

# **Daimler Canada Finance Inc.**

**Interim Report as of and for the six months ended June 30, 2011**

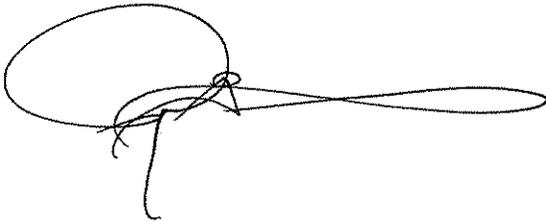
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# Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim financial statements of Daimler Canada Finance Inc. give a true and fair view of the assets, liabilities, financial position and profit or loss of the company, and the company's interim management report includes 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 for the remaining months of the financial year.

Montvale, August 5, 2011

A handwritten signature in black ink, consisting of a large, loopy initial 'R' followed by a series of connected loops and a long horizontal stroke extending to the right.

Ruben Simmons

*President & CEO*

A handwritten signature in black ink, featuring a stylized 'S' followed by several loops and a long horizontal stroke extending to the right.

Sandro Ringeling

*Chief Accounting Officer*

# Management Report

## General

Daimler Canada Finance Inc. ("DCFI" or 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" 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 has 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 interim report contains forward looking statements that reflect our current views about future events. The words "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:

- an adverse development of global economic conditions, in particular a decline of demand in Canada;
- a deterioration of our funding possibilities on the credit and financial markets;
- events of force majeure including natural disasters, acts of terrorism, political unrest, industrial accidents and their effects on our financial services activities;
- changes in currency exchange rates and interest rates;
- changes in laws, regulations and government policies that may affect DCFI or any of DAG's affiliated companies in Canada; and
- the business outlook of DAG's affiliated companies in Canada, which may affect the funding requirements of these companies in the automotive and financial services businesses.

The following discussion should be read in conjunction with the Company's financial statements for the six months ended June 30, 2011 and June 30, 2010, which were prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting".

The percentages in the following discussion were computed using exact dollar amounts and numbers. Some of those percentages may, therefore, not reflect the ratio between the rounded amounts presented below.

## Earnings

### *Interest income*

Interest Income was \$64,486 for the six months ended June 30, 2011 an 8% decrease compared to \$70,262 for the six months ended June 30, 2010 due to a decline in loans and receivables from related parties.

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(all amounts in thousands of Canadian dollars)

**Expenses**

*Interest expense*

While interest expense from third parties decreased by \$37,669 to \$9,148 due to a lower average notes and bonds portfolio, interest expense from related parties increased by \$61,525 to \$90,374. This increase was mainly caused by a premium paid for early termination of related party debt.

*Administrative and other expense*

Administrative and other expense increased from \$1,163 for the six months ended June 30, 2010 to \$1,378 for the six months ended June 30, 2011.

*Other financial income, net*

Other financial income, net was \$1,077 for the six months ended June 30, 2011, compared to \$2,403 for the six months ended June 30, 2010. In both periods, other financial income, net was predominantly comprised of gains on foreign exchange transactions.

*Income tax benefit (expense)*

The Company recorded income tax benefit of \$9,426 for the six months ended June 30, 2011 and income tax expense of \$1,048 for the six months ended June 30, 2010. The change was primarily driven by an increase of net interest expense in the reporting period. Additionally, income tax expense for the six months ended June 30, 2010 included additional taxes generated by non-deductible related-party interest expense.

**Net loss**

Net loss was \$25,910 for the six months ended June 30, 2011, compared to a net loss of \$5,212 for the six months ended June 30, 2010 predominantly as a result of worsened net interest expense.

**Financial position**

Total assets were \$2,844,149 at June 30, 2011 compared to \$3,438,588 at December 31, 2010, a decrease of \$594,439 or 17%. Total liabilities also decreased, from \$3,384,508 at December 31, 2010 to \$2,314,452 at June 30, 2011 mainly resulting from redemption of payables to related parties. Total equity increased from \$54,080 at December 31, 2010 to \$529,697 at June 30, 2011 reflecting a capital contribution of \$500,000.

**Liquidity and capital resources**

In the ordinary course of business, the Company issues notes/bonds and commercial paper in Canada and foreign capital markets. The Company also enters, as applicable, into intercompany loans with other subsidiaries in the worldwide Daimler Group to optimize funding from a global Daimler perspective. The funds raised in 2011 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 the following for the six months ended June 30, 2011 and June 30, 2010:

	<b>Six months ended June 30, 2011</b>	<b>Six months ended June 30, 2010</b>
Cash provided by operating activities	547,841	446,996
Cash used in financing activities	(539,254)	(684,064)

Operating net cash inflows were \$547,841 for the six months ended June 30, 2011 compared to net cash inflows of \$446,996 for the six months ended June 30, 2010 mainly due to a decrease in operating receivables and payables from related parties. Cash used in financing activities decreased slightly in the six months ended June 30, 2011 compared to the same period of 2010.

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**Risk report**

Many factors could directly and indirectly, through the close affiliation with DAG's affiliated companies in Canada, affect the Company's business, financial condition, cash flows and results of operations. The principal risks are described in DCFI's annual report 2010, which was submitted to the Luxembourg stock exchange on April 1, 2011.

**Outlook**

Management expects a positive result of operations for the remaining months of 2011. This expectation is based on the assumption of a stable economic development.

## Unaudited Statements of Comprehensive Income

	Note	Six months ended June 30, 2011	Six months ended June 30, 2010
<b>Interest income</b>			
Interest income – related parties		63,557	69,638
Interest income – third parties		929	624
<b>Total interest income</b>		<b>64,486</b>	<b>70,262</b>
<b>Interest expense</b>			
Interest expense – third parties		(9,148)	(46,817)
Interest expense – related parties	4	(90,374)	(28,849)
<b>Total interest expense</b>		<b>(99,522)</b>	<b>(75,666)</b>
<b>Net interest expense</b>		<b>(35,036)</b>	<b>(5,404)</b>
Administrative and other expense	4	(1,378)	(1,163)
Other financial income, net		1,077	2,403
<b>Loss before income taxes</b>		<b>(35,337)</b>	<b>(4,164)</b>
Income tax benefit (expense)		9,427	(1,048)
<b>Net loss</b>		<b>(25,910)</b>	<b>(5,212)</b>
Unrealized gains from cash flow hedges, net of taxes of 626 at June 30, 2011 and 4,624 at June 30, 2010		1,527	10,703
<b>Total comprehensive income (loss)</b>		<b>(24,383)</b>	<b>5,491</b>

The accompanying notes on pages 10 and 11 are an integral part of these unaudited interim financial statements.

## Unaudited Statements of Financial Position

		June 30, 2011	December 31, 2010
	Note		
<b>Assets</b>			
Loans and receivables from related parties	2	1,195,982	1,515,000
Other financial assets		3,802	586
Deferred tax assets		11,647	2,847
<b>Total non-current assets</b>		<b>1,211,431</b>	<b>1,518,433</b>
Loans and receivables from related parties	2	1,495,992	1,752,952
Cash and cash equivalents		99,367	90,780
Other financial assets		37,359	76,423
<b>Total current assets</b>		<b>1,632,718</b>	<b>1,920,155</b>
<b>Total assets</b>		<b>2,844,149</b>	<b>3,438,588</b>
<b>Equity and liabilities</b>			
Share capital		-	-
Capital reserves		576,377	76,377
Retained deficit		(45,973)	(20,063)
Cash flow hedges		(707)	(2,234)
<b>Total equity</b>	3	<b>529,697</b>	<b>54,080</b>
Payables to related parties	4	-	399,660
Notes and bonds payable	5	752,247	-
Other financial liabilities		-	101,817
<b>Total non-current liabilities</b>		<b>752,247</b>	<b>501,477</b>
Provisions and other liabilities		2,900	15,592
Payables to related parties	4	837,405	2,155,109
Notes and bonds payable	5	448,006	459,959
Other financial liabilities		273,894	252,371
<b>Total current liabilities</b>		<b>1,562,205</b>	<b>2,883,031</b>
<b>Total liabilities</b>		<b>2,314,452</b>	<b>3,384,508</b>
<b>Total equity and liabilities</b>		<b>2,844,149</b>	<b>3,438,588</b>

The accompanying notes on pages 10 and 11 are an integral part of these unaudited interim financial statements.

## Unaudited Statements of Changes in Equity

	Share capital	Capital reserves	Retained deficit	Cash flow hedges	Total equity
<b>Balance at January 1, 2010</b>	-	76,377	(9,654)	(21,459)	45,264
Net loss	-	-	(5,212)		(5,212)
Income recognized directly in equity	-	-	-	15,327	15,327
Deferred taxes on income recognized directly in equity	-	-	-	(4,624)	(4,624)
<b>Total comprehensive income (loss)</b>	-	-	(5,212)	10,703	5,491
Transactions with owners directly recognized in equity	-	-	-	-	-
<b>Balance at June 30, 2010</b>	-	76,377	(14,866)	(10,756)	50,755
<b>Balance at January 1, 2011</b>	-	76,377	(20,063)	(2,234)	54,080
Net loss	-	-	(25,910)		(25,910)
Income recognized directly in equity	-	-		2,153	2,153
Deferred taxes on income recognized directly in equity	-	-		(626)	(626)
<b>Total comprehensive income (loss)</b>	-	-	(25,910)	1,527	(24,383)
Transactions with owners directly recognized in equity	-	500,000			500,000
<b>Balance at June 30, 2011</b>	-	576,377	(45,973)	(707)	529,697

The accompanying notes on pages 10 and 11 are an integral part of these unaudited interim financial statements.

## Unaudited Statements of Cash Flows

	Six months ended June 30, 2011	Six months ended June 30, 2010
Net loss	(25,910)	(5,212)
Change in deferred taxes	(9,426)	1,048
Changes in derivative financial instruments	8,672	(44,151)
Net change in operating receivables and payables from related parties	554,414	456,214
Change in other receivables, accruals and other liabilities	20,091	39,097
<b>Cash provided by operating activities</b>	<b>547,841</b>	<b>446,996</b>
<b>Cash provided by investing activities</b>	<b>-</b>	<b>-</b>
Additions to notes and bonds payable	748,320	-
Repayment of notes and bonds	-	(8,806)
Decrease in financing payables to related parties	(1,787,574)	(675,258)
Capital contribution	500,000	-
<b>Cash used in financing activities</b>	<b>(539,254)</b>	<b>(684,064)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>8,587</b>	<b>(237,068)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>90,780</b>	<b>499,105</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>99,367</b>	<b>262,037</b>

The accompanying notes on pages 10 and 11 are an integral part of these unaudited interim financial statements.

# Notes to the Unaudited Interim Financial Statements

## 1. Presentation of the interim financial statements

These unaudited interim financial statements of Daimler Canada Finance Inc. (“DCFI” or the “Company”) have been prepared in accordance with International Accounting Standard (IAS) 34 “Interim Financial Reporting”.

Daimler Canada Finance Inc. 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 – 37<sup>th</sup> Floor, H3B 3P4, Montreal, Quebec, Canada.

The interim financial statements are presented in Canadian dollars (“\$”).

In the opinion of management, the interim financial statements reflect all adjustments (i.e. normal recurring adjustments) necessary for a fair presentation of the results of operations and the financial position of DCFI. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for any future period or the full fiscal year. The interim financial statements should be read in conjunction with the December 31, 2010 audited IFRS financial statements and notes which were submitted to the Luxembourg Stock Exchange on April 1, 2011. The accounting policies applied by DCFI in these interim financial statements are the same as those applied in the audited IFRS financial statements as of and for the year ended December 31, 2010.

With the amendment of IAS 1 “Presentation of Financial Statements” the interim financial statements contain a statement of comprehensive income in addition to the statement of income. The statement of comprehensive income comprises the profit or loss of the reporting period as well as the equity changes other than those changes resulting from the transactions with owners in their capacity as owners that are not recognized in profit or loss (other comprehensive income or loss).

Preparation of interim financial statements in conformity with IFRS requires management to make estimates and judgments related to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenue and expenses for the reporting period. Actual amounts could differ from those estimates.

## 2. Loans and receivables from related parties

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

	June 30, 2011	December 31, 2010
Mercedes-Benz Financial Services Canada Corp	2,538,259	2,719,298
Mercedes-Benz Canada Inc.	100,414	100,431
Detroit Diesel Corporation	30,742	11,571
Daimler International Finance B.V.	14,711	434,036
Detroit Diesel Canada Ltd.	2,533	1,496
Daimler Trucks North America LLC	1,819	389
Thomas Built Buses, Inc.	1,739	694
car2go Canada Ltd.	983	-
DAG	730	37
MBarc Credit Canada Inc.	43	-
car2go N.A. LLC	1	-
<b>Total</b>	<b>2,691,974</b>	<b>3,267,952</b>

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**3. Equity**

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

**4. Payables to related parties**

The following table sets forth amounts payable to related parties:

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
Daimler International Finance B.V.	465,739	627,705
Freightliner Ltd.	127,270	109,944
Daimler Trucks Canada Ltd.	87,838	57,520
DNA	55,469	1,634,764
Daimler Buses NA Ltd.	35,093	42,074
Mercedes-Benz Canada Inc.	31,610	39,852
Thomas Built Buses of Canada Ltd.	24,772	35,083
SelecTrucks of Toronto Inc.	8,622	7,567
Mercedes-Benz Financial Services Canada Corp	518	0
DAG	456	146
SelecTrucks of America LLC	18	18
car2go N.A. LLC	0	96
<b>Total</b>	<b>837,405</b>	<b>2,554,769</b>

Due to an early termination of an Euro 300 million payable to DNA the Company incurred expenses of \$54,345 in the reporting period.

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 \$310 and \$666 for the six months ended June 30, 2011 and June 30, 2010, respectively, and are included in "interest expense - related parties."

The Company is charged for administrative overhead expense by DNA. These expenses were \$1,378 and \$1,163 for the six months ended June 30, 2011 and June 30, 2010, respectively, and are included in administrative and other expense.

**5. Notes and bonds payable**

During the first six months of 2011, no notes or bonds matured.

Terms and conditions of new notes payable issued during the first six months are as follows:

	<b>Currency</b>	<b>Nominal interest rate</b>	<b>Year of maturity</b>	<b>Face value</b>	<b>Carrying amount</b>
Canadian Dollar Medium Term Notes					
Medium Term Note	CAD	3.16%	2014	500,000	502,569
Medium Term Note	CAD	CAD BA CDOR + .58%	2012	250,000	249,678
<b>Total</b>				<b>750,000</b>	<b>752,247</b>