

**Daimler Canada Finance Inc.**

**Annual Report 2010**

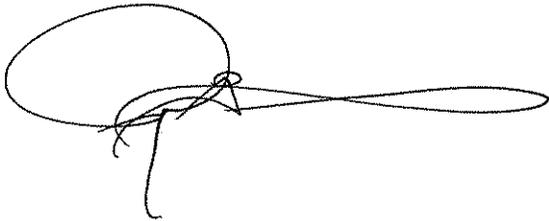
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# Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements of Daimler Canada Finance Inc. provide a true and fair view of the assets, liabilities, financial position and profit or loss of the company, and the company's management report provides a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of the company.

Montvale, March 28, 2011

A handwritten signature in black ink, consisting of a large, loopy initial 'R' followed by a series of horizontal strokes and a vertical line extending downwards.

Ruben Simmons  
*President & CEO*

A handwritten signature in black ink, appearing to read 'S. Ringeling' in a cursive style with a long horizontal line extending to the right.

Sandro Ringeling  
*Chief Accounting Officer*

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(all amounts in thousands of Canadian dollars)

# Management Report

### General

Daimler Canada Finance Inc. (“DCFI” or the “Company”) is a wholly-owned subsidiary of Daimler North America Corporation (“DNA”), which in turn is a wholly-owned subsidiary of Daimler AG (“DAG” or “Daimler”).

DCFI accesses Canadian and foreign capital markets to raise funds, which it lends to DAG subsidiaries in Canada through a consolidated funding and cash management system. As such, it has relationships with other subsidiaries of DAG. DAG issued full and unconditional guarantees for DCFI’s obligations incurred under its outstanding notes and bonds programs.

DNA and DCFI are parties to a Keep-Well Agreement. The terms of the agreement provide that DNA will continue to hold all voting shares of the Company, maintain the Company’s net worth at no less than one dollar, and maintain sufficient liquidity in the Company to punctually meet its payment obligations as it deems fit.

The nature of the Daimler operations in Canada includes the distribution of passenger cars purchased from DAG under the brand names Mercedes-Benz, smart and Maybach, and the manufacture, assembly and sale of trucks and other commercial vehicles under the brand names Freightliner, Thomas Built Buses, and Orion. Daimler also has financial services operations that principally provide automotive financing to its dealers and their customers, including retail and lease financing for cars and trucks, dealer inventory and other financing needs.

This annual report contains forward looking statements that reflect our current views about future events. Words such as “anticipate,” “assume,” “believe,” “estimate,” “expect,” “intend,” “may,” “plan,” “project,” “should” and similar expressions are being used to identify forward looking statements. These statements are subject to many risks and uncertainties, including:

- a slowdown in the recovery of the global economy or a renewed deterioration of global economic conditions in general and in Canada in particular;
- a renewed worsening of the situation in the credit and financial markets, which could result in an increase in borrowing costs or limit the funding flexibility;
- changes in currency exchange rates and interest rates;
- changes in laws, regulations and government policies that may affect the Company or any of its sister companies; and
- the business outlook of the Company’s sister companies in Canada, which may affect the funding requirements of such sister companies in the automotive and financial services businesses.

The following discussion should be read in conjunction with the Company’s financial statements as of and for the years ended December 31, 2010 and 2009, which were prepared using International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Note 3 to the financial statements provides an overview of the Company’s significant accounting policies. In this management report, the Company reports financial information in thousands of Canadian dollars, except where indicated otherwise.

### Earnings

#### *Interest income*

Interest income was \$140,951 in 2010 compared to \$169,309 in 2009, a 17% decrease due to a lower average receivable portfolio and less cash and cash equivalents.

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### *Interest expense*

Interest expense was \$151,026 in 2010 compared to \$191,398 in 2009, a 21% decrease. This decrease was mainly due to a reduction in the Company's outstanding notes and bonds during 2010 and 2009 as a result of maturities.

### *Administrative and other expense*

Administrative and other expense increased from \$2,650 in 2009 to \$6,100 in 2010. This increase was mainly due to a legislative change in Quebec tax law that resulted in accrued capital tax.

### *Other financial income, net*

Other financial income, net was \$8,989 in 2010, compared to other financial income, net of \$7,517 in 2009. This position was predominantly comprised of gains on foreign exchange transactions.

### *Loss before income taxes*

Loss before income taxes amounted to \$7,186 in 2010, while in 2009 the loss before income taxes was \$17,222, mainly because net interest expense was lower than in the previous year.

### *Income tax benefit (expense)*

The Company recorded income tax expense of (\$3,223) in 2010 as compared to an income tax benefit of \$3,011 in 2009. The change is primarily due to a portion of interest expense to non-Canadian related parties being nondeductible in 2010.

### *Net loss*

Net loss was \$10,409 in 2010, compared to a net loss of \$14,211 in 2009, predominantly as a result of an improved net interest expense.

### *Other comprehensive income*

Other comprehensive income was comprised of unrealized gains and losses from cash flow hedges. The Company recorded net gains after taxes of \$19,225 in 2010 and net gains after taxes of \$29,375 in 2009.

### *Total comprehensive income*

Total comprehensive income was \$8,816 in 2010, while in 2009 the Company recorded a total comprehensive income of \$15,164.

## **Financial position**

Total assets were \$3,438,588 at December 31, 2010 compared to \$4,407,883 at December 31, 2009, a decrease of \$969,295 or 22%. The decrease is primarily due to the repayment of notes and bonds in 2010, which reduced cash and cash equivalents, and the maturities of the receivables from DAG subsidiaries.

Total liabilities also decreased, from \$4,362,619 at December 31, 2009 to \$3,384,508 at December 31, 2010, reflecting the repayment of notes and bonds in 2010 as they matured which was partially offset by higher payables to related parties.

## **Liquidity and capital resources**

In the ordinary course of business, the Company issues notes and bonds in Canada and Europe. The Company also enters, as necessary, into intercompany loans with other DAG subsidiaries to optimize funding from a global Daimler perspective.

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The funds raised in 2010 and prior years were used mainly to support the lease and sales financing business and the capital expenditure requirements of the industrial business of the Daimler subsidiaries in Canada. Lease and sales financing activities are typically financed with a high proportion of debt.

Cash flows were as follows in 2010 and 2009:

	2010	2009
Cash provided by operating activities	397,752	123,623
Cash provided by investing activities	-	-
Cash used in financing activities	(806,077)	(161,650)

Operating net cash inflows were \$397,752 in 2010 compared to net cash inflows of \$123,623 in 2009, as a result of the maturities of the receivables from DAG subsidiaries as the overall portfolio of receivables declined.

Cash used in financing activities increased in 2010 compared to 2009 due to less cash inflows from payables to related parties.

### Risk report

Many factors could directly and indirectly, through the close affiliation with DCFI's sister companies, affect the Company's business, financial condition, cash flows and results of operations. The principal risks are described below.

#### *Economic risks*

A renewed financial turbulence (including currency risks) in the world economy, the further exacerbation of public authorities' debt problems, high price volatility in raw-material markets, nascent protectionism and the possible destabilizing effects of a too expansive monetary policy could have significant adverse effects on the Daimler business in Canada and, as a result, on the future financial position of the Company. Tightening of credit as a result of a renewed turmoil in the financial industry and the resulting downturn of the Canadian and worldwide economies could result in a significant decline in consumer confidence and resulting declines in investment activity and consumer demand, including demand for the passenger cars, trucks and buses sold by DCFI's sister companies, in Canada and worldwide.

#### *Industry risks*

Intense price competition in the automotive industry could continue to force the Daimler companies in Canada, which are financed by DCFI, to increase sales incentives, each of which would be costly and would indirectly affect the financial position and cash flows of the Company significantly.

In addition, the financial services that Daimler offers in connection with the sale of vehicles involve several risks. These include the potential inability to recover the investments in leased vehicles or to collect the sales financing receivables if the resale prices of the vehicles securing these receivables fall short of the carrying value, which may lead to additional funding requirements through DCFI.

#### *Financial risks*

The Daimler business in Canada, and in particular the operations of the Company, are exposed to a variety of market risks, including the effects of changes in exchange rates and interest rates. The Company holds a variety of interest rate sensitive assets and liabilities to manage the liquidity and cash needs of the Daimler operations. Changes in currency exchange rates and interest rates may have substantial adverse effects on the Company's operating results and cash flows. Adverse effects may arise from downgrades of the long-term debt ratings of the Company's ultimate parent company, DAG, and the ability of the Company to issue debt in the Canadian and European markets. Lower demand for the Company's debt instruments could increase the borrowing costs or otherwise limit DCFI's ability to fund the Daimler operations in Canada.

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Note 13 to the Company's financial statements describes the risk management strategies employed by the Company to address such risks.

If any of these risks and uncertainties materialize, or if the assumptions underlying any of our forward-looking statements prove incorrect, then our actual results may be materially different from those we express or imply by such statements. We do not intend or assume any obligation to update these forward-looking statements. Any forward looking statement speaks only as of the date on which it is made.

### **Corporate Governance**

#### *Corporate bodies*

As of December 31, 2010, the Company had eight officers and a board of directors which comprised three members. With this segregation, the officers are responsible for managing the day to day operations of the Company while the board of directors advises and monitors the officers.

#### *Compliance*

As part of the Daimler organization, the Company has applied all compliance principles the Daimler AG Board of Management has set including an Integrity Code. This Integrity Code is a set of guidelines for behavior, which has been in effect since 1999 and was revised in 2003, defining a binding framework for the actions of all employees worldwide. Among other things, the guidelines define correct behavior in international business and in any cases of conflicts of interest, questions of equal treatment, proscription of corruption, the role of internal control systems and the duty to comply with applicable law as well as other internal and external regulations.

#### *Risk management and internal control*

The risk management system is one component of the overall planning, controlling and reporting process. Its goal is to enable the Company's management to recognize significant risks at an early stage and to initiate appropriate countermeasures in a timely manner (see note 13).

The officers of the Company are responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined as a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards (IFRS) and includes those policies and procedures that (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

#### *Accounting principles*

The financial statements of the Company are prepared in accordance with IFRS. Details of the IFRS are provided in this annual report in the notes to the financial statements (see note 2).

### **Outlook**

Management expects a further improvement of the Company's results of operations in 2011. This expectation is based on the assumption of a stable economic development.



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## Independent Auditors' Report

The Board of Directors

Daimler Canada Finance, Inc.:

We have audited the accompanying statements of financial position of Daimler Canada Finance, Inc. (the "Company") as of December 31, 2010 and 2009 and the related statements of comprehensive income, changes in equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Daimler Canada Finance, Inc. as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

**KPMG LLP**

March 28, 2011

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### Statements of Comprehensive Income

	Note	Year ended December 31,	
		2010	2009
<b>Interest income</b>			
Interest income – related parties		138,832	165,277
Interest income – third parties		2,119	4,032
<b>Total interest income</b>		<b>140,951</b>	<b>169,309</b>
<b>Interest expense</b>			
Interest expense – third parties		(87,993)	(123,579)
Interest expense – related parties		(63,033)	(67,819)
<b>Total interest expense</b>		<b>(151,026)</b>	<b>(191,398)</b>
<b>Net interest expense</b>		<b>(10,075)</b>	<b>(22,089)</b>
Administrative and other expense	10	(6,100)	(2,650)
Other financial income, net	4	8,989	7,517
<b>Loss before income taxes</b>		<b>(7,186)</b>	<b>(17,222)</b>
Income tax (expense) benefit	5	(3,223)	3,011
<b>Net loss</b>		<b>(10,409)</b>	<b>(14,211)</b>
Unrealized gains from cash flow hedges, net of taxes of 8,268 in 2010 and 12,632 in 2009		<b>19,225</b>	<b>29,375</b>
<b>Total comprehensive income</b>		<b>8,816</b>	<b>15,164</b>

The accompanying notes on pages 13 to 28 are an integral part of the financial statements.

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## Statements of Financial Position

	Note	December 31,	
		2010	2009
<b>Assets</b>			
Loans and receivables from related parties	6	1,515,000	2,344,146
Other financial assets	7	586	25,017
Deferred tax assets	5	2,847	14,092
<b>Total non-current assets</b>		<b>1,518,433</b>	<b>2,383,255</b>
Loans and receivables from related parties	6	1,752,952	1,436,500
Cash and cash equivalents		90,780	499,105
Other financial assets	7	76,423	88,779
Current tax assets		-	244
<b>Total current assets</b>		<b>1,920,155</b>	<b>2,024,628</b>
<b>Total assets</b>		<b>3,438,588</b>	<b>4,407,883</b>
<b>Equity and liabilities</b>			
Share capital		-	-
Capital reserves		76,377	76,377
Retained earnings (deficit)		(20,063)	(9,654)
Cash flow hedges		(2,234)	(21,459)
<b>Total equity</b>	8	<b>54,080</b>	<b>45,264</b>
Payables to related parties	10	399,660	1,079,571
Notes and bonds payable	9	-	520,062
Other financial liabilities	11	101,817	221,506
<b>Total non-current liabilities</b>		<b>501,477</b>	<b>1,821,139</b>
Provisions and other liabilities		15,592	7,035
Payables to related parties	10	2,155,109	948,726
Notes and bonds payable	9	459,959	1,538,037
Other financial liabilities	11	252,371	47,682
<b>Total current liabilities</b>		<b>2,883,031</b>	<b>2,541,480</b>
<b>Total liabilities</b>		<b>3,384,508</b>	<b>4,362,619</b>
<b>Total equity and liabilities</b>		<b>3,438,588</b>	<b>4,407,883</b>

The accompanying notes on pages 13 to 28 are an integral part of the financial statements.

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### Statements of Changes in Equity

	Share capital	Capital reserves	Retained earnings	Cash flow hedges	Total equity
<b>Balance at January 1, 2009</b>	-	70,000	4,557	(50,834)	23,723
Net loss	-	-	(14,211)	-	(14,211)
Income recognized directly in equity	-	-	-	42,007	42,007
Deferred taxes on income recognized directly in equity	-	-	-	(12,632)	(12,632)
<b>Total comprehensive income (loss) for period</b>	-	-	(14,211)	29,375	15,164
Contributions by owners of the Company	-	6,377	-	-	6,377
<b>Balance at December 31, 2009</b>	-	76,377	(9,654)	(21,459)	45,264
Net loss	-	-	(10,409)	-	(10,409)
Income recognized directly in equity	-	-	-	27,493	27,493
Deferred taxes on income recognized directly in equity	-	-	-	(8,268)	(8,268)
<b>Total comprehensive income (loss) for period</b>	-	-	(10,409)	19,225	8,816
Contributions by owners of the Company	-	-	-	-	-
<b>Balance at December 31, 2010</b>	-	76,377	(20,063)	(2,234)	54,080

The accompanying notes on pages 13 to 28 are an integral part of the financial statements.

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## Statements of Cash Flows

	Note	Year ended December 31,	
		2010	2009
Net loss		(10,409)	(14,211)
Change in deferred taxes	5	2,977	(2,216)
Changes in derivative financial instruments	7, 11	(36,267)	(80,462)
Net change in operating receivables and payables from related parties	6, 10	434,979	243,222
Changes in other receivables, accruals and other liabilities		6,472	(22,710)
<b>Cash provided by operating activities</b>		<b>397,752</b>	<b>123,623</b>
<b>Cash provided by investing activities</b>		<b>-</b>	<b>-</b>
Repayment of notes and bonds payable	9	(1,398,220)	(1,384,710)
Increase in financing payables to related parties	10	592,143	1,223,060
Capital contribution <sup>1</sup>		-	-
<b>Cash used in financing activities</b>		<b>(806,077)</b>	<b>(161,650)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(408,325)</b>	<b>(38,027)</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>499,105</b>	<b>537,132</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>90,780</b>	<b>499,105</b>
<b>Supplemental information<sup>2</sup>:</b>			
Interest paid		(154,998)	(188,628)
Interest received		158,154	168,696
Income taxes paid		-	-
Income tax refund received		-	12,241

1 In 2009, DNA made a capital contribution in kind to DCFI. Refer to footnote 8 for additional information.

2 All cash flows from interest and taxes are included in cash provided by operating activities.

The accompanying notes on pages 13 to 28 are an integral part of the financial statements.

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# Notes to the financial statements

### 1. Reporting entity

Daimler Canada Finance Inc. (“DCFI” or the “Company”) is a stock corporation organized under the laws of Quebec, Canada. The Company is a wholly-owned subsidiary of Daimler North America Corporation (“DNA”), which is in turn a wholly-owned subsidiary of Daimler AG (“DAG”). Its registered office is located at 1 Place Ville Marie – 37th Floor, H3B 3P4, Montreal, Quebec, Canada.

The Company commenced operations in 1995 as Daimler-Benz Canada Inc., changed its name to DaimlerChrysler Canada Finance Inc. on January 1, 1999, and then again to Daimler Canada Finance Inc. on December 20, 2007.

DCFI accesses Canadian and foreign capital markets to raise funds, which it lends to DAG subsidiaries in Canada through a consolidated funding and cash management system. In the event of non-payment by DCFI, DAG irrevocably and unconditionally guarantees the noteholders the payment of the amounts corresponding to the principal of, and interest on the respective notes and bonds as they become due.

DNA and DCFI are parties to a Keep-Well Agreement. The terms of the agreement provide that DNA will continue to hold all voting shares of the Company, maintain the Company’s net worth at no less than one dollar, and maintain sufficient liquidity in the Company to punctually meet its payment obligations as it deems fit. This agreement is not a guarantee.

### 2. Basis of preparation

#### (a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

On March 28, 2011, the Board of Directors of DCFI authorized the financial statements for issue.

#### (b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- recognized financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships are adjusted for changes in fair value attributable to the risk being hedged.

#### (c) Functional and presentation currency

These financial statements are presented in Canadian dollars (“\$”), which is the Company’s functional currency. The Company reports financial information in thousands of Canadian dollars, except where indicated otherwise.

#### (d) Presentation in the statement of financial position

Presentation in the statement of financial position differentiates between current and non-current assets and liabilities. Assets and liabilities are classified as current if they mature within one year. Deferred tax assets are presented as a non-current item.

#### (e) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, 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. Management’s critical

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estimates relate to the fair values of the Company's notes and bonds payable and receivables from DNA. Refer to Note 12 for additional information.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and are applied prospectively.

Significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements relate to the recoverability of receivables from related parties and fair value measurements for the Company's financial instruments.

### **Recoverability of loans and receivables from related parties**

At each balance sheet date, the carrying amounts of loans and receivables are evaluated to determine whether there is objective significant evidence of impairment. Through December 31, 2010, no impairment losses on receivables from related parties have been recognized as management does not believe that there has been objective significant evidence of impairment.

### **Fair value of financial instruments**

The Company measures fair values of its financial instruments using the following hierarchy of methods:

- Quoted market prices in an active market for an identical instrument.
- Valuation techniques based on observable inputs. This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Company determines fair values using valuation techniques. In particular, the Company uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment. Observable prices and model inputs are usually available in the market for listed debt securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

### **(f) New accounting pronouncements**

In November 2009, the IASB published IFRS 9 "Financial Instruments" ("IFRS 9") as part of its project of a revision of the accounting guidance for financial instruments. Requirements for financial liabilities were added to IFRS 9 in October 2010. The requirements for financial liabilities were carried forward unchanged from IAS 39, with the exception of certain changes to the fair value option for financial liabilities that address the consideration of own credit risk. The new standard provides guidance on the accounting of financial assets and financial liabilities as far as classification and measurement are concerned. The standard will be effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company will not early adopt IFRS 9 for 2011 and will determine the expected effects on the financial statements as soon as it has decided on a date of adoption.

Other IFRSs issued but not required to be adopted are not expected to have significant influence on the Company's financial position, financial performance or statement of cash flows.

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### **3. Summary of significant accounting policies**

#### **(a) Interest income and expense**

Interest income and expense are recognized in the statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, except future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

#### **(b) Foreign currency translation**

Transactions in foreign currencies are translated into Canadian dollars at the spot exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into Canadian dollars at the spot exchange rate at that date. The resulting gains and losses from such re-measurement are recognized in the statement of comprehensive income in the line “other financial income, net.”

#### **(c) Income taxes**

Current income taxes are determined based on the taxable income of the period and Canadian tax rules. In addition, current income taxes include adjustments for uncertain tax payments or tax refunds for periods not yet assessed as well as interest expense and penalties on the underpayment of taxes. Deferred tax is included in income tax expense and reflects the changes in deferred tax assets and liabilities except for changes recognized directly in equity.

Deferred tax assets or liabilities are determined based on temporary differences between the financial reporting basis and the tax basis of assets and liabilities including differences from loss carry forwards. Measurement is based on the tax rates expected to be in effect in the period in which an asset is realized or a liability is settled. For this purpose, the tax rates and tax rules are used which have been enacted or substantially enacted at the balance sheet date. Deferred tax assets are recognized to the extent that taxable profit at the level of the relevant tax authority will be available for the utilization of the deductible temporary differences. Tax benefits resulting from uncertain income tax positions are recognized at the best estimate of the tax amount expected to be paid.

#### **(d) Financial assets**

Financial assets are comprised of receivables from related parties, cash and cash equivalents, and derivative financial assets.

#### **Loans and receivables from related parties**

Loans and receivables from related parties are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these loans and receivables are subsequently carried at amortized cost using the effective interest method less any impairment losses, if necessary. Gains and losses are recognized in the statement of comprehensive income when the loans and receivables are derecognized or impaired. Interest effects on the application of the effective interest method are also recognized in the statement of comprehensive income.

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### **Cash and cash equivalents**

Cash and cash equivalents consist primarily of cash on hand and bankers' discount notes with an original term of up to three months and correspond with the classification in the statements of cash flows. Cash equivalents at December 31, 2010 and 2009 were \$19,827 and \$307,916, respectively.

### **(e) Financial liabilities**

Financial liabilities primarily include notes and bonds payable, derivative financial liabilities and miscellaneous other liabilities.

#### **Notes and bonds payable**

New notes and bonds issuances are recognized at fair value based on quoted prices on the day of issuance. After initial recognition, they are subsequently measured at amortized cost using the effective interest method.

#### **Miscellaneous other liabilities**

After initial recognition, miscellaneous other liabilities are subsequently measured at amortized cost using the effective interest method.

### **(f) Derivative financial instruments and hedge accounting**

DCFI uses derivative financial instruments (e.g. forwards and swaps) mainly for the purposes of hedging interest rate and currency risks that arise from its operating and financing activities.

Derivative financial instruments are measured at fair value upon initial recognition and on each subsequent reporting date. If a market value is not available, fair value is calculated using standard financial valuation models, such as discounted cash flow models. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

If the requirements for hedge accounting set out in International Accounting Standard 39 ("IAS 39"), "Financial Instruments: Recognition and Measurement," are met, DCFI designates and documents the hedge relationship from the date a derivative contract is entered into either as a fair value hedge or a cash flow hedge. In a fair value hedge, the fair value of a recognized asset or liability or an unrecognized firm commitment is hedged. In a cash flow hedge, the variability of cash flows to be received or paid related to a recognized asset or liability or a highly probable forecasted transaction is hedged. The documentation of the hedging relationship includes the objectives and strategy of risk management, the type of hedging relationship, the nature of risk being hedged, the identification of the hedging instrument and the hedged item as well as a description of the method to assess hedge effectiveness. The hedging relationships are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are regularly assessed to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated.

For fair value hedges, changes in the fair value of the hedged item and the derivative are recognized currently in earnings. For cash flow hedges, fair value changes of the effective portion of the hedging instrument are recognized in cash flow hedges in the statements of changes in equity, net of applicable taxes. The ineffective portion of the fair value changes is recognized in profit or loss. Amounts taken to equity are reclassified to the statement of comprehensive income when the hedged transaction affects the statement of income.

If derivative financial instruments do not or no longer qualify for hedge accounting because the qualifying criteria for hedge accounting are not or no longer met, the derivative financial instruments are classified as held for trading.

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### (g) Transactions with related parties

DCFI is wholly owned by DNA and indirectly by DAG. Transactions with related parties in the normal course of business are recorded at the agreed upon exchange amount. Financial receivables and payables with related parties are entered at prevailing market terms at the time of the transaction.

### 4. Other financial income, net

Other financial income, net is comprised of the following:

	2010	2009
Result of foreign exchange transactions	9,325	6,931
Other	(336)	586
	<b>8,989</b>	<b>7,517</b>

### 5. Income taxes

Income tax expense (benefit) is comprised of the following components:

	2010	2009
Current taxes	246	(795)
Deferred taxes	2,977	(2,216)
	<b>3,223</b>	<b>(3,011)</b>

The current tax benefit contains benefits of \$246 (2009: \$953) recognized for prior periods.

The deferred tax expenses (benefits) are comprised of the following components:

	2010	2009
Deferred taxes	2,977	(2,216)
Due to temporary differences	400	(1,538)
Due to tax loss carryforwards and tax credits	2,577	(678)

A reconciliation of expected income tax benefit to actual income tax benefit determined using the applicable Canada combined statutory rate of 29.9% (2009: 30.0%) is included in the following table:

	2010	2009
Expected income tax expense (benefit) at Canada statutory rate	(2,149)	(5,167)
Nondeductible interest expense to related parties	5,922	3,102
Prior year tax return and deferred tax adjustments	(866)	(924)
Other	316	(22)
Actual income tax (benefit)	<b>3,223</b>	<b>(3,011)</b>

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In respect of each type of temporary difference and in respect of each type of unutilized tax losses and unutilized tax credits, the deferred tax assets before offset are summarized as follows:

	2010	2009
Derivative financial instruments	886	9,554
Net operating loss carryforwards	1,961	4,538
Deferred tax assets	<b>2,847</b>	<b>14,092</b>

In 2010 and 2009, the (increase) decrease in deferred tax assets was composed of:

	2010	2009
Deferred tax expense on derivative financial instruments charged or credited directly to related components of equity	8,268	12,632
Deferred tax expense (benefit)	2,977	(2,216)
(Increase) decrease	<b>11,245</b>	<b>10,416</b>

Including the items charged or credited directly to related components of shareholders' equity without an effect on earnings, the expense (benefit) for income taxes consists of the following:

	2010	2009
Income tax expense (benefit)	3,223	(3,011)
Other comprehensive income	8,268	12,632
	<b>11,491</b>	<b>9,621</b>

DCFI believes that it is more likely than not that due to future taxable income, deferred tax assets can be utilized.

### 6. Loans and receivables from related parties

DCFI provides financing to certain DAG affiliates mainly in Canada, which are related parties for DCFI. The following sets forth receivables from these related parties for such financing, including accrued interest and for certain financing provided to DAG:

	December 31,	
	2010	2009
Mercedes-Benz Financial Services Canada Corporation	2,719,298	2,742,228
Daimler International Finance B.V.	434,036	886,183
Mercedes-Benz Canada Inc.	100,431	150,809
DAG	37	1,387
Detroit Diesel Corporation	11,571	-
Detroit Diesel Canada Ltd.	1,496	-
Thomas Built Buses, Inc.	694	-
Daimler Trucks North America LLC	389	-
DNA	-	39
	<b>3,267,952</b>	<b>3,780,646</b>

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The uncollateralized financing receivables from related parties bear interest at primarily fixed rates ranging from 1.5% to 7.6%, with a weighted average interest rate of 4.1%. Interest income is recorded using the effective interest method. As of December 31, 2010, aggregate annual contractual maturities of loans receivables from related parties were as follows:

	Interest range	Maturities
2011	1.5% - 5.9%	1,752,952
2012	2.6% - 7.6%	940,000
2013	2.8% - 4.2%	575,000
<b>Total</b>		<b>3,267,952</b>

DCFI is also responsible for administering a cash management system to efficiently use the financial resources of certain DAG affiliated companies in Canada.

### 7. Other financial assets

Other financial assets are comprised of the following:

	December 31, 2010			December 31, 2009		
	Current	Non-current	Total	Current	Non-current	Total
Derivative financial instruments used in hedge accounting	9,728	-	9,728	32,050	24,301	56,351
Derivative financial instruments at fair value through profit or loss	20,143	586	20,729	3,098	716	3,814
Thereof entered into with related parties	20,072	-	20,072	1,879	-	1,879
Other receivables and financial assets	46,552	-	46,552	53,631	-	53,631
<b>Carrying amount</b>	<b>76,423</b>	<b>586</b>	<b>77,009</b>	<b>88,779</b>	<b>25,017</b>	<b>113,796</b>

Other receivables and financial assets are primarily comprised of interest receivables from swaps.

### 8. Equity

At December 31, 2010 and 2009, the authorized share capital comprised 1,000 no par value shares, of which 100 shares were issued and outstanding. All issued shares were fully paid up.

In 2009, DNA, the sole shareholder of DCFI, decided to not require a settlement of administrative overhead expenses, but instead to consider past administrative expenses that DNA incurs on behalf of DCFI as a capital contribution in kind. As a result of this decision, a total of \$6,377 was contributed to DCFI's equity in 2009. In 2010, DNA decided to require settlements of administrative overhead expenses.

### 9. Notes and bonds payable

Terms and conditions of notes and bonds payable outstanding at December 31, 2010, are as follows:

	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount
Medium Term Note	GBP	5.750%	2011	464,310	459,959

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**10. Payables to related parties**

The following table sets forth amounts payable to related parties:

	December 31,	
	2010	2009
DNA	1,634,764	608,788
Daimler International Finance B.V.	627,705	1,116,125
Freightliner Ltd.	109,944	-
Daimler Trucks Canada Ltd.	57,520	170,215
Daimler Buses North America Ltd.	42,074	41,305
Mercedes-Benz Canada Inc.	39,852	81,968
Thomas Built Buses of Canada Ltd	35,083	4,113
SelecTrucks of Toronto Inc.	7,567	5,449
DAG	146	334
car2go N.A. LLC	96	-
SelecTrucks of America LLC	18	-
<b>Total</b>	<b>2,554,769</b>	<b>2,028,297</b>

Payables to these companies, with the exception of the payables to DAG, bear variable interest. As of December 31, 2010, the weighted average interest rate on these loans was 3.5%.

DCFI is charged fees for the full and unconditional guarantees on its outstanding notes and bonds payable, which are issued under DAG's programs. These fees are calculated as a set percentage of the outstanding notes and bonds for any given year. These expenses were \$1,319 and \$2,297 for the years ended December 31, 2010 and 2009, respectively and are included in interest expense - related parties.

The Company is charged for administrative overhead expenses by DNA. These expenses were \$1,299 and \$1,056 for the years ended December 31, 2010 and 2009, respectively, and are included in administrative and other expense.

**11. Other financial liabilities**

Other financial liabilities are comprised of the following:

	December 31, 2010			December 31, 2009		
	Current	Non-current	Total	Current	Non-current	Total
Derivative financial instruments at fair value through profit or loss	218,257	101,817	320,074	4,159	221,506	225,665
Other financial liabilities	34,114	-	34,114	43,523	-	43,523
<b>Carrying amount</b>	<b>252,371</b>	<b>101,817</b>	<b>354,188</b>	<b>47,682</b>	<b>221,506</b>	<b>269,188</b>

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### 12. Financial instruments

#### (a) Carrying amounts and fair values of financial instruments

The following table shows the carrying amounts and fair values of the Company's financial instruments by IAS 39 measurement category. The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Given the varying influencing factors, the reported fair values can only be viewed as indicators of the prices that may actually be achieved on the market.

	December 31, 2010		December 31, 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	90,780	90,780	499,105	499,105
Loans and receivables				
Loans and receivables from related parties	3,267,952	3,344,479	3,780,646	3,921,182
Other receivables and financial assets	46,552	46,552	53,631	53,631
Total loans and receivables	3,314,504	3,391,031	3,834,277	3,974,813
Financial assets recognized at fair value through profit or loss				
Derivative financial instruments entered into with related parties	20,072	20,072	1,879	1,879
Derivative financial instruments used in hedge accounting	9,728	9,728	56,351	56,351
Derivative financial instruments at fair value through profit or loss	657	657	1,935	1,935
Total financial assets recognized at fair value through profit or loss	30,457	30,457	60,165	60,165
<b>Total financial assets</b>	<b>3,435,741</b>	<b>3,512,267</b>	<b>4,393,547</b>	<b>4,534,083</b>
Financial liabilities at amortized cost				
Notes and bonds payable	459,959	476,211	2,058,099	2,091,900
Payables to related parties	2,554,769	2,639,774	2,028,297	2,123,641
Other financial liabilities	34,114	34,114	43,523	43,523
Total financial liabilities at amortized cost	3,048,842	3,150,099	4,129,919	4,259,064
Financial liabilities at fair value through profit or loss				
Derivative financial instruments at fair value through profit or loss	320,074	320,074	225,665	225,665
Total financial liabilities at fair value through profit or loss	320,074	320,074	225,665	225,665
<b>Total financial liabilities</b>	<b>3,368,916</b>	<b>3,470,173</b>	<b>4,355,584</b>	<b>4,484,729</b>

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Financial assets and liabilities measured at fair value are classified into the following fair value hierarchy:

	December 31, 2010			
	Total	Level 1 <sup>1</sup>	Level 2 <sup>2</sup>	Level 3 <sup>3</sup>
Assets measured at fair value				
Derivative financial instruments entered into with related parties	20,072	-	20,072	-
Derivative financial instruments recognized at fair value through profit or loss	657	-	657	-
Derivative financial instruments used in hedge accounting	9,728	-	9,728	-
Liabilities measured at fair value				
Derivative financial instruments recognized at fair value through profit or loss	320,074	-	320,074	-

1 Fair value measurement based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

2 Fair value measurement based on inputs for the asset or liability that are observable on active markets either directly (i.e. as prices) or indirectly (i.e. derived from prices).

3 Fair value measurement based on inputs for the asset or liability that are not observable market data.

The fair values of financial instruments were calculated on the basis of market information available on the balance sheet date using the methods and assumptions presented below.

**Cash and cash equivalents**

Due to the short terms of these financial instruments, it is assumed that the fair value is equal to the carrying amount.

**Loans and receivables from related parties**

DCFI intends to hold loans and receivables from related parties to maturity. None of these receivables have been derecognized and the Company does not believe that these receivables are impaired. The fair values of loans and receivables from related parties are calculated as the present values of the estimated future cash flows, using the interest rates set forth in the underlying intercompany loan agreements, which approximate market rates.

**Other receivables and financial assets**

Because of the short maturities of these financial instruments, it is assumed that fair value approximates the carrying amount.

**Financial assets and liabilities recognized at fair value through profit or loss**

Financial assets and liabilities recognized at fair value through profit or loss are comprised of derivative financial instruments not used in hedge accounting. For further details on the currency and interest rate hedging contracts see the comments under derivative financial instruments used in hedge accounting.

**Derivative financial instruments used in hedge accounting**

These derivative financial instruments include:

- Derivative currency hedging contracts. The fair values of currency forwards are determined on the basis of discounted estimated future cash flows using market interest rates appropriate to the remaining terms of the financial instruments.

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- Derivative interest rate hedging contracts. The fair values of interest rate hedging instruments (e.g. interest rate swaps, cross currency interest rate swaps) are calculated on the basis of the discounted estimated future cash flows using the market interest rates appropriate to the remaining terms of the financial instruments.

Other receivables and financial assets are comprised of short-term other receivables and short-term loans. These financial instruments are carried at cost. Because of the short maturities of these financial instruments, it is assumed that the fair values approximate the carrying amount.

### Notes and bonds payable

The fair values of bonds are calculated as the present values of the estimated future cash flows, using a discounted cash flow analysis based on market interest rates for similar types of instruments issued by other Daimler entities, which approximate quoted market prices. If the counterparty can request payment at different dates, the discounted cash flows are measured on the basis of the earliest date on which DCFI can be required to pay.

### Payables to related parties

The fair values of payables to related parties are calculated as the present values of the estimated future cash flows, using the interest rates set forth in the underlying intercompany loan agreements, which approximate market rates.

### Other financial liabilities

Because of the short maturities of these financial instruments, it is assumed that fair value approximates the carrying amount.

### (b) Net gains (losses)

In 2010 and 2009, the net gains (losses) of financial assets and liabilities recognized at fair value through profit or loss included in the statements of comprehensive income (not including derivative financial instruments used in hedge accounting) were \$11,700 and \$(451), respectively.

In addition to amounts attributable to changes in fair value, net gains and losses of financial assets and liabilities recognized at fair value through profit or loss also include the interest income and expenses of these financial instruments.

### (c) Information on derivative financial instruments

#### Use of derivatives

DCFI issued notes and bonds payable in several currencies. The Company uses interest rate swaps for hedging interest risks arising from these notes and bonds. Currency risks arising from the issuance of notes and bonds in currencies other than the Canadian dollar are hedged mainly through currency forward transactions and swaps.

#### Fair values of hedging instruments

The table below shows the fair values of hedging instruments:

	December 31,	
	2010	2009
Fair value hedges	9,728	24,301
Cash flow hedges	-	32,050

Positive fair values in the table represent assets, while negative fair values represent liabilities.

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### Fair value hedges

DCFI uses fair value hedges primarily for hedging interest rate risks.

The changes in fair value of these hedging instruments for 2010 and 2009 amounted to \$(12,350) and \$(513), respectively. The offsetting changes in the value of underlying transactions amounted to \$12,347 in 2010 and \$4,490 in 2009. These changes are included in “interest expense – third parties” in the statements of comprehensive income.

These amounts also include the portions of changes in fair value of derivative financial instruments that are excluded from the hedge effectiveness test and the ineffective portions.

### Cash flow hedges

The Company uses cash flow hedges primarily for hedging currency and interest rate risks.

In 2010 and 2009, net unrealized losses on the measurement of derivatives (before income taxes) of \$(25,693) and \$(35,696), respectively, were recognized in equity without affecting earnings. In addition, in 2010 and 2009, net losses of \$(53,186) and \$(77,703), respectively, were reclassified from equity to “interest expense – third parties.”

The maturities of the interest rate hedges and currency hedges correspond with those of the underlying transactions. As of December 31, 2010, the Company expects to reclassify losses, net of applicable income taxes, of \$2,234 to the statements of comprehensive income in 2011.

In previous years, the Company terminated cross-currency interest rate swaps used in cash flow hedges. The hedged forecasted transactions – foreign-currency denominated interest payments – remain highly probable and, accordingly, these amounts remained in other comprehensive income and are reclassified to the statement of comprehensive income when those transactions affect the statements of comprehensive income. The Company reclassified net amounts of \$12,986 and \$14,989 to the statement of comprehensive income in 2010 and 2009, respectively.

## 13. Risk management

### (a) Introduction

DCFI is exposed to the following risks from financial instruments:

- credit risk
- liquidity risk
- finance market risks

This note presents information about the Company’s exposure to each of the above risks, the objectives, policies and processes for measuring and managing risk, and the Company’s management of capital.

### (b) Risk management framework

DCFI applies the guidelines established by its ultimate parent company, DAG, and when necessary, establishes its own guidelines unique to the transactions of the Company. The guidelines are established for risk controlling procedures and for the use of financial instruments, including a clear segregation of duties with regard to operating financial activities, settlement, accounting and controlling of financial instruments. The guidelines upon which the Company’s risk management processes are based, are designed to identify and analyze these risks, to set appropriate risk limits and controls and to monitor the risks by means of reliable and up-to-date administrative and information systems. The guidelines and systems are regularly reviewed and adjusted to changes in markets and businesses.

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The Company manages and monitors these risks primarily through its operating and financing activities and, if necessary, through the use of derivative financial instruments. DCFI does not use derivative financial instruments for purposes other than risk management. Without these derivative financial instruments, the Company would be exposed to higher financial risks. Additional information on financial instruments and especially derivative financial instruments is included in Note 12. DCFI regularly evaluates its financial risks with due consideration of changes in key economic indicators and up-to-date market information.

### (c) Credit risk

Credit risk is the risk of financial loss to the Company if a counterpart to a financial instrument fails to meet its contractual obligations. It encompasses both the direct risk of default and the risk of a deterioration of creditworthiness as well as concentration risks.

For DCFI, credit risk arises from the Company's receivables from related parties, cash and cash equivalents and derivative financial instruments concluded with related parties and third parties. As a result, the Company is exposed to these related parties', and indirectly to its ultimate parent DAG's, intent and ability to effect the repayment of these receivables.

As it pertains to the remaining assets, DCFI manages the credit risk exposure through the diversification of counterparties with the use of a Daimler Group-wide limit system based on the review of each counterparty's financial strength. During times of significant financial market volatility, DCFI's parent company, DAG reduced available limits for certain counterparties that were affected by the financial market crisis.

The maximum exposure to credit risk at the reporting date for these assets is equal to their carrying amount.

### Liquid assets

Liquid assets consist of cash and cash equivalents. In connection with the investment of liquid assets, the Company is exposed to credit-related losses to the extent that banks or issuers of securities fail to fulfill their obligations.

With the investment of liquid assets, DCFI selects the banks and issuers of securities very carefully. In line with the Daimler Group risk policy, the predominant part of the liquid assets is in investments with an external rating of A or better.

### Derivative financial instruments

Derivative financial instruments are comprised of derivatives that are either included in hedge accounting or individually valued. DCFI manages the credit risk exposure of the derivative financial instruments through diversification of counterparties, using a limit system that is based on the review of each counterparty's financial strength. According to the Company's risk policy, the large part of derivatives is contracted with counterparties who have an external rating of "A" or better.

### Receivables from related parties

The Company monitors DAG's liquidity position. DAG's financial statements are publicly available.

Debt ratings are an assessment by the rating agencies of the credit risk associated with DAG and are based on information provided by DAG or other sources. Lower ratings generally result in higher borrowing costs and reduced access to capital markets. Standard & Poor's Rating Services (S&P), Moody's Investors Service, Inc. (Moody's), Fitch Ratings Ltd. (Fitch) and DBRS rate DAG's commercial paper (short-term) and senior unsecured long-term debt (long-term). DAG's ratings as of December 31, 2010 were as follows:

	<b>S&amp;P</b>	<b>Moody's</b>	<b>Fitch</b>	<b>DBRS</b>
Short-term debt	A-2	P-2	F2	R-1(low)
Long-term debt	BBB+	A3	BBB+	A (low)

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**(d) Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities.

DCFI's main sources of liquidity are external and internal borrowings. The funds are primarily used to finance working capital and capital expenditure requirements as well as the cash needs of the lease and financing business of the DNA subsidiaries.

The Company manages its liquidity by holding adequate volumes of liquid assets and maintaining syndicated credit facilities in addition to the cash inflow generated by its operating business. The liquid assets consist of cash and cash equivalents. The Company maintains a broad variety of other funding sources. Depending on its cash needs and market conditions, it issues bonds, notes and commercial papers in various currencies. Adverse changes in the capital markets could increase DCFI's funding costs and limit the Company's financial flexibility.

In October 2010, the Company, together with DAG and other DAG subsidiaries, entered into a Euro 7 billion 5 year credit facility with a syndicate of international banks. The facility provides funds for general corporate purposes. Prior approval from DAG is required before the Company can access this credit line. At the end of 2010 and through the issuance date of these financial statements, this facility was not utilized.

From an operating point of view, the management of the Company's liquidity exposures is centralized by a daily cash concentration process. This process enables DCFI to manage its liquidity surplus and liquidity requirements according to the actual needs of the Company and other DAG subsidiaries. The Company's short-term and mid-term liquidity management takes into account the maturities of financial assets and financial liabilities and estimates of cash flows from the operating business.

The liquidity runoff shown in the following table provides an insight into how the liquidity situation of the Company is affected by the cash flows from financial liabilities as of December 31, 2010. It comprises a runoff of the

- undiscounted principal and interest of the notes and bonds payable,
- undiscounted sum of the net cash outflows of the derivative financial instruments for the respective time band, and
- undiscounted payments from other financial liabilities without derivatives.

	<b>Total</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Notes and bonds – principal	464,310	464,310	-	-	-
Notes and bonds – interest	26,698	26,698	-	-	-
Payables to related parties – principal	2,519,268	1,919,608	200,000	-	399,660
Payables to related parties – interest	159,389	56,886	37,359	32,572	32,572
Derivative financial instruments	308,323	216,711	-	-	91,612
Withholding taxes payable	15,503	15,503	-	-	-
Other financial liabilities	23,654	23,654	-	-	-
<b>Total</b>	<b>3,517,145</b>	<b>2,723,370</b>	<b>237,359</b>	<b>32,572</b>	<b>523,844</b>

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Interest payments on the notes and bonds are primarily at fixed rates.

The undiscounted cash outflows of this runoff are subject to the following conditions:

- If the counterparty can request payment at different dates, the liability is included on the basis of the earliest date on which DCFI can be required to pay.
- Cash outflows from payables to related parties include interest payments on intercompany loans, which are based on forward rates. The outflows do not include future interest payments on outstanding cash sweep balances as these balances change daily and the interest on these balances, as a result, cannot be determined reliably. The company believes that the interest payments resulting from cash sweep payables are insignificant.
- Besides derivative financial instruments bearing a negative fair value, this analysis also comprises derivative financial instruments with a positive fair value due to the fact that all derivative financial instruments and not necessarily derivative financial instruments of negative fair value only may contain net cash outflows.
- The cash flows of floating interest financial instruments are estimated on the basis of forward rates.

### (e) Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, may adversely affect the Company's financial position, cash flows and profitability. Management of market price risks aims to minimize the impact of fluctuations in foreign exchange rates and interest rates. DCFI's overall exposure to these market price risks is determined to provide a basis for hedging decisions, which include the definition of hedging volumes and corresponding periods as well as the selection of hedging instruments. Decisions regarding the management of market risks are regularly made by the relevant DAG risk management committees. The Company maintains risk management control systems independent of Corporate Treasury and with a separate reporting line.

DCFI holds a variety of interest rate sensitive assets and liabilities to manage the liquidity and cash needs of its day-to-day operations. The general policy is to match funding in terms of maturities and interest rates, where economically feasible. In order to achieve the targeted interest rate risk positions in terms of maturities and interest rate fixing periods, DCFI uses derivative financial instruments (e.g. interest rate swaps). The interest rate risk position is assessed by comparing assets and liabilities for corresponding maturities, including the impact of the relevant derivative financial instruments.

The Company is also exposed to the risk of changes in exchange rates. Derivative exchange rate instruments are used to reduce this risk. The risk resulting from these transactions in 2010 and 2009 was not, and is not currently, significant to DCFI.

## 14. Related party relationships

For transactions and balances with other DAG subsidiaries, refer to notes 6 and 10.

The authority and responsibility for planning, directing and controlling the activities of DCFI resides within DAG's Corporate Treasury and Tax departments rather than with the directors of the entity. Accordingly, the company does not have key management personnel as defined in IAS 24, "Related Party Transactions." Certain directors of the Company participate in the DAG employee share-based compensation plans. An allocation is done by DAG for the related expense to the Company on a quarterly basis.

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### **15. Capital management**

DCFI is subject to the capital management at the DAG parent level. DAG uses “net assets” as its basis for capital management. Net assets are managed on a divisional level at DAG rather than at a regional or company level. Accordingly, the net assets of the Company are not subject to review for capital management, but rather the net assets of the individual DAG subsidiaries in the divisions to which they are allocated.

The Company is part of the worldwide financial management that is performed for all Daimler Group entities by DAG’s Corporate Treasury. Financial management operates within a framework of guidelines, limits and benchmarks; for DCFI, these are described in more detail in note 12.

### **16. Subsequent events**

On January 31, 2011, the Company received a capital infusion of \$500,000 from its parent company DNA.