

DAIMLER

DAIMLER INTERNATIONAL FINANCE B.V.

Annual Report

31 December 2020

Daimler International Finance B.V.

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Corporate profile

Daimler International Finance B.V. (the “Company”) was incorporated in the Netherlands on April 4, 1986 and is a wholly owned subsidiary of Daimler AG, Stuttgart, Germany. The purpose of the Company is to assist the financing of business activities conducted by companies of the Daimler Group and to provide financial services in connection therewith. The Company’s goal is to mitigate the related market risks, especially interest rate and currency risk, and liquidity risk associated with financial instruments by applying the matched funding principle and by using derivative financial instruments, such as interest rate swaps and foreign exchange swaps.

Given its objectives and strategy, the Company is economically interrelated with the parent company, Daimler AG, Germany. In assessing the general risk profile of the Company, the solvency of the Daimler Group as a whole needs to be considered. The liquidity is assured by managing and monitoring the liquidity position on the basis of a rolling cash flow forecast. The derived funding requirements are secured by a spectrum of various debt instruments issued on the international money and capital market. The debt securities are guaranteed by Daimler AG.

The Financial Statements of the Company have been prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code and comply with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

At the end of 2020, the Company employed 6 people (2019: 6).

Business development

In the year 2020, the Company’s Interest result of euro 30.3 million (2019: euro 16.7 million) was significantly above the prior-year level due to the more efficient capital allocation and the related higher net interest margin. This development was positively affected by a compensation payment from Daimler AG of euro 15.0 million (2019: euro 34.3 million).

The Financial result from foreign currency translation and revaluation of financial instruments slightly declined to an income of euro 1.2 million (2019: euro 1.7 million) in line with market developments. The General administrative expense dropped by 20% to euro 2.2 million in the year 2020 mainly driven by lower personnel expenses and reduced advisory costs related to the maintenance of debt issuance programs.

The Income tax expense of euro 16.5 million (2019: euro 10.9 million) went up primarily due to non-creditable foreign withholding tax. Overall, this results in a Net income of euro 12.8 million, three times higher compared to 2019. The effective tax rate for 2020 was 56.2% (2019: 69.7%).

The Other comprehensive income was comprised of unrealized gains and losses as well as reclassifications from cash flow hedges. Thus, the Company recorded net gains after tax of euro 8.3 million in 2020 in comparison with net gains of euro 3.7 million in the previous year.

The balance sheet total increased compared with December 31, 2019 from euro 20,300 million to euro 21,881 million. This increase of 8% in total assets was primarily due to the extension of funding activities for Daimler Group companies mainly driven by their global leasing and sales-financing business. The Company’s growth of Receivables from Daimler Group companies from euro 18,025 million to euro 20,143 million (without the Inhouse Bank position) was refinanced by cash and a similar rise of Debt securities from euro 19,076 million to euro 20,668 million.

Daimler International Finance B.V.

Annual Management Report

The Company participated as an issuer in Daimler's euro 70 billion Euro Medium Term Note program ("EMTN") and in a Private Placement program for debt financing instruments in the China Interbank Bond Market ("Bond Connect" NAFMII). In 2020, the Company was substituted in place of Daimler AG as the issuer of 3 EUR-denominated bonds in the total amount of euro 2.8 billion and issued 2 bonds under the Private Placement program in the total amount of euro 0.8 billion (2019: 8 bonds under the EMTN program in the total amount of euro 6.4 billion). The outstanding volume under the euro 15 billion multi-currency Commercial Paper program ("CP") amounted to euro 0.3 billion at December 31, 2020 (2019: euro 1.0 billion).

The Company's equity improved compared with December 31, 2019 from euro 539 million to euro 560 million. The positive effect in equity resulted from the Net income of euro 12.8 million and the Other comprehensive income of euro 8.3 million.

The cash flow used for operating activities amounting to euro 1,643 million (2019: euro 3,643 million) was largely influenced by the growth of the Receivables from Daimler Group companies, while the cash flow provided by financing activities of euro 1,643 million (2019: euro 3,643 million) was mainly driven by the related development of the Debt Securities.

Risk and opportunity report

The Company is primarily exposed to financial risks that are directly and indirectly linked to the business development of the Daimler Group and the international financial markets. The Company has aligned its risk and opportunity management system with the Daimler Group to identify business risks and opportunities at an early stage and to assess, control and manage them consequently. This is integrated into the value-based management and planning system of the Daimler Group and is an integral part of the overall planning, management and reporting process in the Company. Standardized rules and procedures are consistently applied in line with the internationally recognized COSO framework for internal control systems. The Company has identified no risks which threaten the going concern status or have a materially adverse impact on its liquidity or capital resources as well as financial performance or position.

The financial management aims to minimize the impact of fluctuations in interest rates and currency rates on the earnings of the Company by matching amounts and maturities (natural hedges) or using derivative financial instruments. The hedging decisions are based on exposure assessments regularly aligned with the internal committees at group level.

The Company manages its liquidity by holding adequate volumes of cash and by applying as far as possible the matched funding principle. In accordance with internal guidelines, this ensures that financial liabilities generally have at least the same maturity profile as the financial assets, and thus reduces the Company's liquidity risk.

The Company's exposure to credit risk is mainly influenced by the Daimler Group related default risk, as the Company solely provides loans to Daimler Group companies which are managed based on internal limit systems and guaranteed by Daimler AG. The credit risk from deposits or financial derivatives are steered based on Daimler's global counterparty limits.

Integrity and compliance

As part of the Daimler organization, the Company has implemented all compliance principles, as set out in binding form in the Group's Integrity Code. This framework contains central corporate principles of behavior that Daimler expects all of its employees and business partners to adhere to out of a sense of conviction. Daimler's goal is to maintain a common understanding of ethical behavior in order to reduce risks and help ensure the Group's sustained success. This also means acting in accordance with laws and regulations within the daily business activities. Among other things, the guideline includes the compliance with anti-corruption regulations, data protection laws, equal treatment rules, sanctions and the prevention of money laundering.

Outlook

The Company is expected to maintain its current core activities and will actively support all major changes in the treasury operation deemed necessary to ensure the sustainable efficiency and effectiveness of financing capital use within the Daimler Group. The business development will go hand in hand with a change in number of interest rate and foreign exchange derivatives.

On February 3, 2021, the Board of Management of Daimler AG decided, with the consent of the Supervisory Board, to examine the spin-off of Daimler Trucks & Buses including significant parts of the related financial services business (Daimler Truck), and to begin preparations for a separate listing of Daimler Truck before the end of 2021. The impact of the spin-off on the Company's business will be regressive but cannot be reliably determined at present.

For the year 2021, the Interest result from the Company's operating activities is expected to evolve in line with the balance sheet development. The changes in the fair value of derivative financial instruments may have another impact on the financial performance of the Company.

In the light of the ongoing spread of COVID-19, the Board of Management has performed an analysis with regard to its potential effects on the Company and its liquidity. The principal risk to the Company is that Daimler AG is unable to meet its commitments to the Company under the terms of the guarantee in situations where group companies are unable to repay loans provided by the Company. Based on the analysis performed, the Board of Management believes that the going concern assumption remains appropriate.

This annual report may contain forward-looking statements based on current expectations of the management. Various known and unknown risks, uncertainties and other factors could lead to considerable differences between the future results, financial situation development and/or performance and the historical results presented. Undue reliance should not be placed on forward-looking statements which speak only as of the date of this report.

Diversity of Board members

The Board of Management and the Supervisory Board are unbalanced since less than 30% of its members are 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 for future appointments of Board members.

Daimler International Finance B.V.
Financial Statements
Statement of Income and Statement of Comprehensive Income/Loss

in euro thousand	Note	2020	2019
Interest income Daimler Group companies		450,938	392,471
Interest income third parties		3,073	6,792
Interest income	3	454,011	399,263
Interest expense Daimler Group companies		-212,279	-217,921
Interest expense third parties		-211,419	-164,673
Interest expense	3	-423,698	-382,594
Interest result	3	30,313	16,669
Other financial income and expense	4	1,181	663
Result from financial transactions	5	-	1,062
Financial result		31,494	18,394
General administrative expense	6	-2,188	-2,731
Income before taxation		29,306	15,663
Income taxes	7	-16,467	-10,910
Net income/loss		12,839	4,753
Other comprehensive income/loss			
Derivative financial instruments			
Unrealized gains/losses (pre-tax)		240,244	-198,177
Reclassifications to profit and loss (pre-tax)		-229,196	203,133
Taxes on unrealized gains/losses and on reclassifications		-2,762	-1,239
Derivative financial instruments (after tax)	13	8,286	3,717
Unrealized revaluation of cash flow hedges charged directly to shareholder's equity		8,286	3,717
Total comprehensive income/loss		21,125	8,470

The Total comprehensive income is attributable to the shareholder of the Company.

Daimler International Finance B.V.
Statement of Financial Position (before appropriation of result)

Assets	Note	31.12.2020	31.12.2019
in euro thousand			
Property, plant and equipment	8	786	881
Receivables from Daimler Group companies	9	11,520,779	9,280,083
Derivative assets	21	328,468	217,063
Deferred tax assets	7	-	918
Total non-current assets		11,850,033	9,498,944
Receivables from Daimler Group companies	9	9,957,621	10,790,436
Derivative assets	21	73,699	9,291
Other assets	7	-	1,034
Cash and cash equivalents	10	37	-
Total current assets		10,031,357	10,800,761
Total assets		21,881,390	20,299,705
Equity and liabilities			
in euro thousand			
Issued capital	11	500	500
Share premium reserve	12	500,000	500,000
Cash flow hedge reserve	13	5,696	-2,590
Retained earnings	14	40,621	35,868
Undistributed income	15	12,839	4,753
Total equity		559,656	538,531
Debt securities	16	17,387,910	16,842,098
Liabilities due to Daimler Group companies	17	127,611	210,355
Derivative liabilities	21	112,689	126,821
Deferred tax liabilities	7	1,843	-
Total non-current liabilities		17,630,053	17,179,274
Debt securities	16	3,280,119	2,233,624
Liabilities due to Daimler Group companies	17	251,599	156,627
Derivative liabilities	21	49,536	120,369
Interest payables and other liabilities	18	110,427	71,280
Total current liabilities		3,691,681	2,581,900
Total equity and liabilities		21,881,390	20,299,705

Daimler International Finance B.V. Statement of Cash Flows

in euro thousand	Note	2020	2019
Net income/loss		12,839	4,753
Adjustments for non-cash items			
Interest income		-454,011	-399,263
Interest expense		423,698	382,594
Other financial income and expense		-1,181	-663
Result from financial transactions		-	-1,062
Income taxes		16,467	10,910
Changes in operating assets and liabilities			
Additions to Receivables from Daimler Group companies		-2,164,798	-21,219,616
Repayment of Receivables from Daimler Group companies		19,885,665	17,528,644
Other liabilities		905	257
Derivative foreign currency received		454,409	500,649
Derivative foreign currency paid		-451,404	-455,355
Interest received		530,052	380,782
Interest paid		-397,572	-363,048
Tax paid		-14,129	-12,497
Cash used for/provided by operating activities		-1,643,060	-3,642,915
Cash used for investing activities		-	-
Change in financing assets and liabilities			
Additions to Debt securities		3,861,532	8,059,297
Repayment of Debt securities		-2,247,129	-4,286,382
Additions to Liabilities due to Daimler Group companies		2,028,694	-
Repayment of Liabilities due to Daimler Group companies		-2,000,000	-130,000
Cash provided by financing activities	19	1,643,097	3,642,915
Net increase/decrease in Cash and cash equivalents		37	-
Cash and cash equivalents at January 1		-	-
Cash and cash equivalents at December 31	10	37	-

Daimler International Finance B.V.
Statement of Changes in Equity

in euro thousand	Issued capital	Share premium reserve	Cash flow hedge reserve	Retained earnings	Undis-tributed income	Total equity
Balance at January 1, 2019	500	500,000	-6,307	32,954	2,914	530,061
Net income/loss	-	-	-	-	4,753	4,753
Other comprehensive income/loss after tax	-	-	3,717	-	-	3,717
Total comprehensive income/loss	-	-	3,717	-	4,753	8,470
Appropriation of results 2018	-	-	-	2,914	-2,914	-
Balance at December 31, 2019	500	500,000	-2,590	35,868	4,753	538,531
Balance at January 1, 2020	500	500,000	-2,590	35,868	4,753	538,531
Net income/loss	-	-	-	-	12,839	12,839
Other comprehensive income/loss after tax	-	-	8,286	-	-	8,286
Total comprehensive income/loss	-	-	8,286	-	12,839	21,125
Appropriation of results 2019	-	-	-	4,753	-4,753	-
Balance at December 31, 2020	500	500,000	5,696	40,621	12,839	559,656

01. Significant accounting policies

General information

The Financial Statements of Daimler International Finance B.V. (the “Company”) have been prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code and comply with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Daimler International Finance B.V. is a private limited company under the laws of the Netherlands. The Company is entered in the Commercial Register of the Chamber of Commerce under No. 30078162 and its registered office is located at Ravenswade 4, Nieuwegein, The Netherlands. The issued share capital is fully owned by the parent company Daimler AG in Stuttgart, Germany. The Supervisory Board comprised the three members: Frank Wetter (chairman), Peter Zirwes and Tim Zech. The purpose of the Company is to assist the financing of business activities conducted by Daimler Group companies and to provide financial services in connection therewith. During the year, the Company employed 6 persons (2019: 6 persons).

The Financial Statements of the Company are presented in euros. Unless otherwise stated, all amounts are reported in thousands of euros. All figures shown are rounded in accordance with standard business rounding principles.

The Board of Management authorized the Financial Statements for issue on April 26, 2021.

Basis of preparation

Applied IFRS

The accounting policies applied in the Financial Statements comply with the IFRS required to be applied in the EU as of December 31, 2020.

IFRS issued, EU endorsed and initially adopted in the reporting period

In the second quarter of 2020, the International Accounting Standards Board published an amendment to IFRS 16 (“Covid-19-Related Rent Concessions”), in which they provide an accounting policy choice to lessees to apply practical relief for rent concessions arising due to the covid-19 pandemic. The Company does not apply this practical expedient for lessees.

IFRS issued but neither EU endorsed nor yet adopted

In August 2020 the IASB published amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16). The amendments address issues related to the application of the reform and its effects on financial reporting for lease contracts, hedges and other financial instruments caused by replacing existing interest rate benchmarks with alternative benchmark rates. Application is mandatory for reporting periods beginning on or after January 1, 2021. The Company has not opted for early adoption and no significant impact is expected.

Presentation

Presentation in the Statement of Financial Position differentiates between current and non-current assets and liabilities. Assets and liabilities are classified as current if they are expected to be realized or settled within one year or within a longer and normal operating cycle. Deferred tax assets and liabilities and similar obligations are generally presented as non-current items. The Statement of Income is presented using the cost-of-sales method.

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Notes to the Financial Statements

Measurement

The Financial Statements have been prepared on the historical-cost basis with the exception of certain items such as financial assets measured at fair value through profit or loss, derivative financial instruments and hedged items. The measurement models applied to those exceptions are described below.

Foreign currency translation

Transactions in foreign currency are translated at the relevant foreign exchange rates prevailing at the transaction date. In subsequent periods, assets and liabilities denominated in foreign currency are translated using period-end exchange rates. The gains and losses from this measurement are recognized in profit and loss (note 4).

Accounting policies

Financial result

The Financial result comprises the Interest result (note 3), the Other financial income and expense (note 4), and the Result from financial transactions (note 5).

The Interest result is the difference between Interest income and Interest expense. The Interest income comprises interest income on funds invested. The Interest expense includes interest expense on borrowings. The Interest income and expense are recognized as they accrue in profit or loss, using the effective interest method.

The Other financial income and expense consists of exchange rate differences of assets and liabilities in foreign currency. Foreign currency gains and losses are reported on a net basis. The Result from financial transactions includes changes in the fair value of financial assets at fair value through profit or loss as well as gains and losses on hedging instruments that are recognized in profit or loss.

Income taxes

The Income taxes (note 7) are comprised of current income taxes and deferred taxes.

Current income taxes are calculated based on the local taxable income and local tax rules for the period. In addition, current income taxes presented for the period include adjustments for uncertain tax payments or tax refunds for periods not yet finally assessed, however, excluding interest expenses and interest refunds and penalties on the underpayment of taxes.

Changes in deferred tax assets and liabilities are generally recognized through profit and loss in deferred taxes in the Statement of Income. Taxes on items directly recognized in equity are likewise recognized in equity instead of the Statement of Income.

Deferred tax assets or liabilities are calculated on the basis of temporary differences between the tax basis and the financial reporting of assets and liabilities. Measurement is based on the tax rates expected to be effective in the period in which an asset is recognized or a liability is settled. For this purpose, the tax rates and tax rules are used which have been substantively enacted at the reporting date or are soon to be enacted. The Company recognizes a valuation allowance for deferred tax assets when it is unlikely that a corresponding amount of future taxable profit will be available against which the deductible temporary differences, tax loss carryforwards and tax credits can be utilized.

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Notes to the Financial Statements

Property, plant and equipment

The Property, plant and equipment (note 8) are measured at acquisition costs less accumulated depreciation. If necessary, accumulated impairment losses are recognized.

Leasing

Leases include all contracts that transfer the right to use a specified asset for a stated period of time in exchange for consideration, even if the right to use such asset is not explicitly described in the contract. The Company is a lessee of real estate property, namely its office.

IFRS 16 introduced a single lessee accounting model, requiring lessees to recognize assets for the right to use as well as leasing liabilities for the outstanding lease payments. This means that as of January 1, 2019 the lease had to be reported in the Statement of Financial Position. *Right-of-use assets*, which are included under Property, Plant and Equipment, are measured at cost less any accumulated depreciation and, if necessary, any accumulated impairment. The cost of a right-of-use asset comprises the present value of the outstanding lease payments plus any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs and an estimate of costs to be incurred in dismantling or removing the underlying asset. In this context, the Company also applies the practical expedient that the payments for non-lease components are generally recognized as lease payments. If the lease transfers ownership of the underlying asset to the lessee at the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the right-of-use asset is depreciated to the end of the useful life of the underlying asset. Otherwise, the right-of-use asset is depreciated to the end of the lease term.

Lease liabilities, which are assigned to Liabilities due to Daimler Group companies (note 17), are measured initially at the present value of the lease payments. Subsequent measurement of a lease liability includes the increase of the carrying amount to reflect interest on the lease liability and reducing (while affecting the Other comprehensive income) the carrying amount to reflect the lease payments made.

According to IFRS 16, the depreciation of right-of-use assets and the lease expenses of leases are recognized within the General administrative expense (note 6). The interest due on the lease liability is a component of interest expense.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability of another entity. Financial instruments in the form of financial assets and financial liabilities are generally presented separately. Financial instruments are recognized as soon as the Company becomes a party to the contractual provisions of the financial instrument. In the case of purchases or sales of financial assets through the regular market, the Company uses the transaction date as the date of initial recognition or de-recognition.

Upon initial recognition, the financial instruments are measured at fair value. For the purpose of subsequent measurement, the financial instruments are allocated to one of the categories mentioned in IFRS 9 Financial Instruments (financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss). Transaction costs directly attributable to acquisition or issuance are considered by determining the carrying amount if the financial instruments are not measured at fair value through profit or loss.

Financial assets

Financial assets primarily comprise the Receivables from Daimler Group companies (note 9) and the Derivative assets (note 21). The classification of financial instruments is based on the business model in which these instruments are held and on their contractual cash flows.

The determination of the business model is made at the portfolio level and is based on management's intention and past transaction patterns. The assessments of the contractual cash flows are made on an instrument by instrument basis.

Financial assets at amortized cost. Financial assets at amortized cost are non-derivative financial assets with contractual cash flows that consist solely of payments of principal and interest on the nominal amount outstanding and which are held with the aim of collecting the contractual cash flows, such as the Receivables from Daimler Group companies or the Cash and cash equivalents (business model "hold to collect"). The intergroup cash position is reflected in the Inhouse Bank position with Daimler AG as the sub-item of the Receivables from Daimler Group companies. Cash and cash equivalents consist of cash at bank accounts which are not part of the Global Payment Platform of Daimler AG. The cash positions correspond with the classification in the Statement of Cash Flows.

After initial recognition, financial assets at amortized cost are subsequently carried at amortized cost using the effective interest method less any loss allowances. Gains and losses are recognized in the Statement of Income when the financial assets at amortized cost are impaired or derecognized. Interest effects on the application of the effective interest method are also recognized in profit or loss as well as effects from foreign currency translation.

Financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss include financial assets with cash flows other than those of principal and interest on the nominal amount outstanding. Furthermore, financial assets that are held in a business model other than "hold to collect" or "hold to collect and sell" are included here. In addition, derivatives, including embedded derivatives separated from the host contract, which are not classified as hedging instruments in hedge accounting, are included here. Gains or losses on these financial assets are recognized in profit or loss.

Financial assets at fair value through other comprehensive income. Financial assets at fair value through other comprehensive income are non-derivative financial assets with contractual cash flows that consist solely of payments of principal and interest on the nominal amount outstanding which are held to collect the contractual cash flows as well as to sell the financial assets, e.g. to achieve a defined liquidity target (business model "hold to collect and sell").

After initial measurement, financial assets at fair value through other comprehensive income are measured at fair value, with unrealized gains or losses being recognized in the Other comprehensive income/loss. Upon disposal of financial assets, the accumulated gains and losses recognized in the Other comprehensive income/loss resulting from measurement at fair value are recognized in profit or loss. Interest earned on financial assets at fair value through other comprehensive income is reported as interest income using the effective interest method.

Impairment of financial assets

IFRS 9 introduced the expected credit loss impairment approach to be applied on all financial assets at amortized cost or at fair value through other comprehensive income. Under IFRS 9, the projections of the future are taken into consideration.

The expected credit loss approach uses three stages for allocating impairment losses:

Stage 1: expected credit losses within the next twelve months

Stage 1 includes all contracts with no significant increase in credit risk since initial recognition and usually includes new acquisitions and contracts with fewer than 31 days past due date. The portion of the lifetime expected credit losses resulting from default events possible within the next 12 months is recognized.

Stage 2: expected credit losses over the lifetime – not credit impaired

If a financial asset has a significant increase in credit risk since initial recognition but is not yet credit impaired, it is moved to Stage 2 and measured at lifetime expected credit loss, which is defined as the expected credit loss that results from all possible default events over the expected life of a financial instrument.

Stage 3: expected credit losses over the lifetime – credit impaired

If a financial asset is defined as credit-impaired or in default, it is transferred to Stage 3 and measured at lifetime expected credit loss. Objective evidence for a credit-impaired financial asset includes 91 days past due date and other information about significant financial difficulties of the borrower.

The determination of whether a financial asset has experienced a significant increase in credit risk is based on external and internal information on the credit quality of the financial asset. The Receivables from Daimler Group companies are mainly guaranteed by Daimler AG (note 22).

In general, an impaired financial asset is written off when there is no reasonable expectation of recovery, for example after insolvency proceedings or a court decision of uncollectibility.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is presented in the Statement of Financial Position provided that an enforceable right currently exists to offset the amounts involved, and there is an intention to carry out the offsetting on a net basis or settle a liability when the related asset is sold.

Financial liabilities

Financial liabilities primarily include the Debt securities (note 16), the Liabilities due to Daimler Group companies (note 17), the Derivative liabilities (note 21) and Other liabilities (note 18).

Financial liabilities measured at amortized cost. After initial recognition, financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial liabilities at fair value through profit or loss. Financial liabilities at fair value through profit or loss include financial liabilities held for trading. Derivatives (including embedded derivatives separated from the host contract) which are not used as hedging instruments in hedge accounting are classified as held for trading. Gains or losses on liabilities held for trading are recognized in profit or loss.

Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments, such as interest rate and cross currency interest rate swaps or forward agreements, exclusively for hedging financial risks that arise from its operating or financing activities. These are mainly interest rate risks and currency risks.

Embedded derivatives are principally separated from the host contract and recognized separately. However, embedded derivatives are not separated from the host contract if that host contract is a financial asset, if the Company chooses to measure a hybrid contract at fair value through profit or loss, or if an analysis shows that the economic characteristics and risks of embedded derivatives are closely related to those of the host contract.

Derivative financial instruments are measured at fair value upon initial recognition and at each subsequent reporting date. The fair value of listed derivatives is equal to their positive or negative market value. If a market value is not available, fair value is calculated using standard financial valuation models such as discounted cash flow or option pricing models. Derivatives are presented as assets if their fair value is positive and as liabilities if the fair value is negative.

If the requirements for hedge accounting set out in IFRS 9 are met, the Company designates and documents the hedge relationship from the date a derivative contract is entered into as a fair value hedge or a cash flow hedge. In a fair value hedge, the changes in the fair value of a recognized asset or liability or an unrecognized firm commitment are hedged. In a cash flow hedge, the variability of cash flows to be received or paid from expected transactions related to a recognized asset or liability or a highly probable forecast transaction is hedged. The documentation of the hedging relationship includes the objectives and strategy of risk management, the type of hedging relationship, the nature of the risk being hedged, the identification of the eligible hedging instrument and the eligible hedged item, as well as an assessment of the effectiveness requirements comprising the risk mitigating economic relationship, the absence of deteriorating effects from credit risk and the appropriate hedge ratio. Hedging transactions are regularly assessed to determine whether the effectiveness requirements are met while they are designated.

Changes in the fair value of derivative financial instruments that are designated in a hedge relationship are recognized periodically in either profit or loss or other comprehensive income, depending on whether the derivative is designated as a hedge of changes in fair value or cash flows. Changes in the fair value of non-designated derivatives are recognized in profit or loss. For fair value hedges, changes in the fair value of the hedged item attributable to the hedged risk and the derivative are recognized in profit or loss. For cash flow hedges, fair value changes in the effective portion of the hedging instrument are recognized after tax in the Other comprehensive income.

Under IFRS 9, with cash flow hedges, amounts recognized in the Other comprehensive income as effective hedging gains or losses from hedging instruments are removed from the reserves for derivative financial instruments and directly included in the initial cost or carrying amount of the hedged item at initial recognition if a hedged forecast transaction results in the recognition of a non-financial asset or non-financial liability.

For other cash flow hedges, the accumulated hedging gains or losses from hedging instruments are reclassified from the reserves for derivative financial instruments to the Statement of Income when the hedged item affects profit or loss. The ineffective portions of fair value changes are recognized directly in profit or loss.

For derivative instruments designated in a hedge relationship, certain components can be excluded from designation and the changes in these components' fair value are then deferred in other comprehensive income under IFRS 9. This applies for example to the time value of options or cross currency basis spreads.

Hedge relationships are to be discontinued prospectively if a particular hedge relationship ceases to meet the qualifying criteria for hedge accounting under IFRS 9. Instances that require discontinuation of hedge accounting are, among others, loss of the economic relationship between the hedged item and the hedging instrument, disposal or termination of the hedging instrument, or a revision of the documented risk management objective of a particular hedge relationship. Accumulated hedging gains and losses from cash flow hedges are retained and are reclassified from equity as described, when hedged cash flows affect profit and loss, if the hedged future cash flows are still expected to occur. Otherwise, accumulated hedging gains and losses are immediately reclassified to profit or loss.

If derivative financial instruments do not or no longer qualify for hedge accounting because the qualifying criteria for hedge accounting are not or are no longer met, the derivative financial instruments are measured at fair value through profit or loss.

Employee benefits

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.

Presentation in the Statement of Cash Flows

The cash flow statement is prepared in accordance with the indirect method and distinguishes between cash flows from operating, investing and financing activities. The changes in the Receivables from Daimler Group companies, the Derivative foreign currency received/paid and the Interest received/paid are classified as cash used for/provided by operating activities. The cash flows from the changes in the Debt securities and the Liabilities due to Daimler Group companies are presented within cash provided by financing activities.

02. Accounting estimates and management judgments

In the Financial Statements, to a certain degree, estimates and management judgments have to be made 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. The major items affected by such estimates and management judgments are described as follows. Actual amounts may differ from the 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, on which the revision has an impact.

In the context of fair value measurement for financial instruments, estimates have to be made to determine the fair values of financial assets and liabilities, especially when no quoted prices in active markets are available. In accordance with the established Daimler Group framework, the Company uses valuation techniques on the basis of the discounted estimated future cash flows by applying appropriate market interest rates and forward exchange rates (note 21).

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The Company regularly estimates the creditworthiness of Daimler Group companies related to the default risk of Daimler AG, even though the Receivables from Daimler Group companies and Debt securities are both guaranteed by Daimler AG. In this context, further factors are taken into consideration, including historical loss experience, size and composition of certain portfolios as well as current and forward-looking economic conditions (note 22).

The calculation of income taxes is based on the legislation and regulations applicable in various countries. Different interpretations can occur especially in connection with the recognition and measurement of balance sheet items as well as in connection with the tax assessment of expenses and income. For the calculation of deferred tax assets, assumptions have to be made regarding future taxable income and the time of realization of the deferred tax assets. In this context, the Company takes into consideration, among other things, the projected earnings from business operations, the effects on earnings of the reversal of taxable temporary differences, and realizable tax strategies. As future business developments are uncertain and are sometimes beyond the Company's control, the assumptions to be made in connection with accounting for deferred tax assets are connected with a substantial degree of uncertainty. On each balance sheet date, the Company carries out impairment tests on deferred tax assets on the basis of the planned taxable income in future financial years; if the Company assesses that the probability of future tax advantages being partially or fully unrealized is more than 50%, the deferred tax assets are impaired (note 7).

The Company applies judgement in presenting related information together in a manner that it considers to be most relevant to an understanding of its financial performance and position.

03. Interest income and expense

The composition of Interest result from financial assets and liabilities is shown in the following:

in euro thousand	2020	2019
Interest income on financial assets at amortized cost	133,090	135,465
Interest income on financial assets included in a hedge relationship	320,204	263,798
Interest income on derivatives not included in a hedge relationship	717	-
Interest income	454,011	399,263
Interest expense on financial liabilities at amortized cost	-81,162	-52,528
Interest expense on financial liabilities included in a hedge relationship	-342,536	-329,970
Interest expense on derivatives not included in a hedge relationship	-	-96
Interest expense	-423,698	-382,594
Interest result	30,313	16,669

The Interest income and expense are split between Daimler Group companies and third parties:

in euro thousand	2020	2019
Interest income Daimler Group companies	450,938	392,471
Interest income third parties	3,073	6,792
Interest income	454,011	399,263
Interest expense Daimler Group companies	-212,279	-217,921
Interest expense third parties	-211,419	-164,673
Interest expense	-423,698	-382,594
Interest result	30,313	16,669

The Interest income from third parties euro 3,073 thousand (2019: euro 6,792 thousand) was mainly earned on amortized discounts from bonds above par and commercial papers with negative interest rates. The Interest expense from third parties euro 211,419 thousand (2019: euro 164,673 thousand) comprised the interest expense due to transactions in debt securities.

The Interest result increased to euro 30,313 thousand (2019: euro 16,669 thousand) in line with the balance sheet development as well as more efficient capital allocation and the related higher net interest margin on the basis of the matched funding principle and hedging strategy of its financing activities. Furthermore, the Company received a compensation payment from Daimler AG of euro 14,960 thousand (2019: euro 34,300 thousand) related to its business model and presented as interest income on financial assets at amortized cost.

04. Other financial income and expense

The Company incurred a minor foreign currency risk on its intergroup cash positions (note 9) which was recognized against the foreign exchange rates applying on the balance sheet date. In 2020, the line item comprised a gain of euro 1,181 thousand (2019: gain of euro 663 thousand) due to exchange rate differences which slightly increased the Financial result.

05. Result from financial transactions

in euro thousand	2020	2019
Ineffective portion of financial instruments included in a hedge relationship	-	-
Revaluation of derivatives not included in a hedge relationship	-	667
Close-out gains of derivative financial instruments	-	395
Result from financial transactions	-	1,062

The Result from financial transactions decreased to euro nil (2019: euro 1,062 thousand), as the revaluation of derivatives not included in a hedge relationship related to forward loans and the one-time close-out gains of derivatives within the previous reporting period ceased to exist.

06. General administrative expense

in euro thousand	2020	2019
Salaries and social security charges	-729	-817
Pension costs – defined contribution plan	-45	-25
Audit and advisory costs	-328	-786
Other general administrative expense	-1,086	-1,103
General administrative expense	-2,188	-2,731

The General administrative expense in total amounted to euro 2,188 thousand in 2020 (2019: euro 2,731 thousand) and consisted of expenses not directly attributable to operating activities, such as personnel expenses, audit and advisory costs, and other general administrative costs.

The personnel expenses comprised salaries and wages in the amount of euro 694 thousand (2019: euro 800 thousand), social contributions in the amount of euro 35 thousand (2019: euro 17 thousand), and pension costs. The average numbers of people employed are shown in the section General Information (note 1). The Remuneration of the members of the Board of Management and the Supervisory Board being active during the periods is shown in note 25.

With reference to section 2:382a (1) and (2) of the Dutch Civil Code, the following audit and advisory costs have been charged by KPMG Accountants N.V. as the auditor of the Company:

in euro thousand	2020	2019
Audit services	-100	-100
Advisory services	-	-
Tax services	-	-

The Other general administrative expense primarily comprised rating costs and legal charges related to the debt issuance program update of euro 512 thousand (2019: euro 521 thousand), non-deductible value-added tax of euro 101 thousand (2019: euro 269 thousand) and housing costs of euro 128 thousand (2019: euro 123 thousand).

07. Income taxes

The following table shows the components of Income taxes:

in euro thousand	2020	2019
Current tax income/expense	-16,467	-10,893
Deferred tax income/expense	-	-17
Income taxes in the Statement of Income	-16,467	-10,910

The reconciliation of the effective tax rate is shown below:

in euro thousand	2020	2019
Income before taxation	29,306	15,663
Income taxes using the domestic corporate tax rate (calculation)	25% -7,309	25% -3,904
Tax benefit/loss related to other periods and other foreign taxes	-12,223	-9,340
Deductible foreign taxes	3,065	2,334
Income taxes in the Statement of Income	-16,467	-10,910
Effective tax rate	56.2%	69.7%

The deferred tax liabilities of euro 1,843 thousand (2019: deferred tax assets of euro 918 thousand) mainly consisted of taxes on unrealized gains or losses and on reclassifications of cash flow hedges within the Other comprehensive income charged with a tax rate of 25% directly to shareholder's equity.

08. Property, plant and equipment

Property, plant and equipment as shown in the Statement of Financial Position with a carrying amount of euro 786 thousand (2019: euro 881 thousand) mainly included right-of-use assets from lessee accounting related to a lease contract with Mercedes-Benz Cars Nederland B.V. for an office space with a non-cancellable term of 10 years and a carrying amount of euro 765 thousand. The remaining duration is 8 years. The lease payment per year is euro 96 thousand.

09. Receivables from Daimler Group companies

in euro thousand	31.12.2020	31.12.2019
Non-current receivables from Daimler Group companies	11,520,779	9,280,083
Current receivables from Daimler Group companies	9,957,621	10,790,436
Receivables from Daimler Group companies	21,478,400	20,070,519

The Receivables from Daimler Group companies increased by euro 1,408 million to a level of euro 21,478 million as per December 31, 2020. In prior years, Daimler decided at group level to concentrate certain of its European non-euro intercompany loan funding to the Netherlands. In 2019, the funding portfolio continued to prosper mainly driven by the growing leasing and sales-financing business of Daimler Group companies. In the most recent reporting period, the Company developed further its funding activities in Europe and globally for the Daimler Group.

The Receivables from Daimler Group companies consisted of 94% (2019: 91%) fixed interest rate loans. The Inhouse Bank position with Daimler AG is described in note 10.

in euro thousand	31.12.2020	31.12.2019
Receivables from Daimler Group companies	20,143,138	18,025,032
Inhouse Bank Daimler AG	1,335,262	2,045,487
Receivables from Daimler Group companies	21,478,400	20,070,519

The Receivables from Daimler Group companies have the following maturity structure:

in euro thousand	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total receivables
31.12.2020	9,957,621	10,960,779	560,000	21,478,400
31.12.2019	10,790,436	9,190,083	90,000	20,070,519

10. Cash and cash equivalents

The Company participates in the Global Payment Platform from Daimler AG. Therefore, the daily available intergroup cash positions are reflected in the Inhouse Bank position with Daimler AG. The total balance is accounted for as Receivable from Daimler Group companies (note 9).

11. Issued capital

The authorized share capital consists of 5,000 ordinary shares with a par value of euro 500 of which 1,000 shares have been called up and fully paid-in. The holder of ordinary shares, Daimler AG, is entitled to execute its rights under the Dutch Civil Code without any restrictions. Since January 1, 2017, there has been no changes in the number of shares outstanding.

12. Share premium reserve

The share premium reserve comprises additional paid-in capital on the issue of the shares. Since January 1, 2017, there has been no changes in this line item.

13. Cash flow hedge reserve

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. This Cash flow hedge reserve is released during the period that the cash flows from the hedged items are realized. The Cash flow hedge reserve is not freely distributable in accordance with the Dutch Civil Code. At December 31, 2020, the Cash flow hedge reserve charged directly to shareholder's equity add up to euro 8.3 million positive (2019: euro 3.7 million positive). The Cash flow hedge reserve is presented in the Statement of Other comprehensive income.

The following table shows the reconciliation of the Cash flow hedge reserve:

in euro thousand	2020	2019
Balance at January 1	-2,590	-6,307
Unrealized gains/losses (pre-tax)		
Foreign currency derivatives	238,247	-198,805
Interest rate derivatives	1,997	628
Reclassifications to profit and loss (pre-tax)		
Foreign currency derivatives	-229,196	203,133
Taxes on unrealized gains/losses and on reclassifications	-2,762	-1,239
Balance at December 31	5,696	-2,590
Unrealized revaluation of cash flow hedges charged directly to shareholder's equity	8,286	3,717

14. Retained earnings

The Retained earnings comprise the accumulated net income and loss of the Company. In addition, the effects of remeasuring the deferred taxes are presented within Retained earnings.

15. Undistributed income

The Board of Management proposes to add the net income for the year 2020 amounting to euro 12.8 million (2019: euro 4.8 million) to the Retained earnings.

16. Debt securities

in euro thousand	31.12.2020	31.12.2019
Total bonds	20,124,255	17,801,499
Non-current bonds	17,143,671	16,575,394
Current bonds	2,980,584	1,226,105
Commercial papers (solely current)	299,535	1,007,519
Promissory-note loan (solely non-current)	244,239	266,704
Debt securities	20,668,029	19,075,722

The Company participated as an issuer in Daimler's euro 70 billion Euro Medium Term Note program ("EMTN") and in a Private Placement program for debt financing instruments in the China Interbank Bond Market ("Bond Connect" NAFMII). In 2020, the Company was substituted in place of Daimler AG as the issuer of 3 EUR-denominated bonds in the total amount of euro 2.8 billion and issued 2 bonds under the Private Placement program in the total amount of euro 0.8 billion (2019: 8 bonds under the EMTN program in the total amount of euro 6.4 billion). Furthermore, the Company participated in the euro 15 billion multi-currency Commercial Paper program ("CP") which supported flexible and broad access to the international money markets.

These Daimler debt issuance programs are based on unconditional and irrevocable guarantees from Daimler AG. The outstanding bonds issued by the Company are either listed on the Luxembourg Stock Exchange or SIX Swiss Exchange or are non-listed.

17. Liabilities due to Daimler Group Companies

in euro thousand	31.12.2020	31.12.2019
Non-current liabilities due to Daimler Group companies	127,611	210,355
Current liabilities due to Daimler Group companies	251,599	156,627
Liabilities due to Daimler Group companies	379,210	366,982

All Liabilities due to Daimler Group companies were based on fixed interest rates.

in euro thousand	31.12.2020	31.12.2019
Liabilities due to Daimler AG	50,368	65,847
Liabilities due to Daimler Nederland B.V.	300,242	300,275
Liabilities due to Mercedes-Benz Argentina S.A.U.	27,835	-
Liabilities due to Mercedes-Benz Cars Nederland B.V.	765	860
Liabilities due to Daimler Group companies	379,210	366,982

18. Interest payables and other liabilities

in euro thousand	31.12.2020	31.12.2019
Interest payables to third parties	108,541	70,656
Other liabilities	1,886	624
Interest payables and other liabilities	110,427	71,280

The Interest payables to third parties were related to the accrued interest from Debt securities.

Other liabilities of euro 1,200 thousand related to taxation and social security premiums.

19. Statement of cash flows

The reconciliation of changes in liabilities arising from financing activities is shown below:

in euro thousand	2020	2019
Cash provided by financing activities	1,643,097	3,642,915
Changes in foreign exchange rates	-254,712	220,526
Fair value changes	220,089	136,385
Other changes	-2,471	-709

20. Contingent liabilities

At December 31, 2020, the Company had no off-balance sheet commitments (2019: euro nil).

21. Financial instruments

Carrying amounts and fair values of financial instruments

The following table shows the carrying amounts and fair values of the respective classes of the Company's financial instruments in accordance with IFRS 9:

Assets	Carrying amount		Fair value	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
in euro thousand				
Derivative assets				
Fair value hedges	375,067	215,650	375,067	215,650
Cash flow hedges	27,100	9,545	27,100	9,545
Other derivative assets	-	1,158	-	1,158
Receivables from Daimler Group Companies	21,478,400	20,070,519	21,784,243	20,314,225
Cash and cash equivalents	37	-	37	-
Total financial assets	21,880,604	20,296,872	22,186,447	20,540,578

Liabilities	Carrying amount		Fair value	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
in euro thousand				
Derivative liabilities				
Fair value hedges	90,804	148,824	90,804	148,824
Cash flow hedges	71,421	78,938	71,421	78,938
Other derivative liabilities	-	19,428	-	19,428
Debt securities	20,668,029	19,075,722	20,794,209	19,243,530
Liabilities due to Daimler Group Companies	379,210	366,982	383,807	370,780
Interest payables and other liabilities	110,427	71,280	110,427	71,280
Total financial liabilities	21,319,891	19,761,174	21,450,668	19,932,780

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

The fair values in the financial asset and liability categories approximate their carrying values, except for Daimler Group receivables with fixed interest rates and non-current debt securities. The fair values of Daimler Group receivables with fixed interest rates are determined on the basis of discounted expected future cash flows. The discounting is based on the current interest rates at which similar loans with identical terms could be obtained at year-end. Non-current debt securities measured at fair value were measured using quoted market prices at year-end. If quoted market prices were not available, the fair value measurement is based on inputs that are either directly or indirectly observable in active markets.

Financial instruments measured at fair value through profit or loss include derivative financial instruments not used in designated hedge relationship. These financial instruments as well as derivative financial instruments used in designated hedge relationship comprise:

- derivative currency hedging contracts; the fair values of cross currency interest rate swaps are determined on the basis of the discounted estimated future cash flows using market interest rates appropriate to the remaining terms of the financial instruments.
- derivative interest rate hedging contracts; the fair values of interest rate swaps are calculated on the basis of the discounted estimated future cash flows using the market interest rates appropriate to the remaining terms of the financial instruments.

Daimler International Finance B.V. Notes to the Financial Statements

Offsetting of financial instruments

The Daimler Group concludes derivative transactions in accordance with the master netting arrangements (framework agreement) of the International Swaps and Derivatives Association (ISDA) and comparable national framework agreements. However, these arrangements do not meet the criteria for offsetting in the Statement of Financial Position, as they allow netting only in case of future events such as default or insolvency on the part of the counterparties.

The following table shows the carrying amounts of the derivative financial instruments and the possible financial effects of netting in accordance with the enforceable netting arrangements:

in euro thousand	31.12.2020		31.12.2019	
	Assets	Liabilities	Assets	Liabilities
Gross amounts (balance sheet)	402,167	-162,225	226,353	-247,190
Possible netting in case of insolvency	-162,225	162,225	-226,353	226,353
Net amount after offsetting	239,942	-	-	-20,837

Measurement hierarchy

The following table provides an overview of the classification into measurement hierarchies for the fair values of the financial assets and liabilities in accordance with IFRS 13:

Assets	31.12.2020			31.12.2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
in euro thousand						
Derivative assets						
Fair value hedges	-	375,067	-	-	215,650	-
Cash flow hedges	-	27,100	-	-	9,545	-
Other derivative assets	-	-	-	-	1,158	-
Receivables from Daimler Group companies	-	21,784,243	-	-	20,314,225	-
Cash and cash equivalents	-	37	-	-	-	-

Liabilities	31.12.2020			31.12.2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
in euro thousand						
Derivative liabilities						
Fair value hedges	-	90,804	-	-	148,824	-
Cash flow hedges	-	71,421	-	-	78,938	-
Other derivative liabilities	-	-	-	-	19,428	-
Debt securities	19,818,919	975,290	-	14,029,571	5,213,959	-
Liabilities due to Daimler Group companies	-	383,807	-	-	370,780	-
Interest payables and other liabilities	-	110,427	-	-	71,280	-

Level 1 inputs are based on quoted prices (unadjusted) in active markets for these or identical assets or liabilities.

Level 2 inputs are based on inputs that are observable on active markets either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 inputs are based on inputs for which no observable market data is available.

At the end of each reporting period, the Company reviews the necessity of reclassification between the measurement hierarchies.

Daimler International Finance B.V. Notes to the Financial Statements

Measurement categories

The carrying amounts of financial instruments according to measurement categories are shown in the table below. The table does not include the carrying amounts of derivative financial instruments used in hedge accounting as these financial instruments are not assigned to a measurement category.

Assets	31.12.2020	31.12.2019
in euro thousand		
Receivables from Daimler Group companies	21,478,400	20,070,519
Cash and cash equivalents	37	-
Total financial assets measured at amortized cost	21,478,437	20,070,519

Liabilities	31.12.2020	31.12.2019
in euro thousand		
Debt securities	20,668,029	19,075,722
Liabilities due to Daimler Group companies	379,210	366,982
Interest payables and other liabilities	110,427	71,280
Total financial liabilities measured at amortized cost	21,157,666	19,513,984

Net gains or losses

The following table shows the net gains and losses on financial instruments included in the Statement of Income and Statement of Comprehensive Income/Loss (excluding revaluation on hedging instruments).

in euro thousand	2020	2019
Financial instruments measured at fair value through profit and loss	-40,283	-54,230
Financial assets measured at amortized cost	456,020	1,568,418
Financial liabilities measured at amortized cost	-613,457	-1,292,661

The net gains or losses on financial instruments measured at fair value through profit or loss comprised the realized interest result from hedging instruments and the revaluation of derivatives not included in a hedge relationship (note 5).

The net gains or losses on financial assets and liabilities measured at amortized cost comprised the effects of interest income and expense (note 3) and currency translation (note 4).

Daimler International Finance B.V.
Notes to the Financial Statements

Information on derivative financial instruments

Use of derivatives

The Company uses derivative financial instruments exclusively for hedging financial risks that arise from its operating or financing activities. These are mainly interest rate and currency risks which were defined as risk categories in accordance with IFRS 9. For these hedging purposes, the Company mainly uses currency forward transactions, cross currency interest rate swaps and interest rate swaps.

The following table shows the amounts for transactions designated as hedging instruments:

in euro thousand	Interest rate risks		Currency risks
	Fair value hedges ¹	Cash flow hedges ¹	Cash flow hedges ²
December 31, 2020			
Carrying amount of the hedging instruments			
Derivative assets non-current	328,071	397	-
Derivative assets current	46,996	86	26,617
Derivative liabilities non-current	73,340	39,349	-
Derivative liabilities current	17,464	20,220	11,852
Fair value changes³	124,712	112,720	125,413
December 31, 2019			
Carrying amount of the hedging instruments			
Derivative assets non-current	215,133	1,929	-
Derivative assets current	518	1,704	5,911
Derivative liabilities non-current	112,185	14,636	-
Derivative liabilities current	36,640	27,986	36,315
Fair value changes³	87,875	-126,706	-71,470

1 includes the following derivative instrument types: interest rate swaps, cross currency interest rate swaps.

2 includes the following derivative instrument types: currency forward transactions.

3 Gains and losses from hedging instruments used for recognizing hedge ineffectiveness.

Daimler International Finance B.V.
Notes to the Financial Statements

Fair value hedges

The Company uses fair value hedges primarily for hedging interest rate risks.

The amounts of the items hedged with fair value hedges are included in the table below:

in euro thousand	Interest rate risks	
	2020	2019
December 31		
Carrying amounts of the hedged items		
Receivables from Daimler Group Companies non-current	6,906,598	6,085,842
Receivables from Daimler Group Companies current	5,035,069	3,429,226
thereof hedge adjustments		
Receivables from Daimler Group Companies non-current	37,839	73,271
Receivables from Daimler Group Companies current	27,628	-34,140
Debt securities current	2,994,651	1,230,055
Debt securities non-current	17,129,604	16,401,256
thereof hedge adjustments		
Debt securities current	22,170	483
Debt securities non-current	272,339	183,620
Fair value changes of the hedged items ¹	-122,601	-87,875
Accumulated amount of hedge adjustments from inactive hedges remaining in the Statement of Financial Position	2,056	4,545
1 Fair value changes of the hedged items used for recognizing hedge ineffectiveness.		

The following table shows the gains and losses on hedging instruments and hedged items which are deemed to be part of a fair value hedge relationship:

in euro thousand	2020	2019
Revaluation on hedging instruments (Foreign currency derivatives)	15,732	-42,107
Revaluation on hedging instruments (Interest rate derivatives)	106,869	129,982
Fair value changes from hedged items attributable to hedged risk	-122,601	-87,875
Ineffective portion of fair value hedges	-	-

Fair value hedge ineffectiveness is recognized in Result from financial transactions (note 5).

Daimler International Finance B.V.
Notes to the Financial Statements

Cash flow hedges

The Company uses cash flow hedges for hedging interest rate and currency risks.

The amounts related to items designated as cash flow hedges are shown in the table below:

in euro thousand	Interest rate risks		Currency risks	
	2020	2019	2020	2019
Fair value changes of the hedged items ¹	114,831	126,706	-125,413	71,470
Balance of the reserves for derivative financial instruments (pre-tax)	7,577	-3,453	-	-

¹ Fair value changes of the hedged items used for recognizing hedge ineffectiveness.

The following table shows the gains and losses on items which are deemed to be part of a cash flow hedge relationship and the amounts relating to cash flow hedge ineffectiveness:

in euro thousand	2020	2019
Revaluation on hedging instruments (Foreign currency derivatives)	238,247	-198,805
Revaluation on hedging instruments (Interest rate derivatives)	1,997	628
Ineffective portion of cash flow hedges	-	-
Unrealized gains/losses (pre-tax)	240,244	-198,177
Reclassifications to profit and loss (pre-tax)	-229,196	203,133
Taxes on unrealized gains/losses and on reclassification	-2,762	-1,239
Unrealized revaluation of cash flow hedges charged directly to shareholder's equity	8,286	3,717

For the reconciliation of the Cash flow hedge reserve see note 13.

Daimler International Finance B.V.
Notes to the Financial Statements

Nominal values of derivative financial instruments

The following table shows the nominal values and fair values of derivative financial instruments entered into for the purpose of hedging interest rate and currency risks that arise from the Company's operating or financing activities.

Assets		31.12.2020		31.12.2019	
in euro thousand	Nominal amount	Fair value	Nominal amount	Fair value	
Interest rate derivatives	13,823,999	288,939	9,941,546	198,193	
thereof fair value hedges	13,223,999	288,884	9,941,546	198,193	
thereof cash flow hedges	600,000	55	-	-	
Foreign currency derivatives	5,741,875	113,228	2,929,788	28,160	
thereof fair value hedges	3,807,094	86,183	1,243,965	17,458	
thereof cash flow hedges	1,934,781	27,045	1,038,042	9,545	
thereof other derivative assets	-	-	647,781	1,158	
Total derivative financial instruments	19,565,874	402,167	12,871,334	226,353	

Liabilities		31.12.2020		31.12.2019	
in euro thousand	Nominal amount	Fair value	Nominal amount	Fair value	
Interest rate derivatives	1,811,447	916	4,741,878	19,054	
thereof fair value hedges	1,311,447	850	3,391,267	17,028	
thereof cash flow hedges	500,000	66	1,350,611	2,026	
thereof other derivative assets	-	-	-	-	
Foreign currency derivatives	4,923,414	161,309	7,153,771	228,136	
thereof fair value hedges	2,660,074	89,954	2,956,719	131,796	
thereof cash flow hedges	2,263,340	71,355	3,862,933	76,912	
thereof other derivative assets	-	-	334,119	19,428	
Total derivative financial instruments	6,734,861	162,225	11,895,649	247,190	

The nominal values of derivative financial instruments have the following maturity structure:

in euro thousand	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total nominal amounts
December 31, 2020				
Nominal amount of the hedging instruments				
Interest rate risks	5,063,434	15,766,775	2,750,000	23,580,209
Fair value hedges	3,923,801	14,328,813	2,750,000	21,002,614
thereof major hedging instruments affected by the interest rate benchmark reform in GBP	-	2,007,719	-	2,007,719
Cash flow hedges	1,139,633	1,437,962	-	2,577,595
Foreign currency risks	2,720,526	-	-	2,720,526
December 31, 2019				
Nominal amount of the hedging instruments				
Interest rate risks	2,774,415	13,712,543	4,164,167	20,651,125
Fair value hedges	1,133,448	12,235,882	4,164,167	17,533,497
thereof major hedging instruments affected by the interest rate benchmark reform in GBP	293,841	1,616,126	-	1,909,967
Cash flow hedges	1,640,967	1,476,661	-	3,117,628
thereof major hedging instruments affected by the interest rate benchmark reform in GBP ¹	282,087	-	-	282,087
Foreign currency risks	3,133,958	-	-	3,133,958

¹ The volumes of risk exposure in cash flow hedges directly affected by the interest rate benchmark reform are generally in line with the reported volumes of the hedging instruments because of the basic hedging ratio of 1. Further information on the benchmark reform is provided in note 22.

Further disclosures of interest rate and currency risk see note 22 under the section *Market risk*.

22. Management of risks

The exposure of the Company can be broken down into financial and non-financial risks.

Risk management framework

During the normal course of its business, the Company is exposed to, especially market risks, interest rate and currency, as well as credit, liquidity and other operational risks. To mitigate the main market risks, derivative financial instruments are used. The Company does not trade speculatively in these derivative financial instruments. The standardized rules and procedures adopted by the Company to cover banking, foreign exchange and other treasury matters are consistent with objectives and policies for financial risk management within the Daimler Group.

Solvency

Given its objectives and strategy, the Company is economically interrelated with the parent company, Daimler AG, Germany. In assessing the general risk profile of the Company, the solvency of the Daimler Group as a whole, headed by Daimler AG, needs to be considered.

Credit risk

Credit risk is the risk of economic loss arising from counterparty's failure to repay or service debt in accordance with the contractual terms. Credit risk encompasses both the direct risk of default and the risk of a deterioration of creditworthiness. The credit risk is regularly monitored and consequently managed based on the defined standards, guidelines and procedures. The Daimler Group has established appropriate credit risk and counterparty limit systems which are continuously reassessed together with their respective utilizations.

The Company solely provides financing within the Daimler Group and concludes derivative financial instruments for hedging risks almost exclusively with Daimler AG.

The Receivables from Daimler Group companies are guaranteed by Daimler AG. The Company receives from Daimler AG the then outstanding amount of such financing minus 1% retention which in any case not exceeds the overall maximum threshold of euro 50 million. As a result, the credit risk of intergroup financial receivables is effectively mitigated towards the default risk related to Daimler AG. The Receivables from Daimler Group companies are attributed to stage 1 in accordance with IFRS 9 (note 9).

The maximum risk positions of financial assets, which are generally subject to credit risk, are equal to their carrying amounts. The following table gives an overview of maximum exposures:

in euro thousand	31.12.2020	31.12.2019
Receivables from Daimler Group companies (incl. Inhouse Bank Daimler AG)	21,478,400	20,070,519
Cash and Cash equivalents	37	-
Derivative assets	402,167	226,353
Gross exposure	21,880,604	20,296,872
Receivables guaranteed by Daimler AG	21,428,400	20,060,519
Residual unguaranteed exposure	452,204	236,353

The Company has recognized no credit defaults in the relevant reporting periods.

Daimler International Finance B.V. Notes to the Financial Statements

Liquidity risk

Liquidity risk comprises the risk that a company cannot meet its financial obligations as they fall due. The Company manages its liquidity by holding adequate volumes of intergroup cash (note 9) 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 thus mitigates the Company's liquidity risk.

The following table provides an overview of how the future liquidity situation of the Company can be affected by the cash flows from liabilities as of December 31, 2020.

in euro thousand ¹	Total	2021	2022	2023	2024	2025	≥2026
Debt securities ²	20,995,228	3,481,898	4,445,508	5,844,191	1,704,314	2,724,942	2,794,375
Liabilities due to Daimler Group companies ²	331,287	201,754	100,589	412	412	28,120	-
Derivative financial instruments ³	154,259	60,878	54,244	22,812	21,627	-5,302	-
thereof with gross settlement	151,558	60,259	47,391	22,158	20,937	813	-
Cash outflows	5,072,758	2,073,439	1,597,469	1,105,270	267,644	28,936	-
Cash inflows	-4,921,200	-2,013,180	-1,550,078	-1,083,112	-246,707	-28,123	-
thereof with net settlement	2,701	619	6,853	654	690	-6,115	-
Cash outflows	8,816	619	6,853	654	690	-	-
Cash inflows	-6,115	-	-	-	-	-6,115	-

1 The amounts were calculated as follows:

- (a) If the counterparty can request payment at different dates, the liability is included on the basis of the earliest date on which the Company can be required to pay.
- (b) The cash flows of floating interest financial instruments are estimated on the basis of forward rates.

2 The stated cash flows of financing liabilities consist of their undiscounted principal and interest payments.

3 The undiscounted sum of the cash flows of the derivative financial liabilities is shown for the respective year.

Daimler AG unconditionally and irrevocably guarantees all debt securities of the Company.

Market risk

The Company is mainly exposed to market risks which comprises interest rate and currency risks. The Company manages market risks to minimize the impact of fluctuations in interest rates and foreign exchange rates on the results. The exposure to these market risks are regularly calculated to provide the basis for hedging decisions which include the selection of hedging instruments and the determination of hedging volumes and the corresponding periods.

Certain existing benchmark interest rates including those of the London Interbank Offer Rate (for USD, GBP, CHF and JPY) will be comprehensively and internationally reformed by the end of 2021. As a result, those interest rates will be gradually abolished and replaced with alternative risk-free reference rates. Alternative interest rates are being developed on a national level in the context of the respective legal systems and currencies; they can therefore vary with regard to their structure, methodology and period of publication.

Despite market uncertainty, the existing benchmark interest rates are still applied as reference rates in financial markets and have an impact on the valuation of financial transactions. This also applies for financial instruments in hedging relationships with a maturity beyond the end of 2021. With EURIBOR reform already implemented, the material share of interest rate risk hedging relationships affected by the benchmark reform is based on the currency GBP.

The nominal values of the affected derivative financial instruments can be found on page 31.

The Company expects the conversion of reference rates of hedging instruments and their underlying transactions to be identical and without material delay in time. The Company continues to consider the economic relationship and thus the continuation of hedge accounting to be still existing as of December 31, 2020.

The effect of the application of the new interest rates on the Financial Statements is currently being reviewed. In order to conduct financial transactions based on the new indices, Daimler is preparing its IT-systems accordingly. Uncertainty still exists about future market standards with interest conventions for individual financial products (cash products and also interest derivatives) that reference the new risk-free rates.

As part of its risk management system, the Daimler Group employs value at risk analyses. In performing these analyses, the Company quantifies its market risk due to changes in interest rates and foreign currency exchange rates on a regular basis by predicting the potential loss over a target time horizon (holding period) and confidence level.

The value at risk calculations employed:

- express potential losses in fair values, and
- assume a 99% confidence level and a holding period of five days.

The Daimler Group calculates the value at risk according to the variance-covariance approach.

Hedge accounting. When designating derivative financial instruments, a hedge ratio of 1 is generally applied. The respective volumes, interest curves and currencies of the hedged item and the hedging instrument as well as maturity dates are matched. In the case of combined derivative financial instruments for interest currency hedges, the cross currency basis spread is not designated into the hedge relationship, but deferred as a hedging cost in Other Comprehensive Income and recognized in profit and loss pro rata over the hedge term. The Company ensures an economic relationship between the underlying transaction and the hedging instrument by ensuring consistency of interest rate, currency, volume and maturity. The effectiveness of the hedge is assessed at the beginning and during the economic relationship using the hypothetical derivative method.

Interest rate risk

The Company's general policy is to mitigate interest rate risk by matching funding in terms of maturities and interest rates wherever economically feasible. Potential interest rate gaps are managed in manner that the portfolio is immunized to a considerable degree against interest rate changes. The Company assesses its interest rate risk position by comparing assets and liabilities for corresponding maturities, including the impact of the relevant derivative financial instruments. An asset and liability committee within the Daimler Group sets targets for the interest rate risk position which are monitored on a monthly basis. In order to achieve the targeted interest rate risk positions in terms of maturities and interest rate fixing periods, the Company also uses derivative financial instruments such as interest rate swaps.

The following table shows the period-end value at risk figures of the interest rate risk for the 2020 and 2019 portfolios of interest rate sensitive financial instruments and derivative financial instruments of the Company. In this respect, the table shows the interest rate risk regarding the unhedged position of interest rate sensitive financial instruments.

Daimler International Finance B.V. Notes to the Financial Statements

in euro thousand	31.12.2020	31.12.2019
Interest rate risk	2,537	1,107

In the course of the year 2020, changes on the value at risk of interest rate sensitive financial instruments were primarily determined by the development of interest rate volatilities.

Currency risk

The objective of the Company is to eliminate currency risk. Therefore, the Company enters into foreign exchange contracts to hedge currency risks as far as cash flows and earnings are not lent on in the same currency (natural hedge). As a result, the Company incurred only limited foreign currency risk from its ordinary debt issuances and intergroup financing activities.

The following table shows the period-end value at risk figures of the exchange rate risk for the 2020 and 2019 portfolios of exchange rate sensitive financial instruments and derivative financial instruments of the Company (including interest payments).

in euro thousand	31.12.2020	31.12.2019
Currency risk	1,373	1,499

The Company mainly incurred a minor currency risk on the intergroup cash position (note 9) which is recognized against the exchange rate applying on the balance sheet date (note 4).

Operating and Compliance risks

The non-financial risks consist of operating risks mainly resulting from the usage of information technology, and compliance risks. The Company uses IT systems to monitor financial positions and daily cash flows, and to process payments to internal and external counterparties. System failures can, therefore, lead to delays in payment processes. Further operating risks can arise in connection with the settlement of financial transactions. The management of daily cash flows at the Company depends on the timely receipt of funds from external institutions who act as counterparties to financial transactions. To avoid negative impacts of system failures, all key systems are set up in parallel and/or backup facilities or available within the Daimler Group.

23. Capital management

The Company's objectives when managing capital at an individual company level are to safeguard its ability to continue as a going concern in order to provide returns for shareholder and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. The Company may issue new shares or adjust the amount of dividends paid to shareholder to steer the capital structure. The Company has no prescribed dividend policy.

The Company's equity, as shown in the Statement of Financial Position, constitutes its capital. The Company maintains its level of capital by reference to its financial obligations and commitments arising from operations requirements. In view of the Company's borrowings or debt, the capital level as at the end of the reporting periods is deemed adequate by the Board of Management. The Company is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management during the relevant years.

24. Related party disclosures

An exchange of internal cooperation between affiliates of a multinational corporation as the Daimler Group is common practice.

Identity of related parties

In its responsibility to assist the financing of business activities conducted by companies of the Daimler Group, Daimler International Finance B.V. applies transfer prices for financial instruments in conformity with external market levels and in accordance with national and international tax requirements (such as arm's length principle, principle of economic allegiance, separate entity approach, Art 9 OECD-MA Rz 126).

Key management personnel

Daimler International Finance B.V. has two directors in the Board of Management who receive compensation from Daimler International Finance B.V. The Company does not have other key management personnel than the Board of Management. Therefore, the details regarding the compensation of key management personnel is described in note 25.

Transactions with Daimler Group companies

Daimler International Finance B.V. obtains funds mainly from the capital markets, and affiliated companies by entering into loan agreements. The debt issuances under the EMTN, the Private Placement and CP programs are unconditionally and irrevocably guaranteed by Daimler AG for which the Company pays a guarantee fee to its parent company. The funds represent currently 98% of the borrowed funds (2019: 98%). The Company also obtained funds from affiliated companies in the amount of euro 328 million (2019: euro 300 million). Together with the Company's equity, all of these funds are made available to Daimler Group companies.

25. Remuneration of the Board of Management and the Supervisory Board

The remuneration for directors, including pension obligations as intended in Section 2:383 of the Dutch Civil Code, which were charged in the financial year to the Company, amounted to euro 0.3 million (2019: euro 0.3 million). These costs were partly recharged for rendered services to other Daimler Group companies. The members of the Supervisory Board did not receive any remuneration in the relevant reporting periods.

26. Events after the reporting period

On February 3, 2021, the Board of Management of Daimler AG decided, with the consent of the Supervisory Board, to examine the spin-off of Daimler Trucks & Buses including significant parts of the related financial services business (Daimler Truck), and to begin preparations for a separate listing of Daimler Truck before the end of 2021. Within the framework of the proposed transaction, Daimler intends to transfer a majority interest in Daimler Truck to its shareholders. Shareholder approval could be granted at an Extraordinary Shareholders' Meeting at the end of the third quarter of 2021. Daimler intends to maintain a minority interest in Daimler Truck.

Subject to the approval of the respective boards, the scope to be spun off is expected to be allocated to discontinued operations as of the third quarter of 2021. The impact of the spin-off on the Company's business will be regressive but cannot be reliably determined at present.

Independent Auditor's Report

The Auditor's Report is shown on the following pages.

Statutory rules as to appropriation of result

Article 13 of the Articles of Association states:

1. The Company's income is wholly at the disposal of the general meeting of shareholder.
2. The Company may only make distributions to the shareholder and other parties entitled to the income 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. The distribution of income 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. The entitlements to income distribution lapse after a period of five years after the date on which they became payable.

Daimler International Finance B.V.
Responsibility Statement

To the best of our knowledge, and in accordance with Part 9 of Book 2 of the Dutch Civil Code and the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), the Financial Statements give a true and fair view of the financial position, cash flows and profit or loss of Daimler International Finance B.V., and the Company's Annual Management Report 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 risks and opportunities associated with the expected development of the Company.

Nieuwegein, April 26, 2021

Daimler International Finance B.V.
The Board of Management

Maarten van Pelt

Volker Lach

Daimler International Finance B.V.
Declaration by the Supervisory Board

- The responsibility for the audit committee function for the Company has been placed and will be executed by the Supervisory Board.
- Pursuant to the Articles of Association, we are pleased to submit the Financial Statements for the year 2020 and 2019 as drawn up by the Board of Management.
- The Financial Statements, which both the Supervisory Board and the Board of Management have signed, has been audited by KPMG Accountants N.V.
- The Independent Auditor's Report is included under the section *Other Information* below.

Nieuwegein, April 26, 2021

Daimler International Finance B.V.
The Supervisory Board

Frank Wetter
Chairman

Peter Zirwes

Tim Zech



Independent auditor's report

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

Report on the audit of the financial statements 2020 included in the annual report

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 2020 and of its result and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the financial statements 2020 of Daimler International Finance B.V. (the Company) based in Utrecht.

The financial statements comprise:

- 1 the statement of financial position as at 31 December 2020;
- 2 the following statements for the year ended 31 December 2020: the income statement, the statements of comprehensive income, changes in equity and cash flows; and
- 3 the notes comprising a summary of the significant 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Audit approach

Summary

Materiality

- Materiality of EUR 90 million
- 0.4% of total assets
- Reporting threshold EUR 4.5 million (5% of materiality)

Key audit matters

- Hedge accounting
- Estimation uncertainty in respect of the valuation of loans and receivables to Group entities
- Assessment of the going concern assumption in light of the potential impact of Covid-19

Opinion

Unqualified

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 90,000,000 (2019: EUR 90,000,000). The materiality is determined with reference to total assets (0.4%). We consider total assets as the most appropriate benchmark 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 therefore focus primarily on the appropriate accounting (including valuation) for these assets. The impact of Covid-19 has had a large impact on markets and businesses globally. However, Covid-19 does not have a significant impact on the financial position of the Company and therefore we do not deem it necessary to change materiality in this respect. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the supervisory board that misstatements in excess of EUR 4,500,000 which are identified during the audit, would be reported, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Our focus on the risk of fraud and non-compliance with laws and regulations

Our objectives

The objectives of our audit with respect to fraud and non-compliance with laws and regulations are:

With respect to fraud:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;



- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate audit responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

With respect to non-compliance with laws and regulations:

- to identify and assess the risk of material misstatement of the financial statements due to non-compliance with laws and regulations; and
- to obtain a high (but not absolute) level of assurance that the financial statements, taken as a whole, are free from material misstatement, whether due to fraud or error when considering the applicable legal and regulatory framework.

The primary responsibility for the prevention and detection of fraud and non-compliance with laws and regulations lies with the Board of Management, with oversight by the Supervisory Board. We refer to the Annual Management report in the Annual Report where the Board of Management included its risk assessment.

Our risk assessment

As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption. We evaluated the fraud risk factors to consider whether those factors indicated a risk of material misstatement due to fraud.

In addition, we performed procedures to obtain an understanding of the legal and regulatory frameworks that are applicable to the Company and we inquired of the Board of Management as to whether the entity is in compliance with such laws and regulations and inspected correspondence, if any, with relevant licensing and regulatory authorities.

The potential effect of the identified laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements, including taxation and financial reporting. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items and therefore no additional audit response is necessary.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have an indirect material effect on amounts recognized or disclosures provided in the financial statements, or both, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an indirect effect:

- rules and regulations of the exchanges upon which the Company's debt is listed
- Anti-bribery and corruption rules
- reporting regulations arising from securities laws in Luxembourg, Switzerland, China.

In accordance with the auditing standard we evaluated the following fraud and non-compliance risk that is relevant to our audit: management override of controls (a presumed risk).



We rebutted the presumed fraud risk on revenue recognition as:

- The entity is primarily a funding entity and revenue solely pertains to interest income on intercompany receivables and income from derivative instruments. There are limited to no pressures on management to achieve revenue or earnings targets.
- The calculation of interest income is non-complex and does not require management judgement or estimation. This limits the opportunity of management to manipulate interest income.
- All new contracts are set up in accordance with terms and conditions set by Daimler AG's central treasury department. New transactions are initiated by DIF but are processed by Daimler AG (which performs back office functions). Therefore there is limited opportunity for management to commit fraud.
- We have not identified any factors which indicate that management possesses a lack of integrity. There are no indicators of unethical practices in the Daimler Treasury function.
- The entity enters into derivative transactions to hedge the interest rate and foreign exchange rate risk on certain transactions. The derivatives are valued at fair value and gains are recorded as income. The quantity element depends on the size of the derivative entered into by management in response to the identified risk. The price is determined with reference to external information which is used to value the derivative instrument. Therefore there is limited opportunity for management to commit fraud.

We communicated the identified risk of fraud and non-compliance with laws and regulations throughout our team and remained alert to any indications of fraud and/or non-compliance throughout the audit.

In all of our audits, we addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by management that may represent a risk of material misstatement due to fraud. We refer to the key audit matters "Estimation Uncertainty in Respect of the Valuation of Loans and Receivables to Group Entities" and "Assessment of the going concern assumption in light of the potential impact of Covid-19", that are examples of our approach related to areas of higher risk due to accounting estimates where management makes significant judgements.

We communicated our risk assessment and audit response to management and the supervisory board. Our audit procedures differ from a specific forensic fraud investigation, which investigation often has a more in-depth character.

Our response

We performed the following audit procedures (not limited) to respond to the assessed risks:

- We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness of internal controls that mitigate fraud risks. In case of internal control deficiencies, where we considered there would be opportunity for fraud, we performed supplemental detailed risk-based testing.



- We performed data analysis of high-risk journal entries and evaluated key estimates and judgements for bias by the Company. Where we identified instances of unexpected journal entries or other risks through our data analytics, we performed additional audit procedures to address each identified risk. These procedures also included testing of transactions back to source information.
- We incorporated elements of unpredictability in our audit.
- We considered the outcome of our other audit procedures and evaluated whether any findings or misstatements were indicative of fraud or non-compliance. If so, we re-evaluated our assessment of relevant risks and its resulting impact on our audit procedures.
- We considered the effect of actual, suspected or identified risk of non-compliance as part of our procedures on the related financial statement items.
- We perform inquiries with the management and perform completeness check of Journal entries to address management override of controls without identification of fraudulent activity.

We do note that our audit is based on the procedures described in line with applicable auditing standards. In addition to the requirements of the auditing standards we have performed the following additional procedures:

- Selection of high risk journal entries
- Including an element of 'unpredictability' in our audit by performing a search for negative news regarding the Company.

We do note that our audit is not primarily designed to detect fraud and non-compliance with laws and regulations and that management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud, including compliance with laws and regulations.

The more distant non-compliance with indirect laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, 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.

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 measurement of the derivatives (fair value) and the hedged item (amortized cost or off balance) in its financial statements. The accounting treatment of derivative 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, assessed the Company's hedge effectiveness testing and verified that the fair value change of the hedged item has been appropriately accounted for. We have assessed each hedge relationship based on the accounting requirements of IFRS 9. We have also assessed whether the disclosure requirements were met in the financial statements.

Our observation

The results of our procedures relating to the Company's application of hedge accounting were satisfactory. We observed that the Company applied hedge accounting and related disclosure requirements in accordance with EU-IFRS.

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 repayment of loans extended to Group companies is guaranteed by Daimler AG above a threshold of EUR 50 million on a portfolio level cumulatively over a three year period ending 31 December 2022. The Company is therefore, besides being dependent on the creditworthiness of the direct counterparty of its loans, dependent on the creditworthiness of Daimler AG as a whole for repayment of loans extended to Group companies. This is highlighted in Note 9 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 loans and receivables extended to other Group entities are recoverable under the terms of the guarantee. To this end we have performed, amongst others, the following procedures with respect to the exposure on Group entities:

— Inspect the audited 2020 financial statements of Daimler AG;



- Inquired with management regarding recent developments in the financial position and cash flows of the 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. In this respect we also refer to the following key audit matter "Assessment of going concern assumption in the light of the potential impact of Covid-19"
- Evaluation of the information from rating agencies Moody's Investor Service, Standard & Poor's Ratings Group and Fitch Ratings with respect to the credit ratings of Daimler AG as at 31 December 2020 and in the subsequent period to the date of this report.
- Perform an assessment of the expected credit loss calculation prepared by management and evaluated its compliance with the requirements of IFRS 9. This included an assessment of whether a significant increase in credit risk since inception had occurred as a result of Covid-19 which could require the basis of the calculation to be adjusted from a one year expected loss model to a lifetime expected loss model.
- Inspect the terms and conditions of the Guarantee Agreement between Daimler AG and the Company in relation to the loans and receivables extended to Group entities.

Our observation

The results of our procedures relating to the valuation of loans and receivables to Group Entities were satisfactory. No issues regarding the recoverability of such loans and receivables were identified.

Assessment of going concern assumption in light of the potential impact of Covid-19

Description

As part of the preparation of the financial statements, management is responsible for assessing the possible effects of Covid-19 on the Company's liquidity and related ability to continue as a going concern and for appropriately disclosing the results of its assessment in the financial statements. The Covid-19 pandemic is an unprecedented challenge for humanity and for the economy globally, and at the date of the financial statements its effects are subject to significant levels of uncertainty. Management prepared a financial and liquidity risk analysis addressing amongst other things the financing and cash requirements to ensure going concern.

Our response

We considered the uncertainties arising from Covid-19 in planning and performing our audit.

Our procedures included, amongst other things:

- consideration of management's assessment of Covid-19 related of risk for the Company's business and financial resources compared with our own understanding of the risks. This includes the consideration of management's plans to take action to mitigate the risks;
- evaluation of the assumptions in respect of projected available future cash flows from operating and financing activities;
- comparison of management's analysis to our assessment of the full range of reasonably possible scenarios resulting from Covid-19 uncertainty;
- inspection of supporting documentation such as contracts, waivers and underlying calculations and correspondence with financing and other relevant parties;



- evaluation of the KPMG Group audit team's assessment performed on the going concern assumption at Daimler AG level, which could impact the ability of the Parent company to meet its commitments under the terms of the guarantee related to the recoverability of intercompany receivables;
- evaluation of the disclosure about liquidity risk and the related going concern assumption, including those in the management report.

Our observation

We found the management's assumptions and aforementioned disclosures to be acceptable. However, an audit cannot predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Covid – 19.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information.

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

- is consistent with the financial statements and does not contain material misstatements; and
- contains the information as required by Part 9 of Book 2 of the Dutch 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 Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

The Board of Management is responsible for the preparation of the other information, including the information as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the Shareholders as auditor of Daimler International Finance B.V, as of the audit for the year 2003 and have operated as statutory auditor ever since that financial year.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audits of public-interest entities.



Description of responsibilities regarding the financial statements

Responsibilities of the Board of Management and the 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 EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Board of Management is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks 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 the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us 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 detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the 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.

A further description of our responsibilities for the audit of the financial statements is included in appendix of this auditor's report. This description forms part of our auditor's report.

Utrecht, 26 April 2021

KPMG Accountants N.V.

S. van Oostenbrugge RA

Appendix:

Description of our responsibilities for the audit of the financial statements



Appendix

Description of our responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board;
- concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern;
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are solely responsible for the opinion and therefore responsible to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial statements. In this respect we are also responsible for directing, supervising and performing the group audit.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audits of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with the Supervisory Board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

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