



Mercedes-Benz South Africa Limited

King IV Report 2019/2020



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Application of King IV



The Board of Mercedes-Benz South Africa Limited (the "Company") has been implementing and applying King IV™ Principles since 1 April 2017. King IV™ assumes the application of the principles contained therein and requires organisations to disclose an explanation of the practices it employs for good corporate governance. Governing bodies of organisations are required to make this annual disclosure on the explanation of the implemented practices, which should be publicly available. The Company in this King IV principle summary report (the "Report"), provides a holistic overview of its compliance with King IV™. The Company subscribes to the King IV™ report and the 16 applicable principles contained therein for the purpose of good outcomes-based corporate governance. The Company employs these principles, along with the guiding light of the Integrity Code of Daimler AG as accepted and implemented by the Board of Directors of the Company, to achieve an ethical culture, good performance, effective control and legitimacy.

Dr Joachim Schmidt
Chairperson of the Board



The Committees of the Board

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

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





The Audit Committee

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

The Audit Committee plays an important role in ensuring that the Group functions in accordance with good governance, accounting and audit standards. The Audit Committee has monitored the adoption of the appropriate risk management arrangements, accounting policies, accounting adjustments and assurances provided by the combined assurance arrangements applicable to the Company.

The Audit Committee, through the governance framework and charters applicable to it, discharged its accountability responsibilities, to ensure that there is a safeguard of assets, that the Company operates with adequate systems and controls, and that the Annual Financial Statements are prepared in accordance with the applicable standard as required by the Companies Act and International Financial Reporting Standards.

The current Audit Committee Members are Ms Fikile Tebogo De Buck (Chairperson), Ms Sindi Zilwa and Ms Nonthuthuko Mbhele.

Ms Fikile De Buck
Chairperson





The Social and Ethics Committee

The Social and Ethics Committee (“The SEC”) is constituted as a statutory committee of the Board in terms of Section 72(4) read with regulation 43(2) of the Companies Act. The SEC has the responsibility to recommend for approval, monitor and advise on all social and ethical relevant issues that have a significant impact on Mercedes-Benz South Africa and its stakeholders.

The SEC has an independent role but is accountable to the Board. The SEC focus on social-economic development, corporate citizenship, sustainability, B-BBEE and other matters duly defined by the Board.

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

Dr Nozipho January-Bardill
Chairperson





The Executive Committee

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

Current members of the Executive Management Committee:

Mr Andreas Engling

CEO and Executive Director: Manufacturing

Mr Johannes Fritz

Co-CEO and Executive Director: Mercedes-Benz Cars

Mr Klaus Eser

CFO and Executive Director: Finance and Controlling

Mr Abey Kgotle

Executive Director: Human Resources

Mr Michael Dietz

CEO: Daimler Trucks and Buses Southern Africa (Pty) Ltd

Ms Nadia Trimmel

Vice-President: Mercedes-Benz Vans

Mr Robert Hoffmann

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

Mr Andreas Engling

Chief Executive Officer



Principles of King IV

Principle 1

The governing body should lead ethically and effectively.



Daimler AG Group-wide standards

The Daimler group and all subsidiaries' business conduct is based on Group-wide standards that go beyond the requirements of relevant legislation in the respective jurisdictions and territories.

Locally these standards are accepted and enacted by the Board of Directors to ensure that the Company's operations contribute to Daimler AG being one of the world's leading automakers globally and that the governance principles applied in the Company are of the highest international standards. Thus, the Company strives at all times to ensure that its activities are in harmony with both the environment and society.

Integrity Code

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

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

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



Principle 2

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



The Board is the main governing body of the Company and ensures that codes of conduct and ethics policies articulates and give effect to the Board's direction on ethical behavior. The Board assigns tasks of regular compliance reviews to ensure the highest level of compliance.

The main governance responsibilities which the Board takes primary responsibility for are ensuring:

- that codes of conduct and ethics policies that articulate and give effect to the Board's direction on organisational ethics are approved;
- that the codes of conduct and ethics policies encompass the Group's interaction with both internal and external Stakeholders, the broader society and addresses the key ethical risks of the Group;
- regulations by the Group and the Group's own governing documents, codes of conduct, legal and ethics policies;
- that it assumes responsibility for corporate citizenship by setting the direction for how it should be approached and addressed by the Group;
- that it oversees that the Group's core purpose and values, strategy and conduct are congruent with it being a responsible corporate citizen;
- that it assumes responsibility for assurance by setting the direction concerning the arrangements for assurance services and functions;
- that it satisfies itself that the combined assurance model is effective and sufficiently robust for the Board to be able to place reliance on the combined assurance underlying the statements that the Board makes concerning the integrity of the Group's external reports;
- the Group's commitment to the principles of good corporate governance and ensuring that compliance of applicable laws are reviewed regularly.
- comprehensive reporting to the Shareholder; and
- that a specific task is delegated to an individual Board member, this is recorded clearly in the minutes of Board meetings.



Principle 3

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

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

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

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

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

The Company's Corporate Social Responsibility ("CSR") interventions are focused on the direct communities in which it operates, as well as neighboring communities.

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

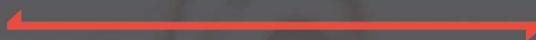
The Company's daily operations also impact significantly on society. As the business grows, so too does the number of people it employs and the contribution it makes to the national economy. The Board monitors management's progress against growth plans, ensuring sustained employment and contribution to the national economy.

As the country's biggest exporter of premium vehicles to the rest of the world, the Company is actively addressing the shortage of skilled and trained automotive technicians in the country through the Mercedes-Benz South Africa Learning Academy, based in East London.



Principle 4

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



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

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

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

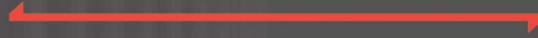
The Board recognizes the inter-connectivity and interdependence of the various forms of capital at its disposal (financial, manufactured, human, intellectual, natural, social and relationship capital) and assesses strategy in light thereof. All material issues, risks and opportunities which could impact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

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



Principle 5

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



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

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

All relevant information relating to the stakeholders of the Company is published on the Company's website. Disclosures required in regulatory reporting such as those by the National Consumer Commission are transparently available for all to inspect and make informed decisions.

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

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



Principle 6

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



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

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

The Board accordingly has the power to make any decisions in respect of the Company, which has not been specifically reserved for decision-making by the Shareholder (Daimler AG). The Board exercises its powers responsibly in the best interests of the Company with due regard to the interest of its stakeholders.

Each subsidiary company has its own directors. Through the Committees, the Board ensures that the necessary and proper governance principles and policies are implemented.

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



Principle 7

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



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

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

The Board actively promotes gender and race diversity at Board and management levels. Daimler AG and the Board promotes race and gender diversity when appointments are made to the Board.

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

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

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



Principle 8

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



The Board ensures that the necessary delegation of power and segregation of duties exists in its structures and in the organisation as a whole. The Committees of the Board have been established to assist the Board in discharging its responsibilities.

The Committees are appropriately constituted and members are appointed by the Board, with the exception of the Audit Committee whose members are nominated by the Board, but appointed by the Shareholder.

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

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

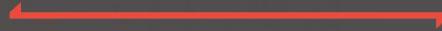
The general roles and responsibilities of each of the Committees as well as the Board is properly recorded in the approved applicable Charters.

The ECM is constituted to have representation of the Company and the subsidiaries. Based on this format, the ECM has the ability to holistically manage the Group and to find possible synergies to support governance compliance.



Principle 9

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



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

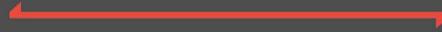
Given a rotation of Directors, the Board has planned the next facilitated performance evaluation which will be focused on the King IV™ principles, in 2020. The Board is of the view that the performance evaluation process improves the performance and effectiveness of the Board. The performance evaluation of the Executive Directors is conducted by Daimler AG in accordance with group performance management and remuneration incentive programs.

Notwithstanding the aforementioned, the Board is satisfied with its performance in general and that of its Committees.



Principle 10

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



The Board appointed an Executive Management Committee that represents the Company and its subsidiaries. The roles, responsibilities and authority of the members of the Executive Committee are clearly defined.

Through the structure put in place by the Charters of the Board and the Committees, it clearly delineates the roles and responsibilities of all members of the Board. The Board is fully supported by a suitably qualified and experienced Company Secretary who exercises his duties as per the Companies Act.

In light of the role clarity and the effective authority granted to the Board and its Committees, there is a substantial contribution to the success of the Company and its long term sustainability.



Principle 11

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

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

In a complex and interconnected world, risk management is imperative to any business.

An Opportunity Management System is integrated in the Risk Management System which the Company follows and reports into. There is an internal control system in the Company, described as the entirety of all regulations that serve the business purpose (policies, process descriptions, procedural instructions, working instructions etc.), which ensures that the business processes function properly. Risk Management is a group-wide standardised, continuous and systematic process, aiming to protect the Company's existence and the achievement of corporate targets, while increasing risk awareness.

Consequently, Risk Management and Opportunity Management are closely integrated into planning activities. Risks and opportunities are reported through the different business units and escalated to the relevant subcommittees of the Board. Once a year a full Daimler Risk and Opportunities Management System audit is conducted. Risk reporting thresholds are set within the framework provided by the Daimler AG Group risk management policies.

Actual risk exposures are regularly reported against these thresholds and mitigating actions are implemented where thresholds have been exceeded. There were no unexpected, unusual or unforeseen risks outside of tolerance levels during the period under review, other than that disclosed on the JSE. Continued focus areas include regulatory and policy developments affecting the automotive sector, including the future of the Automotive Production and Development Programme (APDP), economic and socio-political developments, automotive sector technological developments and disruption, consumer trends and cyber risk especially affecting data privacy and protection.

The Daimler Risk and Opportunities Management System and Internal Control System was adopted by the Board of the Company and was fully implemented accordingly.



Principle 12

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



The Board monitors and exercises oversight of the direction for management and development of information technology with due consideration of the overall risk, strategy and direction of Daimler AG and the Company. Therefore, policies that articulate and give direction to the governance of information technology are implemented and monitored. The Company has a strong internal technology management framework leveraging upon the well established international information technology governance framework of Daimler AG.

The Company, as part of the global network, capitalize on enhancements and efficiencies with regards to cyber security, data protection, management of data and other information technology areas to ensure that the highest international standards and practices are incorporated into the digital environment of the Company.

Digitization of processes and interfaces with stakeholders are a focus area to ensure that service delivery and efficiencies are further enhanced. The responsible handling of data is a quality feature for the Company and strategic priorities are identified to ensure an agile, responsive and secure information technology eco-system with full integration of people, processes and technology.

Processes, policies and frameworks are put in place to manage risks with the necessary business continuity plans. This aforementioned structure is securely build on the Company's corner stones for enhancement of cyber security i.e. protection, detection, respond and recover. With the necessary infrastructure and action plans that are in place, the Company can ensure the integrity, security, sustainability and stability of data from stakeholders. Internal and external assurances are in place to monitor the technology environment of the Company so that the highest standards can be met. As key focus areas, the Board prioritized security and privacy, infrastructure, technology operation, data protection and management of data.



Principle 13

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



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

Legal compliance systems and processes are in place to mitigate the risk of non-compliance with the law. The regulatory environment is monitored to ensure appropriate responses to changes and developments in applicable regulations and law. The Company's compliance and legal departments have teams that reports back to the Executive Management Committee regarding the programs it employs. The compliance department extends training to all employees, including compulsory induction training, to educate the staff complement about the use and function of the department in the organisation. The compliance department is responsible for integrity management and the implementation of a compliance management system, which includes a focus on anti-corruption, data compliance, sanctions compliance and anti-money laundering compliance.

There were no material fines or penalties for regulatory transgressions imposed against Group during the period under review.



Principle 14

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

The Company and Daimler AG, have had comprehensive and binding compensation and benefits policies in place since 2007. These policies regulate the framework for the structure and application of the Company's compensation system, elements and processes and formulate the framework requirements for compensation within the Company. These requirements ensure transparency and enhance process reliability in the configuration and application of employee compensation and benefits arrangements in line with global directives which is relevant to local market conditions. Daimler AG remunerates work in accordance with the same principles at all its affiliates around the world.

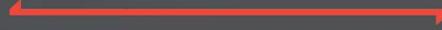
The Corporate Compensation Policy, which is valid for all groups of employees, establishes the framework conditions and minimum requirements for the design of the remuneration systems. In the desire to offer salaries and benefits that are customary in the industry and the respective markets, consideration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

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



Principle 15

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



Combined assurance emanates from the Risk and Opportunities Management System linked through to the Internal Controls System. Assurance layers run through the establishment of sound control environments, assessment of risks, control activities, information and communication processes linked to monitoring procedures. These systems are overseen by management with internal assurance from Daimler AG Corporate Audit and various other Daimler AG oversight bodies.

In addition, external assurance is sought from various independent sources, from external auditors to certification agencies like ISO.

The extent of assurance is determined with reference to risk assessments annually and executed by Daimler AG Corporate Audit, and the outcomes of such assessments are reported to the Audit Committee for monitoring and oversight.



Principle 16

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



The Company defines stakeholders as “those groups or individuals that can reasonably be expected to be significantly affected by an organisation’s business activities, outputs or outcomes, or whose actions can reasonably be expected to significantly affect the ability of the organisation to create value over time”. There is a greater expectation on stakeholders today to fulfill their role as social activists in a world where the triple context of the economy has become the norm.

It is of the utmost importance to the Board and its respective Committees that the Company plays its part in ensuring that all of South Africa continues to grow economically and socially.

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

The internal and external corporate affairs teams oversee the stakeholder engagement process to ensure that appropriate policies and escalation procedures are in place. There are then reported to the Social and Ethics Committee.

Management needs an ongoing relationship with stakeholders. The Company’s external affairs department, closely liaising with Daimler AG, assist the management in the execution of this responsibility.

