5 799)**	**10 785**
Assets leased under operating leases	**2 866**	**(573)**	**2 293**	**5 012**	**(1 144)**	**3 868**
Right-of-use assets (refer note 17.1)	**423**	**(129)**	**294**	**624**	**(87)**	**537**

Property, plant and equipment were transferred to assets held for sale as part of the disposal of DTBSA during 2020, refer to note 10.

Notes to the Consolidated Financial Statements

17. Property, plant and equipment (continued)

Reconciliation of the movement in property, plant and equipment and assets leased under operating leases - 2021

	Opening balance R mil	Additions R mil	Disposals of operations R mil	Dispo-sals or scrap-pings R mil	Trans-fers R mil	Govern-ment grants R mil	Depre-ciation R mil	Impair-ment (loss)/ reversal R mil	Closing balance R mil
Land and buildings	1 139	553	(138)	(5)	1 258	(53)	(107)	-	2 647
Plant and equipment	1 897	573	(8)	(29)	7 870	(66)	(1 045)	-	9 192
Other factory equipment and furniture	95	8	(78)	(3)	7	-	(16)	-	13
Motor vehicles	14	16	(2)	(4)	1	-	(6)	-	19
Assets under construction	7 640	2 050	-	-	(9 136)	-	-	-	554
Property, plant and equipment	**10 785**	**3 200**	**(226)**	**(41)**	**-**	**(119)**	**(1 174)**	**-**	**12 425**
Assets leased under operating leases	**3 868**	**1 043**	**(1 095)**	**(987)**	**-**	**-**	**(512)**	**(24)**	**2 293**
Right-of-use assets (refer note 17.1)	**537**	**233**	**-**	**(63)**	**(300)**	**-**	**(113)**	**-**	**294**

* Property, plant and equipment were transferred to assets held for sale as part of the disposal of the SMH passenger vehicle division in 2021 and the disposal of DTBSA in 2020, refer to note 10.

Reconciliation of the movement in property, plant and equipment and assets leased under operating leases - 2020

	Opening balance R mil	Additions R mil	Disposal of operations R mil	Dispo-sals or scrap-pings R mil	Trans-fers R mil	Govern-ment grants R mil	Deprecia tion R mil	Impair-ment (loss)/ reversal R mil	Closing balance R mil
Land and buildings	1 197	-	(4)	(2)	8	-	(60)	-	1 139
Plant and machinery	1 496	737	(12)	(3)	385	(8)	(698)	-	1 897
Other factory equipment and furniture	118	7	(12)	(1)	2	-	(19)	-	95
Motor vehicles	17	3	-	(1)	-	-	(5)	-	14
Assets under construction	5 035	3 001	(1)	-	(395)	-	-	-	7 640
Property, plant and equipment	**7 863**	**3 748**	**(29)**	**(7)**	**-**	**(8)**	**(782)**	**-**	**10 785**
Assets leased under operating leases	**4 815**	**1 107**	**(156)**	**(1 284)**	**-**	**-**	**(621)**	**7**	**3 868**
Right-of-use assets (refer note 17.1)	**624**	**72**	**(2)**	**(58)**	**-**	**-**	**(99)**	**-**	**537**

Notes to the Consolidated Financial Statements

17. Property, plant and equipment (continued)

Categories and measurement

Categories	Initial measurement	Subsequent measurement	Depreciation method	Impairment
Land	Property, plant and equipment is initially recognised at cost.	Cost less accumulated impairment losses.	Not depreciated.	Assets are tested for impairment, when there is an indication that they may be impaired, by determining the recoverable amount of the assets either individually or at the cash generating unit level. Impairments are included within other operating expenses in profit or loss.
Buildings Plant and equipment Other factory equipment Motor vehicles Assets leased under operating leases		Cost less accumulated depreciation and accumulated impairment losses.	Depreciation on straight-line method over the estimated useful life to the residual values. Refer to note 3.3.2.	
Assets under construction		Cost less accumulated impairment losses.	Not depreciated.	

The assets' depreciation method, residual value and useful life are reviewed annually at each reporting date and adjusted if appropriate.

Operating leases (company as lessor)

Assets held under operating leases are recognised, at inception, as a separate category of property and equipment (assets leased under operating leases) and depreciated.

Rental income is recognised as revenue from sale and leasing of vehicles and related services on a straight-line basis over the lease term.

Government grants - AIS

A government grant of R 119 million (2020: R 8 million) was received in terms of AIS and recognised against the cost of relevant categories of property, plant and equipment. There are no fulfillment conditions and no other contingencies attached to these government grants.

Government grants related to AIS are presented in the consolidated statement of financial position by deducting the grant in arriving at the carrying amount of the asset. Repayment of a grant related to an asset is recorded by increasing the carrying amount of the asset by the amount repayable.

Government grants received in terms of the AIS are recognised against the cost of the related assets. There are no unfulfilled conditions and no other contingencies attached to these government grants.

Capital expenditure

At 31 December 2021 the company authorised the acquisition of property, plant and equipment amounting to R 777 million (2020: R 3 703 million) as capital expenditure. This is due to the cost related to the introduction of the W206 model.

This capital expenditure will be financed from internally generated funds.

Notes to the Consolidated Financial Statements

17. Property, plant and equipment (continued)

17.1 Right-of-use assets

2021	**Land and buildings R mil**	**Technical equipment and machinery R mil**	**Factory and office equipment R mil**	**Total R mil**
Opening balance	493	1	43	537
Additions	133	-	100	233
Disposals	(2)	-	(61)	(63)
Depreciation	(89)	(1)	(23)	(113)
Transfers to assets held for sale	(300)	-	-	(300)
	235	**-**	**59**	**294**

2020	**Land and buildings R mil**	**Technical equipment and machinery R mil**	**Factory and office equipment R mil**	**Total R mil**
Opening balance	611	2	11	624
Additions	23	-	49	72
Disposals	(58)	-	-	(58)
Depreciation	(81)	(1)	(17)	(99)
Transfer to assets held for sale	(2)	-	-	(2)
	493	**1**	**43**	**537**

Right-of-use assets, which are included in property, plant and equipment, are measured at cost less any accumulated depreciation and if necessary any accumulated impairment. The cost of a right-of-use asset comprises the present value of the outstanding lease payments, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs and an estimate of costs to be incurred in dismantling or removing the underlying asset. In this context, MBSA also applies the practical expedient that the payments for non-lease components are generally recognised as lease payments. If the lease transfers ownership of the underlying asset to the lessee at the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the right-of-use asset is depreciated to the end of the useful life of the underlying asset. Otherwise, the right-of-use asset is depreciated to the end of the lease term.

Right-of-use assets are depreciated on the straight-line basis over the estimated useful life of the assets to their residual values. Depreciation on the right-of-use assets is recognised within functional costs.

If the contract contains options to extend or terminate the lease, management gives current knowledge due consideration when determining the lease term.

	Note	**2021 R mil**	**2020 R mil**
Future minimum lease income			
Future minimum lease receipts under non-cancellable operating leases:			
Less than one year		438	573
Between one and five years		516	669
		954	**1 242**

18. Retirement benefit plan assets and post-retirement medical aid benefit obligations

Net retirement benefit plan asset	18.1	184	111
Post-retirement medical aid benefit obligation	18.2	(379)	(352)

Notes to the Consolidated Financial Statements

	2021 R mil	2020 R mil

18. Retirement benefit plan assets and post-retirement medical aid benefit obligations (continued)

18.1 Retirement benefit plan asset

Defined benefit schemes

Present value of obligations	(2 216)	(1 851)
Fair value of plan assets	2 400	1 962
Net defined benefit asset	**184**	**111**

The policy of the group is to provide retirement benefits for its employees. All employees are either members of the Mercedes-Benz Pension Fund or the Mercedes-Benz Retirement Fund, which are defined benefit schemes, or of the Mercedes-Benz Provident Fund which is a defined contribution scheme. The schemes are governed by the Pension Funds Act.

The fund was last actuarially valued in October 2021. The overall expected rate of return on assets is determined based on the market expectations prevailing on that date, applicable to the period over which the obligation is to be settled.

MBSA and MBFS are under common control and participate in a benefit plan that shares risks. There is no policy or contractual agreement for charging the net defined benefit cost.

The policy for determining the contribution paid by the entities is based on an actuarial calculation as per the legal requirements.

The actuarial reserve comprises actuarial gains and losses, return on plan assets (excluding interest) and the effect of the asset ceiling.

The defined benefit plans expose the group to actuarial risk, such as longevity risk and currency risk, interest rate risk and market risk (investment risk).

Reconciliation of movement in defined benefit schemes

The following table reconciles the movement for the plan assets and the present value of the obligation and its components:

	Movement in plan assets		Movement in obligation	
	2021 R mil	2020 R mil	2021 R mil	2020 R mil
Opening balance	1 962	2 235	1 851	2 155
Included in profit or loss				
Current service cost	-	-	19	31
Interest	211	217	190	212
	211	**217**	**209**	**243**
Included in OCI				
Actuarial (gains)/losses				
Financial assumptions	-	-	222	-
Experience adjustment	-	-	(65)	-
Other	6	-	7	-
Remeasurements	270	(287)	-	(389)
	276	**(287)**	**164**	**(389)**
Other				
Benefits paid	(151)	(167)	(151)	(167)
Contributions received	21	32	-	-
Employee contributions	7	7	8	9
Intercompany transfers	135	-	135	-
	12	**(128)**	**(8)**	**(158)**
Adjustment to asset ceiling	(61)	(62)	-	-
Transfers to assets held for sale	-	(13)	-	-
Closing balance	**2 400**	**1 962**	**2 216**	**1 851**

Notes to the Consolidated Financial Statements

18. Retirement benefit plan assets and post-retirement medical aid benefit obligations (continued)

The projected employer and employee contributions and the benefit for the 2022 year are as follows:

Employer contributions	24
Employee contributions	8

	2021 R mil	2020 R mil
Fair value of plan assets comprises		
Bonds	1 860	582
Equities	411	991
Property	40	97
Derivatives net of cash	9	367
	2 320	**2 037**

The value placed on the total assets are equal to the full market value of the investments as at the date of measurement, adjusted for assets attributable to defined contribution members, benefits due not yet paid and unclaimed benefits.

The bank account balances in the funds were included in the total assets value.

Sensitivity analysis

Reasonable possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the obligation by the percentages shown below:

Assumption	Change applied	Resulting % change in defined benefit obligation	
		2021	2020
Discount rate	0.25 %	(2.75)%	(2.60)%
	(0.25)%	2.85 %	2.70 %
General inflation rate	0.10 %	1.05 %	1.03 %
	(0.10)%	(1.05)%	(1.03)%
Average age	+1 year	(2.05)%	(1.80)%
	-1 year	2.00 %	1.77 %

	2021 R mil	2020 R mil
18.2 Post-retirement medical aid benefit obligation		
Present value of portfolio obligation	379	352

Portfolio

The group has funded its obligations to provide certain post-retirement medical aid benefits to its pensioners via the group's medical aid fund. The entitlement of these benefits is dependent upon the employee remaining in service until retirement age, completing a minimum service period and is subject to periodic review. The group funds the estimated liability over the working life of the eligible employees.

The post-retirement medical aid obligation and the annual cost of those benefits were determined by the independent actuaries of the fund in December 2021. The actuarially determined liability is allocated to provisions. The assumptions used are consistent with those adopted by the actuaries in determining pension costs and in addition, include long-term estimates of the increase in medical costs and appropriate discount rates. The level of claims is based on the group's experiences.

Notes to the Consolidated Financial Statements

	2021 R mil	2020 R mil

18. Retirement benefit plan assets and post-retirement medical aid benefit obligations (continued)

Reconciliation of movement in present value of post-retirement medical aid benefit obligation

The following table shows a reconciliation from the opening balance to the closing balance for the obligation and its components:

Opening balance	352	451
Included in profit or loss		
Current service cost	11	15
Interest cost	44	47
	55	**62**
Included in OCI		
Actuarial gains	(13)	(88)
Other		
Contributions	(15)	(16)
Transfer to liabilities held for sale	-	(57)
Closing balance	**379**	**352**

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the obligation by the percentages shown below:

Assumption	Change applied to assumption	Resulting % change in past service contractual liability		Resulting % change in service cost and interest cost	
		2021	2020	2021	2020
Health care cost inflation	1.00 %	(10.55)%	(10.93)%	(5.20)%	(6.77)%
	(1.00)%	12.90 %	13.40 %	6.20 %	8.20 %
Mortality	+1 year	(2.50)%	(2.43)%	(2.50)%	(2.40)%
	-1 year	2.50 %	2.43 %	2.55 %	2.40 %

18.3 Post-employment benefits

Defined contribution plans

The defined contribution plan refers to the Mercedes-Benz Provident Fund. Obligations for contributions to defined contribution pension plans are recognised as an expense in staff costs in profit or loss as incurred in the periods during which services are rendered by employees.

Defined benefit plans

The defined benefit plans refer to the Mercedes-Benz Pension Fund, the Mercedes-Benz Retirement Fund and the Post Employment Medical Aid Benefit Fund Portfolio.

Defined benefit obligation

The liabilities and assets of these funds are reflected as a net asset or liability in the consolidated statement of financial position i.e. the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. Where the value is a net asset, the amount recognised is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The present value of the defined benefit obligation is calculated annually by independent actuaries using the projected credit unit method. The discount rate used is the rate of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and have terms to maturity approximating the terms of the related pension liability. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method.

Notes to the Consolidated Financial Statements

18. Retirement benefit plan assets and post-retirement medical aid benefit obligations (continued)

Plan assets

The plan assets are carried at fair value. Where the plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits under the plan, the fair value is deemed to be the present value of the related obligation. If the qualifying insurance policy has a limit of indemnity the fair value of the insurance policy is limited to that amount.

Profit or loss

Included as part of staff costs:
- current and past service costs calculated using the projected unit credit method;
- gains or losses on curtailments and settlements that took place in the current period; and
- realised actuarial gains or losses on long term employee benefits.

Finance income and expenses are calculated by applying the discount rate at the beginning of the period to the net asset or liability.

Other comprehensive income

Actuarial gains or losses excluding interest on long term employee benefits are recognised in other comprehensive income. All other re-measurements in respect of the obligation and plan assets are included in other comprehensive income and never reclassified to profit or loss.

Actuarial reserve

The actuarial reserve in respect of the obligation and plan assets represents the effect of the changes in the actuarial assumptions and incorporates the differences between the actual experience and the assumed experience. The re-measurements in respect of the obligation and plan assets are included in other comprehensive income and never reclassified to profit or loss.

	2021 R mil	2020 R mil
19. Deferred tax		
Reconciliation of movement in net deferred tax asset		
Opening balance	874	1 182
Current year charge through profit or loss	(51)	58
Current year charge through OCI		
Retirement benefit asset and liabilities	(2)	(1)
Cash flow hedges	-	(7)
Prior year under/(over) provision	9	(31)
Net current year charge of disposal group	(126)	37
Transfers to assets held for sale	(37)	(364)
Assets held for sale current year charge	10	-
	677	**874**
Deferred tax asset		
Deferred revenue	858	869
Provisions	521	654
Retirement benefit assets	245	262
Allowance for impairment of receivables	83	200
Lease liability	177	156
Income received in advance	5	11
Capital allowance	3	-
Cash flow hedge through profit or loss	1	6
Deferred employment expenses	5	6
Disposal group held for sale	86	-
Assessed loss carried forward	347	-
	2 331	**2 164**

Notes to the Consolidated Financial Statements

	2021 R mil	2020 R mil
19. Deferred tax (continued)		
Deferred tax liability		
Government grants	(334)	(662)
Capital allowances	(925)	(259)
Retirement benefit obligation - prepaid pension	(126)	(152)
Right-of-use asset	(82)	(70)
Dealer incentive schemes	-	(38)
Cash flow hedge	(5)	(21)
Deferred initial direct costs	-	(24)
Retirement benefit obligation - OCI	(63)	(46)
Prepayments	(4)	(4)
Leased assets	(2)	(8)
Disposal group held for sale	(113)	(6)
	(1 654)	**(1 290)**
Total net deferred tax asset	**677**	**874**
20. Trade and other payables		
Financial instruments		
Trade payables	1 700	1 778
Lease liability (refer note 20.1)	324	611
Other payables	816	235
Hedge liability	-	12
	2 840	**2 636**
Non-financial instruments		
Amounts received in advance	37	6
VAT	3	19
Employee related liabilities	518	485
	3 398	**3 146**

Trade and other payables were transferred to liabilities held for sale as part of the disposal of the SMH passenger vehicle division in 2021 and the disposal of DTBSA in 2020, refer to note 10.

20.1 Lease liability

Items recognised in statement of financial position		
Lease liability	324	611
Items recognised in profit or loss		
Interest on lease liability	54	53
Expense relating to short-term leases	9	6
Expense relating to low value assets, excluding short-term leases of low value assets	11	4
Other		
Cash outflows from leases	116	79

Maturity profile of lease liability for the year ended 31 December 2021	**Less than 1 year R mil**	**More than 1 year R mil**	**Total R mil**
Lease liability	56	268	324

Notes to the Consolidated Financial Statements

20. Trade and other payables (continued)

31 December 2020	Less than 1 year R mil	More than 1 year R mil	Total R mil
Lease liability	52	559	611

Leases

Lease liabilities which are assigned to financing liabilities are measured initially at the present value of the lease payments. Subsequent measurement of a lease liability includes the increase of the carrying amount to reflect interest on the lease liability and reducing (while affecting other comprehensive income) the carrying amount to reflect the lease payments made.

The group, as lessee, applied the practical expedients relating to short-term and low value leases at the date of initial application.

The lease liability is measured at the present value of the outstanding lease payments, discounted by the incremental borrowing rate at 1 January 2021. The weighted average incremental borrowing rate was 5.7% (2020: 8.11%). The respective right-of-use asset is generally recognised at an amount equal to the lease liability.

Lease liabilities which are assigned to financing liabilities are measured initially at the present value of the lease payments. Subsequent measurement of a lease liability includes the increase of the carrying amount to reflect interest on the lease liability and reducing (while affecting other comprehensive income) the carrying amount to reflect the lease payments made.

The interest due on the lease liability is a component of interest expense. The lease expenses of short-term and low-value asset leases, classified as operating leases, have been fully recognised within functional costs.

Liabilities at amortised cost

Includes interest-bearing borrowings, trade and other payables, and bank overdrafts:

- the group classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual agreement. Instruments which have been written down and conversion features are classified based on the nature of the instrument and the definitions of debt and equity;
- compound instruments are those financial instruments that have components of both financial liabilities and equity such as preference shares. At initial recognition the instrument and the related transaction costs are split into their separate components in terms of the definitions and criteria of IAS 32 and are subsequently accounted for as a financial liability or equity; and
- funding liabilities, bank overdrafts as well as trade and other payables are generally measured at amortised cost but may be measured at fair value through profit or loss if they are managed on a fair value basis or the fair value designation reduces or eliminates an accounting mismatch.

All financial liabilities are initially measured at fair value including transaction costs, except for those classified as fair value through profit or loss, in which case the transaction costs are expensed upfront in profit or loss, usually as part of other operating expenses. Any upfront income earned on financial instruments is recognised as deferred income, depending on the underlying nature of the income.

Financial liabilities are subsequently measured at amortised cost using the effective interest method.

Transfers and derecognition

Financial instruments are derecognised when the contractual rights or obligations expire or are extinguished, are discharged or cancelled for example an outright sale or settlement.

For financial liabilities this includes substantial modification to the terms and conditions of an existing financial liability. A substantial modification to the terms occurs where the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

Notes to the Consolidated Financial Statements

	2021 R mil	2020 R mil

21. Amounts payable to group companies

Trade payables to group companies

Mercedes-Benz AG	2 804	1 215
Mercedes-Benz Group AG	35	20
Mercedes-Benz Cars & Vans Brasil - Industria E Comercio De Veiculos Ltda.	8	5
Daimler South East Asia	1	7
Mercedes Benz Otomotiv Ticaret ve Hizmetler A.S.	1	1
Daimler Truck AG	-	79
Mercedes-Benz Mobility AG	-	6
Daimler Financial Services UK Ltd	-	3
Mercedes-Benz Romania S.R.L.	-	1
Mercedes-Benz Türk A.S.	-	1
	2 849	**1 338**

All financial liabilities are initially measured at fair value including transaction costs, except for those classified as fair value through profit or loss, in which case the transaction costs are expensed upfront in profit or loss, usually as part of other operating expenses.

Subsequently group payables are recognised at amortised cost using the effective interest method.

These are repayable on demand and settled in the ordinary course of business.

Fair value of amounts payable to group companies

The fair value of trade payables to group companies approximates their carrying amounts. This is due to the short-term nature of the instruments.

22. Provisions

Reconciliation of provisions - 2021

	Opening balance R mil	Additional provision R mil	Amounts utilised R mil	Amounts reversed R mil	Closing balance R mil
Premium drive	801	269	(574)	-	496
Residual value	75	8	(11)	(31)	41
Warranty claims	42	6	(23)	-	25
Miscellaneous	359	315	(342)	-	332
	1 277	**598**	**(950)**	**(31)**	**894**

Provisions were transferred to liabilities held for sale as part of the disposal of DTBSA, refer to note 10.

Premium drive

Provision for the future expected cost of maintenance and service agreements. MBSA group took a strategic decision to review the insurance contracts on maintenance and service reimbursement and, as a result, raised a provision on premium drive. This provision is utilised as and when maintenance and service claims are are settled.

Residual value risk

MBSA entered into a "residual value risk agreement" with MBFS whereby the company is liable for all residual value losses incurred by MBFS in realising residual values on Mercedes-Benz branded products.

The exposure is periodically reviewed to the underwritten portfolio to adjust for changes in market conditions. Where risks are identified, the company develops strategies to manage the risk position of the particular assets and a provision is raised to this effect.

Notes to the Consolidated Financial Statements

22. Provisions (continued)

Warranty claims

The provision for warranty claims represents the amount not recovered from MBGAG that is paid locally. The provision is calculated monthly for the warranty period based on estimates made from historical warranty claim experience associated with the products. The utilisation date of product warranties depends on the incidence of the warranty claims and can span the entire term of the product warranties.

Miscellaneous

This provision relates to provisions for contributions to the AITF fund, provisions for supplier volume reduction and onerous contracts as a result of W205 model run-out.

	2021 R mil	2020 R mil

23. Contract liabilities

Summary of contract liabilities

Maintenance and service contracts	2 800	2 668
Rebates, discounts and other	82	136
Financial services contracts	160	105
	3 042	**2 909**

Reconciliation of contract liabilities

Opening balance	2 909	3 478
Additions to contracts	793	1 011
Maintenance contracts released to revenue	(615)	(261)
Maintenance contracts released to revenue from disposal groups	-	(244)
Utilisation of rebates and discounts	(45)	(59)
Reversal	-	(118)
Transfers to liabilities held for sale	-	(898)
	3 042	**2 909**

Contract liabilities consist of liabilities from maintenance and service contracts with customers. The company sells motor vehicles with a maintenance and service obligation to customers. Whilst the sale of the motor vehicle is recognised immediately as revenue, the maintenance and service revenue is recognised as deferred revenue and released into revenue upon the performance of a maintenance and service obligation. These maintenance and service obligation are completed within the lesser of 100 000 kilometres or five years. Prior to 18 February 2019, all maintenance and service obligations sold were completed within the lesser of 100 000 kilometres or six years, which will be honoured as per the agreements. Subsequent to 18 February 2019 all new additions to maintenance and service obligations carry the lesser of 100 000 kilometres or five year period of obligation. Deferred revenue and prepaid expenses are not financial instruments because they are settled by the delivery or receipt of goods and services.

24. Interest-bearing borrowings

Bonds issued under MBSA DMTN Programme	19 250	25 050
Bank loans	2 500	2 500
Interest accrued	78	108
Preference shares	-	55
	21 828	**27 713**

Notes to the Consolidated Financial Statements

	2021 R mil	2020 R mil

24. Interest-bearing borrowings (continued)

Details of movement		
Opening balance	27 713	31 888
Bonds issued	3 000	6 950
Bonds repaid	(8 800)	(9 750)
Loan facilities received	1 500	3 100
Loan facilities repaid	(1 500)	(4 375)
Interest capitalised	(30)	(100)
Settlement of preference shares	(55)	-
	21 828	**27 713**

Interest-bearing borrowings are classified as financial liabilities carried at amortised cost

The group classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual agreement. Instruments which have been written down and conversion features are classified based on the nature of the instrument and the definitions of debt and equity; compound instruments are those financial instruments that have components of both financial liabilities and equity such as preference shares. At initial recognition the instrument and the related transaction costs are split into their separate components in terms of the definitions and criteria of IAS 32 and are subsequently accounted for as a financial liability or equity.

Funding liabilities are generally measured at amortised cost but may be measured at fair value through profit or loss if they are managed on a fair value basis or the fair value designation reduces or eliminates an accounting mismatch.

For the presentation of the fair value of the interest-bearing borrowings, refer to note 30.

Bank loans

MBSA obtains bank loans and overnight facilities from various financial institutions for the funding requirements of the group entities. The loans are held to maturity, which are up to 3 years with the final settlement being made on 14 April 2023 and bear interest at market related rates of interest, referenced off the 3-month JIBAR with spreads between 1.15% to 1.25%.

Preference shares

The preference shares are redeemable after 10 years from date of issue (26 August 2013) with early redemption at the option of the group after 3 years from date of issue. The redeemable preference shares bear interest at a rate of JIBAR plus 1.9%. The group redeemed the preference shares as part of the asset carve-out to DTBSA.

Bonds issued under MBSA DMTN Programme

MBSA has issued bonds under its DMTN Programme, which are listed on the JSE. Bonds are issued periodically as funding requirements arise. The bonds are held to maturity, which ranging between 1 to 5 years with the final settlement being made on 17 September 2024 and are issued at market related rates of interest, referenced off the 3-month JIBAR with spreads between 0.75% to 1.32%, as well as fixed interest rates maturing in April 2029 ranging from 8.91% to 9.04%.

The bonds issued under this programme have been unconditionally and irrevocably guaranteed by MBGAG.

Notes to the Consolidated Financial Statements

24. Interest-bearing borrowings (continued)

The following table lists the bonds issued under the DMTN Programme:

31 December 2021

Code	Listed	Issue amount R mil	Issue date	Maturity date	Rate	Spread %
MBP036	Yes	750	02/11/2017	02/11/2022	Floating	1.32 %
MBP040	Yes	500	23/02/2018	23/02/2023	Floating	1.30 %
MBP043	Yes	1 000	27/07/2018	27/07/2023	Floating	1.18 %
MBP045	Yes	1 500	27/09/2018	27/09/2023	Floating	1.15 %
MBP046	Yes	1 500	26/02/2019	26/02/2022	Floating	1.05 %
MBP047	Yes	500	26/02/2019	26/02/2024	Floating	1.15 %
MBP048	Yes	1 000	27/03/2019	27/03/2022	Floating	1.05 %
MBP049	Yes	1 500	27/03/2019	27/03/2024	Floating	1.15 %
MBF063	Yes	1 100	07/06/2019	07/06/2022	Floating	1.08 %
MBP050	Yes	1 000	23/08/2019	23/08/2022	Floating	1.07 %
MBF065	Yes	1 500	30/09/2019	30/09/2022	Floating	1.08 %
MBP051	Yes	3 500	12/03/2020	12/03/2023	Floating	1.08 %
MBF068	Yes	900	17/11/2020	17/11/2023	Floating	0.95 %
MBP052	Yes	500	26/03/2021	26/03/2024	Floating	0.98 %
MBF069	Yes	500	28/05/2021	28/05/2022	Floating	0.75 %
MBF070	Yes	1 000	28/05/2021	28/05/2024	Floating	1.05 %
MBF071	Yes	1 000	17/09/2021	17/09/2024	Floating	0.99 %
Total listed bonds		**19 250**				

31 December 2020

Code	Listed	Issue amount R mil	Issue date	Maturity date	Rate	Spread %
MBP038	Yes	750	02/11/2017	02/11/2020	Floating	1.32 %
MBP039	Yes	500	23/02/2018	23/02/2021	Floating	1.15 %
MBP040	Yes	500	23/02/2018	23/02/2023	Floating	1.30 %
MBP041	Yes	1 000	13/04/2018	13/04/2021	Floating	1.13 %
MBP042	Yes	500	26/04/2018	26/04/2021	Floating	1.12 %
MBF059	Yes	2 000	21/05/2018	21/05/2021	Floating	1.08 %
MBP043	Yes	1 000	27/07/2018	27/07/2023	Floating	1.18 %
MBF061	Yes	2 250	17/08/2018	17/08/2021	Floating	1.06 %
MBP044	Yes	500	27/09/2018	27/09/2021	Floating	1.05 %
MBP044	Yes	500	27/09/2018	27/09/2021	Floating	1.05 %
MBP045	Yes	500	27/09/2018	27/09/2023	Floating	1.15 %
MBP045	Yes	500	27/09/2013	27/09/2023	Floating	1.15 %
MBP045	Yes	500	27/09/2018	27/09/2023	Floating	1.15 %
MBP046	Yes	1 500	26/02/2019	26/02/2022	Floating	1.05 %
MBP047	Yes	250	26/02/2019	26/02/2024	Floating	1.15 %
MBP047	Yes	250	26/02/2019	26/02/2024	Floating	1.15 %
MBP048	Yes	1 000	27/03/2019	27/03/2022	Floating	1.05 %
MBP049	Yes	500	27/03/2019	27/03/2024	Floating	1.15 %
MBP049	Yes	1 000	27/03/2019	27/03/2024	Floating	1.15 %
MBF063	Yes	1 100	07/06/2019	07/06/2022	Floating	1.08 %
MBP050	Yes	1 000	23/08/2019	23/08/2022	Floating	1.07 %
MBF065	Yes	1 500	30/09/2019	30/09/2022	Floating	1.08 %
MBP051	Yes	2 000	12/03/2020	12/03/2023	Floating	1.08 %
MBP051	Yes	500	12/03/2020	12/03/2023	Floating	1.08 %
MBP051	Yes	1 000	12/03/2020	12/03/2023	Floating	1.08 %
MBF066	Yes	1 200	16/09/2020	16/09/2021	Floating	0.79 %
MBF067	Yes	350	17/11/2020	17/11/2021	Floating	0.60 %
MBF068	Yes	900	17/11/2020	17/11/2023	Floating	0.95 %
Total listed bonds		**25 050**				

Notes to the Consolidated Financial Statements

25. Segmental information

Basis for segmentation

The company is organised into four segments for operational and management purposes, being wholesale and retail vehicles, manufacturing and component exports, financial services and fleet management and other. MBSA reports its primary business segment information on this basis.

The principal offering for each division is as follows:

- Wholesale and retail vehicles – passenger vehicles and commercial vehicle wholesale business including the retail business; and
- Manufacturing and component exports – manufacturing plant based in East London and component exports.
- Financial services and fleet management – variety of leasing and specialised leasing products and fleet management; and
- Other – residual of the operations, which does not constitute its own separate segment. This includes the property company.

Geographical information

All segments are managed in South Africa. All revenues and assets from financial services and fleet management segments are domiciled in South Africa.

	2021		2020	
	Revenue from sale of vehicles R mil	Non-current assets R mil	Revenue from sale of vehicles R mil	Non-current assets R mil
Europe	26 966	-	29 661	-
Africa	18 612	23 326	18 358	28 445
Americas	226	-	-	-
Asia	-	-	25	-
Total	**45 804**	**23 326**	**48 044**	**28 445**

Majority of sales to Europe R 26 966 million (2020: R 29 617 million) relate to MBAG and MBGAG, the parent and ultimate holding company.

Information about reportable segments

Information related to each reportable segment is set out below:

2021	Wholesale and retail vehicles R mil	Manufacturing and component exports R mil	Financial services and Fleet management R mil	Other R mil	Total R mil
Revenue from sale of vehicles	11 688	31 089	-	-	42 777
Revenue from financial services	-	-	3 027	-	3 027
Total income from sales and financing activities	**11 688**	**31 089**	**3 027**	**-**	**45 804**
Income other than from contracts with customers	-	-	-	8	8
Interest paid	-	-	(1 031)	-	(1 031)
Finance cost	(362)	-	-	-	(362)
Impairment reversal	-	-	(24)	-	(24)
Segment EBIT	**513**	**387**	**79**	**(14)**	**965**
Segment assets	**4 975**	**33 492**	**11 705**	**146**	**50 318**
Segment liabilities	**(29 612)**	**(2 583)**	**(722)**	**(6)**	**(32 923)**

Notes to the Consolidated Financial Statements

25. Segmental information (continued)

2020	Wholesale and retail vehicles R mil	Manufacturing and component exports R mil	Financial Services and Fleet management R mil	Other R mil	Total R mil
Revenue from sale of vehicles	12 133	32 051	-	-	44 184
Revenue from financial services	-	-	3 860	-	3 860
Total income from sales and financing activities	**12 133**	**32 051**	**3 860**	**-**	**48 044**
Income other than from contracts with customers	5	-	-	5	10
Interest paid	-	-	(1 399)	-	(1 399)
Finance cost	(618)	-	-	-	(618)
Impairment reversal	-	-	7	-	7
Segment EBIT	**(431)**	**1 411**	**492**	**(16)**	**1 456**
Segment assets	**9 020**	**24 111**	**22 834**	**148**	**56 113**
Segment liabilities	**(35 793)**	**(2 593)**	**(279)**	**(8)**	**(38 673)**

26. Share capital

	2021 Number	2020 Number
Ordinary shares authorised and issued	46 840 100	46 840 100
Composition of issued share capital and premium		
Ordinary shares at par value	47	47
Share premium	5 370	5 370
Total issued capital and premium	**5 417**	**5 417**

Stated capital issued by the group is recorded at the proceeds received, net of issue costs. Stated capital comprises share capital and share premium. The shares are fully paid up.

All ordinary shares rank equally with regards to the group's residual assets. Holders of ordinary shares are entitled to dividends as declared from time to time and are entitled to one vote per share at annual general meetings.

During the 2020 financial year, MBSA's holding company MBAG, provided an equity contribution of R 4 billion. This was done through the issue of 100 shares at a par value of R 1 per share and a premium of R 39 999 999 per share.

27. Related parties

Relationships

Ultimate holding company	Mercedes-Benz Group AG
Holding company	Mercedes-Benz AG

The ultimate holding company of MBSA is MBGAG. Various transactions are entered into between MBSA and companies within the global MBGAG group. The transactions listed below are conducted between MBSA Limited and its ultimate holding company, holding company as well as fellow subsidiaries.

Notes to the Consolidated Financial Statements

27. Related parties (continued)

For related party balances refer note 15, amounts receivable from group companies and note 21, amounts payable to group companies.

	Sales to group companies		Purchases from group companies	
	2021 R mil	2020 R mil	2021 R mil	2020 R mil
Mercedes-Benz AG	26 966	29 617	24 136	27 224
Mercedes-Benz US International	225	76	202	65
Daimler Truck AG	-	34	-	23
Mitsubishi Fuso Truck and Bus Corporation	-	25	-	35
Mercedes-Benz Financial Services UK Ltd	-	10	-	-
Mercedes-Benz do Brasil Ltda.	-	8	3	3
Mercedes-Benz Group AG	-	-	80	14
Daimler FleetBoard	-	-	-	43
Freightliner Corporation	-	-	-	6
Mercedes-Benz Hellas	-	-	-	1

	Other income received from group companies		Other expenses paid to group companies	
	2021 R mil	2020 R mil	2021 R mil	2020 R mil
Selling costs				
Daimler South East Asia Pte. Ltd.	-	-	10	14
Mercedes-Benz AG	-	-	9	19
Mercedes-Benz Cars Netherlands B.V.	-	-	3	3
Mercedes-Benz Romania S.R.L	-	-	2	4
Mercedes-Benz Italia S.P.A.	-	-	2	-
Mercedes-Benz Portugal, S.A.	-	-	1	-
Daimler Truck AG	-	-	-	4
Mitsubishi Fuso Truck and Bus Corporation	-	-	-	3
Mercedes-Benz Turkey	-	-	-	1
Mercedes-Benz Group AG	-	-	-	1
Daimler Mobility Services GmbH	-	-	-	1
Interest				
Mercedes-Benz Group AG	7	6	48	22
Mercedes-Benz AG	-	-	4	3
Daimler International Finance B.V.	-	-	-	9
Administration and management fees				
Mercedes-Benz AG	1 034	54	13	21
Daimler Truck AG	-	9	-	1
Daimler South East Asia Pte. Ltd.	-	-	19	22
Mercedes-Benz Group AG	-	-	8	2
Mercedes-Benz Group Services Phils., Inc.	-	-	-	4
Recharge cost				
Mercedes-Benz AG	138	86	-	-
Mercedes-Benz Group AG	15	9	-	-
Mercedes-Benz U.S. International, Inc.	5	92	-	-
Daimler Servicios Corporativos Mexico S. de R.L. de C.V.	3	-	-	-
Mercedes-Benz Vietnam Ltd.	3	-	-	-
Mercedes-AMG GmbH	3	-	-	-
Mercedes-Benz Manufacturing (Thailand) Limited	2	2	-	-

Notes to the Consolidated Financial Statements

	2021 R mil	2020 R mil

27. Related parties (continued)

Compensation to directors and other key management

Short-term employee benefits	49	53
Post-employment benefits	1	2
	50	**55**

28. Directors' and prescribed officers' emoluments

Executive directors

2021

	Short-term employee benefits			Other long-term benefits	
	Salaries R mil	Bonus related R mil	Other benefits R mil	Pension fund contributions R mil	Total R mil
Mr A Engling	2.2	1.3	6.6	0.1	10.2
Mr AM Kgotle	3.2	2.1	2.1	0.2	7.6
Mr J Fritz	1.5	1.2	3.3	0.1	6.1
Mr M Raine	0.6	-	1.3	0.1	2.0
Mr KM Eser	2.2	1.2	4.6	0.2	8.2
	9.7	**5.8**	**17.9**	**0.7**	**34.1**

2020

Mr A Engling	2.3	0.5	6.5	0.3	9.6
Mr AM Kgotle	3.1	0.4	1.7	0.2	5.4
Mr C Spohr	-	0.2	1.0	-	1.2
Mr J Fritz	2.3	0.6	6.4	0.3	9.6
Mr KM Eser	2.3	0.3	4.0	0.3	6.9
	10.0	**2.0**	**19.6**	**1.1**	**32.7**

Prescribed officers

2021

Ms N Trimmel	1.6	0.6	1.0	0.2	3.4
Mr R Hoffmann	2.1	1.0	5.7	0.1	8.9
	3.7	**1.6**	**6.7**	**0.3**	**12.3**

2020

Ms N Trimmel	1.4	0.1	0.9	0.2	2.6
Mr R Hoffmann	2.0	0.1	5.2	0.2	7.5
Mr MG Dietz	2.3	0.3	5.5	0.2	8.3
	5.7	**0.5**	**11.6**	**0.6**	**18.4**

* Other benefits comprise incentives, car and travel allowance and medical benefits.

Included in the directors' remuneration is an amount of R 1 million (2020: R 1 million) relating to the MBGAG Performance Phantom Share Plan.

Notes to the Consolidated Financial Statements

28. Directors' and prescribed officers' emoluments (continued)

Non-executive directors

	Directors' fees for services as directors of subsidiaries	
	2021 R mil	**2020 R mil**
Dr JW Schmidt	0.2	0.2
Ms N Mbhele	0.8	1.0
Ms S Zilwa	0.8	1.0
Amb N January-Bardill	0.9	1.1
Ms FT De Buck	1.0	0.9
	3.7	**4.2**

None of the directors or prescribed officers hold any shares in MBSA.

29. Financial instruments and risk management

29.1 Categories and analysis of assets and liabilities

Assets - 2021

	Financial instruments				
	Designated at fair value R mil	**At amortised cost R mil**	**Other assets R mil**	**Total R mil**	**Non-current portion of total R mil**
Assets held for sale	-	-	917	917	-
Cash and cash equivalents	-	569	-	569	-
Trade and other receivables	-	2 757	500	3 257	-
Inventories	-	-	15 443	15 443	-
Derivatives and other financial assets	17	77	-	94	-
Current tax receivable	-	-	189	189	-
Amounts receivable from group companies	-	3 698	-	3 698	-
Loans and advances to customers	-	10 043	-	10 043	7 218
Deferred initial direct cost	-	-	102	102	102
Right-of-use assets	-	-	294	294	294
Assets leased under operating leases	-	-	2 293	2 293	2 293
Property, plant and equipment	-	-	12 425	12 425	12 425
Goodwill and intangible assets	-	-	133	133	133
Retirement benefit asset	-	-	184	184	184
Deferred tax	-	-	677	677	677
	17	**17 144**	**33 157**	**50 318**	**23 326**

Notes to the Consolidated Financial Statements

29. Financial instruments and risk management (continued)

Assets - 2020

	Financial instruments				
	Designated at fair value R mil	At amortised cost R mil	Other assets R mil	Total R mil	Non-current portion of total R mil
Assets held for sale	-	-	2 812	2 812	-
Cash and cash equivalents	-	3 996	-	3 996	-
Trade and other receivables	-	3 946	564	4 510	-
Inventories	-	-	7 939	7 939	-
Derivatives and other financial assets	75	78	-	153	-
Taxation receivable	-	-	17	17	-
Amounts receivable from group companies	-	738	-	738	-
Loans and advances to customers	-	19 492	-	19 492	11 989
Deferred initial direct cost	-	-	136	136	136
Property, plant and equipment	-	-	10 785	10 785	10 785
Right-of-use assets	-	-	537	537	537
Assets leased under operating leases	-	-	3 868	3 868	3 868
Goodwill and intangible assets	-	-	145	145	145
Retirement benefit asset	-	-	111	111	111
Deferred tax	-	-	874	874	874
	75	**28 250**	**27 788**	**56 113**	**28 445**

Liabilities - 2021

	Financial instruments			
	At amortised cost R mil	Other liabilities R mil	Total R mil	Non-current portion of total R mil
Liabilities held for sale	-	525	525	-
Bank overdraft	8	-	8	-
Trade and other payables	2 840	558	3 398	269
Amounts payable to group companies	2 849	-	2 849	-
Provisions	-	894	894	-
Contract liabilities	-	3 042	3 042	3 042
Interest-bearing borrowings	21 828	-	21 828	13 897
Post-retirement medical aid benefit obligation	-	379	379	379
	27 525	**5 398**	**32 923**	**17 587**

Liabilities - 2020

	Financial instruments				
	Designated at fair value R mil	At amortised cost R mil	Other liabilities R mil	Total R mil	Non-current portion of total R mil
Liabilities held for sale	-	-	1 869	1 869	-
Bank overdraft	-	18	-	18	-
Trade and other payables	12	2 624	510	3 146	559
Amounts payable to group companies	-	1 338	-	1 338	-
Provisions	-	-	1 277	1 277	-
Contract liabilities	-	-	2 909	2 909	2 909
Current tax payable	-	-	51	51	-
Interest-bearing borrowings	-	27 713	-	27 713	17 305
Post-retirement medical aid benefit obligation	-	-	352	352	352
	12	**31 693**	**6 968**	**38 673**	**21 125**

Notes to the Consolidated Financial Statements

29. Financial instruments and risk management (continued)

29.2 Capital risk management

The primary objective of the company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The capital management approach is driven by its strategic and organisational requirements taking into account the regulatory and commercial environment in which it operates.

The company manages its structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year.

In accordance with the MBGAG policy on the capital structure, the company monitors capital using a total equity to total assets target ratio of between 10% and 20%.

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

	2021 R mil	2020 R mil
Total assets	50 319	56 113
Total equity	17 395	17 440
Debt equity ratio	34.57 %	31.08 %

The company is investigating relevant measures to bring the capital ratio within the target range. The 2021 ratio is mainly due to the investment in capital expenditure incurred for the W206 model along with the capital injection received from its holding company.

29.3 Financial risk management

29.3.1 Objectives and policies

The board of directors has overall responsibility for the establishment and oversight of the company's risk management framework,including the implementation and monitoring of these policies.

The company has established internal guidelines for risk controlling procedures and for the use of financial instruments, including a clear segregation of duties with regard to financial activities, settlement, accounting and the related controls. The guidelines upon which the company's risk management processes for financial risks are designed to identify and analyse these risks throughout the company, to set appropriate risk limits and controls and to monitor the risks by means of reliable and up-to-date administrative and information systems. The guidelines and systems are regularly reviewed and adjusted to changes in markets and products.

29.3.2 Credit risk

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt in accordance with the contractual terms. Credit risk encompasses both the direct risk of default and the risk of a deterioration of creditworthiness as well as concentration risks.

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

	2021 R mil	2020 R mil
Cash and cash equivalents	569	3 996
Trade and other receivables	2 757	3 946
Financial assets and derivatives	94	153
Loans and advances to customers	10 043	19 492
Amounts receivable from group companies	3 698	738
	17 161	**28 325**

29. Financial instruments and risk management (continued)

The company is exposed to credit risk through the following instruments:

Cash and cash equivalents

The company limits its exposure to credit risk by investing in liquid investments in financial institutions with a high credit rating, therefore management does not expect any counter party to fail to meet its obligations. Cash balances are held with reputable financial institutions.

Trade and other receivables

Trade receivables are mostly receivables from sales activities of vehicles and spare parts. The credit risk from trade receivables encompasses the default risk of customers, as well as other corporate and private customers. The company manages its credit risk from trade receivables using appropriate IT applications and databases on the basis of internal guidelines. In order to minimise credit risk, the company assesses the creditworthiness of the counterparties. All receivables are regularly reviewed and impairments are recognised if there is any objective indication of non-performance or other contractual violations. The company establishes an allowance for impairment that represents its estimate of expected losses in respect of trade receivables.

Derivatives and other financial assets

The company's exposure to credit risk on financial assets is not significant in relation to the overall credit risk of the company. Given the nature of these financial assets, management does not expect any counterparty to default on meeting its obligations.

The company uses derivative financial instruments exclusively for hedging financial risks that arise from its commercial business activities related to the procurement of precious metals used in production. The company manages its credit risk exposure in connection with derivative financial instruments through a limit system, which is based on the review of each counterparty's financial strength. This system limits and diversifies the credit risk. As a result, the company is exposed to credit risk only to a small extent with respect to its derivative financial instruments. In accordance with the company's risk policy, most derivatives are contracted with counterparties which have an external rating of "A" or better. The exposure to this risk is facilitated through the Daimler group and not directly through the MBSA group.

Amounts receivable from group companies

The company's exposure to credit risk on trade receivables from group companies is managed within the Daimler group and according to Daimler policy and credit terms. Given the nature of these receivables, management does not expect any counterparty to default on meeting its obligations.

The maximum risk positions of financial assets, generally subject to credit risk, are equal to their carrying amounts, except for lease instalments from operating leases, which is considered to be future minimum contractual amounts receivable under the lease contract.

Loans and advances to customers

The group's financing and leasing activities are primarily focused on supporting the sales of the group's automotive products. The group is therefore exposed to credit risk, which is monitored and managed based on defined standards, guidelines and procedures. MBFS manages its credit risk irrespective of whether it is related to an operating lease or a finance lease contract. For this reason, statements concerning the credit risk of MBFS refer to the entire financing and leasing business, unless specified otherwise.

Exposure to credit risk from financing and lease activities is monitored based on the portfolio subject to credit risk. The portfolio subject to

credit risk is an internal control quantity that consists of wholesale and retail receivables from financial services and the portion of the operating lease portfolio that is subject to credit risk. Receivables from financial services comprise claims arising from finance lease contracts and repayment claims from financing loans.

In addition, the Financial Services and Fleet Management segment is exposed to credit risk from irrevocable loan commitments to retailers and end customers. This segment has guidelines setting the framework for effective risk management. In particular, these rules deal with minimum requirements for all risk-relevant credit processes, the definition of financing products offered, the evaluation of customer quality, requests for collateral as well as the treatment of unsecured loans and non-performing claims.

In general, these segments manage risk on retail receivables by placing limits on acceptable risk exposure to individual borrowers or groups of borrowers, and to industry segments. Lending limits are also put in place for officers of the segments to grant credit and a series of committees oversee the approval of large credit facilities both at inception and on an annual review basis. By nature, the retail receivables mostly consist of individual contracts.

Notes to the Consolidated Financial Statements

29. Financial instruments and risk management (continued)

Wholesale receivables consist of large groups of dealer companies with high value exposure. The group follows the DAG group policies under which each new dealer is analysed for creditworthiness before standard payment, delivery terms and conditions are offered. Depending on the amount of the exposure to risk, the application will be assessed by either the local credit committee, the regional credit committee or the DAG credit committee (based in Berlin, Germany), or a combination of these. Ownership of the vehicles lies with the group until the loan balance is settled.

Geographically, the credit risk concentration is predominantly concentrated to the South African market.

The ageing of loans and advances to customers and the mitigation of exposure to the balances at reporting date were as follows:

2021

	Gross maximum exposure R mil	Not past due R mil	Past due and impaired R mil
Retail and wholesale receivables	10 402	10 043	359
Allowance for impairment	(359)	-	(359)
	10 043	**10 043**	**-**

2020

Retail and wholesale receivables	20 264	19 492	772
Allowance for impairment	(772)	-	(772)
	19 492	**19 492**	**-**

As the group retains title to the underlying vehicles financed, collateral is assessed at the inception of the loan and on an ongoing basis for significant concentrations of credit risk by reference to the underlying value of the vehicles financed. Management's assessment of the impairment of receivables considers the underlying collateral available for a class of customers/vehicles and is determined on a portfolio basis. Any concentration risk is managed through the group's credit policy.

The gross maximum exposure and concentration of credit risk exposure per geographical region at year end was as follows:

2021	Gross maximum exposure R mil	Loans and advances to customers R mil	Financial assets and derivatives R mil	Trade and other receivables R mil	Trade receivable from group companies R mil	Cash and cash equivalents R mil
South Africa	13 456	10 402	94	2 757	-	203
Europe	4 034	-	-	-	3 685	349
Americas	25	-	-	-	8	17
Asia	5	-	-	-	5	-
	17 520	**10 402**	**94**	**2 757**	**3 698**	**569**

2020						
South Africa	28 343	20 264	153	3 946	-	3 980
Europe	738	-	-	-	723	15
Americas	13	-	-	-	13	-
Asia	3	-	-	-	2	1
	29 097	**20 264**	**153**	**3 946**	**738**	**3 996**

29. Financial instruments and risk management (continued)

The ageing profile of the trade receivables at reporting date is as follows:

2021

	Gross amount R mil	Expected credit loss R mil	Carrying amount R mil
Not past due	931	-	931
30 - 90 days	379	(5)	374
91 - 180+ days	49	(4)	45
	1 359	**(9)**	**1 350**

2020

Not past due	905	-	905
30 - 90 days	323	(1)	322
91 - 180+ days	49	(26)	23
	1 277	**(27)**	**1 250**

The credit quality of trade receivables that are neither past due nor impaired is monitored and managed by the company, and comprises primarily receivables of companies who have a trading history with the company, as well as low-risk rated companies.

Impairment of financial assets measured at amortised cost

At each reporting date a loss allowance is recognised for financial assets, loan commitments and financial guarantees other than those to be measured at fair value through profit or loss reflecting expected losses for these instruments.

Expected credit losses are allocated using three stages:

- Stage 1: expected credit losses within the next twelve months. Stage 1 includes all contracts with no significant increase in credit risk since initial recognition and usually includes new acquisitions and contracts with fewer than 31 days past due date. The portion of the lifetime expected credit losses resulting from default events possible within the next 12 months is recognised.
- Stage 2: expected credit losses over the lifetime – not credit impaired. If a financial asset has a significant increase in credit risk since initial recognition but is not yet credit impaired, it is moved to stage 2 and measured at lifetime expected credit losses, which is defined as the expected credit losses that results from all possible default events over the expected life of a financial instrument.
- Stage 3: expected credit losses over the lifetime – credit impaired. If a financial asset is defined as credit-impaired or in default, it is transferred to stage 3 and measured at lifetime expected credit losses. Objective evidence for a credit-impaired financial asset includes 91 days past due date and other information about significant financial difficulties of the borrower. The determination of whether a financial asset has experienced a significant increase in credit risk is based on an assessment of the probability of default, which is made at least quarterly, incorporating external credit rating information as well as internal information on the credit quality of the financial asset. For debt instruments that are not receivables from financial services, a significant increase in credit risk is assessed mainly based on past-due information or the probability of default.

A financial asset is migrated to stage 2 if the asset's credit risk has increased significantly compared to its credit risk at initial recognition. The credit risk is assessed based on the probability of default.

For trade receivables, the simplified approach is applied whereby all trade receivables are allocated to stage 2 initially. Hence, no determination of significant increases in credit risk is necessary. The company applies the low credit risk exception to the stage allocation to quoted debt instruments with investment-grade ratings. These debt instruments are always allocated to stage 1.

In stage 1 and 2, the effective interest revenue is calculated based on gross carrying amounts. If a financial asset becomes credit impaired in stage 3, the effective interest revenue is calculated based on its net carrying amount (gross carrying amount adjusted for any loss allowance).

Measurement of expected credit losses

Expected credit losses are measured in a way that reflects:

- the unbiased and probability-weighted amount;
- the time value of money; and
- reasonable and supportable information (if available without undue cost or effort) at the reporting date about past events, current conditions and forecasts of future economic conditions.

29. Financial instruments and risk management (continued)

Expected credit losses are measured as the probability-weighted present value of all cash shortfalls over the expected life of each financial asset.

For receivables from financial services, expected credit losses are mainly calculated with a statistical model using three major risk parameters: probability of default; loss given default and exposure at default. The estimation of these risk parameters incorporates all available relevant information, not only historical and current loss data, but also reasonable and supportable forward-looking information reflected by future expectation factors. This information includes macroeconomic factors (e.g., gross domestic product growth, unemployment rate, cost performance index) and forecasts of future economic conditions. These forecasts are performed using a scenario analysis (basic scenario, optimistic scenario and pessimistic scenario). The impairment amount for trade receivables is predominantly determined on a collective basis.

A financial instrument is written off when there is no reasonable expectation of recovery, for example, at the end of insolvency proceedings or after a court decision of uncollectability. Significant modification of financial assets (e.g., with a change in the present value of the contractual cash flows of 10%) also leads to derecognition of the financial assets with a simultaneous recognition of new financial assets. This is estimated to be rare and immaterial for receivables from financial services. If the terms of a contract are renegotiated or modified and this does not result in derecognition of the contract, then the gross carrying amount of the contract has to be recalculated and a modification gain or loss is recognised in profit or loss.

29.3.3 Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

The group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets and projected cash flows from operations.

The group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing borrowings, trade payables and trade payables to group companies.

The Mercedes-Benz Group manages its liquidity by holding adequate volumes of liquid assets and by maintaining credit facilities in addition to the cash inflows generated by its business operations. Liquid assets comprise mainly cash and cash equivalents and marketable debt securities.

Funds raised are used to finance working capital and capital expenditure as well as the cash needs of the lease and financing business and unexpected liquidity needs. In accordance with internal guidelines, the refunding of the lease and financing business is generally carried out with matching maturities so that financing liabilities have the same maturity profile as the leased assets and the receivables from financial services.

From an operating point of view, the management of the group's liquidity exposures is managed by a daily cash-pooling process. This process enables the Mercedes-Benz Group to manage its liquidity surplus and liquidity requirements according to the actual needs of the group and each subsidiary. The group's short-term and mid-term liquidity management takes into account the maturities of financial assets and financial liabilities and estimates of cash flows from business operations.

The following are the contractual maturities of financial liabilities based on contractual undiscounted payments:

2021

	0 - 12 months R mil	1 - 2 years R mil	2 - 7 years R mil	Total R mil	Carrying amount R mil
Non-derivative financial liabilities					
Bank overdraft	8	-	-	8	8
Trade and other payables	2 571	269	-	2 840	2 840
Amounts payable to group companies	2 849	-	-	2 849	2 849
Interest-bearing borrowings	8 805	9 805	4 582	23 192	21 828
	14 233	**10 074**	**4 582**	**28 889**	**27 525**

Notes to the Consolidated Financial Statements

29. Financial instruments and risk management (continued)

2020

	0 - 12 months R mil	1 - 2 years R mil	2 - 7 years R mil	Total R mil	Carrying amount R mil
Non-derivative financial liabilities					
Bank overdraft	18	-	-	18	18
Trade and other payables	2 077	559	-	2 636	2 636
Amounts payable to group companies	1 338	-	-	1 338	1 338
Interest-bearing borrowings	11 351	7 560	10 677	29 588	27 713
	14 784	**8 119**	**10 677**	**33 580**	**31 705**

29.3.4 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, residual values of motor vehicles and commodity prices will affect the company's income, cash flows or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The company manages market risks to minimise the impact of fluctuations in foreign exchange rates, interest rates as well as commodity and motor vehicle prices on its results. The company calculates its overall exposure to these market risks to provide the basis for hedging decisions, which include the selection of hedging instruments and the determination of hedging volumes and the corresponding periods.

29.3.4.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to the changes in market interest rates.

The company's exposure to changes in interest rates relates primarily to the company's interest-bearing borrowings. The company's policy is aligned to Daimler's general policy to match funding in terms of maturities and interest rates whenever economically feasible.

Interest rate profile

The interest rate profile of interest-bearing financial instruments as reported to the management of the company is as follows:

	Variable rate instruments		Fixed rate instruments	
	2021 R mil	2020 R mil	2021 R mil	2020 R mil
Financial assets				
Cash and cash equivalents	569	3 996	-	-
Loans and advances to customers	10 043	19 492	-	-
Amounts receivable from group companies	-	-	3 698	738
Trade receivables from group companies	-	-	-	-
	10 612	**23 488**	**3 698**	**738**
Financial liabilities				
Bank overdraft	8	18	-	-
Interest-bearing borrowings	21 828	27 713	-	-
	21 836	**27 731**	**-**	**-**

Notes to the Consolidated Financial Statements

29. Financial instruments and risk management (continued)

Interest rate sensitivity analysis

The following table demonstrates the sensitivity of the variable rate instruments to a reasonable possible change in interest rate, with all other variables held constant, on profit before taxation:

	2021		2020	
Sensitivity analysis	**Increase R mil**	**Decrease R mil**	**Increase R mil**	**Decrease R mil**
Net effect on profit before taxation				
100 basis points	(112)	112	(42)	42

29.3.4.2 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to the changes in foreign exchange rates. The nature of the company's businesses exposes cash flows and earnings to risks due to fluctuations in exchange rates. These risks primarily relate to fluctuations between the Euro, the US Dollar ("USD"), the Japanese Yen ("JPY") and the Singaporean Dollar ("SGD").

The company is exposed to foreign exchange rate risk between the date of order and the ultimate payment of the foreign invoices.

Foreign currency exposure at the end of the reporting period

	2021			2020			
	Euro R mil	**USD R mil**	**SGD R mil**	**Euro R mil**	**USD R mil**	**SGD R mil**	**JPY R mil**
Cash and cash equivalents	348	17	-	15	-	-	1
Trade and other receivables	678	8	-	535	15	-	-
Trade and other payables	(284)	(8)	(1)	(133)	(59)	7	(14)
Net exposure	**742**	**17**	**(1)**	**417**	**(44)**	**7**	**(13)**
Relevant spot exchange rates	**18.06**	**15.95**	**11.82**	**18.02**	**14.69**	**11.11**	**0.14**

Foreign currency sensitivity analysis

The following table demonstrates the sensitivity to a reasonable possible change in foreign exchange rates, with all other variables held constants, on the profit before taxation:

	2021		2020	
Increase or decrease in exchange rate of 10%	**Increase R mil**	**Decrease R mil**	**Increase R mil**	**Decrease R mil**
Impact on profit before taxation				
Euro	74	(74)	42	(42)
USD	2	(2)	(4)	4
SGD	-	-	1	(1)
JPY	-	-	(1)	1

29.3.4.3 Residual value risk

The company is exposed to the risk of financed or leased assets being returned at values less than the residual value guaranteed under the terms of the respective agreements. These risks are managed by periodic reviews of the residual value risk. The decisions are taken by an inclusive committee and by reference to market conditions and comparative information.

Residual values on leased vehicles are estimated when the lease is entered into. Estimates involve a high level of subjectivity and judgement as the directors, through the Residual Value Steering Committee, are required to conclude on likely outcomes and probabilities based on quarterly forecasts and assumptions.

Notes to the Consolidated Financial Statements

29. Financial instruments and risk management (continued)

Further reviews are conducted of the exposure of the underwritten portfolio to changes in market conditions, since inception of the agreements. These ensure satisfactory coverage of assets' projected valuations to their underwritten values. Where risks are identified, strategies are developed to manage the risk position of the particular assets and provision is made for such potential loss. Where potential losses are identified, these are recognised as an adjustment to profitability at a contract level. Provision is made to the extent that the carrying values of leased assets are impaired through residual values not being fully recoverable.

Uncertainties that affect the company's estimate of the residual value of the leased assets include:

- return-rates of lease vehicles;
- penetration rates;
- lease duration; and
- market conditions.

The residual value risk provision is raised for the potential loss on the leased assets returned under a buy-back scheme.

	2021 R mil	2020 R mil
Financial liabilities subject to residual value risk		
Residual value provision	41	75

Price risk sensitivity analysis

The following table demonstrates the sensitivity to a reasonable possible change in the above mentioned residual values, with all other variables held constant, on the profit before taxation:

	2021		2020	
Increase or decrease in residual values with 10%	**Increase R mil**	**Decrease R mil**	**Increase R mil**	**Decrease R mil**
Impact on profit before taxation	4	(4)	8	(8)

29.3.4.4 Commodity price risk

The company is exposed to the risk of changes in commodity prices in connection with procuring raw materials and manufacturing supplies used in production. A small portion of the raw material price risk, primarily relating to forecasted procurement of certain precious metals, is mitigated with the use of derivative financial instruments. Please refer to the credit risk section above as well as the derivative note 14 for more information.

	2021 R mil	2020 R mil
Financial assets subject to commodity price risk		
Derivatives	17	75

Commodity price risk sensitivity

The following table demonstrates the sensitivity to a reasonable possible changes in the above mentioned derivative pricing, with all other variables held constant, on the profit before taxation:

	2021		2020	
Increase or decrease in derivative pricing with 10%	**Increase R mil**	**Decrease R mil**	**Increase R mil**	**Decrease R mil**
Impact on profit before taxation	2	(2)	8	(8)

Notes to the Consolidated Financial Statements

30. Fair value information

Financial assets and liabilities carried at fair value	2021 Carrying value R mil	2021 Fair value R mil	2021 Fair value level	2020 Carrying value R mil	2020 Fair value R mil	2020 Fair value level
Derivative assets	17	17	Level 2	75	75	Level 2
Derivative liabilities	-	-	Level 2	(12)	(12)	Level 2
Other financial assets (insurance cell asset)	77	77	Level 1	78	78	Level 1
	94	**94**		**141**	**141**	
Financial assets and liabilities not held at fair value						
Interest-bearing borrowings	(21 828)	(21 946)	Level 2	(27 713)	(27 863)	Level 2

Category of financial asset or liability	Includes	Valuation techniques and significant inputs used
Financial assets and derivatives	Commodity swap contracts	The fair values of commodity hedging contracts (e.g. commodity forwards) are determined on the basis of current reference prices with consideration of forward premiums and discounts.
Interest-bearing borrowings	Bonds issued under MBSA DMTN Programme	The bond programme is listed on the JSE. The bonds are held to term and are issued at market related rates of interest. Discounting based methodology is used for the valuation of the bond portfolio. Future cash flows are calculated using the projected forward JIBAR 3 month rates obtained from the JIBAR accrual zero rate curve. The projected cash flows are discounted using credit risk adjusted JSE rate curves.

Fair value hierarchy

The company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Other techniques for which all Inputs which have significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

31. Going concern

The consolidated financial statements for the year ended 31 December 2021 have been prepared on a going concern basis, which assumes that the company will be able to meet its obligations for the foreseeable future and for at least 12 months after the date of this report. The group has recognised a net loss after tax of R 103 million (2020: R 323 million) for the year ended 31 December 2021 and, as at that date, the group has a capital ratio of 34.57% (2020: 31.08%).

Management believes that the group will be able to meet all its obligations for the 2022 period. Management further believes that, proceeds received during 2022 will be sufficient to meet the repayment requirements. Management has performed forecasts and based on these forecasts the expectation is that the entity will be profitable for the 2022 financial year. The company and the group will therefore be solvent and liquid for at least the 12 months from the date of this report.

Management has the full support of the holding company, MBAG, to support its operations. To this extent, MBGAG issued a guarantee with regards to the notes issued under the DMTN programme.

Semi-conductor shortages

During 2021 the group experienced the effects of the global semi-conductor shortage. This affected both the import of vehicles for local sale and the export of vehicles from the production plant. The shortages lead to reduced stock availability in the local sales market and increased stock of unfinished export vehicles. Management believes that the semi-conductor shortages and bottlenecks will continue during 2022, however it is expected that the situation will improve during the course of 2022 with increased availability of semi-conductors.

Notes to the Consolidated Financial Statements

31. Going concern (continued)

COVID-19 considerations

Management has taken necessary steps to ensure that it will continuously monitor the global situation, regarding the COVID-19 pandemic, and make any necessary adjustments to ensure business continuity. Further to this, the group has access to funding from the holding company, MBAG.

Management acknowledges that uncertainty exists as a result of the current global situation. However, management has a reasonable expectation that the group has adequate resources to continue operating as a going concern for the foreseeable future.

Effective midnight 5 April 2022 government lifted the state of disaster that was implemented at the start of the COVID-19 pandemic. This lifted certain restraints on business operations.

32. Events after the reporting period

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

Bonds and bank loans issued and redeemed

Subsequent to year end, no bonds and bank loans have been issued.

Further, subsequent to year end, bonds and bank loans with a value of R 2.5 billion have matured and been redeemed with issue dates between 26 February 2019 and 27 March 2019 and maturity dates between 26 February 2022 and 27 March 2022.

Russia-Ukraine War

Russia has been at war with Ukraine since end of February 2022 (Russia-Ukraine War). The effects of the Russia-Ukraine War represent a value-affecting event after the reporting period and therefore have no impact on the recognition and measurement of assets and liabilities as at the reporting date.

On 2 March 2022, the Mercedes-Benz Group (Global) decided to discontinue the export of cars and vans to Russia as well as local production in Russia until further notice. Effects on profitability, cash flows and financial position in 2022 cannot be ruled out at this time. Due to the volatile geopolitical situation, the effects cannot be quantified at present.

Semi-conductor shortages

Given the macroeconomic conditions, the global car market is likely to grow once again in 2022. However, it currently looks as if the semi-conductor-related supply bottlenecks will continue to affect the global market. Although the situation is likely to improve gradually during the year, we anticipate only a slight increase in the global car market in 2022.

Tax rate change

In February 2022 the South African finance minister announced that the corporate income tax rate will be reduced from 28% to 27% for years of assessments commencing on or after 1 April 2022.

SMH Sale of passenger vehicle division

In December 2021 management committed to a plan to sell the passenger vehicle division of the SMH subsidiary to an external party as part of an asset sale transaction. Accordingly the assets and liabilities are presented as a disposal group of assets and liabilities held for sale. The sale is expected to be concluded in the second quarter of 2022.

Notes to the Consolidated Financial Statements

33. New accounting standards and IFRIC interpretations

Standards, amendments and interpretations to existing standards that are not yet effective

The group has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the company's accounting periods beginning on or after 1 January 2020 or later periods.

Accounting standard	Effective date - on or after	Description of change	Description of impact
IAS 16 *Property, Plant and Equipment*	1 January 2022	The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.	The amendment does not have any material impact on the group's profitability, liquidity and capital resources and financial position.
IAS 37 *Contingent Liabilities and Contingent Assets*	1 January 2022	The amendments specify which costs should be included in an entity's assessment whether a contract will be loss-making.	The amendment does not have any material impact on the group's profitability, liquidity and capital resources and financial position.
IAS 41, IFRS 1, IFRS 9 and IFRS 16 *Annual Improvements to IFRS Standards (2018 - 2020)*	1 January 2022	Various amendments proposed as part of the annual improvements to IFRS project.	The amendment does not have any material impact on the group's profitability, liquidity and capital resources and financial position.
IFRS 3 *Reference to the Conceptual Framework*	1 January 2022	The amendment adds a requirement that, for transactions and other events within the scope of IAS 37 or IFRIC 21, an acquirer applies IAS 37 or IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination and added an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.	The amendment does not have any material impact on the group's profitability, liquidity and capital resources and financial position.
IAS 1 *Presentation of Financial Statements*	1 January 2023	**Classification of Liabilities as Current or Non-current:** Narrow-scope amendments to IAS 1 to clarify how to classify debt and other liabilities as current or non-current. **Disclosure of Accounting Policies:** The amendments, together with those amendments required by IFRS Practice Statement 2, require companies to disclose their material accounting policy information rather than their significant accounting policies, with additional guidance added to the Standard to explain how an entity can identify material accounting policy information with examples of when accounting policy information is likely to be material	The amendments to the standard do not have any material impact on the group's profitability, liquidity and capital resources and financial position.
IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*	1 January 2023	The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates, by replacing the definition of a change in accounting estimates with a new definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The requirements for recognising the effect of change in accounting prospectively remain unchanged.	The amendments to the standard do not have any material impact on the group's profitability, liquidity and capital resources and financial position.

Notes to the Consolidated Financial Statements

33. New accounting standards and IFRIC interpretations (continued)

Accounting standard	Effective date - on or after	Description of change	Description of impact
IAS 12 *Income Tax*	1 January 2023	**Deferred Tax related to Assets and Liabilities arising from a Single Transaction:** The amendment clarifies how a company accounts for income tax, including deferred tax, which represents tax payable or recoverable in the future. In specified circumstances, companies are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. The aim of the amendments is to reduce diversity in the reporting of deferred tax on leases and decommissioning obligations, by clarifying when the exemption from recognising deferred tax would apply to the initial recognition of such items.	The amendments to the standard do not have any material impact on the group's profitability, liquidity and capital resources and financial position.
IFRS 17 *Insurance contracts*	1 January 2023	IFRS 17 creates one accounting model for all insurance contracts in all jurisdictions that apply IFRS. It requires an entity to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and take into account any uncertainty relating to insurance contracts. The financial statements of an entity will reflect the time value of money in estimated payments required to settle incurred claims. An entity will be required to recognise profits as an insurance service is delivered, rather than on receipt of premiums. Insurance contracts are required to be measured based only on the obligations created by the contracts.	The interpretation does not have any material impact on the group's profitability, liquidity and capital resources and financial position.

Appendix 1 - Employment Equity Progress Report

Every designated employer is required in terms of Section 22 of the Employment Equity Act 55 of 1998 to publish a summary of their employment equity report in its annual report. The total number of employees within the company is 4 149. The table below provides the employment equity progress of the company for the total number of employees (including employees with disabilities) in each occupational level:

Occupational levels	Male				Female				Foreign nationals		Total
	A	C	I	W	A	C	I	W	Male	Female	
Top management	1	-	-	-	-	-	-	-	3	-	**4**
Senior management	3	2	1	6	-	1	-	1	8	-	**22**
Professionally qualified and experienced specialists and mid-management	7	10	13	16	10	3	7	17	7	1	**91**
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	169	88	55	137	150	42	29	52	88	10	**820**
Semi-skilled and discretionary decision making	179	68	8	64	113	29	15	23	2	-	**501**
Unskilled and defined decision making	877	233	9	46	387	82	2	2	-	-	**1 638**
Total permanent	1 236	401	86	269	660	157	53	95	108	11	**3 076**
Temporary employees	409	83	25	25	432	74	14	8	-	3	**1 073**
Grand total	**1 645**	**484**	**111**	**294**	**1 092**	**231**	**67**	**103**	**108**	**14**	**4 149**

A - Africans C - Coloureds

I - Indians W - Whites

The table below provides the employment equity progress of the company for the total number of employees with disabilities in each occupational level:

Occupational levels	Male				Female				Foreign nationals		Total
	A	C	I	W	A	C	I	W	Male	Female	
Top management	-	-	-	-	-	-	-	-	-	-	**-**
Senior management	-	-	-	-	-	-	-	-	-	-	**-**
Professionally qualified and experienced specialists and mid-management	-	-	-	-	-	-	-	-	-	-	**-**
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	2	1	2	5	-	-	-	-	2	-	**12**
Semi-skilled and discretionary decision making	28	7	2	4	8	-	-	-	-	-	**49**
Unskilled and defined decision making	24	9	-	-	7	-	-	-	-	-	**40**
Total permanent	54	17	4	9	15	-	-	-	2	-	**101**
Temporary employees	-	-	-	-	-	-	-	-	-	-	**-**
Grand total	**54**	**17**	**4**	**9**	**15**	**-**	**-**	**-**	**2**	**-**	**101**

A - Africans C - Coloureds

I - Indians W - Whites

Mercedes-Benz South Africa Limited

King IV™ Report for the financial period 2021

Mercedes-Benz

Index

Our Governance

Quick access to sections
Mercedes-Benz 2022

Mercedes-Benz South Africa Ltd Overview

Mercedes-Benz South Africa Ltd. (the "Company") is a wholly-owned subsidiary of the global company, Mercedes-Benz Group AG. The Company has a manufacturing plant in East London, Eastern Cape, which has been manufacturing and assembling vehicles in South Africa for over 60 years, and its South African headquarters is in Pretoria.

The Pretoria office is the operating hub of the Sales and Marketing, Finance and Controlling, Media and Communications, Information Technology, Dealer Network, Aftersales Services and Supply Chain Divisions for Mercedes-Benz in the Southern African region. The Company, and its subsidiaries (the "Group") markets and finances Mercedes-Benz passenger cars, smart cars and vans.

In East London, state-of-the-art the best quality Mercedes-Benz passenger cars (C-Class) are manufactured for local and export markets in both left- and right-hand drive.

The Company aims to contribute to transformation through sustainability. This is what the Group lives and strives for in its local operations. Within the South African context, the Group is able to translate the global imperative for sustainability by its parent company, Mercedes-Benz Group AG, into making a real and lasting impact on the transformation of the country.

A culture premised on the value of integrity, combined with a history of good corporate citizenship and a vested interest in the stability and growth of the economy of South Africa leads the Group in the direction of striking a balance between economic and social issues.

The Company issues listed debt on the Johannesburg Stock Exchange by issuing notes as part of a Domestic Medium Term Note Programme to raise funds locally in the country for its operations. All notes issued through the programme are irrevocably and unconditionally guaranteed by parent company, Mercedes-Benz Group AG.

The Company has published its consolidated Annual Financial Statements and this are available on the website.

Governance Structure 2022

Application of King IV™

The Board of Directors of Mercedes-Benz South Africa Limited (the "Company") has applied the King IV™ Principles since 1 April 2017. King IV™ assumes the application of the principles contained therein and requires organisations to disclose an explanation of the practices it employs pertaining to good corporate governance. Governing bodies of organisations are required to make this annual disclosure on the explanation of the implemented practices, which should be made publicly available.

The Company, in this King IV™ principle summary report (the "Report"), provides a holistic overview of its compliance with King IV™. The Company subscribes to the King IV™ report and the application of the 16 principles contained therein for the purpose of good outcomes-based corporate governance against the backdrop of a year characterised by unprecedented challenges flowing inexorably from the proliferation of the global Covid-19 pandemic. Within this context of the unprecedented year that was, the Company has continued, resolute in its application of these principles, along with the guiding light of the Integrity Code of Mercedes-Benz Group AG, as accepted and implemented by the Board of Directors of the Company, to achieve an ethical culture, good performance, effective control and legitimacy.

Denis Peterson
General Counsel and Company Secretary

View from the Board

by Dr Joachim Schmidt

Dear Stakeholders,

As the inventor of the automobile we, as Mercedes-Benz, understand that the success of future mobility is dependent on the decisions we make today. With sustainability as the guiding principle for our business strategy, creating long-lasting value for our stakeholders in customers, employees, investors, business partners and society as a whole is our prerogative.

In what has been an extraordinarily challenging two years caused by COVID-19, we did a sound job of governing Mercedes-Benz South Africa Limited. We demonstrated an ineffable ability to recover quickly from difficulties, agility, protecting our operations and communities and delivering on our major capital projects.

The pandemic has been a testing time for Mercedes-Benz South Africa; but it has equally energised us to redefine our business strategy to continue with our quest of shaping the future of the automotive industry. Despite the tumultuous times we have been are operating in, Mercedes-Benz South Africa's ambition of shaping and taking the lead in the next level of mobility intensified, led by sound corporate governance premised by our corporate purpose and values.

Sustainability at Mercedes-Benz South Africa

The targets for "Ambition 2039", our sustainable corporate strategy at Mercedes-Benz Cars encompass CO2-neutral production from all our manufacturing plants beginning 2022. Over the next 20 years, Mercedes-Benz Cars aims to have a carbon-neutral new passenger car fleet and aims to have plug-in hybrids or all-electric vehicles to make up more than 50% of its car sales by 2030. The basis for sustainable business strategy is to take responsibility for the economic, ecological and social effects of our business activities, looking at the entire value chain.

In supporting Mercedes-Benz Cars' strategy, the C-Class vehicle produced from our East London Plant, continues to place South Africa as a key partner within the Mercedes-Benz Group AG's production network. Mercedes-Benz AG's commitment to contributing equitably to the South African economy and the Eastern Cape region saw an additional investment of R3 billion into the manufacturing plant. This is in addition to the R10 billion which Mercedes-Benz Cars invested in 2018 to ready the East London Plant for the production of the new generation C-Class.

Although 2021 was a tough year for the plant due to the global shortage of semi-conductors, the start of production for the new generation C-Class was MBSA's greatest achievement to date. This was an incredible achievement and we expect exports to improve with the global economic recovery from COVID-19.

Governance

As a Company, the conduct of our business operations worldwide is premised on our values of integrity, respect, passion and discipline to ensure effective corporate governance minimising corporate risk and enhancing value. More importantly, these values are key pillars underpinning our business conduct and go beyond compliance.

Integrity, compliance and legal responsibility are the cornerstones of our sustainable corporate governance and serve as the basis of all our actions. With seven decades in South Africa, Mercedes-Benz continues to adhere to applicable principles that promote sound corporate governance, as evidenced by our compliance with the King IV report on Corporate Governance for South Africa.

Governance during uncertainty

As we look towards Mercedes-Benz South Africa's future within the Mercedes-Benz AG network, we want to safeguard and enhance our corporate success through a relentless stakeholder orientation. To achieve this, we needed to adapt the governing body's focus to respond to the changes and challenges presented by COVID-19.

Through the appointment of suitably qualified members who form part of the Company's Audit Committee, the Social and Ethics Committee and the Executive Management Committee, we have established a corporate culture that effectively supports sound corporate governance.

Throughout the pandemic, members of the various committees acted with seasoned judgement, governed proactively, demonstrated strong and ethical leadership and ensured impact of COVID-19 on Mercedes-Benz's operations and outlook were adequately addressed.

The duties of the committees continue to complement the efforts of the Board in steering the Company to excellence, high standards of governance and fulfilling ethical, effective and accountable leadership to keep Mercedes-Benz South Africa on a successful path.

Board Composition and Changes to Board

The Audit Committee under the leadership of Mrs Fikile De Buck is responsible for monitoring the internal control and risk management system to ensure the Company and its subsidiaries maintain good governance, accounting and audit standards. Led by Ambassador Nozipho January-Bardill, although accountable to the Board, the Social and Ethics Committee has an independent responsibility to monitor how the Company and its subsidiaries conducts business specifically on issues regarding ethical standards and social responsibilities.

The Executive Management Committee with Mr Andreas Engling at the helm is responsible for managing activities with the aim of achieving strategic business objectives. After 36 years with Mercedes-Benz, Mr Engling is set to retire at the end of April 2022 and will be succeeded by Andreas Brand. As MBSA undergoes this transition process, I count on your support Andreas Brand as the CEO of Mercedes-Benz and Executive Director of Manufacturing and as member of the relevant Board committees.

Appreciation

I would be remiss if I did not take this opportunity to thank all the people who make Mercedes-Benz a successful company. To all our employees across our Manufacturing and Marketing & Sales operations, and our Board for their incredible show of commitment and their incessant efforts to make Mercedes-Benz South Africa thrive in accordance with our corporate purpose and values – thank you.

Conclusion

In closing, the Board invites all stakeholders to join the Company and our parent company, Mercedes-Benz AG on a journey to write the next 134 years of the automobile. Through a sound Board committed to corporate governance, adherence with the King IV code, adherence to corporate values of integrity, passion, discipline and respect, I have full confidence in our vision to drive a sustainable future in this remarkable market.

The Board, as the custodian of Mercedes-Benz South Africa's strategic aims, vision and values, is satisfied that it has fulfilled its responsibilities beyond the requirements of the King Code of Corporate Governance for South Africa 2016; section 94 of the Companies Act; International Financial Reporting Standards and other applicable statutory and regulatory requirements for the financial period ended December 2021.

View from CEO

by Andreas Engling

Dear Fellow Stakeholders,

Since the last report, much has changed within Mercedes-Benz South Africa and the rest of the world. The inflection point of the COVID-19 pandemic changed the way we do business across our manufacturing and marketing & sales operations. COVID-19 disrupted manufacturing supply-chains and production as well as resulted in volatile trading conditions. In addition, the South African government's response to the pandemic through its initial lockdown measures and restrictions resulted in a period of non-operation in 2020. Consequently, new car sales and exports were affected.

During the onset of the pandemic and amidst the uncertainty, our priorities were clear: to keep our employees, suppliers and customers safe from infection and transmission of SARS-CoV-2, the virus that causes COVID-19. To this end, stringent risk control measures were implemented across the business and later, a successful vaccination programme was launched. Operationally, we responded with flexibility and agility, recognising that the pandemic would change how we did business, but also open new opportunities for our company.

East London Plant

Despite the changes brought on from COVID-19, we remained committed to delivering on our mandate: to manufacture and sell the the most desirable cars in the world. Notwithstanding what the COVID -19 pandemic has presented, we have managed to build on our history of manufacturing excellence and achieve our goals although with some adjusted focus.

MBSA maintained its position as a strong partner within the Mercedes-Benz AG (MBAG) network, Mercedes-Benz South Africa East London Plant produces the Mercedes-Benz C-Classes out of Africa for the world. To achieve our production targets at our East London plant amidst a tough year in the manufacturing industry, we remained flexible and focused on our key performance indicators. Our agility ensured that we progressed steadily to meet the targets we set for our world-class manufacturing operations. One such target was the successful ramp-up of the new generation C-Class in 2021. The start of production and launch of the new generation C-Class was a notable milestone for the plant and the entire automotive value chain in East London. In this context, our "Out of Africa, for the World" slogan is befitting – as an affirmation of our commitment to manufacturing excellence and the positive multiplier effect that our operations have on the economy of East London.

As we look ahead, we will continue our focus on efficiency improvements in all areas, particularly in production, quality, and cost efficiencies. The Manufacturing Operations (MO) strategic pillars form part of our Plant DNA and are the driving force of our organisation, to steer the future success of plant.

Sustainability

Mercedes-Benz Group AG has set the goal of making sustainability an integral component of our core business and our conduct. To this end, the Group expresses its commitment to CO2-neutral mobility through "Ambition 2039" setting sustainable business strategy into concrete form with the transformation to emission free mobility through a CO2-neutral new vehicle fleet. Locally, the The East London manufacturing plant is committed to this ambition. The plant's commitment to sustainable production was amplified back in 2016 when the first Mercedes-Benz Hybrid C-Class models rolled off our production line. Continuing this commitment, and to contribute further to MBAG's product portfolio, the plant started production of the C-Class Plug in Hybrid in Q4 of 2021.

In addition to this and in line with our road to sustainable mobility, an important pillar of CO2-neutral production is the sustainable power supply of the plants. In preparation, MBSA entered into contracts that will support our vision of only purchasing CO2-free electricity; an important basis for the CO2-neutral production. From 2022, MBSA will move towards 100% green energy consumption through the use of renewable energy certification.
We will ensure replacement of liquefied petroleum gas with liquefied natural gas through compensations. Our new buildings have integrated control systems that drive efficiency. We have also adopted an energy conscious standard by installing energy efficient LED lighting in all of our new buildings. Furthermore, the advanced technology we use in our equipment optimises our process and allows for the efficient use of energy.

People

Maintaining our rich heritage in South Africa requires a conducive and empowering environment for our passionate and dedicated workforce. MBSA has been a certified Top Employer and Industry leader for exceptional employee offerings since 2017; evidence that the well-being and developmental growth of our employees remain a priority for us.

2021 marked 40 years since the establishment of the Mercedes-Benz Training Centre, now commonly referred to as the Mercedes-Benz Learning Academy (MBLA). While education and an adequate technical skills pool remain a great challenge for the country, we take pride in the successes that we've achieved through the MBLA. We are proud that the Academy has since enrolled over 800 learners into our shopfloor skills programme.

Purpose

In an ever-changing world, the automotive industry is also going through fundamental transformation. To support this transformation, we will continue to integrate agile interventions into our business. The volatile environment we are operating in requires us to work together towards the fulfilment of our common purpose "First move the World" is important, now more than ever.

Outlook

Despite the challenges experienced in 2020, we began to experience a turnaround to our core operations in 2021. At the time of writing this letter, the fourth wave of the COVID-19 pandemic was behind us. Times have changed, and we change with them. The challenges ahead of us also open up many opportunities, and we intend to make the most of them. Despite the difficulties presented by the pandemic, we are beginning to see a gradual recovery in our manufacturing operations, exports and local vehicle sales. We are cautiously optimistic of our outlook as Mercedes-Benz South Africa and expect recovery to pre-pandemic conditions to be gradual. As Mercedes-Benz we remain focused on the possibilities and together with you, we look forward to the journey ahead.

Appreciation

2021 marks my final year at Mercedes-Benz South Africa. It has been a rewarding experience to serve in my capacity as CEO of this esteemed organisation. I would like to thank all my colleagues from the Manufacturing and Marketing & Sales operations for their contribution, support and insight in fulfilling my mandate in South Africa. It has been an absolute pleasure being of service to you.

Keep well and stay safe.

The Committees of the Board

The Committees of the Board have been established to assist the Board in discharging its responsibilities. The Committees of the Board comprise of the Audit Committee, the Social and Ethics Committee and the Executive Management Committee, collectively referred to as the "Committees". The Committees are appropriately constituted and members are appointed by the Board, with the exception of the Audit Committee whose members are nominated by the Board, but appointed by the Shareholder.

External advisers, executive directors and members of management attend Committee meetings by invitation. The Board is satisfied that each of the Committees have fulfilled their responsibilities in accordance with the applicable terms of reference, workplans and charters of the Committees.

The directors are pleased to present their report which forms part of the consolidated annual financial statements of the group for the year ended 31 December 2021.

1. Nature of business

The group holds a manufacturing and distribution agreement from MBAGfor the importation, assembly and distribution of Mercedes-Benz, Mercedes-AMG, Mercedes-Maybach and smart product ranges. MBFS, a subsidiary of MBSA, provides financing and insurance solutions for MBAG products.

The group's business can be best described, in general, as follows:

1.1. Financial services and fleet management operations

These operations provide financing and insurance solutions for MBAG products and group entities.

1.2. Wholesale and retail vehicle operations

These operations market and sell vehicles in the product portfolio, primarily through the authorised agent network.

1.3. Manufacturing and component exports operations

These operations, situated in East London, manufacture Mercedes-Benz C-Class sedans for the local and selected international markets.

1.4. Other operations

These operations include the group's property portfolio as well as other non-core operations and functions.

2. Availability of MBSA separate annual financial statements

The MBSA separate annual financial statements have been prepared and approved by the Audit Committee.

The MBSA separate annual financial statements have been prepared in accordance with the requirements of the Companies Act and the company's independent auditors, KPMG Inc., have expressed an unqualified opinion thereon.

3. Directorate

The profiles of the Directors are contained on the website of the company.

4. Corporate governance

The directors have adopted the principles as provided for in King IV for the financial year 2021. The Board has applied the principles as set out in this Corporate Governance Report for 2022. The Board is satisfied that there is an appropriate mix of knowledge, skills, experience, diversity and independence of the Board.

Mr D. Peterson is the company secretary of Mercedes-Benz South Africa Limited. The board is satisfied with the competence, qualifications and experience of the company secretary. The board has access to the company secretary and such arrangements are effective.

The Board has a policy in place for the management of conflict of interests, which is the Integrity Code of the Company. This Integrity Code is available on the website of the Company. Board members submits, at least annually, their respective declarations concerning personal interests and is required at each meeting to indicate whether a conflict of interest may arise with a matter to be discussed. The Board can confirm that there are no material and enduring personal conflicts of interest noted form any member.

Directors' 2022

Directors	Designation	Changes
Mr A Engling**	Chief Executive Officer	
Mr KM Eser	Chief Financial Officer	
Mr AM Kgotle	Executive	
Mr J Fritz	Co-Chief Executive Officer	Resigned 1 September 2021
Mr M. Raine	Co-Chief Executive Officer	Appointed 1 September 2021
Mrs B Seeger	Non-executive	
Dr J Burzer	Non-executive	
Dr JW Schmidt	Chairperson of the Board and Independent non-executive	
Ambassador Nozipho January-Bardill **	Independent non-executive	
Ms S Zilwa***	Independent non-executive	
Ms FT De Buck***	Independent non-executive	
Ms N Mbhele*	Independent non-executive	
Mr M Luehrs	Alternate non-executive	
Mr F Hohenwater	Alternate non-executive	
*	Member of the audit committee.	
**	Member of the social and ethics committee.	
***	Member of audit committee and social and ethics committee.	

Active Directors curriculum vitae's are published on the website of Mercedes-Benz South Africa Limited.

Attendance at meetings

	Board of Directors	Audit Committee	Social and Ethics Committee	MBSA Executive Committee
Number of meetings for the period	2	4	2	9
Mr A Engling	2/2	1/4	2/2	8/9
Mr KM Eser	2/2	4/4	2/2	9/9
Mr AM Kgotle	2/2		2/2	9/9
Mr J Fritz	1/2		1/2	7/9
Mr M. Raine	1/2			
Dr J Burzer	2/2			
Dr JW Schmidt	2/2			
Ambassador Nozipho January-Bardill	2/2	2/4	2/2	
Ms S Zilwa	2/2	4/4	1/2	
Ms FT De Buck	2/2	4/4	2/2	
Ms N Mbhele	2/2	4/4		
Mr M Lührs	2/2			
Mr F Hohenwater	1/2			
Mr R Hoffmann	2/2	2/4	1/2	9/9
Ms N Trimmel	2/2			9/9
Ms B Seeger	1/2			

The Board is satisfied that there is an appropriate mix of knowledge, skills, experience, diversity and independence. Mr D. Peterson is the company secretary of Mercedes-Benz South Africa Limited. The board is satisfied with the competence, qualifications and experience of the company secretary. The board has access to the company secretary and such arrangements are effective. The Board has a policy in place for the management of conflict of interests, which is the Integrity Code of the Company.

The Audit Committee

In terms of section 94 of the Companies Act, the Company is obliged to have an Audit Committee. Accordingly, the Company has constituted the Audit Committee, a statutory committee, in order to perform the functions encompassed in terms of the Companies Act guided by the principles contained in King IV™.

The Audit Committee plays an important role in ensuring that the Group functions in accordance with good governance, accounting and auditing standards. The Audit Committee has monitored the adoption of the appropriate controls, risk management arrangements, accounting policies, accounting adjustments and assurances provided by the combined assurance arrangements applicable to the Company. The prevailing pandemic and its consequent impact on business operations has been monitored closely by the Audit Committee and this has meant that good governance has continued to be forefront of mind in the decision-making processes of the Company as it has navigated through the uncharted waters of the global pandemic.

The Audit Committee, through the governance framework, Workplans and Charters applicable to it, discharged its accountability responsibilities, to ensure that there is a safeguard of assets, that the Company operates with adequate systems and controls, and that the Annual Financial Statements are prepared in accordance with the applicable standard as required by the Companies Act and International Financial Reporting Standards. The current Audit Committee Members are:
Ms Fikile Tebogo De Buck (Chairperson),
Ms Sindi Zilwa and
Ms Nonthuthuko Mbhele.

Ms Fikile De Buck
Chairperson

Audit Committee Report

This report is provided by the audit committee and the board of directors appointed in respect of the 2021 financial year of Mercedes-Benz South Africa Limited.

The audit committee was nominated by the board of directors and appointed by the shareholder.

The audit committee met four times in the financial year ended 31 December 2021. The external auditor attended these meetings as an invitee and presented the formal reports, as required by the audit committee. All three members of the audit committee are independent, non-executive directors, with permanent guests from the internal finance and control functions. The audit committee and the board of directors complied with all of its responsibilities as set out in the Companies Act, King IV and the governing charter of the audit committee. The board of directors are satisfied that the audit committee has complied with all of the aforementioned responsibilities for the financial year ended 31 December 2021. The audit committee provided, among others, independent oversight on the effectiveness of the group's assurance functions and services with particular focus on external assurance service providers, internal audit and controls and the finance function in general. Where it refers to the audit committee it will include the board of directors who also considered matters as contained in this report.

1. **Internal controls**
   The audit committee is satisfied with the design and implementation of internal controls, as supported and confirmed by the management of MBSA. The design, implementation and execution of internal controls are monitored in order to ensure that any weaknesses are addressed to mitigate material loss, fraud or errors.

   The audit committee and the board of directors considered the reports from the information technology department which could have an impact on the control environment at MBSA. It is satified that management action plans are in place in relation to information technology controls.

   The audit committee considered the reports from the MBAG corporate internal audit function and is satisfied with management action plans in response thereto. The audit committee is satisfied with the effectiveness of the internal audit arrangements in place.

2. **External auditor**
   The audit committee considered and assessed the suitability of KPMG Inc. and Mr F von Eckardstein, as per the requirements of the JSE, with regard to their current appointment. The audit committee is satisfied that the appointment of the external auditor, Mr F von Eckardstein, complies with the legislative and regulatory requirements and the audit committee is satisfied with his independence. Adequate policies and controls are in place to address the provision of non-audit services by the external auditor to ensure compliance with legislation and other corporate governance guidelines or regulations. The audit committee considered the audit quality controls based on the Independent Regulatory Board for Auditors reports as well as the relevant JSE requirements.

   Non-audit services were reviewed, as approved in the non-audit services catalogue of MBAG, and did not become significant to call into question the independence of the external auditor or the firm, KPMG Inc.

   The audit committee, in consultation with executive management, agreed to the terms of the engagement. The audit committee approved and reviewed the fees proposed by the external auditor, taking into consideration such factors as the timing of the audit, the extent of the work required and the scope. It further, on an ongoing basis, reviewed the scope, independence and impartiality of the external auditor. KPMG has been the independent auditors of MBSA for 36 years. The mandatory designated audit partner rotation has taken place in 2021 with the appointment of Mr F von Eckardstein.

   There were no reportable irregularities identified or reported by the external auditor to the audit committee.

3. **Compliance with legal and regulatory requirements**
   The audit committee is satisfied that, to the best of its knowledge, all regulatory and legislative requirements with regard to its function, duties and obligations has been complied with.

4. **Key audit matters**
   The audit committee performs the duties laid upon it by Section 94(7) of the Companies Act by holding meetings with the key role players on a regular basis and by the unrestricted access granted to the external auditors.

   The audit committee noted and considered the key audit matters set out in the report of the independent auditor included in these consolidated annual financial statements. The audit committee is satisfied with the appropriateness of the key audit matters reported on by the independent auditor.

5. **Consolidated Financial Statements**
   The audit committee is satisfied that, to the best of its knowledge, the consolidated financial statements for the financial year ended 31 December 2021 fairly reflect the financial position and results of the group.

   The pro-active monitoring, which was completed by the JSE was considered. The result of such monitoring was presented to the audit committee, which satisfied itself that the findings and focus areas were adequately addressed in the consolidated financial statements for the year ended 31 December 2021 and that all of the debt listing requirements were complied with.

6. **Accounting practices**
   The audit committee is satisfied that the consolidated financial statements have been prepared in accordance with relevant accounting practices, the Mercedes-Benz South Africa Limited group accounting policies, and are fully compliant with International Financial Reporting Standards.

   The audit committee is satisfied that the group has appropriate financial reporting procedures and that these procedures are operating and being monitored.

7. **Effectiveness of finance function**
   The audit committee is satisfied with the qualifications, effectiveness and performance of the chief financial officer and the finance function in general.

The Social and Ethics Committee

The Social and Ethics Committee SEC ("The SEC") is constituted as a statutory committee of the Board in terms of Section 72(4) read with regulation 43(2) of the Companies Act. The SEC has the responsibility to recommend for approval, monitor and advise on all social and ethically relevant issues that have a significant impact on Mercedes-Benz South Africa Limited and its stakeholders, recognising that the Company forms an integral part of the broader society and communities within which it operates. The SEC has observed the implementation by the Company of a three-pronged initiative in its response to the prevailing COVID-19 pandemic: protecting the Company; protecting the stakeholder; and protecting communities.

The SEC has an independent role but is accountable to the Board. The SEC focuses on socio-economic development; corporate citizenship; corporate social responsibility; sustainability; BBB-EE and other matters duly defined by the Board and detailed within the SEC Workplans and Charters.

The current members of the SEC are Ambassador Nozipho January-Bardill (Chairperson), Ms Fikile De Buck and Ms Sindi Zilwa.

Introduction

The oversight function carried out by the Social and Ethics Committee (SEC) has traditionally focused on what is often regarded as "soft issues" such as monitoring the non-financial activities of companies. Whilst economic and financial indexes are central to measuring the success of failure of any company, they need not, by any means, be separated from the "non-financial" activities of a company. These dimensions are important in a complex country like South Africa, where its past and more recent history has led to untold poverty, inequality and unemployment. They stand in the way of inclusive growth of the country's economic and social development. What is imperative to the success of all companies in a globalised world is also a steadfast focus on non-financial indexes, including sustainability, the environment, transformation, employment equity, health and safety, legal compliance, corporate social responsibility, and ethics.

Our Mandate and MBSA's COVID-19 Response

Guided by the corporate values of Mercedes Benz South Africa (MBSA), the mandate of the SEC is driven by the guiding principle of building a sustainable business strategy that creates lasting value for all our stakeholders, including shareholders, investors, employees, customers, communities and business partners. This mandate was stress tested in the last two years by the many vagaries of COVID 19 and the disruptions that it caused for many businesses across the globe.

The pressures of the pandemic were felt across our business. They impacted both business continuity and worsened the socio-economic inequalities of our society. Since the onset of the pandemic, the SEC has had to ensure that MBSA complies with all the legislation and regulations that were passed during the national state of disaster imposed by the government. Moreover, the company CEO and executives had to test the agility of the company to not only continue with its own capital projects, but also to respond appropriately to rapidly changing political decisions, uncertain market dynamics, unpredictable supply chains, dispersed work forces and insecure communities. We had to demonstrate our commitment to operate as a responsible, ethical and caring corporate citizen.

During this time, our objectives were clear: to keep our employees safe from COVID-19 infection by encouraging and enabling remote work arrangements where possible and enhancing health, sanitation, hygiene, and safe working environments our to maintain our social licence to operate. The business continued to be centred around customer value, productivity and employee satisfaction to stay ahead of the market.

Corporate Social Responsibility

As a company, we recognize that our success rests heavily on making a positive and sustainable impact in the communities in which we operate. To this end, I take pride in noting some of MBSA's most notable achievements in this past year. MBSA's COVID-19 response stands out as it included an investment of over R13 million to turn the tide on infections through the donation of 1000 Continuous positive airway pressure (CPAP) ventilation devices donated to public healthcare facilities located in the Eastern Cape and Gauteng. MBSA also deepened its corporate social responsibility by augmenting its existing education investments through the donation of COVID-19 essentials to support learners based in the Eastern Cape continue with their learning, healthily and safely.

Transformation

In terms of our transformation efforts, we have successfully managed to achieve a level 6 Broad Based Black Economic Empowerment (BBBEE) rating. The attainment of a level 6 rating was through our involvement in the Automotive Industry Transformation Fund (AITF) that provided us with Equity Equivalent points, moving us up from a level 8 on the BBBEE scorecard. MBSA remains committed to transformation of the automotive industry and will, where possible, support qualifying black owned entities, drive job creation, as well as enable meaningful transformation and growth of the automotive sector across the value chain.

Diversity & Inclusion

MBSA's workforce is as diverse as our customers. Our diversity is what makes us successful as a company, by consciously making us more aware of unique and varying viewpoints and acts as the driving force behind creative ideas and innovations. To entrench a culture of diversity inclusion, equity and belonging at MBSA, we launched new initiative aimed at increasing dialogue on inclusion and creating awareness. The aim of our activities is to bring together the right people to tackle our challenges, to create a work culture that promotes the performance, motivation

and satisfaction of our employees and managers, and to help attract new target groups to our products and services.

The Pretoria Women's Forum and Women Empowerment Forums launched respectively in East London and Pretoria in 2020 were intended to encourage a network among women employees, explore avenues to support leadership development and personal growth, as well as to acknowledge and celebrate women within their personal and professional contexts. The Persons with Disabilities Forum, also launched in 2020, aims to raise disability and inclusion awareness within the organisation and is making significant strides within our organisation. Finally, MBSA participated in Johannesburg Pride as a corporate sponsor for three consecutive years, seeing 2022 as our fourth year. Our participation in this annual event is an open and important signifier of our corporate activism of championing of LGBTIQ+ rights and representation of our customer base.

Outlook

As the Chair of the Committee, I am pleased with the progress MBSA has made in what has been a challenging and unprecedented operating environment. The Committee that I chair has helped MBSA focus on issues that are material to MBSA's social licence to operate and aligned with the spirit of good corporate governance enshrined in King IV and other pertinent laws and regulations.

MBSA remains committed to transformation through sustainable development in the communities and working closely with partners, communities and society to ensure that value is created. Within the South African context, MBSA can translate the global imperative of sustained transformation, which is called "SpurWechsel" (the German word for "lane change") by its parent company, Mercedes-Benz AG, into making a real and lasting impact for our employees, communities and the country.

MBSA further commits to transformation and will pursue a higher BBBEE rating facilitated by our involvement in the AITF. Transformation through creating access to market and capacity development for qualifying black owned entities, remains a key priority for MBSA.

Going forward, we will continue to place diversity, inclusion, equity and belonging at the heart of our corporate strategy. Diversity is the driving force behind our ideas, the transformation of the automotive industry as well as our culture of innovation. It remains critical to our success and enables us to reflect and cater to the diversity of our customers.

It is my firm belief that combined with six decades of manufacturing excellence, good corporate citizenship and a vested interest in the stability and growth of the economy of South Africa – MBSA is well equipped to strike a balance between economic and social issues in 2022 and beyond. The launch of the C-class was a long journey that confirmed the ability of MBSA to achieve this capital project in what must have been one of the greatest challenges in the life of MBSA.

Mercedes-Benz South Africa remembers

Since the start of the pandemic, we have had positive cases of COVID-19 across our operations.
It is with deep sadness that we report the loss of some of our employees due to COVID-19 since the onset of the pandemic. MBSA has sent its heartfelt condolences to the family, colleagues and close friends of the deceased colleagues and has observed moments of silence in their honour.
We believe that the success of our company is the sum of its workforce and honour the deceased employees' respective contributions to the company.
May their souls rest in eternal peace.

Ambassador Nozipho January-Bardill
Chairperson

The Executive Committee

The Executive Management Committee ("The EMC") is a committee of the Board and the first EMC was duly constituted on 29 April 2010. The EMC is responsible for directing, coordinating and controlling the business activities of the Group in the framework of the defined goals as set out in the Excom Charter, resolutions of the Board, resolutions of the Shareholder, the governance authorities and in the Mercedes-Benz Group AG. The business activities of the Company and the Group were conducted independently by the members of the EMC in line with their respective divisional responsibilities. The role, function and powers of the EMC, its members and its relationship vis-a-vis other organs of the Group are determined by the Companies Act, the Memorandum of Incorporation and any applicable law or regulatory provision which applies to the Company, as well as the Board Charter.

On 1 May 2022, Mr Andreas Brand will be appointed as the new CEO and Executive Director: Manufacturing. Below is the Executive Management Committee for the period of this report.

Mr Andreas Engling
CEO and Executive Director: Manufacturing

Mr Klaus Eser
CFO and Executive Director: Finance and Controlling

Ms Nadia Trimmel
Vice-President: Mercedes-Benz Vans

Mr Mark Raine
Executive Director Mercedes-Benz Passenger Cars & Co-CEO Mercedes-Benz South Africa Limited

Mr Abey Kgotle
Executive Director: Human Resources

Mr Robert Hoffmann
CEO Mercedes-Benz Financial Services South Africa (Pty) Ltd

Mr Andreas Engling
Chief Executive Officer

Principles of King IV

Principle 1

The governing body should lead ethically and effectively.

The Mercedes-Benz Group AG and all subsidiaries' business conduct is based on Group-wide standards that underpin and go beyond the requirements of relevant legislation in the respective local jurisdictions and territories. Locally, these standards are accepted and enacted by the Board of Directors to ensure that the Company's operations contribute to Mercedes- Benz Group AG being one of the world's leading automotive manufacturers and retailers globally and that the governance principles applied in the Company are of the highest international standards. Thus, the Company strives at all times to ensure that its activities are in harmony with both the environment and society, while demonstrating agility and responsiveness.

Integrity Code

The Integrity Code is based on the shared values developed globally with employees and has been accepted and implemented by the Board. It defines the basis for all actions at the workplace - such as fairness, responsibility, mutual respect, transparency, openness and compliance with laws and rights. It covers interpersonal conduct within the Company as well as conduct toward customers, business partners and other key stakeholders thus defining the underlying principles of behaviour of the Company in daily business.

The Integrity Code includes general rules of conduct along with requirements and regulations on the following topics:

- Respect for and protection of human rights;
- Compliance with laws and internal regulations;
- Appropriate conduct within the Group and in dealings with government officials, business partners and customers;
- Dealing with conflicts of interest;
- Prevention of all forms of corruption;
- Protection of company assets; and
- Principles of Social Responsibility.

Principle 2

The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.

The Board is the main governing body of the Company and ensures that codes of conduct and ethics policies articulate and give effect to the Board's direction on ethical behaviour. The Board assigns tasks of regular compliance reviews to ensure the highest level of compliance. The main governance responsibilities that the Board takes primary responsibility for are ensuring:

1

That codes of conduct and ethics policies that articulate and give effect to the Board's direction on organisational ethics are approved;

2

That the codes of conduct and ethics policies encompass the Group's interaction with both internal and external Stakeholders and the broader society and address the key ethical risks of the Group;

3

Regulations by the Group and the Group's own governing documents, codes of conduct, legal and ethics policies;

4

That it assumes responsibility for corporate citizenship by setting the direction for how it should be approached and addressed by the Group;

5

That it oversees that the Group's core purpose and values, strategy and conduct are congruent with it being a responsible corporate citizen;

6

That it assumes responsibility for assurance by setting the direction concerning the arrangements for assurance services and functions;

7

That it satisfies itself that the combined assurance model is effective and sufficiently robust for the Board to be able to place reliance on the combined assurance underlying the statements that the Board makes concerning the integrity of the Group's external reports;

8

The Group's commitment to the principles of good corporate governance and ensuring that compliance is reviewed regularly;

9

Comprehensive reporting to the Shareholder; and

10

Where a specific task is delegated to an individual Board member, this is recorded clearly in the minutes of Board meetings.

Principle 3

The governing body should ensure that the organisation is, and is seen, to be a responsible corporate citizen.

The Company operates as a socially responsive and responsible corporate citizen, with a history and heritage that spans more than six decades in South Africa. It is of the utmost importance to the Board and its respective Committees that the Company plays its part in ensuring that all of South Africa continues to grow economically and socially. Understanding, engaging, and forming cooperative relationships, with all of the Company's internal and external stakeholders is the only way this goal can be achieved.

It is the Company's aim to be socially responsive, a responsible corporate citizen and, at all times, to conduct its businesses in South Africa ethically and sustainably. As part of this goal, the Company understands that it is important to function within the larger framework of the societies that the Company impacts with business functions and operations.

The Board and its Committees, maintain oversight over all actions and activities that could impact its status as a responsible corporate citizen.

The Company addresses its societal impact through Skills Development, Enterprise and Supplier Development, Preferential Procurement and Corporate Social Responsibility initiatives - each with their own approved strategic focus areas to ensure the most sustainable results.

The Company's Corporate Social Responsibility ("CSR") interventions are focused on the direct communities in which it operates, as well as neighbouring communities and has responded effectively to the needs of the greater society in the midst of the prevailing Covid-19 pandemic.

The support to the CSR beneficiary partners is determined on an annual basis as part of the governance process by the Board and all approved funding is directed towards these organisations for the benefit of the beneficiaries.

The Company's daily operations also impact significantly on society. As the business grows, so too does the number of people it employs and the contribution it makes to the national economy. The Board monitors management's progress against growth plans, ensuring sustained employment and contribution to the national economy. As the country's biggest exporter of premium vehicles to the rest of the world, the Company is actively addressing the shortage of skilled and trained automotive technicians in the country through the Mercedes- Benz South Africa Learning Academy, based in East London.

Principle 4

The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.

The Board exercises oversight of and monitors the overall strategy of the Company, which is aligned to the values of the Company. The Board also oversees and monitors, with the support of its Committees as set out in the Board Charter, the implementation and execution by management of all applicable policies and priorities as it pertains to the overall strategy of the Company. Each Committee functions according to its mandate and adopted Charter to prioritize the different objectives on an annual basis, taking into consideration all stakeholder needs as well as expectations and the materiality thereof.

In the execution of the strategy, the Board mandates authority to the various members of the Executive Management Committee to fulfill duties as set out in the Charter. This responsibility is cascaded down into the strategies and business plans of all the different business units. The Board expects the Committees to report back twice each calendar year on the progress and developments in line with the strategic direction. Thus, the Board assesses key performance measures throughout the year and actively exercises its oversight role.

The Board also ensures that the Company accounts for its performance by reporting and making disclosures as required by the applicable laws of South Africa, as well as in line with the various guidelines that stipulate that responsible collaboration requires decisions that are transparent and comprehensible. Accordingly, even when conducting checks, audits, and investigations, the Company places high importance on transparency and treats those concerned fairly.

The Board recognizes the inter-connectivity and interdependence of the various forms of capital at its disposal (financial, manufactured, human, intellectual, natural, social and relationship capital) and assesses strategy in light thereof. All material issues, risks and opportunities which could impact positively or negatively on sustained value creation are brought to the Board through the Committees.

The Board is satisfied that the Company has adequate resources to continue operating for the next twelve months and the foreseeable future.

Principle 5

The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance, and its short, medium and long term prospects

The Board, assisted by the Audit Committee, assumes responsibility for transparent reporting on the activities and financial performance of the Company, and all other statutory reporting on key matters affecting the Company and its stakeholders.

The individual and consolidated Annual Financial Statements are reviewed and assured by a combined assurance model. Certain indicators such as Broad-Based Black Economic Empowerment status, is verified by external, independent and accredited specialists.

All relevant information for the stakeholders of the Company is published on the Company's website, also disclosures required in regulatory reporting.

Reporting requirements as set out by the Johannesburg Stock Exchange of South Africa for debt issuers are also adhered to in terms of the Domestic Medium Term Note Programme of the Company and distributed by the debt sponsor via the stock exchange news system (sens) of the JSE.

Information is also disseminated through the media, as an important stakeholder, for the public to be aware of the business operations of the Company. The Board delegates the responsibility for publishing all required reports and any release to the media to the Executive Management Committee of the Company.

Principle 6

The governing body should serve as the focal point and custodian of corporate governance in the organisation.

The manner in which the Board approaches leadership strengthens the governance and performance of the Company, holistically. The Board is guided by a formal Board Charter that outlines the role and responsibilities of the Board. The Charter is subject to the provisions of the Companies Act, the Memorandum of Incorporation and any applicable law or regulatory provision which applies to the Company, as well as the Governance Authorities and the Mercedes-Benz Group AG Policies.

The Board is responsible for directing the Group towards achieving high standards of corporate governance based on local and international corporate practice and is ultimately accountable for achieving the Group's strategy, operating performance and financial results within the respective corporate governance frameworks of the Group and of the Mercedes-Benz Group AG.

The Board accordingly has the power to make any decisions in respect of the Company, which has not been specifically reserved for decision-making by the Shareholder (Mercedes- Benz Group AG). The Board exercises its powers responsibly in the best interests of the Company with due regard to the interest of its stakeholders. Each subsidiary company has its own directors. Through the Committees, the Board ensures that the necessary and proper governance principles and policies are implemented.

To support the balance of power in decision-making within the Group, independence exists for the subsidiaries.

Principle 7

The governing body should comprise the appropriate balance of knowledge, skills experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.

The diversity in constitution of the Board of the Company enables the different members to provide balanced and independent advice throughout the governance and decision-making processes of the Company.

Succession is managed by Mercedes-Benz Group AG and is subject to discretionary rotation in terms of a global rotation with cognisance to the nine year tenure threshold recommended by King IV™. Independent non-executive directors are typically rotated after serving a term of four to six years.

The Board actively promotes gender and race diversity at Board and management levels. Mercedes-Benz Group AG and the Board promotes race and gender diversity when appointments are made to the Board and other management levels.

The Board considers the Chairperson to be independent in terms of the considerations set out in King IV™. To further enhance independent leadership of the Board a lead independent director, Ambassador Nozipho January-Bardill, was appointed on 21 November 2018 with roles and responsibilities assigned in the Board Charter as defined in King IV™.

Each Board member has the necessary qualifications to exercise their responsibilities effectively. Board members have extensive business experience and specialist skills across a range of sectors, these being highlighted in this report.

The Board has concluded that it has an appropriate mix of knowledge, skills, experience, diversity and independence in order to carry out its mandate and responsibilities in accordance with the Board Charter.

Principle 8

The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties.

The Board ensures that the necessary delegation of power and segregation of duties exists in its structures and in the organisation as a whole. The Committees of the Board have been established to assist the Board in discharging its responsibilities. The Committees are appropriately constituted and members are appointed by the Board, with the exception of the Audit Committee whose members are nominated by the Board, but appointed by the Shareholder.

External advisers, executive directors and members of management attend Committee meetings by invitation to ensure that all the dimensions of the business are properly represented and taken into consideration.

Each subsidiary in the structure of the Company functions independently. The Board, through its Social and Ethics Committee and Audit Committee monitors the compliance of the subsidiaries with the various governance principles to ensure a healthy governance environment exists.

The general roles and responsibilities of each of the Committees as well as the Board are properly recorded in the approved applicable Charters and Workplans.

The Executive Management Committee("EMC") is constituted to have representation of the Company and the subsidiaries. Based on this format, the EMC has the ability to holistically manage the Group and to find possible synergies to support governance compliance.

Principle 9

The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.

The Board is conscious of its responsibility to evaluate its own performance, that of its sub-committees, its Chairperson and of the Company Secretary. These evaluations can be conducted with the help of external experts and advisors if the Board so decides in a formally constituted Board meeting. Contained in the Board Charter is the responsibility that resides with the Chairperson to ensure performance evaluations of the Board, the Board Committees, the Audit Committee and directors are conducted.

The Board has conducted its performance evaluation for the period of the financial year ending 2021. Such evaluation is currently being considered by the Board. Notwithstanding, the Board is of the view that the Board is a high performing Board that is dedicated to ensuring the highest standards in the execution of its duties and responsibilities.

The performance evaluation of the Executive Directors is conducted by Mercedes-Benz Group AG in accordance with group performance management and remuneration incentive programs and Mercedes-Benz Group AG policies.

Principle 10

The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.

The Board appointed an Executive Committee that represents the Company and its subsidiaries. The roles, responsibilities and authority of the members of the Executive Committee are clearly defined. Through the structure put in place by the charters of the Board and the Committees, it clearly delineates the roles and responsibilities of all members of the Board. The Board is fully supported by a suitably qualified and experienced Company Secretary who exercises his duties as per the Companies Act.

Principle 11

The governing body should govern risk in a way that supports the organisation in setting and achieving strategic objectives.

The Board delegates the responsibility for the oversight and evaluation of risk management to the Audit Committee, as contained in the Audit Committee Charter. The Audit Committee's overall objective is to determine whether the organisation's network of risk management, internal control, and governance processes designed and represented by management is adequate and functioning in a manner to ensure that risks are appropriately identified and managed and operations work efficiently.

In a complex and interconnected world, risk management is imperative to any business. Since 1998 the Boards of Management of all companies listed on a German stock exchange, such as the Company's parent company Mercedes-Benz AG, are required to implement a system for the early identification of risks in compliance with legislation. Therefore an Opportunity Management System is integrated in the Risk Management System which the Company follows and reports into. There is an internal control system in the Company, described as the entirety of all regulations that serve the business purpose (policies, process descriptions, procedural instructions, working instructions etc.), that ensures that the business processes function properly. This internal control system can be portrayed as per Internal Control System diagram.

Risk Management is a group-wide standardised, continuous and systematic process, aiming to protect the Company's existence and the achievement of corporate targets, while increasing risk awareness. Risks are potential developments, events or actions that may prevent the Company or one of its units from achieving its targets or implementing its strategies. Opportunities are potential developments, events of actions that will allow the Company or one of its units to meet or surpass its targets. Therefore, Opportunity Management is the early identification of potential opportunities within the scope of business operations and to use them in the best possible way by applying suitable measures. Consequently, Risk Management and Opportunity Management are closely integrated into planning activities. Risks and opportunities are reported through the different business units and escalated to the relevant subcommittees of the Board. Once a year a full Mercedes-Benz Risk and Opportunities Management System audit is conducted. Risk reporting thresholds are set within the framework provided by the Mercedes-Benz Group AG risk management policies. Actual risk exposures are regularly reported against these thresholds and mitigating actions are put in place where thresholds have been exceeded. There were no unexpected, unusual or unforeseen risks outside of tolerance levels during the period under review. Continued focus areas include regulatory and policy developments affecting the automotive sector, including the future of the Automotive Production and Development Programme (APDP), economic and socio-political developments, automotive sector technological developments and disruption, consumer trends and cyber risk especially affecting data privacy and protection. The Mercedes-Benz Risk and Opportunities Management System and Internal Control System, as set out above, was adopted by the Board of the Company and was fully implemented accordingly.

Principle 12

The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.

The Board monitors and exercises oversight on the direction for management and development of information technology with due consideration of the overall risk, strategy and direction of Mercedes-Benz Group AG and the Company. Therefore, policies that articulate and give direction to the governance of information technology are implemented and monitored. The Company has a strong internal technology management framework leveraging upon the well established international information technology governance framework of Mercedes-Benz Group AG.
The coronavirus crisis has shown us that digital solutions can make our lives much easier. Connectivity, digitalization, and the ability to process large amounts of data will provide huge benefits for mobility in the future as well. Many of our customers already take advantage of live traffic information and other data-based services. In production, greater connectivity makes processes more efficient while digital product planning helps conserve resources. Data-based products also benefit our customers when it comes to sales and service.

Data responsibility involves more than just data protection. Mercedes-Benz is taking on this responsibility by pursuing a holistic data governance approach that covers not only legal but also cultural and organizational aspects. The key aims are the sustainable design of data-based business models and the responsible handling of data in the interests of our customers, employees, and other stakeholders.
In order to achieve these goals, we have taken a number of measures, for example, employee training or the provision of in-depth information to our customers. Mercedes-Benz Group AG has also established a Group-wide Data Governance System that consists of our Group-wide Data Governance Structure, data vision, ata culture, and Data Compliance Management System.

Principle 13

The governing body should govern compliance with applicable laws and adopted, nonbinding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.

The Board exercises oversight of how compliance should be approached and addressed in the Company. The Board approves and enacts policies that articulates and gives effect to this direction on compliance and delegates the responsibility for the implementation of compliance to the Executive Management Committee. The function resides in the structures of the Company within the legal and compliance departments.

Legal compliance systems and processes are in place to mitigate the risk of non-compliance with the law. The regulatory environment is monitored to ensure appropriate responses to changes and developments in applicable regulations and law. The Company's compliance and legal departments have teams that report back to the Executive Management Committee regarding the programs it employs. The compliance department extends training to all employees, including compulsory induction training, to educate the staff complement about the use and function of the department in the organisation. The compliance department has implemented a compliance management system.

The Compliance Department is not only responsible for Training, but for the Compliance Management System for the Compliance Fields: Anti Corruption, Sanction Compliance, Anti Financial Crime, Data Compliance and Integrity Management at the entity. There were no material fines or penalties for regulatory transgressions imposed against the Group during the period under review.

Principle 14

The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.

The Company and Mercedes-Benz Group AG have had comprehensive and binding compensation and benefits policies in place since 2007. These policies regulate the framework for the structure and application of the Company's compensation system, elements and processes and formulate the framework requirements for compensation within the Company.

These requirements ensure transparency and enhance process reliability in the configuration and application of employee compensation and benefits arrangements in line with global directives which is relevant to local market conditions. Mercedes-Benz Group AG remunerates work in accordance with the same principles at all its affiliates around the world.

The Corporate Compensation Policy, which is valid for all groups of employees, establishes the framework conditions and minimum requirements for the design of the remuneration systems. In the desire to offer salaries and benefits that are customary in the industry and the respective markets, consideration is given to local market conditions within the specified framework. The salaries are determined on the basis of the employees' tasks and performance, and in line with their qualifications and experience. In setting the remuneration of the employees, the Company is not guided by gender or place of origin, but exclusively by the employee's job and responsibility. These policies regulate the framework for the structure and application of the Company's compensation system, elements and processes and formulate the framework requirements for compensation within the Company.

The Board accepted and approved the principles for the configuration and application of the compensation system as defined, and set out above, of Mercedes- Benz Group AG. Mercedes-Benz Group AG sets the compensation policy by specifying the compensation principles and decisions related to their implementation. These are then interrogated and implemented by the Company.

Principle 15

The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation's external reports.

Combined assurance emanates from the Risk and Opportunities Management System linked through to the Internal Controls System. Assurance layers run through the establishment of sound control environments, assessment of risks, control activities, information and communication processes linked to monitoring procedures. These systems are overseen by management with internal assurance from Mercedes-Benz Group AG Corporate Audit and various other Mercedes-Benz Group AG oversight bodies. In addition, external assurance is sought from various independent sources, from external auditors to certification agencies like ISO. The extent of assurance is determined with reference to risk assessments annually and executed by Corporate Audit, and the outcomes of such assessments are reported to the Audit Committee for monitoring and oversight.

Principle 16

In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.

The Company defines stakeholders as "those groups or individuals that can reasonably be expected to be significantly affected by an organisation's business activities, outputs or outcomes, or whose actions can reasonably be expected to significantly affect the ability of the organisation to create value over time". There is a greater expectation on stakeholders today to fulfill their role as social activists in a world where the triple context of the economy has become the norm. It is of the utmost importance to the Board and its respective Committees that the Company plays its part in ensuring that all of South Africa continues to grow economically and socially.

This requires a stakeholder-inclusive model of governance. As part of its decisionmaking in the best interests of the organisation, the Board of the Company strives to take into account all stakeholder groups in order to balance their legitimate and reasonable needs, interests and expectations. All of this is performed in line with the overall fiduciary duty to act in the best interest of the organisation.

The internal and external corporate affairs teams oversee the stakeholder engagement process to ensure that appropriate policies and escalation procedures are in place. There are then reported to the Social and Ethics Committee. Management needs an ongoing relationship with stakeholders. The Company's external affairs department, closely liaising with Mercedes-Benz Group AG, assist the management in the execution of this responsibility.

Mercedes-Benz South Africa Ltd.

General representatives of Mercedes-Benz and Smart vehicles in South Africa
(Reg. No. 1962/000271/06)

Wierda Road (R576/M10 West)
Zwartkop
PO Box 1717
Pretoria
0001
South Africa

Tel +27 (0) 12 677 1500

Fax +27 (0) 12 673 6050

www.mercedes-benzsa.co.za