

Mercedes-Benz Australia/Pacific Pty Ltd

ABN 23 004 411 410

ANNUAL FINANCIAL REPORT

31 DECEMBER 2014

Mercedes-Benz Australia/Pacific Pty Ltd

YEAR ENDED 31 DECEMBER 2014

Page	Item
1-3	Directors' Report
4-5	Independent Audit Report
6	Lead Auditor's Independence Declaration
7	Directors' Declaration
8	Statement of Financial Position
9	Statement of Comprehensive Income
10	Statement of Changes in Equity
11	Statement of Cash Flows
12 – 67	Notes to the Financial Statements

Mercedes-Benz Australia/Pacific Pty Ltd
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2014

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 2014 and the auditor's report thereon.

Directors

The directors of the Company at any time during or since the end of the financial year are:

Dr. Bernd Niess	Director since 2004
Mr. Andreas Renschler	Resigned 1 April 2014
Mr. Ruediger Schrage (CFO)	Appointed 1 February 2013
Mr. Horst von Sanden (CEO)	Appointed 17 December 2013
Dr. Till Henrik Conrad	Appointed 1 January 2014
Mr. Richard Howard	Appointed 1 April 2014

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 commercial motor vehicles and their component parts.

The Company is also involved in financing activities for its working capital management and on behalf of itself and some other related parties of the local Daimler group.

There were no significant changes in the nature of the Company's activities during the year.

Operating and financial review

The Company made a profit, after income tax, from continuing operations for the year ended 31 December 2014 of \$74.125 million (2013: \$90.185 million).

Dividends

No dividends were paid or declared by the Company to members since the end of the previous financial year (2013: \$64.5 million).

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 as they apply to the Company.

Mercedes-Benz Australia/Pacific Pty Ltd
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2014

Events subsequent to reporting date

Subsequent to 31 December 2014, the Company has entered into an agreement to divest one its retail operations. Details of the transaction are being finalised.

Other than the matter listed above, there has not arisen in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.

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.

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 2014 to 31 March 2015, the Company has paid insurance premiums of \$3,079 in respect of directors' and officers' liability and legal expenses insurance. This insurance will be renewed in March 2015 to provide coverage for the remainder of the year ending 31 December 2015.

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 6 and forms part of the directors' report for the financial year ended 31 December 2014.

Mercedes-Benz Australia/Pacific Pty Ltd
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2014

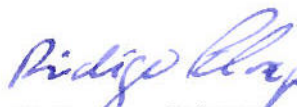
Rounding off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005) and in accordance with that Class Order, 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 Horst von Sanden
CEO and Director
Melbourne, 25 March 2015



Mr Ruediger Schrage
CFO and Director
Melbourne, 25 March 2015



Independent auditor's report to the members of Mercedes-Benz Australia/Pacific Pty Ltd

Report on the financial report

We have audited the accompanying financial report of Mercedes-Benz Australia/Pacific Pty Ltd (the Company), which comprises the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 32 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Company's financial position and of its performance.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of Mercedes-Benz Australia/Pacific Pty Ltd is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's financial position as at 31 December 2014 and of its performance for the year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

KPMG

G. Sangster
Partner

Melbourne

25 March 2015



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 for the financial year ended 31 December 2014 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.

A handwritten signature in black ink, appearing to be 'KPMG'.

KPMG

A handwritten signature in black ink, appearing to be 'Gordon Sangster'.

Gordon Sangster
Partner

Melbourne

25 March 2015

Mercedes-Benz Australia/Pacific Pty Ltd

DIRECTORS' DECLARATION

1. In the opinion of the directors of Mercedes-Benz Australia/Pacific Pty Ltd ("the Company"):
 - (a) the financial statements and notes that are contained on pages 8 to 67, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's financial position as at 31 December 2014 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) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. 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 Horst von Sanden
CEO and Director
Melbourne, 25 March 2015



Mr Ruediger Schrage
CFO and Director
Melbourne, 25 March 2015

Mercedes-Benz Australia/Pacific Pty Ltd

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

	Note	2014 \$'000	2013 \$'000
Current assets			
Cash and cash equivalents	11	37,747	44,933
Trade and other receivables	12	1,748,115	2,092,223
Inventories	13	833,594	808,309
Derivative financial instruments	18	10,497	12,165
Total current assets		<u>2,629,953</u>	<u>2,957,630</u>
Non-current assets			
Trade and other receivables	12	1,425,975	1,167,025
Deferred tax assets	15	60,680	46,162
Property, plant and equipment	14	174,154	170,286
Derivative financial instruments	18	5,046	1,385
Total non-current assets		<u>1,665,855</u>	<u>1,384,858</u>
Total assets		<u>4,295,808</u>	<u>4,342,488</u>
Current liabilities			
Trade and other payables	16	591,502	680,289
Loans and borrowings	17	1,396,825	1,742,158
Derivative financial instruments	18	5,237	8,214
Employee benefits	20	16,944	14,475
Provisions	21	131,057	109,367
Deferred income	22	21,682	16,789
Total current liabilities		<u>2,163,247</u>	<u>2,571,292</u>
Non-current liabilities			
Trade and other payables	16	10,587	8,472
Loans and borrowings	17	1,434,762	1,153,981
Derivative financial instruments	18	9,643	274
Employee benefits	20	3,325	2,970
Provisions	21	69,484	71,193
Deferred income	22	21,763	21,930
Total non-current liabilities		<u>1,549,564</u>	<u>1,258,820</u>
Total liabilities		<u>3,712,811</u>	<u>3,830,112</u>
Net assets		<u>582,997</u>	<u>512,376</u>
Equity			
Share capital	23	70,000	70,000
Reserves		(3,232)	(375)
Retained earnings		516,229	442,751
Total equity		<u>582,997</u>	<u>512,376</u>

The notes on pages 12 to 67 are an integral part of these financial statements.

Mercedes-Benz Australia/Pacific Pty Ltd

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 \$'000	2013 \$'000
Revenue		2,946,647	2,742,956
Cost of sales	7a	(2,612,634)	(2,414,508)
Gross profit		334,013	328,448
Other income	5	17,929	20,620
Employee expenses	6	(101,167)	(90,708)
Depreciation expenses	14	(14,369)	(11,780)
Impairment losses	7b	(9,109)	(11,890)
Other expenses	7c	(123,406)	(106,680)
Results from operating activities		103,891	128,010
Finance income	9	143,532	148,944
Finance costs	9	(139,386)	(147,712)
Net finance costs	9	4,146	1,232
Profit before income tax		108,037	129,242
Income tax expense	10	(33,912)	(39,057)
Profit for the period		74,125	90,185
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss:			
Effective portion of changes in fair value of cash flow hedges	9	(3,634)	9,041
Tax on items that may be reclassified subsequently to profit or loss	10	1,090	(2,712)
Total items that may be reclassified subsequently to profit or loss		(2,544)	6,329
Items that will not be reclassified to profit or loss:			
Defined benefit plan actuarial gains	20	(1,371)	3,971
Tax on items that will not be reclassified to profit or loss	10	411	(1,192)
Total items that will not be reclassified to profit or loss		(960)	2,779
Other comprehensive income / (loss) for the period, net of tax		(3,504)	9,108
Total comprehensive income for the year		70,621	99,293

The notes on pages 12 to 67 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 2014

	Share capital \$'000	Hedging reserve \$'000	Share reserve \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 January 2013	70,000	(7,017)	693	414,287	477,963
Profit for the period	-	-	-	90,185	90,185
<i>Other comprehensive income</i>					
Effective portion of changes in fair value of cash flow hedges, net of income tax	-	6,329	-	-	6,329
Defined benefit plan actuarial gains, net of tax	-	-	-	2,779	2,779
Total other comprehensive income/(loss)	-	6,329	-	2,779	9,108
Total comprehensive income/(loss) for the period	-	6,329	-	92,964	99,293
Dividends to owners of the Company	-	-	-	(64,500)	(64,500)
Share options exercised by employees	-	-	(380)	-	(380)
Balance at 31 December 2013	70,000	(688)	313	442,751	512,376

Balance at 1 January 2014	70,000	(688)	313	442,751	512,376
Profit for the period	-	-	-	74,125	74,125
<i>Other comprehensive income</i>					
Effective portion of changes in fair value of cash flow hedges, net of income tax	-	(2,544)	-	-	(2,544)
Defined benefit plan actuarial gains, net of tax	-	-	-	(960)	(960)
Total other comprehensive income/(loss)	-	(2,544)	-	(960)	(3,504)
Total comprehensive income/(loss) for the period	-	(2,544)	-	73,165	70,621
Dividends to owners of the Company	-	-	-	-	-
Reclassification of expired share options	-	-	(313)	313	-
Balance at 31 December 2014	70,000	(3,232)	-	516,229	582,997

The notes on pages 12 to 67 are an integral part of these financial statements.

Mercedes-Benz Australia/Pacific Pty Ltd

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014**

	Note	2014 \$'000	2013 \$'000
Cash flows (used in)/from operating activities			
Cash receipts from customers		3,283,207	3,013,794
Cash paid to suppliers and employees		(3,346,963)	(2,787,160)
Cash generated from operations		(63,756)	226,634
Interest received		133,006	150,905
Interest paid		(127,076)	(150,559)
Income taxes paid		(57,964)	(44,154)
Net cash (used in)/from operating activities	24b	(115,790)	182,826
Cash flows (used in)/from investing activities			
Payment for acquisition of property, plant and equipment		(3,638)	(7,069)
Proceeds from sale of property, plant and equipment		-	3,447
Net cash (used in) investing activities		(3,638)	(3,622)
Cash flows (used in)/from financing activities			
Proceeds from borrowings		3,666,380	3,595,054
Repayment of borrowings		(3,621,000)	(3,095,000)
Proceeds from borrowings from ultimate parent entity		1,716,229	846,358
Repayment of borrowings from ultimate parent entity		(2,187,251)	(1,167,925)
Proceeds from borrowings from other related entities		3,037,641	-
Repayment of borrowings from other related entities		(2,405,000)	(44,710)
Loans to other related entities		(8,514,757)	(2,761,072)
Loans repaid by other related entities		8,420,000	2,508,327
Dividends paid		-	(50,000)
Net cash (used in)/from financing activities		112,242	(168,968)
Net increase/(decrease) in cash and cash equivalents		(7,186)	10,236
Cash and cash equivalents at 1 January		44,933	34,697
Cash and cash equivalents at 31 December	24a	37,747	44,933

The notes on pages 12 to 67 are an integral part of these financial statements.

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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 Lexia Place, Mulgrave, Victoria 3170.

The Company is primarily involved in the importation, marketing and distribution of passenger and commercial motor 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 25 March 2014.

(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; and
- the defined benefit asset/liability is measured as the net total of the plan assets, plus unrecognised past service cost, less the present value of the defined benefit obligation.

The methods used to measure fair value are discussed further in Note 4. Actuarial assumptions used to measure the defined benefit obligation are disclosed in Note 20.

The financial statements have 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 Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005) and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand, unless otherwise stated.

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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 15 – tax assets and liabilities
- Notes 17, 18 and 19 – valuation of financial instruments
- Note 20 – measurement of defined benefit obligations
- Note 21 – provisions
- Note 26 – lease classification
- Note 27 – contingencies

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

Non-derivative financial assets

The Company initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which, substantially, all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments (continued)

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.

Non-derivative financial assets comprise loans and receivables.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, and trade and other receivables. Loans and receivables due within 12 months are classified as current. All other loans and receivables are classified as non-current.

Cash and cash equivalents

Cash and cash equivalents comprise cash and call deposits maturing in less than 3 months.

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.

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.

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

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows.

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.

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. The Company makes an assessment, both at the inception of the hedge

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments (continued)

relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to hedged risk, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported profit or loss.

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.

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 designated in a 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.

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Property, plant and equipment (continued)

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 net within other income in profit or loss.

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) Leased assets

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised in the Company's statement of financial position.

(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

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Inventories (continued)

acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Cost may also include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventories.

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

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, and the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment.

All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment, the Company uses historic trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit condition are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. Where subsequent events (e.g. repayment by a debtor) cause the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Impairment (continued)

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

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions to a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as employee expenses in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value.

The discount rate is the yield at the reporting date on Commonwealth Government bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

All re-measurements of the net defined benefit liability (asset), including actuarial gains and losses are recognized immediately in other comprehensive income.

Under AASB 119 (2011), the Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Consequently, the net interest on the net defined benefit liability (asset) comprises: interest cost on the defined benefit obligation, interest income on plan assets, and interest on the effect on the asset ceiling (if relevant).

Taxes payable on future investment income of the plan are included in the return on plan assets and are therefore charged to other comprehensive income as part of the excess or shortfall of the overall return on plan assets over the amount included in net interest on the net defined benefit liability (asset).

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Employee benefits (continued)

Other long-term employee benefits

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 Commonwealth Government 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 Share Option Plan and the Performance Phantom Share Plan allow 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 respect of the "Share Option Plan", the grant date fair value of share options granted is recognised as an employee expense with a corresponding increase in equity, in the share reserve over the period that the employees unconditionally become entitled to the awards. Compensation expense for share options granted after 31 December 2002 have been measured at grant date based on the fair value of the equity award using a modified Black-Scholes option-pricing model. Daimler AG options granted prior to January 1, 2003, continue to be accounted for using the intrinsic value based approach under AASB 2 Share Based Payments.

The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except for those that fail to vest due to market conditions not being met.

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.

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

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Employee benefits (continued)

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 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.

Vehicle marketing

Provisions for vehicle marketing are only recognised when the Company has approved a marketing plan and the marketing has either commenced or been announced to those parties impacted by the plan. Provisions are estimated based on the number of vehicles that are sold and are expected to meet the set criteria disclosed in the marketing plan.

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) Deferred income

Deferred income is recognised in the statement of financial position when progress billings are received from customers under an open supply contracts in advance of the delivery of the goods or services to the customer. The deferred income is then recognised in profit or loss as the goods or services are delivered and the sale is recognised as revenue (refer to Note 3(j)).

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Revenue

Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement and delivery of a vehicle, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing managerial involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale.

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.

Where the Company has agreed to provide leased vehicles to employees of Mercedes-Benz Australia/Pacific Pty Ltd and Mercedes-Benz Financial Services Australia Pty Ltd under an employee lease program, rental income from these leases is recognised in profit or loss when received.

Services income

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

(k) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense and spread over the lease term.

Determining whether an arrangement contains a lease

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Company the right to control the use of the underlying asset. At inception or upon reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impractical to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Company's incremental borrowing rate.

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Financing income and expenses

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

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.

(m) Taxation

Tax Consolidation

The Company is a wholly owned Australian subsidiary in a tax-consolidated group, with Daimler Australia/Pacific Pty Ltd as the head entity. On 9 March 2005, the tax-consolidated group notified the Australian Taxation Office of the implementation date for the tax-consolidated group which is 1 January 2003. As a consequence, all members of the tax-consolidated group are taxed as a single entity from that date.

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 head entity and are recognised by the Company as amounts payable (receivable) to (from) the 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. Current tax payable also includes any tax liability arising from the declaration of dividends.

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.

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Taxation (continued)

Income Tax (continued)

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.

Additional income tax expenses that arise from the distribution of cash dividends are recognised at the same time that the liability to pay the related dividend is recognised. The Company does not distribute non-cash assets as dividends to its shareholders.

Nature of tax funding and sharing arrangements

The Company and the 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 head entity equal to the current tax liability / (asset) and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable / (payable) equal in amount to the tax liability / (asset) assumed. The inter-entity payable / (receivable) are at call.

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

The 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 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.

The tax funding and sharing agreement provides that, where on the date of consolidation an attribute was transferred to the head entity by a subsidiary, the head entity must make a compensating payment to the subsidiary. As a result, Daimler Australia/Pacific Pty Ltd will make compensating payments to the Company on consolidation in relation to the elimination of intra-group profits.

(n) 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.

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Segment reporting (continued)

Determination and presentation of operating segments (continued)

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.

(o) 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.

(p) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations which may be relevant to the Company were available for early adoption but have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Company, except for AASB 9 Financial Instruments which becomes mandatory for the Company's 31 December 2015 financial statements and could change the classification and measurement of financial assets and liabilities. The Company has not adopted this standard early and the extent of the impact has not yet been determined.

The Company has identified the following accounting standard, effective for annual reporting periods beginning on or after 1 January 2017 and available for early adoption at 31 December 2014, as one which may impact the Company in the period of initial application:

- AASB 15 *Revenue from Contracts with Customers*: AASB 15 established a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 Revenue, AASB 111 Constructions Contracts and Interpretation 13 Customer Loyalty Programmes.

The Company has not yet assessed the potential impact on its financial statements resulting from the application of AASB 15.

The Company has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 January 2014:

- AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities
- AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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 3 or the notes specific to that asset or liability.

(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 19 for more information.

Fair values are based on Level 2 valuation methodology 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).

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 \$'000	2013 \$'000
5. OTHER INCOME			
Rental income			
From other related parties	31c	7,314	7,617
Employee lease program		86	25
External customers		1,604	158
Rendering of services		3,904	3,799
Other			
From other related parties	31c	4,943	4,027
External parties		78	4,460
Gain on disposal of property, plant and equipment		-	534
Total other income		<u>17,929</u>	<u>20,620</u>
6. EMPLOYEE EXPENSES		2014 \$'000	2013 \$'000
Wages and salaries		(71,759)	(65,845)
Other associated personnel expenses		(9,705)	(7,815)
Contributions to defined contribution plans	20	(7,479)	(6,199)
Expenses related to defined benefit plans	20	(824)	(1,141)
Long service leave expense		(1,878)	(1,652)
Annual leave expense		(6,299)	(5,677)
Termination benefits		(2,252)	(785)
Cash settled share-based payment transactions	20	(971)	(1,594)
Total employee expenses		<u>(101,167)</u>	<u>(90,708)</u>
7. EXPENSES		2014 \$'000	2013 \$'000
(a) Cost of sales:			
Cost of sales		(2,525,612)	(2,335,619)
Warranty, maintenance and repair expenses		(87,022)	(78,889)
Total cost of sales		<u>(2,612,634)</u>	<u>(2,414,508)</u>
(b) Impairment losses incurred on value of inventories	13	(9,109)	(11,890)
(c) Other expenses:			
Operating leases	26	(11,019)	(10,081)
Loss on disposal of property, plant and equipment		(650)	(201)
Other expenses		(111,737)	(96,398)
Total other expenses		<u>(123,406)</u>	<u>(106,680)</u>

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

8. AUDITORS' REMUNERATION

	Note	2014 \$	2013 \$
<i>Audit Services</i>			
<i>Auditors of the Company - KPMG Australia</i>			
Audit and review of financial reports		(275,101)	(275,101)
Other regulatory audit services		(69,169)	(59,655)
		<u>(344,270)</u>	<u>(334,756)</u>
 <i>Auditors of the Company - KPMG Overseas</i>			
Audit and review of financial reports		<u>(34,852)</u>	<u>(34,852)</u>
 <i>Other Services</i>			
<i>Auditors of the Company - KPMG Australia</i>			
Other assurance services		(9,930)	-
Other non-audit services		-	(19,098)
		<u>(9,930)</u>	<u>(19,098)</u>
		<u>(389,052)</u>	<u>(388,706)</u>

2014
\$'000

2013
\$'000

9. NET FINANCING COSTS

Recognised in profit or loss

Interest income from:

Related parties

134,602

136,797

External parties

4,554

2,046

Net fair value gains on other financial assets at
fair value through profit or loss

4,376

10,101

Financial income

143,532

148,944

Interest expense from:

Related parties

(29,705)

(47,123)

External parties

(101,958)

(95,276)

Net foreign exchange loss

(4,090)

(2,984)

Net unwind of discount on provisions

(3,614)

(2,297)

Impairment losses incurred on value of trade
receivables

(19)

(32)

Financial expense

(139,386)

(147,712)

Net financial income

4,146

1,232

Recognised in other comprehensive income

Effective portion of changes in fair value of cash flow
hedges

(3,634)

9,041

Income tax on income and expenses recognised
directly in equity

1,090

(2,712)

(2,544)

6,329

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 \$'000	2013 \$'000
10. INCOME TAX EXPENSE			
<i>Current tax benefit/(expense)</i>			
Current year		(48,486)	(39,621)
Adjustments for prior years		1,557	1,434
		<u>(46,929)</u>	<u>(38,187)</u>
<i>Deferred tax benefit/(expense)</i>			
Origination and reversal of temporary differences	15	13,017	(870)
		<u>13,017</u>	<u>(870)</u>
Total income tax benefit/(expense)		<u>(33,912)</u>	<u>(39,057)</u>
<i>Numerical reconciliation between tax benefit/(expense) and pre-tax net profit/(loss)</i>			
Profit for the period		74,125	90,185
Total income tax expense		33,912	39,057
Profit before income tax		<u>108,037</u>	<u>129,242</u>
Income tax expense using the Company's domestic tax rate of 30% (2013: 30%)		(32,411)	(38,773)
Increase/(decrease) in income tax benefit/(expense) due to:			
Non-deductible expenses		(3,058)	(1,718)
Income tax over provided in prior year		1,557	1,434
Income tax expense on pre-tax net profit		<u>(33,912)</u>	<u>(39,057)</u>
<i>Deferred tax recognised in other comprehensive income</i>			
Relating to gains and losses on cash flow hedges		1,090	(2,712)
Relating to defined benefit plan		411	(1,192)
Total deferred tax recognised in other comprehensive income	15	<u>1,501</u>	<u>(3,904)</u>
11. CASH AND CASH EQUIVALENTS			
Bank balances		29,737	23,827
Call deposits		8,010	21,106
Cash and cash equivalents in the Statement of Cash Flows	24a	<u>37,747</u>	<u>44,933</u>

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 19. Call deposits relate to funds with maturities of less than 3 months.

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 \$'000	2013 \$'000
12. TRADE AND OTHER RECEIVABLES			
<i>Current</i>			
<i>Non-interest bearing</i>			
Trade receivables		90,972	69,759
Receivables due from ultimate parent entity	31a	27,273	23,522
Receivables due from immediate parent entity	31b	12,200	25,358
Receivables due from other related entities	31c	89,232	110,546
Prepayments and other assets		7,424	13,073
		<u>227,101</u>	<u>242,258</u>
<i>Interest bearing</i>			
Loans due from other related entities	31c	1,521,014	1,849,965
		<u>1,521,014</u>	<u>1,849,965</u>
		<u>1,748,115</u>	<u>2,092,223</u>
<i>Non-current</i>			
<i>Non-interest bearing</i>			
Receivables due from ultimate parent entity	31a	11,260	11,762
Receivables due from other related entities	31c	2,500	2,483
		<u>13,760</u>	<u>14,245</u>
<i>Interest bearing</i>			
Loans due from other related entities	31c	1,412,215	1,152,780
		<u>1,412,215</u>	<u>1,152,780</u>
		<u>1,425,975</u>	<u>1,167,025</u>

Trade receivables are shown net of impairment losses. Impairment losses on trade receivables recognised in the current year amount to \$19,000 (2013: \$32,289) and relate to a high probability of not collecting debts from a number of customers (refer Note 9).

The Company's exposure to credit risk for financial assets is disclosed in Note 19.

13. INVENTORIES

Consumables	285	328
Finished goods	600,361	607,682
Goods in transit	232,948	200,299
	<u>833,594</u>	<u>808,309</u>
Finished goods – at cost	460,758	486,038
Finished goods – at net realisable value	139,603	121,644
	<u>600,361</u>	<u>607,682</u>

During the year consumables and changes in finished goods recognised as cost of sales amounted to \$2.526 billion (2013: \$2.336 billion) and write-down of inventories to net realisable value amounted to \$9.109million (2013: \$11.890 million) for continuing operations, primarily relating to obsolete parts stock and vehicle provisions (refer Note 7(b)). Inventories are shown net of impairment losses.

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

14. PROPERTY, PLANT AND EQUIPMENT

	Land and improvements \$'000	Buildings \$'000	Plant and equipment \$'000	Assets under Construction \$'000	Total \$'000
<i>Cost</i>					
Balance at 1 January 2013	38,739	96,293	86,030	284	221,346
Acquisitions	4	2,783	54,632	1,541	58,960
Transfers	-	177	96	(273)	-
Disposals	(3)	(37)	(46,082)	-	(46,122)
Balance at 31 December 2013	38,740	99,216	94,676	1,552	234,184
Balance at 1 January 2014	38,740	99,216	94,676	1,552	234,184
Acquisitions	3	855	67,404	426	68,688
Transfers	-	688	139	(827)	-
Disposals	(34)	(587)	(62,497)	-	(63,118)
Balance at 31 December 2014	38,709	100,172	99,722	1,151	239,754
<i>Depreciation</i>					
Balance at 1 January 2013	(931)	(26,695)	(29,846)	-	(57,472)
Depreciation charge for the year	(110)	(2,676)	(8,994)	-	(11,780)
Transfers	-	-	-	-	-
Disposals	2	-	5,352	-	5,354
Reclassification to Assets Held for Sale	(1,039)	(29,371)	(33,488)	-	(63,898)
Balance at 31 December 2013	(1,039)	(29,371)	(33,488)	-	(63,898)
Balance at 1 January 2014	(1,039)	(29,371)	(33,488)	-	(63,898)
Depreciation charge for the year	(102)	(2,802)	(11,465)	-	(14,369)
Transfers	-	-	-	-	-
Disposals	18	300	12,349	-	12,667
Balance at 31 December 2014	(1,123)	(31,873)	(32,604)	-	(65,600)
<i>Carrying amounts</i>					
Balance at 1 January 2013	37,808	69,598	56,184	284	163,874
Balance at 31 December 2013	37,701	69,845	61,188	1,552	170,286
Balance at 1 January 2014	37,701	69,845	61,188	1,552	170,286
Balance at 31 December 2014	37,586	68,299	67,118	1,151	174,154

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Assets under construction

Assets under construction at reporting date totalling \$1.151 million (2013: \$1.552 million) primarily relate to IT upgrades.

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. Additions for plant and equipment amounting to \$64.967 million (2013: \$51.891 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 for plant and equipment amounting to an initial acquisition cost of \$60.220 million (2013: \$44.302 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.

	2014	2013
	\$'000	\$'000

15. TAX ASSETS AND LIABILITIES

Recognised deferred tax assets

Net deferred tax assets are attributable to the following:

Provisions	60,496	60,537
Employee benefits	5,202	4,799
Recognised liability for defined benefit plans	205	(270)
Interest bearing loans and borrowings	76	725
Cash settled share-based payment transactions	674	703
Payable to other related entities	18,364	17,049
Provision for doubtful debts	2	6
Provision for diminution of inventories	9,544	7,850
Depreciation timing differences	1,412	1,351
Other payables	5,587	5,393
Derivative financial instruments	999	(2,710)
Operating leases as lessor	(16,837)	(14,723)
Prepayments	880	569
Receivables from related parties	-	(7,321)
Profit deferral for tax purposes	(25,784)	(26,045)
Other items	(140)	(1,751)
Net deferred tax assets	<u>60,680</u>	<u>46,162</u>

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

15. TAX ASSETS AND LIABILITIES (CONTINUED)

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

Under the tax funding arrangement the Company and the head entity 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 2014 the Company had an intercompany receivable of \$12.200 million (2013: receivable of \$25.358 million) relating to a current tax receivable assumed by the head entity which is included in Trade and other receivables (refer to Note 12).

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

15. TAX ASSETS AND LIABILITIES (CONTINUED)

Movement in temporary differences during the year

	2014			2013				
	Balance at 1 January 2014 \$'000	Recognised in income \$'000	Recognised in other comprehensive income \$'000	Balance at 31 December 2014 \$'000	Balance at 1 January 2013 \$'000	Recognised in income \$'000	Recognised in other comprehensive income \$'000	Balance at 31 December 2013 \$'000
Provisions	60,537	(41)	-	60,496	60,462	75	-	60,537
Employee benefits	4,799	403	-	5,202	4,616	183	-	4,799
Recognised liability for defined benefit plans	(270)	64 (649)	411 -	205 76	761 (14,279)	161 -	(1,192) 15,004	(270) 725
Interest bearing loans and borrowings	725							
Cash settled share-based payment transactions	703	(29)	-	674	344	359	-	703
Payable to other related entities	17,049	1,315	-	18,364	15,112	1,937	-	17,049
Provision for doubtful debts	6	(4)	-	2	29	(23)	-	6
Provision for diminution of inventories	7,850	1,694	-	9,544	6,288	1,562	-	7,850
Depreciation timing differences	1,351	61	-	1,412	-	1,351	-	1,351
Other payables	5,393	194	-	5,587	3,888	1,505	-	5,393
Derivative financial instruments	(2,710)	2,619	1,090	999	17,804	(2,798)	(17,716)	(2,710)
Operating leases as lessor	(14,723)	(2,114)	-	(16,837)	(13,237)	(1,486)	-	(14,723)
Prepayments	569	311	-	880	860	(291)	-	569
Receivables from related parties	(7,321)	7,321	-	-	(8,087)	766	-	(7,321)
Profit deferral for tax purposes	(26,045)	261	-	(25,784)	(22,120)	(3,925)	-	(26,045)
Other items	(1,751)	1,611	-	(140)	(1,505)	(246)	-	(1,751)
Net deferred tax assets / (liabilities)	46,162	13,017	1,501	60,680	50,936	(870)	(3,904)	46,162

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 \$'000	2013 \$'000
16. TRADE AND OTHER PAYABLES			
<i>Current</i>			
Trade payables		28,260	24,522
Payable to ultimate parent entity	31a	336,909	244,166
Payable to immediate parent entity	31b	-	10,606
Payable to other related entities	31c	92,339	274,654
Other payables		133,994	126,341
		<u>591,502</u>	<u>680,289</u>
<i>Non-current</i>			
Payable to other related entities	31c	10,587	8,472

Trade and other payables are non-interest bearing and current trade and other payables 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 payables are disclosed in Note 19.

17. LOANS AND BORROWINGS

<i>Current</i>			
Bank loans (secured)	(b)	75,000	696,000
Notes (secured)	(c)	626,130	350,000
Commercial papers (secured)	(f)	49,938	219,000
Loans from ultimate parent entity	31a, (d)	8,399	477,158
Loans from other related entity	31c, (e)	637,358	-
		<u>1,396,825</u>	<u>1,742,158</u>
<i>Non-current</i>			
Bank loans (secured)	(b)	240,000	-
Notes (secured)	(c)	1,194,762	1,153,981
		<u>1,434,762</u>	<u>1,153,981</u>
The Company has access to the following lines of credit:			
Bank overdraft (unsecured)	(a)	50,000	50,000
Bank loans (secured)	(b)	1,300,000	1,300,000
Notes (secured)	(c)	1,820,892	1,503,981
Commercial papers (secured)	(f)	49,938	219,000
Loans from ultimate parent entity	(d)	8,399	477,158
Loans from other related entity	(e)	637,358	-
		<u>3,866,587</u>	<u>3,550,139</u>
<i>Facilities utilised at reporting date</i>			
Bank loans (secured)	(b)	315,000	696,000
Notes (secured)	(c)	1,820,892	1,503,981
Commercial papers (secured)	(f)	49,938	219,000
Loans from ultimate parent entity	(d)	8,399	477,158
Loans from other related entity	(e)	637,358	-
		<u>2,831,587</u>	<u>2,896,139</u>

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

17. LOANS AND BORROWINGS (CONTINUED)

	Note	2014 \$'000	2013 \$'000
<i>Facilities not utilised at reporting date</i>			
Bank overdraft (unsecured)	(a)	50,000	50,000
Bank loans (secured)	(b)	985,000	604,000
Notes (secured)	(c)	-	-
Commercial papers (secured)	(f)	-	-
Loans from ultimate parent entity	(d)	-	-
Loans from other related entity	(e)	-	-
		1,035,000	654,000

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 financial expense and income respectively.

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

Non-current portion of bank loans, notes and loans from ultimate parent entity are payable on or before 10 November 2017, but after one year.

The Company's exposure to credit, liquidity and market rate risks and a sensitivity analysis for financial assets and liabilities are disclosed in Note 19.

(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. The Company has access to credit facilities which are subject to annual renewal. Interest is charged at prevailing market rates. The Company has the following bank loans (secured) outstanding at 31 December 2014 which are guaranteed by the ultimate parent entity:

Currency of Loan	Value of Loan	Due Date	Interest re-pricing
AUD	75,000,000	Jun-15	On maturity
AUD	40,000,000	Apr-16	On maturity
AUD	50,000,000	Jun-16	On maturity
AUD	50,000,000	Jul-16	On maturity
AUD	75,000,000	Sep-16	On maturity
AUD	25,000,000	Sep-16	On maturity

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

17. LOANS AND BORROWINGS (CONTINUED)

(c) Notes (secured)

The Company has authorised the following note issues outstanding at 31 December 2014 denominated in AUD which are guaranteed by the ultimate parent entity:

Currency	Value of Notes	Due Date	Currency Swap	Interest Rate Swap	Interest re-pricing
AUD	100,000,000	Mar-15	-	-	On maturity
AUD	125,000,000	May-15	-	-	On maturity
AUD	50,000,000	May-15	-	-	On maturity
AUD	100,000,000	Sep-15	-	-	On maturity
AUD	100,000,000	Oct-15	-	-	On maturity
AUD	100,000,000	Dec-15	-	-	On maturity
EUR	35,000,000	Dec-15	EUR to AUD	Quarterly Floating to Quarterly Fixed	Quarterly
EUR	100,000,000	Mar-16	EUR to AUD	Quarterly Floating to Quarterly Floating	Quarterly
AUD	100,000,000	Mar-16	-	-	On maturity
AUD	100,000,000	May-16	-	-	On maturity
AUD	100,000,000	Jul-16	-	-	On maturity
AUD	100,000,000	Sep-16	-	-	On maturity
AUD	125,000,000	Nov-16	-	-	On maturity
AUD	125,000,000	Jan-17	-	-	On maturity
AUD	100,000,000	Apr-17	-	-	On maturity
AUD	100,000,000	Jun-17	-	-	On maturity
AUD	100,000,000	Aug-17	-	-	On maturity
AUD	100,000,000	Nov-17	-	-	On maturity

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 basis. Average interest rates are set out in Note 19.

(d) Loans from ultimate parent entity

The Company has authorised the following loans from its ultimate parent entity outstanding at 31 December 2014:

Currency	Value of Loan	Due Date	Currency Swap	Interest Rate Swap	Interest re-pricing
EUR	3,500,000	Jan-15	No Swap	No Swap	On Maturity

All issues are from Daimler AG (refer Note 31 (a)). Interest rates on related party loans are re-priced periodically to market rates as indicated. Interest rates on fixed interest related party loans are agreed at the inception of the loans.

(e) Loans from other related entity

The Company has authorised the following loans from other related entity outstanding at 31 December 2014:

Currency	Value of Loan	Due Date	Currency Swap	Interest Rate Swap	Interest re-pricing
EUR	27,103,944	Jan-15	EUR to AUD	-	On Maturity
EUR	40,295,500	Jan-15	EUR to AUD	-	On Maturity
EUR	30,110,405	Jan-15	EUR to AUD	-	On Maturity
EUR	71,792,194	Jan-15	EUR to AUD	-	On Maturity
EUR	171,232,877	Jan-15	EUR to AUD	-	On Maturity
EUR	65,314,541	Jan-15	EUR to AUD	-	On Maturity
EUR	23,956,194	Jan-15	EUR to AUD	-	On Maturity

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

17. LOANS AND BORROWINGS (CONTINUED)

(e) Loans from other related entity (continued)

Loans from other related entity relates to loans from Daimler International Finance B.V. (2013: Mercedes-Benz Financial Services Australia Pty Ltd), a related party of the Company. The loans are guaranteed by the ultimate parent entity. The loans from Daimler International Finance B.V. are denominated in EUR and payable upon maturity. Interest rates on related party loans are re-priced periodically to market rates as indicated. Interest rates on fixed interest related party loans are agreed at the inception of the loans. The Company hedges all related party loans issued in Euro as detailed in the table above. Average interest rates are set out in Note 19.

(f) Commercial papers (secured)

The Company has authorised the following commercial papers issues outstanding at 31 December 2014 denominated in AUD which are guaranteed by the ultimate parent entity:

Currency	Value of Commercial Papers	Due Date	Interest re-pricing
AUD	15,000,000	Jan-15	On maturity
AUD	20,000,000	Jan-15	On maturity
AUD	15,000,000	Jan-15	On maturity

2014	2013
\$'000	\$'000

18. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative Assets

Current

Foreign exchange swap contracts - cash flow hedges	5,173	8,286
Foreign exchange swap contracts - no hedge accounting	1,587	-
Interest rate swap contracts - no hedge accounting	4	147
Forward foreign exchange contracts - no hedge accounting	3,733	3,732
	<u>10,497</u>	<u>12,165</u>

Non-current

Cross currency swap contracts - cash flow hedges	-	1,111
Interest rate swap contracts - no hedge accounting	5,046	274
	<u>5,046</u>	<u>1,385</u>

Derivative Liabilities

Current

Cross currency swap contracts - cash flow hedges	767	7,967
Interest rate swap contracts - no hedge accounting	4	147
Forward foreign exchange contracts - no hedge accounting	-	100
Foreign exchange swap contracts - cash flow hedges	4,466	-
	<u>5,237</u>	<u>8,214</u>

Non-current

Cross currency swap contracts - cash flow hedges	4,597	-
Interest rate swap contracts - no hedge accounting	5,046	274
	<u>9,643</u>	<u>274</u>

The Company's exposure to credit, liquidity and market rate risks and a sensitivity analysis for financial assets and liabilities are disclosed in Note 19. Contracts are classified as current where maturity dates are less than 12 months. All other contracts are classified as non-current.

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

19. 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 2014 the credit rating of Daimler AG was as follows:

Standard & Poors	A-
Moody's	A3
Fitch	A-

The Company also has derivative contracts with external counterparties. 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:

	Note	2014 \$'000	2013 \$'000
Trade and other receivables	12	3,174,090	3,259,248
Cash and cash equivalents	11	37,747	44,933
Derivative financial instruments	18	15,543	13,550
		<u>3,227,380</u>	<u>3,317,731</u>

The Company minimises concentrations 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.

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

19. FINANCIAL INSTRUMENTS (CONTINUED)

Credit Risk (continued)

At reporting date 95% (2013: 95%) of trade and other receivables related to a related party, Mercedes-Benz Financial Services Australia Pty Ltd. Mercedes-Benz Financial Services Australia Pty Ltd is subject to a parent company guarantee from the Company's ultimate parent entity, Daimler AG. 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:

	2014	2013
	\$'000	\$'000
Australia	3,158,210	3,216,093
Europe	13,791	34,488
New Zealand	587	944
Asia	644	6,045
Americas	858	1,665
Africa	-	13
	<u>3,174,090</u>	<u>3,259,248</u>

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

Wholesale customers	3,170,908	3,252,586
Retail customers	3,182	6,662
	<u>3,174,090</u>	<u>3,259,248</u>

Impairment losses

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

Balance at 1 January	21	95
Impairment losses recognised / (reversed)	19	32
Allowance (utilised) / amount recovered	(32)	(106)
Balance at 31 December	<u>8</u>	<u>21</u>

Impairment losses incurred in respect of trade and other receivables for the reporting period primarily related to a high probability of not collecting debts from external retail customers (refer Note 12).

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

	2014		2013
	Gross	Impairment	
	\$'000	\$'000	Gross Impairment
			\$'000 \$'000
Not past due	3,115,844	-	3,197,708 -
Past due 1-30 days	49,336	-	54,506 -
Past due 30-60 days	4,974	-	2,618 (9)
Past due 60-90 days	1,247	-	2,187 -
Past due 90-120 days	951	-	712 (4)
Past due 120+ days	1,746	(8)	1,538 (8)
	<u>3,174,098</u>	<u>(8)</u>	<u>3,259,269</u> <u>(21)</u>

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

19. FINANCIAL INSTRUMENTS (CONTINUED)

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; the CFO is to determine the final asset allocation.

Mercedes-Benz Australia/Pacific Pty Ltd

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

19. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

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

2014	Note	Carrying amount	Contractual cash flows	1 year or less	1 to 2 years	2 to 5 years	More than 5 years
\$'000							
<i>Non derivative financial assets</i>							
Loans and other receivables due from other related entities	12	2,933,229	2,982,038	1,500,665	937,154	544,219	-
		2,933,229	2,982,038	1,500,665	937,154	544,219	-
<i>Non derivative financial liabilities</i>							
Bank loans (secured)	17	(315,000)	(330,425)	(84,887)	(245,528)	(10)	-
Notes issued (secured)	17	(1,820,892)	(1,947,819)	(691,879)	(712,252)	(543,688)	-
Loans from other related entities	17	(637,358)	(637,358)	-	-	-	-
Commercial papers (secured)	17	(49,938)	(50,000)	(50,000)	-	-	-
Loans from the ultimate parent entity	17	(8,399)	(10,991)	(7,459)	(1,466)	(798)	(1,268)
Trade and other payables	16	(602,089)	(602,089)	(602,089)	-	-	-
		(3,433,676)	(3,578,682)	(2,073,672)	(959,246)	(544,496)	(1,268)
<i>Derivative financial assets</i>							
Interest rate swap contracts – no hedge accounting	18	5,050	11,586	589	3,240	7,757	-
Forward foreign exchange swap contracts – no hedge accounting							
Receive legs	18	3,733	35,421	35,421	-	-	-
Pay legs			(31,829)	(31,829)	-	-	-
Foreign exchange swap contracts – no hedge accounting							
Receive legs	18	1,587	22,657	22,657	-	-	-
Pay legs			(21,270)	(21,270)	-	-	-
Foreign exchange swap contracts – cash flow hedges							
Receive legs	18	5,173	426,698	426,698	-	-	-
Pay legs			(422,266)	(422,266)	-	-	-
		15,543	20,997	10,000	3,240	7,757	-
<i>Derivative financial liabilities</i>							
Interest rate swap contracts – no hedge accounting	18	(5,050)	(11,586)	(589)	(3,240)	(7,757)	-
Cross currency swap – cash flow hedges							
Receive legs	18	(5,364)	201,378	52,927	148,451	-	-
Pay legs			(214,433)	(60,005)	(154,428)	-	-
Foreign exchange swap contracts – cash flow hedges							
Receive legs	18	(4,466)	210,914	210,914	-	-	-
Pay legs			(215,596)	(215,596)	-	-	-
		(14,880)	(29,323)	(12,349)	(9,217)	(7,757)	-

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

19. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

	2013 \$'000	Note	Carrying amount	Contractual cash flows	1 year or less	1 to 2 years	2 to 5 years	More than 5 years
<i>Non derivative financial assets</i>								
Loans and other receivables due from other related entities		12	3,002,745	3,053,799	1,831,522	676,496	545,781	-
			3,002,745	3,053,799	1,831,522	676,496	545,781	-
<i>Non derivative financial liabilities</i>								
Bank loans (secured)		17	(696,000)	(714,741)	(714,445)	(282)	(13)	(1)
Notes issued (secured)		17	(1,503,981)	(1,636,291)	(416,433)	(674,733)	(545,125)	-
Loans from other related entities		17	-	-	-	-	-	-
Commercial papers (secured)		17	(219,000)	(219,784)	(219,784)	-	-	-
Loans from the ultimate parent entity		17	(477,158)	(481,612)	(477,171)	(1,548)	(936)	(1,411)
Trade and other payables		16	(688,761)	(688,761)	(688,761)	-	-	-
			(3,584,900)	(3,741,189)	(2,517,140)	(676,563)	(546,074)	(1,412)
<i>Derivative financial assets</i>								
Interest rate swap contracts – no hedge accounting		18	421	(309)	581	175	(1,065)	-
Cross currency swap – cash flow hedges								
Receive legs		18	1,111	54,834	408	54,426	-	-
Pay legs				(56,563)	(1,889)	(54,674)	-	-
Forward foreign exchange swap contracts – no hedge accounting								
Receive legs		18	3,731	68,219	68,219	-	-	-
Pay legs				(64,933)	(64,933)	-	-	-
Foreign exchange swap contracts – cash flow hedges								
Receive legs		18	8,287	419,096	419,096	-	-	-
Pay legs				(411,209)	(411,209)	-	-	-
			13,550	9,135	10,273	(73)	(1,065)	-
<i>Derivative financial liabilities</i>								
Interest rate swap contracts – no hedge accounting		18	(421)	309	(581)	(175)	1,065	-
Cross currency swap – cash flow hedges								
Receive legs		18	(7,967)	57,538	57,538	-	-	-
Pay legs				(67,230)	(67,230)	-	-	-
Forward foreign exchange contracts – no hedge accounting								
Receive legs		18	(100)	12,302	12,302	-	-	-
Pay legs				(12,472)	(12,472)	-	-	-
Foreign exchange swap contracts – cash flow hedges								
Receive legs		18	-	-	-	-	-	-
Pay legs				-	-	-	-	-
			(8,488)	(9,553)	(10,443)	(175)	1,065	-

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

19. 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 USD (vehicle inventory purchases) and EUR (loans and borrowings, spare parts purchases or specific contracts).

The Company uses forward exchange contracts to economically hedge certain firm purchase commitments denominated in foreign currencies.

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 cross currency swaps, foreign exchange swap contracts and forward exchange contracts 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 that the only material net currency exposure is with USD. As mentioned above these exposures are taken to hedge against USD 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.

	2014			
	AUD \$'000	EURO €'000	USD \$'000	JPY ¥'000
<i>Non derivative financial assets</i>				
Cash and cash equivalents	35,312	1,250	477	-
Trade receivables	90,928	28	3	-
Receivables due from ultimate parent entity	38,534	-	-	-
Receivables due from immediate parent entity	12,200	-	-	-
Loans and other receivables due from other related entities	3,024,961	-	-	-
Prepayments and other assets	7,424	-	-	-
	3,209,359	1,278	480	-
<i>Non derivative financial liabilities</i>				
Bank loans (secured)	(315,000)	-	-	-
Notes issued (secured)	(1,620,754)	(135,000)	-	-
Commercial papers (secured)	(49,938)	-	-	-
Loans from the ultimate parent entity	-	(3,500)	-	-
Loans from related parties	-	(429,806)	-	-
Trade payables	(579,181)	(6,366)	(10,709)	-
	(2,564,873)	(574,672)	(10,709)	-
<i>Derivative financial assets</i>				
<i>Cash flow hedges</i>				
Cross currency swap				
Receive legs	-	-	-	-
Pay legs	-	-	-	-
Foreign exchange swap contracts				
Receive legs	-	287,746	-	-
Pay legs	(422,266)	-	-	-
<i>No hedge accounting</i>				
Interest rate swap contracts				
Receive legs	196,720	-	-	-
Pay legs	(196,720)	-	-	-
Foreign exchange swap contracts				
Receive legs	-	-	18,550	-
Pay legs	(21,270)	-	-	-
Forward foreign exchange contracts				
Receive legs	-	-	29,000	-
Pay legs	(31,829)	-	-	-
	(475,365)	287,746	47,550	-

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

19. FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk (continued)

Derivative financial liabilities

Cash flow hedges

	2014			
	AUD \$'000	EURO €'000	USD \$'000	JPY ¥'000
Cross currency swap				
Receive legs	-	135,000	-	-
Pay legs	(206,060)	-	-	-
Foreign exchange swap contracts				
Receive legs	-	142,231	-	-
Pay legs	(215,596)	-	-	-

No hedge accounting

Interest rate swap contracts

Receive legs	196,720	-	-	-
Pay legs	(196,720)	-	-	-

Forward foreign exchange contracts

Receive legs	-	-	-	-
Pay legs	-	-	-	-
	(421,656)	277,231	-	-

Net Currency Exposure

	(252,535)	(8,417)	37,321	-
--	-----------	---------	--------	---

	2013			
	AUD \$'000	EURO €'000	USD \$'000	JPY ¥'000
<i>Non derivative financial assets</i>				
Cash and cash equivalents	27,535	10,915	504	-
Trade receivables	69,728	-	28	-
Receivables due from ultimate parent entity	35,284	-	-	-
Receivables due from immediate parent entity	25,358	-	-	-
Loans and other receivables due from other related entities	3,115,774	-	-	-
Prepayments and other assets	13,073	-	-	-
	3,286,752	10,915	532	-

Non derivative financial liabilities

Bank loans (unsecured)	(696,000)	-	-	-
Notes issued (secured)	(1,100,000)	(35,000)	-	-
Commercial papers (secured)	(219,000)	-	-	-
Loans from the ultimate parent entity	-	(271,613)	-	(5,377,000)
Loans from related parties	-	-	-	-
Trade payables	(667,070)	(4,364)	(9,277)	(306,770)
	(2,682,070)	(310,977)	(9,277)	(5,683,770)

Derivative financial assets

Cash flow hedges

Cross currency swap				
Receive legs	-	35,000	-	-
Pay legs	(52,780)	-	-	-
Foreign exchange swap contracts				
Receive legs	-	271,734	-	-
Pay legs	(411,209)	-	-	-

No hedge accounting

Interest rate swap contracts

Receive legs	390,000	-	-	-
Pay legs	(390,000)	-	-	-

Forward foreign exchange contracts

Receive legs	-	-	61,000	-
Pay legs	(64,933)	-	-	-
	(528,922)	306,734	61,000	-

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

19. FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk (continued)

Derivative financial liabilities

Cash flow hedges

	2013			
	AUD \$'000	EURO €'000	USD \$'000	JPY ¥'000
Cross currency swap				
Receive legs	-	-	-	5,377,000
Pay legs	(65,000)	-	-	-
Foreign exchange swap contracts				
Receive legs	-	-	-	-
Pay legs	-	-	-	-

No hedge accounting

Interest rate swap contracts

Receive legs	390,000	-	-	-
Pay legs	(390,000)	-	-	-
Forward foreign exchange contracts				
Receive legs	-	-	11,000	-
Pay legs	(12,472)	-	-	-
	(77,472)	-	11,000	5,377,000

Net Currency Exposure

	(1,712)	6,672	63,255	(306,770)
--	---------	-------	--------	-----------

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

	Average rate		Reporting date spot rate	
	2014	2013	2014	2013
AUD:EURO	0.679	0.726	0.674	0.648
AUD:NZD	1.087	1.176	1.047	1.087
AUD:USD	0.903	0.964	0.819	0.894
AUD:JPY	95.326	94.113	97.936	93.834

Sensitivity analysis

A 10 percent strengthening or weakening of the Australian dollar against the following currencies at 31 December 2014 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 2013.

	2014		2013	
	Profit or loss		Profit or loss	
	\$'000	\$'000	\$'000	\$'000
	10% increase	10% decrease	10% increase	10% decrease
AUD:EURO	768	(938)	(919)	1,123
AUD:USD	(4,144)	5,065	(6,431)	7,860

The amount recognised in Equity from a 10% movement in foreign exchange rates is minimal, with spot movements on the swaps being offset against spot movements on the hedged foreign denominated loans in profit or loss.

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

19. FINANCIAL INSTRUMENTS (CONTINUED)

Interest Rate Risk

The Company manages interest rate risk by entering into interest rate and cross currency swaps in order to minimise currency interest rate risks and achieve an appropriate mix of fixed and floating AUD interest rate exposure within the Company's policy. The swaps mature over the next three years following the maturity of the related loans. At 31 December 2014 the Company had interest rate and cross currency swaps with a notional contract amount of \$1.21 billion (2013: \$0.90 billion).

Where currency or AUD interest rates swaps are designated as hedges, the Company designates currency or AUD interest rate swaps that fix interest cash flows in AUD as cash flow hedges with respect to interest rate and currency risk. Currency interest rate swaps that do not fix interest cash flows in AUD are designated as cash flow hedges with respect to currency risk only. The Company measures all interest rate and cross currency swaps at fair value.

The net fair value of swaps is shown in Note 18.

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 RiskMetrics™ 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 2014 and 2013 portfolio of interest rate sensitive financial instruments. VaR numbers reflect the quantified net fair value movements on the hedged loan payables and receivable balances. Average exposure has been computed on an end of quarter basis:

	Period-end	High	Low	Average
	\$'000	\$'000	\$'000	\$'000
Interest rate risk				
2014	3,316	3,316	2,148	2,594
2013	109	109	42	85

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

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

19. FINANCIAL INSTRUMENTS (CONTINUED)

Hedging

The Company hedges at least 90% of all receivables and payables denominated in foreign currency. At any point in time, the Company also hedges a varying proportion of its estimated foreign currency exposure in respect of forecast sales and purchases over the next 6 to 18 months. The proportion is determined by reference model. A favourable outlook for a given currency from the Company's perspective will result in the Company hedging forward for shorter periods of time and with lower proportions. An unfavourable outlook for a given currency from the Company's perspective will result in the Company hedging forward for longer periods of time and greater proportions.

The Company uses forward exchange contracts and currency swaps to hedge its foreign currency risk. Most of these contracts have maturities of less than one year after the reporting date. Where necessary the forward foreign exchange contracts are rolled over at maturity.

In regard to the Company's EUR and JPY denominated notes and loans, the Company classifies related hedge contracts as either cash flow or fair value hedges. Hedges have been valued using market-sourced inputs. There were no fair value hedges during the financial year ended 31 December 2014 (2013: Nil).

Gains and losses on revaluation of cash flow hedges are recorded in equity, in the hedging reserve. These are reclassified into profit or loss when the underlying asset acquired or liability assumed is recognised in profit or loss.

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 9).

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 9).

The Company has EUR denominated notes and loans (Note 17). The Company has fully hedged the principal amounts using cross currency interest rate swaps, foreign exchange swaps and forwards 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 valuation methodology 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 (ie. as prices) or indirectly (ie. derived from prices).

Interest rates used for determining fair value

The entity uses the implied zero coupon yield curve as of 31 December 2014 to discount financial instruments holding credit margins constant. The interest rates used have been consistently applied using rates between 2.39% and 2.77% (2013: between 2.54% and 3.23%).

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

19. FINANCIAL INSTRUMENTS (CONTINUED)

Fair values (continued)

	2014		2013	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
<i>Non derivative financial assets</i>				
Loans due from other related entities	2,933,229	2,861,471	3,002,745	2,925,340
<i>Non derivative financial liabilities</i>				
Bank loans (secured)	(315,000)	(318,065)	(696,000)	(701,042)
Notes (secured)	(1,820,892)	(1,851,282)	(1,503,981)	(1,530,774)
Commercial papers (secured)	(49,938)	(49,941)	(219,000)	(218,760)
Loans from other related parties	(637,358)	(637,218)	-	-
Loans from the ultimate parent entity	(8,399)	(8,399)	(477,158)	(477,158)

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

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

19. FINANCIAL INSTRUMENTS (CONTINUED)

Derivatives

The fair value of all foreign currency and interest rate derivatives are determined by applying valuation techniques to market-sourced inputs.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the reporting date. Where other pricing models are used, inputs are based on market related data at the reporting date.

Master netting or similar agreements

The Company enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances – e.g. when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The ISDA agreements do not meet the criteria for offsetting in the statement of financial position. This is because the Company does not have any currently legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

	Gross and net amounts of financial instruments in the statement of financial position \$'000	Related financial instruments that are not offset \$'000	Net Amount \$'000
31 December 2014			
<i>Financial assets</i>			
Foreign exchange swap contracts used for hedging	5,173	(4,466)	707
Other foreign exchange swap contracts	1,587	-	1,587
Other interest rate swap contracts	5,050	-	5,050
Other forward foreign exchange contracts	3,733	-	3,733
	<u>15,543</u>	<u>(4,466)</u>	<u>11,077</u>
<i>Financial liabilities</i>			
Cross currency swaps used for hedging	(5,364)	-	(5,364)
Foreign exchange swap contracts used for hedging	(4,466)	4,466	-
Other interest rate swap contracts	(5,050)	-	(5,050)
	<u>(14,880)</u>	<u>4,466</u>	<u>(10,414)</u>

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

19. FINANCIAL INSTRUMENTS (CONTINUED)

Master netting or similar agreements (continued)

	Gross and net amounts of financial instruments in the statement of financial position \$'000	Related financial instruments that are not offset \$'000	Net Amount \$'000
31 December 2013			
<i>Financial assets</i>			
Cross currency swaps used for hedging	1,111	(1,111)	-
Foreign exchange swap contracts used for hedging	8,286	-	8,286
Other interest rate swap contracts	421	(69)	352
Other forward foreign exchange contracts	3,732	(100)	3,632
	<u>13,550</u>	<u>(1,280)</u>	<u>12,270</u>
<i>Financial liabilities</i>			
Cross currency swaps used for hedging	(7,967)	1,111	(6,856)
Foreign exchange swap contracts used for hedging	-	-	-
Other interest rate swap contracts	(421)	69	(352)
Other forward foreign exchange contracts	(100)	100	-
	<u>(8,488)</u>	<u>1,280</u>	<u>(7,208)</u>

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 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:

	2014 \$'000	2013 \$'000
Total liabilities	3,712,811	3,830,112
Less: cash and cash equivalents	(37,747)	(44,933)
Net debt	<u>3,675,064</u>	<u>3,785,179</u>
Total equity	582,997	512,376
Less: amounts accumulated in equity relating to cash flow hedges	(3,232)	(688)
Adjusted capital	<u>586,229</u>	<u>513,064</u>
Debt-to-adjusted capital ratio	<u>6.27</u>	<u>7.38</u>

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.

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

20. EMPLOYEE BENEFITS	2014	2013
	\$'000	\$'000
<i>Current</i>		
Liability for annual leave	6,382	6,075
Liability for long service leave	9,454	8,465
Cash settled share-based payment liability	426	830
Recognised (asset)/liability for defined benefit plans	682	(895)
	<u>16,944</u>	<u>14,475</u>
<i>Non current</i>		
Liability for long service leave	1,504	1,455
Cash settled share-based payment liability	1,821	1,515
	<u>3,325</u>	<u>2,970</u>

Superannuation plan information

During the year the Company contributed to the Mercedes-Benz Superannuation Plan, being part of the Mercer Super Trust in respect of all its permanent employees.

The Plan is a defined benefit and accumulation fund providing lump sum benefits on the retirement, death, total and permanent disablement and leaving service of its members. The Company is obliged to ensure that contributions are made to the Plan at the rate assessed by the actuary, subject to its right to reduce, suspend or terminate contributions as specified in the trust deed.

The obligation of the Company to make contributions to the Mercedes-Benz Superannuation Plan is legally enforceable up to the date on which the Company gives notice to suspend or terminate contributions as provided in the trust deed.

Defined benefit plan members receive lump sum benefits upon retirement, death, disablement and withdrawal. Some defined benefit members are also eligible for pension benefits in some cases. The defined benefit section of the plan is closed to new members. All new members receive accumulation only benefits.

Actuarial assessments are made annually. The last such assessment for the Mercedes-Benz Superannuation Plan was made as at 5 January 2015 by Mr R.R. Codron, F.I.A.A. of Mercer Human Resource Consulting Pty Ltd.

Movement in net defined benefit (asset)/ liability

The following table shows reconciliation from the opening balances to the closing balances for net defined benefit (asset)/ liability and its components.

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

20. EMPLOYEE BENEFITS (CONTINUED)

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability/(asset)	
\$'000	2014	2013	2014	2013	2014	2013
Balance at 1 January	17,591	21,514	(18,486)	(18,979)	(895)	2,535
Included in profit or loss						
Current service cost	868	1,089	-	-	868	1,089
Past service credit	-	-	-	-	-	-
Interest cost (income)	691	625	(735)	(573)	(44)	52
Total profit or loss	1,559	1,714	(735)	(573)	824	1,141
Included in OCI						
Remeasurements loss (gain):						
- Actuarial loss (gain) arising from:						
- demographic assumptions	-	-	-	-	-	-
- financial assumptions	1,913	(1,445)	-	-	1,913	(1,445)
- experience adjustment	(66)	(1,320)	-	-	(66)	(1,320)
- Return on plan assets	-	-	(476)	(1,206)	(476)	(1,206)
Taxes	(171)	(207)	171	207	-	-
Effect of movements in exchange rates	-	-	-	-	-	-
Total OCI	1,676	(2,972)	(305)	(999)	1,371	(3,971)
Other						
Contributions to the plan	139	125	(757)	(725)	(618)	(600)
Benefits paid	(2,660)	(2,790)	2,660	2,790	-	-
Total other	(2,521)	(2,665)	1,903	2,065	(618)	(600)
Balance at 31 December	18,305	17,591	(17,623)	(18,486)	682	(895)

The major categories of plan assets as a percentage of total plan assets:

	2014	2013
Equities	34%	28%
Property	7%	10%
Fixed income	24%	27%
Cash and other assets	35%	35%
	100%	100%

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

20. EMPLOYEE BENEFITS (CONTINUED)

The fair value of plan assets includes no amounts relating to:

- any of the Company's own financial instruments; and
- any property occupied by, or other assets used by, the Company.

The plan's broad investment objective is to maximise long-term returns while constraining fluctuations in return to within acceptable limits. More specifically the objectives are:

- To achieve a rate of return (after tax and investment manager fees) that exceeds inflation (CPI) increases by at least 2.5% per annum over rolling five year periods;
- To have a low probability of negative real return in any one year; and
- To outperform the notional benchmark portfolio over rolling 5 year periods.

	2014	2013	2012	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000
Present value of defined benefit obligation	18,305	17,591	21,514	20,619	18,112
Fair value of plan assets	17,623	18,486	18,979	18,015	18,416
(Surplus) / deficit in plan	682	(895)	2,535	2,604	(304)

The Company expects to contribute \$513,000 to its defined benefit plan in the 2015 financial year (2014: \$618,000).

Actuarial assumptions

The following shows the principal actuarial assumptions at the reporting date expressed as weighted averages of per annum rates:

	2014	2013
Discount rate at 31 December (active members)	4.20%	3.10%
Expected salary increase rate	4.00%	4.00%

The expected rate of return on plan assets assumption is determined by weighing the expected long-term return for each asset class by the target allocation of assets to each asset class and allowing for the correlations of the investment returns between asset classes. The returns used for each asset class are net of the investment tax and investment fees. The expected return on assets assumption for pension assets has not been reduced for investment tax as earnings on the assets supporting the pension liability are tax free.

There are no obligations for on-going medical expenses or pension payments for employees who have left the fund.

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

20. EMPLOYEE BENEFITS (CONTINUED)

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown in the following table.

31 December 2014	Net Defined Benefit Obligation	
	Increase	Decrease
Effect in \$'000		
Discount rate (0.5% movement)	(724)	678
Future salary growth (0.5% movement)	575	(605)

Defined contribution plan

The Company makes contributions to the defined contribution plan and the amount recognised as an expense for the year ended 31 December 2014 was \$7.479 million (2013: \$6.199 million) (refer Note 6).

Share based payments

(a) Stock Option Plan

In April 2000, the shareholders of Daimler AG approved the Stock Option Plan 2000 which provides for the granting of stock options for the purchase of Daimler AG Ordinary Shares to certain eligible key management. Options granted under the Stock Option Plan 2000 are exercisable at a reference price per Daimler AG Ordinary Share determined in advance plus a 20% premium. 50% of the options vest on the second anniversary and 100% vest on the third anniversary from the date of grant. Eligibility to the vesting of options ceases when the relevant employee leaves the Daimler AG group of companies. All unexercised options expire ten years from the date of grant. If the market price per Daimler AG Ordinary Share on the date of exercise is at least 20% higher than the reference price, the holder is entitled to receive a cash payment equal to the original exercise premium of 20%.

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

20. EMPLOYEE BENEFITS (CONTINUED)

Share based payments (continued)

(a) Stock Option Plan (continued)

All options have expired as at 31 December 2014.

There were no options granted under the plan in the year ended 31 December 2014.

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price (EUR) 2014	Number of options 2014	Weighted average exercise price (EUR) 2013	Number of options 2013
Outstanding at the beginning of the period	43.57	784	43.57	2,721
Exercised during the period	-	-	43.57	(1,937)
Lapsed during the period	-	(784)	-	-
Transferred in during the period	-	-	-	-
Transferred out during the period	-	-	-	-
Outstanding and exercisable at the end of the period	-	-	43.57	784

During the year, no share options were exercised (2013: 1,937).

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

20. EMPLOYEE BENEFITS (CONTINUED)

Share based payments (continued)

(b) 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. 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 not issue any common shares in connection with the Performance Phantom Share Plan.

In 2014 the Company recognised \$971,096 (2013: \$1,594,337) (refer Note 6) of compensation expenses related to the Performance Phantom Share Plan as cash-settled. As the payment per vested phantom share depends on the quoted price of one Daimler AG Ordinary Share, the average quoted price represents the fair value of each phantom share. The proportionate compensation expense for 2014 is determined based on the quoted price of Daimler AG Ordinary Shares as well as the estimated target achievement grades as of 31 December 2014. As at 31 December 2014, the carrying amount of the liability recognised for the entitlements granted is \$2,247,052 (2013: \$2,344,523).

The number of phantom shares granted by Daimler AG to key management personnel of the Company at 31 December 2014 was 6,609 (2013: 6,037).

21. PROVISIONS

	Warranty	Vehicle		Onerous		
	\$'000	Marketing	Legal	contracts	Other	Total
		\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2014	133,536	31,771	905	-	14,348	180,560
Provisions made during the year	87,022	346,986	1,035	4,750	41,911	481,704
Provisions used during the year	(74,338)	(345,198)	(295)	(1,500)	(36,527)	(457,858)
Provisions reversed in the year	-	-	(251)	-	-	(251)
Net unwind of discount	(3,359)	-	-	-	(255)	(3,614)
Balance at 31 December 2014	142,861	33,559	1,394	3,250	19,477	200,541
Current	80,286	33,559	1,394	3,250	12,568	131,057
Non-current	62,575	-	-	-	6,909	69,484
	142,861	33,559	1,394	3,250	19,477	200,541

Warranties

The provision for warranties relates primarily to vehicles sold during the five years to 31 December 2014. The provision is based on estimates made from historical warranty data associated with similar products and services. The Company expects to pay out the liability over the next five years. During the year, \$87,022 million was recognised as an expense in cost of sales (2013: \$78.889 million) (refer to Note 7).

Vehicle marketing

The provision for vehicle marketing relates to performance bonuses payable to dealers, and is dependent upon the number of vehicles sold during the year. Bonuses are paid annually based on sales for the year ended on the reporting date. During the year, \$346.986 million was recognised as rebates against revenue (2013: \$243.596 million).

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

21. PROVISIONS (CONTINUED)

Legal

The legal provision as at 31 December 2014 relates to legal actions in relation to product liability and other contractual matters in the ordinary course of business.

Onerous contracts

The provision for onerous contracts relates to contracts entered into where the expected benefits to be derived by the Company from these contracts are lower than the unavoidable cost of meeting its obligations. During the year \$4,750,000 was recognised in other expenses in profit or loss (2013: \$34,000).

Other provisions

Other provisions as at 31 December 2014 relate primarily to provisions for maintenance and repair and are dependent on the number of vehicles covered by maintenance and repair contracts.

22. DEFERRED INCOME

	Note	2014 \$'000	2013 \$'000
<i>Current</i>			
Deferred income attributable to other related entities	31c	5,678	3,938
Other deferred income		16,004	12,851
		<u>21,682</u>	<u>16,789</u>
<i>Non-current</i>			
Deferred income attributable to other related entities	31c	5,898	10,943
Other deferred income		15,865	10,987
		<u>21,763</u>	<u>21,930</u>

Rental income from operating leases through a related party, Mercedes-Benz Financial Services Australia Pty Ltd, is recognised as deferred income attributable to other related parties and amortised on a straight line basis over the term of the lease.

Other deferred income consists of:

- progress billings received from a customer under an open supply contract; and
- advance payments received for fixed term service contracts.

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

23. CAPITAL AND RESERVES

Share capital

	2014	2013
	\$'000	\$'000
Issued and paid-up share capital		
35,000,000 fully paid ordinary shares of \$2 par value each (2013: 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.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Share reserve

The share reserve relating to Share Option Plans has been transferred to Retained Earnings as all Share Options expired during the year ended 31 December 2014.

General reserve

The general reserve represents amounts of retained earnings set aside at the Directors' discretion in accordance with the constitution of the Company.

Dividends

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

No dividends were declared or paid in the year ended 31 December 2014 (2013: \$64.5 million declared).

24. NOTES TO THE STATEMENT OF CASH FLOWS

(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:

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

24. NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

(a) Reconciliation of cash (continued)

		2014	2013
	Note	\$'000	\$'000
Cash and cash equivalents	11	37,747	44,933

(b) Reconciliation of cash flows from operating activities

Profit for the year		74,125	90,185
<i>Adjustments for:</i>			
(Gain)/loss on sale of property, plant and equipment	5, 7c	-	(333)
Depreciation and amortisation expenses	14	14,369	11,780
Impairment losses	7b, 9	9,128	11,922
Foreign exchange (gains)/losses		4,090	2,984
Net (gain)/loss on foreign currency derivatives not qualifying as hedges		(4,376)	(10,101)
Income tax expense	10	33,912	39,057
Operating profit before changes in working capital		<u>131,248</u>	<u>145,494</u>
<i>Change in assets & liabilities during the financial year:</i>			
(Increase)/decrease in trade and other receivables		15,641	(33,082)
(Increase)/decrease in inventories		(34,364)	(92,824)
Increase/(decrease) in trade and other payables		(199,085)	210,168
Increase/(decrease) in provisions		22,804	(3,122)
Net cash from operating activities		<u>(63,756)</u>	<u>226,634</u>
Net interest paid		5,930	346
Income taxes received / (paid)		(57,964)	(44,154)
Net cash from/(used in) operating activities		<u>(115,790)</u>	<u>182,826</u>

25. SEGMENT INFORMATION

The Company comprises the following main business segments:

- **Wholesale:** The importation, marketing and distribution of passenger and commercial motor vehicles and their components.
- **Retail:** Sale and servicing of passenger and commercial motor vehicles through dealerships.
- **Financing:** The Company is also involved in financing activities for its working capital and capital expenditure requirements and on behalf of some other related parties of the local Daimler group.

The principal activities of the Company are based predominantly 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.

Intersegment pricing is determined on an arm's length basis.

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.

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

25. SEGMENT INFORMATION (CONTINUED)

	Wholesale \$'000	Retail \$'000	Financing \$'000	Eliminations \$'000	Total \$'000
2014					
External revenue and other income	2,125,119	839,457	-	-	2,964,576
Inter-segment revenue	575,893	-	-	(575,893)	-
Total inter-segment revenue	2,701,012	839,457	-	(575,893)	2,964,576
Finance income	1,811	-	143,532	(1,811)	143,532
Finance expense	-	(1,811)	(139,386)	1,811	(139,386)
Depreciation	(12,621)	(1,748)	-	-	(14,369)
Reportable segment profit/(loss) before tax	99,721	4,170	4,146	-	108,037
Reportable segment assets	1,001,949	194,410	3,099,449	-	4,295,808
Reportable segment liabilities	650,262	171,762	2,890,787	-	3,712,811
Capital expenditure	(1,425)	(2,213)	-	-	(3,638)
Impairment losses	(6,563)	(2,565)	-	-	(9,128)

Mercedes-Benz Australia/Pacific Pty Ltd

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

25. SEGMENT INFORMATION (CONTINUED)

	Wholesale \$'000	Retail \$'000	Financing \$'000	Eliminations \$'000	Total \$'000
2013					
External revenue and other income	2,008,822	754,754	-	-	2,763,576
Inter-segment revenue	517,784	-	-	(517,784)	-
Total inter-segment revenue	2,526,606	754,754	-	(517,784)	2,763,576
Finance income	-	-	148,944	-	148,944
Finance expense	-	-	(147,712)	-	(147,712)
Depreciation	(10,511)	(1,269)	-	-	(11,780)
Reportable segment profit/(loss) before tax	118,670	9,340	1,232	-	129,242
Reportable segment assets	920,440	212,039	3,210,009	-	4,342,488
Reportable segment liabilities	148,787	185,221	3,496,104	-	3,830,112
Capital expenditure	(3,386)	(3,683)	-	-	(7,069)
Impairment losses	(10,571)	(1,351)	-	-	(11,922)

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

26. OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2014	2013
	\$'000	\$'000
Not later than one year	9,683	10,015
Later than one year or not later than five years	18,988	22,840
Later than five years	65	1,209
	<u>28,736</u>	<u>34,064</u>

The Company leases a number of sites that include land and building for the purposes of operating dealerships and service departments. The leases typically run for a period of five years, with an option to renew the lease after that date. Lease payments are increased every three years to reflect market rentals. None of the leases include contingent rentals.

Leases of property generally provide the Company with the right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on the Consumer Price Index.

During the year ended 31 December 2014 \$11.019 million was recognised as an expense in profit or loss in respect of operating leases (2013: \$10.081 million) (refer Note 7).

Residual value guarantees for operating leases

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

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 \$5.726 million (2013: \$6.200 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.

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 \$6.856 million (2013: \$6.300 million) of income attributable to operating leases subject to a residual value guarantee.

The liabilities for residual value guarantee have been included in Payables to other related parties in Note 16. Deferred income arising on these operating leases is included in deferred income attributable to other related entities in Note 22.

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

27. CONTINGENCIES

- (a) The Company has arranged for its bankers to guarantee its performance to third parties. The maximum amount of this guarantee at 31 December 2014 was \$84,205,043 (2013: \$84,205,043). The Company has also arranged for its ultimate parent entity to guarantee its performance to certain customers to a maximum of \$89,641,852 at 31 December 2014 (2013: \$70,063,615). These facilities are fully available and not used at the reporting date (2013: 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 Note 21.
- (c) 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 head entity defaults in its payment obligations to the Australian Tax Office. The 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.
- (d) Pursuant to an ASIC Class Order dated 19 December 1992, relief has been granted to Mercedes-Benz Australia/Pacific Pty Ltd from the Corporations Act 2001 requirements for preparation, audit and publication of financial statements. As a condition of the Class Order, the Company and its immediate parent entity, Daimler Australia/Pacific Pty Ltd entered into a Deed of Cross Guarantee on 6 November 1992. The effect of the Deed is that the immediate parent entity guarantees to each creditor payment in full of any debt in the event of winding up of the Company under certain provisions of the Corporations Act 2001. The Company has given similar guarantee in the event that its immediate parent entity is wound up.

28. PARENT ENTITY

The ultimate parent entity of the Company is Daimler AG, a company 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.

29. ECONOMIC DEPENDENCY

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

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

30. KEY MANAGEMENT PERSONNEL

The names of each person holding the position of director of the Company during the financial year are: Mr A. Renschler (resigned 1 April 2014), Dr B.Niess, Mr H. von Sanden (appointed 17 December 2013), Mr R. Schrage (appointed 1 February 2013), Dr T. H. Conrad (appointed 1 January 2014), and Mr R. Howard (appointed 1 April 2014). Apart from the Company's directors, the Company's key management personnel during the year also include Mr P. Grogan, Mr P. Wundheiler (appointed 1 January 2014), Ms D. Tarr (appointed 1 January 2014), Mr K. Rebstock (resigned 28 February 2014) and Mr D. Whitehead (appointed 17 February 2014).

In addition to their salaries, the Company provides non-cash benefits to key management personnel, share-based payment benefits and contributes to post-employment defined benefit plan on their behalf (refer Note 20 for details on defined benefit plan). The key management personnel compensation included in employee expenses (refer Note 6) are as follows:

	2014	2013
	\$	\$
Short-term employee benefits	2,858,874	3,459,070
Other long term benefits	28,354	33,990
Post-employment benefits	218,022	182,452
Share based payments	665,928	302,889
Termination benefits	1,938,155	338,613
	<u>5,709,333</u>	<u>4,317,014</u>

31. OTHER RELATED PARTY TRANSACTIONS

The Company transacts with its ultimate 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:

	Note	2014	2013
		\$'000	\$'000
Current assets			
Trade and other receivables	12	<u>27,273</u>	<u>23,522</u>
Total current assets		<u>27,273</u>	<u>23,522</u>
Non-current assets			
Trade and other receivables	12	<u>11,260</u>	<u>11,762</u>
Total non-current assets		<u>11,260</u>	<u>11,762</u>
Total assets		<u>38,533</u>	<u>35,284</u>
Current liabilities			
Trade and other payables	16	336,909	244,166
Loans and borrowings	17	8,399	477,158
Total current liabilities		<u>345,308</u>	<u>721,324</u>
Total liabilities		<u>345,308</u>	<u>721,324</u>
Net interest income/(expense)		(11,453)	(42,491)
Warranty recoveries		24,804	24,007

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

31. OTHER RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with ultimate parent entity (continued)

The Company also acquires inventory from the ultimate parent entity and other related parties. The amount of inventory purchased during the year totalled \$1,576 million (2013: \$1,499 million).

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 also acquires derivatives from external parties on behalf of the Company to hedge interest and currency risk of certain loans and borrowings. The derivatives passed through to the Company are on the same terms and conditions as the external derivatives acquired by the ultimate parent entity.

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 2014 was \$1,727 million (2013: \$1,504 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 2014 was \$50 million (2013: \$219 million).

(b) 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:

	Note	2014 \$'000	2013 \$'000
Current assets			
Trade and other receivables	12	12,200	25,358
Total current assets		12,200	25,358
Total assets		12,200	25,358
Current liabilities			
Trade and other payables	16	-	10,606
Total current liabilities		-	10,606
Total liabilities		-	10,606

The Company is a wholly-owned subsidiary in a tax-consolidated group with its immediate parent entity, Daimler Australia/Pacific Pty Ltd, as the 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 2014 the Company had an intercompany receivable of \$12.200 million (2013: \$25.358 million) relating to current tax receivable assumed by the head entity of the tax consolidated group. The company has no intercompany payable at 31 December 2014 relating to a tax instalment received from a related entity (2013: payable of \$10.606 million).

For further details regarding tax consolidation and the nature of the tax funding and sharing agreements, refer to accounting policy Note 3(m) and Note 15.

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

31. OTHER RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Transactions with other related parties

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

	Note	2014 \$'000	2013 \$'000
Current assets			
Trade and other receivables	12	1,610,246	1,960,511
Total current assets		<u>1,610,246</u>	<u>1,960,511</u>
Non-current assets			
Trade and other receivables	12	1,414,715	1,155,263
Total non-current assets		<u>1,414,715</u>	<u>1,155,263</u>
Total assets		<u>3,024,961</u>	<u>3,115,774</u>
Current liabilities			
Trade and other payables	16	92,339	274,654
Loans and borrowings	17	637,358	-
Deferred income	22	5,678	3,938
Total current liabilities		<u>735,375</u>	<u>278,592</u>
Non-current liabilities			
Trade and other payables	16	10,587	8,472
Deferred income	22	5,898	10,943
Total non-current liabilities		<u>16,485</u>	<u>19,415</u>
Total liabilities		<u>751,860</u>	<u>298,007</u>
Net interest income		114,345	132,308
Revenue received for sale of goods and services		3,568	3,074
Rental income received	5	7,314	7,617
Other income	5	4,943	4,027
Net gain/(loss) from interest rate hedging		2,006	(143)
Depreciation on leased assets with related parties	26	(5,726)	(6,200)
Warranty recoveries		7,663	7,189

The Company also acquires inventory from other related parties. The amount of inventory purchased during the year totalled \$349.2 million (2013: \$328.8 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 is recognised in trade and other payables.

Mercedes-Benz Australia/Pacific Pty Ltd
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

32. EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to 31 December 2014, the Company has entered into an agreement to divest one of its retail operations. Details of the transaction are being finalised.

Other than the matter listed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.