Mercedes-Benz Australia/Pacific Pty Ltd

ABN 23 004 411 410

ANNUAL FINANCIAL REPORT
31 DECEMBER 2020

Mercedes-Benz Australia/Pacific Pty Ltd

Year ended 31 December 2020

Contents

The directors present their report together with the financial report of Mercedes-Benz Australia/Pacific Pty Ltd ("the Company") for the year ended 31 December 2020 and the auditor's report thereon.

Directors

Mr. Florian Seidler CEO & Director since 1 January 2021
Mr. Horst von Sanden CEO & Director resigned 31 December 2020
Mr. Volker Malzahn CFO & Director since 1 August 2018
Ms. Diane Tarr Director since 1 January 2019
Mr. Steve McHutchon Director since 1 January 2019

Officers who were previously partners of the audit firm

There were no officers of the Company during the financial year who were previously partners of the current audit firm, KPMG, at a time when KPMG undertook an audit of the Company.

Principal activities

The principal activities of the Company during the course of the financial year were the importation, marketing and distribution of passenger and light commercial vehicles and their component parts.

Significant changes in the nature of the Company's activities during the year are noted below.

Operating and financial review

Despite the impacts of the global pandemic on the world economy, the Company delivered a strong result making a profit, after income tax, for the year ended 31 December 2020 of $62.444 million (2019: $1.355 million).

During the year:

• the Company announced that all vehicles sold from 1 March 2020 will be covered for 5 years (previously 3 years) manufacturers' warranty (unlimited kilometres for private purchases, and limited to capped kilometres for vehicles acquired for commercial purposes). As a result, there has been an increase to warranty provisions to factor for additional future warranty claims relating to the 4th & 5th year (since first year of registration).
• the Company released a provision recorded in 2019 in relation to potential alternative transport arrangements for certain eligible consumers as agreed in an enforceable undertaking with the Australian Competition and Consumer Commission in relation to the compulsory Takata airbag recall. This decision was made on the basis of the very low take up rate and actual requirements of alternative transport arrangements for consumers, coupled with the completion rate of the compulsory recall. This is further detailed in Provisions Note 22.

Dividends - Mercedes-Benz Australia/Pacific Pty Ltd

Dividends paid or declared by the Company to members since the end of the previous financial year were: (2019: $100.0 million)

	Cents per share	Total amount $	Franked/ unfranked	Date of payment
Final 2020 ordinary dividend	$3.87	$1,355,000.00	Franked	11.12.2020

Significant changes in the state of affairs

In the opinion of the Directors there were no significant changes in the state of affairs of the Company that occurred during the financial year under review.

Environmental regulation

The Company’s operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the Board believes that the Company has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements that are material in nature as they apply to the Company.

Events subsequent to reporting date

There has not arisen a transaction or event of an unusual nature likely to affect significantly the operations of the business, the results of those operations or the state of affairs of the Company in future financial years from the end of the financial year to the date of this report.

Likely developments

Operations

The Company will continue to pursue its policy of increasing its key market share as well as maintaining its contribution to the Daimler global organisation.

The Company’s financing activities for other related parties of the local Daimler group are expected to continue depending on the requirements of these related parties.

In early 2022, the Company is targeting the implementation of an agency business model in response to changing retailing and consumer behaviour evident in Australia and in other major markets around the world. Under an agency model, the Company would be the sole retail entity, whereby Dealers become Agents for the sale and delivery of new passenger vehicles. The operation of the Aftersales business would remain predominantly unchanged.

Indemnification and insurance of officers and auditors

Indemnification

The Company has agreed to indemnify all directors and officers of the Company against all liabilities to another person (other than the Company or a related party) that may arise from their positions as directors or officers of the Company, except where the liability arises out of conduct involving a liability owed to the Company or a Related Body Corporate, a liability for a pecuniary penalty order under section 1317G, a compensation order under section 1317H of the Law, or a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including all costs and expenses as permitted by law.

The Company has not indemnified or made any agreements to indemnify any person for a liability who is or has been an auditor of the Company.

Insurance premiums

For the period 1 April 2020 to 1 April 2021, the Company has paid insurance premiums of $2,279 (2019: $3,539) in respect of directors’ and officers’ liability and legal expenses insurance. This insurance was renewed in April 2020 to provide coverage until 30th April 2021.

The insurance contracts insure against certain liability (subject to specific exclusions) persons who are or have been directors or executive officers of the Company.

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 8 and forms part of the Directors' report for the financial year ended 31 December 2020.

Rounding of amounts

The Company is of a kind referred to in *ASIC Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191* and in accordance with that, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the directors:

Mr. Florian Seidler 20/4/2021
CEO and Director

Melbourne

Mr. Volker Malzahn 20/04/2021
CFO and Director

Melbourne

Ms. Diane Tarr 20/04/21
Director

Melbourne

20 April 2021
Mr. Steve McHutchon
Director

Melbourne

Independent Auditor's Report

To the shareholders of Mercedes-Benz Australia/Pacific Pty Ltd

Opinion

We have audited the ***Financial Report*** of Mercedes-Benz Australia/Pacific Pty Ltd (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Company's financial position as at 31 December 2020 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Statement of financial position as at 31 December 2020;
- Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended;
- Notes including a Statement of significant accounting policies; and
- Directors Declaration.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

This matter was addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

KPMG

Provision for warranty claims ($133.46m – Note 22 Warranty)	
Refer to Note 22 to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
The provision for warranty claims is a key audit matter due to the: • Financial significance of the impact of the provision for warranty claims on the Statement of Profit or Loss & Other Comprehensive Income, primarily as a result of the Company's introduction of extended warranty coverage from 3 years to 5 years during the year for which there is limited precedent of claimable events. • Estimation uncertainty in the key assumptions applied by the Company to the provision for warranty claims. • Inherent unpredictability of future failures resulting in claims under warranty in relation to new vehicle models sold by the Company during the year which have technologically advanced features (such as electric vehicles, semi-autonomous driving capability and hybrid propulsion). • Company's calculation of the provision for warranty claims is dependent on multiple sources of inputs and is largely manually developed; therefore, is at greater risk of error. • Greater involvement of our senior team members required to critically challenge key assumptions used in the Company's determination of the provision for warranty claims.	Our procedures included: • Assessing the appropriateness of the Company's accounting policy for the recognition and measurement of the provision for warranty claims against the requirements of the accounting standards. • Checking key assumptions, such as the warranty rate, applied by the Company in the provision for warranty claims for the standard 3 year warranty period to the Company's historical actual claim amounts settled and records of vehicle sales. For the extended warranty period 3 to 5 years we checked the warranty rate to the Company's historical goodwill claims amounts and records of vehicle sales from the introduction of the extended warranty coverage. • Assessing the accuracy of the Company's previous assumptions applied in the provision for warranty claims by comparing prior year's estimation against actual claims settled during the current period to inform our evaluation of the current period provision for warranty claims. • Inspecting internal reporting prepared by the Company and the head office in Germany, regarding known defects in certain new vehicle models and comparing to the Company's provision for warranty claims. • Inspecting the Company's minutes of Board meetings and underlying management reports to identify the existence of failures resulting in claims under warranty in relation to new vehicle models sold by the Company during the year with technologically advanced features. • Enquiring with senior management and the Company's warranty operational team to assess the factors considered by the Company in relation to the provision for warranty claims for new vehicle models. These factors included: o the Company's claims experience since the vehicle model has been on the market in Australia and other countries; o the Company's claims experience of other vehicle models with comparable specifications and equipment; and

	o Checking for existence and consistency of these factors in the provision for warranty claims. • Involving our IT specialists to evaluate IT and manual controls relating to the Company's determination of the provision for warranty claims. Controls tested included: o Management review and approval of warranty claims; o Information technology interface reconciliation between the warranty claims system and the Company's financial reporting system; and o Management review and approval of the provision model computation. • Assessing the integrity of the provision for warranty claims model. This included checking the accuracy of formulas within the model. • Comparing the population of vehicles included in the Company's provision for warranty claims model to the Company's listing of vehicle sales tested by us for the comparable warranty period. • Selecting a sample of historical warranty claims from the warranty claims system and a sample of goodwill claims from the Company's service repair system and comparing to the data included in the Company's calculation of the provision for warranty claims. • Assessing the discount rate used in the Company's calculation of the provision for warranty claims by independently developing a discount rate range using publicly available market data for comparable entities, adjusted by risk factors specific to the Company and the industry it operates in. • Assessing the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standard.

Other Information

Other Information is financial and non-financial information in Mercedes-Benz Australia/Pacific Pty Ltd's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon. In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: https://www.auasb.gov.au/admin/file/content102/c3/ar2_2020.pdf This description forms part of our Auditor's Report.

KPMG

KPMG

Penny Stragalinos

Partner

Melbourne

20 April 2021

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Mercedes-Benz Australia/Pacific Pty Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit of Mercedes-Benz Australia/Pacific Pty Ltd for the financial year ended 31 December 2020 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Penny Stragalinos

Partner

Melbourne

20 April 2021

1. The directors of the Company certify to the best of their knowledge that:

   (a) the financial statements and notes set out on pages 10 to 70 are in accordance with the *Corporations Act 2001 (Cth)*, including:

      (i) giving a true and fair view of the Company's financial position as at 31 December 2020 and of its performance for the financial year ended on that date; and

      (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

   (b) the Company directors' report (where necessary read together with the financial report and notes to the financial statements which accompany the directors' report) provides a fair review of the development and performance of the business and the position of the Company for the financial year ended 31 December 2020, together with a description of the principal opportunities and risks associated with the expected development of the Company; and

   (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors draw attention to Note 2(a) to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Mr. Florian Seidler 20/4/2021
CEO and Director

Melbourne

Mr. Volker Malzahn 20/04/2021
CFO and Director

Melbourne

Ms. Diane Tarr 20/04/21
Director

Melbourne

Mr. Steve McHutchon 20 April 2021
Director

Melbourne

	Notes	**2020 $'000**	2019 $'000
Current assets			
Cash and cash equivalents	12	**279,417**	186,564
Trade and other receivables	13	**1,976,950**	2,032,857
Inventories	14	**612,090**	954,424
Total current assets		**2,868,457**	3,173,845
Non-current assets			
Trade and other receivables	13	**598,492**	1,325,454
Deferred tax assets	17	**91,804**	82,775
Intangible assets	15	**2,180**	3,286
Property, plant and equipment	16	**70,774**	69,810
Total non-current assets		**763,250**	1,481,325
Total assets		**3,631,707**	4,655,170
LIABILITIES			
Current liabilities			
Trade and other liabilities	18	**646,927**	703,240
Loans and borrowings	19	**1,424,592**	1,752,583
Employee benefits	21	**8,665**	8,454
Provisions	22	**61,520**	81,175
Deferred income	23	**1,258**	1,684
Total current liabilities		**2,142,962**	2,547,136
Non-current liabilities			
Trade and other liabilities	18	**51,176**	39,373
Loans and borrowings	19	**610,183**	1,332,018
Employee benefits	21	**616**	532
Provisions	22	**103,110**	73,615
Deferred income	23	**1,291**	1,416
Total non-current liabilities		**766,376**	1,446,954
Total liabilities		**2,909,338**	3,994,090
Net assets		**722,369**	661,080
Equity			
Share capital	24	**70,000**	70,000
Retained earnings		**652,369**	591,080
Total equity		**722,369**	661,080

The notes on pages 14 to 70 are an integral part of these financial statements.

Mercedes-Benz Australia/Pacific Pty Ltd
Statement of Profit or Loss & Other Comprehensive Income
For the year ended 31 December 2020

	Notes	**2020 $'000**	2019 $'000
Revenue	5	**2,469,987**	2,734,713
Cost of sales	8(a)	**(2,263,727)**	(2,576,611)
Gross Profit		**206,260**	158,102
Other income	6	**28,695**	31,932
Employee expenses	7	**(40,817)**	(42,546)
Amortisation	15	**(1,106)**	(1,096)
Depreciation expense	16	**(8,797)**	(10,649)
Net impairment (loss)/reversal	8(b)	**15,794**	(12,554)
Other expenses	8(c)	**(99,907)**	(119,469)
Result from operating activities		**100,122**	3,720
Finance income	10	**34,476**	62,753
Finance costs	10	**(38,794)**	(64,414)
Net finance (cost) / income	10	**(4,318)**	(1,661)
Profit before income tax		**95,804**	2,059
Income tax expense	11	**(33,160)**	(704)
Profit for the period		**62,644**	1,355
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges - reclassified to profit or loss	10	**-**	(92)
Income tax relating to these items	11	**-**	28
Total items that may be reclassified subsequently to profit or loss		**-**	(64)
Other comprehensive income/(loss) for the period, net of tax		**-**	(64)
Total comprehensive income/(loss) for the period		**62,644**	1,291

The notes on pages 14 to 70 are an integral part of these financial statements.

Mercedes-Benz Australia/Pacific Pty Ltd
Statement of Changes in Equity
For the year ended 31 December 2020

	Share capital $'000	Hedging reserves $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2019	70,000	64	676,036	746,100
Profit for the period	-	-	1,355	1,355
Other comprehensive income				
Cash flow hedges – reclassified to profit or loss	-	(64)	-	(64)
Total comprehensive income/(loss) for the period	-	(64)	1,355	1,291
Dividends to owners of the Company	-	-	(100,000)	(100,000)
Debt relief due to debt forgiveness deed	-	-	13,689	13,689
Balance at 31 December 2019	**70,000**	**-**	**591,080**	**661,080**
Balance at 1 January 2020	70,000	-	591,080	661,080
Profit for the period	-	-	62,644	62,644
Other comprehensive income				
Total other comprehensive income/(loss)	-	-	-	-
Total comprehensive income/(loss) for the period	-	**-**	**62,644**	**62,644**
Dividends to owners of the Company	-	-	(1,355)	(1,355)
Balance at 31 December 2020	**70,000**	**-**	**652,369**	**722,369**

The notes on pages 14 to 70 are an integral part of these financial statements.

	Notes	2020 $'000	2019 $'000
Cash flows from operating activities			
Cash receipts from customers		**2,813,934**	3,486,488
Cash paid to suppliers and employees		**(2,357,620)**	(3,137,172)
Cash generated from operations		**456,314**	349,316
Interest received		**40,663**	71,399
Interest paid		**(43,536)**	(66,318)
Income taxes paid		**(16,667)**	(1,877)
Net cash inflow from operating activities	25(b)	**436,774**	352,520
Cash flows (used in)/from investing activities			
Payment for acquisition of intangibles and property, plant and equipment		**(950)**	(1,137)
Proceeds from sale of property, plant and equipment		**-**	15
Net cash (outflow) from investing activities		**(950)**	(1,122)
Cash flows (used in)/from financing activities			
Proceeds from borrowings		**4,902,027**	8,862,427
Repayment of borrowings		**(6,130,398)**	(9,146,719)
Repayment of borrowings from ultimate parent entity		**-**	(151,717)
Proceeds from borrowings from immediate parent entity		**141,573**	141,573
Repayment of borrowings from immediate parent entity		**(141,573)**	-
Proceeds from borrowings from other related entities		**178,015**	-
Repayment of borrowings from other related entities		**(75,205)**	(2,425)
Loans to other related entities		**(6,133,658)**	(6,771,418)
Loans repaid by other related entities		**6,920,492**	6,881,626
Dividends paid		**(1,355)**	(100,000)
Payment of lease liabilities		**(2,889)**	(2,858)
Net cash (outflow) from financing activities		**(342,971)**	(289,511)
Net increase in cash and cash equivalents		**92,853**	61,887
Cash and cash equivalents at the beginning of the year		**186,564**	124,677
Cash and cash equivalents at end of year		**279,417**	186,564

The notes on pages 14 to 70 are an integral part of these financial statements.

1 REPORTING ENTITY

Mercedes-Benz Australia/Pacific Pty Ltd ("the Company") is a for-profit company domiciled in Australia. The address of the Company's registered office is 44 Lexia Place, Mulgrave, Victoria 3170.

The Company is primarily involved in the importation, marketing and distribution of passenger and light commercial vehicles and their component parts.

2 BASIS OF PREPARATION

(a) Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The financial statements of the Company comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The financial statements were authorised for issue by the Board of Directors on 20 April 2021.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- derivative financial instruments are measured at fair value;
- liabilities for cash-settled share-based payment arrangements are measured at fair value.

The methods used to measure fair value are discussed further in Note 4.

The financial report of the Company has been prepared on a going concern basis.

(c) Functional and presentation currency

The financial statements are presented in Australian dollars which is the Company's functional currency.

The Company is of a kind referred to in *ASIC Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191* and in accordance with that, all financial information presented in Australian dollars has been rounded to the nearest thousand, unless otherwise stated.

2 BASIS OF PREPARATION (CONTINUED)

(d) Use of estimates and judgements

The preparation of financial statements in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 14 - Inventories
- Note 17 - Tax assets and liabilities
- Note 22 - Provisions
- Note 27 - Leases

3 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currencies

Transactions

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Australian dollars at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign exchange differences arising on retranslation are recognised in profit or loss except for qualifying cash flow hedges which are recognised directly in other comprehensive income to the extent the hedge is effective.

(b) Financial instruments

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments in the form of financial assets and financial liabilities are generally presented separately. Financial instruments are recognised as soon as the Company becomes a party to the contractual provisions of the financial instrument.

Upon initial recognition, financial assets are measured at fair value. For the purpose of subsequent measurement, financial assets are allocated to one of the categories mentioned in AASB 9 Financial Instruments (financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss). Transaction costs directly attributable to acquisition or issuance are considered by determining the carrying amount if the financial instruments are not measured at fair value through profit or loss.

Non-derivative financial assets

3 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments (continued)

Financial Instruments (continued)

Non-derivative financial assets (continued)
Financial assets primarily comprise trade receivables. A trade receivable without a significant financing component is initially measured at the transaction price. The classification of financial instruments is based on the business model in which these instruments are held and on their contractual cash flows. The determination of the business model is made at the portfolio level and is based on management's intention and past transaction patterns. Assessments of the contractual cash flows are made on an instrument by instrument basis.

Financial assets at amortised cost

Financial assets at amortised cost are non-derivative financial assets with contractual cash flows that consist solely of payments of principal and interest on the nominal amount outstanding and which are held with the aim of collecting the contractual cash flows, such as trade receivables or cash and cash equivalents. Cash and cash equivalents consist primarily of cash on hand, demand deposits at banks, as well as certificates of deposits with a remaining term when acquired of up to three months, which are not subject to any material value fluctuations. Cash and cash equivalents correspond with the classification in the Statement of Cash Flows.

Non-derivative financial liabilities

The Company initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company has the following non-derivative financial liabilities: loans and borrowings and trade and other liabilities. Loans, borrowings and other liabilities due within 12 months are classified as current. All other loans, borrowings and liabilities are classified as non-current.

Financial liabilities measured at amortised cost

The non-derivative financial liabilities are initially recognised at fair value less directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are stated at amortised cost using the effective interest rate method.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Derivative financial instruments, including hedge accounting

The Company holds derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with Daimler AG's treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes.

On initial designation of the derivative as the hedging instrument, the Company formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship.

Derivative financial instruments are recognised initially at fair value and attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivative financial instruments are measured at fair value and changes therein are accounted for as described below.

3 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments (continued)

Derivative financial instruments, including hedge accounting (continued)

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

When the hedged item is a non-financial asset, the amount recognised in equity is included in the carrying amount of the asset when the asset is recognised. In other cases the amount accumulated in equity is reclassified to profit or loss in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified in profit or loss.

Other non-trading derivatives

When a derivative financial instrument is not held in a designated hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

(c) Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009, the Company capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised gross within other income in profit or loss.

3 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Property, plant and equipment (continued)

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives in the current and comparative periods are as follows:

Motor vehicles subject to operating leases, the Company as lessor	1-5 years
Office furniture, fittings, plant & equipment	3-23 years
Freehold land and improvements	12-25 years
Buildings	20-40 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day to day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(d) Leasing

Leases include all contracts that transfer the right to use a specified asset for a stated period of time in exchange for consideration, even if the right to use such asset is not explicitly described in the contract. The Company is a lessee mainly of real estate properties used for the purposes of parts warehousing, regional training offices and hospitality.

The Company as lessee

The Company as a lessee recognises for generally all lease contracts right-of-use assets as well as leasing liabilities for the outstanding lease payments.

Right-of-use assets, which are included under property, plant and equipment, are initially measured at cost. The cost of a right-of-use asset comprises the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date less any lease incentives received from the lessor, any initial direct costs and an estimate of costs to be incurred in dismantling or removing the underlying asset.

A right-of-use asset is subsequently measured at cost less any accumulated depreciation and, if necessary, any accumulated impairment. The right-of-use asset is depreciated to the end of the lease term.

3 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Leasing (continued)

The lease liabilities include the following lease payments:

- fixed payments including de facto fixed payments, less lease incentives receivables from the lessor;
- variable lease payments linked to an index or interest rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, when exercise is estimated to be reasonably certain; and
- contractual penalties for the termination of a lease if the lease term reflects the exercise of a termination option.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Short-term leases and leases of low-value assets
The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment and office furniture. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Company as lessor
Based on the risk and rewards associated with a leased asset, it is assessed whether economic ownership of the leased asset is transferred to the lessee (so-called finance leases) or remains with the lessor (so-called operating leases). Operating leases, i.e. by which the economic ownership of the vehicle remains with the Company, relate to vehicles that the Company acquires and leases to third parties. Additionally, sales of vehicles where the Company also has a repurchase obligation are accounted for as an operating lease:

- Sales of vehicles that include a forward (an entity’s obligation to repurchase the asset) or a call option (an entity’s right to repurchase the asset) are accounted for as operating leases.
- Sales of vehicles including a put option (an entity’s obligation to repurchase the asset at the customer’s request) are accounted for as operating leases if the customer has a significant economic incentive to exercise that right. Otherwise a sale with a right of return is reported. The Company considers several factors when assessing whether a customer has a significant economic incentive to exercise their right at contract inception. Amongst others these are the relation between repurchase price and the expected future market value (at the time of repurchase) of the asset or historical return rates.

As part of the established residual-value management process, especially for operating lease contracts, certain assumptions are regularly made at local and corporate levels regarding the expected level of prices, based upon which the cars to be returned in the leasing business are evaluated. If changing market developments lead to a negative deviation from assumptions, there is a risk of lower residual values of used vehicles. Depending on the region and the current market situation, the measures taken generally include continuous market monitoring as well as, if required, price-setting strategies or sales-promotion measures designed to regulate vehicle inventories. The quality of market forecasts is verified by regular comparisons of internal and external sources, and, if required, the determination of residual values is adjusted and further developed with regard to methods, processes and systems.

3 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Leasing (continued)

In the case of accounting as an operating lease, these vehicles are recorded at cost under property, plant and equipment and are depreciated over the contract term on a straight-line basis with consideration of the expected residual values. Changes in the expected residual values lead either to prospective adjustments of the scheduled depreciation or to an impairment loss if necessary.

(e) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(f) Impairment

Non-derivative financial assets

At each reporting date, a loss allowance is recognised for financial assets, loan commitments and financial guarantees other than those to be measured at fair value through profit or loss reflecting expected losses for these instruments. The same method is used for the impairment of non-revocable loan commitments and financial guarantees. Expected credit losses are allocated using three stages:

Stage 1: expected credit losses within the next twelve months.

Stage 1 includes all contracts with no significant increase in credit risk since initial recognition and usually includes new acquisitions and contracts with fewer than 31 days past due date. The portion of the lifetime expected credit losses resulting from default events possible within the next 12 months is recognised.

Stage 2: expected credit losses over the lifetime - not credit impaired

If a financial asset has a significant increase in credit risk since initial recognition but is not yet credit impaired, it is moved to stage 2 and measured at lifetime expected credit loss, which is defined as the expected credit loss that results from all possible default events over the expected life of a financial instrument.

Stage 3: expected credit losses over the lifetime - credit impaired

If a financial asset is defined as credit-impaired or in default, it is transferred to stage 3 and measured at lifetime expected credit loss. Objective evidence for a credit-impaired financial asset includes 91 days past due date and other information about significant financial difficulties of the borrower.

3 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Impairment (continued)

Non-derivative financial assets (continued)

The determination of whether a financial asset has experienced a significant increase in credit risk is based on an assessment of the probability of default, which is made at least quarterly, incorporating external credit rating information as well as internal information on the credit quality of the financial asset.

A financial asset is migrated to stage 2 if the asset's credit risk has increased significantly compared to its credit risk at initial recognition. The credit risk is assessed based on the probability of default. For trade receivables, the simplified approach is applied whereby all trade receivables are allocated to stage 2 initially. Hence, no determination of significant increases in credit risk is necessary.

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

Measurement of expected credit losses

Expected credit losses are measured in a way that reflects:

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

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

The estimation of these risk parameters incorporates all available relevant information, not only historical and current loss data, but also reasonable and supportable forward-looking information reflected by the future expectation factors. For trade receivables, the calculation uses a provision matrix based on historical credit loss experience adjusted by forward-looking information as described above. The impairment amount for trade receivables is predominantly determined on a collective basis. Where lifetime Expected Credit Loss is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Company's trade and other receivables, amounts due from customers and receivables due from related parties)
- Past-due status

A financial instrument is written off when there is no reasonable expectation of recovery, for example at the end of insolvency proceedings or after a court decision of uncollectibility. The Company has a policy of writing off the gross carrying amount when the financial asset is minimum 90 days past due based on historical experience of recoveries of similar assets. The Company expects no significant recovery from the amount written off.

Significant modification (e.g., that leads to a change in the present value of the contractual cash flows of 10%) leads to derecognition of financial assets. If the terms of a contract are renegotiated or modified and this does not result in derecognition of the contract, then the gross carrying amount of the contract has to be recalculated and a modification gain or loss has to be recognised in profit or loss.

3 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Impairment (continued)

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit (CGU)").

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated, first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

(g) Employee benefits

Other long-term employee benefit obligations

The Company's net obligation in respect of long-term employee benefits, other than defined benefit plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted to its present value using the rates attached to the corporate bonds at the reporting date which have maturity dates approximating to the terms of the Company's obligations.

Termination benefits

Termination benefits are recognised as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payment transactions

The Performance Phantom Share Plan allows the Company to arrange the issue of shares or the equivalent value of shares of the ultimate parent, Daimler AG, to employees of the Company.

In 2006 Daimler AG adopted the "Performance Phantom Share Plan" under which virtual shares (phantom shares) are granted to eligible employees entitling them to receive cash payment after four years of service.

3 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Employee benefits (continued)

Share-based payment transactions (continued)

The fair value of the amounts payable to employees in respect of the Performance Phantom Share Plan, which are settled in cash, are recognised as an employee expense, with a corresponding increase in liabilities over the period in which the employees become unconditionally entitled to the payment. The liabilities are re-measured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as an employee expense in profit or loss.

Fair value is measured with reference to the quoted price of one ordinary share in Daimler AG and the estimated target achievement grades as of reporting date.

(h) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Legal

Provisions for legal costs are only recognised when the Company has a legal obligation to pay a legal settlement and legal costs to parties subject to litigation. The provision is a best estimate of the present value of the expenditure required to settle these legal commitments at the reporting date.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognises any impairment loss on the assets associated with that contract.

(i) Revenue

Goods sold

Revenue from sales of vehicles, service parts and other related products is recognised when control of the goods is transferred to the customer. This generally occurs at the time the customer takes possession of the products. Generally, payment from sales of vehicles, service parts and other related product is made when the customer obtains control of these products.

The Company also enters into sale agreements which include a repurchase obligation in the form of a put option (an entity's obligation to repurchase the asset at the customer's request). Where the customer does not have a significant economic incentive to exercise that right, these arrangements are accounted for as a sale with a right of return. The Company considers several factors when assessing whether the customer has a significant economic incentive to exercise this right. Amongst others, these are the relation between repurchase price and the expected future market value (at the time of repurchase) of the asset, or historical return rates.

3 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Revenue (continued)

Goods sold (continued)

The Company uses a variety of sales promotion programs dependent on various market conditions 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). Revenue is recognised net of sales reductions such as cash discounts and sales incentives granted.

Under a contract manufacturing agreement, the Company sells assets to a third-party manufacturer from which the Company buys back the manufactured products after completion of the commissioned work. If the sale of the assets is not accompanied by the transfer of control to the third-party manufacturer, no revenue will be recognised under AASB 15.

The Company offers extended, separately priced warranties for certain products as well as service and maintenance contracts. Revenue from these contracts is deferred insofar as a customer has made an advance payment and is generally recognised over the contract period in proportion to the costs expected to be incurred based on historical information. A loss on these contracts is recognised in the current period if the sum of the expected costs for services under the contract exceeds unearned revenue. Usually those contracts are paid in advance or in equal instalments over the contract term.

Bill-and-hold arrangements occur when the Company bills a customer for a product but retains physical possession of the product until it is transferred to the customer at a future point in time. Revenue from bill and hold arrangements is recognised when the control of the goods is transferred to the customer. Control is transferred when all the following criteria are met:
- the reason for the bill-and-hold arrangement is substantive;
- the goods can be identified separately as belonging to the customer;
- the product is ready for physical transfer to the customer; and
- the Company cannot use the product or direct it to another customer.

Rental income

Where the Company has agreed to provide residual value guarantees for operating leases entered into between Mercedes-Benz Financial Services Australia Pty Ltd and their external customers, rental income from these leases is recognised as other income on a straight-line basis over the term of the lease. Lease income prepaid by Mercedes-Benz Financial Services Australia Pty Ltd is classified as deferred income.

Services income

Where the Company has agreed to provide services to certain external and other related parties, income from these agreements is recognised over the period when the services are provided.

The Company has also agreed to provide services to other external parties. Income from these agreements is recognised as other income when the services are provided.

(j) Government Grants

Government grants which compensate the Company for expenses are recognised as other income in the same period as the expenses themselves.

(k) Finance income and expenses

Finance income comprises interest income on funds invested, dividend income and changes in fair value of financial assets at fair value through profit or loss. Interest income is recognised in profit or loss as it accrues, using the effective interest rate method. Dividend income is recognised in profit or loss on the date the entity’s right to receive payment is established.

3 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Finance income and expenses (continued)

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets and losses on hedging instruments that are recognised in profit or loss. All borrowing costs that are not directly attributable to acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(l) Taxation

Tax Consolidation

The Company is a member of a multiple entry consolidated (MEC) Group, whereby the group of Australian entities (being the Company, Daimler Australia/Pacific Pty Ltd, Mercedes-Benz Vans Australia/Pacific Pty Ltd, Daimler Truck and Bus Holding Australia/Pacific Pty Ltd, Daimler Truck and Bus Australia/Pacific Pty Ltd, Daimler Mobility Australia Pty Ltd and Mercedes-Benz Financial Services Australia Pty Ltd) are all wholly foreign owned by a common non-resident company, but do not have a common Australian resident parent company. As a result, these entities form part of a MEC Group that are consolidated and taxed as a single entity for Australian tax purposes. The provisional head entity of the Australian tax consolidated group is Daimler Australia/Pacific Pty Ltd.

Current and deferred tax expense / income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the “separate taxpayer within group” approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the members of the tax-consolidated group are assumed by the provisional head entity and are recognised by the Company as amounts payable (receivable) to (from) the provisional head entity in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised as an equity contribution or distribution.

Income tax

Income tax expense comprises current and deferred tax. Current and deferred tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Taxation (continued)

Nature of tax funding and sharing arrangements

The Company and the provisional head entity, in conjunction with other members of the tax-consolidated group, have entered into a tax funding agreement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to / (from) the provisional head entity equal to the current tax liability / (asset) and any tax-loss deferred tax asset assumed by the provisional head entity, resulting in the provisional head entity recognising an inter-entity receivable / (payable) equal in amount to the tax liability / (asset) assumed. The inter-entity payable / (receivable) is at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement, and reflect the timing of the provisional head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The provisional head entity and other members of the tax-consolidated group have also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the provisional head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

(m) Segment reporting

Determination and presentation of operating segments

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are regularly reviewed by the Company's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

(n) Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

4 DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in Note 4 or the notes specific to that asset or liability.

4 DETERMINATION OF FAIR VALUES (CONTINUED)

(a) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(b) Loans and borrowings

Fair value of loans and borrowings is determined for disclosure purposes (Note 19). The fair value of loans and borrowings that are readily traded are revalued at reporting date to market value using quoted market prices or, if not readily traded, are measured based on present value of future expected principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(c) Derivatives

The fair value of forward exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a market rate of interest at the reporting date.

The fair value of interest rate and cross currency swaps are based on market values which approximate estimated future cash flows based on the terms of maturity of each contract and using observable market interest and foreign exchange rates at the reporting date.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the entity and counterparty when appropriate. Refer to Note 20 for more information.

Fair values are based on level 2 inputs which requires inputs, other than quoted prices in active markets for identical assets and liabilities, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

5 REVENUE

Revenue disclosed in the Statement of Profit or Loss includes revenue from contracts with customers and other revenue not in the scope of AASB 15. Other revenue primarily comprises revenue from the rental and leasing business.

Revenue according to AASB 15 includes revenue that was deferred and included in contract liabilities at 31 December 2020 amounting to $31.729m (2019: $46.349m).

Revenue that is expected to be recognised within three years related to performance obligations that are unsatisfied (or partially unsatisfied) amounted to $98.175m at 31 December 2020 (2019: $68.823m) and revenue from performance obligations fully (or partially) satisfied in previous periods amounted to $49.982m (2019: $22.429m). This revenue is mainly derived from long-term service and maintenance contracts and extended warranties. It does not include performance obligations from customer contracts that have initial expected durations of one year or less. Long-term performance obligations of minor importance to the overall contract value of a bundled contract are not considered in assessing the initial duration of the bundled contract. Contract liabilities are included as part of Note 18 - Trade and other liabilities.

The below table discloses revenue from contracts with customers and is disaggregated by major products and service lines. The table also includes a reconciliation of the disaggregated revenue with the Company's reportable segments.

2020	**Cars $'000**	**Vans $'000**	**Total $'000**
Revenue according to AASB 15	2,131,725	336,530	**2,468,255**
Rental and leasing income from third parties	246	1,486	1,732
Total revenue	**2,131,971**	**338,016**	**2,469,987**

2019	**Cars $'000**	**Vans $'000**	**Total $'000**
Revenue according to AASB 15	2,350,144	381,860	**2,732,004**
Rental and leasing income from third parties	803	1,906	2,709
Total revenue	**2,350,947**	**383,766**	**2,734,713**

6 OTHER INCOME

	Notes	**2020 $'000**	2019 $'000
Rental income			
Employee lease program	3(i)	**1,474**	1,319
Rendering of services		**401**	331
Other			
From other related parties	32(b), 32(c), 32(d)	**10,829**	14,272
External parties		**15,702**	16,010
Gain on disposal of property, plant and equipment		**289**	-
Total other income		**28,695**	31,932

Rental Income: The Company earns income from employees entering into lease arrangements with MBFS for MBAuP products under the employee vehicle lease program.

Other: The Australian Government introduced the “JobKeeper” wage subsidy to support employees and businesses that were affected by the COVID-19 coronavirus pandemic. MBAuP was eligible to participate in the JobKeeper scheme, and received a total of $4.902m in JobKeeper wage subsidies in respect of April 2020 to September 2020. The subsidy was recognised in profit or loss in ‘Other Income- External Parties’. There is no outstanding balance or deferred income or receivable related to this subsidy as at 31 December 2020.

7 EMPLOYEE EXPENSES

	2020 $'000	2019 $'000
Wages and salaries	**(28,963)**	(31,737)
Other associated personnel expenses	**(4,047)**	(3,990)
Contributions to defined contribution plans	**(3,295)**	(3,388)
Long service leave expense	**(2,756)**	(1,836)
Annual leave expense	**(1,328)**	(1,331)
Termination benefits	**(428)**	(464)
Personnel restructuring expense	**-**	200
Total employee expenses	**(40,817)**	(42,546)

8 EXPENSES

(a) Cost of sales

		2020 $'000	2019 $'000
Cost of sales		**(2,237,052)**	(2,571,398)
Warranty, maintenance and repair expenses		**(26,675)**	(5,213)
Total cost of sales		**(2,263,727)**	(2,576,611)

Cost of sales comprises the expenses of vehicles and parts sold such as the purchase costs and importation costs (including import duties, freight charges and insurance). Cost of sales also includes expenses relating to inland transport, storage and pre-delivery inspection costs.

(b) Impairment losses incurred on value of inventories

Net impairment (loss)/reversal	14	**15,794**	(12,554)

(c) Other expenses:

Marketing expenses	**(32,342)**	(41,345)
IT expenses	**(14,575)**	(16,890)
Other overheads	**(17,009)**	(16,054)
Miscellaneous other expenses & Other selling costs	**(22,078)**	(30,545)
Demo Vehicles & Warehouse service costs	**(5,931)**	(6,350)
Roadside assistance	**(7,968)**	(8,198)
Loss on disposal of property, plant and equipment	**(4)**	(87)
Total other expenses	**(99,907)**	(119,469)

9 AUDITORS' REMUNERATION

	2020 $	2019 $
Audit services		
Auditors of the Company - KPMG Australia		
Audit and review of financial statements	**(286,496)**	(431,579)
Other audit-related services	**(45,600)**	-
	(332,096)	(431,579)
Auditors of the Company - KPMG Overseas		
Audit and review of financial reports	**(27,004)**	(30,921)
	(359,100)	(462,500)

10 NET FINANCING COSTS

	Notes	**2020 $'000**	2019 $'000
Recognised in profit or loss			
Interest income from:			
Related parties		**33,537**	58,882
External parties		**698**	1,277
Net unwind effect of changes in discount rates to provisions and employee benefits		**-**	2,594
Impairment reversals on trade receivables	13	**241**	-
Finance income		**34,476**	62,753
Interest expense from:			
Related parties		**(9,860)**	(12,084)
External parties		**(26,146)**	(48,983)
Net foreign exchange loss		**(421)**	(307)
Net unwind of discounting on provisions and employee benefits		**(2,170)**	(2,031)
Impairment losses on trade receivables	13	**-**	(720)
Interest expense on lease liability		**(197)**	(289)
Finance cost		**(38,794)**	(64,414)
Net finance (costs)/income		**(4,318)**	(1,661)

	2020 $'000	2019 $'000
Recognised in other comprehensive income		
Cash flow hedges - reclassified to profit or loss	**-**	(92)
Income tax relating to these items	**-**	28
	-	(64)

11 INCOME TAX EXPENSE

	2020 **$'000**	2019 $'000
Current tax benefit/(expense)		
Current year	**(42,621)**	(10,006)
Adjustments for prior years	**432**	(165)
	(42,189)	(10,171)
Deferred tax benefit/(expense)		
Origination and reversal of temporary differences	**9,069**	8,075
Adjustments for prior years	**(40)**	1,392
	9,029	9,467
Total income tax benefit/(expense)	**(33,160)**	(704)

	2020	2019
Numerical reconciliation between tax expense and pre-tax net profit		
Profit for the period	**62,645**	1,355
Total income tax expense	**33,160**	704
Profit before income tax	**95,805**	2,059
Income tax expense using the Company's domestic tax rate of 30% (2019 - 30%)	**(28,741)**	(618)
(Increase)/decrease in income tax benefit/(expense) due to:		
Non-deductible expenses	**(4,811)**	(1,313)
Income tax over/(under) provided in prior year	**432**	(165)
Sundry items	**(40)**	1,392
Income tax expense on pre-tax net profit	**(33,160)**	(704)

	2020	2019
Deferred tax recognised in other comprehensive income		
Relating to gains and losses on cash flow hedges - reclassified to profit or loss	**-**	28

12 CASH AND CASH EQUIVALENTS

	Notes	**2020** **$'000**	2019 $'000
Bank balances			
Bank balances		**59,417**	66,564
Call deposits		**220,000**	120,000
Cash and cash equivalents in the statement of cash flows	25(a)	**279,417**	186,564

The Company’s exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 20. Call deposits relate to funds with maturities of less than 3 months from inception.

13 TRADE AND OTHER RECEIVABLES

	Notes	2020 $'000	2019 $'000
Current			
Non-interest bearing			
Net trade receivables		**38,504**	65,667
Receivables due from ultimate parent entity	32(a)	**18,580**	717
Receivables due from intermediate parent entity	32(b)	**731**	1,125
Receivables due from immediate parent entity	32(c)	**13,200**	41,757
Receivables due from other related entities	32(d)	**60,759**	89,684
Prepayments and other assets		**1,837**	1,928
		133,611	200,878
Interest bearing			
Loans due from other related entities	32(d)	**1,843,339**	1,831,979
		1,843,339	1,831,979
		1,976,950	2,032,857
Non-current			
Interest bearing			
Loans due from other related entities	32(d)	**598,492**	1,325,454
		598,492	1,325,454

Trade receivables are shown net of impairments. Impairment reversals were recognised on trade receivables in the current year amounting to $241,281 (2019: $720,264 impairment losses) due to improved collections and lower trade receivable balances in the current year.

The Company's exposure to credit risk for financial assets is disclosed in Note 20.

14 INVENTORIES

	2020 **$'000**	2019 $'000
Finished goods	**193,019**	435,534
Goods in transit	**419,071**	518,862
Work in progress	**-**	28
	612,090	954,424
Finished goods – at cost	**98,100**	287,791
Finished goods - at net realisable value		
Finished goods - at cost	**102,128**	171,338
Impairment loss	**(7,209)**	(23,595)
	94,919	147,743
	193,019	435,534

During the year consumables and changes in finished goods recognised as cost of sales amounted to $2.264 billion (2019: $2.577 billion). Inventory write-downs of $0.433 million (2019: $14.454 million) were booked during the year and inventory write-downs of $16.227 million made in previous periods were reversed during the year (2019: $1.900 million), primarily relating to impairments for aged vehicles no longer required as the impacted vehicles were sold during 2020 (refer 8(b)). Inventories are shown net of impairment losses.

Estimates and Judgements

The provision for impairment of inventories ("Impairment loss") assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account recent sales experience, the ageing of inventories, damaged, obsolete, slow moving inventories and other factors that affect inventory obsolescence.

15 INTANGIBLE ASSETS

	Software development costs $'000
Cost	
Balance at 1 January 2019	5,597
Acquisitions	167
Transfers	(2)
Disposals	(76)
Balance at 31 December 2019	5,686
Balance at 1 January 2020	5,686
Balance at 31 December 2020	5,686
Amortisation and impairment losses	
Balance at 1 January 2019	(1,363)
Amortisation charge for the year	(1,096)
Disposals	59
Balance at 31 December 2019	(2,400)
Balance at 1 January 2020	(2,400)
Amortisation charge for the year	(1,106)
Balance at 31 December 2020	(3,506)
Carrying amounts	
Balance at 1 January 2019	4,234
Balance at 31 December 2019	3,286
Balance at 1 January 2020	3,286
Balance at 31 December 2020	2,180

The Company had intangible assets subject to amortisation which comprise software developed or obtained to facilitate certain transactions between the Company and its dealer network.

16 PROPERTY, PLANT AND EQUIPMENT

	Land and improvements $'000	Buildings $'000	Plant and equipment* $'000	Assets under construction $'000	Total $'000
Cost					
Balance at 1 January 2019	2,101	38,100	47,634	206	88,041
Recognition of right-of-use asset on initial application of AASB 16	-	-	12,445	-	12,445
Acquired from Mercedes-Benz Vans	-	-	8,285	-	8,285
Acquisitions	-	439	54,811	-	55,250
Transfers	-	158	(171)	15	2
Disposals	-	-	(61,828)	(185)	(62,013)
Balance at 31 December 2019	2,101	38,697	61,176	36	102,010
Cost					
Balance at 1 January 2020	2,101	38,697	61,176	36	102,010
Acquisitions	-	49	55,331	4	55,384
Transfers	-	-	36	(36)	-
Disposals	-	-	(53,594)	-	(53,594)
Balance at 31 December 2020	2,101	38,746	62,949	4	103,800
Depreciation					
Balance at 1 January 2019	(87)	(18,200)	(8,563)	-	(26,850)
Acquired from Mercedes-Benz Vans	-	-	(2,027)	-	(2,027)
Depreciation charge for the year	-	(1,623)	(9,026)	-	(10,649)
Disposals	-	-	7,326	-	7,326
Balance at 31 December 2019	(87)	(19,823)	(12,290)	-	(32,200)
Depreciation					
Balance at 1 January 2020	(87)	(19,823)	(12,290)	-	(32,200)
Depreciation charge for the year	-	(2,877)	(5,920)	-	(8,797)
Disposals	-	-	7,971	-	7,971
Balance at 31 December 2020	(87)	(22,700)	(10,239)	-	(33,026)

16 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land and improvements $'000	Buildings $'000	Plant and equipment* $'000	Assets under construction $'000	Total $'000
Carrying amounts					
Balance at 1 January 2019	2,014	19,900	39,071	206	61,191
Balance at 31 December 2019	2,014	18,874	48,886	36	69,810
Balance at 1 January 2020	2,014	18,874	48,886	36	69,810
Balance at 31 December 2020	2,014	16,046	52,710	4	70,774

16 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

* Included in ‘Plant and equipment’ are right-of-use assets. Please refer to Note 27.

Operating lease transactions

Vehicles that are subject to operating leases between a related party, Mercedes-Benz Financial Services Australia Pty Ltd (“MBFSAu”) and their external customers, and where the Company has agreed to provide residual value guarantees, are accounted for as plant and equipment. The written down value of the vehicles under operating leases is $33.033 million (2019: $34.441 million). Additions for plant and equipment amounting to $40.515 million (2019: $54.095 million) related to the new operating lease arrangements entered into by MBFSAu with their external customers. These additions are reflected as non-cash acquisitions as prior to the operating lease arrangements being entered into, these vehicles have been purchased as inventory as part of the normal operating activities of the Company.

Similarly, disposals of plant and equipment with an initial acquisition cost of $42.800 million (2019: $60.940 million) and a carrying value of $40.174 million related to the expired operating lease arrangements entered into by MBFSAu with their external customers. Upon expiry of the operating lease arrangements, these vehicles were transferred to inventory of the Company. These disposals are reflected as non-cash disposals.

17 TAX ASSETS AND LIABILITIES

Recognised deferred tax assets

Net deferred tax assets are attributable to the following:

	2020 $'000	2019 $'000
Recognised deferred tax assets		
Provisions and contract liabilities	**106,287**	98,324
Employee benefits	**4,353**	4,186
Payable to other related entities	**9,849**	6,806
Lease liabilities	**4,453**	2,876
Provision for impairment losses	**123**	213
Provision for diminution of inventories	**2,206**	7,177
Depreciation timing differences	**824**	763
Other payables	**1,776**	2,758
Other items	**53**	83
Total deferred tax assets	**129,924**	123,186
Recognised deferred tax liabilities		
Vehicles subject to operating lease	**(9,910)**	(6,597)
Right-of-use assets	**(4,418)**	(2,820)
Prepayments	**115**	132
Profit deferral for tax purposes	**(23,907)**	(31,126)
Total deferred tax liabilities	**(38,120)**	(40,411)
Net deferred tax assets	**91,804**	82,775

17 TAX ASSETS AND LIABILITIES (CONTINUED)

Recognised deferred tax assets (continued)

In accordance with the tax consolidation legislation, Daimler Australia/Pacific Pty Ltd (the provisional head company) has assumed the current tax liability or asset initially recognised by the Company which is a member of the tax consolidated group.

The Company is a member of a tax-consolidated group (‘the Group’) and is jointly and severally liable for the income tax of that group in the event that the provisional head entity defaults in its payment obligations to the Australian Tax Office. The provisional head entity has not been in default of its payment obligations and the directors are of the opinion that the probability of default is remote.

Under the tax funding arrangement the Company and the provisional head company recognise an inter-entity payable or receivable equal in amount to the current tax liability or asset assumed. The Company continues to recognise income tax expense or benefit even though it has derecognised its current tax liability or asset.

At 31 December 2020 the Company had an intercompany payable of $35.122 million (2019: $29.253 million receivable) relating to a current tax payable assumed by the provisional head company which is included in Trade and other liabilities (refer to Note 18) .

Estimates and Judgements

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. The calculation of income taxes has therefore been done with the best possible judgement based on past experiences, pending an assessment by the taxable authorities here in Australia.

17 TAX ASSETS AND LIABILITIES (CONTINUED)

Recognised deferred tax assets (continued)

Movement in temporary differences during the year

	2020		
	Balance at 1 January 2020 $'000	Recognised in income $'000	Balance at 31 December 2020 $'000
Deferred tax assets			
Provisions and contract liabilities	98,324	7,963	106,287
Employee benefits	4,186	167	4,353
Payable to other related entities	6,806	3,043	9,849
Lease liabilities	2,876	1,577	4,453
Provision for impairment losses	213	(90)	123
Provision for diminution of inventories	7,177	(4,971)	2,206
Depreciation timing differences	763	61	824
Other payables	2,758	(982)	1,776
Other items	83	(30)	53
Total deferred tax assets	**123,186**	**6,738**	**129,924**
Deferred tax liabilities			
Vehicles subject to operating lease	(6,597)	(3,313)	(9,910)
Right-of-use assets	(2,820)	(1,598)	(4,418)
Prepayments	132	(17)	115
Profit deferral for tax purposes	(31,126)	7,219	(23,907)
Total deferred tax liabilities	**(40,411)**	**2,291**	**(38,120)**
Net deferred tax assets	**82,775**	**9,029**	**91,804**

17 TAX ASSETS AND LIABILITIES (CONTINUED)

Recognised deferred tax assets (continued)

Movement in temporary differences during the year (continued)

2019

	Balance at 1 January 2019 $'000	MBV Acquisition $'000	Recognised in income $'000	Recognised in other comprehensive income $'000	Balance at 31 December 2019 $'000
Deferred tax assets					
Provisions and contract liabilities	63,600	17,655	17,069	-	98,324
Employee benefits	3,620	417	149	-	4,186
Payable to other related entities	10,499	1,998	(5,691)	-	6,806
Lease liabilities	-	-	2,876	-	2,876
Provision for impairment losses	92	39	82	-	213
Provision for diminution of inventories	2,843	584	3,750	-	7,177
Depreciation timing differences	742	(1)	22	-	763
Other payables	2,255	449	54	-	2,758
Derivative financial instruments	(28)	-	-	28	-
Other items	162	45	(124)	-	83
Total deferred tax assets	**83,785**	**21,186**	**18,187**	**28**	**123,186**
Deferred tax liabilities					
Vehicles subject to operating lease	(10,042)	(1,843)	5,288	-	(6,597)
Right-of-use assets	-	-	(2,820)	-	(2,820)
Prepayments	133	89	(90)	-	132
Profit deferral for tax purposes	(13,921)	(6,107)	(11,098)	-	(31,126)
Total deferred tax liabilities	**(23,830)**	**(7,861)**	**(8,720)**	**-**	**(40,411)**
Net deferred tax assets	**59,955**	**13,325**	**9,467**	**28**	**82,775**

18 TRADE AND OTHER LIABILITIES

	Notes	2020 $'000	2019 $'000
Current			
Trade payables		**37,020**	46,392
Payable to ultimate parent entity	32(a)	**1,640**	4,699
Payable to intermediate entity	32(b)	**330,486**	413,527
Payable to immediate parent entity	32(c)	**36,500**	794
Payable to other related entities	32(d)	**48,744**	57,303
Other payables		**34,664**	36,468
Contract liabilities	5	**157,873**	144,057
		646,927	703,240
Non-current			
Payable to other related entities	32(d)	**18**	1,794
Contract liabilities	5	**51,158**	37,579
		51,176	39,373

Trade and other liabilities are non-interest bearing and current trade and other liabilities are due and payable within 30 days from receipt of invoice.

The Company's exposure to liquidity and currency risks related to trade and other liabilities are disclosed in Note 20.

Contract liabilities

Contract liabilities primarily relate to prepaid service and maintenance contracts and obligations from sales transactions (especially performance bonuses and discounts) in the scope of AASB 15. The opening balance of contract liabilities for 2019 was $135.03m. The movement year on year is predominantly driven by an increase in the services across all products and increased revenues deferred as a result. No information is provided about remaining performance obligations at 31 December 2020 or at 31 December 2019 that have an original expected duration of one year or less, as allowed by AASB 15.

19 LOANS AND BORROWINGS

	Notes	2020 $'000	2019 $'000
Current			
Bank loans (secured)	19(b)	**-**	400,000
Notes (secured)	19(c)	**921,914**	1,005,162
Commercial papers (secured)	19(d)	**254,936**	202,825
Loan from immediate parent entity	19(e), 32(c)	**141,573**	141,573
Loans from other related entity	19(f), 32(d)	**103,015**	-
Lease liabilities	19(g)	**3,154**	3,023
		1,424,592	1,752,583

19 LOANS AND BORROWINGS (CONTINUED)

	Notes	2020 $'000	2019 $'000
Non-current			
Notes (secured)	19(c)	**598,492**	1,325,454
Lease liabilities	19(g)	**11,691**	6,564
		610,183	1,332,018

	Notes	2020 $'000	2019 $'000
The Company has access to the following lines of credit:			
Bank overdraft (unsecured)		**50,000**	50,000
Bank loans (secured)		**1,333,400**	1,895,000
Notes (secured)		**1,520,406**	2,330,616
Commercial papers (secured)		**254,936**	202,825
Loans from ultimate parent entity		**-**	-
Loans from immediate parent entity		**141,573**	141,573
Loans from other related entity		**103,015**	-
Lease liabilities		**14,845**	9,587
		3,418,175	4,629,601

	Notes	2020 $'000	2019 $'000
Facilities utilised at reporting date			
Bank loans (secured)	19(b)	**-**	400,000
Notes (secured)	19(c)	**1,520,406**	2,330,616
Commercial papers (secured)	19(d)	**254,936**	202,825
Loans from immediate parent entity	19(e)	**141,573**	141,573
Loans from other related entity	19(f)	**103,015**	-
Lease liabilities	19(g)	**14,845**	9,587
		2,034,775	3,084,601

	Notes	2020 $'000	2019 $'000
Facilities not utilised at reporting date			
Bank overdraft (unsecured)	19(a)	**50,000**	50,000
Bank loans (secured)	19(b)	**1,333,400**	1,495,000
		1,383,400	1,545,000

The proceeds from interest bearing loans and borrowings have been used predominantly to finance the activities of related parties and to meet the Company's working capital needs. Interest payable on loans and borrowings and interest receivable from related parties have been included in profit or loss as finance costs and income respectively.

Current portion of notes, commercial papers and loans from the immediate parent and other related entities are payable within one year from the reporting date.

19 LOANS AND BORROWINGS (CONTINUED)

Non-current portion of Notes are payable on or before 30 November 2023, but after one year from the balance sheet date of these financial statements.

The Company's exposure to credit, liquidity and market rate risks and a sensitivity analysis for financial assets and liabilities are disclosed in Note 20.

(a) Bank overdraft (unsecured)

The Company's bank overdraft is denominated in AUD and is payable on demand and subject to annual review. Interest is charged at prevailing market rates.

(b) Bank loans (secured)

The Company's bank loans are denominated in AUD and are secured by the ultimate parent entity guarantee. The Company has access to credit facilities which are subject to annual renewal. Interest is charged at prevailing market rates. There is no outstanding balance as at 31 December 2020.

(c) Notes (secured)

The Company has authorised the following note issues outstanding at 31 December 2020 denominated in EUR and AUD which are guaranteed by the ultimate parent entity:

Currency	Value of Notes	Due Date	On-lending	Interest re-pricing
EUR	100,000,000	Mar-21	EUR	Quarterly
EUR	150,000,000	Aug-21	EUR	Quarterly
EUR	125,000,000	Nov-21	EUR	Quarterly
AUD	100,000,000	Jan-21	-	On maturity
AUD	125,000,000	Mar-21	-	On maturity
AUD	100,000,000	Aug-21	-	On maturity
AUD	150,000,000	Mar-22	-	On maturity
AUD	150,000,000	Aug-22	-	On maturity
AUD	100,000,000	Nov-22	-	On maturity
AUD	150,000,000	Sep-23	-	On maturity
AUD	50,000,000	Nov-23	-	On maturity

Notes that have matured since reporting date have not been refinanced, and have been repaid.

All issues are listed on the Luxembourg Stock Exchange and guaranteed by Daimler AG. Interest rates on AUD fixed interest notes are agreed at the inception of the notes. Interest rates on EUR floating interest notes are agreed at the inception of the notes and re-priced on a quarterly or yearly basis. Average interest rates are set out in Note 20.

19 LOANS AND BORROWINGS (CONTINUED)

(d) Commercial papers (secured)

The Company has authorised the following commercial paper issues outstanding at 31 December 2020 denominated in AUD which are guaranteed by the ultimate parent entity:

Currency	Value of Commercial Papers	Due Date	Interest re-pricing
AUD	40,000,000	Jan-21	On maturity
AUD	15,000,000	Jan-21	On maturity
AUD	50,000,000	Jan-21	On maturity
AUD	15,000,000	Jan-21	On maturity
AUD	40,000,000	Jan-21	On maturity
AUD	30,000,000	Jan-21	On maturity
AUD	65,000,000	Jan-21	On maturity

All of the $255m that matured in January 2021 has been repaid. Subsequently, the Company has entered into a new issuance of the same value.

(e) Loans from immediate parent entity

The Company has authorised the following loans outstanding at 31 December 2020 denominated in AUD from the immediate parent entity:

Currency	Value of Loan	Due Date
AUD	141,573,358	Jan-21

Loans from immediate parent entity are related to the cash pool balance outstanding as of 31 December 2020. Interest is charged at prevailing market rates.

(f) Loans from other related entity

The Company has authorised the following loans from other related entities outstanding at 31 December 2020 denominated in AUD:

Currency	Value of Loan	Due Date
AUD	101,855,288	Jan-21
AUD	1,159,965	Jan-21

Loans from other related entities is related to the cash pool balance with parties within the tax group under the cash pooling arrangements with the Company. Interest is charged at prevailing market rates.

(g) Lease liabilities

The Company has the below outstanding lease liabilities at 31 December 2020 denominated in AUD:

	2020 $'000	2019 $'000
Not later than one year	**3,154**	3,023
Later than one year or not later than five years	**9,322**	5,863
Later than five years	**2,369**	701
	14,845	9,587

20 FINANCIAL INSTRUMENTS

The Company has exposure to credit, liquidity and market risks from its use of financial instruments.

This note presents information about the Company's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are also included in this note and throughout this financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework and is also responsible for developing and monitoring risk management policies.

Risk management policies are established to identify and analyse the risks faced by the Company to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers and certain key suppliers. Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

Swap and foreign exchange contracts are subject to credit risk in relation to the relevant counterparties, which is principally Daimler AG. At 31 December 2020 the long-term credit rating of Daimler AG was as follows:

Standard & Poor's	BBB+
Moody's	A3
Fitch	BBB+

The Company's ultimate parent Daimler AG determines which counterparties are contracted with. Typically this will only be with A rated external counterparties.

The maximum credit risk exposure on foreign currency contracts is the full amount of the foreign currency the Company pays when settlement occurs, should the counterparty fail to pay the amount which it is committed to pay the Company.

Exposure to credit risk

The carrying amount of the Company's financial assets represents the maximum credit exposure. The Company's maximum exposure to credit risk at the reporting date was:

	Notes	**2020 $'000**	2019 $'000
Trade and other receivables		**2,573,605**	3,356,383
Cash and cash equivalents	12	**279,417**	186,564
		2,853,022	3,542,947

The Company minimises concentration of credit risk by undertaking transactions with a large number of customers and counterparties, and is not materially exposed to any individual third party customer as at the reporting date.

20 FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

Exposure to credit risk (continued)

At reporting date 84% (2019: 85%) of trade and other receivables related to a related party, Mercedes-Benz Financial Services Australia Pty Ltd. Other than this, there were no significant concentrations of credit risk relating to the Company's trade and other receivables.

The Company's maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region was:

	2020 $'000	2019 $'000
Australia	**2,551,629**	3,351,970
Europe	**19,387**	2,027
New Zealand	**2,570**	2,237
Asia	**19**	149
	2,573,605	3,356,383

The Company's maximum exposure to credit risk for trade and other receivables at the reporting date by type of customer was:

	2020 $'000	2019 $'000
Wholesale customers	**2,573,605**	3,356,383

Impairment losses

The provision relates to lifetime expected credit losses on short term trade receivables.

The movement in the allowance for impairment in respect of the trade and other receivables during the year was:

	2020 $'000	2019 $'000
Balance at 1 January	**707**	305
Impairment losses recognised / (reversed)	**(241)**	720
Allowance (utilised) / amount recovered	**(56)**	(318)
Balance at 31 December	**410**	707

Impairment losses recognised in respect of trade and other receivables for the reporting period primarily related to a high probability of not collecting debts from external customers (refer Note 13).

20 FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

Impairment losses (continued)

The ageing of the Company's trade and other receivables at the reporting date was:

	2020		2019	
	Gross $'000	Impairment $'000	Gross $'000	Impairment $'000
Not past due	**2,546,725**	**(93)**	**3,300,230**	**(97)**
Past due 1-30 days	**24,899**	**(75)**	**51,439**	**(128)**
Past due 30-60 days	**1,024**	**(26)**	**3,574**	**(76)**
Past due 60-90 days	**394**	**(12)**	**255**	**(6)**
Past due 90-120 days	**199**	**(11)**	**310**	**(16)**
Past due 120+ days	**774**	**(193)**	**1,282**	**(384)**
	2,574,015	**(410)**	**3,357,090**	**(707)**

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company monitors cash flow requirements to ensure that it has sufficient cash on demand to meet expected operational expenses on an on-going basis.

Daimler AG applies a cash concentration method for cash and asset management throughout the global Daimler group. The overriding principle of cash management is to concentrate cash at the highest possible level to maximise investment returns and to minimise borrowing costs.

Daimler AG Group treasury develops proposals concerning the allocation of financial assets on the basis of the global Daimler group's liquidity planning; they also determine the final asset allocation.

20 FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

The following are the contractual maturities of financial assets and liabilities, including estimated interest receipts or payments:

2020 **$'000**	Notes	**Carrying amount $'000**	**Contractual cash flows $'000**	**1 year or less $'000**	**1 to 2 years $'000**	**2 to 5 years $'000**	**More than 5 years $'000**
Non derivative financial assets							
Trade and other receivables		**2,573,605**	**2,616,331**	**1,994,181**	**415,625**	**206,525**	**-**
Non derivative financial liabilities							
Notes issued (secured)	19	**(1,520,406)**	**(1,562,015)**	**(939,865)**	**(415,625)**	**(206,525)**	**-**
Commercial papers (secured)	19	**(254,936)**	**(255,000)**	**(255,000)**	**-**	**-**	**-**
Loans from immediate parent entity	19	**(141,573)**	**(141,574)**	**(141,574)**	**-**	**-**	**-**
Loans from other related entities	19	**(103,015)**	**(103,016)**	**(103,016)**	**-**	**-**	**-**
Lease liabilities	19	**(14,845)**	**(15,307)**	**(3,302)**	**(2,351)**	**(7,285)**	**(2,369)**
Trade and other liabilities	18	**(470,674)**	**(470,674)**	**(470,656)**	**(18)**	**-**	**-**
		(2,505,449)	**(2,547,586)**	**(1,913,413)**	**(417,994)**	**(213,810)**	**(2,369)**

20 FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

2019 **$'000**	Notes	Carrying amount $'000	Contractual cash flows $'000	1 year or less $'000	1 to 2 years $'000	2-5 years $'000	More than 5 years $'000
Non derivative financial assets							
Trade and other receivables		3,356,383	3,410,431	2,037,574	949,419	423,438	-
Non derivative financial liabilities							
Bank loans (secured)	19	(400,000)	(400,330)	(400,330)	-	-	-
Notes issued (secured)	19	(2,330,616)	(2,379,662)	(1,006,856)	(949,368)	(423,438)	-
Commercial papers (secured)	19	(202,825)	(203,000)	(203,000)	-	-	-
Loans from immediate parent entity		(141,573)	(141,573)	(141,573)	-	-	-
Lease liabilities		(9,587)	(10,103)	(3,235)	(3,325)	(2,834)	(709)
Trade and other liabilities	18	(544,726)	(544,726)	(542,932)	(1,794)	-	-
		(3,629,327)	(3,679,394)	(2,297,926)	(954,487)	(426,272)	(709)

20 FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk

The Company is exposed to foreign currency risk on purchases and funding transactions that are denominated in a currency other than AUD. The currencies giving rise to this risk are EUR (loans and borrowings, spare parts and vehicle purchases or specific contracts).

In respect of other monetary assets and liabilities held in currencies other than the AUD, the Company ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances. The Company uses foreign currency deposits to hedge monetary assets and liabilities held in foreign currencies.

The Company's exposure to foreign currency risk at reporting date was based on notional amounts as set out in the tables below. Note the only material net currency exposure is with USD and EUR. As mentioned above these exposures are taken to hedge against foreign currency firm purchase commitments. The effect of movements in foreign exchange rates on the Company's net currency exposure is disclosed in the Sensitivity Analysis below.

	2020				
	AUD $'000	**EURO €'000**	**USD $'000**	**SGD $'000**	**NZD $'000**
Non derivative financial assets					
Cash and cash equivalents	**279,417**	**-**	**-**	**-**	**-**
Trade receivables	**38,504**	**-**	**-**	**-**	**-**
Receivables due from ultimate parent entity	**17,924**	**410**	**-**	**-**	**-**
Receivables due from intermediate parent entity	**731**	**-**	**-**	**-**	**-**
Receivables due from immediate parent entity	**13,200**	**-**	**-**	**-**	**-**
Loans and other receivables due from other related entities	**1,905,482**	**375,000**	**-**	**-**	**-**
	2,255,258	**375,410**	**-**	**-**	**-**
Non derivative financial liabilities					
Notes issued (secured)	**(923,298)**	**(375,000)**	**-**	**-**	**-**
Commercial papers (secured)	**(254,936)**	**-**	**-**	**-**	**-**
Loans from immediate parent entity	**(141,573)**	**-**	**-**	**-**	**-**
Loans from other related parties	**(103,015)**	**-**	**-**	**-**	**-**
Lease liabilities	**(14,845)**	**-**	**-**	**-**	**-**
Trade and other liabilities	**(469,912)**	**(443)**	**(45)**	**-**	**-**
	(1,907,579)	**(375,443)**	**(45)**	**-**	**-**
Net Currency Exposure	**347,679**	**(33)**	**(45)**	**-**	**-**

20 FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk (continued)

	2019				
	AUD $'000	EURO €'000	USD $'000	SGD $'000	NZD $'000
Non derivative financial assets					
Cash and cash equivalents	186,564	-	-	-	-
Trade receivables	65,667	-	-	-	-
Receivables due from ultimate parent entity	1,094	468	-	-	-
Receivables due from immediate parent entity	41,757	-	-	-	-
Loans and other receivables due from other related entities	1,963,853	800,351	-	-	-
	2,258,935	800,819	-	-	-
Non derivative financial liabilities					
Bank loans (secured)	(400,000)	-	-	-	-
Notes issued (secured)	(1,047,914)	(800,000)	-	-	-
Commercial papers (secured)	(202,825)	-	-	-	-
Trade and other liabilities	(538,964)	(1,478)	(56)	(2,978)	(191)
	(2,189,703)	(801,478)	(56)	(2,978)	(191)
Net Currency Exposure	69,232	(659)	(56)	(2,978)	(191)

The following significant exchange rates were applied during and at the end of the year:

	Average rate		**Reporting date spot rate**	
	2020	2019	**2020**	2019
AUD:EURO	**0.604**	0.621	**0.629**	0.625
AUD:NZD	**1.061**	1.055	**1.068**	1.041
AUD:USD	**0.690**	0.695	**0.772**	0.702
AUD:SGD	**0.951**	0.948	**1.020**	0.945

Sensitivity analysis

A 10 percent strengthening or weakening of the Australian dollar against the following currencies at 31 December 2020 would have increased / (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2019.

20 FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk (continued)

Sensitivity analysis (continued)

	2020		**2019**	
	Profit or loss		**Profit or loss**	
	$'000	**$'000**	$'000	$'000
	10% increase	**10% decrease**	10% increase	10% decrease
AUD:EURO	**5**	**(6)**	96	(117)
AUD:NZD	**-**	**-**	17	(20)
AUD:USD	**6**	**(7)**	7	(9)
AUD:SGD	**-**	**-**	287	(350)

Interest Rate Risk

Interest sensitivity analysis

As part of its risk management control systems, Daimler AG (the ultimate parent entity) employs value-at-risk analysis as recommended by the Bank for International Settlements. In performing these analyses, the market risk exposure to changes in foreign currency exchange rates, interest rates and equity prices are quantified on a continuous basis by predicting the maximum loss over a target time horizon (holding period) and confidence level. The value-at-risk calculations employed express potential losses in fair values, and are based on the variance-covariance approach, assuming a 99% confidence level and a holding period of five days.

The value-at-risk calculation is performed by Daimler AG for the Company. When the value-at-risk of the Company's portfolio of financial instruments is calculated, the current fair value of these financial instruments is first computed. Then, the sensitivity of the Company's portfolio value to changes in relevant market risk factors is quantified. Based on expected volatilities and correlations of these market risk factors (obtained from the RiskMetricsTM dataset), potential changes of the portfolio value are computed by applying the variance-covariance approach. The variance-covariance approach is a statistical method used to quantify the total impact of all relevant major risk factors on the portfolio's present value. Through these calculations and by assuming a 99% confidence level and the five day holding period, the Company's value-at-risk is obtained. The 99% confidence level and the five day holding period indicate that there is only a 1% statistical probability that the value-at-risk will be exceeded by losses at the end of the five day holding period.

The following table shows the period-end high, low and average value-at-risk ("VaR") figures for the 2020 and 2019 portfolio of interest rate sensitive financial instruments. VaR numbers reflect the quantified net fair value movements on the hedged loan payables balances. Average exposure has been computed on an end of quarter basis:

	Period-end	**High**	**Low**	**Average**
	$'000	**$'000**	**$'000**	**$'000**
Interest rate risk				
2020	**1,039**	**3,315**	**651**	**1,550**
2019	**2,502**	**2,609**	**2,126**	**2,349**

Cash flow exposures arising from significant portions of the loans payable to related parties are economically hedged by amounts receivable from other related parties.

20 FINANCIAL INSTRUMENTS (CONTINUED)

Hedging

The Company hedges at least 90% of all receivables and payables denominated in foreign currency.

The Company uses foreign currency loan receivable instrument to hedge its foreign currency risk. Most of these contracts have maturities that are on the same dates as the loans are due for repayment.

In regard to the Company's EUR denominated notes and loans, the Company classifies related hedge contracts as fair value hedges.

Gains and losses on revaluation of fair value hedges and their related notes or receivables are recorded in profit or loss as part of net financing costs (Note 10).

Changes in the fair value of hedge contracts, that economically hedge forecasted transactions in foreign currencies, and for which no hedge accounting is applied, are recognised in profit or loss. Both the changes in fair value of these hedge contracts and the foreign exchange gains and losses relating to the monetary items are recognised as part of net financing costs (Note 10).

The Company has EUR denominated notes and loans (Note 19). The Company has fully hedged the principal amounts using foreign currency deposits that mature on the same dates as the loans are due for repayment.

Fair values

Fair value versus carrying amounts

Except for derivative financial assets and liabilities which are carried at fair values, all other monetary assets and liabilities are carried at amortised cost. The carrying values of foreign currency borrowings are determined by translating them into AUD using exchange rates prevailing at reporting date. For receivables and payables expected to be recovered or settled no more than twelve months after the reporting date, the carrying value is deemed to reflect the fair value.

All financial assets and liabilities carried at fair value are based on level 2 inputs which requires inputs, other than quoted prices in active markets for identical assets and liabilities, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Interest rates used for determining fair value

The entity uses the implied zero coupon yield curve as of 31 December 2020 to discount financial instruments. The interest rates used have been consistently applied using rates between 0.02% and 0.24% (2019: between 0.75% and 0.95%).

	2020		2019	
	Carrying amount $'000	**Fair value $'000**	Carrying amount $'000	Fair value $'000
Non derivative financial assets				
Loans due from other related entities	**2,441,831**	**2,442,544**	3,157,433	3,156,599
Non derivative financial liabilities				
Bank loans (secured)	**-**	**-**	(400,000)	(400,234)
Notes (secured)	**(1,520,406)**	**(1,521,049)**	(2,330,616)	(2,329,608)
Commercial papers (secured)	**(254,936)**	**(255,000)**	(202,825)	(203,000)
Loans from immediate parent entity	**(141,573)**	**(141,574)**	(141,573)	(141,572)
Loans from other related entity	**(103,015)**	**(103,016)**	-	-
Lease liabilities	**(14,845)**	**(14,845)**	(9,587)	(9,587)

20 FINANCIAL INSTRUMENTS (CONTINUED)

Fair values (continued)

Interest rates used for determining fair value (continued)

The basis of determining fair values is disclosed in Note 4.

Capital management

The Company's policy is to maintain a strong capital base so as to sustain future development of the business. The Board of Management actively monitor the financial performance of the Company to ensure adequate financial returns are generated. The Board of Management also monitors the level of dividends to ordinary shareholders.

The Board of Management seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The Company's debt-to-adjusted capital ratio at the end of the reporting period was as follows:

	2020 **$'000**	2019 $'000
Total liabilities	**2,909,338**	3,994,090
Less: cash and cash equivalents	**(279,417)**	(186,564)
Net debt	**2,629,921**	3,807,526
Total equity	**722,370**	661,080
Adjusted capital	**722,370**	661,080
Debt-to-adjusted capital ratio	**3.64**	5.76

There were no changes in the Company's approach to capital management during the year.

The Company is not subject to any externally imposed capital requirements.

21 EMPLOYEE BENEFITS

	2020 $'000	2019 $'000
Current		
Liability for annual leave	**2,405**	2,382
Liability for long service leave	**6,193**	6,030
Cash settled share-based payment liability	**67**	42
	8,665	8,454
Non-current		
Liability for long service leave	**313**	355
Cash settled share-based payment liability	**303**	177
	616	532

Share based payments

Performance Phantom Share Plan

In 2006 Daimler AG adopted the “2005-2007 Performance Phantom Share Plan” under which virtual shares (phantom shares) are granted to eligible employees entitling them to receive cash payment after four years of service. Total cash payments made to entitled employees in 2020 was $87,590. The amount of cash paid to eligible employees is based on the number of phantom shares that vest (determined over a three year performance period) times the quoted price of Ordinary Shares of Daimler AG (determined as an average price over a specified period at the end of the four-year service). The number of phantom shares that vest will depend on the achievement of Daimler AG performance goals as compared with competitive and internal benchmarks (return on net assets and return on sales). Daimler AG will no longer issue any common shares in connection with the Performance Phantom Share Plan.

As at 31 December 2020, the carrying amount of the liability recognised for the entitlements granted is $370,143 (2019: $218,753).

The number of phantom shares on-issue by Daimler AG to key management personnel of the Company as at 31 December 2020 was 11,162 (2019: 8,278).

22 PROVISIONS

	Warranty $'000	Legal $'000	Other $'000	Total $'000
Balance at 1 January 2020	102,354	141	52,295	154,790
Provisions made during the year	49,701	15,176	13,411	78,288
Provisions used during the year	(19,815)	(5)	(10,975)	(30,795)
Provisions reversed in the year	-	-	(39,184)	(39,184)
Net unwind of discount	1,219	1	311	1,531
Balance at 31 December 2020	133,459	15,313	15,858	164,630
Current	33,228	15,313	12,979	61,520
Non-current	100,231	-	2,879	103,110
Total	133,459	15,313	15,858	164,630

Warranties

The Company issues various types of product warranties, under which it generally guarantees the performance of products delivered and services rendered for a certain period. The provision for warranties relates primarily to vehicles sold during the five years to 31 December 2020. During 2020, the Company announced that all vehicles sold from 1 March 2020 will be covered for 5 years (previously 3 years) manufacturers' warranty (unlimited kilometres for private purchases, and limited to capped kilometres for vehicles acquired for commercial purposes). As a result, there has been an increase to warranty provisions to factor for additional future warranty claims relating to the 4th & 5th year (since first year of registration). The provision is based on estimates made from historical warranty data associated with similar products and services. The provision for these warranties covers expected costs for contractual warranty claims as well as expected costs for goodwill concessions and recall campaigns. The Company expects to pay out the liability over the next five years. During the year, $26.675 million was recognised as an expense in cost of sales (2019: $5.213 million) (refer to Note 8).

Legal

The legal provision comprises costs for various legal proceedings, claims and governmental investigations which can lead to lengthy and costly investigations, legal proceedings and/or penalties. Litigation and government investigations often involve complex legal issues and are connected with a high degree of uncertainty. Accordingly, the assessment of whether an obligation exists on the balance sheet date as a result of an event in the past, and whether a future cash outflow is likely and the obligation can be reliably estimated largely depends on the estimations by management. The Company regularly evaluates the current stage of legal proceedings, also with the involvement of in-house and external legal counsel. The provisions for litigations will as such be reassessed periodically and adjusted based on the evaluations made by management.

22 PROVISIONS (CONTINUED)

Other provisions

Other provisions as at 31 December 2020 includes provisions of $3.54m bonus provisions to be paid out in March 2021; $4.53m of buyback provision to cover any expected loss (between the residual value guarantee and the wholesale selling price) when repurchasing the vehicle and $5.3m relates to administrative, personnel and scrapping costs in relation to mandatory repairs related to Takata airbag recalls. Other provisions are calculated based on assessments by management of the likely future costs to be incurred in relation to the past event giving rise to the other provisions.

The Company agreed to enter into an enforceable undertaking (the Undertaking) with the Australian Competition and Consumer Commission in relation to the compulsory Takata airbag recall. The company had previously provided in 2019 $26.38 million in relation to potential alternative transport arrangements for certain eligible consumers as agreed in the Undertaking. Given the very low take up rate and actual requirements of alternative transport arrangements for consumers, coupled with the completion rate of the compulsory recall, the Company has decided to release $23.78 million of the previous provision during 2020. In addition to this release, $7.4 million was released in relation to miscellaneous provisions no longer required, including diesel certification provisions recorded in the prior year. Additionally, $4.1m was reclassified from provisions to contract liabilities in relation to service and maintenance contracts.

23 DEFERRED INCOME

	Notes	**2020 $'000**	2019 $'000
Current			
Deferred income attributable to other related entities	32(d)	**33**	1,479
Other deferred income		**1,225**	205
		1,258	1,684
Non-current			
Deferred income attributable to other related entities	32(d)	**-**	160
Other deferred income		**1,291**	1,256
		1,291	1,416

24 CAPITAL AND RESERVES

Share capital

	2020 $'000	2019 $'000
Issued and paid-up share capital 35,000,000 fully paid ordinary shares of $2 par value each (2019: 35,000,000 ordinary shares of $2 par value each)	**70,000**	70,000

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up of the Company, ordinary shareholders rank after creditors and are fully entitled to any proceeds of liquidation.

Dividends

As the Company is a wholly-owned subsidiary in a tax-consolidated group, the franking credits reside with the provisional head entity in the tax-consolidated group in accordance with the tax funding and sharing agreements. Hence, the dividends recognised are unfranked.

Dividends totalling $1.355 million were declared in the year ended 31 December 2020 (2019: $100 million). Of the total dividend disclosed, $1.355 million was a cash distribution to its immediate parent (2019: $100 million).

	Cents per share	**Total amount $**	**Franked/ unfranked**	**Date of payment**
Final 2020 ordinary dividend	3.87	$1,355,000.00	Unfranked	11.12.2020

25 NOTES TO THE STATEMENT OF CASHFLOWS

(a) Reconciliation of cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the statement of financial position as follows:

	Notes	**2020 $'000**	2019 $'000
Cash and cash equivalents	12	**279,417**	186,564

(b) Reconciliation of cash flows from operating activities

	Notes	**2020 $'000**	2019 $'000
Profit for the period		**62,644**	1,355
Adjustments for			
(Gain)/loss on sale of property, plant and equipment	6, 8(c)	**(285)**	87
Amortisation	15	**1,106**	1,096
Depreciation expenses	16	**8,797**	10,649
Impairment loss/(reversal)	8	**(16,035)**	12,554
Foreign exchange (gains)/losses	10	**421**	307
Income tax expense	11	**33,160**	704
Operating profit before changes in working capital		**89,808**	26,752
Change in assets and liabilities during the financial year			
(Increase)/decrease in trade and other receivables		**61,080**	412,935
(Increase)/decrease in inventories		**358,368**	(273,552)
Increase/(decrease) in trade and other liabilities		**(63,077)**	115,289
Increase/(decrease) in provisions		**10,135**	67,892
Net cash from operating activities		**456,314**	349,316
Net interest paid		**(2,873)**	5,081
Income taxes received / (paid)		**(16,667)**	(1,877)
Net cash inflow (outflow) from operating activities		**436,774**	352,520

(c) Cash flow reconciliation arising from financing activities

The below table includes changes in liabilities arising from financing activities. The movements in other changes is related to amortisation of discount/premium on the loans and borrowings.

Cash provided by financing activities	**2020 $'000**	2019 $'000
Changes from interest bearing receivables	**715,602**	101,294
Changes from bank loans	**(400,000)**	(675,000)
Changes from commercial papers	**52,110**	(76,638)
Changes from notes	**(810,211)**	477,961
Changes from loans from ultimate parent entity	**-**	(154,925)
Changes from loans from immediate parent entity	**-**	141,573
Changes from loans from other related entity	**103,015**	(2,425)
Other changes	**757**	1,507
	(338,727)	(186,653)

25 NOTES TO THE STATEMENT OF CASHFLOWS (CONTINUED)

(c) Cash flow reconciliation arising from financing activities (continued)

Cash provided by financing activities	2020 $'000	2019 $'000
Cash flow from financing activities	**(342,971)**	(289,511)
Lease liabilities	**2,889**	2,858
Dividends paid	**1,355**	100,000
Net movements of net financing activities	**(338,727)**	(186,653)

26 SEGMENT INFORMATION

The Company comprises the following main business segments:

- Passenger Cars: The importation, marketing and distribution of passenger motor vehicles and their components.
- Vans: The importation, marketing and distribution of light commercial motor vehicles and their components.
- Corporate Items: Includes functions and services not allocated to the business segments (Passenger Cars & Vans).

The principal activities of the Company are based in Australia.

Segment information is presented in respect of the Company's business segments which are based on the Company's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

26 SEGMENT INFORMATION (CONTINUED)

2020	**Passenger cars $'000**	**Vans $'000**	**Corporate items $'000**	**Total $'000**
Revenue	**2,131,971**	**338,016**	**-**	**2,469,987**
Other income	**24,675**	**4,020**	**-**	**28,695**
Total revenue and other income	**2,156,646**	**342,036**	**-**	**2,498,682**
Depreciation & amortisation	**(8,368)**	**(1,535)**	**-**	**(9,903)**
Reportable segment profit/(loss) before tax	**84,178**	**11,627**	**-**	**95,805**
Reportable segment assets	**623,298**	**102,086**	**2,906,323**	**3,631,707**
Reportable segment liabilities	**388,688**	**90,321**	**2,430,329**	**2,909,338**
Capital expenditure	**(935)**	**(15)**	**-**	**(950)**
Impairment reversal/(losses)	**3,401**	**12,393**	**-**	**15,794**
Income tax expense	**-**	**-**	**(33,160)**	**(33,160)**

2019	Passenger cars $'000	Vans $'000	Corporate items $'000	Total $'000
Revenue	2,350,947	383,766	-	2,734,713
Other income	28,514	3,418	-	31,932
Total revenue and other income	2,379,461	387,184	-	2,766,645
Depreciation & amortisation	(9,864)	(1,881)	-	(11,745)
Reportable segment profit/(loss) before tax	1,653	406	-	2,059
Reportable segment assets	869,727	225,384	3,560,058	4,655,169
Reportable segment liabilities	353,047	96,666	3,544,376	3,994,089
Capital expenditure	(1,137)	-	-	(1,137)
Impairment reversal/(losses)	893	(13,447)	-	(12,554)
Income tax expense	-	-	(704)	(704)

27 LEASES

Leases as lessee

The Company leases a number of sites that include land and building for the purposes of parts warehousing, regional training offices and hospitality. The leases typically run for a period of five years, with an option to renew the lease after that date. The leases do not include any contingent or variable rental.

Leases of property generally provide the Company with the right of renewal at which time all terms are renegotiated.

Information about the leases for which the Company is a lessee is presented below.

(a) Amounts recognised in the statement of financial position

The statement of financial position shows the following amounts relating to leases:

	2020 $'000	2019 $'000
Right-of-use assets*		
Balance at January 1	**9,400**	12,445
Exercise of extension option	**10,770**	-
Lease modification	**(1,964)**	-
Disposals	**(331)**	-
Depreciation charge for the year	**(3,148)**	(3,045)
Balance at 31 December	**14,727**	9,400

* Included in the line item 'plant and equipment within Note 16 ‘Property, plant and equipment’.

Exercise of extension option & Lease modification:
- 5-year extension option exercised for warehouse facility
- Remeasurement of CBD lease facility due to early lease exit

Disposals:
- Interstate office lease termination

Judgements and Estimates:

The application of AASB16 requires the Company to make judgements that affect the valuation of lease liabilities and the valuation of right-of-use assets. These include determining the contracts in scope of AASB16, determining the contract term and determining the interest rate used for discounting of future cash flows. The lease term determined by the Company comprises non-cancellable period of lease contracts, periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Company is reasonably certain to not exercise that option. In the prior years, the Company had concluded that there were a number of scenarios where the Company might not elect to exercise the extension options in relation to its warehouse lease. During the year, given the changes in circumstances and impacts of COVID-19, the extension option was exercised and as such, the periods covered by the extension option have been included in the lease term as at 31 December 2020.

	2020 $'000	2019 $'000
Lease liabilities *		
Current	**3,154**	3,023
Non-current	**11,691**	6,564
	14,845	9,587

27 LEASES (CONTINUED)

(a) Amounts recognised in the statement of financial position (continued)

* Included in the line item 'loans and borrowings' in the Statement of Financial Position.

(b) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	2020 $'000	2019 $'000
Leases under AASB 16		
Interest on lease liabilities	**197**	289
Depreciation charge of right-of-use assets	**3,148**	3,045
Expenses relating to leases of low-value assets (included in other expenses)	**7**	7
Total impact on profit or loss	**3,352**	3,341

(c) Amounts recognised in the statement of cash flows

The statement of cash flows shows the following amounts relating to leases:

	2020 $'000	2019 $'000
Cash flow under AASB 16		
Cash outflow from operating activities	**(197)**	(289)
Cash outflow from financing activities	**(2,889)**	(2,858)
Total cash outflow for leases	**(3,086)**	(3,147)

Leases as lessor

Residual value guarantees for operating leases

The Company agreed to provide residual value guarantees to a related party, Mercedes-Benz Financial Services Australia Pty Ltd, for operating leases entered into between Mercedes-Benz Financial Services Australia Pty Ltd and their external customers for passenger vehicles and light commercial vehicles. These operating leases have an average term of three years.

The Company regularly reviews the factors determining the values of its leased vehicles. In particular, it is necessary to estimate the residual values of vehicles at the end of their leases, which constitute a substantial part of the expected future cash flows from leased assets. In this context, assumptions are made regarding major influencing factors, such as expected number of returned vehicles, and the latest remarketing results. Those assumptions are determined either by qualified estimates (based on external data) or publications provided by expert third parties.

Vehicles subject to operating leases where the Company has provided a residual value guarantee are accounted for by the Company as plant and equipment and depreciated over a straight-line basis. Depreciation of approximately $1.75 million (2019: $4.83 million) was recorded for the year with respect to these leased assets.

Current and non-current liabilities for residual value guarantees have also been recorded by the Company consistent with the provision of the guarantees at the end of the lease terms.

27 LEASES (CONTINUED)

Leases as lessor (continued)

Deferred income, representing the excess of the amount financed over the amount guaranteed, is also recorded by the Company and amortised over a straight line basis over the term of the leases. During the year the Company recorded approximately $1.732 million (2019: $2.709 million) of income attributable to operating leases subject to a residual value guarantee.

The liabilities for residual value guarantee have been included in Payable to other related parties in Note 18.

28 CONTINGENCIES

(a) The Company has arranged for its bankers to guarantee its obligation to third parties. The used portion of the guarantee is $0.452 million (2019: $0.466 million) and the maximum amount of the guarantee available is $0.452 million (2019: $0.466 million). The Company has also arranged for its ultimate parent entity to guarantee its obligation to certain customers to a maximum of $7.8 million (2019: $7.8 million). This facility is fully available and not used at the reporting date (2019: nil).

(b) The Company is involved in a number of legal actions relating to product liability and other contractual matters in the ordinary course of business. These are being contested and where it is probable that a liability will arise, a provision has been made in these accounts for estimated legal costs and settlements of potential claims. Please refer to Note 22.

(c) The Company discovered in early 2020 that 607 Mercedes-Benz vehicles fitted with affected Takata airbags were not recalled in accordance with the compulsory Takata airbag Recall Notice. Upon discovery, the Company promptly reported the matter to the Australian Competition and Consumer Commission (ACCC) and recalled the vehicles. The Company has since met its obligations in relation to these vehicles in accordance with the compulsory Recall Notice. To date, the ACCC has not confirmed its position in relation to these vehicles.

29 PARENT ENTITY

The ultimate parent entity of the Company is Daimler AG incorporated in the Federal Republic of Germany. The immediate parent entity of the Company is Daimler Australia/Pacific Pty Ltd, a company incorporated in Australia. The immediate parent of Daimler Australia/Pacific Pty Ltd is Mercedes-Benz AG (incorporated in the Federal Republic of Germany) wholly owned by Daimler AG. This entity is reported as the intermediate parent entity of the Company.

30 ECONOMIC DEPENDENCY

The Company is economically dependent on the ultimate parent entity for the supply of passenger vehicle and light commercial vehicle stock for resale and financial guarantees.

31 KEY MANAGEMENT PERSONNEL

The names of each person holding the position of director of the Company during the financial year are Mr H. von Sanden (Resigned 31 December 2020), Mr V. Malzahn, Mr S. McHutchon & Ms D. Tarr. Mr F. Seidler was appointed as director on 1 January 2021. Apart from the Company's Directors, the Company's key management personnel during the year include Mr P. Grogan, Director of Human Resources, Mr S. Trakilovic, General Counsel & Company Secretary (Commenced 12 October 2020) and Ms B. Maiden (Resigned 12 October 2020).

In addition to their salaries, the Company provides non-cash benefits to key management personnel and share-based payment benefits. The key management personnel compensation included in employee expenses (refer Note 7) are as follows:

31 KEY MANAGEMENT PERSONNEL (CONTINUED)

	2020 **$**	2019 $
Short-term employee benefits	**1,903,732**	1,908,443
Other long-term benefits	**646,463**	59,751
Post-employment benefits	**213,274**	176,516
Share-based payments	**60,210**	65,870
	2,823,679	2,210,580

32 OTHER RELATED PARTY TRANSACTIONS

The Company transacts with its ultimate parent entity, its intermediate parent entity, its immediate parent entity and other related parties as disclosed below. All of the transactions are in the normal course of business and on normal terms and conditions.

(a) Transactions with ultimate parent entity

The aggregate amount due and receivable from and payable to the ultimate parent entity by the Company at reporting date:

	Notes	**2020** **$'000**	2019 $'000
Current assets			
Trade and other receivables	13	**18,580**	717
Total current assets		**18,580**	717
Total assets		**18,580**	717
Current liabilities			
Trade and other liabilities	18	**1,640**	4,699
Total current liabilities		**1,640**	4,699
Total liabilities		**1,640**	4,699
Net interest income/(expense)	10	**(2,919)**	(4,005)

The ultimate parent entity undertakes borrowings from external parties and on-lends the proceeds to the Company. Interest is charged to the Company at rates consistent with bank rates in the countries of the currencies transacted.

The ultimate parent entity provides guarantees on Euro Medium-Term Notes issued by Mercedes-Benz Australia/Pacific Pty Ltd. The face value of these guarantees as at 31 December 2020 was $925 million and €375 million (2019: $1,050 million and €800 million).

The ultimate parent entity also provides guarantees on Commercial Papers issued by Mercedes-Benz Australia/Pacific Pty Ltd. The face value of these guarantees as at 31 December 2020 was $255 million (2019: $203 million).

(b) Transactions with intermediate parent entity

The aggregate amount due and receivable from and payable to the intermediate parent entity by the Company at reporting date:

32 OTHER RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with intermediate parent entity (continued)

	Notes	**2020 $'000**	2019 $'000
Current assets			
Trade and other receivables	13	**731**	1,125
Total current assets		**731**	1,125
Total assets		**731**	1,125
Current liabilities			
Trade and other liabilities	18	**330,486**	413,527
Total current liabilities		**330,486**	413,527
Total liabilities		**330,486**	413,527
Warranty recoveries		**1,190**	2,355
Other income	6	**-**	74

The Company also acquires inventory from the intermediate parent entity. The cost of inventory sold during the year that was purchased from the intermediate parent entity totalled $1,770 million (2019: $2,075 million).

(c) Transactions with immediate parent entity

The aggregate amount due and receivable from and payable to the immediate parent entity by the Company at reporting date:

	Notes	**2020 $'000**	2019 $'000
Current assets			
Trade and other receivables	13	**13,200**	41,757
Total current assets		**13,200**	41,757
Total assets		**13,200**	41,757
Current liabilities			
Trade and other liabilities	18	**36,500**	794
Loans and borrowings	19	**141,573**	141,573
Total current liabilities		**178,073**	142,367
Total liabilities		**178,073**	142,367
Net interest income/(expense)	10	**(423)**	(575)
Other income	6	**160**	136

32 OTHER RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Transactions with immediate parent entity (continued)

The Company is a wholly-owned subsidiary in a tax-consolidated group with its immediate parent entity, Daimler Australia/Pacific Pty Ltd, as the provisional head entity. The Company, in conjunction with other members of the tax-consolidated group, has entered into a tax funding agreement that sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The Company, in conjunction with other members of the tax-consolidated group, has also entered into a tax funding and sharing agreement.

At 31 December 2020 the Company had an intercompany payable of $35.122 million (2019: $29.253 million receivable) relating to current tax receivable assumed by the provisional head entity of the tax consolidated group.

For further details regarding tax consolidation and the nature of the tax funding and sharing agreements, refer to accounting policy Note 3 and Note 17.

(d) Transactions with other related parties

The aggregate amount due and receivable from and payable to other related parties by the Company at reporting date:

	Notes	**2020 $'000**	2019 $'000
Current assets			
Trade and other receivables	13	**1,904,098**	1,921,663
Total current assets		**1,904,098**	1,921,663
Non-current assets			
Trade and other receivables	13	**598,492**	1,325,454
Total non-current assets		**598,492**	1,325,454
Total assets		**2,502,590**	3,247,117
Current liabilities			
Trade and other liabilities	18	**48,744**	57,303
Loans and borrowings	19	**103,015**	-
Deferred income		**33**	1,479
Total current liabilities		**151,792**	58,782
Non-current liabilities			
Trade and other liabilities	18	**18**	1,794
Deferred income		**-**	160
Total non-current liabilities		**18**	1,954
Total liabilities		**151,810**	60,736

32 OTHER RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Transactions with other related parties (continued)

	Notes	2020 $'000	2019 $'000
Net interest income	10	**27,019**	51,176
Other revenue	5	**1,732**	2,709
Other income	6	**10,669**	14,062
Net gain/(loss) from interest rate hedging	10	**-**	202
Depreciation on leased assets with related parties		**(1,749)**	(4,838)

Other related parties are deemed to be associated companies within the ultimate parent's wholly owned group. The Company transacts with other related parties in the normal course of business including the activities described further below.

The Company also acquires inventory from other related parties. The cost of inventory sold during the year that was purchased from other related entities totalled $174 million (2019: $301 million).

The Company undertakes borrowings from external parties and on-lends the proceeds to other related parties. Interest is charged to the related parties at rates consistent with bank rates in the countries of the currencies transacted.

The Company has agreed to provide residual value guarantees for operating leases entered into between Mercedes-Benz Financial Services Australia Pty Ltd and their external customers. Rental income from these leases is recognised on a straight line basis over the term of the lease. Lease income prepaid by Mercedes-Benz Financial Services Australia Pty Ltd is classified as a financial liability, in deferred income and liabilities for residual value guarantees are recognised in trade and other liabilities. Vehicles subject to operating leases where the Company has provided a residual value guarantee are accounted for by the Company as plant and equipment and depreciated over a straight-line basis.

The Company has agreed to provide services to certain other related parties, income from these agreements is recognised on a straight-line basis over the term of the agreement. The Company has also agreed to pay for services provided by external parties that is shared between the Company and other related parties. Income from these agreements is recognised as other income when the services are provided and are recharged to the other related parties.

33 EVENTS OCCURRING AFTER THE REPORTING PERIOD

There has not arisen a transaction or event of an unusual nature likely to affect significantly the operations of the business, the results of those operations or the state of affairs of the Company in future financial years from the end of the financial year to the date of this report.