Mercedes-Benz Australia/Pacific Pty Ltd

ABN 23 004 411 410

ANNUAL FINANCIAL REPORT
31 DECEMBER 2019

Mercedes-Benz Australia/Pacific Pty Ltd

Year ended 31 December 2019

Contents

The directors present their report together with the financial report of Mercedes-Benz Australia/Pacific Pty Ltd ("the Company") for the year ended 31 December 2019 and the auditor's report thereon.

Directors

Mr. Horst von Sanden CEO & Director since 17 December 2013
Mr. Volker Malzahn CFO & Director since 1 August 2018
Ms. Diane Tarr Director since 1 January 2019
Mr. Steve Mchutchon Director since 1 January 2019

Officers who were previously partners of the audit firm

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

Principal activities

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

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

Operating and financial review

The Company made a profit, after income tax, for the year ended 31 December 2019 of $1.355 million (2018: $43.529 million).

Dividends - Mercedes-Benz Australia/Pacific Pty Ltd

Dividends paid or declared by the Company to members since the end of the previous financial year were: (2018: $200.0 million)

	Cents per share	Total amount $	Franked/ unfranked	Date of payment
Final 2019 ordinary dividend	$285.71	$100,000,000.00	Unfranked	14.06.2019

Significant changes in the state of affairs

In the opinion of the Directors there was a significant change in the state of affairs of the Company that occurred during the financial year under review. On 1 January 2019, the Company acquired the net assets of Mercedes-Benz Vans Australia/Pacific Pty and its associated vans & ute/pickup business operations. As a result, comparability between the 2019 and prior period will be impacted.

Environmental regulation

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

Events subsequent to reporting date

The following events occurred subsequent to 31 December 2019:

• On 25 February 2020, the Australian Competition and Consumer Commission (ACCC) announced on its website that it had accepted a court enforceable undertaking from the Company. The Company as part of that undertaking has agreed to offer at the Company's cost a loan vehicle or reasonable alternate transport (at the Company's election) to certain affected consumers if the Company is unable to replace the airbag within two weeks from the date requested by a consumer (for reasons other than the consumer not making the vehicle available for repair). Affected consumers in this context are those that have a Mercedes-Benz C-Class or E-class vehicle affected by the compulsory recall that are older than 6 years and located in Queensland, Northern Territory, Western Australia and part of the coastal area of New South Wales north of Newcastle; or older than 9 years and located elsewhere in Australia. Refer to Note 24 for details of the provision recognised in relation to this matter.

• On 6 March 2020, the Company announced that all vehicles sold from 1 March 2020 will be covered for 5 years (previously 3 years) manufacturers' warranty (unlimited kilometres for private purchases, and limited to capped kilometres for vehicles acquired for commercial purposes). As a result, the Company will have a financial impact to its provisions for warranty to factor in the additional costs in future years for warranty claims related to the 4th and 5th year since first year of registration.

• The spread of novel coronavirus (COVID-19) was declared a public health emergency by the World Health Organisation on 31 January 2020 and upgraded to a global pandemic on 11 March 2020. The rapid rise of the virus has seen an unprecedented global response by governments, regulators and numerous industry sectors. The Australian Federal Government enacted its emergency plan on 29 February 2020. This has led to the closure of Australian borders from 20 March, an increasing level of restrictions on corporate Australia's ability to operate, significant volatility and instability in financial markets and the release of a number of government stimulus packages to support individuals and businesses as the Australian and global economies face significant slowdown and uncertainties. The impact of COVID-19 to operating results is considered a subsequent event of the reporting period, which does not require any adjustment in the 2019 annual financial statements of the Company. Local analysis and frequent contact with the Daimler Group Headquarters in regards to measures taken to deal with this changing environment occur on a regular basis. The Company has adopted measures in order to mitigate risks to people and to continue to provide services to the Dealer Network and end customers, having set up a crisis committee. To assist with cash flow, temporary workforce salary reductions have been put in place for the calendar month of May, additionally, certain tax payment deferrals have been put in place as a result of the aforementioned government stimulus package assistance. The distribution business is focusing all its efforts on customer service, to address any concerns customers may have, ensuring points of contacts that offer information and continuity of logistics. The Company continues to monitor developments in the COVID-19 pandemic and the measures being implemented on the economy to control and slow the outbreak. Given the dynamic nature of these circumstances and the significant increase in economic uncertainty, the related impact on the Company's future results of operations, cash flows and financial position cannot be reasonably estimated at this stage and will be reflected in the Company's 2020 annual financial statements.

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

Likely developments

Operations

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

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

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 2019 to 1 April 2020, the Company has paid insurance premiums of $3,539 (2018: $2,972) in respect of directors' and officers' liability and legal expenses insurance. This insurance was renewed in April 2019 to provide coverage until 30th April 2020.

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 9 and forms part of the Directors' report for the financial year ended 31 December 2019.

Rounding of amounts

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

Signed in accordance with a resolution of the directors:

Mr. Horst von Sanden
CEO and Director

Melbourne 30/04/20

Mr. Volker Malzahn
CFO and Director

Melbourne 30/04/20

Ms. Diane Tarr
Director
30/4/2020
Melbourne

Mr. Steve McHutchon
Director
30/4/2020
Melbourne

Independent Auditor's Report

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

Opinion

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

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

- giving a true and fair view of the Company's financial position as at 31 December 2019 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- *Statement of financial position* as at 31 December 2019;
- *Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows* for the year then ended;
- Notes including a summary of significant accounting policies; and
- *Directors' Declaration.*

Basis for opinion

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

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

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

Key Audit Matters

The ***Key Audit Matters*** we identified are:

- *Completeness of the provision for warranty claims; and*
- *Completeness and accuracy of the Takata Recall provision.*

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

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Completeness of the provision for warranty claims ($102.35m - Note 24 Warranty)	
Refer to Note 24 to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
The completeness of the provision for warranty claims is a key audit matter due to the: • Significance of the balance to the financial statements of the Company; and • Challenges in auditing a forward-looking estimate, designed to predict patterns of claimable events. This is significantly more complex for recently released vehicles which have technologically advanced features for which there is little to no precedent of claimable events. The Company's provision for warranty claims incorporates estimates of claims relating to vehicles sold with recently introduced, or heavily upgraded technologies such as semiautonomous driving capability and hybrid propulsion. Senior members of the audit team focused on the key factors driving management's estimate of the provision for warranty claims.	Our procedures included, amongst others: • Involving our IT specialists and evaluating IT and manual controls relating to the determination of the provision for warranty claims. Controls tested include: o Review and approval of warranty claims by management; o Information technology interface reconciliation between the warranty claims system and the Company's financial reporting system; and o Review and approval of the provision model computation by management. • Checking the population of vehicles included in the provision model to details of vehicle sales maintained by the Company; • Inspecting internal reporting prepared by management and the head office in Germany, regarding known defects in particular models and comparing to the Company's provision model; • Checking the mathematical accuracy of management's warranty provision model; • Assessing the accuracy of the Company's previous provision for warranty claims by comparing the prior year provision against actual claims settled during the current period to inform our evaluation of the current period estimate; and • Through the inspection of the Company's minutes of board meetings, documentation prepared by the warranty management team, and meetings and inquiries with senior management, we assessed the factors the Company considered when determining the provision for warranty claims for new vehicle models. Key factors considered included claims experience since the vehicle has been on the market in Australia and other countries, and claims experience from other models with comparable specification and equipment. We checked for existence and consistency of these factors in the provision for warranty claims.

<table>
<tr><th colspan="2">Completeness and accuracy of the Takata Recall provision ($28.38m - Note 24 Other)</th></tr>
<tr><td colspan="2">Refer to Note 24 to the Financial Report</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>The completeness and accuracy of the Takata Recall provision (alternative transport provision and administration costs) is a key audit matter due to the:
• Significance of the balance to the financial statements of the Company; and
• Challenges in auditing a forward-looking estimate, designed to predict patterns of claimable events. This is significantly more complex due to little or no precedent of claimable events. The Company's provision for Takata Recall incorporates estimates of claims relating to vehicles included in the Australian Competition and Consumer Commission (ACCC) Undertaking, parts availability and timing of repairs and the costs involved in providing alternative transport.
Senior members of the audit team focused on the key factors driving management's estimate of the Takata Recall provision.</td><td>Our procedures included:
• Reading the Undertaking submitted by the Company to the ACCC for the purpose of section 87B of the Competition and Consumer Act 2010;
• Evaluating the basis for recognition of the Takata Recall provision against the Company's accounting policy and the accounting standards;
• Assessing the key assumptions adopted by the Company in the provision model which included:
- checking the population of outstanding vehicles to the Vehicle Identification Number (VIN) listing per the system.
- checking the completed vehicle VINs to independently audited completion reports.
- assessing the parts availability to support the Recall Initiation Schedule by comparing the C-class and E-class inflators in management's model to the parts stock on hand and in transit listings and agreed open orders in the inventory management system.
- comparing the costs of providing alternative transport used in the provision model to market rates to assess for reasonableness.
- considering the sensitivity of the provision model by varying key assumptions using a range of scenarios to test the provision within a reasonably possible range, and identify the assumptions most critical to the provision model.
• Checking the mathematical accuracy of management's provision model;
• Making enquiries of management's finance, warranty and legal teams in respect of their key assumptions and inputs included in the model; and
• Assessing the appropriateness of the relevant disclosures in the financial statements in accordance with the accounting standards.</td></tr>
</table>

Other Information

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

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

Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

• preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*

• implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and

• assessing the Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

• to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and

• to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf. This description forms part of our Auditor's Report.

KPMG

KPMG

Penny Stragalinos

Partner

Melbourne

30th April 2020

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

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

I declare that, to the best of my knowledge and belief, in relation to the audit of Mercedes-Benz Australia/Pacific Pty Ltd for the financial year ended 31 December 2019 there have been:

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

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

KPMG

KPMG

Penny Stragalinos

Partner

Melbourne

30th April 2020

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

   (a) the financial statements and notes set out on pages 11 to 73 are in accordance with the *Corporations Act 2001 (Cth)*, including:

      (i) giving a true and fair view of the Company's financial position as at 31 December 2019 and of its performance for the financial year ended on that date; and

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

   (b) the Company directors' report (where necessary read together with the financial report and notes to the financial statements which accompany the directors' report) provides a fair review of the development and performance of the business and the position of the Company for the financial year ended 31 December 2019, together with a description of the principal opportunities and risks associated with the expected development of the Company; and

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

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

Signed in accordance with a resolution of the directors:

Mr. Horst von Sanden
CEO and Director

Melbourne 30/04/20

Mr. Volker Malzahn
CFO and Director

Melbourne 30/04/20

Ms. Diane Tarr
Director
30/4/2020
Melbourne

Mr. Steve McHutchon
Director
30/4/2020
Melbourne

Mercedes-Benz Australia/Pacific Pty Ltd
Statement of Financial Position
As at 31 December 2019

	Notes	**2019 $'000**	2018 $'000
Current assets			
Cash and cash equivalents	13	**186,564**	124,677
Trade and other receivables	14	**2,032,857**	2,540,704
Inventories	15	**954,423**	693,425
Derivative financial instruments	21	**-**	20,200
Total current assets		**3,173,844**	3,379,006
Non-current assets			
Trade and other receivables	14	**1,325,454**	1,340,480
Deferred tax assets	18	**82,775**	59,955
Intangible assets	16	**3,286**	4,234
Property, plant and equipment	17	**69,810**	61,191
Derivative financial instruments	21	**-**	290
Total non-current assets		**1,481,325**	1,466,150
Total assets		**4,655,169**	4,845,156
LIABILITIES			
Current liabilities			
Trade and other payables	19	**703,239**	604,949
Loans and borrowings	20	**1,752,583**	2,023,988
Derivative financial instruments	21	**-**	466
Employee benefits	23	**8,454**	2,637
Provisions	24	**81,175**	36,189
Deferred income	25	**1,684**	819
Total current liabilities		**2,547,135**	2,669,048
Non-current liabilities			
Trade and other payables	19	**39,373**	32,172
Loans and borrowings	20	**1,332,018**	1,340,480
Derivative financial instruments	21	**-**	290
Employee benefits	23	**532**	4,491
Provisions	24	**73,615**	52,568
Deferred income	25	**1,416**	7
Total non-current liabilities		**1,446,954**	1,430,008
Total liabilities		**3,994,089**	4,099,056
Net assets		**661,080**	746,100
Equity			
Share capital	26	**70,000**	70,000
Reserves		**-**	64
Retained earnings		**591,080**	676,036
Total equity		**661,080**	746,100

The notes on pages 15 to 73 are an integral part of these financial statements.

Mercedes-Benz Australia/Pacific Pty Ltd
Statement of Profit or Loss & Other Comprehensive Income
For the year ended 31 December 2019

	Notes	2019 $'000	2018 $'000
Revenue	6	**2,734,713**	2,281,497
Cost of sales	9(a)	**(2,576,611)**	(2,132,005)
Gross Profit		**158,102**	149,492
Other income	7	**31,932**	49,724
Employee expenses	8	**(42,546)**	(34,431)
Amortisation	16	**(1,096)**	(998)
Depreciation expense	17	**(10,649)**	(5,848)
Net impairment losses	9(b)	**(12,554)**	(2,810)
Other expenses	9(c)	**(119,469)**	(98,833)
Result from operating activities		**3,720**	56,296
Finance income	11	**62,753**	89,608
Finance costs	11	**(64,414)**	(85,049)
Net finance (cost) / income	11	**(1,661)**	4,559
Profit before income tax		**2,059**	60,855
Income tax expense	12	**(704)**	(17,326)
Profit for the period		**1,355**	43,529
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges - reclassified to profit or loss	11	**(92)**	-
Effective portion of changes in fair value of cash flow hedges	11	**-**	297
Income tax relating to these items	12	**28**	(89)
Total items that may be reclassified subsequently to profit or loss		**(64)**	208
Other comprehensive income/(loss) for the period, net of tax		**(64)**	208
Total comprehensive income/(loss) for the period		**1,291**	43,737

The notes on pages 15 to 73 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 2019

	Share capital $'000	Hedging reserves $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2018	70,000	(144)	832,507	902,363
Profit for the period	-	-	43,529	43,529
Other comprehensive income				
Effective portion of changes in fair value of cash flow hedges, net of income tax	-	208	-	208
Total comprehensive income/(loss) for the period	-	208	43,529	43,737
Dividends to owners of the Company	-	-	(200,000)	(200,000)
Balance at 31 December 2018	**70,000**	**64**	**676,036**	**746,100**
Balance at 1 January 2019	70,000	64	676,036	746,100
Profit for the period	-	-	1,355	1,355
Other comprehensive income				
Cash flow hedges – reclassified to profit or loss	-	(64)	**-**	(64)
Total comprehensive income/(loss) for the period	-	**(64)**	**1,355**	**1,291**
Dividends to owners of the Company	-	-	(100,000)	(100,000)
Debt relief due to debt forgiveness deed (refer to Note 35)	-	-	13,689	13,689
Balance at 31 December 2019	**70,000**	**-**	**591,080**	**661,080**

The notes on pages 15 to 73 are an integral part of these financial statements.

	Notes	**2019 $'000**	2018 $'000
Cash flows from operating activities			
Cash receipts from customers		**3,486,488**	2,568,411
Cash paid to suppliers and employees		**(3,137,172)**	(2,753,250)
Cash generated from operations		**349,316**	(184,839)
Interest received		**71,399**	85,646
Interest paid		**(66,318)**	(86,949)
Income taxes paid		**(1,877)**	(39,737)
Net cash inflow (outflow) from operating activities	27(b)	**352,520**	(225,879)
Cash flows (used in)/from investing activities			
Payment for acquisition of property, plant and equipment		**(1,137)**	(4,755)
Proceeds from sale of property, plant and equipment		**15**	513
Net cash (outflow) from investing activities		**(1,122)**	(4,242)
Cash flows from financing activities			
Proceeds from borrowings		**8,862,427**	6,786,404
Repayment of borrowings		**(9,146,719)**	(6,750,765)
Proceeds from borrowings from ultimate parent entity		**-**	1,276,141
Repayment of borrowings from ultimate parent entity		**(151,717)**	(1,134,095)
Proceeds from borrowings from immediate parent entity		**141,573**	-
Proceeds from borrowings from other related entities		**-**	2,425
Repayment of borrowings from other related entities		**(2,425)**	(141,137)
Loans to other related entities		**(6,771,418)**	(14,882,985)
Loans repaid by other related entities		**6,881,626**	15,184,914
Loans to external parties		**-**	(928,393)
Loans repaid by external parties		**-**	971,700
Dividends paid		**(100,000)**	(200,000)
Payment of lease liabilities		**(2,858)**	-
Net cash (outflow) inflow from financing activities		**(289,511)**	184,209
Net increase (decrease) in cash and cash equivalents		**61,887**	(45,912)
Cash and cash equivalents at the beginning of the period		**124,677**	170,589
Cash and cash equivalents at end of year		**186,564**	124,677

The notes on pages 15 to 73 are an integral part of these financial statements.

1 REPORTING ENTITY

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

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

2 BASIS OF PREPARATION

(a) Statement of compliance

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

The financial statements were authorised for issue by the Board of Directors on 30 April 2020.

(b) Basis of measurement

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

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

The methods used to measure fair value are discussed further in Note 5.

The financial report of the Company has been prepared on a going concern basis which contemplates continuity of normal business activities, funding of operating activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

As set out in Note 36, the COVID-19 outbreak presents strategic, operational and commercial uncertainties for the Company. The situation is changing rapidly and there are uncertainties around the duration, scale and impact of the COVID-19 outbreak, which has implications for the future operating performance, cash flows and financial position of the Company. The Company has been taking various measures to mitigate the impact of COVID-19 on its operations, including considering the potential implications for employees, suppliers, dealers and customers. The Company will also continue to actively manage its cash flow requirements by reducing costs, managing its working capital, using available financing facilities and the support of its ultimate parent company.

On this basis, the Directors have formed the opinion that the Company's financial report should be prepared on a going concern basis.

(c) Functional and presentation currency

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

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

2 BASIS OF PREPARATION (CONTINUED)

(d) Use of estimates and judgements

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

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

- Note 15 - Inventories
- Note 18 - Tax assets and liabilities
- Notes 21 and 22 - Derivative Financial Instruments and Financial Instruments
- Note 24 - Provisions
- Note 29 - Leases
- Note 30 - Contingencies

3 CHANGES TO SIGNIFICANT ACCOUNTING POLICIES

Changes in accounting policies (AASB 16)
The Company has adopted AASB 16 for the first time at 1 January 2019. In compliance with the transition regulations, the Company does not adjust the prior-year figures and presents the accumulated transitional effects in retained earnings ("simplified approach").

On adoption of AASB 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.66%.

	2019
	$'000
Operating lease commitments disclosed as at 31 December 2018	12,125
Discounted using the group's incremental borrowing rate of 2.66%	(806)
Add: finance lease liabilities recognised as at 31 December 2018	-
(Less): short-term leases recognised on a straight-line basis as expense	-
(Less): low-value leases recognised on a straight-line basis as expense	-
(Less): contracts reassessed as service agreements	-
Add/(less): adjustments as a result of a different treatment of extension and termination options	1,126
Add/(less): adjustments relating to changes in the index or rate affecting variable payments	-
Lease liability recognised as at 1 January 2019	**12,445**

The associated rights-of-use assets were measured at the amount equal to the lease liability, adjusted by accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. Property, plant and equipment increased by $12,445,352 on 1 January 2019 and loans and borrowings increased by $12,445,352. As the simplified approach was adopted at transition there was no impact on retained earnings.

In applying AASB 16 for the first time, the Company has applied the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

4 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Except as described in Note 3, the accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currencies

Transactions

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

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

(b) Financial instruments

Financial Instruments

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

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

Non-derivative financial assets

Financial assets primarily comprise trade receivables and derivative financial assets. The classification of financial instruments is based on the business model in which these instruments are held and on their contractual cash flows. The determination of the business model is made at the portfolio level and is based on management's intention and past transaction patterns. Assessments of the contractual cash flows are made on an instrument by instrument basis.

Financial assets at amortised cost

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

4 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments (continued)

Financial Instruments (continued)

Non-derivative financial liabilities

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

The Company has the following non-derivative financial liabilities: loans and borrowings and trade and other 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.

Financial liabilities measured at amortised cost

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

Offsetting of financial instruments

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

Derivative financial instruments, including hedge accounting

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

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

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

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.

4 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments (continued)

Derivative financial instruments, including hedge accounting (continued)

Other non-trading derivatives

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

Share capital

Ordinary shares

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

Dividends

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

(c) Property, plant and equipment

Recognition and measurement

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

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

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

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised 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:

4 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Property, plant and equipment (continued)

Depreciation (continued)

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

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

Subsequent costs

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

(d) Leasing

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

The Company as lessee

Until 31 December 2018 it was evaluated on the basis of the risks and rewards of a leased asset according to AASB 117 whether the ownership of the leased asset is attributed to the lessee (so-called finance lease) or to the lessor (so-called operating lease). In the case of an operating lease, the lease payments or rental payments were expensed on a straight-line basis in the statement of profit or loss.

Assets carried as finance leases were measured at the beginning of the (lease) contract at the lower of the present value of the minimum lease payments and the fair value of the leased object, and in the following periods less accumulated depreciation and other accumulated impairment losses. Depreciation was on a straight-line basis; residual values of the assets were given due consideration. Payment obligations resulting from future lease payments were discounted and disclosed under financing liabilities.

Since 1 January 2019 the Company as a lessee has recognised right-of-use assets and the lease liabilities for the payment obligations entered into for all leases except short term and low value leases in the statement of financial position at present value. The lease liabilities include the following lease payments:

4 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Leasing (continued)

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

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

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

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

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

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

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

4 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Inventories

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

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

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

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

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

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

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

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

4 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Impairment (continued)

Non-derivative financial assets (continued)

The determination of whether a financial asset has experienced a significant increase in credit risk is based on an assessment of the probability of default, which is made at least quarterly, incorporating external credit rating information as well as internal information on the credit quality of the financial asset. For debt instruments that are not receivables from financial services, a significant increase in credit risk is assessed mainly based on past-due information or the probability of default.

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

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

Measurement of expected credit losses

Expected credit losses are measured in a way that reflects:

a) the unbiased and probability-weighted amount;
b) the time value of money; and
c) reasonable and supportable information (if available without undue cost or effort) at the reporting date about past events, current conditions and forecasts of future economic conditions.
Expected credit losses are measured as the probability-weighted present value of all cash shortfalls over the expected life of each financial asset.

The estimation of these risk parameters incorporates all available relevant information, not only historical and current loss data, but also reasonable and supportable forward-looking information reflected by the future expectation factors. This information includes macroeconomic factors (e.g., gross domestic product growth, unemployment rate, cost performance index) and forecasts of future economic conditions. For receivables from financial services, these forecasts are performed using a scenario analysis (base case, adverse and optimistic scenarios). For trade receivables, the calculation uses a provision matrix based on historical credit loss experience. The impairment amount for trade receivables is predominantly determined on a collective basis.

A financial instrument is written off when there is no reasonable expectation of recovery, for example at the end of insolvency proceedings or after a court decision of uncollectibility.

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

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.

4 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Impairment (continued)

Non-financial assets (continued)

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

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

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

(g) Employee benefits

Other long-term employee benefit obligations

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

Termination benefits

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

Short-term employee benefits

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

Share-based payment transactions

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

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

4 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Employee benefits (continued)

Share-based payment transactions (continued)

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

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

(h) Provisions

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

Warranties

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

Legal

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

Onerous contracts

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

(i) Revenue

Goods sold

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

Revenue recognition from the sale of vehicles for which the Company enters into a repurchase obligation is dependent on the form of the repurchase agreement:
- Sales of vehicles in the form of a forward (an entity’s obligation to repurchase the asset) and a call option (an entity’s right to repurchase the asset) are reported as operating leases.
- Sales of vehicles including a put option (an entity’s obligation to repurchase the asset at the customer’s request) are reported as operating leases if the customer has a significant economic incentive to exercise that right. Otherwise a sale with a right of return is reported. The Company considers several factors when assessing whether the customer has a significant economic incentive to exercise his right. Amongst others, these are the relation between repurchase price and the expected future market value (at the time of repurchase) of the asset, or historical return rates.

4 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Revenue (continued)

Goods sold (continued)

Arrangements such as when the Company provides customers with a guaranteed minimum resale value that they receive on resale (residual-value guarantee) do not constrain the customers in their ability to direct the use of, and obtain substantially all of the benefits from, the asset. At contract inception for a sale with a residual-value guarantee, revenue therefore is recognised. However, a potential compensation payment to the customer is also considered (revenue deferral).

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

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

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

The Company uses a variety of sales promotion programs dependent on various market conditions as well as the respective product life cycles and product-related factors (such as amounts of discounts offered by competitors, excess industry production capacity, the intensity of market competition and consumer demand for the products). These programs comprise cash offers to dealers and customers as well as lease subsidies or loans at reduced interest rates which are reported as follows:
- Revenue is recognised net of sales reductions such as cash discounts and sales incentives granted.

Rental income

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

Services income

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

4 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Finance 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 rate 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.

(k) Taxation

Tax Consolidation

The Company is a wholly owned Australian subsidiary in a tax-consolidated group, with Daimler Australia/Pacific Pty Ltd as the provisional head entity. As a consequence, all members of the tax-consolidated group are taxed as a single entity.

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

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

Income tax

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

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

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

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

4 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Taxation (continued)

Income tax (continued)

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.

The Company does not distribute non-cash assets as dividends to its shareholders.

Nature of tax funding and sharing arrangements

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

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

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

(l) Segment reporting

Determination and presentation of operating segments

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

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

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

(m) 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.

5 DETERMINATION OF FAIR VALUES

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

(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 22). 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 22 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).

6 REVENUE

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

Revenue according to AASB 15 includes revenue that was deferred and included in contract liabilities at 31 December 2019 in an amount of $46.349m (2018: $41.372m)

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

On 1 January 2019, the Company acquired the net assets of Mercedes-Benz Vans Australia Pacific Pty Ltd, as a result comparability between the 2019 year and prior year will be impacted.

2019	**Cars $'000**	**Vans $'000**	**Total $'000**
Revenue according to AASB 15	2,350,144	381,860	**2,732,004**
Other revenue	803	1,906	2,709
Total revenue	**2,350,947**	**383,766**	**2,734,713**

2018	**Cars $'000**	**Vans $'000**	**Total $'000**
Revenue according to AASB 15	2,279,972	-	**2,279,972**
Other revenue	1,525	-	1,525
Total revenue	**2,281,497**	**-**	**2,281,497**

7 OTHER INCOME

	Notes	**2019 $'000**	2018 $'000
Rental income			
Employee lease program		**1,319**	1,799
Rendering of services		**331**	20,323
Other			
From other related parties	34(a), 34(c), 34(d)	**14,272**	23,921
External parties		**16,010**	3,681
Total other income		**31,932**	49,724

8 EMPLOYEE EXPENSES

		2019 $'000	2018 $'000
Wages and salaries		**(31,737)**	(27,492)
Other associated personnel expenses		**(3,990)**	(3,532)
Contributions to defined contribution plans		**(3,388)**	(2,295)
Long service leave expense		**(1,836)**	(398)
Annual leave expense		**(1,331)**	(379)
Termination benefits		**(464)**	(135)
Personnel restructuring expense		**200**	(200)
Total employee expenses		**(42,546)**	(34,431)

9 EXPENSES

(a) Cost of sales

		2019 $'000	2018 $'000
Cost of sales		**(2,571,398)**	(2,124,008)
Warranty, maintenance and repair expenses		**(5,213)**	(7,997)
Total cost of sales		**(2,576,611)**	(2,132,005)

(b) Impairment losses incurred on value of inventories

Net impairment losses	15	**(12,554)**	(2,810)

(c) Other expenses:

Operating leases		**-**	(3,989)
Loss on disposal of property, plant and equipment		**(87)**	(54)
Marketing expenses		**(41,345)**	(47,042)
Other overheads		**(16,054)**	(13,733)
Other selling costs		**(21,033)**	(9,324)
Miscellaneous other expenses		**(9,512)**	(6,298)
Demo vehicles and other selling costs		**(6,350)**	(4,753)
IT expenses		**(16,890)**	(10,341)
Roadside assistance		**(8,198)**	(3,299)
Total other expenses		**(119,469)**	(98,833)

10 AUDITORS' REMUNERATION

	2019	2018
	$	$
Audit services		
Auditors of the Company - KPMG Australia		
Audit and review of financial statements	**(431,579)**	(259,518)
Auditors of the Company - KPMG Overseas		
Audit and review of financial reports	**(30,921)**	(30,482)
	(462,500)	(290,000)

Audit and review of financial statements includes additional non-recurring audit fees in FY2019 in connection with the reorganisation of the Company's activities.

11 NET FINANCING COSTS

	Notes	**2019**	2018
		$'000	$'000
Recognised in profit or loss			
Interest income from:			
Related parties		**58,882**	88,259
External parties		**1,277**	1,349
Net unwind effect of changes in discount rates to provisions and employee benefits		**2,594**	-
Finance income		**62,753**	89,608
Interest expense from:			
Related parties		**(12,084)**	(11,776)
External parties		**(48,983)**	(65,484)
Net foreign exchange loss		**(307)**	(3,949)
Net unwind of discounting on provisions and employee benefits		**(2,031)**	(2,875)
Impairment losses incurred on value of trade receivables	14	**(720)**	(965)
Interest expense on lease payable		**(289)**	-
Finance cost		**(64,414)**	(85,049)
Net finance (costs)/income		**(1,661)**	4,559

	Notes	**2019**	2018
		$'000	$'000
Recognised in other comprehensive income			
Cash flow hedges - reclassified to profit or loss		**(92)**	-
Effective portion of changes in fair value of cash flow hedges		**-**	297
Income tax relating to these items	12	**28**	(89)
		(64)	208

12 INCOME TAX EXPENSE

	2019 $'000	2018 $'000
Current tax benefit/(expense)		
Current year	**(10,006)**	(6,512)
Adjustments for prior years	**(165)**	(1,547)
	(10,171)	(8,059)
Deferred tax benefit/(expense)		
Origination and reversal of temporary differences	**8,075**	(9,598)
Adjustments for prior years	**1,392**	331
	9,467	(9,267)
Total income tax benefit/(expense)	**(704)**	(17,326)

	2019 $'000	2018 $'000
Numerical reconciliation between tax benefit/(expense) and pre-tax net profit/(loss)		
Profit for the period	**1,355**	43,529
Total income tax expense	**704**	17,326
Profit before income tax	**2,059**	60,855
Income tax expense using the Company's domestic tax rate of 30% (2018 - 30%)	**(618)**	(18,257)
Increase/(decrease) in income tax benefit/(expense) due to:		
Non-deductible expenses	**(1,313)**	2,146
Income tax over/(under) provided in prior year	**(165)**	(1,547)
Sundry items	**1,392**	332
Income tax expense on pre-tax net profit	**(704)**	(17,326)

	2019 $'000	2018 $'000
Deferred tax recognised in other comprehensive income		
Relating to gains and losses on cash flow hedges - reclassified to profit or loss	**28**	-
Relating to gains and losses on cash flow hedges	**-**	(89)
Total deferred tax recognised in other comprehensive income	**28**	(89)

13 CASH AND CASH EQUIVALENTS

	Notes	**2019 $'000**	2018 $'000
Bank balances			
Bank balances		**66,564**	64,677
Call deposits		**120,000**	60,000
Cash and cash equivalents in the statement of cash flows	27(a)	**186,564**	124,677

The Company’s exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 22. Call deposits relate to funds with maturities of less than 3 months from inception.

14 TRADE AND OTHER RECEIVABLES

	Notes	2019 $'000	2018 $'000
Current			
Non-interest bearing			
Net trade receivables		**65,667**	67,501
Receivables due from ultimate parent entity	34(a)	**717**	5,834
Net receivables due from intermediate parent entity	34(b)	**1,125**	-
Receivables due from immediate parent entity	34(c)	**41,757**	42,715
Receivables due from other related entities	34(d)	**89,684**	491,441
Prepayments and other assets		**1,928**	14,969
		200,878	622,460
Interest bearing			
Loans due from other related entities	34(d)	**1,831,979**	1,918,244
		1,831,979	1,918,244
		2,032,857	2,540,704
Non-current			
Interest bearing			
Loans due from other related entities	34(d)	**1,325,454**	1,340,480
		1,325,454	1,340,480

Trade receivables are shown net of impairment losses. Impairment losses on trade receivables recognised in the current year amount to $720,264 (2018: $965,840) and relate to a high probability of not collecting debts from a number of customers (refer Note 11).

The Company's exposure to credit risk for financial assets is disclosed in Note 22.

15 INVENTORIES

	2019 $'000	2018 $'000
Work in progress	**28**	7,367
Finished goods	**435,533**	265,665
Goods in transit	**518,862**	420,393
	954,423	693,425
Finished goods – at cost	**287,791**	213,307
Finished goods – at net realisable value	**147,742**	52,358
	435,533	265,665

During the year consumables and changes in finished goods recognised as cost of sales amounted to $2.577 billion (2018: $2.132 billion). Inventory write-downs of $14.454 million (2018: $2.810 million) were booked during the year and inventory write-downs of $1.900 million made in previous periods were reversed during the year (2018: nil), primarily relating to obsolete parts stock and vehicle provisions (refer 9(b)). Inventories are shown net of impairment losses.

16 INTANGIBLE ASSETS

	Software development costs $'000
Cost	
Balance at 1 January 2018	3,549
Acquisitions	587
Transfers	1,461
Balance at 31 December 2018	5,597
Balance at 1 January 2019	5,597
Acquisitions	167
Transfers	(2)
Disposals	(76)
Balance at 31 December 2019	5,686
Amortisation and impairment losses	
Balance at 1 January 2018	(365)
Amortisation charge for the year	(998)
Transfers	-
Disposals	-
Balance at 31 December 2018	(1,363)
Balance at 1 January 2019	(1,363)
Amortisation charge for the year	(1,096)
Transfers	-
Disposals	59
Balance at 31 December 2019	(2,400)
Carrying amounts	
Balance at 1 January 2018	3,184
Balance at 31 December 2018	4,234
Balance at 1 January 2019	4,234
Balance at 31 December 2019	3,286

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

17 PROPERTY, PLANT AND EQUIPMENT

	Land and improvements $'000	Buildings $'000	Plant and equipment* $'000	Assets under construction $'000	Total $'000
Cost					
Opening net book amount 2018	2,101	34,295	59,410	4,564	100,370
Acquisitions	-	945	59,286	201	60,432
Transfers	-	2,860	237	(4,559)	(1,462)
Disposals	-	-	(71,299)	-	(71,299)
Balance at 31 December 2018	2,101	38,100	47,634	206	88,041
Cost					
Opening net book amount 2019	2,101	38,100	47,634	206	88,041
Recognition of right-of-use asset on initial application of IFRS 16	-	-	12,445	-	12,445
Acquired from Mercedes-Benz Vans	-	-	8,285	-	8,285
Acquisitions	-	439	54,811	-	55,250
Transfers	-	158	(171)	15	2
Disposals	-	-	(61,828)	(185)	(62,013)
Balance at 31 December 2019	2,101	38,697	61,176	36	102,010
Depreciation					
Balance at 1 January 2018	(87)	(16,611)	(8,956)	-	(25,654)
Depreciation charge for the year	-	(1,589)	(4,259)	-	(5,848)
Disposals	-	-	4,652	-	4,652
Balance at 31 December 2018	(87)	(18,200)	(8,563)	-	(26,850)
Depreciation					
Balance at 1 January 2019	(87)	(18,200)	(8,563)	-	(26,850)
Acquired from Mercedes-Benz Vans	-	-	(2,027)	-	(2,027)
Depreciation charge for the year	-	(1,623)	(9,026)	-	(10,649)
Disposals	-	-	7,326	-	7,326
Balance at 31 December 2019	(87)	(19,823)	(12,290)	-	(32,200)

17 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land and improvements $'000	Buildings $'000	Plant and equipment* $'000	Assets under construction $'000	Total $'000
Carrying amounts					
Balance at 1 January 2018	2,014	17,684	50,454	4,564	74,716
Balance at 31 December 2018	2,014	19,900	39,071	206	61,191
Balance at 1 January 2019	2,014	19,900	39,071	206	61,191
Balance at 31 December 2019	2,014	18,874	48,886	36	69,810

17 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

* included in 'Plant and equipment' are right-of-use assets. Please refer to Note 29.

Assets under construction

Assets under construction at reporting date totalling $0.036 million (2018: $0.206 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. The written down value of the vehicles under operating leases is $34.441 million (2018: $33.473 million). Additions for plant and equipment amounting to $54.095 million (2018: $56.282 million) related to the new operating lease arrangements entered into by MBFSAu with their external customers. These additions are reflected as non-cash acquisitions as prior to the operating lease arrangements being entered into, these vehicles have been purchased as inventory as part of the normal operating activities of the Company.

Similarly, disposals of plant and equipment with an initial acquisition cost of $60.940 million (2018: $70.704 million) and a carrying value of $54.433 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.

18 TAX ASSETS AND LIABILITIES

Recognised deferred tax assets

Net deferred tax assets are attributable to the following:

	2019 $'000	2018 $'000
Recognised deferred tax assets		
Provisions and contract liabilities	**98,324**	63,600
Employee benefits	**4,186**	3,620
Payable to other related entities	**9,682**	10,499
Provision for impairment losses	**213**	92
Provision for diminution of inventories	**7,177**	2,843
Depreciation timing differences	**763**	742
Other payables	**2,758**	2,255
Derivative financial instruments	**-**	(28)
Operating leases as lessor	**(9,417)**	(10,042)
Prepayments	**132**	133
Profit deferral for tax purposes	**(31,126)**	(13,921)
Other items	**83**	162
Net deferred tax assets	**82,775**	59,955

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

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

At 31 December 2019 the Company had an intercompany receivable of $29.253 million (2018: receivable of $35.918 million) relating to a current tax receivable assumed by the provisional head company which is included in Trade and other receivables (refer to Note 14).

18 TAX ASSETS AND LIABILITIES (CONTINUED)

Recognised deferred tax assets (continued)

Movement in temporary differences during the year

2019

	Balance at 1 January 2019 $'000	MBV Acquisition $'000	Recognised in income $'000	Recognised in other comprehensive income $'000	Balance at 31 December 2019 $'000
Provisions and contract liabilities	63,600	17,655	17,069	-	98,324
Employee benefits	3,620	417	149	-	4,186
Payable to other related entities	10,499	1,998	(2,815)	-	9,682
Provision for impairment losses	92	39	82	-	213
Provision for diminution of inventories	2,843	584	3,750	-	7,177
Depreciation timing differences	742	(1)	22	-	763
Other payables	2,255	449	54	-	2,758
Derivative financial instruments	(28)	-	-	28	-
Operating leases as lessor	(10,042)	(1,843)	2,468	-	(9,417)
Prepayments	133	89	(90)	-	132
Profit deferral for tax purposes	(13,921)	(6,107)	(11,098)	-	(31,126)
Other items	162	45	(124)	-	83
Deferred tax assets/(liabilities)	59,955	13,325	9,467	28	82,775

18 TAX ASSETS AND LIABILITIES (CONTINUED)

Recognised deferred tax assets (continued)

Movement in temporary differences during the year (continued)

	2018			
	Balance at 1 January 2018 $'000	Recognised in income $'000	Recognised in other comprehensive income $'000	Balance at 31 December 2018 reinstated $'000
Provisions and contract liabilities	76,738	(13,138)	-	63,600
Employee benefits	2,285	1,335	-	3,620
Payable to other related entities	14,947	(4,448)	-	10,499
Provision for impairment losses	38	54	-	92
Provision for diminution of inventories	1,726	1,117	-	2,843
Depreciation timing differences	688	54	-	742
Other payables	2,371	(116)	-	2,255
Derivative financial instruments	61	-	(89)	(28)
Operating leases as lessor	(13,955)	3,913	-	(10,042)
Prepayments	59	74	-	133
Profit deferral for tax purposes	(15,685)	1,764	-	(13,921)
Other items	38	124	-	162
Deferred tax assets/(liabilities)	69,311	(9,267)	(89)	59,955

19 TRADE AND OTHER PAYABLES

	Notes	2019 $'000	2018 $'000
Current			
Trade payables		**46,391**	59,785
Payable to ultimate parent entity	34(a)	**4,699**	326,307
Payable to intermediate entity	34(b)	**413,527**	-
Payable to immediate parent entity	34(c)	**794**	219
Payable to other related entities	34(d)	**57,303**	69,314
Other payables		**36,468**	46,426
Contract liabilities		**144,057**	102,898
		703,239	604,949
Non-current			
Payable to other related entities	34(d)	**1,794**	44
Contract liabilities		**37,579**	32,128
		39,373	32,172

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 22.

20 LOANS AND BORROWINGS

	Notes	2019 $'000	2018 $'000
Current			
Bank loans (secured)	20(b)	**400,000**	1,075,000
Notes (secured)	20(c)	**1,005,162**	512,175
Commercial papers (secured)	20(d)	**202,825**	279,463
Loan from ultimate parent entity	34(a), 20(e)	**-**	154,925
Loan from immediate parent entity	20(f), 34(c)	**141,573**	-
Loans from other related entity	20(g), 34(d)	**-**	2,425
Lease liabilities	20(h)	**3,023**	-
		1,752,583	2,023,988
Non-current			
Notes (secured)	20(c)	**1,325,454**	1,340,480
Lease liabilities	20(h)	**6,564**	-
		1,332,018	1,340,480

20 LOANS AND BORROWINGS (CONTINUED)

	Notes	**2019 $'000**	2018 $'000
The Company has access to the following lines of credit:			
Bank overdraft (unsecured)	20(a)	**50,000**	50,000
Bank loans (secured)	20(b)	**1,895,000**	2,295,000
Notes (secured)	20(c)	**2,330,616**	1,852,655
Commercial papers (secured)	20(d)	**202,825**	279,463
Loans from ultimate parent entity	20(e)	**-**	154,925
Loans from immediate parent entity	20(f)	**141,573**	-
Loans from other related entity	20(g)	**-**	2,425
Lease liabilities	20(h)	**9,587**	-
		4,629,601	4,634,468

	Notes	**2019 $'000**	2018 $'000
Facilities utilised at reporting date			
Bank loans (secured)	20(b)	**400,000**	1,075,000
Notes (secured)	20(c)	**2,330,616**	1,852,655
Commercial papers (secured)	20(d)	**202,825**	279,463
Loans from ultimate parent entity	20(e)	**-**	154,925
Loans from immediate parent entity	20(f)	**141,573**	-
Loans from other related entity	20(g)	**-**	2,425
Lease liabilities	20(h)	**9,587**	-
		3,084,601	3,364,468

	Notes	**2019 $'000**	2018 $'000
Facilities not utilised at reporting date			
Bank overdraft (unsecured)	20(a)	**50,000**	50,000
Bank loans (secured)	20(b)	**1,495,000**	1,220,000
		1,545,000	1,270,000

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

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

Non-current portion of Notes are payable on or before 11 November 2022, but after one year from the balance sheet date of these financial statements.

The Company’s exposure to credit, liquidity and market rate risks and a sensitivity analysis for financial assets and liabilities are disclosed in Note 22.

20 LOANS AND BORROWINGS (CONTINUED)

(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 2019 which are guaranteed by the ultimate parent entity:

Currency of Loan	Value of loan	Due Date	Interest re-pricing
AUD	245,000,000	Jan-20	On maturity
AUD	55,000,000	Jan-20	On maturity
AUD	100,000,000	Jan-20	On maturity

All of the $400m that matured during January 2020 were subsequently refinanced on similar terms.

(c) Notes (secured)

The Company has authorised the following note issues outstanding at 31 December 2019 denominated in EUR and AUD which are guaranteed by the ultimate parent entity:

Currency	Value of Notes	Due Date	On-lending	Interest re-pricing
EUR	200,000,000	Mar-20	EUR	Quarterly
EUR	100,000,000	May-20	EUR	Quarterly
EUR	125,000,000	Aug-20	EUR	Yearly
EUR	100,000,000	Mar-21	EUR	Quarterly
EUR	150,000,000	Aug-21	EUR	Quarterly
EUR	125,000,000	Nov-21	EUR	Quarterly
AUD	125,000,000	Mar-20	-	On maturity
AUD	100,000,000	Jun-20	-	On maturity
AUD	100,000,000	Nov-20	-	On maturity
AUD	100,000,000	Jan-21	-	On maturity
AUD	125,000,000	Mar-21	-	On maturity
AUD	100,000,000	Aug-21	-	On maturity
AUD	150,000,000	Mar-22	-	On maturity
AUD	150,000,000	Aug-22	-	On maturity
AUD	100,000,000	Nov-22	-	On maturity

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

All issues are listed on the Luxembourg Stock Exchange and guaranteed by Daimler AG. Interest rates on AUD fixed interest notes are agreed at the inception of the notes. Interest rates on EUR floating interest notes are agreed at the inception of the notes and re-priced on a quarterly or yearly basis. Average interest rates are set out in Note 22.

20 LOANS AND BORROWINGS (CONTINUED)

(d) Commercial papers (secured)

The Company has authorised the following commercial papers issues outstanding at 31 December 2019 denominated in AUD which are guaranteed by the ultimate parent entity:

Currency	Value of Commercial Papers	Due Date	Interest re-pricing
AUD	60,000,000	Jan-20	On maturity
AUD	55,000,000	Jan-20	On maturity
AUD	15,000,000	Jan-20	On maturity
AUD	55,000,000	Jan-20	On maturity
AUD	3,000,000	Feb-20	On maturity
AUD	15,000,000	Feb-20	On maturity

All of the $203m that matured in January and February 2020 were subsequently refinanced on similar terms, and have since matured and been repaid.

(e) Loans from ultimate parent entity

All issues are from Daimler AG (refer Note 34(a)). Interest rates on related party loans are re-priced annually to market rates as indicated. Interest rates on fixed interest related party loans are agreed at the inception of the loans.

(f) Loans from immediate parent entity

The Company has authorised the following loans outstanding at 31 December 2019 denominated in AUD from the immediate parent entity:

Currency	Value of Loan	Due Date	Interest re-pricing
AUD	141,573,360	Jan-20	On maturity

Loans from immediate parent entity are related to the cash pool balance outstanding as of 2019.

(g) Loans from other related entity

Loans from other related entities is related to the cash pool balance with parties within the tax group under the cash pooling arrangements with the Company. There is no outstanding balance as at 31 December 2019.

(h) Lease liabilities

The Company has the below outstanding lease liabilities at 31 December 2019 denominated in AUD:

	2019 $'000
Not later than one year	**3,023**
Later than one year or not later than five years	**5,863**
Later than five years	**701**
	9,587

21 DERIVATIVE FINANCIAL INSTRUMENTS

	2019* **$'000**	2018 $'000
Derivative Assets		
Current		
Cross currency swap contracts - cash flow hedges	-	15,130
Foreign exchange swap contracts - cash flow hedges	-	4,604
Interest rate swap contracts - cash flow hedges	-	75
Interest rate swap contracts - fair value hedges	-	391
	-	20,200
Non-current		
Interest rate swap contracts - cash flow hedges	-	290
	-	290
Derivative Liabilities		
Current		
Interest rate swap contracts - cash flow hedges	-	75
Interest rate swap contracts - fair value hedges	-	391
	-	466
Non-current		
Interest rate swap contracts - cash flow hedges	-	290
	-	290

During the reporting period, the Company changed its hedging strategy to hedge its foreign currency and interest rate risk. Prior to the change, the borrowing is hedged using forward exchange contracts and currency swaps while the interest rate is hedged using interest rate swaps. After the change, the borrowings will be hedged using a foreign currency deposit rather than derivatives and there will be no more floating interest. As a result, the Company has nil derivative financial instruments as at 31 December 2019.

The Company's exposure to credit, liquidity and market rate risks and a sensitivity analysis for financial assets and liabilities are disclosed in Note 22. Contracts are classified as current where maturity dates are less than 12 months. All other contracts are classified as non-current.

22 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 2019 the long-term credit rating of Daimler AG was as follows:

Standard & Poor's	A-
Moody's	A-3
Fitch	A-

In the prior year 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:

	Notes	**2019 $'000**	2018 $'000
Trade and other receivables	14	**3,358,311**	3,881,184
Cash and cash equivalents	13	**186,564**	124,677
Derivative financial instruments		**-**	20,490
		3,544,875	4,026,351

22 FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

Exposure to credit risk (continued)

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

At reporting date 85% (2018: 83%) of trade and other receivables related to a related party, Mercedes-Benz Financial Services Australia Pty Ltd. Other than this, there were no significant concentrations of credit risk relating to the Company's trade and other receivables.

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

	2019 $'000	2018 $'000
Australia	**3,353,898**	3,874,695
Europe	**2,027**	5,978
New Zealand	**2,237**	503
Asia	**149**	8
	3,358,311	3,881,184

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

	2019 $'000	2018 $'000
Wholesale customers	**3,358,311**	3,881,184

Impairment losses

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

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

	2019 $'000	2018 $'000
Balance at 1 January	**305**	124
Impairment losses recognised / (reversed)	**720**	965
Allowance (utilised) / amount recovered	**(318)**	(784)
Balance at 31 December	**707**	305

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 customers (refer Note 14).

22 FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

Impairment losses (continued)

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

	2019		2018	
	Gross $'000	Impairment $'000	Gross $'000	Impairment $'000
Not past due	**3,302,158**	**(97)**	**3,868,421**	**-**
Past due 1-30 days	**51,439**	**(128)**	**12,359**	**-**
Past due 30-60 days	**3,574**	**(76)**	**-**	**-**
Past due 60-90 days	**255**	**(6)**	**164**	**-**
Past due 90-120 days	**310**	**(16)**	**60**	**-**
Past due 120+ days	**1,282**	**(384)**	**485**	**(305)**
	3,359,018	**(707)**	**3,881,489**	**(305)**

Liquidity risk

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

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

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

22 FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

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

2019 $'000	Notes	Carrying amount $'000	Contractual cash flows $'000	1 year or less $'000	1 to 2 years $'000	2 to 5 years $'000	More than 5 years $'000
Non derivative financial assets							
Trade and other receivables	14	**3,358,311**	**3,412,359**	**2,039,502**	**949,419**	**423,438**	**-**
Non derivative financial liabilities							
Bank loans (secured)	20	**(400,000)**	**(400,330)**	**(400,330)**	**-**	**-**	**-**
Notes issued (secured)	20	**(2,330,616)**	**(2,379,662)**	**(1,006,856)**	**(949,368)**	**(423,438)**	**-**
Commercial papers (secured)	20	**(202,825)**	**(203,000)**	**(203,000)**	**-**	**-**	**-**
Loans from immediate parent entity	20	**(141,573)**	**(141,573)**	**(141,573)**	**-**	**-**	**-**
Lease liabilities	20	**(9,587)**	**(10,103)**	**(3,235)**	**(3,325)**	**(2,834)**	**(709)**
Trade and other payables	19	**(544,726)**	**(544,726)**	**(542,932)**	**(1,794)**	**-**	**-**
		(3,629,327)	**(3,679,394)**	**(2,297,926)**	**(954,487)**	**(426,272)**	**(709)**

The Company changed its hedging strategy and is not using derivative instruments during the reporting period. As a result, there are no more derivative balances recognised.

22 FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

2018 $'000	Notes	Carrying amount $'000	Contractual cash flows $'000	1 year or less $'000	1 to 2 years $'000	2-5 years $'000	More than 5 years $'000
Non derivative financial assets							
Trade and other receivables	14	3,881,184	3,882,744	2,541,586	1,016,158	325,000	-
Non derivative financial liabilities							
Bank loans (secured)	20	(1,075,000)	(1,075,000)	(1,075,000)	-	-	-
Notes issued (secured)	20	(1,852,655)	(1,853,500)	(512,342)	(1,016,158)	(325,000)	-
Loans from other related entities	20	(2,425)	(2,425)	(2,425)	-	-	-
Commercial papers (secured)	20	(279,463)	(280,000)	(280,000)	-	-	-
Loans from ultimate parent entity	20	(154,925)	(154,918)	(154,918)	-	-	-
Trade and other payables	19	(481,239)	(481,239)	(481,195)	(44)	-	-
		(3,845,707)	(3,847,082)	(2,505,880)	(1,016,202)	(325,000)	-
Derivative financial assets							
Interest rate swap contracts – cash flow hedges	21	365	-	-	-	-	-
Interest rate swap contracts – fair value hedges	21	391	-	-	-	-	-
Cross currency swap - cash flow hedges							
Receive legs	21	15,130	162,400	162,400	-	-	-
Pay legs		-	(146,037)	(146,037)	-	-	-
Foreign exchange swap contracts - no hedge accounting							
Receive legs	21	4,604	155,141	155,141	-	-	-
Pay legs		-	(150,307)	(150,307)	-	-	-
		20,490	21,197	21,197	-	-	-
Derivative financial liabilities							
Interest rate swap contracts – cash flow hedges	21	(365)	-	-	-	-	-
Interest rate swap contracts – fair value hedges	21	(391)	-	-	-	-	-
		(756)	-	-	-	-	-

22 FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk

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

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

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

	2019				
	AUD $'000	**EURO €'000**	**USD $'000**	**SGD $'000**	**NZD $'000**
Non derivative financial assets					
Cash and cash equivalents	**186,564**	**-**	**-**	**-**	**-**
Trade receivables	**65,667**	**-**	**-**	**-**	**-**
Receivables due from ultimate parent entity	**1,094**	**468**	**-**	**-**	**-**
Receivables due from immediate parent entity	**41,757**	**-**	**-**	**-**	**-**
Loans and other receivables due from other related entities	**1,963,853**	**800,351**	**-**	**-**	**-**
Prepayments and other assets	**1,928**	**-**	**-**	**-**	**-**
	2,260,863	**800,819**	**-**	**-**	**-**
Non derivative financial liabilities					
Bank loans (secured)	**(400,000)**	**-**	**-**	**-**	**-**
Notes issued (secured)	**(1,047,914)**	**(800,000)**	**-**	**-**	**-**
Commercial papers (secured)	**(202,825)**	**-**	**-**	**-**	**-**
Trade and other payables	**(538,964)**	**(1,478)**	**(56)**	**(2,978)**	**(191)**
	(2,189,703)	**(801,478)**	**(56)**	**(2,978)**	**(191)**
Net Currency Exposure	**71,160**	**(659)**	**(56)**	**(2,978)**	**(191)**

The Company changed its hedging strategy and is not using derivative instruments during the reporting period. As a result, there are no more derivative balances recognised.

22 FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk (continued)

	2018				
	AUD $'000	EURO €'000	USD $'000	SGD $'000	NZD $'000
Non derivative financial assets					
Cash and cash equivalents	124,677	-	-	-	-
Trade receivables	67,383	73	-	-	-
Receivables due from ultimate parent entity	846	379	3,088	-	-
Receivables due from immediate parent entity	42,715	-	-	-	-
Loans and other receivables due from other related entities	3,057,557	427,013	-	-	-
Prepayments and other assets	14,969	-	-	-	-
	3,308,147	427,465	3,088	-	-
Non derivative financial liabilities					
Bank loans (secured)	(1,075,000)	-	-	-	-
Notes issued (secured)	(997,878)	(525,000)	-	-	-
Commercial papers (secured)	(279,463)	-	-	-	-
Loans from ultimate parent entity	-	(95,515)	-	-	-
Loans from other related parties	(2,425)	-	-	-	-
Trade and other payables	(469,769)	(1,866)	(3,997)	(2,674)	-
	(2,824,535)	(622,381)	(3,997)	(2,674)	-
Derivative financial assets					
Cash flow hedges					
Cross currency swap					
Receive legs	-	100,000	-	-	-
Pay legs	(147,340)	-	-	-	-
Foreign exchange swap contracts					
Receive legs	-	95,516	-	-	-
Pay legs	(150,433)	-	-	-	-
Interest rate swap contracts					
Receive legs	775,000	-	-	-	-
Pay legs	(775,000)	-	-	-	-
Fair value hedges					
Interest rate swap contracts					
Receive legs	125,000	-	-	-	-
Pay legs	(125,000)	-	-	-	-
	(297,773)	195,516	-	-	-

22 FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk (continued)

	2018				
	AUD $'000	EURO €'000	USD $'000	SGD $'000	NZD $'000
Derivative financial liabilities					
Cash flow hedges					
Interest rate swap contracts					
Receive legs	775,000	-	-	-	-
Pay legs	(775,000)	-	-	-	-
Fair value hedges					
Receive legs	125,000	-	-	-	-
No hedge accounting					
Interest rate swap contracts					
Receive legs	-	-	-	-	-
Pay legs	(125,000)	-	-	-	-
	-	-	-	-	-
Net Currency Exposure	185,839	600	(909)	(2,674)	-

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

	Average rate		Reporting date spot rate	
	2019	2018	**2019**	2018
AUD:EURO	**0.621**	0.633	**0.625**	0.617
AUD:NZD	**1.055**	1.080	**1.041**	1.052
AUD:USD	**0.695**	0.748	**0.702**	0.706
AUD:SGD	**0.948**	1.008	**0.945**	0.961

Sensitivity analysis

A 10 percent strengthening or weakening of the Australian dollar against the following currencies at 31 December 2019 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 2018.

	2019		**2018**	
	Profit or loss		**Profit or loss**	
	$'000	**$'000**	$'000	$'000
	10% increase	**10% decrease**	10% increase	10% decrease
AUD:EURO	**96**	**(117)**	(88)	108
AUD:NZD	**17**	**(20)**	-	-
AUD:USD	**7**	**(9)**	117	(143)
AUD:SGD	**287**	**(350)**	253	(309)

22 FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk (continued)

Sensitivity analysis (continued)

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.

Interest Rate Risk

During the reporting period, the Company changed its hedging strategy to hedge its interest rate risk. Prior to the change, the interest rate is hedged using interest rate swaps. Moving forward, there will be no more floating interest.

Interest sensitivity analysis

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

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

The following table shows the period-end high, low and average value-at-risk ("VaR") figures for the 2019 and 2018 portfolio of interest rate sensitive financial instruments. VaR numbers reflect the quantified net fair value movements on the hedged loan payables balances. Average exposure has been computed on an end of quarter basis:

	Period-end $'000	High $'000	Low $'000	Average $'000
Interest rate risk				
2019	**2,502**	**2,609**	**2,126**	**2,349**
2018	**1,955**	**2,118**	**1,383**	**1,739**

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

Hedging

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

The Company uses foreign currency deposits to hedge its foreign currency risk. Previously, the borrowing is hedged using forward exchange contracts and currency swaps. Most of these contracts have maturities that are on the same dates as the loans are due for repayment.

22 FINANCIAL INSTRUMENTS (CONTINUED)

Hedging (continued)

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

Gains and losses on revaluation of fair value hedges and their related notes or receivables are recorded in profit or loss as part of net financing costs (Note 11).

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 11).

The Company has EUR denominated notes and loans (Note 20). The Company has fully hedged the principal amounts using foreign currency deposits that mature on the same dates as the loans are due for repayment.

Fair values

Fair value versus carrying amounts

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

All financial assets and liabilities carried at fair value are based on Level 2 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).

Interest rates used for determining fair value

The entity uses the implied zero coupon yield curve as of 31 December 2019 to discount financial instruments holding credit margins constant. The interest rates used have been consistently applied using rates between 0.75% and 0.95% (2018: between 2.14% and 1.50%).

	2019		2018	
	Carrying amount $'000	**Fair value $'000**	Carrying amount $'000	Fair value $'000
Non derivative financial assets				
Loans due from other related entities	**3,157,433**	**3,156,599**	3,258,724	3,259,351
Non derivative financial liabilities				
Bank loans (secured)	**(400,000)**	**(400,234)**	(1,075,000)	(1,075,744)
Notes (secured)	**(2,330,616)**	**(2,329,608)**	(1,852,655)	(1,851,348)
Commercial papers (secured)	**(202,825)**	**(203,000)**	(279,463)	(279,525)
Loans from ultimate parent entity	**-**	**-**	(154,925)	(154,918)
Loans from immediate parent entity	**(141,573)**	**(141,572)**	-	-
Loans from other related entity	**-**	**-**	(2,425)	(2,425)
Lease liabilities	**(9,587)**	**(9,587)**	-	-

The basis of determining fair values is disclosed in Note 5.

22 FINANCIAL INSTRUMENTS (CONTINUED)

Derivatives

Due to the change of the hedging strategy of the Company, there are no more derivatives recognised at the end of the reporting period.

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:

	2019 $'000	2018 $'000
Total liabilities	**3,994,089**	4,099,056
Less: cash and cash equivalents	**(186,564)**	(124,677)
Net debt	**3,807,525**	3,974,379
Total equity	**661,080**	746,100
Less: amounts accumulated in equity relating to cash flow hedges	**-**	64
Adjusted capital	**661,080**	746,036
Debt-to-adjusted capital ratio	**5.76**	5.33

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.

23 EMPLOYEE BENEFITS

	2019 $'000	2018 $'000
Current		
Liability for annual leave	**2,382**	1,771
Liability for long service leave	**6,030**	600
Cash settled share-based payment liability	**42**	66
Other employee-related liabilities	**-**	200
	8,454	2,637
Non-current		
Liability for long service leave	**355**	4,400
Cash settled share-based payment liability	**177**	91
	532	4,491

Share based payments

Performance Phantom Share Plan

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

As at 31 December 2019, the carrying amount of the liability recognised for the entitlements granted is $218,753 (2018: $157,190).

The number of phantom shares on-issue by Daimler AG to key management personnel of the Company as at 31 December 2019 was 8,278 (2018: 5,813).

24 PROVISIONS

	Warranty $'000	Legal $'000	Other $'000	Total $'000
Balance at 1 January 2019	69,592	177	18,988	88,757
Transferred from Mercedes-Benz Vans	27,657	-	10,461	38,118
Provisions made during the year	34,241	256	46,734	81,231
Provisions used during the year	(28,256)	(292)	(23,855)	(52,403)
Net unwind of discount	(880)	-	(33)	(913)
Balance at 31 December 2019	102,354	141	52,295	154,790
Current	33,448	141	47,586	81,175
Non-current	68,906	-	4,709	73,615
Total	102,354	141	52,295	154,790

24 PROVISIONS (CONTINUED)

Warranties

The provision for warranties relates primarily to vehicles sold during the five years to 31 December 2019. 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, $5.213 million was recognised as an expense in cost of sales (2018: $7.997 million) (refer to Note 9).

Legal

The legal provision as at 31 December 2019 relates to legal actions in relation to product liability and other contractual matters in the ordinary course of business.

Other provisions

Other provisions as at 31 December 2019 includes provisions of $4.13m for maintenance and repairs that are dependent on the number of vehicles covered by maintenance and repair contracts; $4.14m of bonus provisions to be paid out in March 2020; $2.42m of buyback provision to cover any expected loss (between the residual value guarantee and the wholesale selling price) when repurchasing the vehicle and $28.38m relates to alternative transport provision and administration costs (refer to the below). Due to certain homologation and certification issues impacting some diesel variants of passenger cars and vans, these vehicles were not permitted for sale as regulated by the Department of Infrastructure, Transport, Regional Development and Communications (DIRDC - the local regulator) and/or the Kraftfahrt-Bundesamt (KBA - Federal Motor Transport Authority in Germany) until necessary software updates were completed to allow for rectification of the issue. A provision of $9.07m has been recognised for additional storage costs associated with the extended period of holding until the vehicles are permitted for sale once again.

Due to a lack of spare parts availability, the Company failed to initiate a recall of certain C-class and E-class vehicles with faulty Takata airbags, in accordance with the timeframe required under the Takata compulsory recall. The Australian Competition and Consumer Commission (ACCC) has accepted an undertaking from the Company to provide certain impacted consumers (in certain circumstances) with alternative transport until the necessary recall can be performed. The alternative transport provision provided amounts to $26.38m for the year ended 31 December 2019.

25 DEFERRED INCOME

	Notes	2019 $'000	2018 $'000
Current			
Deferred income attributable to other related entities	34(d)	**1,479**	343
Other deferred income		**205**	476
		1,684	819
Non-current			
Deferred income attributable to other related entities	34(d)	**160**	7
Other deferred income		**1,256**	-
		1,416	7

26 CAPITAL AND RESERVES

Share capital

	2019 $'000	2018 $'000
Issued and paid-up share capital 35,000,000 fully paid ordinary shares of $2 par value each (2018: 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.

Dividends

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

Dividends totalling $100 million were declared in the year ended 31 December 2019 (2018: $200 million). Of the total dividend disclosed, $100 million was a cash distribution to its immediate parent (2018: $200 million).

	Cents per share	Total amount $	Franked/ unfranked	Date of payment
Final 2019 ordinary dividend	285.71	$100,000,000.00	Unfranked	14.06.2019

27 NOTES TO THE STATEMENT OF CASHFLOWS

(a) Reconciliation of cash

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

	Notes	**2019 $'000**	2018 $'000
Cash and cash equivalents	13	**186,564**	124,677

(b) Reconciliation of cash flows from operating activities

	Notes	**2019 $'000**	2018 $'000
Profit for the period		**1,355**	43,529
Adjustments for			
(Gain)/loss on sale of property, plant and equipment	7, 9(c)	**87**	54
Amortisation	16	**1,096**	998
Depreciation expenses	17	**10,649**	5,848
Impairment losses	9	**12,554**	2,810
Foreign exchange (gains)/losses	11	**307**	3,949
Income tax expense	12	**704**	17,327
Operating profit before changes in working capital		**26,752**	74,515
Change in assets and liabilities during the financial year			
(Increase)/decrease in trade and other receivables		**412,935**	(4,696)
(Increase)/decrease in inventories		**(273,552)**	(169,790)
Increase/(decrease) in trade and other payables		**115,289**	(59,380)
Increase/(decrease) in provisions		**67,892**	(25,488)
Net cash from operating activities		**349,316**	(184,839)
Net interest paid		**5,081**	(1,303)
Income taxes received / (paid)		**(1,877)**	(39,737)
Net cash inflow (outflow) from operating activities		**352,520**	(225,879)

28 SEGMENT INFORMATION

Due to the acquisition of the net assets for the Mercedes-Benz Vans Australia/Pacific Pty Ltd, determination of operating segments have been re-assessed and comparatives restated.

The Company comprises the following main business segments:

- Passenger Cars: The importation, marketing and distribution of passenger motor vehicles and their components.
- Vans: The importation, marketing and distribution of light commercial motor vehicles and their components.

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.

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

28 SEGMENT INFORMATION (CONTINUED)

2018	Passenger cars $'000	Vans $'000	Corporate items $'000	Total $'000
Revenue	2,281,497	-	-	2,281,497
Other income	49,724	-	-	49,724
Total inter-segment revenue	2,331,221	-	-	2,331,221
Depreciation & amortisation	(6,846)	-	-	(6,846)
Reportable segment profit/(loss) before tax	60,855	-	-	60,855
Reportable segment assets	831,307	-	4,013,849	4,845,156
Reportable segment liabilities	354,372	-	3,744,684	4,099,056
Capital expenditure	(4,755)	-	-	(4,755)
Impairment reversal/(losses)	(2,810)	-	-	(2,810)

29 LEASES

Leases as lessee

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

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

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

(a) Amounts recognised in the statement of financial position

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

	2019 $'000
Right-of-use assets	
Balance at January 1	**12,445**
Depreciation charge for the year	**(3,045)**
Balance at 31 December	**9,400**

* included in the line item 'plant and equipment within Note 17 ‘Property, plant and equipment’.

29 LEASES (CONTINUED)

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

	2019 $'000
Lease liabilities *	
Current	**3,023**
Non-current	**6,564**
	9,587

* included in the line item 'loans and borrowings' in the balance sheet. As indicated in note 3, the Company has adopted AASB 16 Leases using the simplified approach from 1 January 2019, as permitted under the specific transition provisions in the standard. Comparatives for the 2018 financial year have therefore not been restated.

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

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

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

(c) Amounts recognised in the statement of cash flows

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

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

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 $4.83 million (2018: $3.20 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.

29 LEASES (CONTINUED)

Residual value guarantees for operating leases (continued)

Deferred income, representing the excess of the amount financed over the amount guaranteed, is also recorded by the Company and amortised over a straight line basis over the term of the leases. During the year the Company recorded approximately $2.709 million (2018: $1.525 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 19.

30 CONTINGENCIES

(a) The Company has arranged for its bankers to guarantee its performance to third parties. The used portion of the guarantee is $0.466 million (2018: $0.466 million) and the maximum amount of the guarantee available is $0.466 million (2018: $0.466 million). The Company has also arranged for its ultimate parent entity to guarantee its performance to certain customers to a maximum of $7.8 million (2018: $7.8 million). This facility is fully available and not used at the reporting date (2018: nil).

(b) The Company is involved in a number of legal actions relating to product liability and other contractual matters in the ordinary course of business. These are being contested and where it is probable that a liability will arise, a provision has been made in these accounts for estimated legal costs and settlements of potential claims. Please refer to Note 24.

(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 provisional head entity defaults in its payment obligations to the Australian Tax Office. The provisional head entity has not been in default of its payment obligations and the directors are of the opinion that the probability of default is remote.

(d) The Company recently discovered that 607 Mercedes-Benz vehicles fitted with affected Takata airbags (that should have been recalled under the Takata compulsory recall) were sold in Australia by the Company or its dealers. At the time of discovery, none of these vehicles had been recalled as required by the Recall notice. Upon discovery, the Company promptly reported the matter to the Australian Competition and Consumer Commission (ACCC) and recalled the vehicles. The position that the ACCC will take in relation to this matter is not presently known.

31 PARENT ENTITY

The ultimate parent entity of the Company is Daimler AG incorporated in the Federal Republic of Germany. The immediate parent entity of the Company is Daimler Australia/Pacific Pty Ltd, a company incorporated in Australia. On 1 November 2019, as a result of Project Future organisational changes, a newly incorporated company named Mercedes-Benz AG (incorporated in the Federal Republic of Germany) wholly owned by Daimler AG became the immediate parent entity of Daimler Australia/Pacific Pty Ltd. This entity is reported as the intermediate parent entity of the Company.

32 ECONOMIC DEPENDENCY

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

33 KEY MANAGEMENT PERSONNEL

The names of each person holding the position of director of the Company during the financial year are Mr H. von Sanden, Mr V. Malzahn, Mr S. McHutchon (Commenced 1 January 2019) and Ms D. Tarr (Commenced 1 January 2019). Apart from the Company's Directors, the Company's key management personnel during the year include Mr P. Grogan, Director of Human Resources, Mr B. Lee, General Counsel & Company Secretary (Resigned 31 January 2019) and Ms B. Maiden, General Counsel & Company Secretary (Commenced 1 February 2019).

In addition to their salaries, the Company provides non-cash benefits to key management personnel, share-based payment benefits. The key management personnel compensation included in employee expenses (refer Note 8) are as follows:

33 KEY MANAGEMENT PERSONNEL (CONTINUED)

	2019 $	2018 $
Short-term employee benefits	**1,908,443**	1,686,582
Other long-term benefits	**59,751**	17,836
Post-employment benefits	**176,516**	178,870
Share-based payments	**65,870**	105,270
	2,210,580	1,988,558

34 OTHER RELATED PARTY TRANSACTIONS

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

(a) Transactions with ultimate parent entity

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

	Notes	2019 $'000	2018 $'000
Current assets			
Trade and other receivables	14	**717**	5,834
Total current assets		**717**	5,834
Total assets		**717**	5,834
Current liabilities			
Trade and other payables	19	**4,699**	326,307
Loans and borrowings	20	**-**	154,925
Total current liabilities		**4,699**	481,232
Total liabilities		**4,699**	481,232
Net interest income/(expense)	11	**(4,005)**	(4,166)

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 2019 was $1,050 million and €800 million (2018: $1,100 million and €425 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 2019 was $203 million (2018: $280 million).

34 OTHER RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with intermediate parent entity

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

	Notes	2019 $'000	2018 $'000
Current assets			
Trade and other receivables	14	**1,125**	-
Total current assets		**1,125**	-
Total assets		**1,125**	-
Current liabilities			
Trade and other payables	19	**413,527**	-
Total current liabilities		**413,527**	-
Total liabilities		**413,527**	-
Warranty recoveries		**2,355**	-
Other income	7	**74**	-

The Company also acquires inventory from the intermediate parent entity. The cost of inventory sold during the year that was purchased from the intermediate parent entity totalled $2,075 million (2018: $1,748 million).

(c) Transactions with immediate parent entity

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

	Notes	2019 $'000	2018 $'000
Current assets			
Trade and other receivables	14	**41,757**	42,715
Total current assets		**41,757**	42,715
Total assets		**41,757**	42,715
Current liabilities			
Trade and other payables	19	**794**	219
Loans and borrowings	20	**141,573**	-
Total current liabilities		**142,367**	219
Total liabilities		**142,367**	219
Net interest income/(expense)	11	**(575)**	(89)
Other income	7	**136**	102

34 OTHER RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Transactions with immediate parent entity (continued)

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

At 31 December 2019 the Company had an intercompany receivable of $29.253 million (2018: $35.918 million) relating to current tax receivable assumed by the provisional head entity of the tax consolidated group.

For further details regarding tax consolidation and the nature of the tax funding and sharing agreements, refer to accounting policy Note 4 and Note 18.

(d) Transactions with other related parties

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

	Notes	**2019 $'000**	2018 $'000
Current assets			
Trade and other receivables	14	**1,921,663**	2,409,685
Total current assets		**1,921,663**	2,409,685
Non-current assets			
Trade and other receivables	14	**1,325,454**	1,340,480
Total non-current assets		**1,325,454**	1,340,480
Total assets		**3,247,117**	3,750,165
Current liabilities			
Trade and other payables	19	**57,303**	69,314
Loans and borrowings	20	**-**	2,425
Deferred income		**1,479**	343
Total current liabilities		**58,782**	72,082
Non-current liabilities			
Trade and other payables	19	**1,794**	44
Deferred income		**160**	7
Total non-current liabilities		**1,954**	51
Total liabilities		**60,736**	72,133

34 OTHER RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Transactions with other related parties (continued)

	Notes	2019 $'000	2018 $'000
Net interest income	11	**51,176**	80,738
Other revenue	6	**2,709**	1,525
Other income	7	**14,062**	18,926
Net gain/(loss) from interest rate hedging	11	**202**	125
Depreciation on leased assets with related parties		**(4,838)**	(3,205)

The Company also acquires inventory from other related parties. The cost of inventory sold during the year that was purchased from other related entities totalled $301 million (2018: $260 million).

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

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

35 BUSINESS COMBINATION

Project Future

On 1 January 2019, the net assets of Mercedes-Benz Vans Australia Pacific Pty Ltd were transferred to the Company as part of the global structure change approved by Daimler AG Board of Management referred to as Project Future.

(a) Consideration transferred

The consideration amount for the net assets acquired by the Company amounted to $13.689m and this amount was recognised as a debt payable to Mercedes-Benz Vans Australia Pacific Pty Ltd.

35 BUSINESS COMBINATION (CONTINUED)

(b) Identifiable assets acquired and liabilities assumed

The below table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

	$'000
Assets	
Property, plant and equipment	6,258
Inventories	261,437
Trade and other receivables	35,759
Deferred tax asset	13,325
Prepayments	3,431
Assumed Liabilities	
Trade and other payables	(117,166)
Employee benefits	(968)
Provisions	(38,118)
Deferred income	(3,042)
Less: Amount owed to the Company	(147,227)
Total identifiable net assets acquired	**13,689**

(c) Debt forgiveness

On 27 June 2019, the Company entered into a debt forgiveness deed arrangement with Mercedes-Benz Vans Australia Pacific Pty Ltd.

As a result, the debt forgiven by Mercedes-Benz Vans Australia Pacific Pty Ltd of $13.689m was recorded directly to retained earnings.

36 EVENTS OCCURRING AFTER THE REPORTING PERIOD

The following events occurred subsequent to 31 December 2019:

• On 25 February 2020, the Australian Competition and Consumer Commission (ACCC) announced on its website that it had accepted a court enforceable undertaking from the Company. The Company as part of that undertaking has agreed to offer at the Company's cost a loan vehicle or reasonable alternate transport (at the Company's election) to certain affected consumers if the Company is unable to replace the airbag within two weeks from the date requested by a consumer (for reasons other than the consumer not making the vehicle available for repair). Affected consumers in this context are those that have a Mercedes-Benz C-Class or E-class vehicle affected by the compulsory recall that are older than 6 years and located in Queensland, Northern Territory, Western Australia and part of the coastal area of New South Wales north of Newcastle; or older than 9 years and located elsewhere in Australia. Refer to Note 24 for details of the provision recognised in relation to this matter.

• On 6 March 2020, the Company announced that all vehicles sold from 1 March 2020 will be covered for 5 years (previously 3 years) manufacturers' warranty (unlimited kilometres for private purchases, and limited to capped kilometres for vehicles acquired for commercial purposes). As a result, the Company will have a financial impact to its provisions for warranty to factor in the additional costs in future years for warranty claims related to the 4th and 5th year since first year of registration.

• The spread of novel coronavirus (COVID-19) was declared a public health emergency by the World Health Organisation on 31 January 2020 and upgraded to a global pandemic on 11 March 2020. The rapid rise of the virus has seen an unprecedented global response by governments, regulators and numerous industry sectors. The Australian Federal Government enacted its emergency plan on 29 February 2020. This has led to the closure of Australian borders from 20 March, an increasing level of restrictions on corporate Australia’s ability to operate, significant volatility and instability in financial markets and the release of a number of government stimulus packages to support individuals and businesses as the Australian and global economies face significant slowdown and uncertainties. The impact of COVID-19 to operating results is considered a subsequent event of the reporting period, which does not require any adjustment in the 2019 annual financial statements of the Company. Local analysis and frequent contact with the Daimler Group Headquarters in regards to measures taken to deal with this changing environment occur on a regular basis. The Company has adopted measures in order to mitigate risks to people and to continue to provide services to the Dealer Network and end customers, having set up a crisis committee. To assist with cash flow, temporary workforce salary reductions have been put in place for the calendar month of May, additionally, certain tax payment deferrals have been put in place as a result of the aforementioned government stimulus package assistance. The distribution business is focusing all its efforts on customer service, to address any concerns customers may have, ensuring points of contacts that offer information and continuity of logistics. The Company continues to monitor developments in the COVID-19 pandemic and the measures being implemented on the economy to control and slow the outbreak. Given the dynamic nature of these circumstances and the significant increase in economic uncertainty, the related impact on the Company’s future results of operations, cash flows and financial position cannot be reasonably estimated at this stage and will be reflected in the Company’s 2020 annual financial statements.

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