



# Mercedes-Benz South Africa Limited

(Registration number 1962/000271/06)  
Consolidated Annual Financial Statements  
for the year ended 31 December 2017

Mercedes-Benz



# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Content

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	<b>Page</b>
General Information	2
Preparation of Consolidated Financial Statements	3
Company Secretary's Certification	3
Simplified Group Organogram	3
Audit Committee Report	4 - 5
Directors' Report	6 - 7
Independent Auditor's Report	8 - 11
Consolidated Statement of Profit or Loss and Other Comprehensive Income	12
Consolidated Statement of Financial Position	13
Consolidated Statement of Changes in Equity	14
Consolidated Statement of Cash Flows	15
Notes to the Consolidated Financial Statements	16 - 44
APPENDICES	
Appendix 1 - Accounting Policies	45 - 59
Appendix 2 - Employment Equity Progress Report	60

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## General Information

Directors	Initial and surname	Designation	Appointments/resignations
	Mr A Engling	Executive (Chief Executive Officer)	
	Mr C Spohr	Executive (Chief Financial Officer)	
	Mr AM Kgotle	Executive	
	Mr J Hafkamp	Executive	
	Mr F Seidler	Executive	Resigned 30 August 2017
	Mr J Fritz	Executive	Appointed 01 September 2017
	Mr M Schäfer	Non-executive	
	Mr U Bastert	Non-executive	
	Mrs B Seeger	Non-executive	
	Dr JW Schmidt	Independent non-executive	
	Mrs N January-Bardill	Independent non-executive	
	Ms ZBM Bassa	Independent non-executive	Resigned 11 October 2017
	Ms N Gobodo	Independent non-executive	Resigned 11 October 2017
	Ms CA Carolus	Independent non-executive	Resigned 10 October 2017
	Ms S Zilwa	Independent non-executive	Appointed 31 January 2018
	Ms FFT de Buck	Independent non-executive	Appointed 30 January 2018
	Ms N Mbhele	Independent non-executive	Appointed 29 January 2018
	Ms N Moola	Independent non-executive	Terminated 31 December 2017
	Mr T Conrad	Alternate to Mrs B Seeger	Resigned 30 August 2017
	Mr A Kellerman	Alternate to Mr M Schäfer	Appointed 01 October 2017
	Mr M Luehrs	Alternate to Mrs B Seeger	Appointed 01 September 2017

### Registered office

123 Wierda Road  
R576/M10 West  
Zwartkop  
Pretoria  
0002

### Holding company

Daimler AG incorporated in Germany

### Sponsor

Rand Merchant Bank a division of FirstRand Bank Limited

### Abbreviations and definitions

AIS	Automotive Investment Scheme
CGT	Capital Gains Tax
CIPC	Companies and Intellectual Property Commission
Consolidated Financial Statements	Consolidated financial statements of MBSA and its subsidiaries
CSI	Corporate Social Investment
DAG	Daimler AG
DFM	Daimler Fleet Management South Africa Proprietary Limited
DMTN	Domestic Medium Term Note
EBIT	Earnings Before Interest and Tax
ECL	Expected Credit Loss
EU	European Union
Group	Collectively MBSA and its subsidiaries
Group companies	Individual companies within the group
IFRS	International Financial Reporting Standards
King III and King IV	The King Code on Corporate Governance
MBFS	Mercedes-Benz Financial Services Proprietary Limited
MBSA	Mercedes-Benz South Africa Limited
NCI	Non-controlling Interest
OCI	Other Comprehensive Income
PRCC	Production Rebate Credit Certificates
SMH	Sandown Motor Holdings Proprietary Limited
The Companies Act	The Companies Act, No. 71 of 2008
US	United States of America
VAA	Volume Assembly Allowance

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017


## Preparation of Consolidated Financial Statements

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

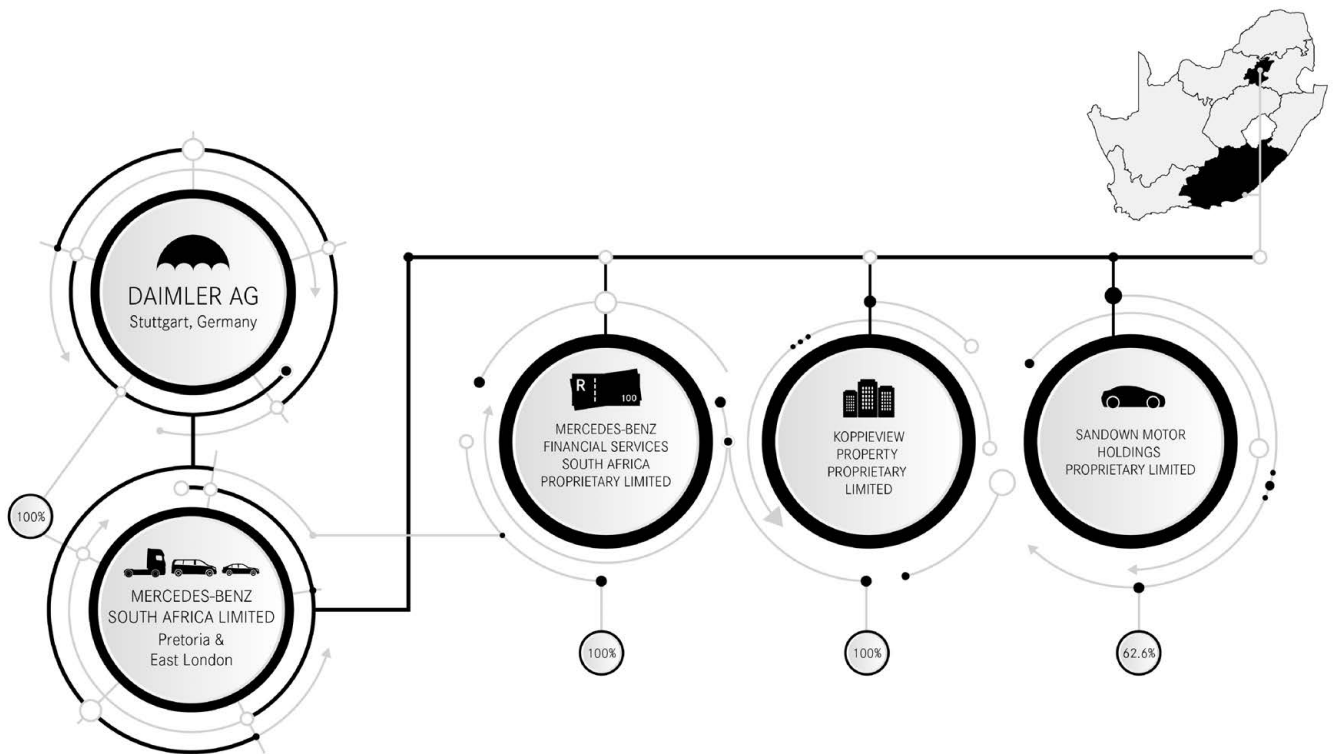
The consolidated financial statements have been audited in compliance with the applicable requirements of the Companies Act.

## Company Secretary's Certification

In terms of Section 88(2)(e) of the Companies Act, 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 2017, 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 and notices are true, correct and up to date.

  
\_\_\_\_\_  
**Mr D Peterson**  
Company Secretary  
  
17 April 2018

## Simplified Group Organogram



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

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Audit Committee Report

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This report is provided by the audit committee and the board of directors appointed in respect of the 2017 financial year of Mercedes-Benz South Africa Limited.

The audit committee was nominated by the board of directors at the end of January 2018, in respect of the 2017 financial year. The current audit committee members are Ms FFT De Buck, Ms S Zilwa and Ms T Mbhele.

The audit committee met twice in the financial year ended 31 December 2017. The external auditor attended these meetings as an invitee and presented the formal reports, as required by the audit committee. All of the 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 III and the governing charter of the audit committee and 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 2017. The audit committee provided, among others, independent oversight on the effectiveness of the company'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 audit committee is satisfied that there have not been any significant weaknesses in the design, implementation or execution of internal controls that may have resulted in 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 satisfied that management action plans are in place in relation to information technology controls.

### 2. External auditor

The audit committee considered and assessed the suitability of KPMG and Mr SG Robinson, as per the requirements of the JSE, with regards to their current appointment. The audit committee is satisfied that the appointment of the external auditor, Mr SG Robinson, complies with the legislative and regulatory requirements and the audit committee is satisfied with his independence. He will be nominated to be re-appointed as the group external auditor for the financial year ending December 2018. 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 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.

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 regards 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 notes the key audit matters set out in the report of the independent auditor included in these consolidated annual financial statements. The committee has considered and evaluated these matters and is satisfied that they are represented correctly.

### 5. Consolidated Financial Statements

The audit committee is satisfied that, to the best of its knowledge, the consolidated annual financial statements for the financial year ended 31 December 2017 fairly reflect the financial position and results of the group.

The Johannesburg Stock Exchange reviewed, on a pro-active monitoring basis, the consolidated annual financial statements for the year ended 31 December 2016. 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 annual financial statements for the year ended 31 December 2017 and that all of the debt listing requirements were complied with.

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Audit Committee Report

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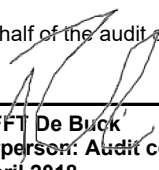
### 6. Accounting practices

The audit committee is satisfied that the consolidated annual 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.

### 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:



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**Mrs FFT De Buck**  
Chairperson: Audit committee  
17 April 2018

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Directors' Report

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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 2017.

### 1. Nature of business

The group holds a manufacturing and distribution agreement from DAG for the importation, assembly and distribution of Mercedes-Benz, Mercedes-AMG, Mercedes-Maybach and smart product ranges as well as Freightliner, Fuso and Western Star commercial vehicles for South Africa, Botswana, Lesotho and Swaziland. MBSA has a general distribution agreement to sell commercial vehicles to Malawi, Mozambique, Zimbabwe and Zambia through approved general distributors in the respective countries.

There have been no material changes to the nature of the group's business or operations from the prior year.

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 as follows:

#### 1.1 Financial services and fleet management operations

These operations provide financing and fleet management solutions to external customers and companies of the group.

#### 1.2 Wholesale and retail vehicle operations

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

In addition, this facility also assembles knocked-down kits for certain commercial vehicle products.

#### 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 annual financial statements.

	2017 R mil	2016 R mil	Difference year on year R mil	Change year on year %
<b>Income measures</b>				
Vehicles and related services	69 066	69 321	(255)	(0.37)
Financial services	792	779	13	1.67
<b>Profitability measures</b>				
Net income before other income and expenses	5 958	6 291	(333)	(5.29)
Operating profit	3 616	3 937	(321)	(8.15)
Profit for the period	2 429	2 628	(199)	(7.57)
<b>Financial position measures</b>				
Total assets	50 636	51 551	(915)	(1.77)
Total liabilities	38 486	38 008	478	1.26
Total equity	12 150	13 543	(1 393)	(10.29)

Whilst there was a slight decrease in sales volumes from December 2016 to December 2017, due to the challenging economic climate, the decline in net income before other income and expenses is primarily due to an increase in manufacturing costs.

The revenue from financial services was impacted by the voluntary liquidation and winding-down of DFM. As at 31 December 2017, the liquidation process is ongoing.

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Directors' Report

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### 3. Directorate

Save for what was disclosed in the 2016 annual financial statements, the following directors were appointed/resigned in the financial year ended 2017 up to the date of approval of these annual financial statements:

Directors	Designation	Changes/Current
Mr F Seidler	Executive	Resigned 30 August 2017
Mr J Fritz	Executive	Appointed 01 September 2017
Ms ZBM Bassa*	Independent non-executive	Resigned 11 October 2017
Ms N Gobodo*	Independent non-executive	Resigned 11 October 2017
Ms CA Carolus**	Independent non-executive	Resigned 10 October 2017
Ms N Moola*	Independent non-executive	Terminated 31 December 2017
Ms S Zilwa*	Non-Executive	Appointed 31 January 2018
Ms FFT de Buck***	Independent non-executive	Appointed 30 January 2018
Ms N Mbhele*	Independent non-executive	Appointed 29 January 2018

#### Remainder of Directors

	Designation
Dr JW Schmidt	Chairperson of the Board and Independent Non-Executive
Mr M Schäfer	Non-Executive
Ms B Seeger	Non-Executive
Ms N January-Bardill**	Independent non-executive
Mr A Engling**	Executive
Mr C Spohr	Executive
Mr AM Kgotle	Executive
Mr J Hafkamp	Executive
Mr U Bastert	Non-Executive

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

### 4. Corporate governance

The directors have adopted the Code of Corporate Practices and Conduct as suggested in King III for the financial year 2017.

Mr D Peterson is the company secretary of Mercedes-Benz South Africa Limited. The board of directors is satisfied that an arm's length relationship exists between it and the company secretary, who is not a member of the board of directors.

### 5. Availability of MBSA separate annual financial statements

The MBSA separate annual financial statements has been prepared and signed on 17 April 2018, and are available on request.

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.

### 6. Events after the reporting period

Except for the matters stipulated in note 26 of these consolidated annual financial statements, the directors are not aware of any other material event which occurred after the reporting date and up to the date of this report which requires adjustment to or disclosure in these consolidated annual financial statements.


#### Approval of consolidated annual financial statements

These consolidated annual 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, and are signed by:



Dr JW Schmidt  
Chairperson

17 April 2018



Mr A Engling  
Chief Executive Officer





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# Independent Auditor's Report

To the shareholder of Mercedes-Benz South Africa Limited

## Report on the Audit of the Consolidated Financial Statements

### Opinion

We have audited the consolidated financial statements of Mercedes-Benz South Africa Limited (the group) set out on pages 12 to 59, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements and the accounting policies in Appendix 1.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Mercedes-Benz South Africa Limited at 31 December 2017, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa..

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the group in accordance with the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

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

Key audit matter	How the matter was addressed in our audit
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#### Revenue recognition

Refer to notes 2 in the financial statements and note 3.1 in Appendix 1 – Accounting Policies

<p>The group recognises income from the sale and leasing of vehicles and related services, as well as income from financial services.</p> <p>Due to the volume of transactions, the number of revenue streams, and the judgement applied in determining each revenue component and whether a sales transaction contains a financing component, our audit attention focused on the recognition of revenue in respect of sales of vehicles and related services, interest received and operating lease instalment revenue.</p> <p>Accordingly revenue recognition is considered a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>Evaluating the control environment around the initiation and processing of sales transactions to understand the generation of revenue into its separately identifiable components;</li> <li>Testing a sample of invoices in respect of sales of vehicles by inspecting supporting documentation, including the underlying sales contracts and delivery notes, to ensure that revenue was appropriately recognised when the significant risks and rewards associated with the ownership of the vehicles was transferred;</li> <li>Testing a sample of invoices in respect of sales of vehicles before and after year end to assess whether revenue had been recognised in the appropriate period. This included obtaining external confirmations of a sample of outstanding invoices with customers to evaluate whether the sales transaction had occurred by year end;</li> <li>Evaluating the reasonableness of contract revenue and contract profit or loss, related to sales of related services, recognised in terms of the stage of completion method, by analysing the portfolio of contracts;</li> <li>Using our Technology Advisory experts as part of our audit team we tested the interest received and operating lease instalment revenue generated by the group's systems by developing an independent model to recalculate revenues and interest generated on lease contracts, and comparing the recalculated amounts to the revenue recorded in respect of interest received and operating lease instalment revenue calculated by the group; and</li> <li>Evaluating the appropriateness of the disclosures in the consolidated financial statements.</li> </ul>
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# Independent Auditor's Report

## Key audit matter

## How the matter was addressed in our audit

### Classification and residual value of assets leased under operating leases

Refer to notes 1.1.1.1, 1.1.2.2, 12 and 17 in the financial statements and notes 3.9 and 3.10 in Appendix 1 – Accounting Policies

The group is exposed to the risk of leased assets being incorrectly classified as operating leases based on the terms and conditions of the respective contracts with customers, as well as the risk of these leased vehicles being returned at values less than the residual value guaranteed.

Residual values on leased vehicles are estimated when the lease is entered into. These 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.

To the extent that the residual values of leased assets are considered not recoverable, a residual value risk provision is raised for the potential loss on the leased assets.

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

- Return-rates of leased vehicles;
- Penetration rates;
- Lease duration; and
- Market conditions.

These assumptions are derived from the latest available internal data and compared to actual retail and auction sales values realised and trends in future motor vehicle prices.

Moreover, given the various product financing options available to customers, as well as the complexities of lease accounting, the determination of the lease asset classification may be prone to error.

Accordingly, the classification and residual values of assets leased under operating leases are considered to be a key audit matter.

### Impairment of loans and advances to customers

Refer to notes 1.1.2.2, 11 and 24.2 (credit risk) in the financial statements and note 3.7.3 in Appendix 1 – Accounting Policies

The group is exposed to credit risk on loans and advances to customers relating to retail portfolio financing ("instalment sale receivables" and "finance lease receivables" as disclosed in note 11), as well as wholesale vehicle financing, also disclosed in note 11.

Loans and advances to customers contributed to 38.8% of the group's total assets, of which 84.1% comprised instalment sales and finance lease receivables.

During the year, the group was exposed to the adverse effects of current market conditions.

Our audit attention focused on the adequacy of the impairment allowance due to the application of complex and subjective judgements over the timing of recognition and the estimation of size of this allowance, specifically related to instalment sale and finance lease financing, as well as the significance of the exposure to credit risk across the group's portfolios.

Assumptions that affect the group's estimate include:

- Return-rates of leased motor vehicles;
- Penetration rates;
- Lease duration; and
- Market conditions.

Accordingly, the adequacy of the allowance for impairment of loans and advances to customers is considered to be a key audit matter.

Our audit procedures included:

Evaluating the control environment around the determination of the classification of lease contracts, the determination of residual values and the effective functioning of the Residual Value Steering Committee. The controls were evaluated together with our Technology Advisory experts who formed part of our audit team, where necessary;

Challenging whether the accounting treatment applied reflects the substance of the lease and the underlying assumptions of the transaction, and whether the classification is consistent with IAS 17: *Leases* by testing the classification of a sample of lease contracts per portfolio and agreeing lease information to underlying contracts and supporting documentation;

Testing a sample of contracts to determine whether the residual values set when the lease contract was entered into are appropriate, in line with the group's policies and procedures and as approved by the Residual Value Steering Committee;

Challenging the directors' key estimates and assumptions in relation to the quarterly assessment of residual values through:

- Inspecting a sample of actual vehicle sales realised on the leased portfolio in the light of current market price expectations, and comparing realised values to the guaranteed residual values set in respect of those sales contracts;
- Evaluating whether the residual value risk provision at year end was reasonable based on our knowledge of the group and experience of the industry;

Evaluating the accuracy of previous estimates made by the Residual Value Steering Committee by analysing prior year estimates in light of current year developments and comparing to the guaranteed residual provision raised; and

Evaluating the appropriateness of the disclosures in the consolidated financial statements.

Our audit procedures included:

Using our own valuation experts who formed part of our audit team, we:

- Evaluated, based on the data provided from the group's provisioning tool, whether the specific and portfolio impairment allowance recognised was reasonable by recalculating the estimated impairment on the performing and non-performing retail portfolio, using an independent model and comparing our results to those calculated by the group;
- Evaluated whether the key assumptions applied in determining the allowance, as well as the methodology used by the group, are aligned with IAS 39: *Financial Instruments: Recognition and Measurement*;

Testing accuracy of the data used to determine the allowance by inspecting correspondence with customers, current market value estimates of the underlying vehicle and other supporting documents;

- Challenging the directors' key estimates and assumptions in relation to the allowance recognised, by comparing the allowance recognised in the current year to that recognised in prior years, as well as through our own expectations based on our knowledge of the group and experience of the industry in which it operates; and

Evaluating the appropriateness of the disclosures in the consolidated financial statements.



## Independent Auditor's Report

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### Other information

The directors are responsible for the other information. The other information comprises the Company Secretary's Certification, the Audit Committee Report and the Directors' report as required by the Companies Act of South Africa and the General Information, Preparation of Consolidated Financial Statements, Simplified Group Organogram and Appendix 2 - Employment Equity Progress Report. Other information does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

### Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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



## Independent Auditor's Report

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### Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that KPMG Inc. has been the auditor of Mercedes-Benz South Africa Limited Consolidation for 33 years.

KPMG Inc.



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Per SG Robinson  
Chartered Account (SA)  
Registered Auditor  
Director

17 April 2018

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	2017 R mil	2016 R mil
<b>Income from sale of vehicles and related services</b>			
Revenue	2.1	69 066	69 321
Cost of goods sold		(63 900)	(63 809)
		<b>5 166</b>	<b>5 512</b>
<b>Income from financial services</b>			
Interest received	2.2	1 938	1 967
Interest paid	2.2	(2 276)	(2 068)
Impairment losses on loans and advances to customers	2.2	(89)	(157)
Non-interest revenue	2.2	3 896	2 732
Non-interest expenditure	2.2	(2 677)	(1 695)
		<b>792</b>	<b>779</b>
<b>Net income before other income and expenses</b>		<b>5 958</b>	<b>6 291</b>
Other income		359	279
Operating expenses		(1 206)	(713)
Distribution costs		(552)	(924)
Staff costs	13	(943)	(996)
<b>Operating profit</b>	3	<b>3 616</b>	<b>3 937</b>
Finance income	4	339	402
Finance costs paid	5	(583)	(699)
<b>Profit before taxation</b>		<b>3 372</b>	<b>3 640</b>
Taxation	6	(943)	(1 012)
<b>Profit for the year</b>		<b>2 429</b>	<b>2 628</b>
<b>Other comprehensive income, net of taxation:</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Re-measurements of retirement benefit assets and liabilities		(4)	13
<b>Items that may be reclassified to profit or loss</b>			
Movement in cash flow hedges	9	182	265
<b>Other comprehensive income for the year</b>		<b>178</b>	<b>278</b>
<b>Total comprehensive income for the year</b>		<b>2 607</b>	<b>2 906</b>
<b>Profit attributable to:</b>			
Owner of the company		2 432	2 487
Non-controlling interest	20	(3)	141
		<b>2 429</b>	<b>2 628</b>
<b>Total comprehensive income attributable to:</b>			
Owner of the company		2 610	2 765
Non-controlling interest	20	(3)	141
		<b>2 607</b>	<b>2 906</b>

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Consolidated Statement of Financial Position at 31 December 2017

	Note	2017 R mil	2016 R mil
<b>Assets</b>			
Cash and cash equivalents		552	3 175
Trade and other receivables	7	5 423	4 385
Inventories	8	10 641	10 201
Other financial assets and derivatives	9	357	178
Current tax receivable		303	172
Amounts receivable from group companies	10	1 082	1 403
Loans and advances to customers	11	19 664	18 197
Deferred initial direct costs		197	110
Assets leased under operating leases	12	7 431	9 116
Property, plant and equipment	12	3 990	3 559
Goodwill and intangible assets		98	71
Retirement benefit asset	13	140	213
Deferred tax	14	758	771
<b>Total Assets</b>		<b>50 636</b>	<b>51 551</b>
<b>Liabilities</b>			
Trade and other payables	15	2 575	2 969
Amounts payable to group companies	10	2 774	2 865
Derivatives	9	1	31
Deferred revenue	16	1 287	856
Provisions	17	668	566
Interest-bearing borrowings	18	30 766	30 291
Retirement benefit obligation	13	414	430
Deferred tax	14	1	-
<b>Total Liabilities</b>		<b>38 486</b>	<b>38 008</b>
<b>Equity</b>			
Share capital and premium	19	1 417	1 417
Reserves		(253)	(431)
Retained earnings		10 797	12 365
		11 961	13 351
Non-controlling interest		189	192
<b>Total Equity</b>		<b>12 150</b>	<b>13 543</b>
<b>Total Equity and Liabilities</b>		<b>50 636</b>	<b>51 551</b>

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## 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 earnings R mil	Attributable to equity holders of the company R mil	Non- controlling interest R mil	Total equity R mil
<b>Balance at 01 January 2016</b>	<b>1 417</b>	<b>32</b>	<b>(762)</b>	<b>(730)</b>	<b>9 899</b>	<b>10 586</b>	<b>98</b>	<b>10 684</b>
Profit for the year	-	-	-	-	2 487	2 487	141	2 628
Other comprehensive income	-	13	265	278	-	278	-	278
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>13</b>	<b>265</b>	<b>278</b>	<b>2 487</b>	<b>2 765</b>	<b>141</b>	<b>2 906</b>
<b>Transactions with shareholders recognised directly in equity</b>								
Reclassification	-	21	-	21	(21)	-	-	-
Dividends paid	-	-	-	-	-	-	(47)	(47)
<b>Balance at 31 December 2016</b>	<b>1 417</b>	<b>66</b>	<b>(497)</b>	<b>(431)</b>	<b>12 365</b>	<b>13 351</b>	<b>192</b>	<b>13 543</b>
<b>Balance at 01 January 2017</b>	<b>1 417</b>	<b>66</b>	<b>(497)</b>	<b>(431)</b>	<b>12 365</b>	<b>13 351</b>	<b>192</b>	<b>13 543</b>
Profit for the year	-	-	-	-	2 432	2 432	(3)	2 429
Other comprehensive income	-	(4)	182	178	-	178	-	178
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>(4)</b>	<b>182</b>	<b>178</b>	<b>2 432</b>	<b>2 610</b>	<b>(3)</b>	<b>2 607</b>
<b>Transactions with shareholders recognised directly in equity</b>								
Dividends paid	-	-	-	-	(4 000)	(4 000)	-	(4 000)
<b>Balance at 31 December 2017</b>	<b>1 417</b>	<b>62</b>	<b>(315)</b>	<b>(253)</b>	<b>10 797</b>	<b>11 961</b>	<b>189</b>	<b>12 150</b>
Note	19		9				20	

All movements are presented net of taxation.

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Consolidated Statement of Cash Flows

	2017 R mil	2016 R mil
<b>Cash flows from operating activities</b>		
<i>Cash inflows from the sale of vehicles and related services</i>		
Cash received from customers	70 220	69 809
Cash paid to suppliers and employees	(65 166)	(65 639)
<i>Cash inflows from financial services</i>		
Interest received	1 938	1 967
Interest paid	(2 276)	(2 068)
Non-interest revenue	3 896	2 732
Non-interest expenditure	(1 527)	(462)
Purchase of motor vehicles for operating leases	(2 275)	(4 201)
Proceeds on disposal of rental and operating lease assets	2 810	1 545
<i>Other cash flows</i>		
Finance income received	339	247
Finance costs paid	(703)	(511)
Taxation paid	(1 060)	(701)
Dividends paid	(4 000)	(47)
<b>Cash flow from operating activities before changes in operating assets and liabilities</b>	<b>2 196</b>	<b>2 671</b>
<b>Adjustment for movement in:</b>		
Trade and other receivables	(1 402)	(655)
Inventories	(1 399)	(248)
Amounts receivable from group companies	321	(902)
Loans and advances to customers	(1 467)	458
Other financial assets	(4)	(10)
Trade and other payables	(327)	577
Amounts payable to group companies	(91)	65
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(2 173)</b>	<b>1 956</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(1 220)	(407)
Proceeds from disposal of property, plant and equipment	202	7
Receipts of government grants	-	184
Purchase of intangible assets	(27)	(11)
<b>Net cash outflow from investing activities</b>	<b>(1 045)</b>	<b>(227)</b>
<b>Cash flows from financing activities</b>		
Interest-bearing borrowings raised	13 495	8 503
Interest-bearing borrowings repaid	(12 900)	(8 950)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>595</b>	<b>(447)</b>
<b>Movement in cash and cash equivalents for the year</b>	<b>(2 623)</b>	<b>1 282</b>
Cash and cash equivalents at the beginning of the year	3 175	1 893
<b>Cash and cash equivalents at end of the year</b>	<b>552</b>	<b>3 175</b>



# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Notes to the Consolidated Financial Statements

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### 1. Presentation of consolidated financial statements

These consolidated financial statements have been prepared in accordance with the requirements of the IFRS on a basis consistent with the prior year.

In preparing the consolidated financial statements, management has also made certain estimates, judgements and assumptions which have been included below to assist in understanding the amounts disclosed.

#### 1.1 Accounting estimates, judgements and assumptions

In preparing these 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 in line 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.

##### 1.1.1 Critical 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 consolidated financial statements are:

###### 1.1.1.1 Assets leased under operating leases

###### *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.

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 DAG. 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.

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Notes to the Consolidated Financial Statements

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### 1. Presentation of consolidated financial statements (continued)

#### 1.1 Accounting estimates, judgements and assumptions (continued)

##### 1.1.1 Critical accounting estimates, judgements and assumptions (continued)

###### 1.1.1.1 Assets leased under operating leases (continued)

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 MBSA group.

###### *Present value of future minimum lease payments*

The total minimum lease payments are considered to be the difference between the holding 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 MBSA group. The determination of present value is based on a market related interest rate for similar leases.

###### 1.1.1.2 Production incentives receivable

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.

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 prescribing legislation.

###### 1.1.1.3 Allowance for impairment of loans and advances to customers

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 net profit.

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Notes to the Consolidated Financial Statements

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### 1. Presentation of consolidated financial statements (continued)

#### 1.1 Accounting estimates, judgements and assumptions (continued)

##### 1.1.1 Critical accounting estimates, judgements and assumptions (continued)

##### 1.1.1.3 Allowance for impairment of loans and advances to customers (continued)

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.

##### 1.1.2 Other estimates, judgements and assumptions

These judgements and estimates may not individually have a significant effect on the amounts recognised in the 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 financial statements to which these judgements and estimates relate are considered material to management.

##### 1.1.2.1 Property, plant and equipment

###### *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.

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
Software, furniture and equipment	3 – 10
Motor vehicles	5 – 10

###### *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. Residual values are reviewed annually.

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Notes to the Consolidated Financial Statements

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### 1. Presentation of consolidated financial statements (continued)

#### 1.1 Accounting estimates, judgements and assumptions (continued)

##### 1.1.2 Other estimates, judgements and assumptions (continued)

###### 1.1.2.1 Property, plant and equipment (continued)

###### *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.

###### 1.1.2.2 Provisions

###### *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 DAG.

###### *Dealer incentive provision*

The group pays incentives to each franchised dealer who sells franchised vehicles. The incentives are earned by the dealer based on their quarterly performance as well as for other incentive programmes that may be run.

The provision for dealer incentives represents the amount to be paid over for the final quarter of the financial year. Estimates are made of the amount to be paid based on forecasted achievement of the incentive targets.

The incentives are paid to the dealers in cash before the end of the following quarter.

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Notes to the Consolidated Financial Statements

### 1. Presentation of consolidated financial statements (continued)

#### 1.1 Accounting estimates, judgements and assumptions (continued)

##### 1.1.2 Other estimates, judgements and assumptions (continued)

##### 1.1.2.3 Employee benefits defined benefit schemes

###### 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

	2017	2016
<i>Discount rates used</i>		
Pre-retirement discount rate	10.25 %	9.75 %
Post-retirement discount rate	4.10 %	3.59 %
<i>Inflation rates used</i>		
General inflation rate	7.39 %	7.43 %
Salary inflation rate	8.39 %	7.43 %
<i>Average age</i>		
Average age (in years)	53	54
Average age of pensioners (in years)	68	69

###### 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	9.01 %	8.95 %
<i>Mortality</i>		
Pre-expected retirement age	SA 1985 - 90 light	
Post-retirement age	PA(90) - 2	

2017	2016
R mil	R mil

### 2. Revenue

#### 2.1 Income from sales of vehicles and related services

Vehicles and spare parts	69 066	69 321
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#### 2.2 Income from financial services

<b>Interest received</b>		
Installment sale agreements	1 355	1 293
Wholesale funding and other	381	259
Finance leases	202	415
	<b>1 938</b>	<b>1 967</b>
<b>Interest paid</b>		
Interest-bearing borrowings at amortised cost	(2 276)	(2 068)

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Notes to the Consolidated Financial Statements

	2017 R mil	2016 R mil
<b>2. Revenue (continued)</b>		
<b>Movement in allowance for impairment of loans and advances to customers</b>		
Legal loss recovery	69	62
Charge for the period	(158)	(219)
	<b>(89)</b>	<b>(157)</b>
<b>Non-interest revenue</b>		
Operating lease installments	2 283	2 194
Remarketing revenue	1 423	314
Acceptance and initiation fees	124	118
Insurance commissions	34	40
Other revenue	32	66
	<b>3 896</b>	<b>2 732</b>
<b>Non-interest expenditure</b>		
Remarketing cost of sales	(1 381)	(344)
Other expenditure	(1 296)	(1 351)
	<b>(2 677)</b>	<b>(1 695)</b>
<b>3. Operating profit</b>		
Operating profit includes:		
<b>Expenses/(income)</b>		
Legal fees	55	33
Foreign exchange movements - unrealised	53	60
Profit on sale of assets	(105)	(335)
Foreign exchange movements - realised	(70)	22
Impairment reversal	(17)	-
Environmental provisions reversed	-	(49)
<b>4. Finance income</b>		
<b>Interest earnings on:</b>		
Retirement benefit assets	190	155
Bank accounts	145	167
Other sources	4	80
	<b>339</b>	<b>402</b>
<b>5. Finance costs paid</b>		
<b>Interest expense to/on:</b>		
Interest-bearing borrowings - excluding interest paid on financial services activities	317	422
Retirement benefit obligation	223	212
Group companies	38	38
Preference dividend	5	27
	<b>583</b>	<b>699</b>
<b>6. Taxation</b>		
<b>Major components of the taxation expense</b>		
<b>Current</b>		
Charge for the current period	955	1 213
Under provision from the previous period	43	35
CGT	-	58
	<b>998</b>	<b>1 306</b>

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Notes to the Consolidated Financial Statements

	2017 R mil	2016 R mil
<b>6. Taxation (continued)</b>		
<b>Deferred</b>		
Charge for the current year	(28)	(264)
Over provision for the previous period	(27)	(30)
	<b>(55)</b>	<b>(294)</b>
	<b>943</b>	<b>1 012</b>
<b>Reconciliation of the tax charge</b>		
Applicable tax rate	28.00 %	28.00 %
<b>Adjusted for:</b>		
<b>Non-deductible expenses</b>		
Depreciation on buildings	- %	0.13 %
Interest and fines paid on taxes	- %	0.12 %
Capital expenses	0.72 %	0.48 %
<b>Non-taxable income</b>		
Non taxable income and consolidation adjustments	(0.67)%	- %
Profit on sale of assets	(0.53)%	(2.62)%
CGT	- %	1.59 %
Allowances per section 12H of the Income Tax Act	(0.03)%	(0.04)%
Prior period adjustment - current taxation	1.28 %	0.96 %
Prior period adjustment - deferred taxation	(0.80)%	(0.82)%
<b>Effective taxation rate</b>	<b>27.97 %</b>	<b>27.80 %</b>
<b>7. Trade and other receivables</b>		
Trade receivables, net of allowance for impairment	2 219	1 375
VAT	1 823	1 310
Production incentives	997	1 361
Prepayments	211	101
Other receivables	173	238
	<b>5 423</b>	<b>4 385</b>
<b>Movement in allowance for impairment of doubtful receivables</b>		
Opening balance	55	49
Additional allowance raised	17	26
Amounts written off	(14)	(4)
Unused amounts reversed	(23)	(16)
<b>Closing balance</b>	<b>35</b>	<b>55</b>
<b>8. Inventories</b>		
Completed and fully built-up vehicles	5 117	4 118
Goods in transit	2 151	3 114
Raw materials and component parts	1 797	1 329
Spare parts and consumables	1 395	1 818
Work in progress	504	149
	<b>10 964</b>	<b>10 528</b>
Allowance for impairment of obsolete inventory	(323)	(327)
	<b>10 641</b>	<b>10 201</b>
Inventories expensed during the period	60 953	59 136
Inventories written down during the period	92	154

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Notes to the Consolidated Financial Statements

### 9. Other financial assets and derivatives

	Assets		Liabilities	
	2017 R mil	2016 R mil	2017 R mil	2016 R mil
Derivatives	291	120	1	31
Other financial assets	62	58	-	-
Other interest free loans to third parties	4	-	-	-
	<b>357</b>	<b>178</b>	<b>1</b>	<b>31</b>

#### Derivatives

In the normal course of business, the DAG 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. The realisation of the underlying transactions of the cash flow hedges is shown in the table below:

	2017		2016	
	Maturing within 1 year R mil	Maturing after 1 year R mil	Nominal value R mil	Nominal value R mil
Derivative asset	184	650	834	1 201

#### Reconciliation of the movement in the hedging reserve

Balance at the beginning of the year	(497)	(762)
<b>Other comprehensive income, net of tax</b>		
Amounts recognised directly in OCI before taxation	202	414
Less: Amounts released to profit or loss before taxation	51	(39)
Deferred taxation	(71)	(110)
	<b>182</b>	<b>265</b>
<b>Balance at the end of the year</b>	<b>(315)</b>	<b>(497)</b>
Ineffective portion recognised in profit or loss related to cash flow hedges	1	6

### 10. Amounts receivable from/(payable to) group companies

#### Trade receivables from group companies

Daimler AG	1 066	1 377
Mitsubishi Fuso Truck and Bus Corporation	6	7
Daimler Trucks North America LLC	4	2
Mercedes-AMG GmbH	2	5
Daimler FleetBoard GmbH	1	5
Daimler International Assignment Services USA, LLC	1	-
Mercedes-Benz Korea	1	-
Mercedes-Benz US International, Inc.	1	-
Mercedes-Benz do Brasil Ltda.	-	6
Daimler International Assignment Services USA LLC	-	1
	<b>1 082</b>	<b>1 403</b>



# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Notes to the Consolidated Financial Statements

	2017 R mil	2016 R mil
<b>10. Amounts receivable from/(payable to) group companies (continued)</b>		
<b>Trade payables to group companies</b>		
Daimler AG	(2 694)	(2 737)
Mitsubishi Fuso Truck and Bus Corporation	(35)	(24)
Mercedes-Benz do Brasil Ltda.	(13)	(68)
Daimler Trucks North America LLC	(13)	(12)
Daimler India Commercial Vehicles Private Limited	(8)	(13)
Daimler FleetBoard GmbH	(3)	(2)
Daimler South East Asia Pte. Ltd	(3)	(4)
Western Star Trucks Sales, Inc Portland, USA	(3)	-
Daimler Financial Services AG	(1)	(1)
Mercedes-Benz Hellas S.A.	(1)	-
Mercedes-Benz Australia/Pacific Pty Ltd	-	(2)
Mercedes-Benz Group Services Phils, Inc.	-	(1)
Mercedes-Benz Portugal, S.A.	-	(1)
	<b>(2 774)</b>	<b>(2 865)</b>

No allowance for non-collectable amounts has been raised as the amounts are short term in nature and carry minimal credit risk for the group. In 2017, the interest rates on trade receivables are between 0% and 6.76%.

### 11. Loans and advances to customers

Instalment sale receivables	13 276	11 109
Finance lease receivables	3 270	3 415
Wholesale vehicle financing receivables	3 553	4 086
<b>Gross loans and advances to customers</b>	<b>20 099</b>	<b>18 610</b>
Impairment losses	(435)	(413)
	<b>19 664</b>	<b>18 197</b>

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

#### Maturity profile for instalment sale and lease receivables

	2017			2016		
	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	5 875	(1 553)	4 322	5 426	(1 349)	4 077
Between one and five years	14 625	(2 401)	12 224	12 237	(1 790)	10 447
	<b>20 500</b>	<b>(3 954)</b>	<b>16 546</b>	<b>17 663</b>	<b>(3 139)</b>	<b>14 524</b>

#### Movement in allowance for impairment losses on loans and advances to customers

Opening balance	413	412
Additional allowance raised	174	245
Amounts written off	(152)	(244)
<b>Closing balance</b>	<b>435</b>	<b>413</b>

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Notes to the Consolidated Financial Statements

### 12. Property, plant and equipment and assets leased under operating leases

	2017			2016		
	Cost R mil	Accumulated depreciation/ impairment losses R mil	Carrying amount R mil	Cost R mil	Accumulated depreciation/ impairment losses R mil	Carrying amount R mil
Land and buildings	1 446	(603)	843	1 530	(592)	938
Plant and equipment	5 596	(3 524)	2 072	5 408	(2 964)	2 444
Software, furniture and equipment	141	(104)	37	206	(159)	47
Motor vehicles	37	(23)	14	36	(20)	16
Assets under construction	1 024	-	1 024	114	-	114
<b>Property, plant and equipment</b>	<b>8 244</b>	<b>(4 254)</b>	<b>3 990</b>	<b>7 294</b>	<b>(3 735)</b>	<b>3 559</b>
<b>Assets leased under operating leases</b>	<b>9 207</b>	<b>(1 776)</b>	<b>7 431</b>	<b>10 743</b>	<b>(1 627)</b>	<b>9 116</b>

#### Reconciliation of the movement in property, plant and equipment and assets leased under operating leases - 2017

	Opening balance R mil	Additions R mil	Disposals or scrappings R mil	Transfers R mil	Deprecia- tion R mil	Impairment (loss)/ reversal R 'mil	Closing balance R mil
Land and buildings	938	34	(95)	19	(53)	-	843
Plant and equipment	2 444	215	(1)	29	(615)	-	2 072
Software, furniture and equipment	47	9	(8)	-	(11)	-	37
Motor vehicles	16	4	(2)	-	(4)	-	14
Assets under construction	114	958	-	(48)	-	-	1 024
<b>Property, plant and equipment</b>	<b>3 559</b>	<b>1 220</b>	<b>(106)</b>	<b>-</b>	<b>(683)</b>	<b>-</b>	<b>3 990</b>
<b>Assets leased under operating leases</b>	<b>9 116</b>	<b>2 275</b>	<b>(2 810)</b>	<b>-</b>	<b>(1 167)</b>	<b>17</b>	<b>7 431</b>

#### Reconciliation of the movement in property, plant and equipment and assets leased under operating leases - 2016

	Opening balance R mil	Additions R mil	Disposals or scrappings R mil	Transfers R mil	Government grants R mil	Deprecia- tion R mil	Impairment (loss)/ reversal R mil	Closing balance R mil
Land and buildings	881	71	(2)	52	(11)	(53)	-	938
Plant and machinery	2 870	248	(24)	122	(173)	(599)	-	2 444
Software, furniture and equipment	61	14	(13)	-	-	(15)	-	47
Motor vehicles	19	13	(10)	-	-	(6)	-	16
Assets under construction	227	61	-	(174)	-	-	-	114
<b>Property, plant and equipment</b>	<b>4 058</b>	<b>407</b>	<b>(49)</b>	<b>-</b>	<b>(184)</b>	<b>(673)</b>	<b>-</b>	<b>3 559</b>
<b>Assets leased under operating leases</b>	<b>7 693</b>	<b>4 201</b>	<b>(1 557)</b>	<b>-</b>	<b>-</b>	<b>(1 221)</b>	<b>-</b>	<b>9 116</b>

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Notes to the Consolidated Financial Statements

	2017 R mil	2016 R mil
<b>12. Property, plant and equipment and assets leased under operating leases (continued)</b>		
<b>Future minimum lease income</b>		
Future minimum lease receipts under non-cancellable operating leases:		
Less than one year	2 335	2 455
Between one and five years	2 471	5 512
	<b>4 806</b>	<b>7 967</b>

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.

At 31 December 2017 the group authorised the acquisition of property, plant and equipment amounting to R 799 million (31 December 2016: R 182 million) as capital expenditure. This is due to the anticipated costs on the introduction of the W205 facelift.

This capital expenditure will be financed from internally generated funds.

### 13. Retirement benefit assets and obligations and staff costs

	Notes		
Net retirement benefit plan asset	13.1	140	213
Post retirement medical aid benefit obligation	13.2	(414)	(430)
Total staff costs incurred	13.3	943	996

#### 13.1 Retirement benefit plan asset

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 December 2017. 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. However, there is no policy or contractual agreement for charging the net defined benefit cost.

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

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

#### Defined benefit schemes

Present value of obligations	(2 229)	(2 025)
Fair value of plan assets	2 369	2 238
Net defined benefit asset	<b>140</b>	<b>213</b>
Less: impact of application of asset ceiling	-	-
<b>Net defined benefit asset after application of asset ceiling</b>	<b>140</b>	<b>213</b>

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Notes to the Consolidated Financial Statements

### 13. Retirement benefit assets and obligations and staff costs (continued)

#### 13.1 Retirement benefit plan asset (continued)

##### Reconciliation of movement in defined benefit schemes

The following table shows a reconciliation from the opening balances to the closing balances for the plan assets and the present value of the obligation and its components:

	Movement in plan assets		Movement in present value of obligation	
	2017 R mil	2016 R mil	2017 R mil	2016 R mil
Opening balance	2 238	2 273	2 025	1 991
<i>Included in profit or loss</i>				
Current service cost	14	-	23	58
Interest	190	155	190	173
	<b>204</b>	<b>155</b>	<b>213</b>	<b>231</b>
<i>Included in OCI</i>				
Actuarial (gains)/losses				
Financial assumptions	61	25	(78)	(78)
Experience adjustment	(14)	-	218	136
Remeasurements	-	-	1	-
	<b>47</b>	<b>25</b>	<b>141</b>	<b>58</b>
<i>Other</i>				
Benefits paid	(160)	(256)	(160)	(256)
Contributions received	30	41	1	1
Employee contributions	4	-	9	-
Expected return on plan assets	6	-	-	-
	<b>(120)</b>	<b>(215)</b>	<b>(150)</b>	<b>(255)</b>
<b>Closing balance</b>	<b>2 369</b>	<b>2 238</b>	<b>2 229</b>	<b>2 025</b>

	2017 R mil	2016 R mil
<b>Fair value of plan assets comprises:</b>		
Bonds	1 182	1 249
Equities	1 121	993
Property	187	185
Non-exchange traded instruments	3	1
Derivatives net of cash	(124)	(190)
	<b>2 369</b>	<b>2 238</b>

##### 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	
		2017	2016
Discount rate	0.25 %	(2.80)%	(2.80)%
	(0.25)%	3.00 %	2.90 %
General inflation rate	0.10 %	1.00 %	1.00 %
	(0.10)%	(1.00)%	(1.00)%
Average age	+1 year	(0.80)%	(2.70)%
	-1 year	0.80 %	0.40 %

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Notes to the Consolidated Financial Statements

	2017 R mil	2016 R mil
<b>13. Retirement benefit assets and obligations and staff costs (continued)</b>		
<b>13.2 Post retirement medical aid benefit obligation</b>		
Present value of ABSA portfolio obligation	414	430

### ABSA 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 2017. 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 individual group's experiences.

### Reconciliation of movement in present value of obligation

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

Opening balance	430	434
<i>Included in profit or loss</i>		
Current service cost	47	22
Interest cost	41	39
	<b>88</b>	<b>61</b>
<i>Included in OCI</i>		
Actuarial gains	(89)	15
<i>Other</i>		
Contributions	(15)	(12)
Disposal of retirement benefit obligation	-	(62)
Effect of settlement	-	(11)
Loss on settlement	-	5
	<b>(15)</b>	<b>(80)</b>
<b>Closing balance</b>	<b>414</b>	<b>430</b>

### Sensitivity analysis

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	
		2017	2016	2017	2016
Health care cost inflation	1.00 %	16.60 %	17.80 %	19.10 %	20.50 %
	(1.00)%	(13.30)%	(14.10)%	(15.10)%	(16.00)%
Mortality	+1 year	(12.60)%	(13.60)%	(13.90)%	(15.10)%
	-1 year	15.60 %	17.00 %	17.60 %	19.40 %

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Notes to the Consolidated Financial Statements

	2017 R mil	2016 R mil
<b>13. Retirement benefit assets and obligations and staff costs (continued)</b>		
<b>13.3 Staff costs</b>		
Defined contribution plan expense	46	80
Salaries	897	916
<b>Staff costs</b>	<b>943</b>	<b>996</b>
Allocated to cost of sales	1 677	1 537
	<b>2 620</b>	<b>2 533</b>
<p>Staff costs are allocated between cost of sales and operating expenses to better reflect the nature of the expense. The balances for 2016 were adjusted to align with this policy.</p>		
<b>14. Deferred tax</b>		
<b>Reconciliation of movement in net deferred tax asset</b>		
Opening balance	771	636
Current period charge through profit or loss	28	264
Current period charge through OCI		
Retirement benefit assets and liabilities	2	(49)
Cash flow hedges	(71)	(110)
Prior period charge through profit or loss	27	30
<b>Closing balance</b>	<b>757</b>	<b>771</b>
<p>Tax effect of temporary differences between tax and book value for:</p>		
<b>Deferred tax liability</b>		
Capital allowances	(467)	(565)
Retirement benefit obligation	(275)	(230)
Government grants	(211)	(296)
Cash flow hedges	(81)	(24)
Dealer incentive scheme	(55)	(55)
Prepayments	(49)	(4)
Deferred initial direct costs	(24)	(24)
Derivatives	(12)	(11)
Deferred income	-	(1)
Provisions	-	(1)
	<b>(1 174)</b>	<b>(1 211)</b>
<b>Deferred tax asset</b>		
Deferred income	927	861
Provisions	399	573
Retirement benefit assets	394	287
Allowance for impairment on trade receivables	150	141
Finance leases	58	90
Employee benefits	3	3
Income received in advance	-	16
Capital allowances	-	11
	<b>1 931</b>	<b>1 982</b>
<b>Net deferred tax asset</b>	<b>757</b>	<b>771</b>
<b>Disclosed as</b>		
Deferred tax liability	(1)	-
Deferred tax asset	758	771
<b>Total net deferred tax asset</b>	<b>757</b>	<b>771</b>

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Notes to the Consolidated Financial Statements

	2017 R mil	2016 R mil
<b>15. Trade and other payables</b>		
Trade payables	1 815	1 934
Employee related liabilities	342	313
Accruals	59	155
VAT	11	16
Other payables	348	551
	<b>2 575</b>	<b>2 969</b>

### 16. Deferred revenue

Deferred revenue consists of revenue received in advance on operating lease transactions as well as the deferred portion of motorplan provided to customers on commercial vehicles.

#### Reconciliation of movement in deferred revenue

Opening balance	856	763
Revenue deferred	735	349
Revenue recognised in profit or loss	(304)	(256)
<b>Closing balance</b>	<b>1 287</b>	<b>856</b>

### 17. Provisions

#### Reconciliation of movement in provisions - 2017

	Opening balance R mil	Additional provisions R mil	Amounts utilised R mil	Amounts reversed R mil	Closing balance R mil
Residual value	173	274	(172)	(1)	274
Dealer incentives	230	256	(230)	-	256
Warranty claims	107	133	(93)	(14)	133
Environmental rehabilitation	16	-	(16)	-	-
Other	40	5	(40)	-	5
	<b>566</b>	<b>668</b>	<b>(551)</b>	<b>(15)</b>	<b>668</b>

### 18. Interest-bearing borrowings

	2017 R mil	2016 R mil
Bonds issued under MBSA DMTN Programme	23 390	22 790
Bank loans	7 055	7 100
Interest accrued	266	346
Preference shares	55	55
	<b>30 766</b>	<b>30 291</b>

#### 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 range between 1 to 7 years with the final settlement being made on 23 February 2023 and are issued at market related rates of interest, which are mainly floating rates.

The terms and conditions of the bonds as well as the DMTN Programme, including all pricing supplements and guarantees, are available on the company's website at <http://www.mercedes-benzsa.co.za/corporate-structure/investor-relations>.

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Notes to the Consolidated Financial Statements

### 18. Interest-bearing borrowings (continued)

#### 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 3.5 years in all instances with the final settlement being made on 25 April 2020 and bear interest at market related rates of interest, which are mainly floating rates.

The overnight facilities bear interest at market related rates.

#### 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%.

### 19. Share capital and premium

	2017 Number	2016 Number
Ordinary shares authorised and issued	46 840 000	46 840 000
	2017 R mil	2016 R mil
<b>Composition of issued share capital and premium</b>		
Ordinary shares at par value	47	47
Share premium	1 370	1 370
<b>Total issued capital and premium</b>	<b>1 417</b>	<b>1 417</b>

### 20. Non-controlling interest

The following table summarises the information relating to the group's subsidiary that has material NCI.

The NCI relates to a 37.4% shareholding in SMH, a company registered in South Africa.

#### Statement of financial position

Non-current assets	59	71
Current assets	1 047	1 116
Non-current liabilities	(542)	(112)
Current liabilities	(635)	(1 137)
<b>Net negative equity</b>	<b>(71)</b>	<b>(62)</b>

Net negative equity attributable to NCI	(26)	(23)
---	------	------

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

Revenue	5 147	5 759
(Loss)/profit	(8)	357
Other comprehensive income	-	1
<b>Total comprehensive income</b>	<b>(8)</b>	<b>358</b>
(Loss)/profit allocated to NCI	(3)	134
<b>Total comprehensive income allocated to NCI</b>	<b>(3)</b>	<b>134</b>
Dividends paid	-	4



# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Notes to the Consolidated Financial Statements

	2017 R mil	2016 R mil
<b>20. Non-controlling interest (continued)</b>		
<b>Statement of cash flows</b>		
Cash flows from operating activities	(10)	(456)
Cash flows from investing activities	(49)	911
Cash flows from financing activities	-	(412)

SMH is in a net negative equity position due to a share buy-back transaction that took place in August 2013. The company acquired 95 999 ordinary shares (19.99%) with a par value of R 1 each of its issued share capital from True Class Consortium 2 Proprietary Limited for an amount totaling R 522 688 000. The premium over and above the par value of shares acquired amounting to R 522 592 000 was classified as a capital reserve in accordance with the group's accounting policy. The ordinary shares acquired as a result of the transaction were subsequently cancelled.

In order to finance the share buy-back, the company issued cumulative redeemable preference shares to MBSA and Mr RS McAllister. In accordance with the preference share agreement, SMH has a contractual obligation to pay finance costs to the preference shareholders prior to the occurrence of the redemption event equal to a floating rate of JIBAR plus 1.9%.

Accordingly the preference shares are classified as debt. If, at any time, SMH is unable to redeem any unredeemed preference shares because the board is not reasonably satisfied that SMH will pass the solvency and liquidity test immediately after such intended redemption, SMH shall be obliged to redeem such number of unredeemed preference shares as it is able to redeem with the board being reasonably satisfied that SMH shall pass the solvency and liquidity test after that redemption and the board shall, therefore, apply the solvency and liquidity test on a three month basis until all the unredeemed preference shares have been redeemed. This effectively results in a subordination of debt until such time as SMH is able to repay its liabilities.

The net negative equity position has increased from R 62 million in the prior year to R 71 million in the current year. This is primarily driven by the tax effect of the non-deductible interest on preference shares resulting in the tax expense exceeding trading profits.

Based on the budgeted trading profitability for 2018 and 2019, it is expected that SMH will return to a positive equity position.

## 21. Related parties

### Relationships

The ultimate holding company of MBSA Limited is DAG. Various transactions are entered into between the companies within the South African and global DAG group.

For related party balances refer to note 10 - amounts receivable from/(payable to) group companies.

	Sales to group companies		Purchases from group companies	
	2017 R mil	2016 R mil	2017 R mil	2016 R mil
Daimler AG	43 854	41 020	36 850	33 254
Mitsubishi Fuso Truck and Bus Corporation	28	19	406	198
Daimler Trucks North America LLC	4	6	93	181
Mercedes-Benz do Brasil Ltda.	-	-	173	356
Daimler FleetBoard GmbH	-	-	30	30
Daimler India Commercial Vehicles Private Limited	-	-	18	4
Mercedes-Benz Argentina S.A.	-	2	-	-

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Notes to the Consolidated Financial Statements

### 21. Related parties (continued)

	Other income received from group companies		Other expenses paid to group companies	
	2017 R mil	2016 R mil	2017 R mil	2016 R mil
<b>Selling costs</b>				
Daimler AG	1	-	61	60
Mercedes-AMG GmbH	1	-	2	2
Mercedes-Benz US International	1	-	-	-
Mercedes-Benz Netherlands	-	-	1	-
Mercedes-Benz Portugal, S.A.	-	-	1	1
Mercedes-Benz Argentina S.A.	-	-	-	1
<b>Interest</b>				
Daimler AG	10	32	38	38
<b>Administration and management fees</b>				
Daimler AG	80	40	190	160
Mercedes-Benz do Brasil Ltda.	8	-	-	-
Mercedes-AMG GmbH	1	4	-	-
Mercedes-Benz US International	1	-	-	-
Daimler South East Asia Pte. Ltd.	-	-	18	13
Daimler India Commercial Vehicles Private Limited	-	-	1	-
Mercedes-Benz Hellas S.A.	-	-	1	2
Mitsubishi Fuso Truck and Bus Corporation	-	1	-	-
Tuffsan Investments 1055 Proprietary Limited	-	-	-	8
<b>Operating activities</b>				
Daimler Services UK	-	-	15	22
Daimler South East Asia Pte. Ltd	-	-	14	23
Daimler AG	-	-	10	2
Daimler Financial Services AG	-	-	6	8
Tuffsan Investments 1055 Proprietary Limited	-	-	-	44
			<b>2017</b>	<b>2016</b>
			<b>R mil</b>	<b>R mil</b>
<b>Compensation to directors and other key management</b>				
Short-term employee benefits			44	45
Post-employment benefits			1	2
			<b>45</b>	<b>47</b>

### 22. Segmental information

#### Basis for segmentation

The group 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, being the residual. 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;
- 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 – represents the residual of the operations, which does not constitute its own separate segment. This includes the property company.

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Notes to the Consolidated Financial Statements

### 22. Segmental information (continued)

#### 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.

	2017		2016	
	Revenue from sale of vehicles R mil	Non-current assets R mil	Revenue from sale of vehicles R mil	Non-current assets R mil
South Africa	25 180	29 140	28 274	24 187
Europe	43 854	-	41 020	-
Asia	28	-	19	-
America	4	-	8	-
<b>Total</b>	<b>69 066</b>	<b>29 140</b>	<b>69 321</b>	<b>24 187</b>

#### Information about reportable segments

Information related to each reportable segment is set out below:

#### 2017

	Wholesale and retail vehicles R mil	Manufacturing and component exports R mil	Financial services and Fleet management R mil	Other R mil	Consolidated R mil
Revenue from sale of vehicles	23 342	45 722	-	2	69 066
Revenue from financial services	70	-	5 764	-	5 834
<b>Total income from sales and financing activities</b>	<b>23 412</b>	<b>45 722</b>	<b>5 764</b>	<b>2</b>	<b>74 900</b>
Interest paid	(2 276)	-	-	-	(2 276)
Finance costs	(583)	-	-	-	(583)
Impairment reversals	-	-	17	-	17
<b>Segment EBIT*</b>	<b>726</b>	<b>2 579</b>	<b>139</b>	<b>67</b>	<b>3 511</b>
<b>Segment profit before taxation</b>	<b>482</b>	<b>2 579</b>	<b>139</b>	<b>172</b>	<b>3 372</b>
<b>Segment assets</b>	<b>10 582</b>	<b>12 549</b>	<b>27 341</b>	<b>164</b>	<b>50 636</b>
<b>Segment liabilities</b>	<b>(35 084)</b>	<b>(2 769)</b>	<b>(625)</b>	<b>(8)</b>	<b>(38 486)</b>

\* Segment EBIT excludes an once-off profit from the sale of properties in Koppievu Properties Proprietary Limited of R 105 million.

#### 2016

Revenue from sale of vehicles	25 626	43 635	56	4	69 321
Revenue from financial services	118	-	4 581	-	4 699
<b>Total income from sales and financing activities</b>	<b>25 744</b>	<b>43 635</b>	<b>4 637</b>	<b>4</b>	<b>74 020</b>
Interest paid	(2 068)	-	-	-	(2 068)
Finance costs	(648)	-	(4)	(47)	(699)
<b>Segment EBIT</b>	<b>3 490</b>	<b>2 441</b>	<b>213</b>	<b>(18)</b>	<b>6 126</b>
<b>Segment profit/(loss) before taxation</b>	<b>1 048</b>	<b>2 441</b>	<b>211</b>	<b>(60)</b>	<b>3 640</b>
<b>Segment assets</b>	<b>13 462</b>	<b>11 409</b>	<b>26 444</b>	<b>236</b>	<b>51 551</b>
<b>Segment liabilities</b>	<b>(27 010)</b>	<b>(11 409)</b>	<b>1 846</b>	<b>(1 435)</b>	<b>(38 008)</b>

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Notes to the Consolidated Financial Statements

### 23. Directors' and prescribed officers' emoluments

#### Executive directors

2017

	Short-term employee benefits			Other long-term benefits	Total R mil
	Salaries R mil	Bonus related R mil	Other benefits* R mil	Pension fund contributions R mil	
Mr A Engling	1.2	-	3.1	0.1	4.4
Mr C Spohr	1.5	0.6	4.2	0.1	6.4
Mr AM Kgotle	1.0	-	0.6	0.1	1.7
Mr J Hafkamp	1.2	0.2	3.1	-	4.5
Mr F Seidler	1.0	1.3	3.6	0.1	6.0
Mr J Fritz	0.6	-	1.3	-	1.9
Mr JF Evertse	0.4	1.6	2.3	0.2	4.5
Mr A van der Merwe	0.6	1.8	1.4	0.1	3.9
	<b>7.5</b>	<b>5.5</b>	<b>19.6</b>	<b>0.7</b>	<b>33.3</b>

2016

Mr C Spohr	0.8	-	2.6	-	3.4
Mr F Seidler	1.7	1.9	4.8	-	8.4
Mr JF Evertse	1.9	1.2	3.4	0.6	7.1
Mr A van der Merwe	2.0	2.1	2.3	0.4	6.8
Mr JJ van Zyl	1.4	0.9	2.9	0.4	5.6
Mr H Werner	0.3	3.2	1.7	-	5.2
	<b>8.1</b>	<b>9.3</b>	<b>17.7</b>	<b>1.4</b>	<b>36.5</b>

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

Messrs JF Evertse and A van der Merwe tendered their resignation with effect from 31 March 2017. In terms of a shareholders' resolution the resignations were accepted and Mr A Engling was appointed as Chief Executive Officer with effect from 1 April 2017.

#### Prescribed officers

2017

	Short-term employee benefits			Other long-term benefits	Total R mil
	Salaries R mil	Bonus related R mil	Other benefits* R mil	Pension fund contributions R mil	
Mr M Bhana	1.2	0.6	0.7	0.2	2.7
Ms N Trimmel	1.1	0.5	0.7	0.1	2.4
Mr D Peterson	0.8	0.1	0.6	0.1	1.6
Ms N Lambrechts	-	0.7	-	-	0.7
	<b>3.1</b>	<b>1.9</b>	<b>2.0</b>	<b>0.4</b>	<b>7.4</b>

2016

Ms N Lambrechts	1.2	0.7	0.5	0.1	2.5
Mr M Bhana	1.1	0.7	0.4	0.2	2.4
Ms AM Barclay	0.5	0.4	0.2	0.1	1.2
Mr D Peterson	0.3	-	0.2	-	0.5
	<b>3.1</b>	<b>1.8</b>	<b>1.3</b>	<b>0.4</b>	<b>6.6</b>

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

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Notes to the Consolidated Financial Statements

### 23. Directors' and prescribed officers' emoluments (continued)

#### Non-executive directors

2017

	Directors' fees for services as directors of subsidiaries R mil	Other fees (Consultancy fees to subsidiary) R mil	Total R mil
Dr JW Schmidt	0.2	-	0.2
Mrs N January-Bardill	0.7	0.3	1.0
Ms S Zilwa	-	-	-
Ms FT de Buck	-	-	-
Ms N Mbhele	-	-	-
Ms ZBM Bassa	0.7	0.5	1.2
Ms N Gobodo	0.4	0.2	0.6
Ms CA Carolus	0.4	0.3	0.7
Ms N Moola	0.7	0.4	1.1
	<b>3.1</b>	<b>1.7</b>	<b>4.8</b>

2016

Dr JW Schmidt	0.2	-	0.2
Mrs N January-Bardill	0.2	0.4	0.6
Ms ZBM Bassa	0.2	1.0	1.2
Ms N Gobodo	0.2	0.4	0.6
Ms CA Carolus	0.2	0.5	0.7
Ms N Moola	0.2	0.8	1.0
	<b>1.2</b>	<b>3.1</b>	<b>4.3</b>

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

### 24. Financial risk management

#### Objectives and policies

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

The group 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 group's risk management processes for financial risks are designed to identify and analyse these risks throughout the group, 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.

#### 24.1 Capital risk management

The primary objective of the group'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 group manages its structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the group 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 DAG policy on the capital structure, the group monitors capital using a total equity to total assets target ratio of between 10% and 20%.

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Notes to the Consolidated Financial Statements

	2017 R mil	2016 R mil
<b>24. Financial risk management (continued)</b>		
<b>24.1 Capital risk management (continued)</b>		
The capital ratio at 2017 and 2016 respectively were as follows:		
Total assets	50 636	51 551
Total equity	12 150	13 543
Capital ratio	23.99 %	26.27 %

The group is investigating relevant measures to bring the capital ratio within the target range.

### 24.2 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 risk exposure to credit risk at year end was as follows:

Cash and cash equivalents	552	3 175
Trade and other receivables	3 389	2 974
Other financial assets and derivatives	357	178
Amounts receivable from group companies	1 082	1 403
Loans and advances to customers	19 664	18 197
	<b>25 044</b>	<b>25 927</b>

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

#### *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. As a consequence of these activities, the group is 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.

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 company until the loan balance is settled.

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



# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Notes to the Consolidated Financial Statements

### 24. Financial risk management (continued)

#### 24.2 Credit risk (continued)

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

2017

	Gross maximum exposure R mil	Not past due R mil	Past due and impaired R mil
Retail and wholesale receivables	20 099	19 532	567
Impairment	(435)	(174)	(261)
	<b>19 664</b>	<b>19 358</b>	<b>306</b>

2016

Retail and wholesale receivables	18 610	17 686	924
Impairment	(413)	(169)	(244)
	<b>18 197</b>	<b>17 517</b>	<b>680</b>

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 company's credit policy.

#### *Other financial assets and derivatives*

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

The group 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 group 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 group is exposed to credit risk only to a small extent with respect to its derivative financial instruments. In accordance with the group'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.

#### *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 group 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 group 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 group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables.

#### *Amounts receivable from group companies*

The group'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.

#### *Cash and cash equivalents*

The group 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.

The maximum risk positions of financial assets which are 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.

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Notes to the Consolidated Financial Statements

### 24. Financial risk management (continued)

#### 24.2 Credit risk (continued)

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

##### 2017

	Gross maximum exposure R mil	Loans and advances to customers R mil	Other financial assets and derivatives R mil	Trade and other receivables R mil	Amounts receivable from group companies R mil	Cash and cash equivalents R mil
South Africa	24 092	20 099	357	3 424	-	212
Europe	1 280	-	-	-	1 068	212
Asia	9	-	-	-	8	1
Americas	133	-	-	-	6	127
	<b>25 514</b>	<b>20 099</b>	<b>357</b>	<b>3 424</b>	<b>1 082</b>	<b>552</b>

##### 2016

South Africa	24 751	18 610	178	3 029	-	2 934
Europe	1 620	-	-	-	1 387	233
Asia	7	-	-	-	7	-
Americas	17	-	-	-	9	8
	<b>26 395</b>	<b>18 610</b>	<b>178</b>	<b>3 029</b>	<b>1 403</b>	<b>3 175</b>

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

##### 2017

	Not past due R mil	Past due and impaired R mil	Gross maximum exposure R mil
Trade receivables	1 472	782	2 254
Impairment	-	(35)	(35)
	<b>1 472</b>	<b>747</b>	<b>2 219</b>

##### 2016

Trade receivables	1 301	129	1 430
Impairment	-	(55)	(55)
	<b>1 301</b>	<b>74</b>	<b>1 375</b>

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

#### 24.3 Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The group'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 group'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.



# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Notes to the Consolidated Financial Statements

### 24. Financial risk management (continued)

#### 24.3 Liquidity risk (continue)

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

2017

	Carrying amount R mil	0 - 12 months R mil	1 - 2 years R mil	2 - 7 years R mil	Total R mil
<i>Non-derivative financial liabilities</i>					
Interest-bearing borrowings	30 766	11 159	9 193	10 259	30 611
Trade and other payables	2 222	2 222	-	-	2 222
Amounts payable to group companies	2 774	2 774	-	-	2 774
<i>Derivative financial liabilities</i>					
Derivative	1	1	-	-	1
	<b>35 763</b>	<b>16 156</b>	<b>9 193</b>	<b>10 259</b>	<b>35 608</b>

2016

<i>Non-derivative financial liability</i>					
Interest-bearing borrowings	30 291	13 140	7 461	9 722	30 323
Trade and other payables	2 640	2 640	-	-	2 640
Amounts payable to group companies	2 865	2 865	-	-	2 865
<i>Derivative financial liability</i>					
Derivative	31	31	-	-	31
	<b>35 827</b>	<b>18 676</b>	<b>7 461</b>	<b>9 722</b>	<b>35 859</b>

#### 24.4 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 group'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 group 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 group 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.

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

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Notes to the Consolidated Financial Statements

### 24. Financial risk management (continued)

#### 24.4 Market risk (continued)

##### 24.4.1 Interest rate risk (continued)

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

	Variable rate instruments		Fixed rate instruments	
	2017 R mil	2016 R mil	2017 R mil	2016 R mil
<i>Financial assets</i>				
Loans and advances to customers	19 664	18 197	-	-
Other financial assets and derivatives	-	-	1	6
Amounts receivable from group companies	-	-	1 082	1 403
Cash and cash equivalents	552	3 175	-	-
	<b>20 216</b>	<b>21 372</b>	<b>1 083</b>	<b>1 409</b>
<i>Financial liabilities</i>				
Interest-bearing borrowings	29 516	29 041	1 250	1 250

#### Interest rate risk table

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, of profit before taxation and equity:

	2017		2016	
	Increase/ (decrease) in basis points	Net effect R mil	Increase/ (decrease) in basis points	Net effect R mil
	100	(93)	100	(77)
	(100)	93	(100)	77

##### 24.4.2 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 the foreign exchange rates.

The nature of the group's businesses exposes cash flows and earnings to risks arising from fluctuations in exchange rates. These risks primarily relate to fluctuations between the Euro, the US Dollar ("USD") and the Japanese Yen ("JPY").

The group 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

	2017				2016		
	Euro R mil	USD R mil	JPY R mil	SGD R mil	Euro R mil	USD R mil	JPY R mil
Cash and cash equivalent	212	127	1	-	233	8	-
Trade and other receivables	700	29	5	-	441	45	2
Trade and other payables	(433)	(29)	(3)	(10)	(150)	(101)	(4)
<b>Net exposure</b>	<b>479</b>	<b>127</b>	<b>3</b>	<b>(10)</b>	<b>524</b>	<b>(48)</b>	<b>(2)</b>
<b>Spot exchange rates used for converting foreign items</b>	<b>14.81</b>	<b>12.35</b>	<b>0.11</b>	<b>9.24</b>	<b>14.46</b>	<b>13.72</b>	<b>0.12</b>

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Notes to the Consolidated Financial Statements

### 24. Financial risk management (continued)

#### 24.4 Market risk (continued)

##### 24.4.2 Currency risk (continued)

The following table demonstrates the sensitivity to a reasonable possible change in the above mentioned exchange rates, with all other variables held constant, of the profit before taxation and equity:

Sensitivity analysis	2017		2016	
	Increase/ (decrease) in exchange rate	Net effect R mil	Increase/ (decrease) in exchange rate	Net effect R mil
Euro	10 % (10)%	48 (48)	10 % (10)%	52 (52)
USD	10 % (10)%	13 (13)	10 % (10)%	5 (5)
JPY	10 % (10)%	- -	10 % (10)%	- -
SGD	10 % (10)%	(1) 1	- % -	- -

##### 24.4.3 Residual value risk

The group 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 a periodic review of the residual value risk to be taken in the future. 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.

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 group'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.

##### 24.4.4 Commodity price risk

The group 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 for more information.

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Notes to the Consolidated Financial Statements

### 25. Analysis of categories and fair value of assets and liabilities

#### 25.1 Categories and analysis of assets and liabilities

##### Assets - 2017

	Financial instruments			Total R mil	Non-current portion of total R mil
	At fair value held for hedging R mil	Loans and receivables at amortised cost R mil	Other assets R mil		
Cash and cash equivalents	-	552	-	552	-
Trade and other receivables	-	3 389	2 034	5 423	-
Inventories	-	-	10 641	10 641	-
Other financial assets and derivatives	291	66	-	357	-
Taxation receivable	-	-	303	303	-
Amounts receivable from group companies	-	1 082	-	1 082	1 082
Loans and advances to customers	-	19 664	-	19 664	11 936
Deferred initial direct costs	-	-	197	197	197
Assets leased under operating leases	-	-	7 431	7 431	7 431
Property, plant and equipment	-	-	3 990	3 990	3 990
Goodwill and intangible assets	-	-	98	98	98
Retirement benefit asset	-	-	140	140	140
Deferred taxation	-	-	758	758	758
	<b>291</b>	<b>24 753</b>	<b>25 592</b>	<b>50 636</b>	<b>25 632</b>

##### Assets - 2016

Cash and cash equivalents	-	3 175	-	3 175	-
Trade and other receivables	-	2 974	1 411	4 385	-
Inventories	-	-	10 201	10 201	-
Other financial assets and derivatives	120	58	-	178	-
Taxation receivable	-	-	172	172	-
Amounts receivable from group companies	-	1 403	-	1 403	-
Loans and advances to customers	-	18 197	-	18 197	10 347
Deferred initial direct costs	-	-	110	110	110
Assets leased under operating leases	-	-	9 116	9 116	9 116
Property, plant and equipment	-	-	3 559	3 559	3 559
Goodwill and intangible assets	-	-	71	71	71
Retirement benefit asset	-	-	213	213	213
Deferred taxation	-	-	771	771	771
	<b>120</b>	<b>25 807</b>	<b>25 624</b>	<b>51 551</b>	<b>24 187</b>

##### Liabilities - 2017

	Financial instruments			Total R mil	Non-current portion of total R mil
	At fair value held for hedging R mil	Liabilities at amortised cost R mil	Other liabilities R mil		
Trade and other payables	-	2 222	353	2 575	-
Amounts payable to group companies	-	2 774	-	2 774	-
Derivatives	1	-	-	1	-
Deferred revenue	-	-	1 287	1 287	1 287
Provisions	-	-	668	668	-
Interest-bearing borrowings	-	30 766	-	30 766	19 607
Retirement benefit obligation	-	-	414	414	414
Deferred tax	-	-	1	1	1
	<b>1</b>	<b>35 762</b>	<b>2 723</b>	<b>38 486</b>	<b>21 309</b>

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Notes to the Consolidated Financial Statements

### 25. Analysis of categories and fair value of assets and liabilities (continued)

#### 25.1 Categories and analysis of assets and liabilities (continued)

##### Liabilities - 2016

	Financial instruments			Total R mil	Non-current portion of total R mil
	At fair value held for hedging R mil	Liabilities at amortised cost R mil	Other liabilities R mil		
Trade and other payables	-	2 640	329	2 969	-
Amounts payable to group companies	-	2 865	-	2 865	-
Derivative liability	31	-	-	31	-
Provisions	-	-	566	566	-
Deferred revenue	-	-	856	856	856
Interest-bearing borrowings	-	30 291	-	30 291	17 009
Retirement benefit obligation	-	-	430	430	430
	<b>31</b>	<b>35 796</b>	<b>2 181</b>	<b>38 008</b>	<b>18 295</b>

#### 25.2 Carrying amounts and fair values of financial assets and liabilities

Financial assets and liabilities carried at fair value	2017			2016		
	Carrying value R mil	Fair value R mil	Fair value level	Carrying value R mil	Fair value R mil	Fair value level
Derivative assets	291	291	Level 2	120	120	Level 2
Derivative liabilities	(1)	(1)	Level 2	(31)	(31)	Level 2
	<b>290</b>	<b>290</b>		<b>89</b>	<b>89</b>	
<b>Fair value of financial assets and liabilities not held at fair value</b>						
Interest-bearing borrowings	(30 766)	(30 611)	Level 2	(30 291)	(30 268)	Level 2

Category of financial asset or liability	Includes	Valuation techniques and significant inputs used
Other 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 BESA rate curves.

The fair value of all other financial assets and liabilities approximate their carrying value, due to the fact that they are short term in nature and discounted at relevant market value interest rates.

### 26. Events after the reporting period

#### Bonds and bank loans issued and redeemed

Subsequent to year end, bonds and bank loans with a value of R 1 billion have been issued with an issue date of 23 February 2018 and maturity dates between 23 February 2021 and 23 February 2023.

Further, subsequent to year end, bonds and bank loans with a value of R 1.75 billion have matured and been redeemed with issue dates between 13 April 2015 and 27 March 2017 and maturity dates up to 17 April 2018.

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Appendix 1 - Accounting Policies

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### 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 2017
Domicile	The Republic of South Africa
Authorised by the board of directors	17 April 2018

### 2. Basis of preparation

These accounting policies represent a summary of the significant accounting policy elections of the group.

These consolidated financial statements have been prepared in accordance with:

- the IFRS, SAICA Financial Reporting Guides, 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 on a basis consistent with that of the prior year, unless otherwise indicated.

#### 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.

#### 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.

### 3. Significant accounting policies

#### 3.1 Revenue

##### Income from sale 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.

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Appendix 1 - Accounting Policies

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### 3. Significant accounting policies (continued)

#### 3.1 Revenue (continued)

##### *Recognition and measurement*

Sale of vehicles, service parts and other related products:

Revenues from the sale of products are recognised when the risks and rewards associated with 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 fair value of the consideration received/receivable net of discounts, cash sale incentives, customer bonuses and rebates granted.

Rendering of services:

By reference to the stage of completion on the basis 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 1.1.1.1 Manufactured leases.

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Appendix 1 - Accounting Policies

### 3. Significant accounting policies (continued)

#### 3.1 Revenue (continued)

##### Income from financial services

Category	Description	Recognition	Measurement
Interest received	Interest earned on finance leases, installment sale agreements and wholesale funding provided to customers and dealers of MBSA products.	On the proportion basis, using the effective interest method.	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	External interest cost associated with the financial services activities of the group.	On the proportion basis, using the effective interest method.	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), including 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: <ul style="list-style-type: none"> <li>• income from the leasing business;</li> <li>• sales revenue from the sale of vehicles at the end of lease contract (remarketing revenue); and</li> <li>• fees and commissions earned from related financial services activities.</li> </ul>	<ul style="list-style-type: none"> <li>• straight-line basis over the period of the lease;</li> <li>• vehicles sales are recognised as noted above; and</li> <li>• fees and commissions on a time proportion basis over the contract term.</li> </ul>	<ul style="list-style-type: none"> <li>• at the effective yield on the net investment outstanding;</li> <li>• vehicles sales are measured as noted above; and</li> <li>• fair value of the consideration received/receivable.</li> </ul>
Non-interest expenses	These expenses are related and incremental to the non-interest revenue generated and include, among others: <ul style="list-style-type: none"> <li>• fees paid to dealers;</li> <li>• depreciation and impairment charges on the operating lease assets;</li> <li>• expenses related to fleet management; and</li> <li>• the residual value of the vehicle at the date of sale.</li> </ul>		



# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Appendix 1 - Accounting Policies

### 3. Significant accounting policies (continued)

#### 3.2 Other income

Category	Description	Recognition	Measurement
Other income	Administrative fees and other cost recoveries charged to subsidiaries for services provided.	When the right to receive reimbursement has been established.	Fair value of the consideration received/receivable.
Income and expense based grants	PRCC	PRCC's for vehicles and components are recognised on the sale of vehicles and components.  PRCC's for ceded and 5% exports are recognised on receipts of PRCC.	The measurement of PRCC's is dependent on the utilisation factors applied.  PRCC'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.
	VAA	Recognised on sale as a reduction in the cost of the inventories or materials to which they relate.	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 group or official confirmation regarding its future receipt by the issuing authority is available.	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.

#### 3.3 Employee benefits

##### 3.3.1 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.

##### 3.3.2 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 and 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.

##### 3.3.3 Post-employment benefits

###### Defined contribution plans

The defined contribution plan refers to the Mercedes-Benz Pension 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, the ABSA Portfolio Post Employment Medical Aid Benefit Fund and the Alexander Forbes Portfolio Post Employment Medical Aid Benefit Fund.

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Appendix 1 - Accounting Policies

### 3. Significant accounting policies (continued)

#### 3.3 Employee benefits (continued)

##### 3.3.3 Post-employment benefits (continued)

###### *Defined benefit obligation*

The liabilities and assets of these funds are reflected as a net asset or liability in the 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.

###### *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.

#### 3.4 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;
- raw materials utilised in production;
- 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.

#### 3.5 Finance income and expense

Category	Description	Recognition	Measurement
Finance income	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.	Using the effective interest rate applicable, 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.
Finance expense	Interest paid represents the external interest cost of the group excluding the interest cost of funding the financial services activities. Also 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.	At the interest rate that exactly discounts the estimated future cash payments through the expected life of the underlying financial instrument.

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Appendix 1 - Accounting Policies

### 3. Significant accounting policies (continued)

#### 3.6 Taxation

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 after taking into account external advice where appropriate. Where the final tax outcome of these matters 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.

#### 3.7 Financial instruments

##### 3.7.1 Financial assets

Management determines the classification of its financial instruments at initial recognition. The following table sets out the different classes of financial instruments of the group:

Classification	Instruments included in classification	Initial measurement	Subsequent measurement
Loans and receivables	<p>Cash and cash equivalents and trade and other receivables:</p> <ul style="list-style-type: none"> <li>• cash and cash equivalents which comprise coins and bank notes, money at call and short notice and balances with commercial banks. 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; and</li> <li>• accounts receivable which comprise short term receivables from customers and group companies arising from the day to day trading activities.</li> </ul>	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.	Loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.
Financial assets at fair value through profit or loss	Derivatives are either designated as hedging instruments in effective hedging relationships or are classified as held for trading and measured at fair value through profit or loss.		<p>Fair value items are measured at fair value at reporting date as determined under IFRS 13. The fair value gains or loss are recognised in profit or loss.</p> <p>The effective hedging portion is recognised in other comprehensive income.</p>

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Appendix 1 - Accounting Policies

### 3. Significant accounting policies (continued)

#### 3.7 Financial instruments (continued)

##### 3.7.2 Financial liabilities

Classification	Instruments included in classification	Initial measurement	Subsequent measurement
Liabilities at amortised cost	<p>Includes Interest-bearing borrowings, trade and other payables, and bank overdrafts:</p> <ul style="list-style-type: none"> <li>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;</li> <li>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</li> <li>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.</li> </ul>	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.	Amortised cost using the effective interest method.
Financial liabilities at fair value through profit or loss (including derivatives)	Derivatives are either designated as hedging instruments in effective hedging relationships or are classified as held for trading and measured at fair value through profit or loss.		<p>Fair value items are measured at fair value at reporting date as determined under IFRS 13. The fair value gains or loss are recognised in profit or loss.</p> <p>The effective hedging portion is recognised in other comprehensive income.</p>

##### 3.7.3 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 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 incurred but not reported ("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 portfolio specific impairment ("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.

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Appendix 1 - Accounting Policies

### 3. Significant accounting policies (continued)

#### 3.7 Financial instruments (continued)

##### 3.7.3 Impairment of loans and advances to customers (continued)

###### 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 that the customer is unlikely to repay the obligations in full.
	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.
Renegotiated advances	Advances that would otherwise be past due that have been renegotiated i.e. advances where, 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 renegotiated 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 renegotiated but current unless the arrears balance has been repaid.  Renegotiated 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.

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Appendix 1 - Accounting Policies

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### 3. Significant accounting policies (continued)

#### 3.7 Financial instruments (continued)

##### 3.7.4 Impairment of other financial assets

A financial asset or a group of financial assets is impaired if there is objective evidence of impairment and its carrying amount is greater than its estimated recoverable amount.

##### **Objective evidence of impairment**

The group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

The following factors are considered when determining whether there is objective evidence that the asset has been impaired:

- breaches of loan covenants and conditions;
- time period of overdue contractual payments;
- actuarial credit models;
- loss of employment or death of the borrower; and
- probability of liquidation of the customer.

Where objective evidence of impairment exists, impairment testing is performed based on the loss given default, probability of default and exposure at default.

##### **Assessment of objective evidence of impairment**

An assessment of impairment is first performed individually for financial assets that are individually significant and then individually or collectively for financial assets that are not individually significant.

If the group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and performs a collective assessment for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

##### **Collective assessment**

For the purposes of a collective assessment of impairment, financial assets are grouped on the basis of similar credit risk characteristics; i.e. on the basis of the group's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors. Those characteristics are relevant to the estimation of future cash flows for groups of such financial assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the financial assets being evaluated.

##### **Recognition of impairment loss**

If there is objective evidence of impairment, an impairment loss is recognised in impairment losses a separate line in profit or loss. The amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

##### **Reversal of impairment loss**

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account (where applicable) and the amount of the reversal is recognised as part of impairment losses in profit or loss.

##### 3.7.5 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.

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 percent different from the discounted present value of the remaining cash flows of the original financial liability.

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Appendix 1 - Accounting Policies

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### 3. Significant accounting policies (continued)

#### 3.7 Financial instruments (continued)

##### 3.7.6 Derivative financial instruments and hedge accounting

Derivative instruments are classified as held either for trading or formally designated as hedging instruments as required by IAS 39, which impacts the method of recognising the resulting fair value gains or losses.

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 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 objective 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.

##### 3.7.7 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.

#### 3.8 Inventories

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.

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Appendix 1 - Accounting Policies

### 3. Significant accounting policies (continued)

#### 3.9 Leasing

The group classifies leases of property and equipment where the lessee assumes substantially all the risks and rewards of ownership as finance leases. The group classifies leases as operating leases if the lessor effectively retains the risks and rewards of ownership of the leased asset. The group regards installment sale agreements as financing transactions.

	Group as lessee	Group as lessor
Finance leases:		
At inception	Capitalised as assets and the corresponding lease liabilities for future lease payments are recognised.	Recognise assets sold under a finance lease as loans and advances to customers and impair as required, in line with note 1.1.1.3.
Over the life of the lease	The assets are depreciated.	Unearned finance income is deferred and recognised as interest income over the term of the lease using the effective interest method.
Operating leases:		
At inception	Recognised as an operating expense in profit or loss on a straight line basis over the period of the lease.  Any difference between the actual lease amount payable and the straight-lined amount calculated is recognised as a liability in trade and other payables.	Assets held under operating leases are recognised as a separate category of property and equipment (assets leased under operating leases) and depreciated.  Rental income is recognised as other non-interest revenue on a straight line basis over the lease term.
Installment credit sale agreements - group as lessor:		
The group regards installment credit sale agreements as financing transactions and includes the total rentals and instalments receivable, less unearned finance charges, in loans and advances to customers. The group calculates finance charges using the effective interest rates as detailed in the contracts and credits finance charges to interest revenue in proportion to capital balances outstanding.		



# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Appendix 1 - Accounting Policies

### 3. Significant accounting policies (continued)

#### 3.10 Property, plant and equipment and assets leased under operating leases

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 it 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		Cost less accumulated depreciation and accumulated impairment losses.	Depreciation on straight-line method over the estimated useful life to the residual values.	
Plant and equipment				
Software, furniture and fittings				
Motor vehicles				
Assets leased under operating leases				
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.

#### Government grants - AIS

Government grants related to AIS are presented in the 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.

#### 3.11 Group accounting

##### 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.

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Appendix 1 - Accounting Policies

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### 3. Significant accounting policies (continued)

#### 3.11 Group accounting (continue)

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 are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

##### **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 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.

#### 3.12 Capital and reserves

##### 3.12.1 Stated capital

Stated capital issued by the group is recorded at the proceeds received, net of issue costs. Stated capital comprises of share capital and share premium.

##### 3.12.2 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.

##### 3.12.3 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.

##### 3.12.4 Retained earnings

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

### 4. New accounting standards and IFRIC interpretations

#### 4.1 Standards, amendments and interpretations adopted by the group

There were a number of new standards, amendments and interpretations effective and adopted in the current year, none of which had a significant impact on the group.

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Appendix 1 - Accounting Policies

### 4. New accounting standards and IFRIC interpretations (continued)

#### 4.2 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 group's accounting periods beginning on or after 1 January 2017 or later periods.

Accounting standard	Effective date - on or after	Description of change	Description of impact
IFRS 9 <i>Financial instruments</i>	1 January 2018	<p><b>Classification and measurement of financial assets</b></p> <p>To be measured as follows:</p> <ul style="list-style-type: none"> <li>Financial assets are initially measured at fair value;</li> <li>Debt instruments are subsequently measured at fair value through profit or loss;</li> <li>Amortised cost or fair value through OCI; and</li> <li>Equity instruments are measured at fair value through profit or loss</li> </ul> <p>For liabilities measured at fair value through profit and loss, the change in the fair value of the liability attributable to changes in credit risk is presented in OCI. The remainder of the change in fair value is presented in profit and loss; and all other classification and measurement requirements in IAS 39 have been carried forward into IFRS 9.</p> <p><b>Impairment</b></p> <p>The impairment requirements are based on an ECL model. Entities are generally required to recognise 12-month ECL on initial recognition and thereafter, as long as there is no significant deterioration in credit risk. However, if there has been a significant increase in credit risk on an individual or collective basis, then entities are required to recognise lifetime ECL.</p> <p><b>Hedge accounting</b></p> <p>Hedge effectiveness testing is prospective and depending on the hedge complexity, can be qualitative. A risk component of a financial or non-financial instrument may be designated as the hedge item if the risk component is separately identifiable and reliably measurable. More designations of groups of items as the hedged item are possible, including layer designations and some net positions.</p>	<p><b>Description of impact</b></p> <p>The group's business model is to hold and collect; and the group only collects capital and interest. The group has conducted an impact assessment of this accounting standard and the result was found to have no material impact on the financial statements.</p> <p>The group has conducted an impact assessment of this accounting standard and the result was found to have no material impact on the financial statements.</p> <p>The group has conducted an impact assessment of this accounting standard and the result was found to have no material impact on the financial statements.</p>

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Appendix 1 - Accounting Policies

### 4. New accounting standards and IFRIC interpretations (continued)

Accounting standard	Effective date - on or after	Description of change	Description of impact
IFRS 15 <i>Revenue from contracts with customers</i>	1 January 2018	<p>IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.</p> <p>The new standard requires entities to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is achieved through a five step methodology that is required to be applied to all contracts with customers.</p>	<p>The group has performed an extensive assessment in relation to the impact of IFRS 15 on their financial statements. Based on the group's assessment, the group does not expect the application of IFRS 15 to result in a significant difference in the amount and timing of revenue recognition. Management continue to monitor the impact of new contracts entered into during the period leading up to the effective date.</p> <p>The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The group will apply IFRS 15 for the first time in its financial statements for the year ending 31 December 2018.</p>
IFRS 16 <i>Leases</i>	1 January 2019	<p>The new standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.</p>	<p>The group largely acts in a lessor capacity.</p> <p>The effects of the application of the new standard on the financial statements is currently being assessed and will be completed in the 2018 financial year.</p>

# Mercedes-Benz South Africa Limited

Consolidated Financial Statements for the year ended 31 December 2017

## Appendix 2 - 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 3 668. 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	-	-	-	-	-	-	-	4	-	5
Senior management	5	1	3	-	1	1	1	6	7	-	25
Professionally qualified and experienced specialists and mid-management	12	9	12	7	2	8	15	30	14	2	111
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	150	94	58	108	30	31	50	157	27	6	711
Semi-skilled and discretionary decision making	228	73	21	116	30	22	44	83	2	-	619
Unskilled and defined decision making	1 011	297	8	337	79	3	6	51	-	-	1 792
<b>Total permanent</b>	<b>1 407</b>	<b>474</b>	<b>102</b>	<b>568</b>	<b>142</b>	<b>65</b>	<b>116</b>	<b>327</b>	<b>54</b>	<b>8</b>	<b>3 263</b>
Temporary employees	134	26	10	168	24	8	1	33	1	-	405
<b>Grand total</b>	<b>1 541</b>	<b>500</b>	<b>112</b>	<b>736</b>	<b>166</b>	<b>73</b>	<b>117</b>	<b>360</b>	<b>55</b>	<b>8</b>	<b>3 668</b>

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	-	-	-	1	-	-	-	-	-	-	1
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	3	3	2	5	-	-	-	-	2	-	15
Semi-skilled and discretionary decision making	34	7	2	8	6	-	-	1	-	-	58
Unskilled and defined decision making	26	11	-	1	4	-	-	-	-	-	42
<b>Total permanent</b>	<b>63</b>	<b>21</b>	<b>4</b>	<b>15</b>	<b>10</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>2</b>	<b>-</b>	<b>116</b>
Temporary employees	13	-	-	-	8	-	-	-	-	-	21
<b>Grand total</b>	<b>76</b>	<b>21</b>	<b>4</b>	<b>15</b>	<b>18</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>2</b>	<b>-</b>	<b>137</b>

A - Africans      C - Coloureds

I - Indians      W - Whites