Mercedes-Benz Australia/Pacific Pty Ltd

ABN 23 004 411 410

ANNUAL FINANCIAL REPORT
31 DECEMBER 2018

Mercedes-Benz Australia/Pacific Pty Ltd

Year ended 31 December 2018

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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 2018 and the auditor's report thereon.

Directors

Mr. Horst von Sanden (CEO) Director since 17 December 2013
Mr. Volker Malzahn (CFO) Director since 1 August 2018
Mr. Klaus Ebinger (CFO) Resigned 1 August 2018

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 vehicles and their component parts.

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

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

Operating and financial review

The Company made a profit, after income tax, from continuing operations for the year ended 31 December 2018 of $43.529 million (2017: $39.273 million).

Dividends - Mercedes-Benz Australia/Pacific Pty Ltd

Dividends paid or declared by the Company to members since the end of the previous financial year were: (2017: $114.0 million)

	Cents per share	Total amount $	Franked/ unfranked	Date of payment
Final 2018 ordinary dividend	$571.43	$200,000,000.00	Unfranked	07.12.2018

Significant changes in the state of affairs

In the opinion of the Directors there was a significant change in the state of affairs of the Company that occurred during the financial year under review. On 1 October 2017, the business relating to Truck and Bus products was transferred to newly incorporated Daimler Truck and Bus Australia Pty Ltd; and Van products (including ute/pickup) was transferred to newly incorporated Mercedes-Benz Vans Australia/Pacific Pty Ltd. As a result, the comparative period balances for the nine months from 1 January 2017 to 30 September 2017 include the results of Daimler Truck and Bus & Van products which will impact the comparability between the 2018 and prior period results.

The Company applies AASB 15 for the first time for the financial year beginning on 1 January 2018. First-time adoption has been conducted retrospectively. The figures reported for the previous year have been adjusted by the effects arising from the adoption of AASB 15.

Environmental regulation

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

Events subsequent to reporting date

Subsequent to 31 December 2018, there has not arisen in the interval between the end of the financial year and the date of this report, any item, transaction or event, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.

Likely developments

Operations

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

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

Indemnification and insurance of officers and auditors

Indemnification

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

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

Insurance premiums

For the period 1 April 2018 to 1 April 2019, the Company has paid insurance premiums of $2,972 (2017: $3,430) in respect of directors’ and officers’ liability and legal expenses insurance. This insurance was renewed in April 2019 to provide coverage for the remainder of the year ending 31 December 2019.

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

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 8 and forms part of the Directors' report for the financial year ended 31 December 2018.

Rounding of amounts

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

Signed in accordance with a resolution of the directors:

Mr. Horst von Sanden
CEO and Director

Melbourne, 30/04/19

Mr. Volker Malzahn
CFO and Director

Melbourne,
30/04/2019

Independent Auditor's Report

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

Opinion

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

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

- giving a true and fair view of the ***Company's*** financial position as at 31 December 2018 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 2018;
- *Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows* for the year then ended;
- Notes including a summary of significant accounting policies; and
- *Directors' Declaration.*

Basis for opinion

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

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

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

Key Audit Matters

The ***Key Audit Matter*** identified was the *Completeness of the provision for warranty claims.*

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.

Completeness of the provision for warranty claims ($69.6m - Note 24)	
Refer to Note 24 to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
The completeness of the provision for warranty claims is a key audit matter due to the: • Significance of the balance to the financial statements of the Company; and • Challenges in auditing a forward-looking estimate, designed to predict patterns of claimable events. This is significantly more complex for recently released vehicles which have technologically advanced features for which there is little to no precedent of claimable events. The Company's provision for warranty claims incorporates estimates of claims relating to vehicles sold with recently introduced, or heavily upgraded technologies such as semi-autonomous driving capability and hybrid propulsion. Senior members of the audit team focused on the key factors driving management's estimate of the provision of warranty claims.	Our procedures included, amongst others: • Involving our IT specialists and evaluating IT and manual controls relating to the determination of the provision for warranty claims. Controls tested include: o Review and approval of warranty claims by management; o Information technology interface reconciliation between the warranty claims system and the Company's financial reporting system; and o Review and approval of the provision model computation by management. • Checking the population of vehicles included in the provision model to details of vehicle sales maintained by the Company; • Inspecting internal reporting prepared by management and the head office in Germany, regarding known defects in particular models and comparing to the Company's provision model; • Checking the mathematical accuracy of management's warranty provision model; • Assessing the accuracy of the Company's previous provision for warranty claims by comparing the prior year provision against actual claims settled during the current period to inform our evaluation of the current period estimate; and • Through the inspection of the Company's minutes of board meetings, documentation prepared by the warranty management team, and meetings and inquiries

	with senior management, we assessed the factors the Company considered when determining the provision for warranty claims for new vehicle models. Key factors considered included claims experience since the vehicle has been on the market in Australia and other countries, and claims experience from other models with comparable specification and equipment. We checked for existence and consistency of these factors in the provision for warranty claims.

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.

KPMG

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

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

KPMG

KPMG

James Dent
Partner
Melbourne
30 April 2019

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 2018 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

James Dent
Partner
Melbourne
30 April 2019

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

   (a) the financial statements and notes set out on pages 10 to 71 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 2018 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 2018, together with a description of the principal opportunities and risks associated with the expected development of the Company; and

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

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

Signed in accordance with a resolution of the directors:

Mr. Horst von Sanden
CEO and Director

Melbourne, 30/04/19

Mr. Volker Malzahn
CFO and Director

Melbourne, 30/04/2019

	Notes	**2018 $'000**	2017 reinstated $'000
Current assets			
Cash and cash equivalents	13	**124,677**	170,589
Trade and other receivables	14	**2,540,704**	2,774,314
Inventories	15	**693,425**	526,444
Derivative financial instruments	21	**20,200**	230
Total current assets		**3,379,006**	3,471,577
Non-current assets			
Trade and other receivables	14	**1,340,480**	1,401,257
Deferred tax assets	18	**59,955**	69,311
Intangible assets	16	**4,234**	3,184
Property, plant and equipment	17	**61,191**	74,716
Derivative financial instruments	21	**290**	10,346
Total non-current assets		**1,466,150**	1,558,814
Total assets		**4,845,156**	5,030,391
LIABILITIES			
Current liabilities			
Trade and other payables	19	**604,949**	695,772
Loans and borrowings	20	**2,023,988**	1,868,900
Derivative financial instruments	21	**466**	230
Employee benefits	23	**2,637**	2,388
Provisions	24	**36,189**	40,636
Deferred income		**819**	185
Total current liabilities		**2,669,048**	2,608,111
Non-current liabilities			
Trade and other payables	19	**32,172**	30,400
Loans and borrowings	20	**1,340,480**	1,407,816
Derivative financial instruments	21	**290**	3,346
Employee benefits	23	**4,491**	4,390
Provisions	24	**52,568**	73,959
Deferred income		**7**	6
Total non-current liabilities		**1,430,008**	1,519,917
Total liabilities		**4,099,056**	4,128,028
Net assets		**746,100**	902,363
Equity			
Share capital	25	**70,000**	70,000
Reserves		**64**	(144)
Retained earnings		**676,036**	832,507
Total equity		**746,100**	902,363

The notes on pages 14 to 71 are an integral part of these financial statements.

	Notes	**2018 $'000**	2017 reinstated $'000
Continuing operations			
Revenue	6	**2,281,497**	3,065,723
Cost of sales	9(a)	**(2,132,005)**	(2,899,742)
Gross Profit		**149,492**	165,981
Other income	7	**49,724**	28,801
Employee expenses	8	**(34,431)**	(77,119)
Amortisation	16	**(998)**	(150)
Depreciation expense	17	**(5,848)**	(10,837)
Impairment losses	9(b)	**(2,810)**	(3,298)
Other expenses	9(c)	**(98,833)**	(42,815)
Result from operating activities		**56,296**	60,563
Finance income	11	**89,608**	102,827
Finance costs	11	**(85,049)**	(105,230)
Net finance (cost) / income	11	**4,559**	(2,403)
Profit before income tax		**60,855**	58,160
Income tax expense	12	**(17,326)**	(18,887)
Profit from continuing operations		**43,529**	39,273
Profit from discontinued operations net of tax		**-**	63,185
Profit for the period		**43,529**	102,458
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges - reclassified to profit or loss		**-**	25
Effective portion of changes in fair value of cash flow hedges	11	**297**	(205)
Tax on items that may be reclassified subsequently to profit or loss	12	**(89)**	61
Total items that may be reclassified subsequently to profit or loss		**208**	(119)
Other comprehensive income for the period, net of tax		**208**	(119)
Total comprehensive income for the period		**43,737**	102,339

The notes on pages 14 to 71 are an integral part of these financial statements.

	Share capital $'000	Hedging reserves $'000	Share reserves $'000	Retained earnings reinstated $'000	Total $'000
Balance at 1 January 2017	70,000	(25)	-	836,453	906,428
Profit for the period	-	-	-	102,458	102,458
Other comprehensive income					
Cash flow hedges – reclassified to profit or loss	-	25	-	-	25
Effective portion of changes in fair value of cash flow hedges, net of income tax	-	(144)	-	-	(144)
Total other comprehensive income/(loss)	-	(119)	-	-	(119)
Total comprehensive income/(loss) for the period	-	(119)	-	102,458	102,339
Dividends to owners of the Company	-	-	-	(114,000)	(114,000)
LED restructuring reserve	-	-	-	7,596	7,596
Balance at 31 December 2017	**70,000**	**(144)**	**-**	**832,507**	**902,363**
Balance at 1 January 2018	70,000	(144)	-	832,507	902,363
Profit for the period	-	-	-	43,529	43,529
Other comprehensive income					
Cash flow hedges – reclassified to profit or loss	-	-	-	-	-
Effective portion of changes in fair value of cash flow hedges, net of income tax	-	208	-	-	208
Total other comprehensive income/(loss)	-	208	-	-	208
Total comprehensive income/(loss) for the period	-	**208**	-	**43,529**	**43,737**
Dividends to owners of the Company	-	-	-	(200,000)	(200,000)
LED restructuring reserve	-	-	-	-	-
Balance at 31 December 2018	**70,000**	**64**	-	**676,036**	**746,100**

The notes on pages 14 to 71 are an integral part of these financial statements.

	Notes	**2018 $'000**	2017 $'000
Cash flows from operating activities			
Cash receipts from customers		**2,568,411**	3,367,839
Cash paid to suppliers and employees		**(2,753,250)**	(3,436,946)
Cash generated from operations		**(184,839)**	(69,107)
Interest received		**85,646**	107,470
Interest paid		**(86,949)**	(111,839)
Income taxes paid		**(39,737)**	(53,826)
Net cash (outflow) from operating activities	26(b)	**(225,879)**	(127,302)
Cash flows (used in)/from investing activities			
Payment for acquisition of property, plant and equipment		**(4,755)**	(12,825)
Proceeds from sale of property, plant and equipment		**513**	51,236
Proceeds from sale of investments		**-**	90,006
Net cash (outflow) inflow from investing activities		**(4,242)**	128,417
Cash flows from financing activities			
Proceeds from borrowings		**6,786,404**	9,495,229
Repayment of borrowings		**(6,750,765)**	(9,596,000)
Proceeds from borrowings from ultimate parent entity		**1,276,141**	1,849,540
Repayment of borrowings from ultimate parent entity		**(1,134,095)**	(1,899,928)
Proceeds from borrowings from other related entities		**2,425**	624,572
Repayment of borrowings from other related entities		**(141,137)**	(470,000)
Loans to other related entities		**(14,882,985)**	(14,993,253)
Loans repaid by other related entities		**15,184,914**	15,202,428
Loans to external parties		**(928,393)**	-
Loans repaid by external parties		**971,700**	-
Dividends paid		**(200,000)**	(114,000)
Net cash inflow from financing activities		**184,209**	98,588
Net (decrease) increase in cash and cash equivalents		**(45,912)**	99,703
Cash and cash equivalents at the beginning of the period		**170,589**	70,886
Cash and cash equivalents at end of year		**124,677**	170,589

The notes on pages 14 to 71 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 Lexia Place, Mulgrave, Victoria 3170.

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

2. BASIS OF PREPARATION

(a) Statement of compliance

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

The financial statements were authorised for issue by the Board of Directors on 30 April 2019.

(b) Basis of measurement

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

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

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

The financial statements have been prepared on a going concern basis.

(c) Functional and presentation currency

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

The Company is of a kind referred to in *ASIC 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.

(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 18 - Tax assets and liabilities
- Notes 20, 21 and 22 - Loans and borrowings, Derivative Financial Instruments and Financial Instruments
- Note 24 - Provisions
- Note 28- Operating Leases
- Note 29 - Contingencies

3. CHANGES TO SIGNIFICANT ACCOUNTING POLICIES

(a) AASB 15 Revenue from Contracts with Customers

Application of AASB 15 Revenue from Contracts with Customers

The Company applies AASB 15 for the first time for the financial year beginning on 1 January 2018. First-time adoption has been conducted retrospectively. The figures reported for the previous year have been adjusted by the effects arising from the adoption of AASB 15.

The Company uses the following practical expedients available under AASB 15 for retrospective first-time adoption:
- Contracts concluded until 31 December 2016 (in application of previously relevant accounting standards) were not reassessed under AASB 15. The impact on the Company's profitability, liquidity and capital resources or financial position is assessed to be not material.
- Contracts that were modified before January 1, 2017 have not been reassessed pursuant to the provisions of AASB 15 for contract modifications. The application of this practical expedient did not have any major impact on the Company's profitability, liquidity and capital resources or financial position.
- At December 31, 2017, the amount of the transaction price allocated to the remaining performance obligations is not disclosed and an explanation of when that amount is expected to be recognised as revenue is not given.

First-time adoption of AASB 15 particularly affects the Company in the following areas:

Contract liabilities
AASB 15 includes guidance on the presentation of contract fulfilment and contract obligations. These are assets and liabilities from contracts with customers which arise dependent on the relationship between the entity's performance and the customer's payment. Therefore, a contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer.

The guidance led to reclassifications in the Statement of Financial Position from deferred income and other liabilities into contract liabilities classified under trade and other payables.

Sale of vehicles for which the Company enters into a repurchase obligation
AASB 15 differentiates between three forms of repurchase agreements: a forward (an entity's obligation to repurchase the asset), a call option (an entity's right to repurchase the asset) and a put option (an entity's obligation to repurchase the asset at the customer's request). The latter can lead to accounting changes since under AASB 15, such vehicle sales might necessitate the reporting of a sale with the right of return. Such transactions have so far been reported as operating leases.

Sale of vehicles with a residual-value guarantee
Under AASB 15, arrangements such as when an entity provides its customer with a guaranteed minimum resale value that he receives on resale do not constraint the customer in its ability to direct the use of, and obtain substantially all of the benefits from the asset. At contract inception of a sale with a residual-value guarantee an entity therefore has to recognize revenue. However, a potential compensation payment to the customer has to be considered (revenue deferral).

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

3. CHANGES TO SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) AASB 15 Revenue from Contracts with Customers (continued)

Application of AASB 15 Revenue from Contracts with Customers (continued)

Date of recognition of sales incentives
Under AASB 15, obligations from sales transactions are presented by the Company as contract liabilities. Obligations from sales transactions which have previously been accounted for as a provision might necessitate earlier recognition as contract liabilities under AASB 15 due to different recognition principles.

The following tables summarise the impacts of adopting AASB 15 on the financial statements.

Statement of financial position

As at 31 December 2017	*As previously reported $'000*	*Adjustments $'000*	*As restated $'000*
Trade and other receivables	2,773,862	452	2,774,314
Total current assets	**3,471,125**	**452**	**3,471,577**
Deferred Tax asset	61,370	7,941	69,311
Total non-current assets	**1,550,873**	**7,941**	**1,558,814**
Total assets	**5,021,998**	**8,393**	**5,030,391**
Trade and other payables	(572,176)	(123,596)	(695,772)
Provisions	(112,904)	72,268	(40,636)
Deferred income	(24,555)	24,370	(185)
Total current liabilities	**(2,581,153)**	**(26,958)**	**(2,608,111)**
Trade and other payables	(44)	(30,356)	(30,400)
Provisions	(75,993)	2,034	(73,959)
Deferred Income	(28,328)	28,322	(6)
Total Non-Current Liabilities	**(1,519,917)**	**-**	**(1,519,917)**
Total liabilities	**(4,101,070)**	**(26,958)**	**(4,128,028)**
Net assets	**920,928**	**(18,565)**	**902,363**
Retained earnings	851,072	(18,565)	832,507
Total equity	**920,928**	**(18,565)**	**902,363**

3. CHANGES TO SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) AASB 15 Revenue from Contracts with Customers (continued)

Application of AASB 15 Revenue from Contracts with Customers (continued)

As at 31 December 2017	*As previously reported $'000*	*Adjustments $'000*	*As restated $'000*
Statement of profit or loss and other comprehensive income			
For the period 31 December 2017			
Revenue	**3,092,649**	**(26,926)**	**3,065,723**
Cost of Sales	**(2,900,161)**	**419**	**(2,899,742)**
Other Income	**28,801**	**-**	**28,801**
Total expenses	**(134,219)**	**-**	**(134,219)**
Net finance Cost	**(2,403)**	**-**	**(2,403)**
Profit before income tax	**84,667**	**(26,507)**	**58,160**
Income tax expense	**(26,829)**	**7,942**	**(18,887)**
Profit from continuing operations	**57,838**	**(18,565)**	**39,273**
Profit from discontinued operations	**63,185**	**-**	**63,185**
Profit for the period	**121,023**	**(18,565)**	**102,458**

There has been no material impact on other comprehensive income and statement of cash flows on transition to AASB 15.

(b) AASB 9 Financial Instruments

Application of AASB 9

The Company applies AASB 9 initially for reporting periods beginning on and after January 1, 2018. Initial application is made retrospectively. In accordance with the transition requirements, the Company chose to present prior periods in accordance with AASB 139. As an exception, the transition for recognition of fair-value changes of certain non-designated components of derivatives through other comprehensive income is to be applied retrospectively to the comparative figures.

Initial application of AASB 9 lead to the following major changes:

Financial assets. AASB 9 introduces a comprehensive classification model for financial assets that classifies financial assets into three categories: financial assets at amortised cost, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss. Under AASB 139, financial assets were classified as loans and receivables, available-for-sale financial assets and financial assets at fair value through profit or loss.

Financial assets that give rise to cash flows consisting only of payments of principal and interest are classified in accordance with the Company's business model for holding these instruments. Financial assets that are held in a business model with the objective to hold them until maturity and collect the contractual cash flows are measured at amortised cost. These business models are managed principally based on interest-rate structure and credit risk. If the business model comprises the intention to hold the financial assets to collect the contractual cash flows but expects to sell these financial assets if this is necessary, e.g. to fulfil a specific need for liquidity, then these instruments are measured at fair value through other comprehensive income. Financial assets that have only cash flows of principal and interest but are not held within one of the business models described above are measured at fair value through profit or loss.

3. CHANGES TO SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) AASB 9 Financial Instruments (continued)

Application of AASB 9 (continued)

Financial assets that contain cash flows other than those of principal and interest, such as interests in money-market funds or derivatives including separated embedded derivatives, are measured at fair value through profit or loss.

Trade receivables and receivables from financial services are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They were categorised as loans and receivables under AASB 139 and therefore measured at amortised cost. All of these instruments are categorised as measured at amortised cost using the effective interest rate method.

Impairment model based on expected credit losses. AASB 9 introduces the expected credit loss impairment approach to be applied on all financial assets (debt instruments) at amortised cost or at fair value through other comprehensive income. Under AASB 139, these instruments were assessed to determine whether there has been objective evidence of impairment. Objective evidence may exist for example if a debtor is facing serious financial difficulties or there is a substantial change in the debtor's technological, economic, legal or market environment. Under AASB 9 the new approach takes projections of the future into consideration.

Expected credit losses are measured as the probability-weighted present value of all cash shortfalls over the expected life of each financial asset. For receivables from financial services, expected credit losses are mainly calculated with a statistical model using three major risk parameters: probability of default, loss given default and exposure at default. Under AASB 139, the amount of the loss on loans and receivables was the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding expected future credit losses not yet incurred), discounted at the financial asset's original effective interest rate.

The effect of adopting AASB 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements. The Company uses the following practical expedients available under AASB 9 for retrospective first-time adoption:
- Calculation of the expected credit losses on trade receivables using a provision matrix. The Company used its historical credit loss experience (adjusted as appropriate to reflect of the current and forecast conditions and remove the effect of historical conditions not relevant to the future contractual cash flows) for trade receivables to estimate the 12-month expected credit losses or the lifetime expected credit losses on the financial assets as relevant. The impact on the Company's profitability, liquidity and capital resources or financial position is assessed to be not material.

The original measurement categories and carrying amounts of financial instruments according to AASB 39 as well as the new measurement categories and carrying amounts of financial instruments according to AASB 9 are summarised in the following table.

There has been no material impact on the impairment allowance and on the components of equity from first-time adoption of AASB 9.

3. CHANGES TO SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) AASB 9 Financial Instruments (continued)

Application of AASB 9 (continued)

	Measurement category **		Carrying amount		
	Original (AASB 139)	New (AASB 9)	Original	New	Difference
			$000*	$000*	
Financial assets					
Interest rate swap contracts	Cash flow - hedging instrument	Cash flow - hedging instrument	2,820	2,820	-
Interest rate swap contracts	Fair value - hedging instrument	Fair value - hedging instrument	757	757	-
Cross currency swap contracts	Cash flow - hedging instrument	Cash flow - hedging instrument	6,999	6,999	-
Cash and cash equivalents	Loans and receivables	Other financial assets	170,589	170,589	-
Trade and other receivables	Loans and receivables	Other financial assets	3,881,184	3,881,184	-
Total financial assets			**4,062,349**	**4,062,349**	
Financial liabilities					
Interest rate swap contracts	Cash flow - hedging instrument	Cash flow - hedging instrument	(2,819)	(2,819)	-
Interest rate swap contracts	Fair value - hedging instrument	Fair value - hedging instrument	(757)	(757)	-
Bank loans (secured)	Other financial liabilities	Other financial liabilities	(1,615,000)	(1,615,000)	-
Notes issued (secured)	Other financial liabilities	Other financial liabilities	(1,227,508)	(1,227,508)	-
Commercial papers secured	Other financial liabilities	Other financial liabilities	(279,636)	(279,636)	-
Loans from other related parties	Other financial liabilities	Other financial liabilities	(154,572)	(154,572)	-
Trade and other payables	Other financial liabilities	Other financial liabilities	(572,220)	(572,220)	-
Total financial liabilities			**(3,852,512)**	**(3,852,512)**	

4. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Foreign currencies

Transactions

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

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

(b) Financial instruments

Financial Instruments

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

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

Non-derivative financial assets

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

Financial assets at amortised cost

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

Non-derivative financial liabilities

4. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments (continued)

Financial Instruments (continued)

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

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

Financial liabilities measured at amortised cost

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

Offsetting of financial instruments

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

Derivative financial instruments, including hedge accounting

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

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

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

Cash flow hedges

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

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

Other non-trading derivatives

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

4. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments (continued)

Share capital

Ordinary shares

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

Dividends

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

(c) Property, plant and equipment

Recognition and measurement

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

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

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

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

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

Depreciation

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

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

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

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.

4. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Property, plant and equipment (continued)

Subsequent costs

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

(d) Leased assets

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

(e) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Cost may also include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventories.

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

4. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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. For debt instruments that are not receivables from financial services, a significant increase in credit risk is assessed mainly based on past-due information or the probability of default.

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

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

Measurement of expected credit losses

Expected credit losses are measured in a way that reflects:

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

4. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Impairment (continued)

Non-derivative financial assets (continued)

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

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

Significant modification (e.g., that leads to a change in the present value of the contractual cash flows of 10%) leads to derecognition of financial assets. If the terms of a contract 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.

(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.

4. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Employee benefits (continued)

Short-term employee benefits

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

Share-based payment transactions

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

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

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

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

(h) Provisions

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

Warranties

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

Legal

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

Onerous contracts

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

4. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Revenue

Goods sold

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

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

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

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

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

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

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

4. 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 on a straight-line basis over the term of the agreement.

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

(j) Lease payments

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

Determining whether an arrangement contains a lease

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

Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Company’s incremental borrowing rate.

(k) Finance income and expenses

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

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

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

(l) Taxation

Tax Consolidation

The Company is a wholly owned Australian subsidiary in a tax-consolidated group, with Daimler Australia/Pacific Pty Ltd as the head entity. As a consequence, all members of the tax-consolidated group are taxed as a single entity from January 2003.

4. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Taxation (continued)

Tax Consolidation (continued)

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

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

Income tax

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. 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.

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

Nature of tax funding and sharing arrangements

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

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

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

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

4. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Segment reporting

Determination and presentation of operating segments

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

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

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

(n) Goods and Services Tax

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

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

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

(o) New standards and interpretations not yet adopted

The Company has identified the following accounting standards, effective for annual reporting periods beginning on or after 1 January 2019 that are available for early adoption at 31 December 2018, which may impact the Company in the period of initial application:

AASB 16 Leases:

AASB 16 Leases becomes mandatory for the Company's 2019 financial statements and could bring certain operating leases onto the balance sheet. The Company has not early adopted this standard and the extent of the impact has not yet been determined.

The Company is assessing the potential impact on its financial statements resulting from the application of AASB 16.

5. DETERMINATION OF FAIR VALUES

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

(a) Trade and other receivables

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

5. DETERMINATION OF FAIR VALUES (CONTINUED)

(b) Loans and borrowings

Fair value of loans and borrowings is determined for disclosure purposes (Note 20). The fair value of loans and borrowings that are readily traded are revalued at reporting date to market value using quoted market prices or, if not readily traded, are measured based on present value of future expected principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(c) Derivatives

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

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

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the entity and counterparty when appropriate. Refer to Note 22 for more information.

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

6. REVENUE

Revenue disclosed in the Statement of Profit or Loss includes revenue from contracts with customers and other revenue not in the scope of AASB 15. Other revenue primarily comprises revenue from the rental and leasing business (AASB 17) and interest from the financing services business .

Revenue according to AASB 15 includes revenue that was included in the contract liabilities at 31 December 2018 in an amount of $41.372m (2017: $43.244m)

The following table, revenue from contracts with customers (including revenue related to a discontinued operation) is disaggregated by major products and service lines. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segments.

2018	**Cars $'000**	**Vans $'000**	**Trucks and Buses $'000**	**Other $'000**	**Total $'000**
Revenue according to AASB 15	**2,005,954**	**-**	**-**	**274,018**	**2,279,972**
Other Revenue	**-**	**-**	**-**	**1,525**	**1,525**
Total revenue	**2,005,954**	**-**	**-**	**275,543**	**2,281,497**

2017 reinstated	**Cars $'000**	**Vans $'000**	**Trucks and Buses $'000**	**Other $'000**	**Total $'000**
Revenue according to AASB 15	**2,002,726**	**253,653**	**550,913**	**247,660**	**3,054,952**
Other Revenue	**-**	**-**	**-**	**10,771**	**10,771**
Total revenue	**2,002,726**	**253,653**	**550,913**	**258,431**	**3,065,723**

7. OTHER INCOME

	Notes	2018 $'000	2017 $'000
Rental income			
Employee lease program		**1,799**	1,742
External customers		**-**	583
Rendering of services		**20,323**	3,993
Other			
From other related parties	33(b), 33(c)	**23,921**	7,543
External parties		**3,681**	11,650
Gain on disposal of property, plant and equipment		**-**	3,290
Total other income		**49,724**	28,801

8. EMPLOYEE EXPENSES

	2018 $'000	2017 $'000
Wages and salaries	**(27,492)**	(58,208)
Other associated personnel expenses	**(3,532)**	(6,861)
Contributions to defined contribution plans	**(2,295)**	(5,428)
Long service leave expense	**(398)**	(1,584)
Annual leave expense	**(379)**	(4,391)
Termination benefits	**(135)**	(647)
Personnel restructuring expense	**(200)**	-
Total employee expenses	**(34,431)**	(77,119)

9. EXPENSES

(a) Cost of sales

	2018 $'000	2017 $'000
Cost of sales	**(2,124,008)**	(2,799,453)
Warranty, maintenance and repair expenses	**(7,997)**	(100,289)
Total cost of sales	**(2,132,005)**	(2,899,742)

(b) Impairment losses incurred on value of inventories

	Notes	2018 $'000	2017 $'000
Impairment losses	15	**(2,810)**	(3,298)

(c) Other expenses:

	Notes	2018 $'000	2017 $'000
Operating leases	28	**(3,989)**	(6,881)
Loss on disposal of property, plant and equipment		**(54)**	(840)
Other expenses		**(94,790)**	(35,094)
Total other expenses		**(98,833)**	(42,815)

10. AUDITORS' REMUNERATION

	2018 $	2017 $
Audit services		
Auditors of the Company - KPMG Australia		
Audit and review of financial statements	**(259,518)**	(594,403)
Other regulatory audit services	**-**	(43,048)
	(259,518)	(637,451)
Auditors of the Company - *KPMG Overseas*		
Audit and review of financial reports	**(30,482)**	(29,465)
	(290,000)	(666,916)

11. NET FINANCING COSTS

	Notes	2018 $'000	2017 $'000
Recognised in profit or loss			
Interest income from:			
Related parties		**88,259**	101,269
External parties		**1,349**	1,558
Finance income		**89,608**	102,827
Interest expense from:			
Related parties		**(11,776)**	(12,276)
External parties		**(65,484)**	(83,125)
Net fair value loss on other financial assets at fair value through profit or loss		**-**	(1,600)
Net foreign exchange loss		**(3,949)**	(5,682)
Net unwind of discount on provisions	24	**(2,875)**	(2,423)
Impairment losses incurred on value of trade receivables	14	**(965)**	(124)
Finance cost		**(85,049)**	(105,230)
Net finance (costs)/income		**4,559**	(2,403)

	Notes	2018 $'000	2017 $'000
Recognised in other comprehensive income			
Effective portion of changes in fair value of cash flow hedges		**297**	(205)
Income tax on income and expenses recognised in other comprehensive income	12	**(89)**	61
		208	(144)

12. INCOME TAX EXPENSE

	2018 $'000	2017 reinstated $'000
Current tax benefit/(expense)		
Current year	**(6,512)**	(41,918)
Adjustments for prior years	**(1,547)**	1,137
	(8,059)	(40,781)
Deferred tax benefit/(expense)		
Origination and reversal of temporary differences	**(9,598)**	21,894
Adjustments for prior years	**331**	-
	(9,267)	21,894
Total income tax benefit/(expense)	**(17,326)**	(18,887)
Numerical reconciliation between tax benefit/(expense) and pre-tax net profit/(loss)	**(17,326)**	(18,887)
Profit for the period	**43,529**	39,273
Total income tax expense	**17,326**	18,887
Profit before income tax	**60,855**	58,160
Income tax expense using the Company's domestic tax rate of 30% (2017 - 30%)	**(18,257)**	(17,448)
Increase/(decrease) in income tax benefit/(expense) due to:		
Non-deductible expenses	**2,146**	(2,566)
Income tax over/(under) provided in prior year	**(1,547)**	1,137
Sundry items	**332**	(10)
Income tax expense on pre-tax net profit on continuing operations	**(17,326)**	(18,887)
Deferred tax recognised in other comprehensive income		
Relating to gains and losses on cash flow hedges	**(89)**	61
Relating to defined benefit plan	**-**	-
Total deferred tax recognised in other comprehensive income	**(89)**	61

13. CASH AND CASH EQUIVALENTS

	Notes	2018 $'000	2017 $'000
Bank balances			
Bank balances		**64,677**	78,942
Call deposits		**60,000**	91,647
Cash and cash equivalents in the statement of cash flows	26(a)	**124,677**	170,589

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

14. TRADE AND OTHER RECEIVABLES

	Notes	**2018 $'000**	2017 reinstated $'000
Current			
Non-interest bearing			
Net trade receivables		**67,501**	34,428
Receivables due from ultimate parent entity	33(a)	**5,834**	10,744
Receivables due from immediate parent entity	33(b)	**42,715**	30,842
Receivables due from other related entities	33(c)	**491,441**	529,666
Prepayments and other assets		**14,969**	8,123
		622,460	613,803
Interest bearing			
Loans due from other related entities	33(c)	**1,918,244**	2,160,511
		1,918,244	2,160,511
		2,540,704	2,774,314
Non-current			
Non-interest bearing			
Receivables due from ultimate parent entity	33(a)	**-**	645
		-	645
Interest bearing			
Loans due from other related entities	33(c)	**1,340,480**	1,400,612
		1,340,480	1,400,612
		1,340,480	1,401,257

Trade receivables are shown net of impairment losses. Impairment losses on trade receivables recognised in the current year amount to $964,840 (2017: $124,000) and relate to a high probability of not collecting debts from a number of customers (refer Note 11).

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

15. INVENTORIES

	2018 $'000	2017 $'000
Work in progress	**7,367**	-
Finished goods	**265,665**	303,112
Goods in transit	**420,393**	223,332
	693,425	526,444
Finished goods – at cost	**213,307**	209,846
Finished goods – at net realisable value	**52,358**	93,266
	265,665	303,112

During the year consumables and changes in finished goods recognised as cost of sales amounted to $2.139 billion (2017: $2.900 billion) and write-down of inventories to net realisable value amounted to $2.810 million (2017: $3.298 million) for continuing operations, primarily relating to obsolete parts stock and vehicle provisions (refer 9(b)). Inventories are shown net of impairment losses.

16. INTANGIBLE ASSETS

	Software development costs $'000
Cost	
Balance at 1 January 2017	-
Transfers	3,799
LED migrated balance	(250)
Balance at 31 December 2017	3,549
Balance at 1 January 2018	3,549
Acquisitions	587
Transfers	1,461
LED migrated balance	-
Balance at 31 December 2018	5,597
Amortisation and impairment losses	
Balance at 1 January 2017	-
Amortisation charge for the year	(150)
Transfers	(315)
LED migrated balance	100
Balance at 31 December 2017	(365)
Balance at 1 January 2018	(365)
Amortisation charge for the year	(998)
Transfers	-
LED migrated balance	-
Balance at 31 December 2018	(1,363)
Carrying amounts	
Balance at 1 January 2017	-
Balance at 31 December 2017	3,184
Balance at 1 January 2018	3,184
Balance at 31 December 2018	4,234

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

17. PROPERTY, PLANT AND EQUIPMENT

	Land and improvements $'000	Buildings $'000	Plant and equipment $'000	Assets under construction $'000	Total $'000
Cost					
Balance at 1 January 2017	12,879	67,636	111,195	7,518	199,228
Acquisitions	-	731	59,686	11,063	71,480
Transfers	-	7,336	(335)	(10,800)	(3,799)
LED migrated balance	(157)	(513)	(34,815)	(78)	(35,563)
Disposals	(10,621)	(40,895)	(76,321)	(3,139)	(130,976)
Balance at 31 December 2017	2,101	34,295	59,410	4,564	100,370
Cost					
Balance at 1 January 2018	2,101	34,295	59,410	4,564	100,370
Acquisitions	-	945	59,286	201	60,432
Transfers	-	2,860	237	(4,559)	(1,462)
Disposals	-	-	(71,299)	-	(71,299)
Balance at 31 December 2018	2,101	38,100	47,634	206	88,041
Depreciation					
Balance at 1 January 2017	(302)	(27,349)	(45,352)	-	(73,003)
Depreciation charge for the year	(6)	(995)	(9,836)	-	(10,837)
Transfers	-	-	315	-	315
LED migrated balance	143	259	16,774	-	17,176
Disposals	78	11,474	29,143	-	40,695
Balance at 31 December 2017	(87)	(16,611)	(8,956)	-	(25,654)

17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land and improvements $'000	Buildings $'000	Plant and equipment $'000	Assets under construction $'000	Total $'000
Depreciation					
Balance at 1 January 2018	(87)	(16,611)	(8,956)	-	(25,654)
Depreciation charge for the year	-	(1,589)	(4,259)	-	(5,848)
Disposals	-	-	4,652	-	4,652
Balance at 31 December 2018	(87)	(18,200)	(8,563)	-	(26,850)
Carrying amounts					
Balance at 1 January 2017	12,577	40,287	65,843	7,518	126,225
Balance at 31 December 2017	2,014	17,684	50,454	4,564	74,716
Balance at 1 January 2018	2,014	17,684	50,454	4,564	74,716
Balance at 31 December 2018	2,014	19,900	39,071	206	61,191

17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Assets under construction

Assets under construction at reporting date totalling $0.206 million (2017: $4.564 million) primarily relate to IT upgrades.

Operating lease transactions

Vehicles that are subject to operating leases between a related party, Mercedes-Benz Financial Services Australia Pty Ltd ("MBFSAu") and their external customers, and where the Company has agreed to provide residual value guarantees, are accounted for as plant and equipment. The written down value of the vehicles under operating leases is $33.473 million (2017: $46.515 million). Additions for plant and equipment amounting to $56.282 million (2017: $56.954 million) related to the new operating lease arrangements entered into by MBFSAu with their external customers. These additions are reflected as non-cash acquisitions as prior to the operating lease arrangements being entered into, these vehicles have been purchased as inventory as part of the normal operating activities of the Company.

Similarly, disposals of plant and equipment with an initial acquisition cost of $70.704 million (2017: $51.603 million) and a carrying value of $66.058 million related to the expired operating lease arrangements entered into by MBFSAu with their external customers. Upon expiry of the operating lease arrangements, these vehicles were transferred to inventory of the Company. These disposals are reflected as non-cash disposals.

18. TAX ASSETS AND LIABILITIES

Recognised deferred tax assets

Net deferred tax assets are attributable to the following:

	2018 $'000	2017 reinstated $'000
Recognised deferred tax assets		
Net deferred tax assets are attributable to the following:		
Provisions and contract liabilities	**63,600**	76,738
Employee benefits	**3,620**	2,285
Payable to other related entities	**10,499**	14,947
Provision for doubtful debts	**92**	38
Provision for diminution of inventories	**2,843**	1,726
Depreciation timing differences	**742**	688
Other payables	**2,255**	2,371
Derivative financial instruments	**(28)**	61
Operating leases as lessor	**(10,042)**	(13,955)
Prepayments	**133**	59
Profit deferral for tax purposes	**(13,921)**	(15,685)
Other items	**162**	38
Net deferred tax assets	**59,955**	69,311

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

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

18. TAX ASSETS AND LIABILITIES (CONTINUED)

Recognised deferred tax assets (continued)

At 31 December 2018 the Company had an intercompany receivable of $35.918 million (2017: receivable of $30.644 million) relating to a current tax receivable assumed by the head entity which is included in Trade and other receivables (refer to Note 14).

Movement in temporary differences during the year

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

18. TAX ASSETS AND LIABILITIES (CONTINUED)

Recognised deferred tax assets (continued)

Movement in temporary differences during the year (continued)

2017

	Balance at 1 January 2017 $'000	AASB 15 reinstatement $'000	Recognised in income $'000	Recognised in other comprehensive income $'000	LED split to DTB $'000	LED split to MBV $'000	Balance at 31 December 2017 reinstated $'000
Provisions and contract liabilities	76,968	7,941	15,048	-	(14,429)	(8,790)	76,738
Employee benefits	5,110	-	335	-	(2,262)	(898)	2,285
Payable to other related entities	19,160	-	991	-	(5,204)	-	14,947
Provision for doubtful debts	9	-	57	-	(21)	(7)	38
Provision for diminution of inventories	9,866	-	(2,785)	-	(4,548)	(807)	1,726
Depreciation timing differences	1,305	-	(603)	-	(14)	-	688
Other payables	7,981	-	(3,582)	-	(897)	(1,131)	2,371
Derivative financial instruments	11	-	(11)	61	-	-	61
Operating leases as lessor	(17,171)	-	(293)	-	3,509	-	(13,955)
Prepayments	565	-	4	-	(498)	(12)	59
Profit deferral for tax purposes	(30,479)	-	4,252	-	7,409	3,133	(15,685)
Other items	(280)	-	539	-	(182)	(39)	38
Deferred tax assets/(liabilities)	73,045	7,941	13,952	61	(17,137)	(8,551)	69,311

19. TRADE AND OTHER PAYABLES

	Notes	2018 $'000	2017 reinstated $'000
Current			
Trade payables		**59,785**	21,364
Payable to ultimate parent entity	33(a)	**326,307**	387,101
Payable to immediate parent entity	33(b)	**219**	18,177
Payable to other related entities	33(c)	**69,314**	97,217
Other payables		**46,426**	48,316
Contract Liabilities		**102,898**	123,597
		604,949	695,772
Non-current			
Payable to other related entities	33(c)	**44**	44
Contract Liabilities		**32,128**	30,356
		32,172	30,400

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

The Company's exposure to liquidity and currency risks related to trade and other payables are disclosed in Note 22.

20. LOANS AND BORROWINGS

	Notes	2018 $'000	2017 $'000
Current			
Bank loans (secured)	20(b)	**1,075,000**	1,035,000
Notes (secured)	20(c)	**512,175**	399,692
Commercial papers (secured)	20(d)	**279,463**	279,636
Loan from ultimate parent entity	33(a)	**154,925**	-
Loans from other related entity	33(c)	**2,425**	154,572
		2,023,988	1,868,900
Non-current			
Bank loans (secured)	20(b)	**-**	580,000
Notes (secured)	20(c)	**1,340,480**	827,816
		1,340,480	1,407,816

20. LOANS AND BORROWINGS (CONTINUED)

	Notes	2018 $'000	2017 $'000
The Company has access to the following lines of credit:			
Bank overdraft (unsecured)	20(a)	**50,000**	75,000
Bank loans (secured)	20(b)	**2,295,000**	2,020,000
Notes (secured)	20(c)	**1,852,655**	1,227,508
Commercial papers (secured)	20(d)	**279,463**	279,636
Loans from ultimate parent entity	20(e)	**154,925**	-
Loans from other related entity	20(f)	**2,425**	154,572
		4,634,468	3,756,716

	Notes	2018 $'000	2017 $'000
Facilities utilised at reporting date			
Bank loans (secured)	20(b)	**1,075,000**	1,615,000
Notes (secured)	20(c)	**1,852,655**	1,227,508
Commercial papers (secured)	20(d)	**279,463**	279,636
Loans from ultimate parent entity	20(e)	**154,925**	-
Loans from other related entity	20(f)	**2,425**	-
		3,364,468	3,122,144

	Notes	2018 $'000	2017 $'000
Facilities not utilised at reporting date			
Bank overdraft (unsecured)	20(a)	**50,000**	75,000
Bank loans (unsecured)	20(b)	**1,220,000**	405,000
		1,270,000	480,000

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

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

Non-current portion of bank loans, notes and loans from ultimate parent entity are payable on or before 10 August 2021, but after one year from the balance date of these financial statements.

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

(a) Bank overdraft (unsecured)

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

(b) Bank loans (secured)

The Company's bank loans are denominated in AUD. The Company has access to credit facilities which are subject to annual renewal. Interest is charged at prevailing market rates. The Company has the following bank loans (secured) outstanding at 31 December 2018 which are guaranteed by the ultimate parent entity:

20. LOANS AND BORROWINGS (CONTINUED)

(b) Bank loans (secured) (continued)

Currency of Loan	Value of loan	Due Date	Interest re-pricing
AUD	100,000,000	Jan-19	On maturity
AUD	80,000,000	Jan-19	On maturity
AUD	50,000,000	Jan-19	On maturity
AUD	100,000,000	Jan-19	On maturity
AUD	60,000,000	Feb-19	On maturity
AUD	315,000,000	Mar-19	On maturity
AUD	20,000,000	Apr-19	On maturity
AUD	100,000,000	Apr-19	On maturity
AUD	25,000,000	Apr-19	On maturity
AUD	50,000,000	Apr-19	On maturity
AUD	25,000,000	Apr-19	On maturity
AUD	50,000,000	Oct-19	On maturity
AUD	100,000,000	Dec-19	On maturity

(c) Notes (secured)

The Company has authorised the following note issues outstanding at 31 December 2018 denominated in EUR and AUD which are guaranteed by the ultimate parent entity:

Currency	Value of Notes	Due Date	Currency Swap	On-lending	Interest Rate Swap	Interest re-pricing
EUR	100,000,000	May-19	EUR to AUD	AUD	Quarterly Floating to Quarterly Floating	Quarterly
EUR	200,000,000	Mar-20	-	EUR	-	Quarterly
EUR	100,000,000	May-20	-	EUR	-	Quarterly
EUR	125,000,000	Aug-20	-	EUR	-	Yearly
AUD	100,000,000	May-19	-	-	-	On maturity
AUD	125,000,000	Aug-19	-	-	-	On maturity
AUD	25,000,000	Aug-19	-	-	-	On maturity
AUD	100,000,000	Nov-19	-	-	-	On maturity
AUD	125,000,000	Mar-20	-	-	-	On maturity
AUD	100,000,000	Jun-20	-	-	-	On maturity
AUD	100,000,000	Nov-20	-	-	--	On maturity
AUD	100,000,000	Jan-21	-	-	-	On maturity
AUD	125,000,000	Mar-21	-	-	-	On maturity
AUD	100,000,000	Aug-21	-	-	-	On maturity

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

(d) Commercial papers (secured)

The Company has authorised the following commercial papers issues outstanding at 31 December 2018 denominated in AUD which are guaranteed by the ultimate parent entity:

Currency	Value of Commercial Papers	Due Date	Interest re-pricing
AUD	15,000,000	Jan-19	On maturity
AUD	55,000,000	Jan-19	On maturity
AUD	15,000,000	Jan-19	On maturity
AUD	55,000,000	Jan-19	On maturity
AUD	20,000,000	Feb-19	On maturity
AUD	50,000,000	Feb-19	On maturity
AUD	10,000,000	Feb-19	On maturity
AUD	60,000,000	Feb-19	On maturity

20. LOANS AND BORROWINGS (CONTINUED)

(d) Commercial papers (secured) (continued)

(e) Loans from ultimate parent entity

All issues are from Daimler AG (refer Note 33(a)). Interest rates on related party loans are re-priced annually to market rates as indicated. Interest rates on fixed interest related party loans are agreed at the inception of the loans.

(f) Loans from other related entity

The Company has authorised the following loans from other related entities outstanding at 31 December 2018 denominated in AUD:

Currency	Value of Loan	Due Date	Interest re-pricing
AUD	2,425,228	Jan-19	On maturity

Loans from other related entities in 2018 relate to loans from Daimler Trucks and Buses Pacific Pty Ltd, a related party of the Company. The AUD loan from Daimler Trucks and Buses Pacific Pty Ltd is related to the cash pool balance with Mercedes-Benz Australia Pacific Pty Ltd.

21. DERIVATIVE FINANCIAL INSTRUMENTS

	2018 $'000	2017 $'000
Derivative Assets		
Current		
Cross currency swap contracts - cash flow hedges	**15,130**	-
Foreign exchange swap contracts - cash flow hedges	**4,604**	-
Interest rate swap contracts - cash flow hedges	**75**	106
Interest rate swap contracts - fair value hedges	**391**	124
	20,200	230
Non-current		
Interest rate swap contracts - cash flow hedges	**290**	2,714
Interest rate swap contracts - fair value hedges	**-**	633
Cross currency swap contracts - cash flow hedges	**-**	6,999
	290	10,346
Derivative Liabilities		
Current		
Interest rate swap contracts - cash flow hedges	**75**	106
Interest rate swap contracts - fair value hedges	**391**	124
	466	230
Non-current		
Interest rate swap contracts - cash flow hedges	**290**	2,713
Interest rate swap contracts - fair value hedges	**-**	633
	290	3,346

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

22. FINANCIAL INSTRUMENTS

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

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

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

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

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

Credit risk

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

Swap and foreign exchange contracts are subject to credit risk in relation to the relevant counterparties, which is principally Daimler AG. At 31 December 2018 the credit rating of Daimler AG was as follows:

Standard & Poors	A
Moody's	A2
Fitch	A-

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

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

Exposure to credit risk

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

	Notes	**2018 $'000**	2017 reinstated $'000
Trade and other receivables	14	**3,881,184**	4,175,571
Cash and cash equivalents	13	**124,677**	170,589
Derivative financial instruments		**20,490**	10,576
		4,026,351	4,356,736

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.

22. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

Exposure to credit risk (continued)

At reporting date 83% (2017: 89%) of trade and other receivables related to a related party, Mercedes-Benz Financial Services Australia Pty Ltd. Mercedes-Benz Financial Services Australia Pty Ltd is subject to a commitment from DAuP to ensure it has sufficient funds available to meet its debts. 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:

	2018 $'000	2017 reinstated $'000
Australia	**3,874,695**	4,149,018
Europe	**5,978**	17,570
New Zealand	**503**	1,195
Asia	**8**	481
Americas	**-**	7,302
Africa	**-**	5
	3,881,184	4,175,571

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

	2018 $'000	2017 reinstated $'000
Wholesale customers	**3,881,184**	4,175,571

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:

	2018 $'000	2017 $'000
Balance at 1 January	**124**	30
Impairment losses recognised / (reversed)	**965**	124
Allowance (utilised) / amount recovered	**(784)**	(30)
Balance at 31 December	**305**	124

Impairment losses incurred in respect of trade and other receivables for the reporting period primarily related to a high probability of not collecting debts from external retail customers (refer Note 14).

22. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

Impairment losses (continued)

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

	2018		2017 reinstated	
	Gross $'000	Impairment $'000	Gross $'000	Impairment $'000
Not past due	**3,868,421**	**-**	4,142,122	-
Past due 1-30 days	**12,359**	**-**	21,294	-
Past due 30-60 days	**-**	**-**	2,171	-
Past due 60-90 days	**164**	**-**	1,362	-
Past due 90-120 days	**60**	**-**	4,581	-
Past due 120+ days	**485**	**(305)**	4,165	(124)
	3,881,489	**(305)**	4,175,695	(124)

Liquidity risk

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

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

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

22. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

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

2018 **$'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							
Loans and other receivables due from other related entities	14	**2,981,938**	**2,983,498**	**1,642,340**	**1,016,158**	**325,000**	**-**
Treasury sweep	14	**276,786**	**-**	**-**	**-**	**-**	**-**
		3,258,724	**2,983,498**	**1,642,340**	**1,016,158**	**325,000**	**-**
Non derivative financial assets							
Bank loans (secured)	20	**(1,075,000)**	**(1,075,000)**	**(1,075,000)**	**-**	**-**	**-**
Notes issued (secured)	20	**(1,852,655)**	**(1,853,500)**	**(512,342)**	**(1,016,158)**	**(325,000)**	**-**
Loans from other related entities	20	**(2,425)**	**-**	**-**	**-**	**-**	**-**
Commercial papers (secured)	20	**(279,463)**	**(280,000)**	**(280,000)**	**-**	**-**	**-**
Loans from the ultimate parent entity	20	**(154,925)**	**(154,918)**	**(154,918)**	**-**	**-**	**-**
Trade and other payables	19	**(637,121)**	**(637,121)**	**(637,121)**	**-**	**-**	**-**
		(4,001,589)	**(4,000,539)**	**(2,659,381)**	**(1,016,158)**	**(325,000)**	**-**
Derivative financial assets							
Interest rate swap contracts – cash flow hedges	21	**365**	**-**	**-**	**-**	**-**	**-**
Interest rate swap contracts – fair value hedges	21	**391**	**-**	**-**	**-**	**-**	**-**
Cross currency swap - cash flow hedges	21						
Receive legs		**15,130**	**162,400**	**162,400**	**-**	**-**	**-**
Pay legs		-	**(146,037)**	**(146,037)**	-	-	-
Foreign exchange swap contracts - cash flow hedges	21						
Receive legs		**4,604**	**155,141**	**155,141**	-	-	-
Pay legs		-	**(150,307)**	**(150,307)**	-	-	-
		20,490	**21,197**	**21,197**	**-**	**-**	**-**

22. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

2018 $'000	Notes	**Carrying amount $'000**	**Contractual cash flows $'000**	**1 year or less $'000**	**1 to 2 years $'000**	**2 to 5 years $'000**	**More than 5 years $'000**
Derivative financial liabilities							
Interest rate swap contracts – cash flow hedges	21	**(365)**	**-**	**-**	**-**	**-**	**-**
Interest rate swap contracts – fair value hedges	21	**(391)**	**-**	**-**	**-**	**-**	**-**
		(756)	**-**	**-**	**-**	**-**	**-**

22. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

2017 **$'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							
Loans and other receivables due from other related entities	14	3,236,310	3,316,255	1,875,284	1,106,721	334,250	-
Treasury sweep	14	324,813	-	-	-	-	-
		3,561,123	3,316,255	1,875,284	1,106,721	334,250	-
Non derivative financial liabilities							
Bank loans (secured)	20	(1,615,000)	(1,650,925)	(1,059,413)	(589,234)	(1,196)	(1,082)
Notes issued (secured)	20	(1,227,508)	(1,284,949)	(429,465)	(521,640)	(333,844)	-
Loans from other related entities	20	(154,572)	(13,436)	(13,436)	-	-	-
Commercial papers (secured)	20	(279,636)	(280,000)	(280,000)	-	-	-
Trade and other payables	19	(572,220)	(572,220)	(572,220)	-	-	-
		(3,848,936)	(3,801,530)	(2,354,534)	(1,110,874)	(335,040)	(1,082)
Derivative financial assets							
Interest rate swap contracts – cash flow hedges	21	2,820	2,953	812	1,621	520	-
Interest rate swap contracts – fair value hedges	21	757	677	1,112	(435)	-	-
Cross currency swap - cash flow hedges							
Receive legs	21	6,999	154,292	496	153,796	-	-
Pay legs		-	(152,949)	(3,750)	(149,199)	-	-
Foreign exchange swap contracts - no hedge accounting							
Receive legs	21	-	-	-	-	-	-
Pay legs		-	-	-	-	-	-
Foreign exchange swap contracts - cash flow hedges							
Receive legs	21	-	-	-	-	-	-
Pay legs		-	-	-	-	-	-
		10,576	4,973	(1,330)	5,783	520	-

22. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

2017 **$'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
Derivative financial liabilities							
Interest rate swap contracts – cash flow hedges	21	(2,819)	(2,953)	(812)	(1,621)	(520)	-
Interest rate swap contracts – fair value hedges	21	(757)	(677)	(1,112)	435	-	-
Cross currency swap - cash flow hedges							
Receive legs	21	-	-	-	-	-	-
Pay legs		-	-	-	-	-	-
Forward foreign exchange contracts - no hedge accounting							
Receive legs	21	-	-	-	-	-	-
Pay legs		-	-	-	-	-	-
		(3,576)	(3,630)	(1,924)	(1,186)	(520)	-

22. FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk

The Company is exposed to foreign currency risk on purchases and funding transactions that are denominated in a currency other than AUD. The currencies giving rise to this risk are USD (vehicle inventory purchases) and EUR (loans and borrowings, spare parts purchases or specific contracts). The Company uses forward exchange contracts to economically hedge certain firm purchase commitments denominated in foreign currencies.

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

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

			2018		
	AUD $'000	**EURO €'000**	**USD $'000**	**SGD $'000**	**NZD $'000**
Non derivative financial assets					
Cash and cash equivalents	**124,677**	**-**	**-**	**-**	**-**
Trade receivables	**67,383**	**73**	**-**	**-**	**-**
Receivables due from ultimate parent entity	**846**	**379**	**3,088**	**-**	**-**
Receivables due from immediate parent entity	**42,715**	**-**	**-**	**-**	**-**
Loans and other receivables due from other related entities	**3,057,557**	**427,013**	**-**	**-**	**-**
Prepayments and other assets	**14,969**	**-**	**-**	**-**	**-**
	3,308,147	**427,465**	**3,088**	**-**	**-**
Non derivative financial liabilities					
Bank loans (secured)	**(1,075,000)**	**-**	**-**	**-**	**-**
Notes issued (secured)	**(997,878)**	**(525,000)**	**-**	**-**	**-**
Commercial papers (secured)	**(279,463)**	**-**	**-**	**-**	**-**
Loans from the ultimate parent entity	**-**	**(95,515)**	**-**	**-**	**-**
Loans from other related parties	**(2,425)**	**-**	**-**	**-**	**-**
Trade payables	**(625,651)**	**(1,866)**	**(3,997)**	**(2,674)**	**-**
	(2,980,417)	**(622,381)**	**(3,997)**	**(2,674)**	**-**
Derivative financial assets					
Cash flow hedges					
Cross currency swap					
Receive legs	**-**	**100,000**	**-**	**-**	**-**
Pay legs	**(147,340)**	**-**	**-**	**-**	**-**
Foreign exchange swap contracts					
Receive legs	**-**	**95,516**	**-**	**-**	**-**
Pay legs	**(150,433)**	**-**	**-**	**-**	**-**

22. FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk (continued)

			2018		
	AUD	**EURO**	**USD**	**SGD**	**NZD**
	$'000	**€'000**	**$'000**	**$'000**	**$'000**
Interest rate swap contracts					
Receive legs	**775,000**	**-**	**-**	**-**	**-**
Pay legs	**(775,000)**	**-**	**-**	**-**	**-**
Fair value hedges					
Interest rate swap contracts					
Receive legs	**125,000**	**-**	**-**	**-**	**-**
Pay legs	**(125,000)**	**-**	**-**	**-**	**-**
	(297,773)	**195,516**	**-**	**-**	**-**
Derivative financial assets					
Cash flow hedges					
Cross currency swap					
Receive legs	**775,000**	**-**	**-**	**-**	**-**
Pay legs	**(775,000)**	**-**	**-**	**-**	**-**
Fair value hedges					
Interest rate swap contracts	**-**	**-**	**-**	**-**	**-**
Receive legs	**125,000**	**-**	**-**	**-**	**-**
Pay legs	**(125,000)**	**-**	**-**	**-**	**-**
	-	**-**	**-**	**-**	**-**
Net Currency Exposure	**29,957**	**600**	**(909)**	**(2,674)**	**-**

			2017 reinstated		
	AUD	EURO	USD	SGD	NZD
	$'000	€'000	$'000	$'000	$'000
Non derivative financial assets					
Cash and cash equivalents	156,521	412	10,500	-	-
Trade receivables	25,157	1,178	5,708	-	-
Receivables due from ultimate parent entity	11,390	-	-	-	-
Receivables due from immediate parent entity	30,842	-	-	-	-
Loans and other receivables due from other related entities	4,090,789	-	-	-	-
Prepayments and other assets	8,123	-	-	-	-
	4,322,822	1,590	16,208	-	-

22. FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk (continued)

	2017 reinstated				
	AUD $'000	EURO €'000	USD $'000	SGD $'000	NZD $'000
Non derivative financial liabilities					
Bank loans (secured)	(1,615,000)	-	-	-	-
Notes issued (secured)	(1,072,964)	(100,000)	-	-	-
Commercial papers (secured)	(279,636)	-	-	-	-
Loans from other related parties	(141,137)	-	(10,500)	-	-
Trade payables	(563,396)	(3,537)	(2,026)	(812)	(24)
	(3,672,133)	(103,537)	(12,526)	(812)	(24)
Derivative financial assets					
Cash flow hedges					
Cross currency swap					
Receive legs	-	100,000	-	-	-
Pay legs	(147,340)	-	-	-	-
Foreign exchange swap contracts					
Receive legs	-	-	-	-	-
Pay legs	-	-	-	-	-
Interest rate swap contracts					
Receive legs	275,000	-	-	-	-
Pay legs	(800,000)	-	-	-	-
Fair value hedges					
Interest rate swap contracts					
Receive legs	50,000	-	-	-	-
Pay legs	(175,000)	-	-	-	-
No hedge accounting					
Interest rate swap contracts					
Receive legs	-	-	-	-	-
Pay legs	-	-	-	-	-
Forward foreign exchange contracts					
Receive legs	-	-	-	-	-
Pay legs	-	-	-	-	-
	(797,340)	100,000	-	-	-
Derivative financial liabilities					
Cash flow hedges					
Interest rate swap contracts					
Receive legs	800,000	-	-	-	-
Pay legs	(275,000)	-	-	-	-
Fair value hedges					
Interest rate swap contracts	175,000	-	-	-	-
Receive legs	(50,000)	-	-	-	-

22. FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk (continued)

	2017 reinstated				
	AUD $'000	EURO €'000	USD $'000	SGD $'000	NZD $'000
No hedge accounting					
Interest rate swap contracts					
Receive legs	-	-	-	-	-
Pay legs	-	-	-	-	-
Forward foreign exchange contracts					
Receive legs	-	-	-	-	-
Pay legs	-	-	-	-	-
	650,000	-	-	-	-
Net Currency Exposure	503,349	(1,947)	3,682	(812)	(24)

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

	Average rate		Reporting date spot rate	
	2018	2017	**2018**	2017
AUD:EURO	**0.633**	0.679	**0.617**	0.652
AUD:NZD	**1.080**	1.079	**1.052**	1.098
AUD:USD	**0.748**	0.767	**0.706**	0.782
AUD:SGD	**1.008**	1.058	**0.961**	1.044

Sensitivity analysis

A 10 percent strengthening or weakening of the Australian dollar against the following currencies at 31 December 2018 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 2017.

	2018 Profit or loss		**2017 Profit or loss**	
	$'000 10% increase	**$'000 10% decrease**	$'000 10% increase	$'000 10% decrease
AUD:EURO	**(88)**	**108**	272	(332)
AUD:NZD	**-**	**-**	2	(3)
AUD:USD	**117**	**(143)**	(428)	523
AUD:SGD	**253**	**(309)**	(74)	(90)

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

22. FINANCIAL INSTRUMENTS (CONTINUED)

Interest Rate Risk

The Company manages interest rate risk by entering into interest rate and cross currency swaps in order to minimise currency interest rate risks and achieve an appropriate mix of fixed and floating AUD interest rate exposure within the Company's policy. The swaps mature over the next three years following the maturity of the related loans. At 31 December 2018 the Company had interest rate and cross currency swaps with a notional contract amount of $0.90 billion and €100 million (2017: $1.30 billion and €100 million).

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

The net fair value of swaps is shown in Note 21.

Interest sensitivity analysis

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

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

The following table shows the period-end high, low and average value-at-risk ("VaR") figures for the 2018 and 2017 portfolio of interest rate sensitive financial instruments. VaR numbers reflect the quantified net fair value movements on the hedged loan payables and receivable balances. Average exposure has been computed on an end of quarter basis:

	Period-end $'000	High $'000	Low $'000	Average $'000
Interest rate risk				
2018	**1,955**	**2,118**	**1,383**	**1,739**
2017	**1,384**	**3,005**	**1,309**	**2,130**

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

22. FINANCIAL INSTRUMENTS (CONTINUED)

Hedging

The Company hedges at least 90% of all receivables and payables denominated in foreign currency. At any point in time, the Company also hedges a varying proportion of its estimated foreign currency exposure in respect of forecast sales and purchases over the next 6 to18 months. The proportion is determined by reference model. A favourable outlook for a given currency from the Company's perspective will result in the Company hedging forward for shorter periods of time and with lower proportions. An unfavourable outlook for a given currency from the Company's perspective will result in the Company hedging forward for longer periods of time and greater proportions.

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

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

The effective portion of gains and losses on revaluation of cash flow hedges are recognised in other comprehensive income. These are reclassified into profit or loss when the underlying asset acquired or liability assumed is recognised in profit or loss.

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

Changes in the fair value of hedge contracts, that economically hedge forecasted transactions in foreign currencies, and for which no hedge accounting is applied, are recognised in profit or loss. Both the changes in fair value of these hedge contracts and the foreign exchange gains and losses relating to the monetary items are recognised as part of net financing costs (Note 11).

The Company has EUR denominated notes and loans (Note 20). The Company has fully hedged the principal amounts using cross currency interest rate swaps, foreign exchange swaps and forwards that mature on the same dates as the loans are due for repayment.

Fair values

Fair value versus carrying amounts

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

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

Interest rates used for determining fair value

The entity uses the implied zero coupon yield curve as of 31 December 2018 to discount financial instruments holding credit margins constant. The interest rates used have been consistently applied using rates between 2.14% and 1.50% (2017: between 2.35% and 1.52%).

22. FINANCIAL INSTRUMENTS (CONTINUED)

Fair values (continued)

Interest rates used for determining fair value (continued)

	2018 Carrying amount $'000	**2018** Fair value $'000	2017 Carrying amount $'000	2017 Fair value $'000
Non derivative financial assets				
Loans due from other related entities	**3,258,724**	**3,259,351**	3,561,123	3,563,011
Non derivative financial liabilities				
Bank loans (secured)	**(1,075,000)**	**(1,075,744)**	(1,615,000)	(1,624,201)
Notes (secured)	**(1,852,655)**	**(1,851,348)**	(1,227,508)	(1,239,232)
Commercial papers (secured)	**(279,463)**	**(279,525)**	(279,636)	(279,699)
Loans from the ultimate parent entity	**(154,925)**	**(154,918)**	-	-
Loans from other related entity	**(2,425)**	**(2,425)**	(154,572)	(154,572)

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

Derivatives

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

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

Master netting or similar agreements

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

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

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

	Gross and net amounts of financial instruments in the statement of financial position $'000	**Related financial instruments that are not offset $'000**	**Net Amount $'000**
31 December 2018			
Financial assets			
Cross currency swaps used for hedging	**15,130**	**-**	**15,130**
Foreign exchange swap contracts used for hedging	**4,604**	**-**	**4,604**
Interest rate swaps used for hedging	**756**	**(50)**	**706**
	20,490	**(50)**	**20,440**

22. FINANCIAL INSTRUMENTS (CONTINUED)

Master netting or similar agreements (continued)

	Gross and net amounts of financial instruments in the statement of financial position $'000	**Related financial instruments that are not offset $'000**	**Net Amount $'000**
Financial liabilities			
Interest rate swaps used for hedging	**(756)**	**50**	**(706)**
Other forward foreign exchange contracts	**-**	**-**	**-**
	(756)	**50**	**(706)**

	Gross and net amounts of financial instruments in the statement of financial position $'000	Related financial instruments that are not offset $'000	Net Amount $'000
31 December 2017			
Financial assets			
Cross currency swaps used for hedging	6,999	-	6,999
Foreign exchange swap contracts used for hedging	-	-	-
Interest rate swaps used for hedging	3,577	(107)	3,470
Other foreign exchange swap contracts	-	-	-
Other interest rate swap contracts	-	-	-
	10,576	(107)	10,469
Financial liabilities			
Interest rate swaps used for hedging	(3,576)	107	(3,469)
Other forward foreign exchange contracts	-	-	-
Other interest rate swap contracts	-	-	-
	(3,576)	107	(3,469)

Capital management

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

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

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

22. FINANCIAL INSTRUMENTS (CONTINUED)

Capital management (continued)

	2018 $'000	2017 reinstated $'000
Total liabilities	**4,099,056**	4,128,028
Less: cash and cash equivalents	**(124,677)**	(170,589)
Net debt	**3,974,379**	3,957,439
Total equity	**746,100**	902,363
Less: amounts accumulated in equity relating to cash flow hedges	**64**	(144)
Adjusted capital	**746,036**	902,507
Debt-to-adjusted capital ratio	**5.33**	4.38

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

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

23. EMPLOYEE BENEFITS

	2018 $'000	2017 $'000
Current		
Liability for annual leave	**1,771**	1,297
Liability for long service leave	**600**	913
Cash settled share-based payment liability	**66**	178
Other employee-related liabilities	**200**	-
	2,637	2,388
Non-current		
Liability for long service leave	**4,400**	4,173
Cash settled share-based payment liability	**91**	217
	4,491	4,390

Share based payments

Performance Phantom Share Plan

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

As at 31 December 2018, the carrying amount of the liability recognised for the entitlements granted is $157,190 (2017: $395,265).

The number of phantom shares on-issue by Daimler AG to key management personnel of the Company as at 31 December 2018 was 5,813 (2017: 15,422).

24. PROVISIONS

	Warranty $'000	Legal $'000	Other $'000	Total $'000
Balance at 1 January 2018	101,145	203	13,247	114,595
Provisions made during the year	21,510	81	16,159	37,750
Provisions used during the year	(55,938)	(107)	(10,418)	(66,463)
Net unwind of discount	2,875	-	-	2,875
Balance at 31 December 2018	69,592	177	18,988	88,757
Current	29,743	177	6,269	36,189
Non-current	39,849	-	12,719	52,568
Total	69,592	177	18,988	88,757

Warranties

The provision for warranties relates primarily to vehicles sold during the five years to 31 December 2018. The provision is based on estimates made from historical warranty data associated with similar products and services. The Company expects to pay out the liability over the next five years. During the year, $7.997 million was recognised as an expense in cost of sales (2017: $100.289 million) (refer to Note 9).

Legal

The legal provision as at 31 December 2018 relates to legal actions in relation to product liability and other contractual matters in the ordinary course of business.

Other provisions

Other provisions as at 31 December 2018 relates to provisions of $1.8m for maintenance and repairs that are dependent on the number of vehicles covered by maintenance and repair contracts, $4.8m of bonus provisions paid out in March 2019 and $5.4m of buyback provision to cover any expected loss between the cost of the vehicle and the wholesale selling price when buying the vehicle back from the customer.

25. CAPITAL AND RESERVES

Share capital

	2018 $'000	2017 $'000
Issued and paid-up share capital 35,000,000 fully paid ordinary shares of $2 par value each (2017: 35,000,000 ordinary shares of $2 par value each)	**70,000**	70,000

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

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

Hedging reserve

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

25. CAPITAL AND RESERVES (CONTINUED)

Dividends

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

Dividends totalling $200 million were declared in the year ended 31 December 2018 (2017: $114 million). Of the total dividend disclosed, $200 million was a cash distribution to its immediate parent (2017: $114 million).

	Cents per share	Total amount $	Franked/ unfranked	Date of payment
Final 2018 ordinary dividend	571.43	$200,000,000.00	Unfranked	07.12.2018

26. 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	**2018 $'000**	2017 $'000
Cash and cash equivalents	13	**124,677**	170,589

(b) Reconciliation of cash flows from operating activities

	Notes	**2018 $'000**	2017 $'000
Profit for the period		**43,529**	102,458
Adjustments for			
(Gain)/loss on sale of property, plant and equipment	7, 9(c)	**54**	(2,450)
(Gain)/loss on sale of investments	7	**-**	(90,006)
Amortisation	16	**998**	150
Depreciation expenses	17	**5,848**	10,837
Impairment losses	9	**2,810**	3,298
Foreign exchange (gains)/losses	11	**3,949**	5,682
Net (gain)/loss on foreign currency derivatives not qualifying as hedges	11	**-**	1,600
Income tax expense	12	**17,327**	45,966
Operating profit before changes in working capital		**74,515**	77,535
Change in assets and liabilities during the financial year			
(Increase)/decrease in trade and other receivables		**(4,696)**	(397,134)
(Increase)/decrease in inventories		**(169,790)**	347,645
Increase/(decrease) in trade and other payables		**(59,380)**	13,119
Increase/(decrease) in provisions		**(25,488)**	(110,272)
Net cash from operating activities		**(184,839)**	(69,107)
Net interest paid		**(1,303)**	(4,369)
Income taxes received / (paid)		**(39,737)**	(53,826)
Net cash inflow (outflow) from operating activities		**(225,879)**	(127,302)

27. SEGMENT INFORMATION

The Company comprises the following main business segments:

- Wholesale: The importation, marketing and distribution of passenger and commercial motor vehicles and their components.
- Financing: The Company is also involved in financing activities for its working capital and capital expenditure requirements on behalf of some other related parties of the local Daimler group.
- Retail (discontinued) In June 2017, Mercedes Benz Australia Pacific sold their remaining retail outlet, Mercedes Benz Melbourne. The retail operations are classified in the prior period segment information as retail (discontinued). The retail operations were discontinued following a strategic decision to place greater focus on the Group's key competencies - i.e. the wholesale business.

The principal activities of the Company are based predominantly in Australia.

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

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

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

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

2018	**Wholesale $'000**	**Financing $'000**	**Eliminations $'000**	**Total $'000**
External revenue and other income	**2,331,221**	**-**	**-**	**2,331,221**
Inter-segment revenue	**-**	**-**	**-**	**-**
Total inter-segment revenue	**2,331,221**	**-**	**-**	**2,331,221**
Finance income	**-**	**89,608**	**-**	**89,608**
Finance expense	**-**	**(85,049)**	**-**	**(85,049)**
Depreciation & amortisation	**(6,846)**	**-**	**-**	**(6,846)**
Reportable segment profit/(loss) before tax	**56,296**	**4,559**	**-**	**60,855**
Reportable segment assets	**1,413,819**	**3,431,337**	**-**	**4,845,156**
Reportable segment liabilities	**714,090**	**3,384,966**	**-**	**4,099,056**
Capital expenditure	**(4,755)**	**-**	**-**	**(4,755)**
Impairment losses	**(2,810)**	**-**	**-**	**(2,810)**

27. SEGMENT INFORMATION (CONTINUED)

2017 reinstated	Wholesale $'000	Retail (discontinued) $'000	Financing $'000	Eliminations $'000	Total $'000
External revenue and other income	3,263,508	285,455	-	-	3,548,963
Inter-segment revenue	233,144	-	-	(233,144)	-
Total inter-segment revenue	3,496,652	285,455	-	(233,144)	3,548,963
Finance income	-	-	102,827	-	102,827
Finance expense	-	-	(105,230)	-	(105,230)
Depreciation & amortisation	(10,604)	(383)	-	-	(10,987)
Reportable segment profit/(loss) before tax	150,570	257	(2,403)	-	148,424
Reportable segment assets	1,266,898	-	3,763,493	-	5,030,391
Reportable segment liabilities	826,094	-	3,301,934	-	4,128,028
Capital expenditure	(11,267)	(1,558)	-	-	(12,825)
Impairment losses	(2,487)	(811)	-	-	(3,298)

28. OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2018 $'000	2017 $'000
Not later than one year	3,148	3,100
Later than one year or not later than five years	8,340	10,047
Later than five years	637	1,791
	12,125	14,938

The Company leases a number of sites that include land and building for the purposes of operating dealerships and service departments. The leases typically run for a period of five years, with an option to renew the lease after that date. Lease payments are increased every year to reflect market rentals. The leases do not include any contingent rentals.

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

During the year ended 31 December 2018 $3.989 million was recognised as an expense in profit or loss in respect of operating leases (2017: $6.881 million) (refer Note 9).

Residual value guarantees for operating leases

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

Vehicles subject to operating leases where the Company has provided a residual value guarantee are accounted for by the Company as plant and equipment and depreciated over a straight-line basis. Depreciation of approximately $3.20 million (2017: $8.033 million) was recorded for the year with respect to these leased assets.

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

28. OPERATING LEASES (CONTINUED)

Residual value guarantees for operating leases (continued)

Deferred income, representing the excess of the amount financed over the amount guaranteed, is also recorded by the Company and amortised over a straight line basis over the term of the leases. During the year the Company recorded approximately $1.524 million (2017: $7.362 million) of income attributable to operating leases subject to a residual value guarantee.

The liabilities for residual value guarantee have been included in Payables to other related parties in Note 19.

29. CONTINGENCIES

(a) The Company has arranged for its bankers to guarantee its performance to third parties. The used portion of the guarantee is $0.466 million (2017: $82.261 million) and the maximum amount of the guarantee available is $0.466 million (2017: $83.853 million). The Company has also arranged for its ultimate parent entity to guarantee its performance to certain customers to a maximum of $7.8 million (2017: $89.642 million). This facility is fully available and not used at the reporting date (2017: nil).

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

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

30. PARENT ENTITY

The ultimate parent entity of the Company is Daimler AG, a company incorporated in the Federal Republic of Germany. The immediate parent entity of the Company is Daimler Australia/Pacific Pty Ltd, a company incorporated in Australia.

31. ECONOMIC DEPENDENCY

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

32. KEY MANAGEMENT PERSONNEL

The names of each person holding the position of director of the Company during the financial year are Mr H. von Sanden, Mr K. Ebinger (Resigned 1 August 2018), Mr V. Malzahn (Commenced 1 August 2018). Apart from the Company's Directors, the Company's key management personnel during the year include Mr P. Grogan and Mr B. Lee.

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

	2018	2017
	$	$
Short-term employee benefits	**1,686,582**	2,449,436
Other long-term benefits	**17,836**	30,598
Post-employment benefits	**178,870**	330,932
Share-based payments	**105,270**	557,198
	1,988,558	3,368,164

33. OTHER RELATED PARTY TRANSACTIONS

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

(a) Transactions with ultimate parent entity

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

33. OTHER RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with ultimate parent entity (continued)

	Notes	2018 $'000	2017 $'000
Current assets			
Trade and other receivables	14	**5,834**	10,744
Total current assets		**5,834**	10,744
Non-current assets			
Trade and other receivables	14	**-**	645
Total non-current assets		**-**	645
Total assets		**5,834**	11,389
Current liabilities			
Trade and other payables	19	**326,307**	387,101
Loans and borrowings	20	**154,925**	-
Total current liabilities		**481,232**	387,101
Total liabilities		**481,232**	387,101
Net interest income/(expense)		**(4,166)**	(3,942)
Warranty recoveries		**2,276**	1,210

The Company also acquires inventory from the ultimate parent entity. The cost of inventory sold during the year that was purchased from the ultimate parent entity totalled $1,748 million (2017: $2,727 million).

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

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

The ultimate parent entity provides guarantees on Euro Medium-Term Notes issued by Mercedes-Benz Australia/Pacific Pty Ltd. The face value of these guarantees as at 31 December 2018 was $1,100 million and €425 million (2017: $1,075 million and €100 million).

The ultimate parent entity also provides guarantees on Commercial Papers issued by Mercedes-Benz Australia/Pacific Pty Ltd. The face value of these guarantees as at 31 December 2018 was $280 million (2017: $280 million).

(b) Transactions with immediate parent entity

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

33. OTHER RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with immediate parent entity (continued)

	Notes	2018 $'000	2017 $'000
Current assets			
Trade and other receivables	14	**42,715**	30,842
Total current assets		**42,715**	30,842
Total assets		**42,715**	30,842
Current liabilities			
Trade and other payables	19	**219**	18,177
Total current liabilities		**219**	18,177
Total liabilities		**219**	18,177
Net interest income		**(89)**	(130)
Other income		**102**	28

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

At 31 December 2018 the Company had an intercompany receivable of $35.918 million (2017: $30.644 million) relating to current tax receivable assumed by the 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 and Note 18.

(c) Transactions with other related parties

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

	Notes	2018 $'000	2017 $'000
Current assets			
Trade and other receivables	14	**2,409,685**	2,690,177
Total current assets		**2,409,685**	2,690,177
Non-current assets			
Trade and other receivables	14	**1,340,480**	1,400,612
Total non-current assets		**1,340,480**	1,400,612
Total assets		**3,750,165**	4,090,789
Current liabilities			
Trade and other payables	19	**69,314**	97,217
Loans and borrowings	20	**2,425**	154,572
Deferred income		**343**	150
Total current liabilities		**72,082**	251,939

33. OTHER RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Transactions with other related parties (continued)

	Notes	2018 $'000	2017 $'000
Non-current liabilities			
Trade and other payables	19	**44**	44
Deferred income		**7**	5
Total non-current liabilities		**51**	49
Total liabilities		**72,133**	251,988

	Notes	2018 $'000	2017 $'000
Net interest income		**80,738**	93,011
Revenue received for sale of goods and services		**-**	1,861
Write-down/reversal on inventory		**4,892**	2,661
Other income	7	**18,926**	7,515
Net gain/(loss) from interest rate hedging		**125**	55
Depreciation on leased assets with related parties		**(3,205)**	(8,033)

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 $260 million (2017: $308 million).

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

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

34. SIGNIFICANT CHANGE IN STATE OF AFFAIRS

On 1 October 2017, the business relating to Truck and Bus products was transferred to newly incorporated Daimler Truck and Bus Australia Pty Ltd; and Van products (including ute/pickup) was transferred to newly incorporated Mercedes-Benz Vans Australia/Pacific Pty Ltd. As a result, the comparative period balances for the nine months from 1 January 2017 to 30 September 2017 include the results of Daimler Truck and Bus & Van products which will impact the comparability between the 2018 and prior period results.

35. EVENTS OCCURRING AFTER THE REPORTING PERIOD

Subsequent to 31 December 2018, there has not arisen in the interval between the end of the financial year and the date of this report, any item, transaction or event, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.