Mercedes-Benz Australia/Pacific Pty Ltd

ABN 23 004 411 410

ANNUAL FINANCIAL REPORT
31 DECEMBER 2021

Mercedes-Benz Australia/Pacific Pty Ltd

Year ended 31 December 2021

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 2021 and the auditor's report thereon.

Directors

Mr. Florian Seidler CEO & Director since 1 January 2021
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 delivered a profit, after income tax, for the year ended 31 December 2021 of $67.639 million (2020: $62.644 million). The Company strengthened its core business during the year, and achieved steady sales results and delivered a 7% increase in revenue over the comparative period. This was driven partly by vehicle pricing changes, balanced market conditions and steady customer demands.

The Company sold 25,886 new passenger cars (2020: 28,539) & 4,620 new light commercial vehicles (2020: 6,115) with the decline against the comparative period largely attributable to production delays due to the ongoing impacts of the global semiconductor shortage and global Coronavirus pandemic. Despite these challenges, the Company maintained a strong year to date relative market share of 40.9% for new passenger cars (2020: 42.8%) and 10.6% for light commercial vehicles (2020: 13.3%).

The highest selling new passenger car product lines in 2021 were the A-class (including CLA) selling 4,609 units (2020: 7,814 units), followed by the SUV segment, with the GLE-class (SUV and Coupe) selling 4,500 units (2020: 2,918 units), GLC-class (SUV and Coupe) selling 4,344 units (2020: 5,558 units) and the GLB-class (SUV) selling 3,153 units (2020: 1,070 units).

The highest selling new light commercial vehicle product lines in 2021 were the Sprinter van selling 2,825 units (2020: 2,532 units) and the Vito van selling 1,386 units (2020: 1,218 units). The decline in the total sales volume for light commercial vehicles against the comparative period largely related to the discontinuation of the X-class product line with 19 units sold during the year (2020: 2,016 units).

The Company continues to focus on its sustainability initiatives and has expanded its all-electric vehicle product line and launched sales of its second all-electric vehicle (the EQA) in the first half of 2021 . The all-electric vehicle product line (EQ) has been offered in the Australian market under the Company’s agency business model since December 2019. More information regarding the agency business model can be found in the section “Likely Developments” below.

Many factors could directly or indirectly affect the Company’s business, financial position, financial performance and cash flows. These factors include, but are not limited to, changes in economic and market conditions, interest rate risk, credit risk and currency risk. Further to this, interruptions in global supply chains and the supply for electronic components due to the global semiconductor shortages can cause bottlenecks in the automotive industry. This has had a direct impact on the production and stock levels of the Company. The shortages are expected to continue into the foreseeable future, and the Company will continue to work to stabilise its stock levels and minimise the disruption to its customers. The systematically pursued digitisation strategy as well as the transition to the agency business model creates extensive changes in the existing information technology landscape and brings risks to business processes. However, the level of information technology risk is managed by the Company's internal framework for IT security which applies protective measures based on industry standards and good practice. The Company also continues to be exposed to legal and tax risks. Provisions are recognised in accordance with the relevant accounting standards for those risks if and insofar as they are likely to be utilised and the amounts of the obligations can be reasonably estimated.

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: (2020: $1.355 million)

	Cents per share	**Total amount $**	**Franked/ unfranked**	**Date of payment**
Final 2021 ordinary dividend	$178.98	$62,644,000	Unfranked	14.12.2021

Significant changes in the state of affairs

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

Environmental regulation

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

Events subsequent to reporting date

The following occurred subsequent to 31 December 2021:

• On 1 January 2022, the Company implemented the agency business model for the sale of the balance of its passenger car product range (the agency model was previously implemented for the sale of its EQ range in 2019), in response to changing retailing and consumer behaviour evident in Australia and in other major markets around the world. Under the agency model, the Company is the sole retail entity, whereby Dealers are the Agents for the sale and delivery of new passenger vehicles.

• On 1 February 2022, the ultimate parent entity of the Company renamed itself from Daimler AG to Mercedes-Benz Group AG. With the renaming of Daimler, the ultimate parent entity completes the realignment of its Group that began last year with the spin-off (named "Project Focus") of the truck and bus business and on 10 December 2021, Daimler Truck Holding AG was launched as an independent company on the Frankfurt Stock Exchange. The new Mercedes-Benz Group is thus fully concentrated on its passenger car brands Mercedes-Benz, Mercedes-AMG, Mercedes-Maybach, Mercedes EQ as well as Mercedes-Benz Vans.

Other than what is 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 Mercedes-Benz Group global organisation.

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

As mentioned in the "Operating and financial review" above, the Company has offered its EQ all-electric vehicle range under an agency business model since December 2019. On 1 January 2022, the Company implemented the agency business model for the sale of the balance of its passenger car product range, in response to changing retailing and consumer behaviour evident in Australia and in other major markets around the world. Under an agency model, the Company would be the sole retail entity, whereby Dealers become Agents for the sale and delivery of new passenger vehicles. The agency model is also being targeted for implementation for the sale of light commercial vehicles in the latter part of 2022.

The operation of the Aftersales business would remain predominantly unchanged.

The Company's future results of operations under the agency business model will be reflected in the Company's 2022 annual financial statements.

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 2021 to 1 April 2022, the Company has paid insurance premiums of $6,306 (2020: $2,279) in respect of directors’ and officers’ liability and legal expenses insurance. This insurance was renewed in April 2021 to provide coverage until 30th April 2022.

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 10 and forms part of the Directors' report for the financial year ended 31 December 2021.

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:

F. Seidler

Signed by: Florian Seidler
EMail: florian.seidler@daimler.com
Signing time: 12-04-2022 13:52:20 (+10:00) 12/04/2022
IP address: 203.3.154.21

Mr. Florian Seidler
CEO and Director

Melbourne

Volker Malzahn

Signed by: Volker Malzahn
EMail: volker.malzahn@daimler.com
Signing time: 12-04-2022 17:48:47 (+10:00) 12/04/2022
IP address: 163.116.192.118

Mr. Volker Malzahn
CFO and Director

Melbourne

Ms. Diane Tarr 12/04/2022
Director

Melbourne

Mr. Steve McHutchon 12/4/2022
Director

Melbourne

Independent Auditor's Report

To the shareholders of Mercedes Benz Australia/Pacific Pty Ltd

Opinion

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

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

- giving a true and fair view of the Company's financial position as at 31 December 2021 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 2021;
- Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended;
- Notes including a Statement of significant accounting policies; and
- Directors' Declaration.

Basis for opinion

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

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

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

Key Audit Matters

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

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

KPMG

Provision for warranty claims ($144.21m – Note 22 Warranty)

Refer to Note 22 of the Financial Report

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

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

Other information

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

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

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

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

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

KPMG

KPMG

Penny Stragalinos

Partner

Melbourne

12 April 2022

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 2021 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

12 April 2022

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

   (a) the financial statements and notes set out on pages 12 to 70 are in accordance with the *Corporations Act 2001 (Cth)*, including:

      (i) giving a true and fair view of the Company's financial position as at 31 December 2021 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 2021, 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:

F. Seidler

Signed by: Florian Seidler
EMail: florian.seidler@daimler.com
Signing time: 12-04-2022 13:52:27 (+10:00) 12/04/2022
IP address: 203.3.154.21

Mr. Florian Seidler
CEO and Director

Melbourne

Volker Malzahn

Signed by: Volker Malzahn
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IP address: 163.116.192.118

Mr. Volker Malzahn
CFO and Director

Melbourne

12/04/2022

Ms. Diane Tarr
Director

Melbourne

12/4/2022

Mr. Steve McHutchon
Director

Melbourne

	Notes	**2021 $'000**	2020 $'000
Current assets			
Cash and cash equivalents	12	**115,963**	279,417
Trade and other receivables	13	**1,283,222**	1,976,950
Inventories	14	**779,617**	612,090
Total current assets		**2,178,802**	2,868,457
Non-current assets			
Trade and other receivables	13	**762,364**	598,492
Deferred tax assets	17	**101,638**	91,804
Intangible assets	15	**871**	2,180
Property, plant and equipment	16	**75,329**	70,774
Total non-current assets		**940,202**	763,250
Total assets		**3,119,004**	3,631,707
Liabilities			
Current liabilities			
Trade and other liabilities	18	**674,686**	646,927
Loans and borrowings	19	**701,083**	1,424,592
Employee benefits	21	**16,110**	8,665
Provisions	22	**58,337**	61,520
Deferred income	23	**1,218**	1,258
Total current liabilities		**1,451,434**	2,142,962
Non-current liabilities			
Trade and other liabilities	18	**55,698**	51,176
Loans and borrowings	19	**771,324**	610,183
Employee benefits	21	**1,781**	616
Provisions	22	**110,378**	103,110
Deferred income	23	**1,025**	1,291
Total non-current liabilities		**940,206**	766,376
Total liabilities		**2,391,640**	2,909,338
Net assets		**727,364**	722,369
Equity			
Share capital	24	**70,000**	70,000
Retained earnings		**657,364**	652,369
Total equity		**727,364**	722,369

The notes on pages 16 to 70 are an integral part of these financial statements.

Mercedes-Benz Australia/Pacific Pty Ltd
Statement of Profit or Loss & Other Comprehensive Income
For the year ended 31 December 2021

	Notes	**2021 $'000**	2020 $'000
Revenue	5	**2,648,287**	2,469,987
Cost of sales	8(a)	**(2,433,980)**	(2,263,727)
Gross Profit		**214,307**	206,260
Other income	6	**31,270**	28,695
Employee expenses	7	**(46,764)**	(40,817)
Amortisation	15	**(996)**	(1,106)
Depreciation expense	16	**(8,802)**	(8,797)
Net impairment (loss)/reversal	8(b)	**(3,257)**	15,794
Other expenses	8(c)	**(92,635)**	(99,907)
Result from operating activities		**93,123**	100,122
Finance income	10	**25,080**	34,476
Finance costs	10	**(21,568)**	(38,794)
Net finance income / (cost)	10	**3,512**	(4,318)
Profit before income tax		**96,635**	95,804
Income tax expense	11	**(28,996)**	(33,160)
Profit for the period		**67,639**	62,644
Other comprehensive income/(loss)			
Other comprehensive income/(loss) for the period, net of tax		**-**	-
Total comprehensive income/(loss) for the period		**67,639**	62,644

The notes on pages 16 to 70 are an integral part of these financial statements.

	Share capital $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2020	70,000	591,080	661,080
Profit for the period	-	62,644	62,644
Total comprehensive income/(loss) for the period	-	62,644	62,644
Dividends to owners of the Company	-	(1,355)	(1,355)
Balance at 31 December 2020	**70,000**	**652,369**	**722,369**
Balance at 1 January 2021	70,000	652,369	722,369
Profit for the period	-	67,639	67,639
Other comprehensive income			
Total other comprehensive income/(loss)	-	-	-
Total comprehensive income/(loss) for the period	-	**67,639**	**67,639**
Dividends to owners of the Company	-	(62,644)	(62,644)
Balance at 31 December 2021	**70,000**	**657,364**	**727,364**

The notes on pages 16 to 70 are an integral part of these financial statements.

	Notes	**2021 $'000**	2020 $'000
Cash flows from operating activities			
Cash receipts from customers		**2,973,018**	2,813,934
Cash paid to suppliers and employees		**(2,905,471)**	(2,357,620)
Cash generated from operations		**67,547**	456,314
Interest received		**30,561**	40,663
Interest paid		**(26,103)**	(43,536)
Income taxes paid		**(116,734)**	(16,667)
Net cash (outflow)/inflow from operating activities	25(b)	**(44,729)**	436,774
Cash flows (used in)/from investing activities			
Payment for acquisition of intangibles and property, plant and equipment		**(827)**	(950)
Loans to other related entities*		**(12,906,971)**	(6,133,658)
Loans repaid by other related entities*		**13,422,402**	6,920,492
Net cash inflow from investing activities		**514,604**	785,884
Cash flows (used in)/from financing activities			
Proceeds from borrowings		**3,291,713**	4,902,027
Repayment of borrowings		**(3,757,072)**	(6,130,398)
Proceeds from borrowings from immediate parent entity		**141,573**	141,573
Repayment of borrowings from immediate parent entity		**(141,573)**	(141,573)
Proceeds from borrowings from other related entities		**959**	178,015
Repayment of borrowings from other related entities		**(103,015)**	(75,205)
Dividends paid		**(62,644)**	(1,355)
Payment of lease liabilities		**(3,270)**	(2,889)
Net cash (outflow) from financing activities		**(633,329)**	(1,129,805)
Net (decrease)/increase in cash and cash equivalents		**(163,454)**	92,853
Cash and cash equivalents at the beginning of the year		**279,417**	186,564
Cash and cash equivalents at end of year		**115,963**	279,417

* The 2020 comparative figure reported under "Loans to other related entities" and "Loans repaid by other related entities" have been restated to categorise the proceeds as relating to investing activities rather than financing activities in accordance with IAS 7.

The notes on pages 16 to 70 are an integral part of these financial statements.

1 REPORTING ENTITY

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

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

2 BASIS OF PREPARATION

(a) Statement of compliance

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

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported profit of the Company.

The financial statements were authorised for issue by the Board of Directors on 12 April 2022.

(b) Basis of measurement

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

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

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

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

(c) Functional and presentation currency

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

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

2 BASIS OF PREPARATION (CONTINUED)

(d) Use of estimates and judgements

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

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

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

3 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Foreign currencies

Transactions

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

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

(b) Financial instruments

Financial Instruments

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

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

3 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments (continued)

Financial Instruments (continued)

Non-derivative financial assets

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

Financial assets at amortised cost

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

Non-derivative financial liabilities

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

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

Financial liabilities measured at amortised cost

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

Offsetting of financial instruments

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

Derivative financial instruments, including hedge accounting

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

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

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

3 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments (continued)

Derivative financial instruments, including hedge accounting (continued)

Cash flow hedges

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

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

Other non-trading derivatives

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

Share capital

Ordinary shares

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

Dividends

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

(c) Property, plant and equipment

Recognition and measurement

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

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

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

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

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

3 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Property, plant and equipment (continued)

Depreciation

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

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

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

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

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

Subsequent costs

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

(d) Leasing

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

The Company as lessee

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

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

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

3 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Leasing (continued)

The lease liabilities include the following lease payments:

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

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

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

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

- Sales of vehicles that include a forward (an entity’s obligation to repurchase the asset) or a call option (an entity’s right to repurchase the asset) are accounted for as operating leases.
- Sales of vehicles including a put option (an entity’s obligation to repurchase the asset at the customer’s request) are accounted for as operating leases if the customer has a significant economic incentive to exercise that right. Otherwise a sale with a right of return is reported. The Company considers several factors when assessing whether a customer has a significant economic incentive to exercise their right at contract inception. Amongst others these are the relationship 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 recorded at cost under property, plant and equipment and are depreciated over the contract term on a straight-line basis with consideration of the expected residual values. Changes in the expected residual values lead either to prospective adjustments of the scheduled depreciation or to an impairment loss if necessary.

3 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.

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.

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

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

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

3 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Impairment (continued)

Non-derivative financial assets (continued)

Measurement of expected credit losses

Expected credit losses are measured in a way that reflects:

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

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

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

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

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

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

Non-financial assets

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

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

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

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

3 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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, Mercedes-Benz Group AG, to employees of the Company.

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

The fair value of the amounts payable to employees in respect of the Performance Phantom Share Plan, which are settled in cash, 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 Mercedes-Benz Group AG and the estimated target achievement grades as of reporting date.

(h) Provisions

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

3 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Provisions (continued)

Warranties

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

Legal

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

Onerous contracts

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

(i) Revenue

Goods sold

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

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

The Company uses a variety of sales promotion programs dependent on various market conditions as well as the respective product life cycles and product-related factors (such as amounts of discounts offered by competitors, excess industry production capacity, the intensity of market competition and consumer demand for the products). Revenue is recognised net of sales reductions such as cash discounts and sales incentives granted.

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.

3 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Revenue (continued)

Rental income

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

Services income

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

Income from these agreements is recognised as other income when the services are provided.

(j) Government Grants

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

(k) Finance income and expenses

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

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

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

(l) Taxation

Tax Consolidation

The Company is a member of a multiple entry consolidated (MEC) Group, whereby the group of Australian entities (being the Company, Daimler Australia/Pacific Pty Ltd, Mercedes-Benz Vans Australia/Pacific Pty Ltd, Daimler Truck and Bus Holding Australia/Pacific Pty Ltd, Daimler Truck and Bus Australia/Pacific Pty Ltd, Daimler Mobility Australia Pty Ltd, Daimler Truck Financial Services Australia Pty Ltd and Mercedes-Benz Financial Services Australia Pty Ltd) were all wholly foreign owned by a common non-resident company, but do not have a common Australian resident parent company. As a result, these entities formed part of a MEC Group that were consolidated and taxed as a single entity for Australian tax purposes. The provisional head entity of the Australian tax consolidated group is Daimler Australia/Pacific Pty Ltd. Following the Headquarter group spin-off of the truck and bus business and the launch of Daimler Truck Holding AG as an independent company on the Frankfurt Stock Exchange, Daimler Truck and Bus Holding Australia/Pacific Pty Ltd, Daimler Truck and Bus Australia/Pacific Pty Ltd and Daimler Truck Financial Services Australia Pty Ltd subsequently left the Daimler Australia/Pacific Pty Ltd MEC Group on 9 December 2021.

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.

3 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Taxation (continued)

Tax Consolidation (continued)

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

Income tax

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

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

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

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

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

Nature of tax funding and sharing arrangements

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

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

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

(m) Segment reporting

Determination and presentation of operating segments

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

3 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Segment reporting (continued)

Determination and presentation of operating segments (continued)

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

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

(n) Goods and Services Tax

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

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

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

4 DETERMINATION OF FAIR VALUES

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

(a) Trade and other receivables

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

(b) Loans and borrowings

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

(c) Derivatives

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

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

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

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

5 REVENUE

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

Revenue according to AASB 15 includes revenue that was deferred and included in contract liabilities at 31 December 2021 amounting to $13.778m (2020: $31.729m).

Revenue that is expected to be recognised within three years related to performance obligations that are unsatisfied (or partially unsatisfied) amounted to $89.388m at 31 December 2021 (2020: $98.175m) and revenue from performance obligations fully (or partially) satisfied in previous periods amounted to $52.518m (2020: $49.982m). This revenue is mainly derived from long-term service and maintenance contracts and extended warranties. It does not include performance obligations from customer contracts that have initial expected durations of one year or less. Long-term performance obligations of minor importance to the overall contract value of a bundled contract are not considered in assessing the initial duration of the bundled contract. Contract liabilities are included as part of Note 18 - Trade and other liabilities.

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

2021	**Cars $'000**	**Vans $'000**	**Total $'000**
Revenue according to AASB 15	2,340,350	307,695	**2,648,045**
Rental and leasing income from third parties	178	64	242
Total revenue	**2,340,528**	**307,759**	**2,648,287**

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

6 OTHER INCOME

	Notes	**2021 $'000**	2020 $'000
Rental income			
Employee lease program	3(i)	**1,377**	1,474
Rendering of services		**675**	401
Other			
From other related parties	32(b), 32(c), 32(d)	**10,463**	10,829
External parties		**18,651**	15,702
Gain on disposal of property, plant and equipment		**104**	289
Total other income		**31,270**	28,695

Rental Income: The Company earns income from employees entering into lease arrangements with Mercedes-Benz Financial Services Australia Pty Ltd (a related party) for the Company's products under the employee vehicle lease program.

Other: The Company earns income from other related parties in relation to recharged costs for shared services including building rents, IT and warehouse costs. Other income reported under the line item "External Parties" relates mainly to the reversals of accruals during the year.

7 EMPLOYEE EXPENSES

	2021 $'000	2020 $'000
Wages and salaries	**(33,793)**	(28,963)
Other associated personnel expenses	**(5,831)**	(4,047)
Contributions to defined contribution plans	**(3,366)**	(3,295)
Long service leave expense	**(2,837)**	(2,756)
Annual leave expense	**(802)**	(1,328)
Termination benefits	**(135)**	(428)
Total employee expenses	**(46,764)**	(40,817)

8 EXPENSES

(a) Cost of sales

	2021 $'000	2020 $'000
Cost of sales	**(2,419,843)**	(2,237,052)
Warranty, maintenance and repair expenses	**(14,137)**	(26,675)
Total cost of sales	**(2,433,980)**	(2,263,727)

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

(b) Impairment losses incurred on value of inventories

Net impairment (loss)/reversal	14	**(3,257)**	15,794

(c) Other expenses:

Marketing expenses	**(32,032)**	(32,342)
IT expenses	**(14,970)**	(14,575)
Other overheads	**(24,569)**	(17,009)
Miscellaneous other expenses & Other selling costs	**(6,891)**	(22,078)
Demo Vehicles & Warehouse service costs	**(6,839)**	(5,931)
Roadside assistance	**(7,313)**	(7,968)
Loss on disposal of property, plant and equipment	**(21)**	(4)
Total other expenses	**(92,635)**	(99,907)

9 AUDITORS' REMUNERATION

	2021 $	2020 $
Audit services		
Auditors of the Company - KPMG Australia		
Audit and review of financial statements	**(286,922)**	(286,496)
Other audit-related services	**(121,256)**	(45,600)
	(408,178)	(332,096)
Auditors of the Company - KPMG Overseas		
Audit and review of financial reports	**(26,578)**	(27,004)
	(434,756)	(359,100)

10 NET FINANCING COSTS

	Notes	**2021 $'000**	2020 $'000
Recognised in profit or loss			
Interest income from:			
Related parties		**18,441**	31,136
External parties		**149**	698
Guarantee fee income from:			
Related parties		**1,969**	2,401
Net unwind effect of changes in discount rates to provisions and employee benefits		**4,292**	-
Net foreign exchange gain		**229**	-
Impairment reversals on trade receivables	13	**-**	241
Finance income		**25,080**	34,476
Interest expense from:			
Related parties		**(3,846)**	(6,785)
External parties		**(15,460)**	(26,146)
Guarantee fee expense from:			
Related parties		**(2,093)**	(3,075)
Net foreign exchange loss		**-**	(421)
Net unwind of discounting on provisions and employee benefits		**-**	(2,170)
Impairment losses on trade receivables	13	**(30)**	-
Interest expense on lease liability		**(139)**	(197)
Finance cost		**(21,568)**	(38,794)
Net finance (costs)/income		**3,512**	(4,318)

11 INCOME TAX EXPENSE

	2021 $'000	2020 $'000
Current tax benefit/(expense)		
Current year	**(38,268)**	(42,621)
Adjustments for prior years	**(562)**	432
	(38,830)	(42,189)
Deferred tax benefit/(expense)		
Origination and reversal of temporary differences	**8,990**	9,069
Adjustments for prior years	**844**	(40)
	9,834	9,029
Total income tax benefit/(expense)	**(28,996)**	(33,160)
Numerical reconciliation between tax expense and pre-tax net profit		
Profit for the period	**67,639**	62,644
Total income tax expense	**28,996**	33,160
Profit before income tax	**96,635**	95,804
Income tax expense using the Company's domestic tax rate of 30% (2020 - 30%)	**(28,991)**	(28,741)
(Increase)/decrease in income tax benefit/(expense) due to:		
Non-deductible expenses	**(287)**	(4,811)
Income tax over/(under) provided in prior year	**(562)**	432
Sundry items	**844**	(40)
Income tax expense on pre-tax net profit	**(28,996)**	(33,160)

12 CASH AND CASH EQUIVALENTS

	Notes	**2021 $'000**	2020 $'000
Bank balances			
Bank balances		**75,963**	59,417
Call deposits		**40,000**	220,000
Cash and cash equivalents in the statement of cash flows	25(a)	**115,963**	279,417

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

13 TRADE AND OTHER RECEIVABLES

	Notes	**2021 $'000**	2020 $'000
Current			
Non-interest bearing			
Net trade receivables		**35,069**	38,504
Receivables due from ultimate parent entity	32(a)	**1,155**	18,580
Receivables due from intermediate parent entity	32(b)	**682**	731
Receivables due from immediate parent entity	32(c)	**13,609**	13,200
Receivables due from other related entities	32(d)	**52,210**	60,759
Prepayments and other assets		**4,175**	1,837
		106,900	133,611
Interest bearing			
Loans due from other related entities	32(d)	**1,176,322**	1,843,339
		1,176,322	1,843,339
		1,283,222	1,976,950
Non-current			
Interest bearing			
Loans due from other related entities	32(d)	**762,364**	598,492
		762,364	598,492

Trade receivables are shown net of impairments. Impairment reversals were recognised on trade receivables in the current year amounting to $30,464 (2020: $241,281 impairment losses) due to improved collections and lower trade receivable balances in the current year.

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

14 INVENTORIES

	2021 $'000	2020 $'000
Finished goods	**251,336**	193,019
Goods in transit	**528,281**	419,071
	779,617	612,090
Finished goods – at cost	**137,300**	98,100
Finished goods - at net realisable value		
Finished goods - at cost	**123,952**	102,128
Impairment loss	**(9,916)**	(7,209)
	114,036	94,919
	251,336	193,019

During the year consumables and changes in finished goods recognised as cost of sales amounted to $2.434 billion (2020: $2.264 billion). Inventory write-downs of $3.347 million (2020: $0.433 million) were booked during the year and inventory write-downs of $0.090 million made in previous periods were reversed during the year (2020: $16.227 million), primarily relating to impairments for aged vehicles no longer required as the impacted vehicles were sold during 2021 (refer 8(b)). Inventories are shown net of impairment losses.

Estimates and Judgements

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

15 INTANGIBLE ASSETS

	Software development costs $'000
Cost	
Balance at 1 January 2020	5,686
Balance at 31 December 2020	5,686
Balance at 1 January 2021	5,686
Disposals	(1,623)
Balance at 31 December 2021	4,063
Amortisation and impairment losses	
Balance at 1 January 2020	(2,400)
Amortisation charge for the year	(1,106)
Disposals	-
Balance at 31 December 2020	(3,506)
Balance at 1 January 2021	(3,506)
Amortisation charge for the year	(996)
Disposals	1,310
Balance at 31 December 2021	(3,192)
Carrying amounts	
Balance at 1 January 2020	3,286
Balance at 31 December 2020	2,180
Balance at 1 January 2021	2,180
Balance at 31 December 2021	871

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

16 PROPERTY, PLANT AND EQUIPMENT

	Land and improvements	Buildings	Plant and equipment*		Assets under construction	Right-of-use assets*	Total
			Assets subject to operating lease	*All others*			
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cost							
Balance at 1 January 2020	2,101	38,697	36,558	12,173	36	12,445	**102,010**
Acquisitions	-	49	40,515	897	4	13,919	**55,384**
Transfers	-	-	-	36	(36)	-	**-**
Disposals	-	-	(42,800)	(5)	-	(10,789)	**(53,594)**
Balance at 31 December 2020	2,101	38,746	34,273	13,101	4	15,575	**103,800**
Cost							
Balance at 1 January 2021	2,101	38,746	34,273	13,101	4	15,575	**103,800**
Acquisitions	-	372	52,987	455	-	1,028	**54,842**
Transfers	-	-	-	4	(4)	-	**-**
Disposals	-	(4,257)	(41,669)	(4,613)	-	(2,291)	**(52,830)**
Balance at 31 December 2021	2,101	34,861	45,591	8,947	-	14,312	**105,812**
Depreciation							
Balance at 1 January 2020	(87)	(19,823)	(2,117)	(7,128)	-	(3,045)	**(32,200)**
Depreciation charge for the year	-	(2,877)	(1,749)	(1,023)	-	(3,148)	**(8,797)**
Transfers	-	-	-	-	-	-	**-**
Disposals	-	-	2,626	-	-	5,345	**7,971**
Balance at 31 December 2020	(87)	(22,700)	(1,240)	(8,151)	-	(848)	**(33,026)**
Depreciation							
Balance at 1 January 2021	(87)	(22,700)	(1,240)	(8,151)	-	(848)	**(33,026)**
Depreciation charge for the year	-	(2,603)	(2,228)	(921)	-	(3,050)	**(8,802)**

16 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Transfers	-	151	-	(151)	-	-	**-**
Disposals	-	4,257	1,925	3,888	-	1,275	**11,345**
Balance at 31 December 2021	(87)	(20,895)	(1,543)	(5,335)	-	(2,623)	**(30,483)**
Carrying amounts							
Balance at 1 January 2020	2,014	18,874	34,441	5,045	36	9,400	**69,810**
Balance at 31 December 2020	2,014	16,046	33,033	4,950	4	14,727	**70,774**
Balance at 1 January 2021	2,014	16,046	33,033	4,950	4	14,727	**70,774**
Balance at 31 December 2021	2,014	13,966	44,048	3,612	-	11,689	**75,329**

* Due to disaggregation of "Plant & Equipment" as well as separately presenting "Right-of-use" assets, the comparatives have been restated.

17 TAX ASSETS AND LIABILITIES

Recognised deferred tax assets

Net deferred tax assets are attributable to the following:

	2021 $'000	2020 $'000
Recognised deferred tax assets		
Provisions and contract liabilities	**96,677**	106,287
Employee benefits	**4,913**	4,353
Payable to other related entities	**13,789**	9,849
Lease liabilities	**3,434**	4,453
Provision for impairment losses	**110**	123
Provision for diminution of inventories	**3,025**	2,206
Depreciation timing differences	**1,769**	824
Other payables	**1,423**	1,776
Other items	**-**	53
Total deferred tax assets	**125,140**	129,924
Recognised deferred tax liabilities		
Vehicles subject to operating lease	**(13,215)**	(9,910)
Right-of-use assets	**(3,506)**	(4,418)
Prepayments	**1**	115
Profit deferral for tax purposes	**(6,782)**	(23,907)
Total deferred tax liabilities	**(23,502)**	(38,120)
Net deferred tax assets	**101,638**	91,804

17 TAX ASSETS AND LIABILITIES (CONTINUED)

Recognised deferred tax assets (continued)

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

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

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

At 31 December 2021 the Company had an intercompany payable of $17.314 million (2020: $35.122 million payable) relating to a current tax payable assumed by the provisional head company which is included in Trade and other liabilities (refer to Note 18) .

Estimates and Judgements

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

17 TAX ASSETS AND LIABILITIES (CONTINUED)

Recognised deferred tax assets (continued)

Movement in temporary differences during the year

	2021		
	Balance at 1 January 2021 $'000	Recognised in income $'000	Balance at 31 December 2021 $'000
Deferred tax assets			
Provisions and contract liabilities	106,287	(9,610)	96,677
Employee benefits	4,353	560	4,913
Payable to other related entities	9,849	3,940	13,789
Lease liabilities	4,453	(1,019)	3,434
Provision for impairment losses	123	(13)	110
Provision for diminution of inventories	2,206	819	3,025
Depreciation timing differences	824	945	1,769
Other payables	1,776	(353)	1,423
Other items	53	(53)	-
Total deferred tax assets	**129,924**	**(4,784)**	**125,140**
Deferred tax liabilities			
Vehicles subject to operating lease	(9,910)	(3,305)	(13,215)
Right-of-use assets	(4,418)	912	(3,506)
Prepayments	115	(114)	1
Profit deferral for tax purposes	(23,907)	17,125	(6,782)
Total deferred tax liabilities	**(38,120)**	**14,618**	**(23,502)**
Net deferred tax assets	**91,804**	**9,834**	**101,638**

17 TAX ASSETS AND LIABILITIES (CONTINUED)

Recognised deferred tax assets (continued)

Movement in temporary differences during the year (continued)

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

18 TRADE AND OTHER LIABILITIES

	Notes	2021 $'000	2020 $'000
Current			
Trade payables		**45,013**	37,020
Payable to ultimate parent entity	32(a)	**1,621**	1,640
Payable to intermediate entity	32(b)	**416,353**	330,486
Payable to immediate parent entity	32(c)	**18,709**	36,500
Payable to other related entities	32(d)	**54,496**	48,744
Other payables		**26,038**	34,664
Contract liabilities	5	**112,456**	157,873
		674,686	646,927
Non-current			
Payable to other related entities	32(d)	**3,785**	18
Contract liabilities	5	**51,913**	51,158
		55,698	51,176

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

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

Contract liabilities

Contract liabilities primarily relate to prepaid service and maintenance contracts and obligations from sales transactions (especially performance bonuses and discounts) in the scope of AASB 15. The movement year on year is predominantly driven by a reduction in remaining performance obligations as at 31 December 2021 due to the upcoming change in business model to an agency model detailed in the "Likely Events" section of the Directors' Report which has had a direct impact on the balance of future performance obligations in the scope of AASB 15. No information is provided about remaining performance obligations at 31 December 2021 or at 31 December 2020 that have an original expected duration of one year or less, as allowed by AASB 15.

19 LOANS AND BORROWINGS

	Notes	2021 $'000	2020 $'000
Current			
Notes (secured)	19(c)	**556,064**	921,914
Commercial papers (secured)	19(d)	**-**	254,936
Loan from immediate parent entity	19(e), 32(c)	**141,573**	141,573
Loans from other related entity	19(f), 32(d)	**959**	103,015
Lease liabilities	19(g)	**2,487**	3,154
		701,083	1,424,592

19 LOANS AND BORROWINGS (CONTINUED)

	Notes	2021 $'000	2020 $'000
Non-current			
Notes (secured)	19(c)	**762,364**	598,492
Lease liabilities	19(g)	**8,960**	11,691
		771,324	610,183

	Notes	2021 $'000	2020 $'000
The Company has access to the following lines of credit:			
Bank overdraft (unsecured)		**50,000**	50,000
Bank loans (secured)		**1,113,400**	1,333,400
Notes (secured)		**1,318,428**	1,520,406
Commercial papers (secured)		**-**	254,936
Loans from ultimate parent entity		**-**	-
Loans from immediate parent entity		**141,573**	141,573
Loans from other related entity		**959**	103,015
Lease liabilities		**11,447**	14,845
		2,635,807	3,418,175

	Notes	2021 $'000	2020 $'000
Facilities utilised at reporting date			
Notes (secured)		**1,318,428**	1,520,406
Commercial papers (secured)		**-**	254,936
Loans from immediate parent entity		**141,573**	141,573
Loans from other related entity		**959**	103,015
Lease liabilities		**11,447**	14,845
		1,472,407	2,034,775

	Notes	2021 $'000	2020 $'000
Facilities not utilised at reporting date			
Bank overdraft (unsecured)	19(a)	**50,000**	50,000
Bank loans (secured)	19(b)	**1,113,400**	1,333,400
		1,163,400	1,383,400

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

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

Non-current portion of Notes are payable on or before 17 September 2024, but after one year from the balance sheet date of these financial statements.

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

19 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 and are secured by the ultimate parent entity guarantee. The Company has access to credit facilities which are subject to annual renewal. Interest is charged at prevailing market rates. There is no outstanding balance as at 31 December 2021.

(c) Notes (secured)

The Company has authorised the following note issues outstanding at 31 December 2021 denominated in EUR and AUD which are guaranteed by the ultimate parent entity:

Currency	Value of Notes	Due Date	On-lending	Interest re-pricing
EUR	100,000,000	Apr-22	EUR	Quarterly
EUR	50,000,000	Jun-24	EUR	Quarterly
EUR	150,000,000	Sep-24	EUR	Quarterly
AUD	150,000,000	Mar-22	-	On maturity
AUD	150,000,000	Aug-22	-	On maturity
AUD	100,000,000	Nov-22	-	On maturity
AUD	150,000,000	Sep-23	-	On maturity
AUD	50,000,000	Nov-23	-	On maturity
AUD	150,000,000	Jan-24	-	On maturity
AUD	100,000,000	Mar-24	-	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 Mercedes-Benz Group AG. Interest rates on AUD fixed interest notes are agreed at the inception of the notes. Interest rates on EUR floating interest notes are agreed at the inception of the notes and re-priced on a quarterly or yearly basis. Average interest rates are set out in Note 20.

(d) Commercial papers (secured)

The Company's commercial papers are denominated in AUD and are secured by the ultimate parent entity guarantee. There is no outstanding balance as at 31 December 2021.

(e) Loans from immediate parent entity

The Company has authorised the following loans outstanding at 31 December 2021 denominated in AUD from the immediate parent entity:

Currency	Value of Loan	Due Date
AUD	141,573,357	Jan-22

Loans from immediate parent entity are related to the cash pool balance outstanding as of 31 December 2021. Interest is charged at prevailing market rates.

(f) Loans from other related entity

The Company has authorised the following loans from other related entities outstanding at 31 December 2021 denominated in AUD:

Currency	Value of Loan	Due Date
AUD	959,321	Jan-22

19 LOANS AND BORROWINGS (CONTINUED)

(f) Loans from other related entity (continued)

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

(g) Lease liabilities

The Company has the below outstanding lease liabilities at 31 December 2021 denominated in AUD:

	2021 **$'000**	2020 $'000
Not later than one year	**2,487**	3,154
Later than one year but not later than five years	**8,960**	9,322
Later than five years	**-**	2,369
	11,447	14,845

20 FINANCIAL INSTRUMENTS

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

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

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

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

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

Credit risk

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

Swap and foreign exchange contracts are subject to credit risk in relation to the relevant counterparties, which is principally Mercedes-Benz Group AG. At 31 December 2021 the long-term credit rating of Mercedes-Benz Group AG was as follows:

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

The Company's ultimate parent Mercedes-Benz Group 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	**2021** **$'000**	2020 $'000
Trade and other receivables		**2,041,411**	2,573,605
Cash and cash equivalents	12	**115,963**	279,417
		2,157,374	2,853,022

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

20 FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

Exposure to credit risk (continued)

At reporting date 97% (2020: 84%) 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:

	2021 $'000	2020 $'000
Australia	**2,037,174**	2,551,629
Europe	**1,838**	19,387
New Zealand	**2,388**	2,570
Asia	**11**	19
	2,041,411	2,573,605

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

	2021 $'000	2020 $'000
Wholesale customers	**2,041,411**	2,573,605

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:

	2021 $'000	2020 $'000
Balance at 1 January	**410**	707
Impairment losses recognised / (reversed)	**30**	(241)
Allowance (utilised) / amount recovered	**(74)**	(56)
Balance at 31 December	**366**	410

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

20 FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

Impairment losses (continued)

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

	2021		2020	
	Gross $'000	Impairment $'000	Gross $'000	Impairment $'000
Not past due	**2,023,425**	**(133)**	2,546,725	(93)
Past due 1-30 days	**15,786**	**(2)**	24,899	(75)
Past due 30-60 days	**1,548**	**(40)**	1,024	(26)
Past due 60-90 days	**234**	**-**	394	(12)
Past due 90-120 days	**24**	**(1)**	199	(11)
Past due 120+ days	**760**	**(190)**	774	(193)
	2,041,777	**(366)**	2,574,015	(410)

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.

Mercedes-Benz Group AG applies a cash concentration method for cash and asset management throughout the global Mercedes-Benz 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.

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

20 FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

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

2021 **$'000**	Notes	**Carrying amount $'000**	**Contractual cash flows $'000**	**1 year or less $'000**	**1 to 2 years $'000**	**2 to 5 years $'000**	**More than 5 years $'000**
Non derivative financial assets							
Trade and other receivables		**2,041,411**	**2,067,983**	**1,286,225**	**204,350**	**577,408**	**-**
Non derivative financial liabilities							
Notes issued (secured)	19	**(1,318,428)**	**(1,338,843)**	**(559,210)**	**(204,350)**	**(575,283)**	**-**
Loans from immediate parent entity	19	**(141,573)**	**(141,573)**	**(141,573)**	**-**	**-**	**-**
Loans from other related entities	19	**(959)**	**(959)**	**(959)**	**-**	**-**	**-**
Lease liabilities	19	**(11,447)**	**(11,724)**	**(2,585)**	**(2,269)**	**(6,870)**	**-**
Trade and other liabilities	18	**(554,098)**	**(554,098)**	**(550,313)**	**(3,785)**	**-**	**-**
		(2,026,505)	**(2,047,197)**	**(1,254,640)**	**(210,404)**	**(582,153)**	**-**

20 FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

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

20 FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk

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

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

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

			2021		
	AUD $'000	**EURO €'000**	**USD $'000**	**SGD $'000**	**NZD $'000**
Non derivative financial assets					
Cash and cash equivalents	**115,963**	**-**	**-**	**-**	**-**
Trade receivables	**35,069**	**-**	**-**	**-**	**-**
Receivables due from ultimate parent entity	**228**	**594**	**-**	**-**	**-**
Receivables due from intermediate parent entity	**682**	**-**	**-**	**-**	**-**
Receivables due from immediate parent entity	**13,609**	**-**	**-**	**-**	**-**
Loans and other receivables due from other related entities	**1,520,853**	**300,000**	**-**	**-**	**-**
	1,686,404	**300,594**	**-**	**-**	**-**
Non derivative financial liabilities					
Notes issued (secured)	**(848,384)**	**(300,000)**	**-**	**-**	**-**
Loans from immediate parent entity	**(141,573)**	**-**	**-**	**-**	**-**
Loans from other related parties	**(959)**	**-**	**-**	**-**	**-**
Lease liabilities	**(11,447)**	**-**	**-**	**-**	**-**
Trade and other liabilities	**(552,930)**	**(223)**	**(43)**	**(559)**	**(200)**
	(1,555,293)	**(300,223)**	**(43)**	**(559)**	**(200)**
Net Currency Exposure	**131,111**	**371**	**(43)**	**(559)**	**(200)**

20 FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk (continued)

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

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

	Average rate		Reporting date spot rate	
	2021	2020	**2021**	2020
AUD:EURO	**0.635**	0.604	**0.640**	0.629
AUD:NZD	**1.062**	1.061	**1.062**	1.068
AUD:USD	**0.751**	0.690	**0.725**	0.772
AUD:SGD	**1.009**	0.951	**0.978**	1.020

Sensitivity analysis

A 10 percent strengthening or weakening of the Australian dollar against the following currencies at 31 December 2021 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 2020.

20 FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk (continued)

Sensitivity analysis (continued)

	2021		2020	
	Profit or loss		**Profit or loss**	
	$'000	**$'000**	$'000	$'000
	10% increase	**10% decrease**	10% increase	10% decrease
AUD:EURO	**(53)**	**65**	5	(6)
AUD:NZD	**17**	**(21)**	-	-
AUD:USD	**5**	**(6)**	6	(7)
AUD:SGD	**50**	**(62)**	-	-

Interest Rate Risk

Interest sensitivity analysis

As part of its risk management control systems, Mercedes-Benz Group AG (the new 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 Mercedes-Benz Group 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 2021 and 2020 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				
2021	**2,329**	**2,329**	**1,051**	**1,748**
2020	**1,039**	**3,315**	**651**	**1,550**

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

20 FINANCIAL INSTRUMENTS (CONTINUED)

Hedging

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

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

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

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

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

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

Fair values

Fair value versus carrying amounts

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

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

Interest rates used for determining fair value

The entity uses the implied zero coupon yield curve as of 31 December 2021 to discount financial instruments. The interest rates used have been consistently applied using rates between 0.01% and 1.30% (2020: between 0.02% and 0.24%).

	2021		2020	
	Carrying amount $'000	**Fair value $'000**	Carrying amount $'000	Fair value $'000
Non derivative financial assets				
Loans due from other related entities	**1,938,686**	**1,938,683**	2,441,831	2,442,544
Non derivative financial liabilities				
Notes (secured)	**(1,318,427)**	**(1,318,419)**	(1,520,406)	(1,521,049)
Commercial papers (secured)	**-**	**-**	(254,936)	(255,000)
Loans from immediate parent entity	**(141,573)**	**(141,573)**	(141,573)	(141,574)
Loans from other related entity	**(959)**	**(959)**	(103,015)	(103,016)
Lease liabilities	**(11,447)**	**(11,447)**	(14,845)	(14,845)

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

20 FINANCIAL INSTRUMENTS (CONTINUED)

Capital management

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

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

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

	2021 $'000	2020 $'000
Total liabilities	**2,391,640**	2,909,338
Less: cash and cash equivalents	**(115,963)**	(279,417)
Net debt	**2,275,677**	2,629,921
Total equity	**727,364**	722,369
Adjusted capital	**727,364**	722,369
Debt-to-adjusted capital ratio	**3.13**	3.64

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

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

21 EMPLOYEE BENEFITS

	2021 $'000	2020 $'000
Current		
Liability for annual leave	**3,212**	2,405
Liability for long service leave	**6,427**	6,193
Cash settled share-based payment liability	**370**	67
Short term employee benefits*	**6,101**	-
	16,110	8,665
Non-current		
Liability for long service leave	**327**	313
Cash settled share-based payment liability	**1,454**	303
	1,781	616

* During 2021, a reclassification has occurred to transfer Short term Employee Benefits previously treated as "Staff bonus provision" from "Provisions" note disclosure to "Employee Benefits" to present the balance in accordance with AASB 119. The comparative has not been restated as it is not material to the Company's overall Statement of Financial Position.

Share based payments

Performance Phantom Share Plan

In 2006 Daimler AG adopted the “2005-2007 Performance Phantom Share Plan” under which virtual shares (phantom shares) are granted to eligible employees entitling them to receive cash payment after four years of service. Total cash payments made to entitled employees in 2021 was $111,207. 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 Mercedes-Benz Group 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 Mercedes-Benz Group AG performance goals as compared with competitive and internal benchmarks (return on net assets and return on sales). Mercedes-Benz Group AG will no longer issue any common shares in connection with the Performance Phantom Share Plan.

As at 31 December 2021, the carrying amount of the liability recognised for the entitlements granted is $1,824,556 (2020: $370,143).

The number of phantom shares on-issue by Mercedes-Benz Group AG to key management personnel of the Company as at 31 December 2021 was 15,244 (2020: 11,162).

22 PROVISIONS

	Warranty $'000	Legal $'000	Other $'000	Total $'000
Balance at 1 January 2021	133,459	15,313	15,858	164,630
Provisions made during the year	44,525	4,384	1,443	50,352
Provisions used during the year	(21,773)	(215)	(2,275)	(24,263)
Provisions reversed in the year	(9,457)	(169)	(6,253)	(15,879)
Reclassification to employee benefits	-	-	(3,547)	(3,547)
Net unwind of discount	(2,540)	-	(38)	(2,578)
Balance at 31 December 2021	144,214	19,313	5,188	168,715
Current	34,596	19,313	4,428	58,337
Non-current	109,618	-	760	110,378
Total	144,214	19,313	5,188	168,715

Warranties

The Company issues various types of product warranties, under which it generally guarantees the performance of products delivered and services rendered for a certain period. The provision for warranties relates primarily to vehicles sold during the five years to 31 December 2021. The provision is based on estimates made from historical warranty data associated with similar products and services. The provision for these warranties covers expected costs for contractual warranty claims as well as expected costs for goodwill concessions and recall campaigns. The Company expects to pay out the liability over the next five years. During the year, $14.137 million was recognised as an expense in cost of sales (2020: $26.675 million) (refer to Note 8).

22 PROVISIONS (CONTINUED)

Legal

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

The Company is subject in Australia to a recall of vehicles with affected Takata airbags pursuant to a mandatory recall notice dated 28 February 2018 (Recall Notice). The Company has operated a consumer call centre for the period of the compulsory recall. Between June 2018 and March 2020, statements were made to consumers by multiple call centre operators that are alleged by the ACCC to be in breach of the terms of the Recall Notice and thereby in breach of the Australian Consumer Law (the Allegations). Accordingly, on 4 August 2021, the ACCC filed legal proceedings based on the Allegations against the Company in the Federal Court of Australia. The Company is defending the claim. During 2020 and 2021, the Company recognised a legal provision in respect of this matter, including a provision in relation to anticipated external legal costs that may arise as part of this matter.

On 18 October 2021, a number of Australian Mercedes-Benz dealers lodged a claim against the Company with a Federal Court in Australia. They allege that the Company forced the dealers to accept a change in their business model from a dealership model to an agency model and thus deprived them of the goodwill they created through their investments in the Australian Mercedes-Benz dealership network. They seek reinstatement of the dealership model or, alternatively, compensation for the damage they allegedly incurred. The Company considers those claims to be without merit and will defend itself against the claims. No provision has been recorded in relation to this claim, which has been disclosed as a contingent liability in Note 28. During the year, the Company has recognised a provision in relation to anticipated external legal costs that may arise as part of the dealer litigation.

In relation to the above-mentioned legal matters, as legal proceedings are actively under way, no further details can be disclosed in the Company's financial statements so as to not prejudice the Company's legal position in the matters.

Other provisions

Other provisions as at 31 December 2021 includes $1.22m of buyback provision to cover any expected loss (between the residual value guarantee and the wholesale selling price) when repurchasing the vehicle ($3.6m of previously recognised buyback provisions was reversed during the year which mainly related to X-class) and $1.62m relates to administrative, personnel and scrapping costs in relation to mandatory repairs related to Takata airbag recalls. Other provisions are calculated based on assessments by management of the likely future costs to be incurred in relation to the past event giving rise to the other provisions.

The Company agreed to enter into an enforceable undertaking (the Undertaking) with the Australian Competition and Consumer Commission in relation to the compulsory Takata airbag recall. The company had previously provided in 2019 $26.38 million in relation to potential alternative transport arrangements for certain eligible consumers as agreed in the Undertaking. Given the very low take up rate and actual requirements of alternative transport arrangements for consumers, coupled with the completion rate of the compulsory recall, the Company has decided to release $23.78 million of the previous provision during 2020 and $2.0 million of the provision in 2021.

23 DEFERRED INCOME

	Notes	**2021 $'000**	2020 $'000
Current			
Deferred income attributable to other related entities	32(d)	**882**	33
Other deferred income		**336**	1,225
		1,218	1,258
Non-current			
Deferred income attributable to other related entities	32(d)	**1,016**	-
Other deferred income		**9**	1,291
		1,025	1,291

24 CAPITAL AND RESERVES

Share capital

	2021 $'000	2020 $'000
Issued and paid-up share capital 35,000,000 fully paid ordinary shares of $2 par value each (2020: 35,000,000 ordinary shares of $2 par value each)	**70,000**	70,000

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

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

Dividends

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

Dividends totalling $62.644 million were declared in the year ended 31 December 2021 (2020: $1.355 million). Of the total dividend disclosed, $62.644 million was a cash distribution to its immediate parent (2020: $1.355 million).

	Cents per share	**Total amount $**	**Franked/ unfranked**	**Date of payment**
Final 2021 ordinary dividend	178.98	$62,644,000	Unfranked	14.12.2021

25 NOTES TO THE STATEMENT OF CASHFLOWS

(a) Reconciliation of cash

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

	Notes	**2021 $'000**	2020 $'000
Cash and cash equivalents	12	**115,963**	279,417

25 NOTES TO THE STATEMENT OF CASHFLOWS (CONTINUED)

(b) Reconciliation of cash flows from operating activities

Profit for the period		**67,639**	62,644
Adjustments for			
(Gain)/loss on sale of property, plant and equipment	6, 8(c)	**(83)**	(285)
Amortisation	15	**996**	1,106
Depreciation expenses	16	**8,802**	8,797
Impairment loss/(reversal)	8	**3,287**	(16,035)
Foreign exchange (gains)/losses	10	**(229)**	421
Income tax expense	11	**28,996**	33,160
Operating profit before changes in working capital		**109,408**	89,808
Change in assets and liabilities during the financial year			
(Increase)/decrease in trade and other receivables		**21,230**	61,080
(Increase)/decrease in inventories		**(170,814)**	358,368
Increase/(decrease) in trade and other liabilities		**95,028**	(63,077)
Increase/(decrease) in provisions		**12,695**	10,135
Net cash from operating activities		**67,547**	456,314
Net interest paid		**4,458**	(2,873)
Income taxes received / (paid)		**(116,734)**	(16,667)
Net cash inflow (outflow) from operating activities		**(44,729)**	436,774

(c) Cash flow reconciliation arising from financing activities

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

Cash provided by financing activities	**2021 $'000**	2020 restated* $'000
Changes from bank loans	**-**	(400,000)
Changes from commercial papers	**(254,936)**	52,110
Changes from notes	**(201,978)**	(810,211)
Changes from loans from other related entity	**(102,056)**	103,015
	(558,970)	(1,055,086)
Cash flow from financing activities	**(633,329)**	(1,129,805)
Interest paid	**19,850**	12,724
FX movements	**(11,405)**	57,751
Lease liabilities	**3,270**	2,889
Dividends paid	**62,644**	1,355
Net movements of net financing activities	**(558,970)**	(1,055,086)

* Refer to statement of cash flows for further information on this restatement.

26 SEGMENT INFORMATION

The Company comprises the following main business segments:

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

The principal activities of the Company are based in Australia.

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

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

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

2021	**Passenger cars $'000**	**Vans $'000**	**Corporate items $'000**	**Total $'000**
Revenue	**2,340,528**	**307,759**	**-**	**2,648,287**
Other income	**28,458**	**2,812**	**-**	**31,270**
Total revenue and other income	**2,368,986**	**310,571**	**-**	**2,679,557**
Depreciation & amortisation	**(9,271)**	**(527)**	**-**	**(9,798)**
Reportable segment profit/(loss) before tax	**88,941**	**7,694**	**-**	**96,635**
Reportable segment assets	**846,779**	**107,724**	**2,164,501**	**3,119,004**
Reportable segment liabilities	**724,016**	**169,158**	**1,498,466**	**2,391,640**
Capital expenditure	**(605)**	**(223)**	**-**	**(828)**
Impairment reversal/(losses)	**(4,204)**	**947**	**-**	**(3,257)**
Income tax expense	**-**	**-**	**(28,996)**	**(28,996)**

26 SEGMENT INFORMATION (CONTINUED)

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

27 LEASES

Leases as lessee

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

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

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

(a) Amounts recognised in the statement of financial position

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

	2021 $'000	2020 $'000
Right-of-use assets*		
Balance at January 1	**14,727**	9,400
Exercise of extension option	**-**	10,770
Lease modification	**57**	(1,964)
Disposals	**(45)**	(331)
Depreciation charge for the year	**(3,050)**	(3,148)
Balance at 31 December	**11,689**	14,727

* Right-of-use assets are presented as a separate asset class within Note 16 ‘Property, plant and equipment’.

27 LEASES (CONTINUED)

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

2021 Lease modification:
• Renegotiation of lease term of the training offices
2021 Disposals:
• Disposal of CBD lease facility due to lease termination

Judgements and Estimates:

The application of AASB16 requires the Company to make judgements that affect the valuation of lease liabilities and the valuation of right-of-use assets. These include determining the contracts in scope of AASB16, determining the contract term and determining the interest rate used for discounting of future cash flows. The lease term determined by the Company comprises non-cancellable period of lease contracts, periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Company is reasonably certain to not exercise that option.

	2021 $'000	2020 $'000
Lease liabilities*		
Current	**2,487**	3,154
Non-current	**8,960**	11,691
	11,447	14,845

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

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

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

	2021 $'000	2020 $'000
Leases under AASB 16		
Interest on lease liabilities	**139**	197
Depreciation charge of right-of-use assets	**3,050**	3,148
Expenses relating to leases of low-value assets (included in other expenses)	**502**	7
Total impact on profit or loss	**3,691**	3,352

(c) Amounts recognised in the statement of cash flows

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

	2021 $'000	2020 $'000
Cash flow under AASB 16		
Cash outflow from operating activities	**(139)**	(197)
Cash outflow from financing activities	**(3,270)**	(2,889)
Total cash outflow for leases	**(3,409)**	(3,086)

27 LEASES (CONTINUED)

Leases as lessor

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 for passenger vehicles and light commercial vehicles, and where the Company has agreed to provide residual value guarantees, are accounted for as Plant and equipment and presented in the Property, plant and equipment note disclosure as "Assets subject to operating lease" and depreciated over a straight-line basis. Additions for these plant & equipment 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. Upon expiry of the operating lease arrangements, these vehicles are transferred to inventory of the Company. These disposals are reflected as non-cash disposals. These operating leases have an average term of three years.

Residual value guarantees for operating leases

The Company agreed to provide residual value guarantees to MBFSAu, for the operating leases entered into between MBFSAu and their external customers described above.

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

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

Deferred income, representing the excess of the amount financed over the amount guaranteed, is recorded by the Company and amortised over a straight line basis over the term of the leases.

(a) Amounts recognised in the statement of financial position

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

	2021 $'000	2020 $'000
Liabilities for residual value guarantee*		
Current	**40,281**	32,779
Non-current	**3,785**	18
	44,066	32,797

* Included in "Payable to other related entities" in Note 18.

	2021 $'000	2020 $'000
Deferred income*		
Current	**882**	33
Non-current	**1,016**	-
	1,898	33

* Included in "Deferred income attributable to other related entities" in Note 23.

27 LEASES (CONTINUED)

Leases as lessor (continued)

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

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

	2021 $'000	2020 $'000
Operating leases		
Depreciation charge of assets subject to operating lease	**2,228**	1,749
Income attributable to operating leases	**(242)**	(1,732)
Total impact on profit or loss	**1,986**	17

28 CONTINGENCIES

(a) The Company has arranged for its bankers to guarantee its obligation to third parties. The used portion of the guarantee is $0.569 million (2020: $0.452 million) and the maximum amount of the guarantee available is $0.569 million (2020: $0.452 million). The Company has also arranged for its ultimate parent entity to guarantee its obligation to certain customers to a maximum of $7.8 million (2020: $7.8 million). This facility is fully available and not used at the reporting date (2020: nil).

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

(c) On 18 October 2021 a number of Australian Mercedes-Benz dealers lodged a claim against the Company with the Federal Court of Australia. They allege that the Company forced the dealers to accept a change in their business model from a dealership model to an agency model and thus deprived them of the goodwill they created through their investments in the Australian Mercedes-Benz dealership network. They seek reinstatement of the dealership model or, alternatively, compensation for the damage they allegedly incurred. The Company considers those claims to be without merit and will defend itself against the claims. No provision has been recognised in relation to this claim, which represents a contingent liability. As legal proceedings are actively under way, no further details can be disclosed in the Company's financial statements so as not to prejudice the Company's legal position on this matter. The Company has recognised a provision in relation to anticipated external legal costs that may arise as part of this litigation matter. Please refer to Note 22.

29 PARENT ENTITY

As at 31 December 2021, the ultimate parent entity of the Company is Daimler AG incorporated in the Federal Republic of Germany. On 1 February 2022, the ultimate parent entity of the Company renamed itself from Daimler AG to Mercedes-Benz Group AG. Further information on this change is disclosed in the "Events occurring after the reporting period" note disclosure. The ultimate parent entity is referred to by its former name throughout the Company's financial statements and will be replaced by the new company name in the Company's future financial statements.

The immediate parent entity of the Company is Daimler Australia/Pacific Pty Ltd, a company incorporated in Australia. The immediate parent of Daimler Australia/Pacific Pty Ltd is Mercedes-Benz AG (incorporated in the Federal Republic of Germany) wholly owned by Daimler AG (known as Mercedes-Benz Group AG from 1 February 2022). This entity is reported as the intermediate parent entity of the Company.

30 ECONOMIC DEPENDENCY

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

31 KEY MANAGEMENT PERSONNEL

The names of each person holding the position of director of the Company during the financial year are Mr F. Seidler, Mr V. Malzahn, Mr S. McHutchon & Ms D. Tarr. Apart from the Company's directors, the Company's key management personnel during the year include Mr P. Grogan, Director of Human Resources and Mr S. Trakilovic, General Counsel & Company Secretary.

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

	2021	2020
	$	$
Short-term employee benefits	**2,027,180**	1,903,732
Other long-term benefits	**19,433**	646,463
Post-employment benefits	**143,940**	213,274
Share-based payments	**97,348**	60,210
	2,287,901	2,823,679

32 OTHER RELATED PARTY TRANSACTIONS

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

(a) Transactions with ultimate parent entity

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

	Notes	**2021**	2020
		$'000	$'000
Current assets			
Trade and other receivables	13	**1,155**	18,580
Total current assets		**1,155**	18,580
Total assets		**1,155**	18,580
Current liabilities			
Trade and other liabilities	18	**1,621**	1,640
Total current liabilities		**1,621**	1,640
Total liabilities		**1,621**	1,640
Net interest income/(expense)	10	**(263)**	156
Net guarantee fee expense	10	**(2,093)**	(3,075)

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 2021 was $850 million and €300 million (2020: $925 million and €375 million).

32 OTHER RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with ultimate parent entity (continued)

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 2021 was nil (2020: $255 million).

(b) Transactions with intermediate parent entity

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

	Notes	**2021 $'000**	2020 $'000
Current assets			
Trade and other receivables	13	**682**	731
Total current assets		**682**	731
Total assets		**682**	731
Current liabilities			
Trade and other liabilities	18	**416,353**	330,486
Total current liabilities		**416,353**	330,486
Total liabilities		**416,353**	330,486
Warranty recoveries		**654**	1,190

The Company also acquires inventory from the intermediate parent entity. The cost of inventory sold during the year that was purchased from the intermediate parent entity totalled $1,993 million (2020: $1,770 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	**2021 $'000**	2020 $'000
Current assets			
Trade and other receivables	13	**13,609**	13,200
Total current assets		**13,609**	13,200
Total assets		**13,609**	13,200
Current liabilities			
Trade and other liabilities	18	**18,709**	36,500
Loans and borrowings	19	**141,573**	141,573
Total current liabilities		**160,282**	178,073
Total liabilities		**160,282**	178,073
Net interest income/(expense)	10	**(14)**	(423)
Other income	6	**174**	160

32 OTHER RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Transactions with immediate parent entity (continued)

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

At 31 December 2021 the Company had an intercompany payable of $17.314 million (2020: $35.122 million payable) relating to current tax receivable assumed by the provisional head entity of the tax consolidated group.

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

(d) Transactions with other related parties

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

	Notes	**2021 $'000**	2020 $'000
Current assets			
Trade and other receivables	13	**1,228,532**	1,904,098
Total current assets		**1,228,532**	1,904,098
Non-current assets			
Trade and other receivables	13	**762,364**	598,492
Total non-current assets		**762,364**	598,492
Total assets		**1,990,896**	2,502,590
Current liabilities			
Trade and other liabilities	18	**54,496**	48,744
Loans and borrowings	19	**959**	103,015
Deferred income	23	**882**	33
Total current liabilities		**56,337**	151,792
Non-current liabilities			
Trade and other liabilities	18	**3,785**	18
Deferred income	23	**1,016**	-
Total non-current liabilities		**4,801**	18
Total liabilities		**61,138**	151,810

	Notes	**2021 $'000**	2020 $'000
Net interest income	10	**14,872**	24,618
Net guarantee fee income	10	**1,969**	2,401
Other revenue	5	**242**	1,732
Other income	6	**10,289**	10,669
Depreciation on leased assets with related parties	16	**(2,228)**	(1,749)

32 OTHER RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Transactions with other related parties (continued)

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

The Company also acquires inventory from other related parties. The cost of inventory sold during the year that was purchased from other related entities totalled $228 million (2020: $174 million).

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

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

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

33 EVENTS OCCURRING AFTER THE REPORTING PERIOD

The following occurred subsequent to 31 December 2021:

• On 1 January 2022, the Company implemented the agency business model for the sale of the balance of its passenger car product range (the agency model was previously implemented for the sale of its EQ range in 2019), in response to changing retailing and consumer behaviour evident in Australia and in other major markets around the world. Under the agency model, the Company is the sole retail entity, whereby Dealers are the Agents for the sale and delivery of new passenger vehicles.

• On 1 February 2022, the ultimate parent entity of the Company renamed itself from Daimler AG to Mercedes-Benz Group AG. With the renaming of Daimler, the ultimate parent entity completes its realignment that began last year with the spin-off (named "Project Focus") of the truck and bus business and on 10 December 2021, Daimler Truck Holding AG was launched as an independent company on the Frankfurt Stock Exchange. The new Mercedes-Benz Group is thus fully concentrated on its passenger car brands Mercedes-Benz, Mercedes-AMG, Mercedes-Maybach, Mercedes EQ as well as Mercedes-Benz Vans.

Other than what is 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.

Independent Reasonable Assurance Report to the Directors of Mercedes Benz Australia/Pacific Pty Ltd

Conclusion

In our opinion, Mercedes Benz Australia/Pacific Pty Ltd has complied, in all material respects, with the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format as evaluated against Article 3 Single Electronic Format as at 31 December 2021.

Scope

The subject of our assurance engagement is whether Mercedes Benz Australia/Pacific Pty Ltd has complied, in all material respects, with the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the Regulation) as evaluated against Article 3 Single Electronic Format (Article 3) as at 31 December 2021.

We have not been engaged to provide an assurance conclusion on Mercedes Benz Australia/Pacific Pty Ltd's compliance with the Regulation as evaluated against Article 4 Marking up IFRS consolidated financial statements as Mercedes Benz Australia/Pacific Pty Ltd is not a consolidated entity and management has advised that this Article is not applicable.

Basis for Our Conclusion

We conducted our engagement in accordance with Australian Standard on Assurance Engagements ASAE 3100 *Compliance Engagements* (ASAE 3100). We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

In accordance with ASAE 3100 we have:

- used our professional judgement to plan our procedures and assess the risks that may cause material non-compliance with the Regulation;
- considered internal controls implemented to meet the Regulation; however, we do not express a conclusion on their effectiveness; and
- ensured that the engagement team possess the appropriate knowledge, skills and professional competencies.

How We Define Reasonable Assurance and Material Non-Compliance

Reasonable assurance is a high level of assurance, but is not a guarantee that it will always detect a material non-compliance with the Regulation when it exists.

Instances of non-compliance are considered material if, individually or in the aggregate, they could reasonably be expected to influence relevant decisions of the intended users taken on the basis of Mercedes Benz Australia/Pacific Pty Ltd's compliance with the Regulation.

Inherent Limitations

Because of the inherent limitations of an assurance engagement, together with the internal control structure it is possible that fraud, error, or non-compliance with the Regulation may occur and not be detected.

A reasonable assurance engagement as at 31 December 2021 does not provide assurance on whether compliance with the Regulation will continue in the future.

Use of this Assurance Report

This report has been prepared for the Directors of Mercedes Benz Australia/Pacific Pty Ltd and the Commission de Surveillance du Secteur Financier for the purpose of assisting the Directors with their compliance with the Regulation and may not be suitable for another purpose. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Directors of Mercedes Benz Australia/Pacific Pty Ltd and the Commission de Surveillance du Secteur Financier, or for any other purpose other than that for which it was prepared.

Management's Responsibility

Management are responsible for:

- The compliance activities undertaken to meet the Regulation;
- Identification of the risks that threaten the compliance requirements identified above being met and identifying, designing and implementing controls which will mitigate those risks and monitoring ongoing compliance;
- Identification of the compliance requirements if not identified by law and regulation; and
- Preparation of the financial statements in compliance with the requirements set out in the Regulation.

Our Responsibility

Our responsibility is to perform a reasonable assurance engagement in relation to Mercedes Benz Australia/Pacific Pty Ltd's compliance with the Regulation as evaluated against Article 3 as at 31 December 2021 and to issue an assurance report that includes our conclusion.

Our Independence and Quality Control

We have complied with our independence and other relevant ethical requirements of the *Code of Ethics for Professional Accountants (including Independence Standards)* issued by the Accounting Professional and Ethical Standards Board, and complied with the applicable requirements of Australian Standard on Quality Control 1 to maintain a comprehensive system of quality control.

KPMG

KPMG

Penny Stragalinos

Partner

Melbourne

28 April 2022