

Daimler Canada Finance Inc.

Interim Report as of and for the six months ended June 30, 2016

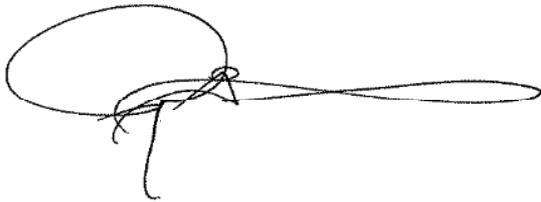
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Responsibility Statement

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.

Park Ridge, NJ (USA), August 29, 2016

A handwritten signature in black ink, consisting of a large, loopy initial 'R' followed by a long, horizontal stroke that tapers to the right.

Ruben Simmons
President & CEO

A handwritten signature in black ink, starting with the name 'Birger' in a cursive script, followed by a stylized initial 'O' and a long, horizontal stroke.

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, 2016 and June 30, 2015, which were prepared in accordance with International Accounting Standard (IAS) 34 “Interim Financial Reporting”.

Earnings

Interest income

Interest Income was \$63,446 for the six months ended June 30, 2016 compared to \$60,021 for the six months ended June 30, 2015. The increase is mainly caused by higher average related party receivables and higher average cash balances.

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Interest expense

Interest expense to third parties was \$49,201 for the six months ended June 30, 2016 compared to \$47,311 for the six months ended June 30, 2015. Notes and bonds interest expense increased in 2016 since average outstanding notes and bonds were higher in 2016. Commercial paper interest expense decreased, due to lower average outstanding commercial paper balances. Interest expense to related parties increased to \$5,550 for the six months ended June 30, 2016 from \$5,031 for the six months ended June 30, 2015 due to higher average related party payable balances.

Administrative and other expense

Administrative and other expense increased to \$2,263 for the six months ended June 30, 2016 from \$1,943 for the six months ended June 30, 2015 due to increases in professional fees and labor related costs.

Other financial expense, net

Other financial expense, net was \$507 for the six months ended June 30, 2016, compared to \$486 for the six months ended June 30, 2015 due to increased bank fees.

Income tax expense

The Company recorded an income tax expense of \$1,606 for the six months ended June 30, 2016 compared with \$1,417 for the six months ended June 30, 2015. This is due to a change in EBT and ETR in the 2016 reporting period.

Financial position

Total assets were \$6,777,303 at June 30, 2016 compared to \$6,831,241 at December 31, 2015, a decrease of 1%. Total liabilities also decreased from \$6,469,567 at December 31, 2015 to \$6,410,115 at June 30, 2016 primarily due to lower external debt. Total equity increased from \$361,674 at December 31, 2015 to \$367,188 at June 30, 2016 because of a net income of \$4,319 in 2016 as well as \$1,195 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 2016 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, 2016 and June 30, 2015:

	Six months ended June 30,	
	2016	2015
Net cash used in operating activities	(35,271)	(263,255)
Net cash used in financing activities	(24,007)	602,219

Operating net cash outflows were \$35,271 for the six months ended June 30, 2016 compared to net cash outflows of \$263,255 for the six months ended June 30, 2015 mainly due to an increase in operating receivables and payables from related parties.

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Cash outflows from financing activities were \$24,007 for the six months ended June 30, 2016 compared to cash inflows of \$602,219 for the same period of 2015. This change is comprised of new issuances of notes and bonds and commercial paper offset by repayment of maturing notes and bonds and commercial paper 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 2015, which was submitted to the Luxembourg Stock Exchange on April 29, 2016.

Outlook

Management expects a positive result of operations for the remaining months of 2016. This expectation is based on the assumption of a stable economic development.

Statement of Comprehensive Income (Unaudited)

	Note	Six months ended June 30,	
		2016	2015
Interest income			
Interest income – related parties		62,204	58,998
Interest income – third parties		1,242	1,023
Total interest income		63,446	60,021
Interest expense			
Interest expense – third parties		(49,201)	(47,311)
Interest expense – related parties		(5,550)	(5,031)
Total interest expense		(54,751)	(52,342)
Net interest income		8,695	7,679
Administrative and other expense	4	(2,263)	(1,943)
Other financial expense, net		(507)	(486)
Profit (Loss) before income taxes		5,925	5,250
Income tax income (expense)		(1,606)	(1,417)
Net profit		4,319	3,833
Unrealized gains (losses) from cash flow hedges, net of taxes of \$440 in 2016 and \$201 in 2015		1,195	546
Items that will likely be reclassified into profit/loss		1,195	546
Total comprehensive income		5,514	4,379

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	2016	2015
Assets			
Loans and receivables from related parties	2	3,116,000	3,219,000
Other financial assets		15,447	102,228
Deferred tax assets		-	1,548
Total non-current assets		3,131,447	3,322,776
Loans and receivables from related parties	2	3,374,015	3,163,746
Cash and cash equivalents		229,109	288,387
Other financial assets		34,718	48,080
Other assets		161	158
Tax receivables		7,853	8,094
Total current assets		3,645,856	3,508,465
Total assets		6,777,303	6,831,241
Equity and liabilities			
Share capital		-	-
Capital reserves		394,137	394,137
Retained deficit		(27,817)	(32,136)
Cash flow hedges		868	(327)
Total equity	3	367,188	361,674
Notes and bonds payable	5	3,428,007	3,798,016
Other financial liabilities		107,598	5,468
Deferred tax liabilities		485	-
Total non-current liabilities		3,536,090	3,803,484
Provisions and other liabilities		200	102
Payables to related parties	4	306,798	230,197
Notes and bonds payable	5	2,011,015	1,857,436
Commercial paper	6	528,312	555,176
Other financial liabilities		27,700	23,172
Total current liabilities		2,874,025	2,666,083
Total liabilities		6,410,115	6,469,567
Total equity and liabilities		6,777,303	6,831,241

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, 2015	-	326,377	(41,467)	(76)	284,834
Net profit (loss)	-	-	3,833	-	3,833
Other comprehensive income before taxes	-	-	-	747	747
Deferred taxes on other comprehensive income	-	-	-	(201)	(201)
Total comprehensive income (loss)	-	-	3,833	546	4,379
Capital contribution	-	67,760	-	-	67,760
Balance at June 30, 2015	-	394,137	(37,634)	470	356,973
Balance at January 1, 2016	-	394,137	(32,136)	(327)	361,674
Net profit (loss)	-	-	4,319	-	4,319
Other comprehensive income before taxes	-	-	-	1,635	1,635
Deferred taxes on other comprehensive income	-	-	-	(440)	(440)
Total comprehensive income	-	-	4,319	1,195	5,514
Balance at June 30, 2016	-	394,137	(27,817)	868	367,188

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,	
		2016	2015
	Note		
Net profit (loss)		4,319	3,833
Change in taxes receivable		241	(662)
Change in deferred taxes		1,593	1,416
Change in derivative financial instruments		(12,073)	14,468
Net change in operating receivables and payables from related parties	2, 4	(30,669)	(280,424)
Changes in other receivables, accruals and other liabilities		1,318	(1,886)
Net cash used in operating activities		(35,271)	(263,255)
Net cash from investing activities		-	-
Issuances of notes and bonds payable	5	843,776	1,084,146
Issuances of commercial paper	6	90,390	291,190
Repayment of notes and bonds payable	5	(840,630)	(698,434)
Repayment of commercial paper	6	(117,543)	(142,443)
Capital contribution		-	67,760
Net cash from financing activities		(24,007)	602,219
Net increase in cash and cash equivalents		(59,278)	338,964
Cash and cash equivalents at the beginning of the period		288,387	130,414
Cash and cash equivalents at the end of the period		229,109	469,378

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, 2015 audited IFRS financial statements and notes which were submitted to the Luxembourg Stock Exchange on April 29, 2016. 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, 2015.

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.

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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, 2016	December 31, 2015
Mercedes-Benz Financial Services Canada Corporation	6,106,321	5,669,034
Daimler North America Corporation	250,238	550,274
Daimler Trucks Canada LTD	100,024	100,016
car2go Canada Ltd.	28,081	28,079
MBarc Credit Canada Inc.	5,351	5,319
Daimler Buses NA Ltd.	-	29,981
Daimler AG	-	43
Total	6,490,015	6,382,746

3. Equity

At June 30, 2016 and December 31, 2015, 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.

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4. Payables to related parties

The following table sets forth amounts payable to related parties:

	June 30, 2016	December 31, 2015
Mercedes-Benz Canada Inc.	125,662	117,363
Daimler Trucks Canada Ltd.	124,844	78,706
Daimler AG	34,107	10,065
Thomas Built Buses of Canada Ltd.	9,338	7,907
SelecTrucks of Toronto Inc.	5,322	3,235
MFTA Canada, Inc.	2,545	2,043
Daimler North America Corporation	2,160	1,710
Daimler Buses NA Ltd.	1,655	-
car2go Canada Ltd.	1,165	9,168
Total	306,798	230,197

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 \$3,654 and \$2,934 for the six months ended June 30, 2016 and June 30, 2015, respectively, and are included in "Interest expense – related parties."

The Company is charged for administrative overhead expense by DNA. These expenses were \$2,160 and 1,795 for the six months ended June 30, 2016 and June 30, 2015, respectively, and are included in "Administrative and other expense."

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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 2016, 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 2016 are as follows:

				June 30, 2016	
	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount
NOK Medium Term Note					
Medium Term Note	NOK	USD-LIBOR + 0.90%	2021	77,327	77,429
Total NOK Medium Term Note				77,327	77,429
EUR Medium Term Notes					
Medium Term Note	EUR	EUR-EURIBOR + 0.38%	2018	287,680	287,680
Medium Term Note	EUR	2.000%	2018	71,920	71,678
Medium Term Note	EUR	EUR-EURIBOR + 0.35%	2018	359,600	359,600
Total EUR Medium Term Notes				719,200	718,958
Total				796,527	796,387

6. Commercial paper

In July 2011, DCFI entered into a \$2,500,000 private placement of commercial paper. As of June 30, 2016, outstanding commercial papers were \$528,312 with interest rates ranging from .90% to .99% and maturity dates ranging from July 5, 2016 to November 1, 2016. DCFI's obligations under the commercial paper program are fully and unconditionally guaranteed by its ultimate parent company, DAG.

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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, 2016		December 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	229,109	229,109	288,387	288,387
Loans and receivables				
Loans and receivables from related parties	6,490,015	6,579,441	6,382,746	6,480,880
Accrued interest income	4,506	4,506	971	971
Total loans and receivables	6,494,521	6,583,947	6,383,717	6,481,851
Financial assets recognized at fair value through profit or loss				
Derivative financial instruments entered into with related parties (Daimler AG)	6,359	6,359	16,709	16,709
Derivative financial instruments used in hedge accounting	39,300	39,300	132,628	132,628
Total financial assets recognized at fair value through profit or loss	45,659	45,659	149,337	149,337
Total financial assets	6,769,289	6,858,715	6,821,441	6,919,575
Financial liabilities at amortized cost				
Notes and bonds payable	5,439,022	5,438,219	5,655,452	5,644,600
Commercial paper	528,312	528,312	555,176	555,176
Payables to related parties	306,798	306,798	230,197	230,197
Accrued interest expense	27,641	27,641	23,172	23,172
Total financial liabilities at amortized cost	6,301,773	6,300,970	6,463,997	6,453,145
Financial liabilities at fair value				
Derivative financial instruments used in hedge accounting	107,657	107,657	5,468	5,468
Total financial liabilities at fair value	107,657	107,657	5,468	5,468
Total financial liabilities	6,409,430	6,408,627	6,469,465	6,458,613

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

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(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, 2016				December 31, 2015			
	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	45,659	-	45,659	-	149,337	-	149,337	-
Derivative financial instruments recognized at fair value through profit or loss		-		-	-	-	-	-
Liabilities measured at fair value								
Derivative financial instruments used in hedge accounting	107,657	-	107,657	-	5,468	-	5,468	-
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, 2016				December 31, 2015			
	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	6,579,441	-	6,579,441	-	6,480,880	-	6,480,880	-
Financial liabilities measured at cost	5,966,531	-	5,966,531	-	6,199,776	-	6,199,776	-
thereof bonds	5,438,219	-	5,438,219	-	5,644,600	-	5,644,600	-
thereof other financing liabilities	528,312	-	528,312	-	555,176	-	551,176	-

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.