

Daimler Canada Finance Inc.

Interim Report as of and for the six months ended June 30, 2017

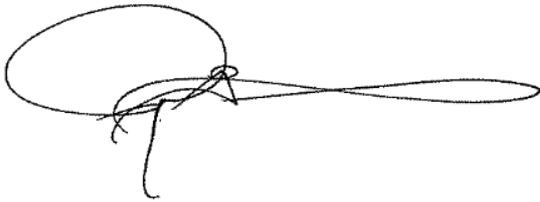
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Responsibility Statement

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.

Farmington Hills, MI (USA), August 29, 2017

A handwritten signature in black ink, appearing to be 'Ruben Simmons', with a large, stylized loop at the beginning.

Ruben Simmons
President & CEO

A handwritten signature in black ink, appearing to be 'Gianni P. Gatto', written in a cursive style.

Gianni P. Gatto
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, 2017 and June 30, 2016, which were prepared in accordance with International Accounting Standard (IAS) 34 “Interim Financial Reporting”.

Earnings

Interest income

Interest Income was \$62,855 for the six months ended June 30, 2017 compared to \$63,446 for the six months ended June 30, 2016. The 0.9% decrease is mainly caused by lower average related party receivables and lower average cash balances.

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Interest expense

Interest expense was \$56,019 for the six months ended June 30, 2017 compared to \$54,751 for the six months ended June 30, 2016. The 2% increase is mainly caused by higher average interest rates.

Administrative and other expense

Administrative and other expense increased to \$2,353 for the six months ended June 30, 2017 from \$2,263 for the six months ended June 30, 2016 due to increases in professional fees and labor related costs.

Other financial expense, net

Other financial expense, net was \$168 for the six months ended June 30, 2017, compared to \$507 for the six months ended June 30, 2016 due to decreased bank fees.

Profit before income taxes

Profit before income taxes decreased to \$4,315 for the six months ended June 30, 2017 from \$5,925 for the six months ended June 30, 2016, mainly because of \$2,000 interest rebate to Mercedes-Benz Financial Services, Canada to match external funding cost.

Income tax expense

The Company recorded an income tax expense of \$1,167 for the six months ended June 30, 2017 compared with \$1,606 for the six months ended June 30, 2016, mainly due to lower earnings before tax and taxable income for the six months ended June 30, 2017.

Financial position

Total assets were \$6,927,706 at June 30, 2017 compared to \$7,453,046 at December 31, 2016, a decrease of 7%, mainly due to a reduction of marketable debt securities. Total liabilities also decreased to \$6,553,767 at June 30, 2017 from \$7,080,075 at December 31, 2016 mainly due to lower external debt. Total equity increased to \$373,939 at June 30, 2017 from \$372,971 at December 31, 2016, mainly due to a positive income of \$3,148 offset by other comprehensive loss of \$2,180 from cash flow hedges for the six months ended June 30, 2017.

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 2017 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, 2017 and June 30, 2016:

	Six months ended June 30,	
	2017	2016
Net cash used for operating activities	(28,107)	(35,271)
Net cash provided by investing activities	717,492	-
Net cash used for financing activities	(724,328)	(24,007)

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Operating net cash outflows were \$28,107 for the six months ended June 30, 2017 compared to net cash outflows of \$35,271 for the six months ended June 30, 2016, mainly due to an increase of operating receivables from and payables to related parties.

Investing net cash inflows were \$717,492 for the six months ended June 30, 2017 compared to zero for the six months ended June 30, 2016 due to a decrease in marketable debt securities.

Cash outflows from financing activities were \$724,328 for the six months ended June 30, 2017 compared to cash outflows of \$24,007 for the same period of 2016, mainly due to a reduction of new issuances of notes and bonds and commercial paper and an increase in the repayment of maturing notes and bonds and commercial paper.

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 2016, which was submitted to the Luxembourg Stock Exchange on April 28, 2017.

Outlook

Management expects a positive result of operations for the remaining months of 2017. This expectation is based on the assumption of a stable economic development.

Statement of Comprehensive Income (Unaudited)

	Note	Six months ended June 30,	
		2017	2016
Interest income			
Interest income – related parties		61,111	62,204
Interest income – third parties		1,744	1,242
Total interest income		62,855	63,446
Interest expense			
Interest expense – third parties		(51,063)	(49,201)
Interest expense – related parties		(4,956)	(5,550)
Total interest expense		(56,019)	(54,751)
Net interest income		6,836	8,695
Administrative and other expense	4	(2,353)	(2,263)
Other financial income (expense), net		(168)	(507)
Profit before income taxes		4,315	5,925
Income tax expense		(1,167)	(1,606)
Net profit		3,148	4,319
Other comprehensive income			
Items that will likely be reclassified into profit/loss		(2,180)	1,195
Unrealized gains (losses) from cash flow hedges, net of taxes of (\$803) in 2017 and \$440 in 2016		(2,180)	1,195
Other comprehensive income/(loss), net of taxes		(2,180)	1,195
Total comprehensive income		968	5,514

The accompanying notes on pages 11 to 15 are an integral part of these interim financial statements.

Statement of Financial Position (Unaudited)

		June 30,	December 31,
	Note	2017	2016
Assets			
Loans and receivables from related parties	2	3,657,000	2,912,000
Other financial assets		12,404	8,704
Total non-current assets		3,669,404	2,920,704
Marketable debt securities		-	717,492
Loans and receivables from related parties	2	2,666,625	3,190,593
Cash and cash equivalents		568,723	603,666
Other financial assets		20,924	18,332
Other assets		-	160
Tax receivables		2,030	2,099
Total current assets		3,258,302	4,532,342
Total assets		6,927,706	7,453,046
Equity and liabilities			
Share capital	3	-	-
Capital reserves	3	394,137	394,137
Accumulated deficit		(22,801)	(25,949)
Cash flow hedges	3	2,603	4,783
Total equity		373,939	372,971
Notes and bonds payable	5	3,472,247	4,208,676
Other financial liabilities		23,523	73,115
Deferred tax liabilities		949	1,751
Total non-current liabilities		3,496,719	4,283,542
Provisions and other liabilities		-	147
Payables to related parties	4	480,172	293,910
Notes and bonds payable	5	2,102,890	1,920,670
Commercial paper	6	358,385	468,151
Other financial liabilities		115,601	113,655
Total current liabilities		3,057,048	2,796,533
Total liabilities		6,553,767	7,080,075
Total equity and liabilities		6,927,706	7,453,046

The accompanying notes on pages 11 to 15 are an integral part of these interim financial statements.

Statement of Changes in Equity (Unaudited)

	Share capital	Capital reserves	Retained deficit	Cash flow hedges reserve	Total equity
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 June 30, 2016	-	394,137	(27,817)	868	367,188
Balance at January 1, 2017	-	394,137	(25,949)	4,783	372,971
Net profit (loss)	-	-	3,148	-	3,148
Other comprehensive income before taxes	-	-	-	(2,983)	(2,983)
Deferred taxes on other comprehensive income	-	-	-	803	803
Total comprehensive income	-	-	3,148	(2,180)	968
Balance at June 30, 2017	-	394,137	(22,801)	2,603	373,939

The accompanying notes on pages 11 to 15 are an integral part of these interim financial statements.

Statement of Cash Flows (Unaudited)

	Note	Six months ended June 30,	
		2017	2016
Net profit (loss)		3,148	4,319
Adjustments for			
FX gains(losses)		(46)	(108)
Non-cash interest income(expenses)		58,673	(219,576)
Deferred tax		-	1,593
Changes in			
Tax receivables		69	241
Derivative financial instruments		(57,423)	207,611
Other assets, provisions and accrued interest		2,241	1,318
Loans and receivables from and payables to related parties	2, 4	(34,769)	(30,669)
Net cash used for operating activities		(28,107)	(35,271)
Acquisition of marketable debt securities		(969,624)	(672,916)
Proceeds from sales of marketable debt securities		1,687,116	672,916
Net cash provided by investing activities		717,492	-
Issuances of notes and bonds payable	5	399,001	843,776
Issuances of commercial paper	6	64,317	90,390
Repayment of notes and bonds payable	5	(1,011,883)	(840,630)
Repayment of commercial paper	6	(175,763)	(117,543)
Net cash used for financing activities		(724,328)	(24,007)
Net decrease in cash and cash equivalents		(34,943)	(59,278)
Cash and cash equivalents at the beginning of the period		603,666	288,387
Cash and cash equivalents at the end of the period		568,723	229,109

The accompanying notes on pages 11 to 15 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, 2016 audited IFRS financial statements and notes which were submitted to the Luxembourg Stock Exchange on April 28, 2017. 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, 2016.

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, 2017	December 31, 2016
Mercedes-Benz Financial Services Canada Corp	5,898,152	5,964,058
Mercedes-Benz Canada Inc.	276,000	-
Daimler Trucks Canada Ltd.	100,024	100,024
Car2go Canada Ltd.	44,044	33,133
MBarc Credit Canada Inc.	5,405	5,378
Total	6,323,625	6,102,593

3. Equity

Share capital

At June 30, 2017 and December 31, 2016, 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.

Capital reserves

Capital reserves primarily comprise premiums arising on the issue of shares.

Cash flow hedge reserve

The Cash flow hedge reserve comprise accumulated unrealized gains/losses on the measurement of derivative financial instruments designated in a cash flow hedge.

4. Payables to related parties

The following table sets forth amounts payable to related parties:

	June 30, 2017	December 31, 2016
Daimler Trucks Canada Ltd.	233,605	160,044
Mercedes-Benz Canada Inc.	174,445	80,736
Daimler AG	58,310	32,145
SelecTrucks of Toronto Inc.	5,289	4,446
MFTA Canada Inc.	3,426	1,366
Thomas Built Buses of Canada Ltd.	3,016	14,497
Daimler North America Corporation	1,081	676
Mercedes-Benz Financial Services Canada Corp	1,000	-
Total	480,172	293,910

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 \$3,819 and \$3,654 for the six months ended June 30, 2017 and June 30, 2016, respectively, and are included in "Interest expense – related parties."

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The Company is charged for administrative overhead expense by DNA. These expenses were \$2,286 and \$2,160 for the six months ended June 30, 2017 and June 30, 2016, 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 2017, notes or bonds payable in the amount of \$1,011,883 matured. Terms and conditions of new notes payable issued during the first six months of 2017 are as follows:

				June 30, 2017	
	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount
Canadian dollar bonds					
Bond	CAD	1.57%	2020	400,000	399,030
Total Canadian dollar bonds				400,000	399,030
Total				400,000	399,030

6. Commercial paper

In July 2011, DCFI entered into a \$2,500,000 private placement of commercial paper. As of June 30, 2017, outstanding commercial papers were \$358,385 with interest rates ranging from 0.78% to 0.91% and maturity dates ranging from July 5, 2017 to November 1, 2017. 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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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, 2017		December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	568,723	568,723	603,666	603,666
Marketable debt securities	-	-	717,492	717,492
Loans and receivables				
Loans and receivables from related parties	6,323,625	6,381,124	6,102,593	6,172,534
Total loans and receivables	6,323,625	6,381,124	6,102,593	6,172,534
Accrued interest	2,824	2,824	5,357	5,357
Financial assets recognized at fair value through profit or loss				
Derivative financial instruments entered into with related parties (Daimler AG)	-	-	3,422	3,422
Derivative financial instruments used in hedge accounting	30,504	30,504	18,257	18,257
Total financial assets recognized at fair value through profit or loss	30,504	30,504	21,679	21,679
Total financial assets	6,925,676	6,983,175	7,450,787	7,520,728
Financial liabilities at amortized cost				
Notes and bonds payable	5,575,137	5,589,281	6,129,346	6,144,719
Commercial paper	358,385	358,385	468,151	468,151
Payables to related parties	480,172	480,172	293,910	293,910
Accrued interest	23,572	23,572	26,613	26,613
Total financial liabilities at amortized cost	6,437,266	6,451,410	6,918,020	6,933,393
Financial liabilities at fair value				
Derivative financial instruments used in hedge accounting	115,553	115,553	160,157	160,157
Total financial liabilities at fair value	115,553	115,553	160,157	160,157
Total financial liabilities	6,552,819	6,566,963	7,078,177	7,093,550

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, 2017				December 31, 2016			
	Total	Level 1 ¹	Level 2 ²	Level 3 ³	Total	Level 1 ¹	Level 2 ²	Level 3 ³
Assets								
Derivative financial instruments entered into with related parties (Daimler AG)	-	-	-	-	3,422	-	3,422	-
Derivative financial instruments used in hedge accounting	30,504	-	30,504	-	18,257	-	18,257	-
Liabilities								
Derivative financial instruments used in hedge accounting	115,553	-	115,553	-	160,157	-	160,157	-

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, 2017				December 31, 2016			
	Total	Level 1 ¹	Level 2 ²	Level 3 ³	Total	Level 1 ¹	Level 2 ²	Level 3 ³
Marketable debt securities	-	-	-	-	717,492	-	717,492	-
Financial assets measured at amortized cost	6,381,124	-	6,381,124	-	6,172,534	-	6,172,534	-
Financial liabilities measured at amortized cost	5,947,668	4,892,180	1,055,488	-	6,612,870	5,149,767	1,463,103	-
thereof bonds	5,589,283	4,892,180	697,103	-	6,144,719	5,149,767	994,952	-
thereof other financing liabilities	358,385	-	358,385	-	468,151	-	468,151	-

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.