



# Mercedes-Benz South Africa Limited

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

Mercedes-Benz







# Mercedes-Benz South Africa Limited

(Registration number 1962/000271/06)

Consolidated Financial Statements for the year ended 31 December 2021

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# Mercedes-Benz South Africa Limited

(Registration number 1962/000271/06)

Consolidated Financial Statements for the year ended 31 December 2021

## General Information

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Directors	Initial and surname	Designation	Appointments/resignations
	Mr A Engling	Chief Executive Officer	
	Mr KM Eser	Chief Financial Officer	
	Mr AM Kgotle	Executive	
	Mr J Fritz	Executive	Resigned 1 September 2021
	Mr M Raine	Co-chief Executive Officer	Appointed 1 September 2021
	Mrs B Seeger	Non-executive	
	Dr J Burzer	Non-executive	
	Dr JW Schmidt	Independent non-executive	
	Amb N January-Bardill	Independent non-executive	
	Ms S Zilwa	Independent non-executive	
	Ms FT De Buck	Independent non-executive	
	Ms N Mbhele	Independent non-executive	
	Mr M Lührs	Alternate to Mrs B Seeger	
	Mr F Hohenwater	Alternate to Dr J Burzer	
<b>Registered office</b>	123 Wierda Road R576/M10 West Zwartkop Pretoria 0002		
<b>Holding company</b>	Mercedes-Benz AG incorporated in Germany		
<b>Ultimate holding company</b>	Mercedes-Benz Group AG incorporated in Germany		
<b>Sponsor</b>	The Standard Bank of South Africa Limited		

# Mercedes-Benz South Africa Limited

(Registration number 1962/000271/06)

Consolidated Financial Statements for the year ended 31 December 2021

## General Information

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### Abbreviations used in the financial statements

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

# Mercedes-Benz South Africa Limited

(Registration number 1962/000271/06)

Consolidated Financial Statements for the year ended 31 December 2021

## Preparation of Consolidated Financial Statements

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

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

These consolidated financial statements were published on 26 April 2022.

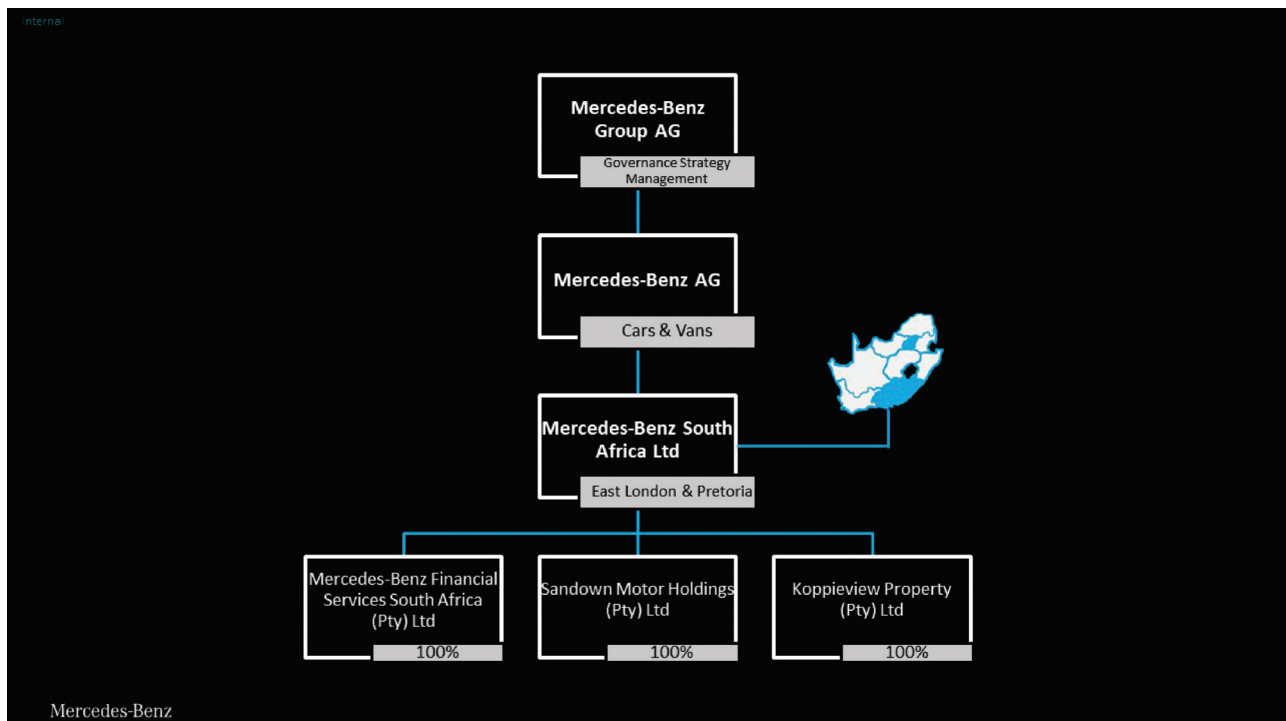
## Company Secretary's Certification

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

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

D Peterson  
Company Secretary

## Simplified Group Organogram



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



# Mercedes-Benz South Africa Limited

(Registration number 1962/000271/06)

Consolidated Financial Statements for the year ended 31 December 2021

## Audit Committee Report

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

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

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

### 1. Internal controls

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

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

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

### 2. External auditor

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

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

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

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

### 3. Compliance with legal and regulatory requirements

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

### 4. Key audit matters

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

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

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

# Mercedes-Benz South Africa Limited

(Registration number 1962/000271/06)

Consolidated Financial Statements for the year ended 31 December 2021

## Audit Committee Report

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### 5. Consolidated Financial Statements

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

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

### 6. Accounting practices

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

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

### 7. Effectiveness of finance function

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

On behalf of the audit committee

  
Signed: F. De Buck  
E-Mail: f.de\_buck@damier.com  
Signing time: 26-04-2022 14:03:04 (+02:00)  
IP address: 163.118.164.120

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Ms FT De Buck  
Chairperson: Audit Committee



# Mercedes-Benz South Africa Limited

(Registration number 1962/000271/06)

Consolidated Financial Statements for the year ended 31 December 2021

## 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 2021.

### 1. Nature of business

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

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

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

#### 1.1 Financial services

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

#### 1.2 Wholesale and retail vehicle operations

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

#### 1.3 Manufacturing and component exports operations

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

#### 1.4 Other operations

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

### 2. Financial results for year under review

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

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

### Separation from Daimler commercial vehicle business

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

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

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

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

# Mercedes-Benz South Africa Limited

(Registration number 1962/000271/06)

Consolidated Financial Statements for the year ended 31 December 2021

## Directors' Report

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### 4. Corporate governance

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

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

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

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

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

### 5. Directorate

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

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

\* Member of the audit committee.

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

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

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

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

### 6. Going concern

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

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

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

### Semi-conductor shortages

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

# Mercedes-Benz South Africa Limited

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## Directors' Report

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### COVID-19 consideration

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

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

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

### 7. Events after the reporting period

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

### Bonds and bank loans issued and redeemed

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

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

### Russia-Ukraine War

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

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

### Semi-conductor shortages

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

### Tax rate change

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

### SMH Sale of passenger vehicle division

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

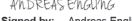
### Approval of consolidated annual financial statements

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

*Dr. Joachim Schmidt*  
Signed by:   
E-Mail: joachim.werschmidt@gmail.com  
Signing time: 25-04-2022 17:45:45 (+01:00)  
IP address: 62.28.192.178

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Dr JW Schmidt  
Chairperson  
Authorised Director

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

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Mr A Engling  
Chief Executive Officer  
Authorised Director



KPMG Inc  
KPMG Crescent  
85 Empire Road, Parktown, 2193,  
Private Bag 9, Parkview, 2122, South Africa  
Telephone +27 (0)11 647 7111  
Fax +27 (0)11 647 8000  
Docex472 Johannesburg  
Web <http://www.kpmg.co.za>

## 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 and its subsidiaries (the Group) set out on pages 18 to 76, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Mercedes-Benz South Africa Limited as at 31 December 2021, 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 corresponding sections of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards). 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.

<b>Revenue recognition</b>	
Refer to note 3.3.1 (Revenue from contracts with customers) and note 4 (Revenue and income from financial services and other) in the consolidated financial statements.	
<b>Key audit matter</b>	<b>How the matter was addressed in our audit</b>
<p>The group recognises income from the sale and leasing of motor vehicles with a maintenance and service obligation to customers. Whilst the sale of the motor vehicle is recognised immediately as revenue, the maintenance and service revenue is recognised as contract liabilities and released into revenue upon the performance of the maintenance and service obligation.</p> <p>Recognition of revenue involves significant judgment made by management, including whether contracts contain multiple elements and performance obligations which should be accounted for separately in accordance with IFRS 15 and the most appropriate method for recognition of revenue for identified elements and performance obligations.</p> <p>The key considerations relating to revenue recognition were:</p> <ul style="list-style-type: none"> <li>• Satisfaction of the performance obligation occurs when ownership of the goods are transferred to the customer depending on the terms and conditions of the contract</li> <li>• Rendering of services is recognised over time with reference to the following: proportion of the cost to total cost taking into account historical trends and time and material at the contractual rates.</li> <li>• Appropriateness of the identification of the multiple elements and performance obligations by management.</li> </ul>	<p>Our audit procedures performed included the following:</p> <ul style="list-style-type: none"> <li>• We evaluated the control environment around the initiation and processing of sales transactions to understand the generation of revenue into its separately identifiable elements.</li> <li>• We inspected a sample of sales transactions to underlying source documents, to ensure that revenue was appropriately recognised when the performance obligations are satisfied.</li> <li>• We inspected a sample of vehicle sales transactions before and after year end to assess whether revenue had been recognised in the appropriate period.</li> <li>• We assessed 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 for the identification of performance obligations and the appropriateness of the recognition of revenue in accordance with the performance obligations identified.</li> <li>• We assessed the appropriateness of the disclosures in the consolidated financial statements in accordance with IFRS 15, Revenue from contracts with customers.</li> </ul>

*F. van der Laan*





<p><b>Revenue recognition</b></p> <p>Refer to note 3.3.1 (Revenue from contracts with customers) and note 4 (Revenue and income from financial services and other) in the consolidated financial statements.</p>	
<p><b>Key audit matter</b></p>	<p><b>How the matter was addressed in our audit</b></p>
<p>Recognition of the group's revenue is complex due to the volume of transactions and the various revenue streams from the sales and leasing of vehicles, the related services, as well as income from financial services. This resulted in significant audit work effort and revenue to be a key audit matter.</p>	

<p><b>Residual value of assets leased under operating leases</b></p> <p>Refer to notes 3.2.1 (Assets leased under operating leases), 17, 22 and 29.3.4.3 in the consolidated financial statements.</p>	
<p><b>Key audit matter</b></p>	<p><b>How the matter was addressed in our audit</b></p>
<p>The group is exposed to the risk of leased assets being returned at values less than the residual value guaranteed to the customer at inception.</p> <p>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.</p> <p>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.</p> <p>Uncertainties that affect the residual value provision of the leased assets include:</p> <ul style="list-style-type: none"> <li>• Return-rates of leased vehicles;</li> <li>• Penetration rates;</li> <li>• Lease duration; and</li> </ul>	<p>Our audit procedures performed included the following:</p> <ul style="list-style-type: none"> <li>• We evaluated the control environment around the determination of the residual values.</li> <li>• We performed a retrospective review of 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.</li> <li>• We evaluated the key estimates in relation to the residual value risk provision through comparison of the residual value data in management's calculation to the latest market data available at year end.</li> <li>• We challenged managements' key estimates and assumptions in relation to the quarterly assessment of residual values through the following audit procedures: <ul style="list-style-type: none"> <li>○ inspected a sample of actual vehicle</li> </ul> </li> </ul>

*F. van der Meer*



<b>Residual value of assets leased under operating leases</b>	
Refer to notes 3.2.1 (Assets leased under operating leases), 17, 22 and 29.3.4.3 in the consolidated financial statements.	
<b>Key audit matter</b>	<b>How the matter was addressed in our audit</b>
<ul style="list-style-type: none"> <li>Market conditions.</li> </ul> <p>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.</p> <p>Accordingly due to the residual value determination including estimation uncertainty, the residual values of assets leased under operating leases are considered to be a key audit matter based on the increased audit effort required.</p>	<p>sales realised on the leased portfolio in the light of current market price expectations, and inspecting realised values to the guaranteed residual values set in respect of those sales contracts.</p> <ul style="list-style-type: none"> <li>evaluated 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.</li> </ul> <ul style="list-style-type: none"> <li>We evaluated the appropriateness of the disclosures in the consolidated financial statements in accordance with IFRS 16, Leases and IAS 37, Provisions, Contingent Liabilities and Contingent Assets.</li> </ul>

<b>Impairment of loans and advances to customers</b>	
Refer to notes 3.3.1, 16 in the consolidated financial statements.	
<b>Key audit matter</b>	<b>How the matter was addressed in our audit</b>
<p>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 well as wholesale vehicle financing receivables.</p> <p>The groups ECL model includes certain judgements and assumptions such as:</p> <ul style="list-style-type: none"> <li>The probability of a loan or advance becoming past due and subsequently defaulting (probability of default (PD)) default which is a measure of the expectation of how likely the customer is to default;</li> </ul>	<p>Our audit procedures performed included the following:</p> <ul style="list-style-type: none"> <li>We evaluated and tested the design and implementation and operating effectiveness of the control environment around the determination of the allowance raised.</li> <li>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 ECL</li> </ul>

*F. van der Meulen*



<b>Impairment of loans and advances to customers</b>	
Refer to notes 3.3.1, 16 in the consolidated financial statements.	
<b>Key audit matter</b>	<b>How the matter was addressed in our audit</b>
<ul style="list-style-type: none"> <li>The expected exposure in the event of default (exposure at default (EAD)) which is the expected amount outstanding at the point of default; and</li> <li>The loss given default (LGD) which is the expected loss that will be realised at default after taking into account recoveries through collateral and guarantees.</li> </ul> <p>Accordingly due to the significance of the loans and advances to customers balance on the consolidated statement of financial position of the group and the level of estimation uncertainty and the level of judgement applied in determining the adequacy of the ECL, the expected credit loss on loans and advances to customers is considered to be a key audit matter.</p>	<p>model and comparing our results to those calculated by the group.</p> <ul style="list-style-type: none"> <li>We evaluated whether the key estimates, assumptions and methodology used by the group in relation to the ECL allowance are appropriate and reasonable.</li> <li>We compared the accuracy of the data used to determine the ECL allowance by inspecting a sample of correspondence with customers, current market value estimates of the underlying vehicle and other supporting documents.</li> <li>We challenged managements' key estimates and assumptions in relation to the allowance recognised in the current year, by comparing it to the allowance 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.</li> <li>We evaluated the appropriateness of the disclosures in the consolidated financial statements in accordance with IFRS 9, Financial Instruments.</li> </ul>

<b>Provision for service and maintenance contracts (contract liabilities)</b>	
Refer to notes 3.3.1 and 23 in the consolidated financial statements.	
<b>Key audit matter</b>	<b>How the matter was addressed in our audit</b>
<p>The group is exposed to the risk that the contract liability and provision for service and maintenance contracts are incorrectly calculated due to the complexity of the estimates and the calculations involved.</p> <p>Our audit focused on the adequacy of the service and maintenance contract liability and provision due to the application of complex</p>	<p>Our audit procedures performed included the following:</p> <ul style="list-style-type: none"> <li>We evaluated the appropriateness around the initiation and processing of sales transactions to understand the generation of revenue into its separately identifiable elements, and the apportionment from the sales transaction of the contract liability element.</li> </ul>

*F. van Meester*



<b>Provision for service and maintenance contracts (contract liabilities)</b>	
Refer to notes 3.3.1 and 23 in the consolidated financial statements.	
<b>Key audit matter</b>	<b>How the matter was addressed in our audit</b>
<p>and subjective judgements over the timing of recognition and the estimation of size of this provision, specifically related to the significance of the exposure of the company to the Premium Drive service and maintenance contracts provision.</p> <p>Assumptions that affect the group's estimate include:</p> <ul style="list-style-type: none"> <li>• Distribution costs;</li> <li>• Discount rate;</li> <li>• Inflation rate;</li> <li>• Scrapping ratio;</li> <li>• Parts sales;</li> <li>• Labour, parts and repair factors; and</li> <li>• Profit margin on parts.</li> </ul> <p>Accordingly due to the service and maintenance contract liability and provision for service and maintenance contracts including estimation uncertainty in determining the appropriate amount to be recognised, the adequacy of the service and maintenance contract liability and provision for service and maintenance contracts is considered to be a key audit matter requiring significant audit effort.</p>	<ul style="list-style-type: none"> <li>• Through involving our own internal valuation specialist to form part of our audit team, we: <ul style="list-style-type: none"> <li>○ Evaluated, based on the data provided from the company's provisioning tool, whether the service and maintenance provision recognised was reasonable by recalculating the provision, using an independent model and comparing our results to those calculated by the Group.</li> <li>○ Evaluated whether the methodology applied in determining the provision by the Group, are aligned with IAS 37, Provisions, Contingent Liabilities and Contingent Assets.</li> <li>○ Challenged managements' key estimates and assumptions in relation to the provision recognised, through our own expectations based on our knowledge of the Group and experience of the industry in which it operates.</li> </ul> </li> <li>• We evaluated the accuracy and completeness of the data used to determine the provision by inspecting supporting documentation of a sample population.</li> <li>• We evaluated the appropriateness of the disclosures in the consolidated financial statements, in accordance with IFRS 15, Revenue from Contracts with Customers and IAS 37, Provisions, Contingent Liabilities and Contingent Assets.</li> </ul>

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### ***Other information***

The directors are responsible for the other information. The other information comprises the information included in the document titled "Mercedes-Benz South Africa Limited Consolidated Financial Statements for the year ended 31 December 2021", which includes the Directors' Report, the Audit Committee Report and the Company Secretary's Certification as required by the Companies Act of South Africa. The 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 group 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 skepticism 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

*F. van der Merwe*





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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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.

### ***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 for 37 years.

KPMG Inc.

A handwritten signature in blue ink, appearing to read 'FHC von Eckardstein'.

Per FHC von Eckardstein  
Chartered Accountant (SA)  
Registered Auditor  
Director  
26 April 2022

# Mercedes-Benz South Africa Limited

(Registration number 1962/000271/06)

Consolidated Financial Statements for the year ended 31 December 2021

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

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

*F. van der Merwe*

# Mercedes-Benz South Africa Limited

(Registration number 1962/000271/06)

Consolidated Financial Statements for the year ended 31 December 2021

## Consolidated Statement of Financial Position as at 31 December 2021

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

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# Mercedes-Benz South Africa Limited

(Registration number 1962/000271/06)

Consolidated Financial Statements for the year ended 31 December 2021

## Consolidated Statement of Changes in Equity

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

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

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# Mercedes-Benz South Africa Limited

(Registration number 1962/000271/06)

Consolidated Financial Statements for the year ended 31 December 2021

## Consolidated Statement of Cash Flows

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

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# Mercedes-Benz South Africa Limited

(Registration number 1962/000271/06)

Consolidated Financial Statements for the year ended 31 December 2021

## Notes to the Consolidated Financial Statements

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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 2021
Domicile	The Republic of South Africa
Authorised by the board of directors	26 April 2022

### 2. Basis of preparation

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

These consolidated financial statements have been prepared in accordance with:

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

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

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

#### 2.1 Functional and presentation currency

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

#### 2.2 Rounding policy

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

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

#### 2.3 Foreign currency translation

##### Procedures followed to translate to presentation currency

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

At the end of the reporting period:

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

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



# Mercedes-Benz South Africa Limited

(Registration number 1962/000271/06)

Consolidated Financial Statements for the year ended 31 December 2021

## Notes to the Consolidated Financial Statements

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### 3. Presentation of financial statements

#### 3.1 Group accounting

##### Group structure

Holding company Mercedes-Benz South Africa Limited

Subsidiaries Mercedes-Benz Financial Services South Africa Proprietary Limited

Sandown Motor Holdings Proprietary Limited

Mercedes-Benz Risk Management Solutions South Africa Proprietary Limited

Koppievu Property Proprietary Limited

##### Consolidation

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

The group also considers the following facts and circumstances in assessing whether it has power over an entity:

- rights arising from contractual arrangements; and
- the group's voting rights and potential voting rights.

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

##### Subsidiaries - recognition and measurement

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

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

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

##### Non-controlling interest

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

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

##### Goodwill

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

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

##### Intercompany transactions

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

#### 3.2 Retained earnings

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



# Mercedes-Benz South Africa Limited

(Registration number 1962/000271/06)

Consolidated Financial Statements for the year ended 31 December 2021

## Notes to the Consolidated Financial Statements

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### 3. Presentation of financial statements (continued)

#### 3.3 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 with subsequent changes to the underlying facts and circumstances.

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

#### 3.3.1 Significant accounting estimates, judgements and assumptions

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

##### Revenue from contracts with customers (note 4)

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

Assumptions that affect the company's estimate for maintenance and service obligations include:

- distribution cost
- discount rate
- inflation rate
- scrapping ratio
- part sales
- labour, parts and repair factors
- profit margin on parts

##### Assets leased under operating leases (note 17)

###### *Lease classification*

The group leases motor vehicles to external customers. The factors that have been taken into consideration in determining the classification as operating leases are:

- ownership of the underlying motor vehicle is retained by the holding company during, and in most cases, at the end of the lease term;
- there is no bargain purchase option offered to the customer;
- the lease term is shorter than the majority of the economic life of the asset;
- at the inception of the lease, the present value of the minimum lease payments does not amount to at least substantially all of the fair value of the underlying motor vehicle; and
- the leased assets are not specialised in nature.

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

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

###### *Residual values*

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



# Mercedes-Benz South Africa Limited

(Registration number 1962/000271/06)

Consolidated Financial Statements for the year ended 31 December 2021

## Notes to the Consolidated Financial Statements

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### 3. Presentation of financial statements (continued)

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

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

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

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

#### *Depreciation*

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

#### *Economic life*

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

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

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

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

### **Production incentives receivables (note 12)**

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

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

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

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

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

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

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



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## Notes to the Consolidated Financial Statements

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### 3. Presentation of financial statements (continued)

#### VALA

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

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

#### PRCC's/PRC's

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

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

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

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

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

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

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

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

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

#### 3.3.2 Key sources of estimation uncertainty

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

#### Property, plant and equipment (note 17)

##### Useful lives

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

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

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





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## Notes to the Consolidated Financial Statements

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### 3. Presentation of financial statements (continued)

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

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

#### *Residual values*

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

#### *Impairment*

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

#### **Provisions (note 22)**

##### *Guaranteed residual value provision*

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

Uncertainties that affect the provision amount include:

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

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

##### *Warranty provision*

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

##### *Miscellaneous*

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



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## Notes to the Consolidated Financial Statements

### 3. Presentation of financial statements (continued)

#### Employee benefits defined benefit schemes (note 18)

##### Defined benefit schemes

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

##### Actuarial assumptions for defined benefit schemes

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

##### Post-retirement medical aid benefit

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

##### Actuarial assumptions for post-retirement medical aid benefit

Health care cost inflation	8.54 %	9.58 %
<i>Mortality</i>		
Pre-expected retirement age	SA 1985 - 90 light	
Post-retirement age	PA(90) - 2	
	<b>2021</b>	<b>2020</b>
	<b>R mil</b>	<b>R mil</b>

### 4. Revenue and income from financial services and other

#### 4.1 Revenue allocation

##### Income from sale and leasing of vehicles and related services

Vehicles and spare parts	42 777	44 184
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##### Income from financial and other services

##### Interest received

Instalment sales	1 152	1 323
Finance leases	281	320
Wholesale funding and other	121	166
	<b>1 554</b>	<b>1 809</b>

##### Interest paid

Interest-bearing borrowings at amortised cost	(1 031)	(1 399)
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##### Reversal of impairment losses on loans and advances to customers

Legal loss recovery	16	38
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## Notes to the Consolidated Financial Statements

	2021 R mil	2020 R mil
<b>4. Revenue and income from financial services and other (continued)</b>		
<i>Non-interest revenue</i>		
Operating lease instalments	972	1 184
Remarketing revenue	373	702
Agent income	56	59
Insurance commission	30	41
Acceptance and initiation fee	25	27
Other revenue	1	-
	<b>1 457</b>	<b>2 013</b>
<i>Non-interest expenditure</i>		
Remarketing cost of sales	(137)	(456)
Direct costs from financial services	(790)	(908)
	<b>(927)</b>	<b>(1 364)</b>
<b>Other income</b>		
Other	8	10
<b>4.2 Disaggregation of revenue</b>		
The group disaggregates revenue from customers as follows:		
<b>Sale of goods</b>		
Manufacturing and component parts export	31 089	32 051
Wholesale and retail of vehicles and spare parts	11 073	11 872
	<b>42 162</b>	<b>43 923</b>
<b>Rendering of services</b>		
<i>Financial services</i>		
Non-interest revenue*	1 457	2 013
Interest received*	1 554	1 809
Legal loss recovery	16	38
	<b>3 027</b>	<b>3 860</b>
<i>Other services</i>		
Maintenance and service contracts	615	261
	<b>3 642</b>	<b>4 121</b>
	<b>45 804</b>	<b>48 044</b>
* These items include lease income.		
<b>4.3 Timing of revenue recognition</b>		
<b>At a point in time</b>		
Sale of goods	42 162	43 923
Non-interest revenue	485	829
Legal loss recovery	16	38
	<b>42 663</b>	<b>44 790</b>
<b>Over time</b>		
Interest received	1 554	1 809
Operating lease instalments	972	1 184
Maintenance and service contracts	615	261
	<b>3 141</b>	<b>3 254</b>
	<b>45 804</b>	<b>48 044</b>

*F. van der Merwe*

# Mercedes-Benz South Africa Limited

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## Notes to the Consolidated Financial Statements

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

#### 4.4 Income from contracts with customers

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

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

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

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

#### Recognition and measurement

##### *Sale of vehicles, service parts and other related products:*

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

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

##### *Rendering of services:*

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

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

##### *Lease of vehicles:*

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

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

##### 4.4.2 Income from financial services

##### *Interest received*

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

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

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

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

##### *Interest paid*

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



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## Notes to the Consolidated Financial Statements

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

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

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

#### *Impairment losses*

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

#### *Non-interest revenue*

Revenue generated by the financial services business which is non-interest in nature and includes:

- income from the leasing business;
- sales revenue from the sale of vehicles at the end of lease contract (remarketing revenue); and
- fees and commissions earned from related financial services activities.

Non-interest revenue is recognised on:

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

Non-interest revenue is measured:

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

#### *Non-interest expenditure*

These expenses are related and incremental to the non-interest revenue generated and include, among others:

- fees paid to dealers;
- depreciation and impairment charges on the operating lease assets;
- expenses related to fleet management; and
- the residual value of the vehicle at the date of sale.

### 4.4.3 Other income

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

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

### 4.4.4 Dealer incentive commission

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



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## Notes to the Consolidated Financial Statements

	2021 R mil	2020 R mil
<b>5. Cost of good sold</b>		
	<b>41 860</b>	<b>41 119</b>

Cost of goods sold includes the following:

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

### Income and expense based grants

#### PRCC/PRC

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

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

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

#### VALA

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

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

#### AIS

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

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

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

	2021 R mil	2020 R mil
<b>6. Operating profit</b>		
Operating profit for the year includes:		
<b>Staff costs</b>		
Cost of goods sold	1 942	1 546
Operating expenses	252	251
Selling expenses	454	451
<b>Total staff costs</b>	<b>2 648</b>	<b>2 248</b>

*F. van der Merwe*



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## Notes to the Consolidated Financial Statements

### 6. Operating profit (continued)

#### Employee benefits

##### Short-term employee benefits

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

##### Long-term service benefits

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

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

### 7. Finance income

#### Interest earned on

Bank accounts	58	46
Retirement benefit assets	19	7
Tax authorities	6	-
<b>Total interest income</b>	<b>83</b>	<b>53</b>

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

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

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

### 8. Finance costs

#### Interest expense on/to

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

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

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

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## Notes to the Consolidated Financial Statements

	2021 R mil	2020 R mil
<b>9. Taxation</b>		
<b>Major components of the tax expense</b>		
<b>Current</b>		
Charge for current year	120	291
Over provision from the previous period	(12)	(5)
	<b>108</b>	<b>286</b>
<b>Deferred</b>		
Charge for the current year	177	(58)
(Over)/under provision from the previous period	(9)	31
	<b>168</b>	<b>(27)</b>
	<b>276</b>	<b>259</b>
<b>Reconciliation of the tax expense</b>		
Reconciliation between applicable tax rate and average effective tax rate.		
Applicable tax rate	28 %	(28)%
Non-deductible expenses		
Capital expenses	1 %	424 %
Dividends	-	2 %
Loss on sale of assets	41 %	-
Impairment of subsidiaries	23 %	-
Donation	1 %	-
Other	(2)%	-
Non-taxable income		
Interest and fines paid on taxes	2 %	(26)%
Assessed loss	-	(7)%
Prior year adjustment - current taxation	(4)%	(8)%
Prior year adjustment - deferred taxation	(3)%	48 %
	<b>87 %</b>	<b>405 %</b>

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

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

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

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

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

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

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

*J. van der Merwe*

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## Notes to the Consolidated Financial Statements

### 10. Discontinued operations

#### Koppieview

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

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

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

#### SMH

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

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

#### DTBSA

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

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

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

### 10.1 Assets held for sale

#### Koppieview assets held for sale

Land and buildings  
Other equipment, factory and office equipment

2021 R mil	2020 R mil
140	-
1	-
<b>141</b>	<b>-</b>

#### SMH assets held for sale

Property, plant and equipment  
Inventories  
Right-of-use assets  
Trade and other receivables  
Deferred tax

88	-
325	-
299	-
27	-
37	-
<b>776</b>	<b>-</b>

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## Notes to the Consolidated Financial Statements

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

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	2021 R mil	2020 R mil
<b>10. Discontinued operations (continued)</b>		
<b>10.4 Cash flows from discontinued operations</b>		
Net cash flows from operating activities	(21)	812
Net cash flows from investing activities	(7)	(3)
Net cash flows fro financing activities	-	(144)
	<b>(28)</b>	<b>665</b>

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

### Fair value determination

#### *Koppievew sale of properties*

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

#### *SMH sale of passenger vehicle business*

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

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

#### *Sale of DTBSA 2020*

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

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

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

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

## 11. Cash and cash equivalents

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

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



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	2021 R mil	2020 R mil
<b>12. Trade and other receivables</b>		
<b>Financial instruments</b>		
Trade receivables, net of allowance for impairment	1 350	1 250
Production incentives	1 194	2 365
Other receivables	213	331
<b>Trade receivables at amortised cost</b>	<b>2 757</b>	<b>3 946</b>
<b>Non-financial instruments</b>		
VAT	458	519
Prepayments	42	45
<b>Total trade and other receivables</b>	<b>3 257</b>	<b>4 510</b>

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

### Loss allowance

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

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

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

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

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

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

### Financial assets at amortised cost

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

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



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## Notes to the Consolidated Financial Statements

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### 12. Trade and other receivables (continued)

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

#### Financial assets - Business model management

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

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

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

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

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

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

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

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

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

#### Transfers and derecognition

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

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

#### Fair value of trade and other receivables

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



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	2021 R mil	2020 R mil
<b>13. Inventories</b>		
Raw materials	6 725	2 891
Work in progress	6 115	1 434
Finished goods	2 775	3 914
	<u>15 615</u>	<u>8 239</u>
Allowance for impairment of inventories	(172)	(300)
	<u><b>15 443</b></u>	<u><b>7 939</b></u>

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

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

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

### 14. Derivatives and other financial assets

Financial derivatives	17	75
Other financial assets	77	78
	<u><b>94</b></u>	<u><b>153</b></u>

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

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

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

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

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

#### *Hedging reserve*

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

The effective hedging portion is recognised in other comprehensive income

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



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	2021 R mil	2020 R mil
<b>14. Derivatives and other financial assets (continued)</b>		
<b>Reconciliation of the movement in the hedging reserve</b>		
Balance at the beginning of the year	(469)	(413)
<b>Other comprehensive income, net of tax</b>		
Effective portion of the changes in fair value recognised directly in OCI	(57)	(77)
Deferred taxation	16	21
	<b>(41)</b>	<b>(56)</b>
<b>Balance at the end of the year</b>	<b>(510)</b>	<b>(469)</b>

### Other financial assets

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

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

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

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

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

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

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

## 15. Amounts receivable from group companies

### Trade receivables from group companies

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

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

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

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

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	2021 R mil	2020 R mil
<b>15. Amounts receivable from group companies (continued)</b>		
Upfront income earned on financial instruments is recognised as deferred income, depending on the underlying nature of the income.		
Financial assets are subsequently measured at amortised cost using the effective interest method, less any impairment losses.		
<b>Fair value of amounts receivable from group companies</b>		
The fair value of amounts receivable from group companies approximates their carrying amounts. This is due to the short-term nature of the instruments.		
<b>16. Loans and advance to customers</b>		
Instalment sale receivables	9 176	14 487
Finance lease receivables	495	3 399
Wholesale vehicle financing receivables	731	2 378
<b>Gross loans and advances to customers</b>	<b>10 402</b>	<b>20 264</b>
Impairment losses	(359)	(772)
	<b>10 043</b>	<b>19 492</b>

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

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

### Maturity profile for instalment sale and lease receivables

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

### Summary of loss allowance

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

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

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### 16. Loans and advance to customers (continued)

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

### Loss allowance per category

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

### 2020

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

2021 R mil	2020 R mil
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### Movement in allowance for impairment losses on loans and advances to customers

Opening balance	772	550
Additional allowance raised	228	644
Amounts written off	(267)	(116)
Transfers to DTFS	(374)	-
Other	-	(306)
<b>Closing balance</b>	<b>359</b>	<b>772</b>

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### 16. Loans and advance to customers (continued)

#### Impairment of loans and advances to customers

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

#### Specific impairments

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

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

#### Portfolio impairments

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

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

#### Write-offs

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

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

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

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### 16. Loans and advance to customers (continued)

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

### 17. Property, plant and equipment

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

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

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### 17. Property, plant and equipment (continued)

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

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

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

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

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

*F. van der Merwe*

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## Notes to the Consolidated Financial Statements

### 17. Property, plant and equipment (continued)

#### Categories and measurement

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

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

#### Operating leases (company as lessor)

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

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

#### Government grants - AIS

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

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

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

#### Capital expenditure

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

This capital expenditure will be financed from internally generated funds.

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### 17. Property, plant and equipment (continued)

#### 17.1 Right-of-use assets

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

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

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

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

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

#### Future minimum lease income

Future minimum lease receipts under non-cancellable operating leases:

	2021 R mil	2020 R mil
Less than one year	438	573
Between one and five years	516	669
	<b>954</b>	<b>1 242</b>

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

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

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## Notes to the Consolidated Financial Statements

	2021 R mil	2020 R mil
<b>18. Retirement benefit plan assets and post-retirement medical aid benefit obligations (continued)</b>		
<b>18.1 Retirement benefit plan asset</b>		
<b>Defined benefit schemes</b>		
Present value of obligations	(2 216)	(1 851)
Fair value of plan assets	2 400	1 962
<b>Net defined benefit asset</b>	<b>184</b>	<b>111</b>

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

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

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

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

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

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

### Reconciliation of movement in defined benefit schemes

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

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

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

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

Employer contributions	24	
Employee contributions	8	
	24	
		8
	24	8

#### Fair value of plan assets comprises

Bonds	1 860	582
Equities	411	991
Property	40	97
Derivatives net of cash	9	367
	2 320	2 037

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

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

#### Sensitivity analysis

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

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

### 18.2 Post-retirement medical aid benefit obligation

Present value of portfolio obligation	379	352
	379	352

#### Portfolio

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

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

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	2021 R mil	2020 R mil
<b>18. Retirement benefit plan assets and post-retirement medical aid benefit obligations (continued)</b>		
<b>Reconciliation of movement in present value of post-retirement medical aid benefit obligation</b>		
The following table shows a reconciliation from the opening balance to the closing balance for the obligation and its components:		
Opening balance	352	451
<i>Included in profit or loss</i>		
Current service cost	11	15
Interest cost	44	47
	<b>55</b>	<b>62</b>
<i>Included in OCI</i>		
Actuarial gains	(13)	(88)
<i>Other</i>		
Contributions	(15)	(16)
Transfer to liabilities held for sale	-	(57)
<b>Closing balance</b>	<b>379</b>	<b>352</b>

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

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

### 18.3 Post-employment benefits

#### Defined contribution plans

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

#### Defined benefit plans

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

#### Defined benefit obligation

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

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

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

#### Plan assets

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

#### Profit or loss

Included as part of staff costs:

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

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

#### Other comprehensive income

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

#### Actuarial reserve

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

### 19. Deferred tax

#### Reconciliation of movement in net deferred tax asset

	2021 R mil	2020 R mil
Opening balance	874	1 182
Current year charge through profit or loss	(51)	58
Current year charge through OCI		
Retirement benefit asset and liabilities	(2)	(1)
Cash flow hedges	-	(7)
Prior year under/(over) provision	9	(31)
Net current year charge of disposal group	(126)	37
Transfers to assets held for sale	(37)	(364)
Assets held for sale current year charge	10	-
	<b>677</b>	<b>874</b>

#### Deferred tax asset

Deferred revenue	858	869
Provisions	521	654
Retirement benefit assets	245	262
Allowance for impairment of receivables	83	200
Lease liability	177	156
Income received in advance	5	11
Capital allowance	3	-
Cash flow hedge through profit or loss	1	6
Deferred employment expenses	5	6
Disposal group held for sale	86	-
Assessed loss carried forward	347	-
	<b>2 331</b>	<b>2 164</b>

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	2021 R mil	2020 R mil	
<b>19. Deferred tax (continued)</b>			
<b>Deferred tax liability</b>			
Government grants	(334)	(662)	
Capital allowances	(925)	(259)	
Retirement benefit obligation - prepaid pension	(126)	(152)	
Right-of-use asset	(82)	(70)	
Dealer incentive schemes	-	(38)	
Cash flow hedge	(5)	(21)	
Deferred initial direct costs	-	(24)	
Retirement benefit obligation - OCI	(63)	(46)	
Prepayments	(4)	(4)	
Leased assets	(2)	(8)	
Disposal group held for sale	(113)	(6)	
	<b>(1 654)</b>	<b>(1 290)</b>	
<b>Total net deferred tax asset</b>	<b>677</b>	<b>874</b>	
<b>20. Trade and other payables</b>			
<b>Financial instruments</b>			
Trade payables	1 700	1 778	
Lease liability (refer note 20.1)	324	611	
Other payables	816	235	
Hedge liability	-	12	
	<b>2 840</b>	<b>2 636</b>	
<b>Non-financial instruments</b>			
Amounts received in advance	37	6	
VAT	3	19	
Employee related liabilities	518	485	
	<b>3 398</b>	<b>3 146</b>	
Trade and other payables were transferred to liabilities held for sale as part of the disposal of the SMH passenger vehicle division in 2021 and the disposal of DTBSA in 2020, refer to note 10.			
<b>20.1 Lease liability</b>			
<b>Items recognised in statement of financial position</b>			
Lease liability	324	611	
<b>Items recognised in profit or loss</b>			
Interest on lease liability	54	53	
Expense relating to short-term leases	9	6	
Expense relating to low value assets, excluding short-term leases of low value assets	11	4	
<b>Other</b>			
Cash outflows from leases	116	79	
<b>Maturity profile of lease liability for the year ended</b>			
<b>31 December 2021</b>	<b>Less than 1 year R mil</b>	<b>More than 1 year R mil</b>	<b>Total R mil</b>
Lease liability	56	268	324

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## Notes to the Consolidated Financial Statements

### 20. Trade and other payables (continued)

31 December 2020

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

#### Leases

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

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

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

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

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

#### Liabilities at amortised cost

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

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

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

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

#### Transfers and derecognition

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

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



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	2021 R mil	2020 R mil
<b>21. Amounts payable to group companies</b>		
<b>Trade payables to group companies</b>		
Mercedes-Benz AG	2 804	1 215
Mercedes-Benz Group AG	35	20
Mercedes-Benz Cars & Vans Brasil - Industria E Comercio De Veiculos Ltda.	8	5
Daimler South East Asia	1	7
Mercedes Benz Otomotiv Ticaret ve Hizmetler A.S.	1	1
Daimler Truck AG	-	79
Mercedes-Benz Mobility AG	-	6
Daimler Financial Services UK Ltd	-	3
Mercedes-Benz Romania S.R.L.	-	1
Mercedes-Benz Türk A.S.	-	1
	<b>2 849</b>	<b>1 338</b>

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

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

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

### Fair value of amounts payable to group companies

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

## 22. Provisions

### Reconciliation of provisions - 2021

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

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

### Premium drive

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

### Residual value risk

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

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

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### 22. Provisions (continued)

#### Warranty claims

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

#### Miscellaneous

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

### 23. Contract liabilities

#### Summary of contract liabilities

	2021 R mil	2020 R mil
Maintenance and service contracts	2 800	2 668
Rebates, discounts and other	82	136
Financial services contracts	160	105
	<b>3 042</b>	<b>2 909</b>

#### Reconciliation of contract liabilities

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

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

### 24. Interest-bearing borrowings

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

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	2021 R mil	2020 R mil
<b>24. Interest-bearing borrowings (continued)</b>		
<b>Details of movement</b>		
Opening balance	27 713	31 888
Bonds issued	3 000	6 950
Bonds repaid	(8 800)	(9 750)
Loan facilities received	1 500	3 100
Loan facilities repaid	(1 500)	(4 375)
Interest capitalised	(30)	(100)
Settlement of preference shares	(55)	-
	<b>21 828</b>	<b>27 713</b>

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

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

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

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

### Bank loans

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

### Preference shares

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

### Bonds issued under MBSA DMTN Programme

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

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



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

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

31 December 2021

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

31 December 2020

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

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### 25. Segmental information

#### Basis for segmentation

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

The principal offering for each division is as follows:

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

#### Geographical information

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

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

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

#### Information about reportable segments

Information related to each reportable segment is set out below:

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

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### 25. Segmental information (continued)

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

### 26. Share capital

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

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

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

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

### 27. Related parties

#### Relationships

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

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

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### 27. Related parties (continued)

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

	Sales to group companies		Purchases from group companies	
	2021 R mil	2020 R mil	2021 R mil	2020 R mil
Mercedes-Benz AG	26 966	29 617	24 136	27 224
Mercedes-Benz US International	225	76	202	65
Daimler Truck AG	-	34	-	23
Mitsubishi Fuso Truck and Bus Corporation	-	25	-	35
Mercedes-Benz Financial Services UK Ltd	-	10	-	-
Mercedes-Benz do Brasil Ltda.	-	8	3	3
Mercedes-Benz Group AG	-	-	80	14
Daimler FleetBoard	-	-	-	43
Freightliner Corporation	-	-	-	6
Mercedes-Benz Hellas	-	-	-	1
	Other income received from group companies		Other expenses paid to group companies	
	2021 R mil	2020 R mil	2021 R mil	2020 R mil
<b>Selling costs</b>				
Daimler South East Asia Pte. Ltd.	-	-	10	14
Mercedes-Benz AG	-	-	9	19
Mercedes-Benz Cars Netherlands B.V.	-	-	3	3
Mercedes-Benz Romania S.R.L.	-	-	2	4
Mercedes-Benz Italia S.P.A.	-	-	2	-
Mercedes-Benz Portugal, S.A.	-	-	1	-
Daimler Truck AG	-	-	-	4
Mitsubishi Fuso Truck and Bus Corporation	-	-	-	3
Mercedes-Benz Turkey	-	-	-	1
Mercedes-Benz Group AG	-	-	-	1
Daimler Mobility Services GmbH	-	-	-	1
<b>Interest</b>				
Mercedes-Benz Group AG	7	6	48	22
Mercedes-Benz AG	-	-	4	3
Daimler International Finance B.V.	-	-	-	9
<b>Administration and management fees</b>				
Mercedes-Benz AG	1 034	54	13	21
Daimler Truck AG	-	9	-	1
Daimler South East Asia Pte. Ltd.	-	-	19	22
Mercedes-Benz Group AG	-	-	8	2
Mercedes-Benz Group Services Phils., Inc.	-	-	-	4
<b>Recharge cost</b>				
Mercedes-Benz AG	138	86	-	-
Mercedes-Benz Group AG	15	9	-	-
Mercedes-Benz U.S. International, Inc.	5	92	-	-
Daimler Servicios Corporativos Mexico S. de R.L. de C.V.	3	-	-	-
Mercedes-Benz Vietnam Ltd.	3	-	-	-
Mercedes-AMG GmbH	3	-	-	-
Mercedes-Benz Manufacturing (Thailand) Limited	2	2	-	-

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	2021 R mil	2020 R mil
<b>27. Related parties (continued)</b>		
<b>Compensation to directors and other key management</b>		
Short-term employee benefits	49	53
Post-employment benefits	1	2
	<b>50</b>	<b>55</b>

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

#### Executive directors

##### 2021

	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	2.2	1.3	6.6	0.1	10.2
Mr AM Kgotle	3.2	2.1	2.1	0.2	7.6
Mr J Fritz	1.5	1.2	3.3	0.1	6.1
Mr M Raine	0.6	-	1.3	0.1	2.0
Mr KM Eser	2.2	1.2	4.6	0.2	8.2
	<b>9.7</b>	<b>5.8</b>	<b>17.9</b>	<b>0.7</b>	<b>34.1</b>

##### 2020

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

#### Prescribed officers

##### 2021

Ms N Trimmel	1.6	0.6	1.0	0.2	3.4
Mr R Hoffmann	2.1	1.0	5.7	0.1	8.9
	<b>3.7</b>	<b>1.6</b>	<b>6.7</b>	<b>0.3</b>	<b>12.3</b>

##### 2020

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

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

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

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

#### Non-executive directors

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

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

### 29. Financial instruments and risk management

#### 29.1 Categories and analysis of assets and liabilities

##### Assets - 2021

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

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### 29. Financial instruments and risk management (continued)

#### Assets - 2020

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

#### Liabilities - 2021

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

#### Liabilities - 2020

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

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### 29. Financial instruments and risk management (continued)

#### 29.2 Capital risk management

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

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

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

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

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

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

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

#### 29.3 Financial risk management

##### 29.3.1 Objectives and policies

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

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

##### 29.3.2 Credit risk

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

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

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

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### 29. Financial instruments and risk management (continued)

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

#### *Cash and cash equivalents*

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

#### *Trade and other receivables*

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

#### *Derivatives and other financial assets*

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

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

#### *Amounts receivable from group companies*

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

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

#### *Loans and advances to customers*

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

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

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

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





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### 29. Financial instruments and risk management (continued)

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

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

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

#### 2021

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

#### 2020

Retail and wholesale receivables	20 264	19 492	772
Allowance for impairment	(772)	-	(772)
	<b>19 492</b>	<b>19 492</b>	<b>-</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 group's credit policy.

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

#### 2021

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

#### 2020

South Africa	28 343	20 264	153	3 946	-	3 980
Europe	738	-	-	-	723	15
Americas	13	-	-	-	13	-
Asia	3	-	-	-	2	1
	<b>29 097</b>	<b>20 264</b>	<b>153</b>	<b>3 946</b>	<b>738</b>	<b>3 996</b>

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### 29. Financial instruments and risk management (continued)

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

2021

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

2020

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

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

#### Impairment of financial assets measured at amortised cost

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

Expected credit losses are allocated using three stages:

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

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

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

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

#### Measurement of expected credit losses

Expected credit losses are measured in a way that reflects:

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

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### 29. Financial instruments and risk management (continued)

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

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

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

#### 29.3.3 Liquidity risk

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

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

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

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

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

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

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

2021

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

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### 29. Financial instruments and risk management (continued)

2020

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

#### 29.3.4 Market risk

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

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

##### 29.3.4.1 Interest rate risk

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

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

##### Interest rate profile

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

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

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### 29. Financial instruments and risk management (continued)

#### Interest rate sensitivity analysis

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

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

#### 29.3.4.2 Currency risk

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

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

#### Foreign currency exposure at the end of the reporting period

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

#### Foreign currency sensitivity analysis

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

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

#### 29.3.4.3 Residual value risk

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

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

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### 29. Financial instruments and risk management (continued)

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

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

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

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

	2021 R mil	2020 R mil
<b>Financial liabilities subject to residual value risk</b>		
Residual value provision	41	75

#### Price risk sensitivity analysis

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

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

#### 29.3.4.4 Commodity price risk

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

	2021 R mil	2020 R mil
<b>Financial assets subject to commodity price risk</b>		
Derivatives	17	75

#### Commodity price risk sensitivity

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

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

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### 30. Fair value information

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

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

#### Fair value hierarchy

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

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: Other techniques for which all Inputs which have significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

### 31. Going concern

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

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

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

#### Semi-conductor shortages

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

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### 31. Going concern (continued)

#### COVID-19 considerations

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

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

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

### 32. Events after the reporting period

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

#### Bonds and bank loans issued and redeemed

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

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

#### Russia-Ukraine War

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

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

#### Semi-conductor shortages

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

#### Tax rate change

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

#### SMH Sale of passenger vehicle division

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





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### 33. New accounting standards and IFRIC interpretations

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

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

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

# Mercedes-Benz South Africa Limited

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## Notes to the Consolidated Financial Statements

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

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

*F. van der Merwe*

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## Appendix 1 - Employment Equity Progress Report

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

Occupational levels	Male				Female				Foreign nationals		Total
	A	C	I	W	A	C	I	W	Male	Female	
Top management	1	-	-	-	-	-	-	-	3	-	4
Senior management	3	2	1	6	-	1	-	1	8	-	22
Professionally qualified and experienced specialists and mid-management	7	10	13	16	10	3	7	17	7	1	91
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	169	88	55	137	150	42	29	52	88	10	820
Semi-skilled and discretionary decision making	179	68	8	64	113	29	15	23	2	-	501
Unskilled and defined decision making	877	233	9	46	387	82	2	2	-	-	1 638
<b>Total permanent</b>	<b>1 236</b>	<b>401</b>	<b>86</b>	<b>269</b>	<b>660</b>	<b>157</b>	<b>53</b>	<b>95</b>	<b>108</b>	<b>11</b>	<b>3 076</b>
Temporary employees	409	83	25	25	432	74	14	8	-	3	1 073
<b>Grand total</b>	<b>1 645</b>	<b>484</b>	<b>111</b>	<b>294</b>	<b>1 092</b>	<b>231</b>	<b>67</b>	<b>103</b>	<b>108</b>	<b>14</b>	<b>4 149</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	-	-	-	-	-	-	-	-	-	-	-
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	2	1	2	5	-	-	-	-	2	-	12
Semi-skilled and discretionary decision making	28	7	2	4	8	-	-	-	-	-	49
Unskilled and defined decision making	24	9	-	-	7	-	-	-	-	-	40
<b>Total permanent</b>	<b>54</b>	<b>17</b>	<b>4</b>	<b>9</b>	<b>15</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>101</b>
Temporary employees	-	-	-	-	-	-	-	-	-	-	-
<b>Grand total</b>	<b>54</b>	<b>17</b>	<b>4</b>	<b>9</b>	<b>15</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>101</b>

A - Africans      C - Coloureds

I - Indians      W - Whites



Mercedes-Benz South Africa Ltd.

(Reg. No. 1962/000271/06)

Wierda Road (R576/M10 West)  
Zwartkop

PO Box 1717  
Pretoria  
0001  
South Africa

Tel +27 (0) 12 677 1500  
Fax +27 (0) 12 673 6050

[www.mercedes-benzsa.co.za](http://www.mercedes-benzsa.co.za)