Mercedes-Benz South Africa Limited

(Registration number 1962/000271/06)
Audited Consolidated Annual Financial Statements
for the year ended 31 December 2022


S MB 1227

Contents

The reports and statements set out below comprise the consolidated financial statements presented to the shareholder:

General Information

Directors

Initial and surname	Designation	Appointments/resignations
Mr A Engling	Chief Executive Officer	Resigned 30 April 2022
Mr A Brand	Chief Executive Officer Executive: Manufacturing	Appointed 1 May 2022
Mr KM Eser	Chief Financial Officer	Resigned 30 November 2022
Ms T Woodbridge	Chief Financial Officer Executive: Finance and Controlling	Appointed 1 December 2022
Mr AM Kgotle	Executive: Human Resources	
Mr M Raine	Co-chief Executive Officer Executive: Passenger Cars	
Mrs B Seeger	Non-executive	
Dr J Burzer	Non-executive	Resigned 31 March 2023
Dr JW Schmidt	Chairperson of the board Independent non-executive	Resigned 31 December 2022
Mr W Porth	Chairperson of the board Independent non-executive	Appointed 1 January 2023
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	Resigned 31 March 2023

Registered office

Mercedes-Benz Place
210 Aramist Place
Waterkloof Glen
Pretoria, Gauteng
0010

Holding company

Mercedes-Benz AG incorporated in Germany

Ultimate holding company

Mercedes-Benz Group AG incorporated in Germany

Sponsor

The Standard Bank of South Africa Limited

General Information

Abbreviations used in the financial statements

AIS	Automotive Investment Scheme
APDP	Automotive Production and Development Programme
ARR	Alternative Risk-free rates
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
DTSA	Daimler Truck Southern Africa Limited
DTFS	Daimler Truck Financial Services South Africa Proprietary Limited
EBIT	Earnings Before Interest and Tax
ECL	Expected Credit Loss
EU	European Union
GDP	Gross Domestic Product
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
PSI	Portfolio Specific Impairment
SARB	South African Reserve Bank
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
ZARONIA	South African Rand Overnight Index Average Rate

Preparation of Consolidated Financial Statements

The consolidated financial statements contained in this document, are also available on the group's website: www.mercedes-benz.co.za, and have been prepared under the supervision of Ms T Woodbridge (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 2023.

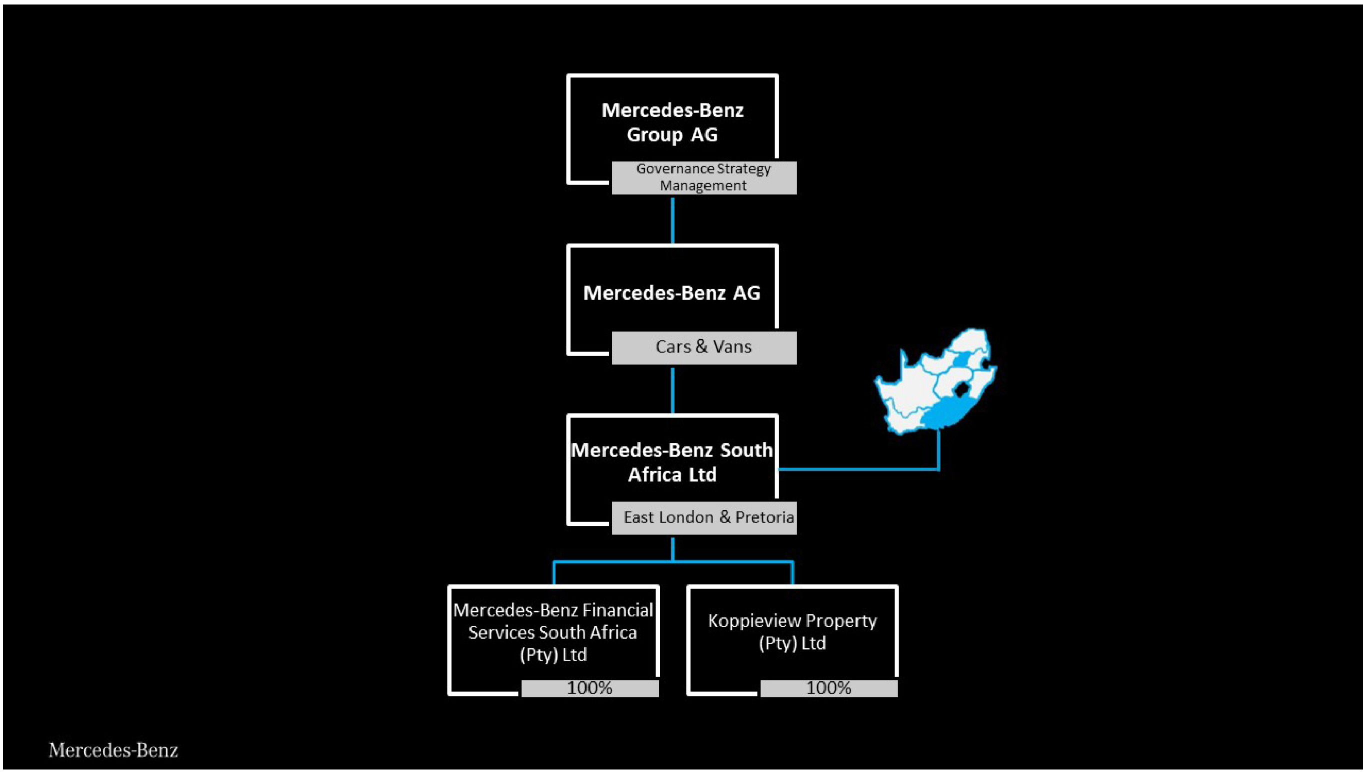
Company Secretary's Certification

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 2022, 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.

Signed by: Denis Desmond Peterson
EMail: denis.peterson@mercedes-benz.com
Signing time: 26-04-2023 16:20:18 (+02:00)
IP address: 163.116.164.113

D Peterson
Company Secretary
26 April 2023

Simplified Group Organogram



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

Audit Committee Report

This report is provided by the audit committee appointed in respect of the 2022 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 three times in the financial year ended 31 December 2022. 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 2022. The audit committee, as per its mandate, 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 at 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 MBSA for 38 years.

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 separate consolidated annual financial statements. The audit committee is satisfied with the appropriateness of the key audit matters reported on by the independent auditor.

5. Consolidated Financial Statements

The audit committee is satisfied that, to the best of its knowledge, the consolidated financial statements for the financial year ended 31 December 2022 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 2022 and that all of the debt listing requirements were complied with.

Audit Committee Report

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 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 by: Fikile Felicity Tebogo De Buck
EMail: extern.de_buck@mercedes-benz.com
Signing time: 26-04-2023 16:28:37 (+02:00)
IP address: 163.116.164.120

Ms FT De Buck
Chairperson: Audit Committee
Wednesday, 26 April 2023

Directors' Report

The directors are pleased to present their report, which forms part of the consolidated annual financial statements of the group for the year ended 31 December 2022.

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 and dealer network.

1.3 Manufacturing and component exports operations

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

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.

	2022 R mil	2021 R mil	Difference year on year R mil	Change year on year %
Income measures				
Vehicles and related services	68 787	42 777	26 010	61
Financial services	243	1 077	(834)	(77)
Profitability measures				
Net income before other income and expenses	4 857	1 994	2 863	144
Operating profit	3 631	965	2 666	276
Profit/(loss) for the year	3 290	(10)	3 300	(33 000)
Financial position measures				
Total assets	52 582	50 318	2 264	4
Total liabilities	31 924	32 923	(999)	(3)
Total equity	20 658	17 395	3 263	19

Sale of Sandown Motor Holdings Proprietary Limited

On 31 December 2022 the group sold 100% of its investment in SMH to DTSA by way of a sale of share agreement. SMH formed part of the MBSA group for the whole 2022 year.

3. Availability of MBSA separate annual financial statements

The MBSA separate annual financial statements have been prepared and signed on 26 April 2023.

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.

4. Corporate governance

The directors have adopted the principles as provided for in King IV for the financial year 2022. 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 annually, or alternatively as and when required, 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)	Resigned 30 April 2022
Mr A Brand**	Executive (Chief Executive Officer)	Appointed 1 May 2022
Mr KM Eser	Executive (Chief Financial Officer)	Resigned 30 November 2022
Ms T Woodbridge	Executive (Chief Financial Officer)	Appointed 1 December 2022
Mr AM Kgotle	Executive	
Mr M Raine	Executive (Co-chief Executive Officer)	
Mrs B Seeger	Non-executive	
Dr J Burzer	Non-executive	Resigned 31 March 2023
Dr JW Schmidt	Chairperson of the board Non-executive independent	Resigned 31 December 2022
Mr W Porth	Chairperson of the board Non-executive independent	Appointed 1 January 2023
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	Resigned 31 March 2023

* 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 2022 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 recognised a net profit after tax of R 3 290 million (2021: loss of R 10 million) for the year ended 31 December 2022 and, at that date, has a capital ratio of 39.29% (2021: 34.57%).

Management believes that the group will be able to meet all its obligations for at least the next 12 months from the date of this report. Management further believes that, proceeds received during 2023 will be sufficient to meet the repayment requirements. Management has performed forecasts and based on these forecasts the expectation is that the group will continue to be profitable for the 2023 financial year. The company and 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, for its operations. This is reviewed annually and additional support is provided, if required. To this extent, MBGAG issued a guarantee with regards to the notes issued under the DMTN programme.

Directors' Report

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. Bonds and bank loans with a value of R 6 billion have matured and been redeemed with maturity dates between 1 January 2023 and 30 April 2023.

Approval of consolidated financial statements

The consolidated financial statements set out on pages 17 to 72, which have been prepared on the going concern basis, were approved by the audit committee, in terms of the board charter, on 26 April 2023, and were signed on its behalf by:

Signed by: Wilfried Porth
EMail: wilfried.porth@web.de
Signing time: 26-04-2023 16:39:04 (+02:00)
IP address: 95.208.175.125

Mr W Porth
Chairperson of the board
Independent non-executive

Signed by: Andreas Friedrich Brand
EMail: andreas.brand@mercedes-benz.com
Signing time: 26-04-2023 16:35:03 (+02:00)
IP address: 41.13.208.158

Mr A Brand
Chief Executive Officer
Executive director: Manufacturing

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
Docex 472 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 (the Group) set out on pages 17 to 72 which comprise the Consolidated Statement of Financial Position as at 31 December 2022, and the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and 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 and its subsidiaries as at 31 December 2022, and its consolidated financial performance and consolidated cash flows for the year then ended then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS) 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.

FV

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.

Revenue recognition

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.

Key audit matter	How the matter was addressed in our audit
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 to revenue upon the performance of the maintenance and service obligation. Recognition of revenue involves 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. The key considerations relating to revenue recognition were: • Satisfaction of the performance obligation occurs when control of the goods are transferred to the customer. • 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. • Appropriateness of the identification of the multiple elements and performance obligations by management. 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.	Our audit procedures performed included the following: • We evaluated the control environment around the initiation and processing of sales transactions to understand the generation of revenue into its separately identifiable elements. • We inspected a sample of sales transactions to underlying source documents, to ensure that revenue was appropriately recognised when the performance obligations are satisfied. • We inspected a sample of vehicle sales transactions before and after year end to assess whether revenue had been recognised in the appropriate period. • We assessed the reasonableness of contract revenue and contract profit or loss, related to sales of service and maintence contracts, 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. • We assessed the appropriateness of the disclosures in the consolidated financial statements in accordance with IFRS 15, Revenue from contracts with customers.

Contract liabilities for service and maintenance contracts

Refer to notes 3.3.1 and 23 in the consolidated financial statements.

<table>
<tr><th>Key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>The group is exposed to the risk that the contract liability for service and maintenance contracts are incorrectly calculated due to the complexity of the estimates and the calculations involved.

Our audit focused on the adequacy of the service and maintenance contract liability due to the application of complex 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.

Assumptions that affect the group's estimate include:
• Distribution costs;
• Discount rate;
• Inflation rate;
• Scrapping ratio;
• Parts sales;
• Labour, parts and repair factors; and
• Profit margin on parts.

Accordingly due to the service and maintenance contract liability for service and maintenance contracts includes estimation uncertainty in determining the appropriate amount to be recognised, the adequacy of the service and maintenance contract liability for service and maintenance contracts is considered to be a key audit matter requiring significant audit effort.</td><td>Our audit procedures performed included the following:
• 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;
• Through involving our own internal valuation specialist to form part of our audit team, we:
  – Evaluated, based on the data provided from the company's provisioning tool, whether the service and maintenance contract liability recognised was reasonable by recalculating the contract liability, using an independent model and comparing our results to those calculated by the Group;
  – Evaluated whether the methodology applied in determining the provision by the Group, are aligned with IFRS 15, Revenue from contract with customers.
  – Challenged managements' key estimates and assumptions in relation to the contract liability recognised, through our own expectations based on our knowledge of the Group and experience of the industry in which it operates;
  – We evaluated the accuracy and completeness of the data used to determine the contract liability by inspecting supporting documentation of a sample population;
  – 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.</td></tr>
</table>

Impairment of loans and advances to customers Refer to notes 3.3.1 and note 16 in the consolidated financial statements.	
Key audit matter	**How the matter was addressed in our audit**
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. The groups ECL model includes certain judgements and assumptions such as: • 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; • The expected exposure in the event of default (exposure at default ("EAD")) which is the expected amount outstanding at the point of default; and • 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. 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.	Our audit procedures performed included the following: • We evaluated and tested the design and implementation and operating effectiveness of the control environment around the determination of the allowance raised; • 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 nonperforming retail portfolio, using an ECL model and comparing our results to those calculated by the group; • We evaluated whether the key estimates, assumptions and methodology used by the group in relation to the ECL allowance are appropriate and reasonable; • 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; • 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; • We evaluated the appropriateness of the disclosures in the consolidated financial statements in accordance with IFRS 9, Financial Instruments.

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 2022, which includes General information, Preparation of Consolidated Financial Statements, Company Secretary's Certification, Simplified Group Organogram, Audit Committee Report and the Directors' Report as required by the Companies Act of South Africa. The other information does not include the consolidated or the separate 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 as issued by the International Accounting Standards Board (IFRS) 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and 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.

KPMG

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 38 years.

KPMG Inc.

Signed by: Fred Von Eckardstein
EMail: fred.voneckardstein@kpmg.co.za
Signing time: 26-04-2023 16:50:49 (+02:00)
IP address: 41.86.220.68

Per FHC von Eckardstein
Chartered Accountant (SA)
Registered Auditor
Director
26 April 2023

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	2022 R mil	2021 R mil
Continuing operations			
Income from sale of vehicles and related services			
Revenue	4	68 787	42 777
Cost of goods sold	5	(64 173)	(41 860)
		4 614	**917**
Income from financial and other services			
Interest received	4	1 000	1 554
Interest paid	4	(1 198)	(1 031)
Reversal of impairment losses on loans and advances to customers	4	13	16
Non-interest revenue	4	691	1 457
Non-interest expenditure	4	(285)	(927)
Income other than from contracts with customers	4	22	8
		243	**1 077**
Net income before other income and expenses		**4 857**	**1 994**
Other income		1 402	1 429
Movement in allowance for impairment of loans and advances to customers		3	413
Movement in allowance for impairment of trade and receivables		(6)	19
Operating expenses		(1 433)	(1 137)
Selling expenses		(1 192)	(1 753)
Operating profit	6	**3 631**	**965**
Finance income	7	121	83
Finance costs	8	(87)	(362)
Reversal of impairment on investment	10	-	92
Loss on sale of portion of business	16	-	(461)
Profit before taxation		**3 665**	**317**
Taxation	9	(1 199)	(276)
Profit from continuing operations		**2 466**	**41**
Profit/(loss) from discontinued operations	10	824	(51)
Profit/(loss) for the year		**3 290**	**(10)**
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurements on net defined benefit liability/asset	18	(14)	46
Items that may be reclassified to profit or loss			
Movement in cash flow hedges	14	(13)	(41)
Other comprehensive (loss)/income for the year, net of taxation		**(27)**	**5**
Total comprehensive income/(loss) for the year		**3 263**	**(5)**
Profit/(loss) attributable to			
Owners of the parent			
From continuing operations		2 466	41
From discontinued operations		824	(51)
		3 290	**(10)**
Total comprehensive income attributable to			
Owners of the parent		3 263	(5)

The notes on pages 21 to 72 form an integral part of the consolidated financial statements.

FV

Consolidated Statement of Financial Position as at 31 December 2022

	Note	2022 R mil	2021 R mil
Assets			
Assets held for sale	10	56	917
Cash and cash equivalents	11	1 862	569
Trade and other receivables	12	7 167	3 257
Inventories	13	11 872	15 443
Derivatives and other financial assets	14	79	94
Current tax receivable		100	189
Amounts receivable from group companies	15	7 354	3 698
Loans and advance to customers	16	10 993	10 043
Deferred initial direct costs		98	102
Right-of-use assets	17	358	294
Assets leased under operating leases	17	1 964	2 293
Property, plant and equipment	17	10 379	12 425
Intangible assets		121	133
Retirement benefit asset	18	179	184
Deferred tax	19	-	677
Total Assets		**52 582**	**50 318**
Equity and Liabilities			
Liabilities			
Liabilities held for sale	10	-	525
Bank overdraft	11	19	8
Trade and other payables	20	4 224	3 398
Amounts payable to group companies	21	6 232	2 849
Provisions	22	771	894
Contract liabilities	23	3 289	3 042
Interest-bearing borrowings	24	16 488	21 828
Post-retirement medical aid benefit obligation	18	398	379
Deferred tax	19	503	-
Total Liabilities		**31 924**	**32 923**
Equity			
Share capital	26	5 417	5 417
Reserves		(386)	(359)
Retained income		15 627	12 337
Total Equity		**20 658**	**17 395**
Total Equity and Liabilities		**52 582**	**50 318**

The notes on pages 21 to 72 form an integral part of the consolidated financial statements.

FV

Consolidated Statement of Changes in Equity

	Share capital and premium R mil	Actuarial reserve R mil	Hedging reserve R mil	Total reserves R mil	Retained income R mil	Attributable to equity holders R mil	Non-controlling interest R mil	Total equity R mil
Balance at 1 January 2021	**5 417**	**105**	**(469)**	**(364)**	**12 294**	**17 347**	**93**	**17 440**
Loss for the year	-	-	-	-	(10)	(10)	-	(10)
Other comprehensive income	-	46	(41)	5	-	5	-	5
Total comprehensive income for the year	**-**	**46**	**(41)**	**5**	**(10)**	**(5)**	**-**	**(5)**
Acquisition of minority interest	-	-	-	-	53	53	(93)	(40)
Balance at 31 December 2021	**5 417**	**151**	**(510)**	**(359)**	**12 337**	**17 395**	**-**	**17 395**
Balance at 1 January 2022	**5 417**	**151**	**(510)**	**(359)**	**12 337**	**17 395**	**-**	**17 395**
Profit for the year	-	-	-	-	3 290	3 290	-	3 290
Other comprehensive income	-	(14)	(13)	(27)	-	(27)	-	(27)
Total comprehensive income for the year	**-**	**(14)**	**(13)**	**(27)**	**3 290**	**3 263**	**-**	**3 263**
Balance at 31 December 2022	**5 417**	**137**	**(523)**	**(386)**	**15 627**	**20 658**		**20 658**
Note	26	18	14					

The notes on pages 21 to 72 form an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	2022 R mil	2021 R mil
Cash flows from operating activities			
Cash flows from the sale of vehicles and related services			
Cash received from customers before changes in operating assets and liabilities		67 477	45 530
Changes in operating assets and liabilities			
(Increase)/decrease in trade and other receivables		(1 428)	82
Increase in amounts receivable from group companies		(3 656)	(2 959)
Increase in contract liabilities		963	793
Cash received from customers		**63 356**	**43 446**
Cash paid to suppliers and employees before changes in operating assets and liabilities		(65 042)	(44 590)
Changes in operating assets and liabilities			
Decrease/(increase) in inventories		3 637	(7 376)
Increase in trade and other payables		872	233
Increase in amounts payable to group companies		3 383	1 511
Cash paid to suppliers and employees		**(57 150)**	**(50 222)**
Cash flows from financial services			
Interest received		1 000	1 569
Interest paid		(1 198)	(1 031)
Non-interest revenue		704	1 458
Non-interest expenditure		(285)	(927)
(Increase)/decrease in loans and advances to customers		(947)	9 862
Purchase of motor vehicles for operating leases		(772)	(1 043)
Proceeds on disposal of rental and operating lease assets		894	2 083
Cash (outflow)/inflow from financial services		**(604)**	**11 971**
Other cash flows			
Finance income received		95	63
Finance costs paid		(36)	(348)
Taxation refunded/(paid)		80	(305)
Net cash inflow from operating activities		**5 741**	**4 605**
Cash flows from investing activities			
Purchase of property, plant and equipment		(749)	(3 202)
Proceeds from disposal of property, plant and equipment		25	13
Receipts of government grants		1 400	119
Disposal of assets held for sale		-	943
Acquisition of NCI		-	(40)
Disposal of portion of business		18	-
Proceeds from disposal of subsidiary		255	-
Net cash inflow/(outflow) from investing activities		**949**	**(2 167)**
Cash flows from financing activities			
Interest-bearing borrowings raised	24	2 500	4 500
Interest-bearing borrowings repaid	24	(7 850)	(10 355)
Lease payments		(58)	-
Net cash outflow from financing activities		**(5 408)**	**(5 855)**
Increase/(decrease) in cash and cash equivalents for the year		**1 282**	**(3 417)**
Cash and cash equivalents at the beginning of the year		561	3 978
Net cash and cash equivalents at the end of the year	11	**1 843**	**561**

The notes on pages 21 to 72 form an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

1. Corporate information

Reporting entity	Mercedes-Benz South Africa Limited is the holding company of the Mercedes-Benz South Africa group
Reporting period	Financial year ended 31 December 2022
Domicile	The Republic of South Africa
Authorised by the board of directors	26 April 2023

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 Listings Requirements and the Companies Act;
- the principle of going concern; and
- the historical cost and fair value basis of accounting, where applicable.

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

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

2.1 Functional and presentation currency

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

2.2 Rounding policy

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

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

2.3 Foreign currency translation

Procedures followed to translate to presentation currency

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

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

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

Notes to the Consolidated Financial Statements

3. Presentation of financial statements

3.1 Group accounting

Group structure

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

Consolidation

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

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

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

Subsidiaries - recognition and measurement

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

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

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

Non-controlling interest

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

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

Goodwill

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

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

Intercompany transactions

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

3.2 Retained earnings

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

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.

FV

Notes to the Consolidated Financial Statements

3. Presentation of financial statements (continued)

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 as two separate performance obligations. 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 group'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.

MBSA has granted the guarantee to MBFS and will bear any losses below the residual value.

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

Residual values

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

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

3. Presentation of financial statements (continued)

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 group’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.

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 PRC should be impaired by the penalty on conversion and then valued as a PRC.

FV

Notes to the Consolidated Financial Statements

3. Presentation of financial statements (continued)

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.

Notes to the Consolidated Financial Statements

3. Presentation of financial statements (continued)

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

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

Residual values

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

Impairment

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

Provisions (note 22)

Guaranteed residual value provision

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

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

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

Warranty provision

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

Plant production related provisions

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

FV

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

	2022	2021
Discount rates used		
Pre-retirement discount rate	12.45 %	10.87 %
Post-retirement discount rate	6.40 %	5.26 %
Inflation rates used		
General inflation rate	7.11 %	6.67 %
Salary inflation rate	7.11 %	6.67 %
Average age		
Average age (in years)	56	56
Average age of pensioners (in years)	71	75

Post-retirement medical aid benefit

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

Actuarial assumptions for post-retirement medical aid benefit

Health care cost inflation	9.57 %	8.54 %
Mortality		
Pre-expected retirement age	SA 1985 - 90 light	
Post-retirement age	PA(90) - 2	

4. Revenue and income from financial services and other

4.1 Revenue allocation

	2022 R mil	2021 R mil
Income from sale and leasing of vehicles and related services		
Vehicles and spare parts	68 787	42 777
Income from financial and other services		
Interest received		
Instalment sales	912	1 152
Finance leases	11	281
Wholesale funding and other	77	121
	1 000	**1 554**
Interest paid		
Interest-bearing borrowings at amortised cost	(1 198)	(1 031)
Reversal of impairment losses on loans and advances to customers		
Legal loss recovery	13	16

Notes to the Consolidated Financial Statements

	2022 R mil	2021 R mil
4. Revenue and income from financial services and other (continued)		
Non-interest revenue		
Operating lease instalments	604	972
Remarketing revenue	15	373
Agent income	29	56
Insurance commission	31	30
Acceptance and initiation fee	11	25
Other revenue	1	1
	691	**1 457**
Non-interest expenditure		
Remarketing cost of sales	(42)	(137)
Direct costs from financial services	(243)	(790)
	(285)	**(927)**
Other income		
Other	22	8

4.2 Disaggregation of revenue

The group disaggregates revenue from customers as follows:

	2022 R mil	2021 R mil
Sale of goods		
Manufacturing and component parts export	56 302	31 089
Wholesale and retail vehicles and parts	11 788	11 073
	68 090	**42 162**
Rendering of services		
Financial services		
Non-interest revenue*	691	1 457
Interest received*	1 000	1 554
Legal loss recovery	13	16
	1 704	3 027
Other services		
Maintenance and service contracts	697	615
	2 401	**3 642**
	70 491	**45 804**

* These items include lease income.

4.3 Timing of revenue recognition

	2022 R mil	2021 R mil
At a point in time		
Sale of goods	68 090	42 162
Non-interest revenue	87	485
Legal loss recovery	13	16
	68 190	**42 663**
Over time		
Interest received	1 000	1 554
Operating lease instalments	604	972
Maintenance and service contracts	697	615
	2 301	**3 141**
Total revenue from contracts with customers	**70 491**	**45 804**

FV

Notes to the Consolidated Financial Statements

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

4.4 Income from contracts with customers

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

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

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

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

Recognition and measurement

Sale of vehicles, service parts and other related products:

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

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

Rendering of services:

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

- servicing fees included in the price of products sold are recognised by reference to the proportion of the cost to the total cost of providing the servicing for the product sold, taking into account historical trends in the number of services actually provided on past goods sold;
- time and material contracts are recognised at the contractual rates as labour hours are delivered and direct expenses are incurred; and
- the group offers extended, separately priced service and maintenance contracts 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 17, Assets leased under operating leases.

Initial direct costs:

Any Initial direct costs incurred by MBSA in obtaining an operating lease are added to the carrying amount of the underlying asset and cannot be recognised immediately as an expense. These initial direct costs are recognised as an expense on the same basis as the lease income. This will not necessarily be consistent with the basis on which the underlying asset is depreciated.

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.

Notes to the Consolidated Financial Statements

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

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.

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.

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.

	2022 R mil	2021 R mil
5. Cost of good sold		
Cost of goods sold	**64 173**	**41 860**

FV

Notes to the Consolidated Financial Statements

5. Cost of good sold (continued)

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 PRC and VALA 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

PRC

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

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

The measurement of PRC's is dependent on the utilisation factors applied. 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 is recognised on sale as a reduction in the cost of the inventories or materials to which it relates.

VALA is 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 will be received.

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.

	2022 R mil	2021 R mil
6. Operating profit		
Operating profit for the year includes:		
Staff costs		
Cost of goods sold	1 974	1 942
Operating expenses	231	252
Selling expenses	191	454
Total staff costs	**2 396**	**2 648**

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.

FV

Notes to the Consolidated Financial Statements

6. Operating profit (continued)

Long–term service benefits

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

	Note	2022 R mil	2021 R mil
Other expenses/(income) included in operating profit			
Expenses			
Loss on sale of property, plant and equipment and assets leased under operating leases		37	28
Legal fees		5	11
Foreign exchange losses - unrealised		4	-
Foreign exchange losses - realised		-	36
Defined contributions plans		151	151
Income			
Production support income		(812)	(1 032)
Foreign exchange gains - realised	17	(16)	-
Foreign exchange gains - unrealised		-	(39)

Production support income relates to support received from MBAG for support of local operations.

7. Finance income

	2022 R mil	2021 R mil
Interest income		
Bank accounts	92	58
Retirement benefit assets	26	19
Tax authorities	3	6
Total interest income	**121**	**83**

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

	2022 R mil	2021 R mil
Interest expense on/to		
Interest-bearing borrowings - non-financial activities	(11)	229
Group companies	30	67
Retirement benefit obligations	40	41
Other interest	28	25
Total finance costs	**87**	**362**

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.

FV

	2022 R mil	2021 R mil

9. Taxation

Major components of the tax expense

	2022 R mil	2021 R mil
Current		
Charge for the current year	18	120
Over provision from the previous period	20	(12)
	38	**108**
Deferred		
Charge for the current year	1 184	177
Changes in tax rates	(18)	-
Over provision from the previous period	(5)	(9)
	1 161	**168**
	1 199	**276**

Reconciliation of the tax expense

Reconciliation between applicable tax rate and average effective tax rate.

	2022	2021
Applicable tax rate	28 %	28 %
Non-deductible expenses		
Capital expenses	- %	1 %
Discontinued operations	4 %	- %
Loss on sale of assets	- %	41 %
Impairment of subsidiaries	- %	23 %
Donation	- %	1 %
Other	- %	(2)%
Non-taxable income		
Interest and fines paid on taxes	- %	2 %
Prior year adjustment - current taxation	1 %	(4)%
Prior year adjustment - deferred taxation	- %	(3)%
	33 %	**87 %**

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 assessment ending on or after 31 March 2023.

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.

FV

10. Discontinued operations

Koppieview

As of the end of 2021 the MBSA group embarked on the process of selling all of the properties that were owned by Koppieview. Two of the properties were sold subsequently with one property (Zwartkops, previously MBSA head office) in the process of being sold.

As all these properties were actively marketed or in the process of sale, management decided to classify these properties according to IFRS 5 *Assets held for sale*.

SMH

On 31 December 2022, MBSA sold its investment in SMH subsidiary to an external party at market value (R 255 million) and presented the gain on the disposal of the subsidiary as a profit from discontinued operation.

Accordingly the profits generated from SMH are presented as a discontinued operation.

	2022 R mil	2021 R mil
10.1 Assets held for sale		
Koppieview assets held for sale		
Land and buildings	55	140
Other equipment, factory and office equipment	1	1
	56	**141**
SMH assets held for sale		
Property, plant and equipment	-	88
Right-of-use assets	-	299
Trade and other receivables	-	27
Inventories	-	325
Deferred tax	-	37
	-	**776**
10.2 Liabilities held for sale		
SMH liabilities held for sale		
Trade and other payables	-	154
Lease liabilities	-	371
	-	**525**
10.3 Profit/(loss) from discontinued operations		
SMH discontinued operations		
Revenue	4 127	2 022
Cost of goods sold	(3 085)	(1 687)
Gross profit	**1 042**	**335**
Other income	182	6
Operating expenses	(407)	(361)
Profit/(loss) before net finance costs and taxation	**817**	**(20)**
Finance income	1	-
Finance expenses	(26)	(42)
Profit/(loss) before taxation	**792**	**(62)**
Tax	(88)	11
Profit/(loss) from discontinued operations	**704**	**(51)**
Other disclosure in the statement of profit or loss and other comprehensive income		
Reversal of impairment of investment	-	92
Gain on disposal of subsidiary	120	-

FV

Notes to the Consolidated Financial Statements

10. Discontinued operations (continued)

10.4 Cash flows from discontinued operations

	2022 R mil	2021 R mil
Net cash flows from operating activities	704	(21)
Net cash flows from investing activities	120	(7)
	824	**(28)**

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

Fair value determination

Koppieview sale of properties

The fair values of the properties being sold were determined based on the offers received from potential buyers. Based on the offers received the fair values of the properties were considered Level 3 fair values in terms of IFRS 13.

SMH sale of passenger vehicle business

A discounted cash-flow valuation was performed to obtain the fair value of the investment.

Risk rates applied took into account a risk free rate of 4.26%. The Beta applied was derived based on entities in the same business environment as SMH. The terminal growth applied took into account expected South African inflation rates. Based on these inputs utilised, the fair value of the entity can be considered a Level 3 fair value in terms of IFRS 13.

11. Cash and cash equivalents

Statement of financial position disclosure:

	2022 R mil	2021 R mil
Cash and cash equivalents	1 862	569
Bank overdraft	(19)	(8)
Cash and cash equivalents in the statement of cash flows	**1 843**	**561**

Cash and cash equivalents comprise coins and bank notes, money at call and short notice and balances with commercial banks. Cash and cash equivalents also includes bank overdrafts.

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. Bank overdrafts are repayable on demand and form an integral part of the group's cash management.

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

FV

Notes to the Consolidated Financial Statements

12. Trade and other receivables

	2022 R mil	2021 R mil
Financial instruments		
Trade receivables, net of allowance for impairment	2 034	1 350
Production incentives	3 676	1 194
Other receivables	487	213
Trade receivables at amortised cost	**6 197**	**2 757**
Non-financial instruments		
VAT	903	458
Prepayments	67	42
Total trade and other receivables	**7 167**	**3 257**

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

	2022 R mil	2021 R mil
Reconciliation of loss allowances		
Opening balance	**8**	**27**
Amounts written off	-	(2)
Additional allowance raised	11	8
Unused amounts reversed	(5)	(22)
Transfers to assets held for sale	-	(3)
Closing balance	**14**	**8**

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.

FV

12. Trade and other receivables (continued)

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

Financial assets - Business model management

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

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

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

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

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

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

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

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

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

Transfers and derecognition

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

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

Fair value of trade and other receivables

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

FV

Notes to the Consolidated Financial Statements

	2022 R mil	2021 R mil

13. Inventories

	2022 R mil	2021 R mil
Raw materials	6 851	6 725
Work in progress	1 410	6 115
Finished goods	3 717	2 775
	11 978	15 615
Allowance for impairment of inventories	(106)	(172)
	11 872	**15 443**

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

	2022 R mil	2021 R mil
Inventories expensed during the year	56 825	32 594
Inventories written back during the year	(32)	(84)

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

	2022 R mil	2021 R mil
Financial derivatives	-	17
Other financial assets	79	77
	79	**94**

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.

FV

Notes to the Consolidated Financial Statements

	2022 R mil	2021 R mil

14. Derivatives and other financial assets (continued)

Reconciliation of the movement in the hedging reserve

Balance at the beginning of the year	(510)	(469)
Other comprehensive income, net of tax		
Effective portion of the changes in fair value recognised directly in OCI	(18)	(57)
Deferred taxation	5	16
	(13)	**(41)**
Balance at the end of the year	**(523)**	**(510)**

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

Fellow subsidiaries

Mercedes-Benz Group AG	266	61
Mercedes-Benz AG	7 077	3 621
Daimler Servicios Corporativos Mexico S. de R.L. de C.V.	-	4
Mercedes-Benz Malaysia Sdn. Bhd.	3	1
Mercedes-Benz US International	3	4
Mercedes-Benz Vietnam	2	2
Mercedes-Benz Financial Services UK Ltd	-	1
Mercedes-AMG GmbH	-	1
Mercedes-Benz Bank Russia	-	2
Mercedes-Benz Financial Services India Private Limited	2	-
Mercedes-Benz Manufacturing (Thailand) Limited	-	1
Mercedes-Benz USA, LLC	1	-
	7 354	**3 698**

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 2022 the interest rates on these "on-demand" trade receivables are between 3.82% and 7.90% (2021: 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.

FV

Notes to the Consolidated Financial Statements

	2022 R mil	2021 R mil

15. Amounts receivable from group companies (continued)

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

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

Fair value of group loans receivable

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

16. Loans and advance to customers

	2022 R mil	2021 R mil
Instalment sale receivables	9 010	9 176
Finance lease receivables	533	495
Wholesale vehicle financing receivables	1 806	731
Gross loans and advances to customers	**11 349**	**10 402**
Impairment losses	(356)	(359)
	10 993	**10 043**

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

	2022			2021		
	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	3 156	(610)	2 546	2 908	(455)	2 453
Between one and five years	8 903	(1 906)	6 997	8 606	(1 388)	7 218
	12 059	**(2 516)**	**9 543**	**11 514**	**(1 843)**	**9 671**

Summary of loss allowance

At 31 December 2022, loans and advances to customers of R 356 million (2021: R 359 million) were impaired and provided for.

Classification	Stage 1	Stage 2	Stage 3	
2022	12-month ECL R mil	Lifetime ECL not credit impaired R mil	Lifetime ECL credit impaired R mil	Total R mil
Loan retail	65	73	186	324
Finance leases	1	2	4	7
Wholesale vehicle financing receivables	-	-	-	24
Loan retail - corporate dealers	-	-	-	1
	66	**75**	**190**	**356**

FV

Notes to the Consolidated Financial Statements

16. Loans and advance to customers (continued)

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

Loss allowance per category

2022	Finance lease R mil	Loan and retail R mil	Wholesale R mil	Total R mil
Corporate dealers	-	1	-	1
Corporate financing	-	5	-	5
Retail portfolio financing	4	172	24	200
Retail small business	3	147	-	150
	7	**325**	**24**	**356**

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

Loss allowance movement - 2022	Stage 1 12-month ECL R 'mil	Stage 2 Lifetime ECL not credit impaired R 'mil	Stage 3 Lifetime ECL credit impaired R 'mil	Purchased/originated credit impaired R 'mil	Total R 'mil
Balance at beginning of the year	75	52	232	-	359
- Transfer to stage 1	19	(6)	(13)	-	-
- Transfer to stage 2	(2)	12	(10)	-	-
- Transfer to stage 3	(2)	(13)	15	-	-
Change in remeasurement	(15)	39	74	-	98
Additions (new financial assets originated or purchased)	26	11	18	-	55
Derecognition (write-off, disposal or repayment)	(20)	(14)	(34)	-	(68)
Utilisation (write-off)	-	(5)	(83)	-	(88)
	81	**76**	**199**	**-**	**356**

FV

16. Loans and advance to customers (continued)

2021	Stage 1 12-month ECL R 'mil	Stage 2 Lifetime ECL not credit impaired R 'mil	Stage 3 Lifetime ECL credit impaired R 'mil	Purchased/originated credit impaired R 'mil	Total R 'mil
Balance at beginning of the year	82	77	189	-	348
- Transfer to stage 1	39	(16)	(23)	-	-
- Transfer to stage 2	(2)	12	(10)	-	-
- Transfer to stage 3	(3)	(38)	41	-	-
Change in remeasurement	(25)	32	130	-	137
Additions (new financial assets originated or purchased)	19	4	12	-	35
Derecognition (write-off, disposal or repayment)	(35)	(16)	(43)	-	(94)
Utilisation (write-off)	-	(3)	(64)	-	(67)
	75	**52**	**232**	**-**	**359**

The following table provides information about the exposure to credit risk and ECL's for contract assets for retail customers:

Credit risk rating - 2022	Gross exposure R 'mil	Loss allowance R 'mil
R1 - R3: Good	5 971	122
R4 - R6: Fair	4 364	174
R7 - R10: Risky	741	60
	11 076	**356**

	2022 R mil	2021 R mil
Movement in allowance for impairment losses on loans and advances to customers		
Opening balance	359	772
Additional allowance raised	128	228
Amounts written off	(131)	(267)
Transfers to DTFS	-	(374)
Closing balance	**356**	**359**

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.

Notes to the Consolidated Financial Statements

16. Loans and advance to customers (continued)

Write-offs

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

Amounts written off as uncollectable are subject to a continuing legal debt collection process.

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):

<table>
<tr><th>Description</th><th>Type of advance</th><th>Group policy on past due/impaired</th></tr>
<tr><td rowspan="3">Past due advances</td><td colspan="2">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.</td></tr>
<tr><td>Loans with a specific expiry date (term loans etc.) and consumer loans repayable by regular instalments (personal loans)</td><td>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.</td></tr>
<tr><td>Loans payable on demand (bank overdrafts and overnight facilities)</td><td>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.</td></tr>
<tr><td rowspan="2">Non-performing loans</td><td>Retail loans</td><td>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.</td></tr>
<tr><td>Wholesale advances to motor vehicle dealerships</td><td>Analysed on a case-by-case basis taking into account breaches of key loan conditions, excesses and similar risk indicators.</td></tr>
<tr><td>Renegotiated advances</td><td>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.</td><td>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.</td></tr>
</table>

17. Property, plant and equipment

	2022			2021		
	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	2 910	(644)	2 266	3 200	(553)	2 647
Plant and equipment	11 360	(3 516)	7 844	12 187	(2 995)	9 192
Other factory equipment and furniture	50	(46)	4	78	(65)	13
Motor vehicles	25	(15)	10	40	(21)	19
Assets under construction	255	-	255	554	-	554
Property, plant and equipment	**14 600**	**(4 221)**	**10 379**	**16 059**	**(3 634)**	**12 425**
Assets leased under operating leases	**2 318**	**(354)**	**1 964**	**2 866**	**(573)**	**2 293**
Right-of-use assets (refer note 17.1)	**570**	**(212)**	**358**	**423**	**(129)**	**294**

Reconciliation of the movement in property, plant and equipment and assets leased under operating leases - 2022

	Opening balance R mil	Additions R mil	Disposal of operations R mil	Disposals or scrappings R mil	Transfers R mil	Government grants R mil	Depreciation R mil	Impairment (loss)/ reversal R mil	Closing balance R mil
Land and buildings	2 647	20	-	(7)	23	(322)	(95)	-	2 266
Plant and equipment	9 192	599	-	(54)	401	(1 077)	(1 217)	-	7 844
Other factory equipment and furniture	13	2	(8)	(1)	-	-	(2)	-	4
Motor vehicles	19	3	(10)	-	-	(1)	(1)	-	10
Assets under construction	554	125	-	-	(424)	-	-	-	255
Property, plant and equipment	**12 425**	**749**	**(18)**	**(62)**	**-**	**(1 400)**	**(1 315)**	**-**	**10 379**
Assets leased under operating leases	**2 293**	**772**	**-**	**(894)**	**-**	**-**	**(177)**	**(30)**	**1 964**
Right-of-use assets (refer note 17.1)	**294**	**150**	**(3)**	**-**	**-**	**-**	**(83)**	**-**	**358**

Notes to the Consolidated Financial Statements

17. Property, plant and equipment (continued)

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

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

Categories and measurement

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

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

Operating leases (company as lessor)

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

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

Notes to the Consolidated Financial Statements

17. Property, plant and equipment (continued)

Government grants - AIS

A government grant of R 1 400 million (2021: R 119 million) was due in terms of AIS and recognised against the cost of relevant categories of property, plant and equipment. Of the R 1 400 million, R 1 050 million was actually received and although the remaining R 350 million was due at the end of December 2022, it was received in April 2023. There are no fulfillment conditions and no other contingencies attached to these government grants.

Capital expenditure

At 31 December 2022 the group authorised the acquisition of property, plant and equipment amounting to R 604 million (2021: R 777 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.

17.1 Right-of-use assets

2022	Land and buildings R mil	Technical equipment and machinery R mil	Factory and office equipment R mil	Total R mil
Opening balance	235	-	59	294
Additions	149	-	1	150
Depreciation	(59)	-	(24)	(83)
Transfers to assets held for sale	(3)	-	-	(3)
	322	**-**	**36**	**358**

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)
Transfer to assets held for sale	(300)	-	-	(300)
	235	**-**	**59**	**294**

Right-of-use assets are presented within property, plant and equipment on the consolidated statement of financial position. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. However, if a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of a lease.

For right-of-use assets which are depreciated over their useful lives, the useful lives are determined consistently with items of the same class of property, plant and equipment. Refer to the accounting policy for property, plant and equipment for details of useful lives.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

		2022 R mil	2021 R mil

17. Property, plant and equipment (continued)

Future minimum lease income

	2022 R mil	2021 R mil
Future minimum lease receipts under non-cancellable operating leases:		
Year 1	470	438
Year 2	412	319
Year 3	304	138
Year 4	207	47
Year 5	39	11
	1 432	**953**

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

	Note	2022 R mil	2021 R mil
Net retirement benefit plan asset	18.1	179	184
Post-retirement medical aid benefit obligation	18.2	(398)	(379)

18.1 Retirement benefit plan asset

Defined benefit schemes

	2022 R mil	2021 R mil
Present value of obligations	(2 108)	(2 216)
Fair value of plan assets	2 287	2 400
Net defined benefit asset	**179**	**184**

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 2022. 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.

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).

Notes to the Consolidated Financial Statements

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

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	
	2022 R mil	**2021 R mil**	**2022 R mil**	**2021 R mil**
Opening balance	2 400	1 962	2 216	1 851
Included in profit or loss				
Current service cost	-	-	23	19
Interest	233	211	206	190
	233	**211**	**229**	**209**
Included in OCI				
Actuarial (gains)/losses				
Financial assumptions	-	-	(203)	222
Experience adjustment	-	-	25	(65)
Other	(15)	6	(15)	7
Remeasurements	(189)	270	-	-
	(204)	**276**	**(193)**	**164**
Other				
Benefits paid	(151)	(151)	(151)	(151)
Contributions received	18	21	-	-
Employee contributions	7	7	7	8
Intercompany transfers	-	135	-	135
	(126)	**12**	**(144)**	**(8)**
Adjustment to asset ceiling	(16)	(61)	-	-
Closing balance	**2 287**	**2 400**	**2 108**	**2 216**

	2022 R mil	**2021 R mil**
The projected employer and employee contributions and the benefit for the next year are as follows:		
Employer contributions	19	24
Employee contributions	7	8
Fair value of plan assets comprises		
Bonds	1 803	1 860
Equities	371	411
Property	6	40
Derivatives net of cash	43	9
	2 223	**2 320**

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.

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

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**	
		2022	**2021**
Discount rate	0.25 %	(1.15)%	(2.75)%
	(0.25)%	1.25 %	2.85 %
General inflation rate	0.10 %	0.95 %	1.05 %
	(0.10)%	(0.95)%	(1.05)%
Average age	+1 year	(1.90)%	(2.05)%
	-1 year	1.85 %	2.00 %

	2022 R mil	**2021 R mil**
18.2 Post-retirement medical aid benefit obligation		
Present value of portfolio obligation	398	379

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 2022. The actuarially determined liability is allocated to provisions. The assumptions used are consistent with those adopted by the actuaries in determining pension costs and in addition, include long-term estimates of the increase in medical costs and appropriate discount rates. The level of claims is based on the individual company's experiences.

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

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

	2022	2021
Opening balance	379	352
Included in profit or loss		
Current service cost	9	11
Interest cost	42	44
	51	**55**
Included in OCI		
Actuarial gains	(7)	(13)
Other		
Contributions	(19)	(15)
Derecognition of consolidated companies	(6)	-
Closing balance	**398**	**379**

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

Sensitivity analysis

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

Assumption	Change applied to assumption	Resulting % change in past service contractual liability		Resulting % change in service cost and interest cost	
		2022	2021	2022	2021
Health care cost inflation	1.00 %	(9.95)%	(10.55)%	(4.85)%	(5.20)%
	(1.00)%	12.00 %	12.90 %	5.75 %	6.20 %
Mortality	+1 year	(2.60)%	(2.50)%	- %	(2.50)%
	-1 year	2.60 %	2.50 %	0.05 %	2.55 %

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

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

Plan assets

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

Profit or loss

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

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

Other comprehensive income

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

Notes to the Consolidated Financial Statements

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

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.

	2022 R mil	2021 R mil
19. Deferred tax		
Reconciliation of movement in net deferred tax (liability)/asset		
At beginning of year	677	874
disposal of subsidiary (discontinued operation)	(29)	-
Change in tax rate	18	-
Current year charge through profit or loss	(1 184)	(51)
Current year charge through OCI		
Retirement benefit assets and liabilities	10	(2)
Cash flow hedges	-	-
Prior year over provision	5	9
Net current year charge of disposal group	-	(126)
Transfers to assets held for sale	-	(37)
Assets held for sale current year charge	-	10
	(503)	**677**
Deferred tax asset		
Deferred revenue	885	858
Provisions	502	521
Retirement benefit assets	268	245
Allowance for impairment of receivables	3	83
Prior period over provision	1	-
Lease liability	179	177
Income received in advance	22	5
Capital allowance	-	3
Accrual for acceptance fees	4	-
Cash flow hedge through profit or loss	1	1
Deferred employment expenses	4	5
Disposal group held for sale	-	86
Assessed loss carried forward	141	347
Allowance for uncollectable lease payments	79	-
	2 089	**2 331**
Deferred tax liability		
Government grants	(992)	(334)
Capital allowances	(1 283)	(925)
Retirement benefit obligation - prepaid pension	(156)	(126)
Right-of-use asset	(98)	(82)
Cash flow hedge	-	(5)
Retirement benefit obligation - OCI	(50)	(63)
Prepayments	(10)	(4)
Leased assets	(3)	(2)
Disposal group held for sale	-	(113)
	(2 592)	**(1 654)**
Total net deferred tax (liability)/asset	**(503)**	**677**

FV

Notes to the Consolidated Financial Statements

	2022 R mil	2021 R mil
20. Trade and other payables		
Financial instruments		
Trade payables	3 032	1 700
Lease liability (refer note 20.1)	399	324
Other payables	244	816
	3 675	**2 840**
Non-financial instruments		
Amounts received in advance	-	37
VAT	18	3
Employee related liabilities	531	518
	4 224	**3 398**

20.1 Lease liability

	2022 R mil	2021 R mil
Items recognised in statement of financial position		
Lease liability	399	324
Items recognised in profit or loss		
Interest on lease liability	24	54
Expense relating to short-term leases	5	9
Expense relating to low value assets, excluding short-term leases of low value assets	5	11
Other		
Cash outflows from leases	101	116

Maturity profile of lease liability for the year ended 31 December 2022	Less than 1 year R mil	2 - 5 years R mil	More than 5 year R mil	Total R mil
Lease liability	69	201	129	399

31 December 2021	Less than 1 year R mil	More than 1 year R mil	Total R mil
Lease liability	56	268	324

Leases

The group assesses whether a contract is, or contains a lease, at the inception of the contract.

A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as lessee

A lease liability and corresponding right-of-use asset are recognised at the lease commencement date, for all lease agreements for which the group is a lessee, except for short-term leases of 12 months or less, or leases of low value assets.

The lease liability is measured at the present value of the outstanding lease payments, discounted by the incremental borrowing rate at 1 January 2022. The weighted average incremental borrowing rate was 8.58% (2021: 5.7%). The respective right-of-use asset is generally recognised at an amount equal to the lease liability.

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.

Notes to the Consolidated Financial Statements

20. Trade and other payables (continued)

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.

	2022 R mil	2021 R mil
21. Amounts payable to group companies		
Fellow subsidiaries		
Mercedes-Benz AG	6 153	2 804
Mercedes-Benz Singapore Pte. Ltd.	16	1
Mercedes-Benz Korea Limited	1	-
Terms and conditions		
Mercedes-Benz Group AG	49	35
Mercedes-Benz Cars & Vans Brasil - Industria E Comercio De Veiculos Ltda.	1	8
Mercedes-Benz Parts Logistics UK Limited	6	-
Mercedes Benz Otomotiv Ticaret ve Hizmetler A.S.	-	1
Mercedes-Benz Mobility AG	6	-
	6 232	**2 849**

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.

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 group loans payable

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

Notes to the Consolidated Financial Statements

22. Provisions

Reconciliation of provisions - 2022

	Opening balance R mil	Additional provision R mil	Amounts utilised R mil	Amounts reversed R mil	Closing balance R mil
Premium drive	496	153	(410)	-	239
Residual value	41	7	-	(25)	23
Warranty claims	25	83	(7)	-	101
Plant production related provisions	332	671	(595)	-	408
	894	**914**	**(1 012)**	**(25)**	**771**

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

Premium drive

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

Residual value risk

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

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

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.

Plant production related provisions

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

23. Contract liabilities

Summary of contract liabilities

	2022 R mil	2021 R mil
Maintenance and service contracts	3 019	2 800
Rebates, discounts and other	82	82
Financial services contracts	188	160
	3 289	**3 042**

FV

Notes to the Consolidated Financial Statements

	2022 R mil	2021 R mil

23. Contract liabilities (continued)

Reconciliation of contract liabilities

	2022 R mil	2021 R mil
Opening balance	3 042	2 909
Additions to contracts	963	793
Maintenance contracts released to revenue	(697)	(615)
Utilisation of rebates and discounts	(19)	(45)
	3 289	**3 042**

	2022 R mil	2021 R mil
Expected release deferred revenue to revenue		
Within 1 year	831	741
Within 2 years	596	528
Within 3 years	631	560
Within 4 years	669	593
Within 5 years	562	620
	3 289	**3 042**

Contract liabilities consist of liabilities from maintenance and service contracts with customers. 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 deferred revenue 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. 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

	2022 R mil	2021 R mil
Bonds issued under MBSA DMTN Programme	14 400	19 250
Bank loans	2 000	2 500
Interest accrued	88	78
	16 488	**21 828**

	2022 R mil	2021 R mil
Details of movement		
Opening balance	21 828	27 713
Bonds issued	2 500	3 000
Bonds repaid	(7 350)	(8 800)
Loan facilities received	-	1 500
Loan facilities repaid	(500)	(1 500)
Interest capitalised	-	(30)
Settlement of preference shares	10	(55)
	16 488	**21 828**

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.

FV

24. Interest-bearing borrowings (continued)

Bank loans

MBSA obtains bank loans and overnight facilities from various financial institutions for the funding requirements of the group entities. The loans are held to maturity, which are up to 3 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 1.150% to 1.250%.

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 30 September 2025 and are issued at market related rates of interest, referenced off the 3-month JIBAR with spreads between 0.95% to 1.30%.

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

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

31 December 2022

Code	Listed	Issue amount R mil	Issue date	Maturity date	Rate	Spread %
MBF068	Yes	900	17/11/2020	17/11/2023	Floating	0.95 %
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 %
MBF072	Yes	1 000	31/05/2022	31/05/2025	Floating	1.09 %
MBF073	Yes	1 500	30/09/2022	30/09/2025	Floating	1.08 %
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	1 000	27/09/2018	27/09/2023	Floating	1.15 %
MBP045	Yes	500	27/09/2018	27/09/2023	Floating	1.15 %
MBP047	Yes	500	26/02/2019	26/02/2024	Floating	1.15 %
MBP049	Yes	1 500	27/03/2019	27/03/2024	Floating	1.15 %
MBP051	Yes	3 500	12/03/2020	12/03/2023	Floating	1.08 %
MBP052	Yes	500	26/03/2021	26/03/2024	Floating	1.08 %
Total listed bonds		**14 400**				

31 December 2021

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

Notes to the Consolidated Financial Statements

25. Segmental information

Basis for segmentation

The group is organised into four segments for operational and management purposes, being wholesale and retail vehicles, manufacturing and component exports, financial services and fleet management and other. The group 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.

	2022		2021	
	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	52 377	-	26 966	-
Africa	18 114	20 096	18 612	23 326
Americas	-	-	226	-
Total	**70 491**	**20 096**	**45 804**	**23 326**

Majority of sales to Europe R 52 377 million (2021: R 26 966 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:

2022	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	12 485	56 302	-	-	68 787
Revenue from financial services	-	-	1 704	-	1 704
Total income from sales and financing activities	**12 485**	**56 302**	**1 704**	**-**	**70 491**
Income other than from contracts with customers	-	-	-	22	22
Interest paid	-	-	(1 198)	-	(1 198)
Finance cost	(87)	-	-	-	(87)
Impairment	-	-	(29)	-	(29)
Depreciation	(97)	(1 365)	(12)	(15)	(1 489)
Segment staff cost	(199)	(2 119)	(78)	-	(2 396)
Segment EBIT	**(506)**	**4 387**	**(272)**	**22**	**3 631**
Segment assets	**18 645**	**33 083**	**854**	**-**	**52 582**
Segment liabilities	**(28 066)**	**(3 759)**	**(82)**	**(17)**	**(31 924)**

FV

Notes to the Consolidated Financial Statements

25. Segmental information (continued)

25. Segmental information (continued)

2021	Wholesale and retail vehicles R mil	Manufacturing and component exports R mil	Financial services and Fleet management R mil	Other R mil	Total R mil
Revenue from sale of vehicles	11 688	31 089	-	-	42 777
Revenue from financial services	-	-	3 027	-	3 027
Total income from sales and financing activities	**11 688**	**31 089**	**3 027**	**-**	**45 804**
Income other than from contracts with customers	-	-	-	8	8
Interest paid	-	-	(1 031)	-	(1 031)
Finance cost	(362)	-	-	-	(362)
Impairment reversal	-	-	(24)	-	(24)
Depreciation	(162)	(1 185)	(13)	(15)	(1 375)
Segment staff cost	(520)	(2 013)	(115)	-	(2 648)
Segment EBIT	**513**	**387**	**79**	**(14)**	**965**
Segment assets	**4 975**	**33 492**	**11 705**	**146**	**50 318**
Segment liabilities	**(29 612)**	**(2 583)**	**(722)**	**(6)**	**(32 923)**

In accordance with IAS 1.29 and as requested by the JSE, through its proactive monitoring review, material expenses included in the earnings measure should be disclosed per segment. The company expanded its disclosure of the segmental information to include material expenses relating to depreciation and segment staff costs. The prior year disclosure relating to segmental information has been disaggregated to align with the JSE requirements. Other material items included in profit are production support income, which relates to the manufacturing and component exports segment.

26. Share capital

	2022 Number	2021 Number
Ordinary shares authorised and issued	46 840 100	46 840 100
Composition of issued share capital and premium		
Ordinary shares at par value	47	47
Share premium	5 370	5 370
Total issued capital and premium	**5 417**	**5 417**

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

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

27. Related parties

Relationships

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

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

Notes to the Consolidated Financial Statements

27. Related parties (continued)

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

	Sales to group companies		Purchases from group companies	
	2022 R mil	2021 R mil	2022 R mil	2021 R mil
Mercedes-Benz AG	52 377	26 966	47 591	24 136
Mercedes-Benz US International	-	225	-	202
Mercedes-Benz do Brasil Ltda.	-	-	-	3
Mercedes-Benz Group AG	-	-	71	80
Mercedes-Benz Manufacturing Hungary Kft.	-	-	1	-
Mercedes-Benz Italia S.P.A.	-	-	2	-
Daimler Greater China Ltd.	-	-	2	-

	Other income received from group companies		Other expenses paid to group companies	
	2022 R mil	2021 R mil	2022 R mil	2021 R mil
Selling costs				
Mercedes-Benz Singapore Pte. Ltd.	-	-	28	10
Mercedes-Benz AG	-	-	8	9
Mercedes-Benz Cars Netherlands B.V.	-	-	1	3
Mercedes-Benz Romania S.R.L	-	-	-	2
Mercedes-Benz Italia S.P.A.	-	-	-	2
Mercedes-Benz Portugal, S.A.	-	-	-	1
Interest				
Mercedes-Benz Group AG	5	7	26	48
Mercedes-Benz AG	-	-	-	4
Administration and management fees				
Mercedes-Benz AG	814	1 034	12	13
Mercedes-Benz Singapore Pte. Ltd.	-	-	6	19
Mercedes-Benz Group AG	-	-	-	8
Recharge cost				
Mercedes-Benz AG	237	138	-	-
Mercedes-Benz Group AG	-	15	-	-
Mercedes-Benz U.S. International, Inc.	3	5	-	-
Daimler Servicios Corporativos Mexico S. de R.L. de C.V.	-	3	-	-
Mercedes-Benz Vietnam Ltd.	2	3	-	-
Mercedes-AMG GmbH	2	3	-	-
Mercedes-Benz Manufacturing (Thailand) Limited	2	2	-	-
Mercedes-Benz Malaysia Sdn. Bhd.	8	-	-	-
Mercedes-Benz USA, LLC	1	-	-	-

	2022 R mil	2021 R mil
Compensation to directors and other key management		
Short-term employee benefits	69	49
Post-employment benefits	1	1
	70	**50**

FV

28. Directors' and prescribed officers' emoluments

Executive directors

2022

	Short-term employee benefits			Other long-term benefits	
	Salaries R mil	Bonus related R mil	Other benefits R mil	Pension fund contributions R mil	Total R mil
Mr A Engling	1.3	1.5	4.6	0.1	7.5
Mr A Brand	2.0	-	3.7	0.1	5.8
Mr KM Eser	2.9	1.5	8.1	0.1	12.6
Ms T Woodbridge	1.9	0.9	1.5	0.2	4.5
Mr AM Kgotle	3.4	2.9	3.3	0.3	9.9
Mr M Raine	2.6	0.3	5.8	0.1	8.8
	14.1	**7.1**	**27.0**	**0.9**	**49.1**

2021

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

Prescribed officers

2022

Ms N Trimmel	1.7	0.8	1.4	0.2	4.1
R Hoffmann	3.0	1.4	8.3	0.2	12.9
	4.7	**2.2**	**9.7**	**0.4**	**17.0**

2021

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

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

Included in the directors' remuneration is R 1 million (2021: R 1 million) relating to the MBGAG Performance Phantom Share Plan.

Non-executive directors

	Directors' fees for services as directors of subsidiaries	
	2022 R mil	2021 R mil
Dr JW Schmidt	0.2	0.3
Ms N Mbhele	0.8	0.8
Ms S Zilwa	0.9	0.8
Amb N January-Bardill	0.8	0.9
Ms FT De Buck	1.0	1.0
	3.7	**3.8**

FV

Notes to the Consolidated Financial Statements

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

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 - 2022

	Financial instruments				
	Designated at fair value R mil	At amortised cost R mil	Other assets R mil	Total R mil	Non-current portion of total R mil
Assets held for sale	-	-	56	56	-
Cash and cash equivalents	-	1 862	-	1 862	-
Trade and other receivables	-	6 197	970	7 167	-
Inventories	-	-	11 872	11 872	-
Derivatives and other financial assets	79	-	-	79	-
Current tax receivable	-	-	100	100	-
Amounts receivable from group companies	-	7 354	-	7 354	-
Loans and advances to customers	-	10 993	-	10 993	6 997
Deferred initial direct costs	-	-	98	98	98
Right-of-use assets	-	-	358	358	358
Assets leased under operating leases	-	-	1 964	1 964	1 964
Property, plant and equipment	-	-	10 379	10 379	10 379
Goodwill	-	-	121	121	121
Retirement benefit asset	-	-	179	179	179
	79	**26 406**	**26 097**	**52 582**	**20 096**

Assets - 2021

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

FV

Notes to the Consolidated Financial Statements

29. Financial instruments and risk management (continued)

Liabilities - 2022

	Financial instruments			
	At amortised cost R mil	Other liabilities R mil	Total R mil	Non-current portion of total R mil
Bank overdraft	19	-	19	-
Trade and other payables	3 675	549	4 224	331
Amounts payable to group companies	6 232	-	6 232	-
Provisions	-	771	771	-
Contract liabilities	-	3 289	3 289	2 457
Interest-bearing borrowings	16 488	-	16 488	6 995
Post-retirement medical aid benefit obligation	-	398	398	398
Deferred tax	-	503	503	503
	26 414	**5 510**	**31 924**	**10 684**

Liabilities - 2021

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

29.2 Capital risk management

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

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

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

In accordance with the MBGAG policy on the capital structure, the group monitors capital using a total equity to total assets target ratio of between 10% and 20%. The capital structure and gearing ratio of the group at the reporting date was as follows:

	2022 R mil	2021 R mil
Total assets	52 582	50 318
Total equity	20 658	17 395
Asset equity ratio	39.29 %	34.57 %

FV

29. Financial instruments and risk management (continued)

The group 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 group's risk management framework,including the implementation and monitoring of these policies.

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

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:

	2022 R mil	2021 R mil
Cash and cash equivalents	1 862	569
Trade and other receivables	6 197	2 757
Financial assets and derivatives	79	94
Loans and advances to customers	10 993	10 043
Amounts receivable from group companies	7 354	3 698
	26 485	**17 161**

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

Cash and cash equivalents

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

Trade and other receivables

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

Derivatives and other financial assets

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

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

FV

Notes to the Consolidated Financial Statements

29. Financial instruments and risk management (continued)

Amounts receivable from group companies

The group's exposure to credit risk on trade receivables from group companies is managed within the Mercedes-Benz 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 commitments to retailers and end customers. This segment has guidelines setting the framework for effective risk management. In particular, these rules deal with minimum requirements for all risk-relevant credit processes, the definition of financing products offered, the evaluation of customer quality, requests for collateral as well as the treatment of unsecured loans and non-performing claims.

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

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

2022

	Gross maximum exposure R mil	Not past due R mil	Past due and impaired R mil
Retail and wholesale receivables	11 349	10 993	356
Allowance for impairment	(356)	-	(356)
	10 993	**10 993**	**-**

2021

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

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.

FV

Notes to the Consolidated Financial Statements

29. Financial instruments and risk management (continued)

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

2022	**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	18 985	10 993	79	6 197	-	1 716
Europe	7 470	-	-	-	7 344	126
Americas	23	-	-	-	3	20
Asia	7	-	-	-	7	-
	26 485	**10 993**	**79**	**6 197**	**7 354**	**1 862**

2021						
South Africa	13 456	10 402	94	2 757	-	203
Europe	4 034	-	-	-	3 685	349
Americas	25	-	-	-	8	17
Asia	5	-	-	-	5	-
	17 520	**10 402**	**94**	**2 757**	**3 698**	**569**

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

2022	**Gross amount R mil**	**Expected credit loss R mil**	**Carrying amount R mil**
Not past due	1 596	-	1 596
30 - 90 days	387	(8)	379
91 - 180+ days	65	(6)	59
	2 048	**(14)**	**2 034**

2021			
Not past due	931	-	931
30 - 90 days	379	(5)	374
91 - 180+ days	49	(4)	45
	1 359	**(9)**	**1 350**

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

Inputs, assumptions and techniques used for estimating impairment

Incorporation of forward-looking information

The group's credit risk and credit losses for financial assets are influenced by historical data and various macro-economic variables.

29. Financial instruments and risk management (continued)

Key drivers for the wholesale portfolio are GDP:

At 31 December 2022	**GDP change %**	**Interest rate %**	**Unemployment rate %**
5 year average	0.50 %	5.55 %	30.17 %
At 31 December 2021			
5 year average	0.31 %	5.45 %	29.04 %

Modified financial assets

Calculating impairment through the loss estimation for portfolio contracts is a basic requirement of the IFRS 9 principle based on quality segmentation for all financial assets upon origination. The standard requires that the measurement process should consider the determination of unbiased and probability weighted ECL amounts, the time value of money and the inclusion of data that displays information about past, current and future events.

The approach adopted by the group in order to estimate the ECL is a calculation for each financial asset with probability weighted sum of discounted period contributions.

Measurement of ECL

The key inputs into the measurement of ECL are the terms structure of the following variables:
- Probability of default ("PD")
- Loss given default ("LGD")
- Exposure at default ("EAD")

The generalised ECL model is based on a multi-period approach, where the assumption is that the contract will default during a certain period. If the contract defaults during a specific period, a loss occurs where LCD is multiplied by EAD.

29.3.3 Liquidity risk

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

29. Financial instruments and risk management (continued)

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

2022

	0 - 12 Months R mil	1 to 2 years R mil	2 to 7 years R mil	Total R mil	Carrying amount R mil
Non-derivative financial liabilities					
Bank overdraft	19	-	-	19	19
Trade and other payables	3 344	331	-	3 675	3 675
Amounts payable to group companies	6 232	-	-	6 232	6 232
Interest-bearing borrowings	10 568	5 343	2 641	18 552	16 488
	20 163	**5 674**	**2 641**	**28 478**	**26 414**

2021

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

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 group’s income, cash flows or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

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

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

The Financial Stability Board had initiated a fundamental review and reform of the major interest rate benchmarks used globally by financial market participants. This review seeks to replace existing IBOR's with ARR's to improve market efficiency and mitigate systemic risk across financial markets.

During the 2022 financial year, the SARB has indicated their intention to move away from JIBAR and have identified a potential successor in the ZARONIA.

The new ZARONIA rate was published for observation during 2022 and is expected to be endorsed as a successor rate in 2023.

Notes to the Consolidated Financial Statements

29. Financial instruments and risk management (continued)

Interest rate profile

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

	Variable rate instruments		Fixed rate instruments	
	2022 R mil	**2021 R mil**	**2022 R mil**	**2021 R mil**
Financial assets				
Cash and cash equivalents	1 862	569	-	-
Loans and advances to customers	10 993	10 043	-	-
Amounts receivable from group companies	-	-	7 354	3 698
	12 855	**10 612**	**7 354**	**3 698**
Financial liabilities				
Bank overdraft	19	8	-	-
Interest-bearing borrowings	16 488	21 828	-	-
	16 507	**21 836**	**-**	**-**

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:

	2022		2021	
Sensitivity analysis	**Increase R mil**	**Decrease R mil**	**Increase R mil**	**Decrease R mil**
Net effect on profit before taxation and equity				
100 basis points	(37)	37	(112)	112

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 group'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") and the Singaporean Dollar ("SGD").

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

Foreign currency exposure at the end of the reporting period

	2022			2021			
	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	126	20	-	348	17	-	-
Trade and other receivables	678	8	-	678	8	-	-
Trade and other payables	(284)	(8)	(1)	(284)	(8)	(1)	-
Net exposure	**520**	**20**	**(1)**	**742**	**17**	**(1)**	**-**
Relevant spot exchange rates	**18.10**	**16.97**	**12.66**	**18.06**	**15.95**	**11.82**	**-**

29. Financial instruments and risk management (continued)

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:

	2022		2021	
Increase or decrease in exchange rate of 10%	**Increase R mil**	**Decrease R mil**	**Increase R mil**	**Decrease R mil**
Impact on profit before taxation and equity				
Euro	52	(52)	74	(74)
USD	2	(2)	2	(2)

29.3.4.3 Residual value risk

The group is exposed to the risk of financed or leased assets being returned at values less than the residual value guaranteed under the terms of the respective agreements. These risks are managed by 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.

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

Uncertainties that affect the group's estimate of the residual value of the leased assets include:
- return-rates of lease vehicles;
- penetration rates;
- lease duration; and
- market conditions.

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

	2022 R mil	2021 R mil
Financial liabilities subject to residual value risk		
Residual value provision	23	41

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:

	2022		2021	
Increase or decrease in residual values with 10%	**Increase R mil**	**Decrease R mil**	**Increase R mil**	**Decrease R mil**
Impact on profit before taxation and equity	2	(2)	4	(4)

29.3.4.4 Commodity price risk

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

	2022 R mil	2021 R mil

29. Financial instruments and risk management (continued)

Financial assets subject to commodity price risk		
Derivatives	-	17

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:

	2022		2021	
Increase or decrease in derivative pricing with 10%	**Increase R mil**	**Decrease R mil**	**Increase R mil**	**Decrease R mil**
Impact on profit before taxation and equity	-	-	2	(2)

30. Fair value information

	2022			2021		
Financial assets and liabilities carried at fair value	**Carrying value R mil**	**Fair value R mil**	**Fair value level**	**Carrying value R mil**	**Fair value R mil**	**Fair value level**
Derivative assets	-	-	Level 2	17	17	Level 2
Other financial assets (insurance cell asset)	79	79	Level 1	77	77	Level 1
	79	**79**		**94**	**94**	

Financial assets and liabilities not held at fair value	**Carrying value R mil**	**Fair value R mil**	**Fair value level**	**Carrying value R mil**	**Fair value R mil**	**Fair value level**
Interest-bearing borrowings	(16 488)	(16 602)	Level 2	(21 828)	(21 946)	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 group 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.

Notes to the Consolidated Financial Statements

31. Going concern

The consolidated financial statements for the year ended 31 December 2022 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 recognised a net profit after tax of R 3 290 million (2021: loss of R 10 million) for the year ended 31 December 2022 and, at that date, has a capital ratio of 39.29% (2021: 34.57%).

Management believes that the group will be able to meet all its obligations for at least the next 12 months from the date of this report. Management further believes that, proceeds received during 2023 will be sufficient to meet the repayment requirements. Management has performed forecasts and based on these forecasts the expectation is that the group will continue to be profitable for the 2023 financial year.

Management has the full support of the holding company, MBAG, for its operations. This is reviewed annually and additional support is provided, if required. To this extent, MBGAG issued a guarantee with regards to the notes issued under the DMTN programme.

32. Events after the reporting period

At the date of finalisation of the consolidated 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. Bonds and bank loans with a value of R 6 billion have matured and been redeemed with maturity dates between 1 January 2023 and 30 April 2023.

33. New Standards and Interpretations

33.1 Standards and interpretations not yet effective

The company 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 01 January 2023 or later periods:

Accounting standard	Effective date - on or after	Description of change	Description of impact
IFRS 16 *Leases* amendment	1 January 2024	The narrow- scope amendment requires a seller-lessee in a sale and leaseback transaction to determine ‘lease payments’ or ‘revised lease payments’ in a way that the seller-lessee would not recognise any amount of a gain or loss relating to the right of use retained by the seller-lessee. The new requirement does not prevent the seller-lessee from recognising in profit or loss any gain or loss relating to the partial or full termination of a lease.	The amendment does not have any material impact on the company's profitability, liquidity and capital resources and financial position.
IAS 1 *Presentation of Financial Statements* amendment	1 January 2024	**Classification of Liabilities as Current or Non-current:** Narrow-scope amendments to IAS 1 to clarify how to classify debt and other liabilities as current or non-current.	The amendments to the standard do not have any material impact on the company's profitability, liquidity and capital resources and financial position.
IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 amendment	1 January 2023	**Disclosure of Accounting Policies:** The amendments, together with those amendments required by IFRS Practice Statement 2, require companies to disclose their material accounting policy information rather than their significant accounting policies, with additional guidance added to the Standard to explain how an entity can identify material accounting policy information with examples of when accounting policy information is likely to be material.	

Notes to the Consolidated Financial Statements

33. New Standards and Interpretations (continued)

Accounting standard	Effective date - on or after	Description of change	Description of impact
IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* amendment	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 company's profitability, liquidity and capital resources and financial position.
IAS 12 *Income Tax* amendment	1 January 2023	**Deferred Tax related to Assets and Liabilities arising from a Single Transaction:** The amendment clarifies how a company accounts for income tax, including deferred tax, which represents tax payable or recoverable in the future. In specified circumstances, companies are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. The aim of the amendments is to reduce diversity in the reporting of deferred tax on leases and decommissioning obligations, by clarifying when the exemption from recognising deferred tax would apply to the initial recognition.	The amendments to the standard do not have any material impact on the company's profitability, liquidity and capital resources and financial position.
IFRS 17 *Insurance contracts* IFRS 17 *Insurance contracts* amendment	1 January 2023	IFRS 17 creates one accounting model for all insurance contracts in all jurisdictions that apply IFRS. It requires an entity to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and take into account any uncertainty relating to insurance contracts. The financial statements of an entity will reflect the time value of money in estimated payments required to settle incurred claims. An entity will be required to recognise profits as an insurance service is delivered, rather than on receipt of premiums. Insurance contracts are required to be measured based only on the obligations created by the contracts.	The interpretation does not have any material impact on the company's profitability, liquidity and capital resources and financial position.

FV

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 4 261. The table below provides the employment equity progress of the company for the total number of employees (including employees with disabilities) in each occupational level:

Occupational levels		**Male**				**Female**			**Foreign nationals**		**Total**
	A	**C**	**I**	**W**	**A**	**C**	**I**	**W**	**Male**	**Female**	
Top management	1	-	-	-	-	-	-	-	4	-	**5**
Senior management	3	2	1	4	-	1	-	2	10	-	**23**
Professionally qualified and experienced specialists and mid-management	7	14	12	16	10	2	6	15	7	1	**90**
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	178	77	60	134	151	44	30	45	85	8	**812**
Semi-skilled and discretionary decision making	185	70	8	62	113	30	11	16	2	-	**497**
Unskilled and defined decision making	853	227	10	45	410	85	2	2	-	-	**1 634**
Total permanent	1 227	390	91	261	684	162	49	80	108	9	**3 061**
Temporary employees	468	94	29	33	461	81	16	14	4	-	**1 200**
Grand total	**1 695**	**484**	**120**	**294**	**1 145**	**243**	**65**	**94**	**112**	**9**	**4 261**

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	3	1	2	5	-	-	-	-	2	-	**13**
Semi-skilled and discretionary decision making	21	5	2	4	2	-	-	-	-	-	**34**
Unskilled and defined decision making	23	10	-	-	10	-	-	-	-	-	**43**
Total permanent	47	16	4	9	12	-	-	-	2	-	**90**
Temporary employees	-	-	-	-	-	-	-	-	-	-	**-**
Grand total	**47**	**16**	**4**	**9**	**12**	**-**	**-**	**-**	**2**	**-**	**90**

A - Africans C - Coloureds

I - Indians W - Whites


TURBO
MICHELIN
HL 265/35 ZR 20

Mercedes-Benz South Africa Ltd.

(Reg. No. 1962/000271/06)

210 Aramist Avenue
Waterkloof Glen
Pretoria
0010

Call Centre: 0861 324653
Tel: (012) 677 1500
Email: Email: infoza@mercedes-benz.com