

Daimler Canada Finance Inc.

Interim Report as of and for the six months ended June 30, 2015

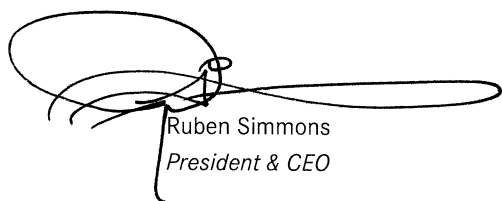
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Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the interim management report of the Company 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, NJ (USA), August 12, 2015



Ruben Simmons
President & CEO



Birger Ostermann
Chief Accounting Officer

Interim Management Report

General

Daimler Canada Finance Inc. (“DCFI” or the “Company”) is a wholly-owned subsidiary of Daimler AG (“DAG”).

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 and commercial paper programs.

The nature of the Daimler operations in Canada includes the distribution of passenger cars purchased from DAG under the brand names Mercedes-Benz and smart, and the sale of trucks and other commercial vehicles under the brand names Freightliner and Thomas Built Buses. 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 document 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:

- an adverse development of global economic conditions, in particular a decline of demand and investment activity in Canada;
- a deterioration of our funding possibilities on the credit and financial markets, which could result in an increase in borrowing costs or limit our 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 for the six months ended June 30, 2015 and June 30, 2014, which were prepared in accordance with International Accounting Standard (IAS) 34 “Interim Financial Reporting”.

Earnings

Interest income

Interest Income was \$60,021 for the six months ended June 30, 2015 compared to \$58,032 for the six months ended June 30, 2014. The increase is mainly caused by fee income due to early terminated loans. Additionally, average related party receivables and average overnight deposits were higher in 2015 which also contributed to higher interest income.

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(all amounts in thousands of Canadian dollars)

Interest expense

Interest expense from third parties was \$47,311 for the six months ended June 30, 2015 compared to \$54,439 for the six months ended June 30, 2014. Although average outstanding notes and bonds were higher in 2015, notes and bonds interest expense in 2015 decreased due to lower average interest rates. These effects are offset by higher commercial paper interest expense, the result of higher average outstanding commercial paper balances, and higher net interest expense from interest rate swaps. Interest expense from related parties increased to \$5,031 for the six months ended June 30, 2015 from \$3,635 for the six months ended June 30, 2014 due to higher average related party payable balances.

Administrative and other expense

Administrative and other expense decreased to \$1,943 for the six months ended June 30, 2015 from \$2,018 for the six months ended June 30, 2014 due to a decrease in professional fees, and non-labor related costs, offset by an increase in labor related costs.

Other financial expense, net

Other financial expense, net was \$486 for the six months ended June 30, 2015, compared to \$685 for the six months ended June 30, 2014 due to decreased bank fees.

Income tax expense/benefit

The Company recorded an income tax expense of \$1,417 for the six months ended June 30, 2015 compared with an income tax benefit of \$707 for the six months ended June 30, 2014. This change was driven by a positive net interest result in the 2015 reporting period.

Financial position

Total assets were \$5,801,600 at June 30, 2015 compared to \$5,203,370 at December 31, 2014, an increase of 11%. Total liabilities also increased from \$4,918,536 at December 31, 2014 to \$5,444,627 at June 30, 2015 primarily due to higher external debt. Total equity increased from \$284,834 at December 31, 2014 to \$356,973 at June 30, 2015 because of a net income of \$3,833 in 2015, a capital contribution of \$67,760 as well as \$546 other comprehensive income from cash flow hedges.

Liquidity and capital resources

In the ordinary course of business, the Company issues notes and bonds and commercial paper 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.

The funds raised in 2015 and in prior years were mainly used 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, 2015 and June 30, 2014:

	Six months ended June 30,	
	2015	2014
Net cash used in operating activities	(263,255)	(819,749)
Net cash from financing activities	602,219	994,426

Operating net cash outflows were \$263,255 for the six months ended June 30, 2015 compared to net cash outflows of \$819,749 for the six months ended June 30, 2014 mainly due to a decrease in operating receivables from related parties.

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Cash inflows from financing activities were \$602,219 for the six months ended June 30, 2015 compared to cash inflows of \$994,426 for the same period of 2014. This change is comprised of new issuances of notes and bonds and commercial paper offset by repayment of maturing notes and bonds, commercial paper and financial liabilities to banks, as well as by a capital contribution from DAG to DCFI.

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 2014, which was submitted to the Luxembourg Stock Exchange on April 30, 2015.

Outlook

Management expects a positive result of operations for the remaining months of 2015. This expectation is based on the assumption of a stable economic development.

Statement of Comprehensive Income (Unaudited)

		Six months ended June 30,	
	Note	2015	2014
Interest income			
Interest income – related parties		58,998	55,740
Interest income – third parties		1,023	2,292
Total interest income		60,021	58,032
Interest expense			
Interest expense – third parties		(47,311)	(54,439)
Interest expense – related parties		(5,031)	(3,635)
Total interest expense		(52,342)	(58,074)
Net interest income		7,679	(42)
Administrative and other expense	4	(1,943)	(2,018)
Other financial expense, net		(486)	(685)
Profit (Loss) before income taxes		5,250	(2,745)
Income tax income (expense)		(1,417)	707
Net profit		3,833	(2,038)
Unrealized gains (losses) from cash flow hedges, net of taxes of \$201 in 2015 and \$(128) in 2014		546	(349)
Items that will likely be reclassified into profit/loss		546	(349)
Total comprehensive income		4,379	(2,387)

The accompanying notes on pages 11 to 16 are an integral part of these interim financial statements.

Statement of Financial Position (Unaudited)

		June 30,	December 31,
	Note	2015	2014
Assets			
Loans and receivables from related parties	2	2,925,800	3,112,800
Other financial assets		4,329	6,182
Deferred tax assets		36	1,653
Total non-current assets		2,930,165	3,120,635
Loans and receivables from related parties	2	2,391,663	1,924,514
Cash and cash equivalents		469,378	130,414
Other financial assets		2,133	20,208
Tax receivables		8,261	7,599
Total current assets		2,871,435	2,082,735
Total assets		5,801,600	5,203,370
Equity and liabilities			
Share capital		-	-
Capital reserves		394,137	326,377
Retained deficit		(37,634)	(41,467)
Cash flow hedges		470	(76)
Total equity	3	356,973	284,834
Notes and bonds payable	5	2,746,175	2,481,809
Other financial liabilities		36,211	45,992
Total non-current liabilities		2,782,386	2,527,801
Provisions and other liabilities		96	20
Payables to related parties	4	63,791	64,066
Notes and bonds payable	5	1,868,158	1,748,221
Commercial paper	6	676,897	527,569
Other financial liabilities		53,299	50,859
Total current liabilities		2,662,241	2,390,735
Total liabilities		5,444,627	4,918,536
Total equity and liabilities		5,801,600	5,203,370

The accompanying notes on pages 11 to 16 are an integral part of these interim financial statements.

Statement of Changes in Equity (Unaudited)

	Share capital	Capital reserves	Retained deficit	Cash flow hedges	Total equity
Balance at January 1, 2014	-	326,377	(42,602)	31	283,806
Net profit (loss)	-	-	(2,038)	-	(2,038)
Other comprehensive income before taxes	-	-	-	(477)	(477)
Deferred taxes on other comprehensive income	-	-	-	128	128
Total comprehensive income (loss)	-	-	(2,038)	(349)	(2,387)
Balance at June 30, 2014	-	326,377	(44,640)	(318)	281,419
Balance at January 1, 2015	-	326,377	(41,467)	(76)	284,834
Net loss (loss)	-	-	3,833	-	3,833
Other comprehensive income before taxes	-	-	-	747	747
Deferred taxes on other comprehensive income	-	-	-	(201)	(201)
Total comprehensive income	-	-	3,833	546	4,379
Capital contribution	-	67,760	-	-	67,760
Balance at June 30, 2015	-	394,137	(37,634)	470	356,973

The accompanying notes on pages 11 to 16 are an integral part of these interim financial statements.

Statement of Cash Flows (Unaudited)

		Six months ended June 30,	
	Note	2015	2014
Net profit (loss)		3,833	(2,038)
Change in taxes receivable		(662)	-
Change in deferred taxes		1,416	(738)
Change in derivative financial instruments		14,468	358
Net change in operating receivables and payables from related parties	2, 4	(280,424)	(820,273)
Changes in other receivables, accruals and other liabilities		(1,886)	2,942
Net cash used in operating activities		(263,255)	(819,749)
Net cash from investing activities		-	-
Issuances of notes and bonds payable	5	1,084,146	1,812,897
Issuances of commercial paper	6	291,190	1,085,220
Repayment of notes and bonds payable	5	(698,434)	(625,000)
Repayment of commercial paper	6	(142,443)	(1,175,500)
Repayment of financial liabilities to banks		-	(103,191)
Capital contribution		67,760	-
Net cash from financing activities		602,219	994,426
Net increase in cash and cash equivalents		338,964	174,677
Cash and cash equivalents at the beginning of the period		130,414	73,119
Cash and cash equivalents at the end of the period		469,378	247,796

The accompanying notes on pages 11 to 16 are an integral part of these interim financial statements.

Notes to the Interim Financial Statements (Unaudited)

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 AG (“DAG”). Its registered office is located at 1 Place Ville Marie – 37th Floor, H3B 3P4, Montreal, Quebec, Canada.

These interim financial statements are presented in Canadian dollars (“\$”), which is the Company’s functional currency. Unless otherwise stated all amounts are presented in thousands of Canadian dollars.

In the opinion of the 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, 2014 audited IFRS financial statements and notes which were submitted to the Luxembourg Stock Exchange on April 30, 2015. 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, 2014.

Preparation of interim financial statements in conformity with IFRS requires management to make estimates, assessments and assumptions which can affect the amounts and reporting of assets and liabilities, the reporting of contingent assets and liabilities on the balance sheet date and the amounts of income and expense reported for the period. Actual amounts could differ from those estimates. Changes in estimates, assessments and assumptions can have a material impact on the financial statements.

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.

	June 30, 2015	December 31, 2014
Mercedes-Benz Financial Services Canada Corporation	5,072,618	4,832,535
Daimler Trucks Canada LTD	100,008	100,016
Mercedes-Benz Canada Inc.	68,669	40,977
car2go Canada Ltd.	44,044	35,877
Daimler Buses NA Ltd.	26,839	22,667
MBarc Credit Canada Inc.	5,285	5,242
Total	5,317,463	5,037,314

3. Equity

At June 30, 2015 and December 31, 2014, the authorized share capital comprised of 1,000 no par value shares, of which 100 shares were issued and outstanding. All issued shares were fully paid up.

On May 13, 2015 the Company received a capital contribution of \$67,760 from its parent company DAG.

4. Payables to related parties

The following table sets forth amounts payable to related parties:

	June 30, 2015	December 31, 2014
Daimler Trucks Canada Ltd.	35,252	30,532
DAG	11,005	424
Thomas Built Buses of Canada Ltd.	10,024	8,958
SelecTrucks of Toronto Inc.	5,715	5,216
DNA	1,795	1,459
Freightliner Ltd.	-	17,477
Total	63,791	64,066

DCFI is charged fees for the full and unconditional guarantees on its outstanding notes and bonds payable and commercial paper which are issued under DAG's programs. These fees are calculated as a set percentage of the outstanding debt for any given year. These expenses were \$2,934 and \$2,808 for the six months ended June 30, 2015 and June 30, 2014, respectively, and are included in "Interest expense – related parties."

The Company is charged for administrative overhead expense by DNA. These expenses were \$1,795 and \$1,556 for the six months ended June 30, 2015 and June 30, 2014, respectively, and are included in "Administrative and other expense."

5. Notes and bonds payable

DCFI's obligations under the notes and bonds program are fully and unconditionally guaranteed by its ultimate parent company, DAG.

During the first six months of 2015, notes or bonds payable in the amount of \$698,434 matured. Terms and conditions of new notes payable issued during the first six months of 2015 are as follows:

				June 30, 2015	
	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount
USD Medium Term Note					
Medium Term Note	USD	USD-LIBOR + 0.45%	2018	37,104	37,105
Total USD Medium Term Note				37,104	37,105
EUR Medium Term Notes					
Medium Term Note	EUR	EUR-EURIBOR + 0.14%	2016	345,975	345,975
Medium Term Note	EUR	EUR-EURIBOR + 0.18%	2017	276,780	276,725
Total EUR Medium Term Notes				622,755	622,700
Canadian Dollar Bonds					
Medium Term Note	CAD	1.420%	2018	325,000	324,183
Medium Term Note	CAD	1.875%	2020	100,000	100,052
Total Canadian Dollar Bonds				425,000	424,235
Total				1,084,859	1,084,040

6. Commercial paper

In July 2011, DCFI entered into a \$2,500,000 private placement of commercial paper. As of June 30, 2015, outstanding commercial papers were \$676,897 with interest rates ranging from 1.06% to 1.53% and maturity dates ranging from July 2, 2015 to February 5, 2016. DCFI's obligations under the commercial paper program are fully and unconditionally guaranteed by its ultimate parent company, DAG.

7. 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. 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.

	June 30, 2015		December 31, 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	469,378	469,378	130,414	130,414
Loans and receivables				
Loans and receivables from related parties	5,317,463	5,393,731	5,037,314	5,102,680
Accrued interest income	2,133	2,133	17,009	17,009
Total loans and receivables	5,319,596	5,395,864	5,054,323	5,119,689
Financial assets recognized at fair value through profit or loss				
Derivative financial instruments used in hedge accounting	4,329	4,329	9,381	9,381
Derivative financial instruments at fair value through profit or loss	-	-	-	-
Total financial assets recognized at fair value through profit or loss	4,329	4,329	9,381	9,381
Total financial assets	5,793,303	5,869,571	5,194,118	5,259,484
Financial liabilities at amortized cost				
Notes and bonds payable	4,614,333	4,634,566	4,230,030	4,253,031
Commercial paper	676,897	676,897	527,569	527,569
Payables to related parties	63,791	63,791	64,066	64,066
Accrued interest expense	20,850	20,850	38,268	38,268
Total financial liabilities at amortized cost	5,375,871	5,396,104	4,859,933	4,882,934
Financial liabilities at fair value				
Derivative financial instruments used in hedge accounting	68,660	68,660	58,583	58,583
Derivative financial instruments at fair value through profit or loss	-	-	-	-
Total financial liabilities at fair value	68,660	68,660	58,583	58,583
Total financial liabilities	5,444,531	5,464,764	4,918,516	4,941,517

The fair values of financial instruments were calculated on the basis of market information available on the balance sheet date.

(b) Fair value hierarchy of financial assets and liabilities measured at fair value

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

	June 30, 2015				December 31, 2014			
	Total	Level 1 ¹	Level 2 ²	Level 3 ³	Total	Level 1 ¹	Level 2 ²	Level 3 ³
Assets measured at fair value								
Derivative financial instruments used in hedge accounting	4,329	-	4,329	-	9,381	-	9,381	-
Derivative financial instruments recognized at fair value through profit or loss	-	-	-	-	-	-	-	-
Liabilities measured at fair value								
Derivative financial instruments used in hedge accounting	68,660	-	68,660	-	58,583	-	58,583	-
Derivative financial instruments recognized at fair value through profit or loss	-	-	-	-	-	-	-	-

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

Financial assets and liabilities not measured at fair value are classified into the following fair value hierarchy:

	June 30, 2015				December 31, 2014			
	Total	Level 1 ¹	Level 2 ²	Level 3 ³	Total	Level 1 ¹	Level 2 ²	Level 3 ³
Financial assets measured at cost	5,393,731	-	5,393,731	-	5,102,680	-	5,102,680	-
Financial liabilities measured at cost	5,311,463	-	5,311,463	-	4,780,600	-	4,780,600	-
thereof bonds	4,634,566	-	4,634,566	-	4,253,031	-	4,253,031	-
thereof other financing liabilities	676,897	-	676,897	-	527,569	-	527,569	-

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.