DAIMLER

Daimler International Finance B.V.
Financial Report 2016

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Supervisory Board

◊ U. Tüchter	Chairman
◊ Dr. B. Niess	
◊ K. Schäfer	
◊ P. Zirwes	

Board of Management

◊ P. Derks	Chairman
◊ A. Lerch	(until 30 September 2016)
◊ mr. M. van Pelt	
◊ O. Ernst	(since 1 October 2016)

Registered office

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Report of the Board of Management

General

These Financial Statements cover the year 2016, which ended at the balance sheet date of 31 December 2016.

Daimler International Finance B.V. (or "the Company") was established on 4 April 1986 as a private limited company (B.V.). As at 31 December 2016 the authorized capital of the Company was € 2,500,000 divided into 5,000 ordinary shares of € 500 nominal value, of which 1,000 shares have been issued and fully paid. Each share carries one vote at general meetings of shareholders. The shares are 100% owned by Daimler AG in Stuttgart, Germany. The Company's purpose is to finance part of the activities of the Daimler Group. The needed funding is managed by borrowing from Group companies and the capital markets by issuing bonds, notes and commercial paper.

In 2016 Daimler AG decided to increase the equity of Daimler International Finance B.V. by € 500 million. Purpose of the increase is to strengthen Daimler International Finance B.V. in its role as a strategic financing hub for the Daimler Group. At the end of July 2016 the Company received € 500 million as a share premium reserve.

The Euro Medium Term Note Program (EMTN) issues and the European Commercial Paper Program (CP) issues of Daimler International Finance B.V. are both irrevocably guaranteed by Daimler AG. The bonds have long-term ratings of A3 (positive) from Moody's Investors Service, A (stable) from Standard & Poor's Ratings Group and A- (stable) from Fitch Ratings as at 31 December 2016. These ratings rely on the performance of the Daimler Group.

The bonds issued by Daimler International Finance B.V. are listed on the Luxembourg Stock Exchange. One CHF bond issued in 2011, listed on the SIX Swiss Exchange, matured in 2016.

The funding obtained by the Company has been made available to companies within the Daimler Group and to associated and joint ventures of Daimler AG by way of intercompany loans, with a focus on European financial services companies and Daimler treasury centres.

Development 2016

In 2016 Daimler International Finance B.V. repaid two bonds issued under the Daimler EMTN Program in the total amount of € 252 million.

Furthermore, in 2016 Daimler International Finance B.V. issued CPs for a total amount of € 200 million under the Daimler European Commercial Paper Program with tenors between 3 and 12 months. At 31 December 2016, the CP outstanding amounts to € 200 million. The proceeds of the CP were allocated as intercompany loans to Daimler Group companies.

In 2016 the total loans to affiliated companies of the Company increased by € 422 million to a level of € 2,468 million as per the end of 2016. All new funding of the financial assets was realized through the issuance of CPs under the European CP Programs and through group-internal loans and the increase of the equity of Daimler International Finance B.V. by € 500 million.

The interest margin developed positively to € 4.762 million compared to € 2.973 million in 2015. On the other hand the financial result of the year was negatively affected by the valuation impact of derivatives which turned out to be ineffective. The net profit after taxation amounts to a negative amount of € 2.0 million compared to € 1.1 million negative in 2015.

Since all the EMTN / CP issued are guaranteed by Daimler AG the general risk profile of the Company and its solvency heavily depend on the solvency of the Daimler Group as a whole.

The number of employees at 31 December 2016 was 6 (2015: 5).
The directors who held office at the end of the financial year and at signing of these financial statements had no disclosing interest in the shares of the Company.

Risk Management
The Board of Management is responsible for the internal control and the management of risks within the Company and for the assessment of the effectiveness of the control systems. These controls were set up in cooperation with Daimler Group to identify and manage foreign exchange, interest, liquidity and credit risks.

In the Company's business, the creation and management of a loan involves the assumption of a number of risks: credit risk, market interest rate risk, foreign exchange risk, market risk and other operational risks. The funds obtained with the issuance of EMTN notes and CP are in general lent onward at similar conditions to affiliated companies.
It is the Company's general policy to hedge the foreign exchange risk with foreign exchange swaps and interest rate swaps to match the funding requirements in terms of maturities and interest rates.

Liquidity risk comprises the risk, that a company cannot meet its financial obligations in full. Daimler International Finance B.V. manages its liquidity by holding adequate volume of cash and by applying as far as possible the matched funding principle. In accordance with internal guidelines, this principle ensures that financial obligations generally have the same maturity profile as the financial assets and receivables and thus reduces the Company's liquidity risks.

The Company solely provides loans within the Daimler Group and to companies in which Daimler holds a minority share (Joint Ventures). Therefore the Company's exposure to credit risk is influenced mainly by the characteristics of Daimler Group related default risk. In cooperation with Daimler AG headquarters, assessments of credit risks are made and credit limits are set, which are periodically reviewed. In respect of cash at banks and financial derivatives, these are only deposited and / or entered into in compliance with the Daimler Global Counterparty Limits as provided by Daimler AG.

Outlook
In 2017 the net interest income on operating activities is expected to develop in line with the balance sheet development during the course of the year. Ineffectiveness resulting from fair value hedge relationships may have impact on the profit before taxation.

The financing activities will develop in line with the strategy of Daimler AG. For the year 2017 management expects a relatively higher level of outstanding EMTN notes which will impact the financing activities to group companies. The Company is expected to extend its current core activities and will actively support all major changes in the treasury operations deemed necessary to ensure even further the efficiency and effectiveness of financing the capital needs of the Daimler Group.

The board of directors consider that the current number of employees will remain unchanged in the near future.

Events after the balance sheet date

Since the end of the 2016 financial year, there have been no occurrences that are of major significance to the Company.

According to new regulations of the Dutch Civil Law (Wet Toezicht Bestuur) the Company's Board of Management and Supervisory Board are unbalanced since less than 30% of the members is female. The Board members have been appointed based on qualifications and availability, irrespective of gender. In order to create more balance the Boards will take these regulations into account to the extent possible in future appointments of Board members.

Utrecht, 3 April 2017

Daimler International Finance B.V.
Van Deventerlaan 50 NL – 3528 AE Utrecht

The Board of Management

mr. M. van Pelt P. Derks O. Ernst

Responsibility Statement by Management

To the best of our knowledge, and in accordance with the applicable reporting principles for annual financial reporting, the Financial Report 2016 gives a true and fair view of the assets, liabilities, financial position and profit or loss of Daimler International Finance B.V. The Report of the Board of Management includes a fair review of the development and performance of the business and the position of Daimler International Finance B.V., together with a description of the principal opportunities and risks associated with the expected development of Daimler International Finance B.V.

Utrecht, 3 April 2017

Daimler International Finance B.V.
The Board of Management

mr. M. van Pelt P. Derks O. Ernst

Declaration by the Supervisory Board

- The responsibility for the audit committee function for the Company is executed by the Supervisory Board.
- Pursuant to the Articles of Association we are pleased to submit the Financial Report for the year 2016 as drawn up by the Board of Management.
- The Financial Report, which both the Supervisory Board and the Board of Management have signed, has been audited by KPMG Accountants N.V.
- The auditor's report is included in the other information section of the Financial Report.

Utrecht, 3 April 2017

The Supervisory Board

U. Tüchter (Chairman)

Daimler International Finance B.V.
Balance sheet as at 31 December 2016
(before profit appropriation x € 1,000)

	Note	31-12-2016		31-12-2015	
ASSETS					
FIXED ASSETS					
◊ Tangible fixed assets			21		21
◊ Deferred tax assets	6		1,622		617
◊ Financial fixed assets:					
Loans to affiliated companies	1	2,115,667		1,176,039	
Other financial assets	2	-		15,642	
			2,115,667		1,191,681
CURRENT ASSETS					
◊ Receivables:					
Loans to affiliated companies	1	352,000		869,537	
Interest receivables affiliated companies	3	17,871		27,645	
			369,871		897,182
◊ Cash and cash equivalents	4		15,917		8,644
			2,503,098		2,098,145

Daimler International Finance B.V.
Balance sheet as at 31 December 2016
(before profit appropriation x € 1,000)

	Note	31-12-2016		31-12-2015	
LIABILITIES					
◊ **Shareholders' equity**	5				
Issued capital		500		500	
Other reserves		527,002		28,124	
Cash flow hedge reserve		-		1,081	
Retained earnings		(2,047)		(1,122)	
			525,455		28,583
◊ **Deferred tax liabilities**	6		-		-
◊ **Long-term liabilities**					
EMTN issues	7	879,424		956,860	
Loans from affiliated companies	7	185,000		182,000	
Other financial liabilities	2	153,933		86,752	
			1,218,357		1,225,612
◊ **Short-term liabilities**					
EMTN issues	7	-		242,536	
CP issues	7	200,067		181,905	
Loans from affiliated companies	7	542,000		392,000	
Other liabilities to affiliated companies	8	1,532		5,842	
Taxation and social security premiums	9	56		265	
Other liabilities and accruals	10	15,631		21,402	
			759,286		843,950
			2,503,098		2,098,145

Daimler International Finance B.V.
Profit and loss account for the year ended 31 December 2016
(x € 1,000)

	Note	31-12-2016		31-12-2015	
◊ **Interest income**	12	62,169		113,543	
◊ **Interest expenses**		(57,407)		(110,570)	
Interest margin			4,762		2,973
◊ **Result financial transactions**	13		(5,244)		(686)
◊ **External costs and other**					
Operating costs		(299)		(355)	
Commissions in relation to EMTN issues	14	(1,442)		(3,005)	
Wages and salaries		(436)		(356)	
Social security charges		(34)		(31)	
Pension charges and early retirement costs		(48)		(48)	
			(2,259)		(3,795)
PROFIT BEFORE TAX			(2,741)		(1,508)
◊ **Taxation**	15		694		386
NET PROFIT (LOSS)			(2,047)		(1,122)

Cash Flow statement (x € 1,000)

	31-12-2016	31-12-2015
Profit after tax	(2,047)	(1,122)
Adjustments for:		
Interest income	(62,169)	(113,543)
Interest expenses	57,407	110,570
Income tax expense	(694)	(386)
Result financial transactions	5,244	686
Changes in:		
Change in provisions	–	–
Change in tax receivables	(202)	121
Other liabilities (excluding interest on debts)	79	(66)
Cash flow from operating activities:		
Interest received	71,935	141,593
Interest paid	(69,096)	(144,115)
Additions to loans to affiliated companies	(3,591,283)	(7,389,033)
Repayments of loans to affiliated companies	3,177,911	10,696,826
Derivative assets and liabilities	1,539	(591)
Tax paid	(513)	(491)
Net cash from operating activities	**(411,889)**	**3,300,449**
Cash flow from investing activities:	–	–
Cash flow from financing activities:		
Proceeds from additional EMTN and CP issues	200,000	1,538,000
Repayments of EMTN and CP	(433,838)	(3,889,702)
Additional short term loans received from aff. companies	2,477,283	5,127,873
Additional long term loans received from aff. companies	40,000	145,000
Repayments of loans from affiliated companies	(2,364,283)	(6,218,781)
Capital contribution	500,000	
Net cash from financing activities	**419,162**	**(3,297,610)**
Net de/increase in cash and cash equivalents	**7,273**	**2,839**
Cash at beginning of period	8,644	5,805
Cash at end of period	15,917	8,644
Net de/increase in cash and cash equivalents	**7,273**	**2,839**

Statement of comprehensive income (x €1,000)

	31-12-2016		31-12-2015	
Net result after tax attributable to the company		(2,047)		(1,122)
Unrealized revaluation of cash flow hedges charged directly to shareholders equity	(1,081)		2,630	
Total of items recognised directly in shareholders' equity of the company		(1,081)		2,630
Total result of the legal entity		**(3,128)**		**1,508**

Accounting principles for the financial statements

General information

The Company, having its legal seat in Utrecht, was established on 4 April 1986 as a private limited company (B.V.). The Company's registration number is 30078162 and it's registered office is at Van Deventerlaan 50, Utrecht, The Netherlands. The shares are 100% owned by Daimler AG in Stuttgart, Germany.

Basis of preparation

Statement of compliance

These financial statements have been prepared in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in part 9, Book 2 of the Netherlands Civil Code.

If not stated otherwise, assets and liabilities are based on the historical cost convention. All financial information presented in Euro has been rounded to the nearest thousand, unless otherwise stated. These financial statements have been prepared on the basis of the going concern assumption.

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 relationships are adjusted for changes in fair value attributable to the risk being hedged;
- loans for which no hedge accounting is applied are accounted for amortized costs.

The use of estimates and assumptions in the preparation of the financial statements

The preparation of the financial statements requires the management to form opinions and to make estimates and assumptions that influence the application of principles and the reported values of assets and liabilities and of income and expenditure. The actual results may differ from these estimates. The estimates and the underlying assumptions are constantly assessed. Revisions of estimates are recognized in the period in which the estimate is revised and in future periods for which the revision has consequences.

Foreign currency transactions

Transactions denominated in foreign currency are translated into the functional currency of the company at the exchange rate applying on the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into the functional currency at the balance sheet date at the exchange rate applying on that date. Non-monetary assets and liabilities in foreign currency that are stated at historical cost are translated into Euros at the applicable exchange rates on the transaction date. Translation gains and losses are taken to the profit and loss account under result from financial transactions.

Specific accounting principles

General

An asset is recognized on the balance sheet when it is probable that the expected future economic benefits that are attributable to the asset will flow to the Company and the cost of the asset can be reliably measured. A liability is recognized on the balance sheet when it is expected to result in an outflow from the Company of resources embodying economic benefits and the amount of the obligation can be reliably measured.

If a transaction results in a transfer of future economic benefits and/or when all risks relating to assets or liabilities transfer to a third party, the asset or liability is no longer included on the balance sheet. Assets and liabilities are not included on the balance sheet if economic benefits are not probable or cannot be measured with sufficient reliability.

The income and expenses are accounted for in the period to which they relate.

Offsetting

Financial assets and liabilities are offset and the net amount reported on the balance sheet if there is a legally enforceable right to offset the recognized amounts, and there is an intention to settle the items on a net basis, or to settle the asset and the liability simultaneously. If these conditions are not fulfilled, amounts will not be offset.

Financial instruments

Financial instruments include cash items, loans, derivative financial instruments, EMTN notes (including CP), loans from affiliated companies and other financing commitments.
Unless stated otherwise, financial instruments are initially recognized at fair value, including discount or premium and directly attributable transaction costs. However, if financial instruments are subsequently measured at fair value through profit and loss, then directly attributable transaction costs are directly recognized in the profit and loss account.

Derivatives

The Company uses derivative financial instruments such as swaps, forward rate agreements for the purpose of hedging interest rate and currency risks that arise from its financing activities. Derivatives are measured at fair value with recognition of all changes in value in the profit and loss account, except where hedge accounting is applied to hedge the variability of future cash flows (cash flow hedge accounting).

Financial and non-financial contracts may contain terms and conditions that meet the definition of derivative financial instruments. Such an agreement is separated from the host contract if its economic characteristics and risks are not closely related to those of the host contract, a separate instrument with the same terms and conditions as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value with changes in fair value recognized in the profit and loss account.
Financial instruments embedded in contracts that are not separated from the host contract are recognized in accordance with the host contract.
Derivatives separated from the host contract are, in accordance with the measurement policy for derivatives measured at fair value.

The Company recognizes derivatives with a positive fair value as assets and derivatives with a negative fair value as liabilities.

Loans and liabilities

The loans and liabilities to affiliated companies as well as EMTN and CP issues are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and liabilities are measured at amortized cost using the effective interest method, less a provision for impairment if necessary. Loans and liabilities designated and qualifying as hedged items in fair value hedge relationships are adjusted for changes in fair value attributable to the risk being hedged.

Hedge Accounting

The Company uses derivatives as part of asset and liability management and risk management. These instruments are used for hedging interest rate and foreign currency risks.

The Company designates certain derivatives as either (1) a hedge of the fair value of a recognized asset or liability and definite obligation (fair value hedge); or (2) a hedge of a future cash flow that can be attributed to a recognized asset or liability and expected transaction (cash flow hedge).

Hedge accounting is applied for derivatives that are thus designated and that satisfy the conditions set by the Company. The Company sets the following conditions for the application of hedge accounting:

- formal documentation of the hedging instrument, the hedged position, the risk management objective, strategy and relationship of the hedge is completed before hedge accounting is applied;
- the documentation shows that the hedge is expected to be highly effective in offsetting the risk in the hedged position for the entire hedging period;
- the hedge continues to be effective during the term.

The Company ceases hedge accounting as soon as it has been established that a derivative is no longer an effective hedge, or when the derivative expires, is sold, terminated or exercised; when the hedged position expires, is sold or redeemed; or when an expected transaction is no longer deemed highly likely to occur.
The Company did not provide and does not expect to provide any financial collateral for obligations in respect of derivative financial instruments.

Fair value hedge accounting
Derivatives designated as a hedge of the fair value of recognized assets or of a definite obligation are stated as fair value hedges. Changes in the fair value of the derivatives which are designated as a hedge are recognized immediately in the income statement and reported together with corresponding fair value adjustments to the hedged item attributable to the hedged risk. If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, hedge accounting is discontinued prospectively. Any adjustment up to that point to a hedged item for which the effective interest method is used, is amortized to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

Cash flow hedge accounting
Derivatives can be designated as a hedge of the risk of variability of future cash flows of a recognized asset or liability or highly likely expected transaction. The fair value of the effective portion of derivatives that are designated as a cash flow hedge and that meet the conditions for cash flow hedge accounting are deferred in the cash flow hedge reserve as a separate component of shareholders' equity. The tax effect in the hedge reserve is part of the deferred tax asset.

As soon as the expected future transactions lead to the recognition of gains or losses in the profit and loss account, the respective amounts are taken from the cash flow hedge reserve to the profit and loss account. Any ineffective portion of changes in the fair value of the derivatives is recognized immediately in profit or loss.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction the cumulative amount recognized in other comprehensive income from the period when the hedge was effective is reclassified from equity to profit or loss as cash flow hedge reserve adjustment when the forecast transaction occurs and affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is reclassified immediately to profit or loss as a cash flow hedge reserve adjustment.

Impairment of financial assets

A financial asset that is not stated at (1) fair value with value changes reflected in the profit and loss account, or at (2) amortized cost or lower market value, is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, with negative impact on the estimated future cash flows of that asset, which can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, indications that a debtor or issuer is approaching bankruptcy, or the disappearance of an active market for a security.

The entity considers evidence of impairment for financial assets measured at amortized cost (loan and receivables and financial assets that are held to maturity) at a specific asset level. All individually significant assets are assessed for specific impairment.

Losses are recognized in the profit and loss account and reflected in an allowance account against loans and receivables or investment securities held to maturity.

Impairment losses below (recognized) cost of investments in equity instruments that are stated at fair value through profit or loss, are recognized directly in profit or loss.

When, in a subsequent period, the amount of an impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss (up to the amount of the original cost).

Interest

Interest income and expense are recognized in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and 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 but not future credit losses.

The calculation of the effective interest rate includes all fees 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.

Interest income and expense presented in the income statement include on financial assets and liabilities at amortized cost calculated on an effective interest basis.

Corporate income tax

Corporate income tax is recognized as an expense based on the applicable tax law in the period in which the profit arises. Corporate income tax is recognized in the profit and loss account except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

Current tax comprises the expected tax payable or receivable on the taxable profit or loss for the financial year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the tax payable in respect of previous years.
Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Cash flow statement

The cash flow statement is prepared according to the indirect method, and distinguishes between cash flows from operational, investment and financing activities. Cash flows in foreign currency are converted at the exchange rate applicable on the transaction date. With regard to cash flow from operations, operating results before taxation are adjusted for gains and losses that did not result in income and payments in the same financial year and for movements in provisions and accrued and deferred items.

In the context of the cash flow statement, cash and cash equivalents are equal to the balance sheet item cash and cash equivalents.

Determination of fair value

A number of accounting policies and disclosures in the company's financial statements require the determination of the fair value for both financial and non-financial assets and liabilities.

For measurement and disclosure purposes, fair value is determined on the basis of the following methods. Where applicable, detailed information concerning the principles for determining fair value are included in the section that specifically relates to the relevant asset or liability.

Financial assets

The fair value of financial assets is determined on the basis of the discounted expected future cash flows; whereby the relevant interest rate curve plus credit and surcharges, valid for the remaining terms of the financial instruments are used. The fair value of these financial assets is only determined for the benefit of the disclosures.

Receivables

The fair value of these financial instruments stated on the balance sheet, is approximately equal to their carrying amount unless otherwise stated in the notes.

Derivatives

The fair value of derivatives is based on the quoted market price, if available. If no quoted market price is available, the fair value is estimated on the basis of the expected cash flows discounted at the instrument specific interest curve, including spreads for discounting the relevant risks.

Non-derivative financial commitments

The fair value of non-derivative financial liabilities is only determined for disclosure purposes and is calculated on the basis of the net present value of future repayments and interest payments, discounted at the relevant interest rate curve plus credit and surcharges, at the reporting date.

1 Financial fixed assets

Loans to Affiliated companies:

The financial fixed assets stated in the balance sheet are intercompany receivables and are carried at amortized cost.
Recognized financial assets designated as hedged items in qualifying fair value hedge relationships are adjusted for changes in fair value attributable to the risk being hedged.

Movements in financial fixed assets:

(x € 1,000)	31 Dec. 2016	31 Dec. 2015
Value as at the 1 January	2,045,576	5,234,874
Changes in fair value as a result of hedge accounting	–	–
Exchange rate differences	8,719	118,495
Additions in the year	3,591,283	7,389,033
Repayments in the year	(3,177,911)	(10,696,826)
Value as at the 31 December	2,467,667	2,045,576

€ 0.4 billion (2015: € 0.9 billion) of the principle portions outstanding is due and repayable within 1 year and € 2.1 billion (2015: € 1.2 billion) is due and repayable between 1 and 5 years.

The interest rate of the loans to affiliated companies is in conformity with the Group-wide Intercompany pricing standards ensuring at arm's length conditions.

Loans to affiliated companies for a total amount of € 1.0 billion (2015: € 1.1 billion) are denominated in a currency other than Euro for which the Company has entered into foreign exchange contracts to hedge foreign currency risks as far as they are not lent on in the same currency. The valuation of the loans is determined based on the year-end foreign exchange rate. As at 31 December 2016 there are no loans which are designated in a fair value hedge accounting relationship (2015: € 0.0 million).

The fair value of the loans to affiliated companies per 31 December 2016 is € 2.5 billion (2015: € 2.1 billion).

The weighted average interest rate on the loans to affiliated companies is 1.16% (2015: 1.72%). As at 31 December 58% (2015: 43%) of the outstanding loans have a fixed interest rate.

2 Other financial assets and liabilities

The effectiveness test consists of comparing the cumulative fair value change of a hypothetical derivative defined at the transaction date, with a fair value of zero at the transaction date, as a proxy for the hedge position with the cumulative value change of the actual derivative. If the latter has a higher negative value than the hypothetical derivative, then the difference is recognized in the profit and loss account as ineffectiveness.

The fair values of the derivatives are as follow:

	Assets	Liabilities	Assets	Liabilities
(x € 1,000)	31 Dec. 2016		31 Dec. 2015	
Instrument type:				
Interest rate swaps	–	2,343	–	1,838
Cross currency swaps	–	151,590	15,642	84,914
Total	–	153,933	15,642	86,752

The notional amount of the swaps are as follow:

(x € 1,000)	31 Dec. 2016	31 Dec. 2015
Interest rate swaps	284,603	247,097
Cross currency swaps	743,288	1,072,616
Total	1,027,891	1,319,713

Of which € 1.0 billion (2015: € 1.3 billion) is designated for hedge accounting purposes.
The Company did not provide and does not expect to provide any financial collateral for obligations in respect of derivative financial instruments.

Fair value hedges

The Company uses interest rate swaps and cross currency interest rate swaps to hedge its exposure to changes in the fair values of its fixed rate bonds attributable to changes in market interest rates and foreign exchange rates. Interest rate swaps are matched to specific issuances of fixed rate loans.

The fair value of these derivatives is determined on the basis of the discounted expected future cash flows; whereby the market interest rates valid for the remaining terms of the financial instruments are used in which the counterparty and own credit risk are taken into account.

The fair values of derivatives designated as fair value hedges are as follows:

(x € 1,000)	Assets	Liabilities	Assets	Liabilities
	31 Dec. 2016		31 Dec. 2015	
Instrument type:				
Interest rate swaps	–	2,343	–	1,838
Cross currency swaps	–	151,590	–	84,914
Total	–	153,933	–	86,752

Cash flow hedges

The Company uses interest rate and cross-currency swaps to hedge the foreign currency and interest rate risks arising from granting floating rate loans denominated in foreign currencies.

The fair values of derivatives designated as cash flow hedges are as follows:

(x € 1,000)	Assets	Liabilities	Assets	Liabilities
	31 Dec. 2016		31 Dec. 2015	
Instrument type:				
Interest rate swaps	–	–	–	–
Cross currency swaps	–	–	15,642	–
Total	–	–	15,642	–

3 Interest receivables from affiliated companies

The intercompany receivables consist of interest on financial fixed assets and are due within one year. The fair value of this financial instrument stated on the balance sheet is approximately equal to their carrying amount.

Receivables from affiliated companies for a total amount of € 2.8 million (2015: € 2.2 million) are denominated in a currency other than Euro for which the Company has entered into foreign exchange contracts to hedge foreign currency risks as far as there is no matching with interest liabilities.

4 Cash and cash equivalents

Cash and cash equivalents is stated at nominal value and freely disposable. The fair value of this financial instrument stated on the balance sheet is approximately equal to their carrying amount.

5 Shareholders' equity

Summary of movements in shareholders' equity in 2016 and 2015:

(x € 1,000)	1 January 2016	Capital increase	Profit distribution in 2016 for 2015	Dividend distribution in 2016	Changes in fair value of cash flow hedges	Result for the year	31 December 2016
Share capital							
Authorised capital	2,500						2,500
Not issued capital	(2,000)						(2,000)
Issued capital	500		–	–			500
Other reserves	28,124	500,000	(1,122)	–			527,002
Cash flow hedge reserve	1,081				(1,081)		–
Profit for the year	(1,122)		1,122			(2,047)	(2,047)
Total shareholders' equity	28,583	500,000	–	–	(1,081)	(2,047)	525,455

(x € 1,000)	1 January 2015		Profit distribution in 2015 for 2014	Dividend distribution in 2015	Changes in fair value of cash flow hedges	Result for the year	31 December 2015
Share capital							
Authorised capital	2,500						2,500
Not issued capital	(2,000)						(2,000)
Issued capital	500		–	–		–	500
Other reserves	29,156		(1,032)	–			28,124
Cash flow hedge reserve	(1,549)				2,630		1,081
Profit for the year	(1,032)		1,032			(1,122)	(1,122)
Total shareholders' equity	27,075		–	–	2,630	(1,122)	28,583

The authorized capital of Daimler International Finance B.V. amounts to € 2,500,000 consisting of 5,000 shares with a par value of € 500. At 31 December 2016 1,000 shares have been issued and fully paid.

In 2016 Daimler AG decided to increase the equity of Daimler International Finance B.V. by € 500 million. Purpose of the increase is to strengthen Daimler International Finance B.V. in its role as a strategic financing hub for the Daimler Group. At the end of July 2016 the Company received € 500 million as a share premium reserve.

The other reserves are considered to be legal statutory reserves both in 2015 and 2016.
The cash flow hedge reserve comprises the effective portion of the accumulated net change in the fair value of cash flow hedge instruments for hedged transactions that have not yet occurred. This cash flow hedge reserve is released during the period that the cash flows from the hedged risk are realised. The cash flow hedge reserve is not freely distributable. In 2016 € 1.0 million has been released from Equity to P&L.

The movement in the cash flow hedge reserve can be specified as follows:

- the effective portion of changes in fair value of cash flow hedges amounting to € 0.0 million (2015: € 2.6 million);
- the net change in fair value of matured cash flow hedges reclassified to P&L amounting to € 1.1 million (2015: € 0.0 million).

6 Deferred tax assets and liabilities

At 31 December 2016 a net deferred tax asset of € 1.6 million for temporary differences was recognized. Deferred tax assets and liabilities are measured at nominal value.
The deferred tax assets and liabilities comprises the tax effect of the temporary differences between the profit determination for financial reporting purposes and for tax purposes.
Deferrals with a residual term of one year or less amount to € 0.3 million (2015: € 0.2 million).
Deferred tax assets and liabilities are attributable to the following:

Movements in 2016:

(x € 1,000)	1 January 2016	Reclassification	Provisions made	Provisions used	Provisions released	Other	31 December 2016
Valuation of derivatives	617	–	1,005	–		–	1,622

Movements in 2015:

(x € 1,000)	1 January 2015	Reclassification	Provisions made	Provisions used	Provisions released	Other	31 December 2015
Valuation of derivatives	(381)	–	998	–		–	617

7 Short/Long-term liabilities

Movements in 2016:

1) EMTN and CP Issues (x € 1,000)	Falling due within 1 year	Due > 1 Year and < 5 year	Due > 5 year	Total
Position as at 1 January 2016	424,441	956,860	–	956,860
Exchange rate difference	9,156	(87,165)		(87,165)
Due date reclassification				–
Additions in the year	200,000			
Repayments in the year	(433,838)			
Amortization Discount	396	632		632
Change in fair value as a result of hedge accounting	(88)	9,097		9,097
Position as at 31 December 2016	200,067	879,424	–	879,424

2) Loans from Affiliated companies (x € 1,000)	Falling due within 1 year	Due > 1 Year and < 5 year	Due > 5 year	Total
Position as at 1 January 2016	392,000	182,000	–	182,000
Exchange rate difference				
Due date reclassification	37,000	(37,000)		(37,000)
Additions in the year	2,477,283	40,000		40,000
Repayments in the year	(2,364,283)			
Position as at 31 December 2016	542,000	185,000	–	185,000

Movements in 2015:

1) EMTN and CP Issues (x € 1,000)	Falling due within 1 year	Due > 1 Year and < 5 year	Due > 5 year	Total
Position as at 1 January 2015	2,495,540	1,122,859	–	1,122,859
Exchange rate difference	27,236	83,576		83,576
Due date reclassification	251,838	(251,838)		(251,838)
Additions in the year	1,538,000			
Repayments in the year	(3,889,702)			
Amortization Discount	1,505	2,059		2,059
Change in fair value as a result of hedge accounting	24	204		204
Position as at 31 December 2015	424,441	956,860	–	956,860

2) Loans from Affiliated companies (x € 1,000)	Falling due within 1 year	Due > 1 Year and < 5 year	Due > 5 year	Total
Position as at 1 January 2015	1,315,908	204,000	–	204,000
Exchange rate difference				
Due date reclassification	167,000	(167,000)		(167,000)
Additions in the year	5,127,873	145,000		145,000
Repayments in the year	(6,218,781)			
Position as at 31 December 2015	392,000	182,000	–	182,000

Daimler International Finance B.V. obtains funds from the market by issuing corporate bonds/ notes under the Euro Medium Term Notes and Commercial Paper under the European Commercial Paper Program and obtains funds from affiliated companies by entering into loan agreements. The issues under the EMTN and CP Programs (totalling € 1.1 billion) are unconditionally and irrevocably guaranteed by Daimler AG for which the Company pays a guarantee fee. The bonds issued by Daimler International Finance B.V. are listed on the Luxembourg Stock Exchange.

The notional amounts of the EMTN notes which are designated for hedge accounting amount to € 0.9 billion (2015: € 1.0 billion).

The terms and conditions of outstanding EMTN notes were as follows:

(x € 1,000)	Currency	Nominal interest rate	Date of drawing	Date of maturity	Nominal value	Book value 31-12-2016	Market value 31-12-2016
EMTN	USD	1.750%	4/10/2013	4/10/2018	229,253	281,955	284,142
EMTN	GBP	3.500%	2/6/2012	6/6/2019	603,726	597,469	622,007
Total	EUR				832,979	879,424	906,149

CP notes:

(x € 1,000)	Currency		Nominal value	Book value 31-12-2016
CP	EUR		200,000	200,067
Total	EUR		200,000	200,067

The due date of the CPs varies to March 2017, the interest rates between - 0.31% and 0.045%.

The EMTN notes per 31 December 2016 are all hedged.

The specification is as follows:

(x € 1,000)	**31 Dec. 2016**	**31 Dec. 2015**
EMTN notes part of a fair value hedge relationship	879,424	1,199,396
EMTN notes at amortized cost	–	–
Total	879,424	1,199,396

◊ The due date of the loans obtained from affiliated companies varies from January 2016 to June 2019. The interest rates of the loans obtained from affiliated companies vary between - 0.08% and 1.1% and are in conformity with the Group-wide intercompany pricing standards ensuring at arm's length conditions.

◊ As at 31 December 2016 there are no liabilities to affiliated companies denominated in a currency other than Euro (2015: € 0.0 million). When they occur the Company will enter into foreign exchange contracts to hedge foreign currency risks as far as they are not back-to-back. The valuation of the loans is determined based on the year-end rate of exchange.

◊ The fair value of the loans from affiliated companies per 31 December 2016 is € 0.7 billion (2015: 0.6 billion).

◊ The fair value of EMTN notes per 31 December 2016 is € 0.9 billion (2015: € 1.2 billion). The fair value of EMTN notes is derived from the market quotation.

8 **Other liabilities to affiliated companies**

The intercompany liabilities consist of interest on intercompany loans and are due within 1 year.

As at 31 December 2016 there are no liabilities to affiliated companies denominated in a currency other than Euro (2015: € 0.0 million). In cases there is no matching with interest receivables the Company has entered into foreign exchange contracts to hedge foreign currency risks. The fair value of this financial instrument stated on the balance sheet is approximately equal to their carrying amount.

9 **Taxation and social security premiums**

The specification is as follows:

(x € 1,000)	31 Dec. 2016	31 Dec. 2015
Corporate income tax	24	226
Value-added tax	(1)	20
Payroll tax and social security charges	33	19
Total	56	265

10 **Other liabilities and accruals**

The specification is as follows:

(x € 1,000)	31 Dec. 2016	31 Dec. 2015
Interest debts to third parties	15,260	21,110
Other liabilities / accruals	371	292
Total	15,631	21,402

11 **Risk Management**

General

During the normal course of business the Company is exposed to interest rate risk, currency risk, liquidity risk, credit risk and other operational risks. In order to avoid or reduce these risks, Derivative Financial Instruments such as (but not limited to) Interest Swaps, Currency Contracts and Cross Currency Swaps are used. The Company does not trade in these Derivative Financial Instruments.

The EMTN notes issued by the Company are in general lent onward at arm's length conditions to affiliated companies.

Interest rate risk

As a result from its issuing and lending business, the Company is exposed to interest rate risks. The interest rate risk exposure is frequently monitored and assessed. It is the Company's general policy to mitigate interest rate risk by applying a matched funding in terms of maturities and interest rate and to hedge interest rate exposures by entering into Derivative Financial Instruments, such as interest rate swaps. Changes in fair values of derivatives are compensated by changes in the fair value of the respective underlying.

Foreign currency risk

It is the objective of the Company to eliminate foreign currency risk. Therefore, the Company enters into foreign exchange contracts to hedge foreign currency risks as far as they are not lent on in the same currency. As a result the company incurred only limited foreign currency risk from its ordinary issuance and lending activities. The related Derivative Financial Instruments are recognized on the balance sheet against fair value. Nominal values of currency positions are shown in below table.

The specification as at 31 December 2016 is as follows:

(x € 1,000)	Non derivative financial assets	Non derivative financial liabilities	Derivative financial instruments	Net exposure
GBP		(500,000)	500,000	–
USD	1,082,210	(300,000)	(783,500)	(1,290)

The Company incurs a foreign currency risk on the cash (equivalents) position, which is recognized against the exchange rate applying to the balance sheet date. Gains and losses are taken to the profit and loss account under result financial transactions.

Credit risk

The Company solely provides loans within the Daimler Group and to companies in which Daimler holds a minority share (Joint Ventures). In cooperation with Daimler AG headquarters, assessments of credit risks are made and credit limits are set, which are periodically reviewed. Therefore the company's exposure to credit risk is influenced mainly by the characteristics of Daimler Group related default risk. Daimler Group is rated by credit rating agencies and has a rating of A3 (positive) from Moody's Investors Service, A (stable) from Standard & Poor's Ratings Group and A- (stable) from Fitch Ratings as at 31 December 2016.

In respect of cash at banks and Derivative Financial Instruments, these are only deposited and / or entered into in compliance with the Daimler Global Counterparty Limits as provided by Daimler AG.

Liquidity risk

Liquidity risk comprises the risk, that a company cannot meet its financial obligations in full. Daimler International Finance B.V. manages its liquidity by holding adequate volume of cash and by applying as far as possible the matched funding principle. In accordance with internal guidelines, this principle ensures that financial obligations generally have the same maturity profile as the financial assets and receivables and thus reduces the Company's liquidity risks.

Hedging and Hedge Accounting

Derivative Financial Instruments are valued at fair value in the balance sheet and any changes in the fair value must be accounted for in the income statement. In the event that changes in fair value of hedged risks are not accounted for through the income statement, a mismatch occurs in the accounting of results, making these results more volatile. In these cases, hedge accounting is applied as much as possible to mitigate accounting mismatching and volatility. The Company makes a distinction between fair value hedge accounting and cash flow hedge accounting.

In fair value hedge accounting, the developments in fair value of the hedged risk are processed through profit or loss. This compensates for the fair value movements of the accompanying derivatives. In cash flow hedge accounting, the movements in fair value of the derivatives are accounted for in a separate cash flow hedge reserve in total equity. This cash flow hedge reserve is released over the period in which the cash flows from the hedged risk are realized.

12 Interest income

The interest income is based on loans provided to group companies in the EU (2016: 58.7% and 2015: 77.6%), the US (2016: 40.8% and 2015: 22.1%) and Australia (2016: 0.5% and 2015: 0.3%).

13 Result financial transactions

Result financial transactions comprises the valuation impact of derivatives and the translation gains and losses.

Hedge accounting is applied in accordance with the hedge accounting requirements as stated in RJ 290.

The Company incurs a foreign currency risk on the cash (equivalents) position, which is recognized against the exchange rate applying to the balance sheet date. The total result from translation gains and losses amount to EUR 0.4 million (loss).

14 Commissions in relation to EMTN notes and Commercial Paper

Commissions in relation to EMTN notes and Commercial Paper consist of guarantee fees paid by the Company to Daimler AG, guarantor under the EMTN and CP Programs.

15 Corporation tax

The applicable nominal tax rate is 25% (2015: 25%). The tax expense recognized in the profit and loss account for 2016 amounts to EUR 0.7 million, or 25% of the result before tax (2015: 25%).

The specification is as follows:

(x € 1,000)	2016	2015
Tax liability for current financial year	(311)	(612)
Deferred tax asset / liability	1.005	998
Total	694	386

16 Contingent liabilities and (off-balance sheet) commitments

As at 31 December 2016 the Company has no off balance sheet commitment (2015: 0.0 million).

17 Managing Board and Supervisory Board

The remuneration for directors, including pension obligations as intended in Section 2:383 of the Netherlands Civil Code, which were charged in the financial year to the Company, amounted to € 517,000 (2015: € 466,000).
These costs were partly recharged for rendered services to affiliated companies.
The members of the Supervisory Board did not receive remuneration during 2016 (2015: € 0).

18 Pension

The pension plan for the Company qualifies as a defined contribution plan. The Company has no obligation to pay supplementary contributions in the event of a shortfall in the pension fund, other than payment of future contributions. Equally the Company has no claim to any surpluses in the pension fund. Consequently, this pension plan has been accounted for as a defined contribution plan.

19 Employees

The number of employees at 31 December 2016 was 6 (2015:5).

20 Transactions with related parties

Transactions with related parties include relationships between the Company, the Company's participating interests and the Company's directors and executive officers (key management personnel).

Daimler International Finance B.V. obtains funds from the market by issuing corporate bonds/ notes under the Euro Medium Term Notes Program and by issuing Commercial Paper (CP) under the European Commercial Paper Program and obtains funds from affiliated companies by entering into loan agreements. The net proceeds of these notes are lent on in the form of intercompany loans. The issues under the EMTN and CP Programs (total € 1.1 billion) are unconditionally and irrevocably guaranteed by Daimler AG for which the Company pays a guarantee fee to Daimler AG (note 14). These funds represent currently 60% of the borrowed funds.

Daimler International Finance B.V. also obtains funds amounting to € 727.0 million as per 31 December 2016 (2015: € 574.0 million) from other group companies. Together with the equity those funds are made available to affiliated companies. The loans are provided at arm's length interest rates.

It is the Company's general policy to match funding in terms of maturities and interest rate and to hedge foreign exchange and market rate risks. As a consequence the funds obtained are in general lent onward at congruent conditions. The Company only assumes and subsequently bears foreign exchange risk and/or market rate risk in respect of loans provided from equity funds.

The remuneration of the members of the managing board and supervisory board is included in note 17.

21 Fees of the auditor

With reference to Section 2:382a (1) and (2) of the Netherlands Civil Code, the following fees for the financial year are included in the operating costs of the profit and loss account, independent from the moment of invoicing:

2016 (x €1,000)	KPMG Accountants N.V.	Other KPMG member firms and affiliates	Total KPMG
Statutory audit of annual accounts	44		44
Additional costs prior years			
Tax related services			
Total	44	–	44

2015 (x €1,000)	KPMG Accountants N.V.	Other KPMG member firms and affiliates	Total KPMG
Statutory audit of annual accounts	44		44
Additional costs prior years			
Tax related services			
Total	44	–	44

Other information

Provisions in the Articles of Association concerning the appropriation of profit

Article 13 of the Articles of Association states:

1. The Company's profit is wholly at the disposal of the general meeting of shareholders.

2. The Company may only make distributions to the shareholders and other parties entitled to the profit available for distribution in so far as its capital and reserves exceed the paid-up and called part of the reserves required to be held under law.

3. Distribution of profit takes place after adoption of the annual accounts indicating such distribution to be justified.

4. The Company may only make interim distributions if the requirement in clause two has been satisfied.

5. Entitlements to profit distributions lapse after a period of five years after the date on which they became payable.

Events after balance sheet date

Since the end of the 2016 financial year, there have been no occurrences that are of major significance for the Company.

Proposal for the appropriation of profit 2016

The Board of Management proposes to withdraw the loss of 2016 amounting to € 2,046,821 from the other reserves.

Appropriation of profit 2015

Following the decision of the shareholders' meeting the loss of the year 2015 amounting to € 1,121,875 has been withdrawn from the other reserves.

Auditors' report

The auditors' report is shown on page 33.

KPMG

Independent auditor's report

To: the General Meeting of Shareholders and the Supervisory Board of Daimler International Finance B.V.

Report on the accompanying financial statements 2016

Our opinion

In our opinion the accompanying financial statements give a true and fair view of the financial position of Daimler International Finance B.V. as at 31 December 2016, and of its result for 2016 in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

What we have audited

We have audited the financial statements 2016 of Daimler International Finance B.V.('the Company'), based in Utrecht.

The financial statements comprise:

1 the balance sheet as at 31 December 2016;
2 the profit and loss account for 2016;
3 the cash flow statement 2016;
4 the statement of comprehensive income; and
5 the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of Daimler International Finance B.V. in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit approach

Summary

Unqualified audit opinion

Materiality

- Overall materiality of EUR 9,38 million (0,5% of Total Asset)
- Reporting threshold EUR 470.000 (5% of materiality)

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Key audit matters

1. Estimation uncertainty for Financial Instruments measured at Fair Value
2. Hedge accounting
3. Estimation uncertainty in respect of the valuation of loans and receivables to Group entities

Materiality

Based on our professional judgment we determined the materiality for the financial statements as a whole at EUR 9.375.000 (2015: EUR 1.380.000). The materiality is determined with reference to the Company's total asset (0,5%). We consider total assets a more appropriate metric than the profit before tax given the activities of the Company as financing entity for Daimler AG companies and for the noteholders. As the assets of the Company generate the cash flows required to service the notes issued, the Company's noteholders – as the primary stakeholders of the entity – will focus primarily on the appropriate accounting (including valuation) for these assets. Furthermore, compared to the audit of the 2015 financial statements, we have changed the benchmark for determining materiality, as result of the increased capital by EUR 500 million during 2016. The 2015 materiality was determined with reference to the Company's total equity (5%).

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

We agreed with the Supervisory Board that misstatements in excess of EUR 470.000 (5%), which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Estimation uncertainty for financial instruments measured at fair value

Description

The Company has entered into several financial instruments including derivative financial instruments. Derivative financial instruments are valued at fair value based on market information. When observable market prices are not available, individual derivative financial instruments are not listed or are not traded regularly, the market value is estimated by the Board of Management, as disclosed in Note 2 and in the Accounting Principles for the financial statements.

There is inherent uncertainty in the determination of the fair value of derivatives due to the use of estimates and application of management judgement. Due to this uncertainty we identify the valuation of derivative financial instruments measured at fair value as a key audit matter.

Estimation uncertainty for financial instruments measured at fair value

Our response

Our audit procedures included an assessment of controls over the identification, measurement and evaluation by management of valuation risk, and an evaluation of the methodologies, inputs and assumptions used by the company in determining the fair values of derivative financial instruments.

We have involved valuation specialists in our audit team and evaluated the appropriateness of the model and the inputs used by the Company by comparing the outcome of the valuation model with the values calculated independently by our valuation specialists.

Additionally, we assessed the appropriateness of the financial statement disclosures in Note 2 of the financial statements.

Our observation

Based on our procedures we observed that management's valuation of the financial instruments resulted in a neutral valuation. The disclosure of the assumptions, risks and valuation of the derivative financial instruments measured at fair value in the financial statements is adequate, in accordance with the requirements of the Dutch Accounting Standards.

Hedge accounting

Description

The Company manages its exposure to interest rate and foreign currency risk by means of derivative financial instruments and applies hedge accounting to a significant part of its derivatives portfolio to avoid the accounting mismatch between the valuation of the derivatives (fair value) and the hedged item (amortized cost or off balance) in its financial statements. The accounting treatment of derivatives financial instruments depends on whether the hedge relationship qualifies for hedge accounting and whether it is a fair value or cash flow hedge accounting relationship. Given the significance of the application of hedge accounting for the financial position as a whole and the inherent complexity of hedge accounting we consider this a key audit matter.

Our response

We have inspected the hedge documentation provided by the Company supporting hedge accounting and have assessed the calculation method of the defined hedged risk. Furthermore we have audited the Company's hedge effectiveness testing, including testing whether the critical terms match has been appropriately applied. This test includes matching nominal value, duration and foreign exchange rates with contracts and other supporting documentation. We have assessed each hedge relationship based on the accounting requirements of Dutch Accounting Standard RJ 290. We have also assessed whether the disclosure requirements were met in the financial statements.

Our observation

We have determined that the Company applied hedge accounting in accordance with the accounting policies of the Company as described in the accounting principles for the financial statements.

Estimation uncertainty in respect of the valuation of loans and receivables to Group entities

Description

The Company is a financing entity entering into financing arrangements to fund Daimler AG and its subsidiaries ('the Group'). The Company has no substantial assets other than the loans to Group companies. The financing arrangements consist of external funding, which are all guaranteed by Daimler AG.

The Company is therefore, besides on the creditworthiness of the direct counterparty of its loans, dependent on the creditworthiness of Daimler AG as a whole for repayment of its debt instruments.

Estimation uncertainty in respect of the valuation of loans and receivables to Group entities
This is highlighted in Note 12 of the financial statements. Given the relevance to the financial statements of the Company, we consider this a key audit matter.
Our response Our audit procedures included an assessment of the creditworthiness of the financial position and liquidity of the Daimler Group to assess whether the respective Group entities will be able to meet their contractual obligations. To this end we have performed, amongst others, the following procedures with respect to the exposure on Group entities: • Inspect the audited 2016 financial statements of Daimler AG; • Inquired with management regarding recent developments in the financial position and cash flows of Daimler Group and whether any conditions exist as at, or subsequent to the reporting date that may lead to Daimler AG's inability to meet its contractual obligations. • Evaluation of the information from rating agencies Moody's Investors Service, Standard & Poor's Ratings Group and Fitch Ratings with respect to the credit ratings of Daimler AG as at 31 December 2016. • Inspect the loan agreement with Daimler Group. • Inspect the terms and conditions of the Guarantee Agreement between Daimler AG and the investors in the notes issued by Daimler International Finance B.V.
Our observation Based on our audit procedures we found that the loans and receivables to Group entities of Daimler AG are appropriately valued in accordance with the company's accounting policies on page 11 also taking into account the creditworthiness of Daimler AG.

Report on the other information included in the financial report

In addition to the financial statements and our auditor's report thereon, the financial report contains other information that consists of:

- Report of the Board of Management;
- other information pursuant to Part 9 of Book 2 of the Netherlands Civil Code;

Based on the below procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Netherlands Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Netherlands Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the Report of the Board of Management in accordance with Part 9 of Book 2 of the Netherlands Civil Code and other Information pursuant to Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Engagement

We were appointed before 2003 for the first time as auditor of Daimler International Finance B.V and operated as auditor since then. On 13 October 2016 we were re-appointed by the Shareholder for the year 2016.

KPMG

Description of the responsibilities for the financial statements

Responsibilities of the Board of Management and Supervisory Board for the financial statements

The Board of Management is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, the Board of Management is responsible for such internal control as the Board of Management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the financial statements, Board of Management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the Board of Management should prepare the financial statements using the going concern basis of accounting unless the Board of Management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Board of Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of financial statements

Our objective is to plan and perform the audit to obtain sufficient and appropriate audit evidence for our opinion. Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud during the audit.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

For a further description of our responsibilities in respect of an audit of financial statements we refer to the website of the professional body for accountants in the Netherlands (NBA)

https://www.nba.nl/Documents/Tools%20Vaktechniek/Standaardpassages/Standaardpassage_nieuwe_controletekst_oob_variant_%20Engels.docx

Amstelveen, 3 April 2017

KPMG Accountants N.V.

M.L.M. Kesselaer RA