

DAIMLER CANADA FINANCE INC.

Annual Report 2008

Daimler Canada Finance Inc.- Annual Report 2008

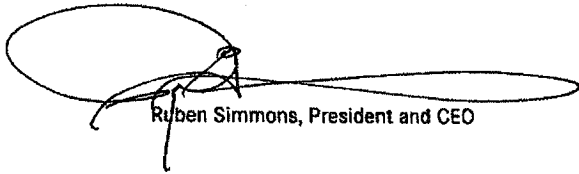
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Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements of Daimler Canada Finance Inc. provide a true and fair view of the assets, liabilities, financial position and profit or loss of the company, and the company's management report provides a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of the company.

Montvale, June 17, 2009



Ruben Simmons, President and CEO



Sandro Ringeling, Chief Accountant

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Management Report

General

Daimler Canada Finance Inc. (“DCFI” or the “Company”) is a wholly-owned subsidiary of Daimler North America Corporation (“DNA”), which is in turn a wholly-owned subsidiary of Daimler AG (“DAG” or “Daimler”).

DCFI accesses Canadian and foreign capital markets to raise funds, which it lends to DAG subsidiaries in Canada through a consolidated funding and cash management system. As such, it has relationships with other subsidiaries of DAG. DAG issued full and unconditional guarantees for DCFI’s obligations incurred under its outstanding notes and bonds programs.

DNA and DCFI are parties to a Keep-Well Agreement. The terms of the agreement provide that DNA will continue to hold all voting shares of the Company, maintain the Company’s net worth at no less than one dollar, and maintain sufficient liquidity in the Company to punctually meet its payment obligations as it deems fit.

The nature of the Daimler operations in Canada includes the distribution of passenger cars purchased from Daimler AG under the brand names Mercedes-Benz, smart and Maybach, and the manufacture, assembly and sale of trucks and other commercial vehicles under the brand names Freightliner, Sterling, Thomas Built Buses, and Orion. Daimler also has financial services operations that principally provide automotive financing to its dealers and their customers, including retail and lease financing for cars and trucks, dealer inventory and other financing needs.

This annual report contains forward looking statements that reflect our current views about future events. Words such as “anticipate,” “assume,” “believe,” “estimate,” “expect,” “intend,” “may,” “plan,” “project,” “should” and similar expressions are being used to identify forward looking statements. These statements are subject to many risks and uncertainties, including:

- a lack of improvement in or a further deterioration of economic conditions globally in general and in Canada in particular;
- a continuation or worsening of the turmoil in the credit and financial markets, which could result in ongoing high borrowing costs or limit our funding flexibility;
- changes in currency exchange rates and interest rates;
- changes in laws, regulations and government policies that may affect the company or any of its sister companies; and
- the business outlook of the Company’s sister companies in Canada, which may affect the funding requirements of such sister companies in the automotive and financial services businesses.

The following discussion should be read in conjunction with the Company’s financial statements as of and for the years ended December 31, 2008 and 2007, which were prepared using International Financial Reporting Standards. Note 1 to the financial statements provides an overview of the Company’s significant account policies.

DNA transferred an 80.1% interest in the Chrysler automotive and financial services businesses to the private-equity firm Cerberus Capital Management L.P. on August 3, 2007. Before that transfer, DCFI was lending funds to the automotive and financial services subsidiaries of Chrysler in Canada, which was stopped subsequent to the transfer. All amounts due to and from Chrysler in Canada were settled in 2007. DCFI had no ownership interest in Chrysler.

Earnings

Revenues

Revenues were \$221.1 million in 2008, a 43% decrease compared to 2007 (\$387.0 million), primarily as a result of discontinued lending of funds to Chrysler subsidiaries in Canada.

Expenses

Interest Expenses

Interest expenses were \$255.8 million in 2008 compared to \$363.3 million in 2007, a 30% decrease. This decrease was the result of a significant reduction in the Company’s outstanding notes and bonds during 2008 as a result of normal maturities and effects from hedge ineffectiveness.

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Administrative and Other Expenses

Administrative and other expenses increased slightly from \$1.7 million in 2007 to \$2.4 million in 2008 as a result of higher consulting fees related to the introduction of a new treasury system.

Other Financial Expense, Net

Other financial expense, net was \$16.4 million in 2008, compared to \$2.6 million in 2007. In both years, other financial expense, net was predominantly comprised of losses on foreign exchange transactions.

Profit (Loss) before Income Taxes

Loss before income taxes amounted to \$53.6 million in 2008, while in 2007 profit before income taxes was \$19.4 million.

Income Tax Benefits (Expenses)

The Company recorded income tax benefits of \$16.5 million in 2008 and income tax expenses of \$6.7 million in 2007.

Net Profit (Loss)

Net loss was \$37.0 million in 2008, compared to a net profit of \$12.7 million in 2007, as the loss before income taxes was only partially offset by income tax benefits.

Financial Position

Total assets were \$4,694 million at December 31, 2008 compared to \$5,683 million at December 31, 2007, a decrease of \$989 million or 17%. The decrease is primarily due to the repayment of notes and bonds in 2008, which reduced cash and cash equivalents, and lower receivables with other companies of the Daimler Group.

Total liabilities also decreased, from \$5,680 million at December 31, 2007 to \$4,671 million at December 31, 2008, mainly reflecting the repayment of notes and bonds in 2008.

Liquidity and Capital Resources

In the ordinary course of business, the Company issues notes and bonds in Canada and Europe. The tightening of the credit markets led to significantly higher borrowing costs in 2008. The Company also enters, as applicable, into intercompany loans with other subsidiaries in the worldwide Daimler Group to optimize funding from a global Daimler perspective.

The funds raised in 2008 and prior years were used mainly to support the lease and sales financing business and the capital expenditure requirements of the industrial business of the Daimler subsidiaries in Canada. Lease and sales financing activities are typically financed with a high proportion of debt.

Cash flows were the following in 2008 and 2007 (in millions of \$):

	2008	2007
Cash provided by operating activities	802	3,524
Cash provided by investing activities	-	-
Cash used in financing activities	(1,380)	(3,403)

Operating net cash inflows were \$802 million in 2008 compared to net cash inflows of \$3,524 million in 2007. In 2007, the Company recorded substantial net cash inflows when intercompany receivables and payables from Chrysler subsidiaries in Canada were settled immediately before the transfer of the 80.1% interest in the Chrysler automotive and financial services businesses by DNA mentioned above.

Cash used in financing activities also significantly declined in 2008 compared to 2007 because the Company had no cash outflows in connection with the repayment of commercial papers in 2008. Furthermore, fewer notes matured in 2008 compared to 2007.

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Risk Report

Many factors could directly and indirectly, through the close affiliation with DCFI's sister companies, affect the Company's business, financial condition, cash flows and results of operations. The principal risks are described below.

Economic Risks

A lack of improvement in economic conditions could have significant adverse effects on the Daimler business in Canada and, as a result, on future operating results and cash flows of the Company. Tightening of credit as a result of the turmoil in the financial industry, the resulting downturn of the Canadian and worldwide economies, and declining debt and equity markets have combined with numerous other factors creating a fear of a severe global recession and have resulted in a significant decline in consumer confidence and resulting declines in investment activity and consumer demand in Canada and worldwide.

Industry Risks

The resulting overcapacity and intense price competition in the automotive industry could continue to force the Daimler companies in Canada, which are financed by DCFI, to decrease production, reduce capacity or increase sales incentives, each of which would be costly and would indirectly affect the financial position and cash flows of the Company significantly.

In addition, the financial services that Daimler offers in connection with the sale of vehicles involve several risks. These include the potential inability to recover the investments in leased vehicles or to collect the sales financing receivables if the resale prices of the vehicles securing these receivables fall short of the carrying value, which may lead to additional funding requirements through DCFI.

Financial Risks

The Daimler business in Canada, and in particular the operations of the Company, are exposed to a variety of market risks, including the effects of changes in exchange rates and interest rates. The Company holds a variety of interest rate sensitive assets and liabilities to manage the liquidity and cash needs of the Daimler operations. Changes in currency exchange rates and interest rates may have substantial adverse effects on the Company's operating results and cash flows. Adverse effects may arise from downgrades of the long-term debt ratings of the Company's ultimate parent company, Daimler AG, and the ability of the Company to issue debt in the Canadian, U.S. and European markets. Lower demand for the Company's debt instruments could increase the borrowing costs or otherwise limit DCFI's ability to fund the Daimler operations in Canada.

Note 13 to the Company's financial statements describes the risk management strategies employed by the Company to address such risks.

Outlook

Management expects the Company to post a net loss in 2009 in the same magnitude as in 2008. Due to further maturities of notes and bonds in 2009, management anticipates a decrease of total assets and liabilities in 2009.



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Independent Auditors' Report

The Board of Directors
Daimler Canada Finance Inc.:

We have audited the accompanying balance sheets of Daimler Canada Finance Inc. (the "Company") as of December 31, 2008 and 2007, and the related statements of income, changes in equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Daimler Canada Finance Inc. as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

KPMG LLP

June 17, 2009

Statements of Income

	Note	Year ended December 31,	
		2008	2007
(in thousands of \$)			
Revenues			
Interest income –affiliated companies		181,160	307,503
Interest income – third parties		39,980	79,469
Total revenues		221,140	386,972
Interest expense – third parties		239,424	328,232
Interest expense – affiliated companies		16,413	35,101
Administrative and other expenses		2,434	1,670
Other financial expense	3	16,422	2,598
Profit (loss) before income taxes		(53,553)	19,371
Income tax benefit (expense)	4	16,509	(6,650)
Net profit (loss)		(37,044)	12,721

The accompanying notes are an integral part of the financial statements.

Balance Sheets

		At December 31,	
	Note	2008	2007
(in thousands of \$)			
Assets			
Receivables from affiliated companies	5	3,056,703	2,153,210
Other financial assets	6	120,616	-
Deferred tax assets	4	24,508	19,831
Total non-current assets		3,201,827	2,173,041
Receivables from affiliated companies	5	897,674	2,374,857
Cash and cash equivalents		537,132	1,114,576
Other financial assets	6	45,682	17,680
Other assets	7	12,019	3,287
Total current assets		1,492,507	3,510,400
Total assets		4,694,334	5,683,441
Equity and liabilities			
Share capital		-	-
Capital reserves		70,000	10,000
Retained earnings (deficit)		4,557	41,601
Cash flow hedges		(50,834)	(48,440)
Total equity	8	23,723	3,161
Payables to affiliated companies	9	467,649	-
Notes and bonds payable	12	2,278,337	2,941,050
Other financial liabilities	10	152,635	116,446
Total non-current liabilities		2,898,621	3,057,496
Provisions and other liabilities		949	1,137
Payables to affiliated companies	9	278,922	205,863
Notes and bonds payable	12	1,428,723	2,299,191
Other financial liabilities	10	63,396	116,593
Total current liabilities		1,771,990	2,622,784
Total liabilities		4,670,611	5,680,280
Total equity and liabilities		4,694,334	5,683,441

The accompanying notes are an integral part of the financial statements.

Statements of Changes in Equity

	Share capital	Capital reserves	Retained earnings	Cash Flow Hedges	Total equity
(in thousands of \$)					
Balance at January 1, 2007	-	10,000	28,880	(57,998)	(19,118)
Net profit	-	-	12,721	-	12,721
Income recognized directly in equity	-	-	-	14,705	14,705
Deferred taxes on income recognized directly in equity	-	-	-	(5,147)	(5,147)
Total profit for period	-	-	12,721	9,558	22,279
Capital contribution	-	-	-	-	-
Balance at December 31, 2007	-	10,000	41,601	(48,440)	3,161
Net loss	-	-	(37,044)	-	(37,044)
Expenses recognized directly in equity	-	-	-	1,903	1,903
Deferred taxes on expenses recognized directly in equity	-	-	-	(4,297)	(4,297)
Total loss for period	-	-	(37,044)	(2,394)	(39,438)
Capital contribution	-	60,000	-	-	60,000
Balance at December 31, 2008	-	70,000	4,557	(50,834)	23,723

The accompanying notes are an integral part of the financial statements.

Statements of Cash Flows

	Year ended December 31,	
	2008	2007
(in thousands of \$) ¹		
Net profit (loss)	(37,044)	12,721
Change in deferred taxes	(8,974)	6,252
Changes in derivative financial instruments	295,987	(35,896)
Amortization of debt issuance costs	1,446	3,453
Accretion of debt premium	(4,445)	(10,242)
Net change in operating receivables and payables from affiliated companies	576,306	3,578,899
Change in other receivables, accruals and other liabilities	(21,161)	(31,409)
Cash provided by operating activities	802,116	3,523,778
Cash provided by investing activities	-	-
Change in short-term financing liabilities	-	(936,002)
Additions to notes and bonds payable	163,052	46,200
Repayment of notes and bonds payable	(2,067,469)	(2,513,161)
Increase in financing payables to affiliated companies	464,855	-
Capital contribution	60,000	-
Cash used in financing activities	(1,379,562)	(3,402,963)
Net increase (decrease) in cash and cash equivalents	(577,444)	120,815
Cash and cash equivalents at the beginning of the period	1,114,576	993,761
Cash and cash equivalents at the end of the period	537,132	1,114,576

¹ For other information regarding the statement of cash flows, see Note 11.

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

1. Summary of Significant Accounting Policies

Description of Business

Daimler Canada Finance Inc. (“DCFI” or the “Company”), is a stock corporation organized under the laws of Quebec, Canada. The Company is a wholly-owned subsidiary of Daimler North America Corporation (“DNA”), which is in turn a wholly-owned subsidiary of Daimler AG (“DAG”). Its registered office is located at 1 Place Ville Marie – 37th Floor, H3B 3P4, Montreal, Quebec, Canada.

DCFI accesses Canadian and foreign capital markets to raise funds, which it lends to DAG subsidiaries in Canada through a consolidated funding and cash management system. As such, it has relationships with companies in the Daimler Group (which consists of Daimler AG and all of its subsidiaries).

In the event of non-payment by DCFI, DAG irrevocably and unconditionally guarantees the noteholders the due payment of the amounts corresponding to the principal of, and interest on the respective notes and bonds payable (see Note 9).

DNA and DCFI are parties to a Keep-Well Agreement. The terms of the agreement provide that DNA will continue to hold all voting shares of the Company, maintain the Company’s net worth at no less than one dollar, and maintain sufficient liquidity in the Company to punctually meet its payment obligations as it deems fit. This agreement is not a guarantee.

The Company commenced operations in 1995 as Daimler-Benz Canada Inc., changed its name to DaimlerChrysler Canada Finance Inc. on January 1, 1999, and then again to Daimler Canada Finance Inc. on December 20, 2007.

Financial Statement Presentation and Measurement

The accompanying financial statements are presented in Canadian dollars (“\$”) and have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and related interpretations as issued by the International Accounting Standards Board.

The Company’s previously issued financial statements were prepared in accordance with generally accepted accounting principles in Canada (“Canadian GAAP”). Note 2 to these financial statements provides a summary of the impact of the adoption of IFRS on the Company’s financial statements.

Presentation in the balance sheets differentiates between current and non-current assets and liabilities. Assets and liabilities are classified as current if they mature within one year. Deferred tax assets and liabilities are presented as non-current items.

The financial statements have been prepared on the historical cost basis with the exception of certain items such as derivative financial instruments or hedged items, which are recognized at fair value. Measurement models applied to those exceptions are described below.

On June 2, 2009, the Board of Directors of DCFI authorized the financial statements for issue.

Use of estimates and judgments

Preparation of the financial statements requires management to make estimates and judgments related to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense for the period. Actual amounts could differ from those estimates. Information about the significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is described in Notes 12 and 13, as it pertains to fair value measurements, and in the financial assets – loans and receivables section below.

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Revenues

Revenues include interest income from receivables from affiliated companies and cash equivalents.

Foreign currency translation

Transactions in foreign currency are translated at the relevant foreign exchange rates prevailing at the transaction date. Subsequent gains and losses from the remeasurement of financial assets and liabilities denominated in foreign currency are recognized in the statement of income in the line "other financial expense."

Income taxes

Current income taxes are determined based on the taxable income of the period and Canadian tax rules. In addition, current income taxes include adjustments for uncertain tax payments or tax refunds for periods not yet assessed as well as interest expense and penalties on the underpayment of taxes. Deferred tax is included in income tax expense and reflects the changes in deferred tax assets and liabilities except for changes recognized directly in equity.

Deferred tax assets or liabilities are determined based on temporary differences between financial reporting and the tax basis of assets and liabilities including differences from loss carry forwards. Measurement is based on the tax rates whose effectiveness is expected for the period in which an asset is realized or a liability is settled. For this purpose, the tax rates and tax rules are used which have been enacted or substantially enacted at the balance sheet date. Deferred tax assets are recognized to the extent that taxable profit at the level of the relevant tax authority will be available for the utilization of the deductible temporary differences. DCFI recognizes a valuation allowance for deferred tax assets when it is not probable that a respective amount of future taxable profit will be available or when DCFI has no control over the tax advantage.

Tax benefits resulting from uncertain income tax positions are recognized at the best estimate of the tax amount expected to be paid.

Financial assets

Financial assets primarily include receivables from affiliated companies, cash and cash equivalents, and derivative financial assets.

Loans and receivables. Receivables from affiliated companies are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are subsequently carried at amortized cost using the effective interest method less any impairment losses, if necessary. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or impaired. Interest effects on the application of the effective interest method are also recognized in profit or loss. At each balance sheet date, the carrying amounts of loans and receivables are evaluated to determine whether there is objective significant evidence of impairment. Through December 31, 2008, no impairment losses on receivables from affiliated companies have been recognized as management does not believe that there has been objective significant evidence of impairment.

Cash and cash equivalents. Cash and cash equivalents consist primarily of cash on hand and bankers' discount notes with an original term of up to three months. Cash and cash equivalents correspond with the classification in the statements of cash flows.

Financial liabilities

Financial liabilities primarily include notes and bonds payable, derivative financial liabilities and miscellaneous other liabilities.

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

Derivative financial instruments and hedge accounting

DCFI uses derivative financial instruments (e.g. forwards and swaps) mainly for the purposes of hedging interest rate and currency risks that arise from its operating and financing activities.

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Derivative financial instruments are measured at fair value upon initial recognition and on each subsequent reporting date. If a market value is not available, fair value is calculated using standard financial valuation models, such as discounted cash flow models. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

If the requirements for hedge accounting set out in International Accounting Standard (“IAS 39”), “Financial Instruments: Recognition and Measurement,” are met, DCFI designates and documents the hedge relationship from the date a derivative contract is entered into either as a fair value hedge or a cash flow hedge. In a fair value hedge, the fair value of a recognized asset or liability or an unrecognized firm commitment is hedged. In a cash flow hedge, the variability of cash flows to be received or paid related to a recognized asset or liability or a highly probable forecasted 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 risk being hedged, the identification of the hedging instrument and the hedged item as well as a description of the method to assess hedge effectiveness. The hedging relationships are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are regularly assessed to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated.

Changes in the fair value of derivative instruments are recognized periodically either in earnings or equity, as a component of other reserves, depending on whether the derivative is designated as a hedge of changes in fair value or cash flows. For fair value hedges, changes in the fair value of the hedged item and the derivative are recognized currently in earnings. For cash flow hedges, fair value changes of the effective portion of the hedging instrument are recognized in other reserves, net of applicable taxes. The ineffective portion of the fair value changes is recognized in profit or loss. Amounts taken to equity are reclassified to the statement of income when the hedged transaction affects the statement of income.

If derivative financial instruments do not or no longer qualify for hedge accounting because the qualifying criteria for hedge accounting are not or no longer met, the derivative financial instruments are classified as held for trading.

Transactions with affiliated companies

DCFI is wholly owned by DNA and indirectly by DAG. Transactions with affiliated companies in the normal course of business are recorded at the agreed upon exchange amount. Financial receivables and payables with affiliated companies are entered at prevailing market terms at the time of the transaction.

2. Adoption of IFRS

These financial statements have been prepared for the first time in accordance with IFRS. In this regard, the accounting policies presented in Note 1 have been applied in preparing the financial statements as of and for the years ended December 31, 2008 and 2007 and in the preparation of an opening IFRS balance sheet at January 1, 2007, the Company’s date of transition to IFRS.

The date of transition to IFRS for DCFI was January 1, 2007. In general, IFRS requires full retrospective application of all standards to be applied as of December 31, 2008. DCFI has taken advantage of exemptions available under the IFRS transitional rules in IFRS 1 “First-time Adoption of International Financial Reporting Standards” to apply certain requirements only with effect from the date of transition.

In particular, DCFI has elected to take advantage of an exemption in IFRS 1 which provides that when a subsidiary becomes a first-time adopter later than its parent, the subsidiary may measure its assets and liabilities at the carrying amounts that would be included in the parent’s consolidated financial statements, based on the parent’s date of transition to IFRS. The date of transition of Daimler AG, DCFI’s ultimate parent company, was January 1, 2005.

There were no measurement differences between Canadian GAAP and IFRS to be accounted for in DCFI’s opening balance sheet as of January 1, 2007, and the years 2007 and 2008. Presentation and disclosure differences between Canadian GAAP and IFRS were considered in the preparation of these financial statements. In particular, IAS 7, “Cash Flow Statements,” requires that loans made by finance companies such as DCFI are to be classified as operating activities, while these activities were presented as investing activities under Canadian GAAP. Under IFRS, the Company also distinguishes between operating and financing liabilities incurred with other Daimler entities, while under Canadian GAAP all changes in liabilities with other Daimler entities were presented as financing activities.

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	2008		2007	
	IFRS	Canadian GAAP	IFRS	Canadian GAAP
(in thousands of \$)				
Cash provided by (used in) operating activities	802,116	225,812	3,523,778	(55,121)
Cash provided by investing activities	-	506,780	-	4,303,851
Cash used in financing activities	(1,379,562)	(1,310,036)	(3,402,963)	(4,127,915)

In addition, the Company did not separately present current and non-current assets under Canadian GAAP, while it presents them separately under IFRS.

3. Other financial expense, net

Other financial expense, net is predominantly comprised of losses on foreign exchange transactions.

4. Income Taxes

Income tax expense (benefit) is comprised of the following components:

	2008	2007
(in thousands of \$)		
Current taxes	(7,535)	398
Deferred taxes	(8,974)	6,252
	(16,509)	6,650

The deferred tax expenses (benefits) are comprised of the following components:

	2008	2007
(in thousands of \$)		
Deferred taxes	(8,974)	6,252
due to temporary differences	(5,114)	6,252
due to tax loss carryforwards and tax credits	(3,860)	-

A reconciliation of expected income tax benefit to actual income tax benefit determined using the applicable Canada combined statutory rate of 30.5% (2007: 32.5%) is included in the following table:

	2008	2007
(in thousands of \$)		
Expected income tax expense (benefit) at Canada statutory rate	(16,334)	6,296
Other	(175)	354
Actual income tax expense (benefit)	(16,509)	6,650

In respect of each type of temporary difference and in respect of each type of unutilized tax losses and unutilized tax credits, the deferred tax assets before offset are summarized as follows:

	December 31,	
	2008	2007
(in thousands of \$)		
Derivative financial instruments	20,648	19,831
Net operating loss carryforwards	3,860	-
Deferred tax assets	24,508	19,831

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In 2008, the increase in deferred tax assets, net amounted to \$4,677 thousand (2007: decrease of \$11,399 thousand) and was composed of:

	2008	2007
(in thousands of \$)		
Deferred tax expense on derivative financial instruments charged or credited directly to related components of shareholders' equity	4,297	5,147
Deferred tax expense (benefit)	(8,974)	6,252

Including the items charged or credited directly to related components of shareholders' equity without an effect on earnings, the expense (benefit) for income taxes consists of the following:

	2008	2007
(in thousands of \$)		
Income tax expense (benefit)	(16,509)	6,650
Cash flow hedges	4,297	5,147
	(12,212)	11,797

DCFI believes that it is more likely than not that due to future taxable income, deferred tax assets can be utilized.

5. Receivables from affiliated companies

DCFI provides financing to certain DAG affiliates mainly in Canada. The following sets forth receivables from affiliates for such financing, including accrued interest and for certain financing provided to DAG:

	December 31,	
	2008	2007
(in thousands of \$)		
DCFS Canada Corp.	2,723,109	2,496,027
Daimler International Finance BV	995,967	-
Mercedes-Benz Canada Inc.	165,929	173,343
DAG	69,372	1,812,446
Daimler Investments US Corporation	-	35,579
Daimler Buses North America, Ltd.	-	10,672
Total	3,954,377	4,528,067

The uncollateralized financing receivables from affiliated companies bear interest at primarily fixed rates ranging from 1.9% to 5.9%, with a weighted average interest rate of 3.8%. Interest income is recorded using the effective interest method. As of December 31, 2008, aggregate annual contractual maturities of receivables from affiliates were as follows:

(in thousands of \$)	
2009	897,674
2010	869,207
2011	2,187,496
Total	3,954,377

DCFI is also responsible for administering a cash management system to efficiently use the financial resources of certain DAG affiliated companies in Canada.

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6. Other financial assets

Other financial assets are comprised of the following:

	December 31, 2008			December 31, 2007		
	Current	Non-current	Total	Current	Non-current	Total
(in thousands of \$)						
Derivative financial instruments used in hedge accounting	8,929	99,681	108,610	-	-	-
Derivative financial instruments at fair value through profit or loss	3,820	20,935	24,755	-	-	-
Other receivables and financial assets	32,933	-	32,933	17,680	-	17,680
Carrying amount	45,682	120,616	166,298	17,680	-	17,680

Other receivables and financial assets are primarily comprised of interest receivables from swaps.

7. Other assets

Other assets are comprised of the following:

	December 31, 2008			December 31, 2007		
	Current	Non-current	Total	Current	Non-current	Total
(in thousands of \$)						
Reimbursements due to income tax refunds	11,691	-	11,691	2,616	-	2,616
Other expected reimbursements	328	-	328	533	-	533
Prepaid expenses	-	-	-	138	-	138
Carrying amount	12,019	-	12,019	3,287	-	3,287

8. Equity

See also the statement of changes in equity.

At December 31, 2008 and 2007, the authorized share capital comprised 1,000 no par value shares, of which 100 shares were issued and outstanding. All issued shares were fully paid up.

On December 30, 2008, DNA contributed \$60,000 thousand in cash to the Company's capital.

9. Payables to affiliated companies

The following table sets forth amounts payable to affiliated companies:

	December 31,	
	2008	2007
(in thousands of \$)		
Daimler International Finance BV	464,855	-
Daimler Trucks Canada Ltd.	230,669	196,547
Daimler Buses North America Ltd.	38,085	-
DAG	7,182	5,298
DNA	5,515	2,634
Mercedes-Benz USA LLC	265	264
DCFS Canada Corp.	-	1,120
Total	746,571	205,863

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Payables to Daimler International Finance B.V., Daimler Trucks Canada Ltd. and Daimler Buses North America Ltd. for use of financial resources bear variable interest. As of December 31, 2008, the weighted average interest rate on these loans was 3.2%. Payables to DNA and DAG for administrative and other allocated fees are short-term and bear no interest.

DCFII is charged fees for the full and unconditional guarantees on its outstanding notes and bonds payable, which are issued under DAG's programs. These fees are calculated as a set percentage of the outstanding notes and bonds for any given year. These expenses were \$1,675 thousand and \$1,354 thousand for the years ended December 31, 2008 and 2007, respectively.

The Company is charged for administrative overhead expenses by DNA. These expenses were approximately \$1,172 thousand and \$863 thousand for the years ended December 31, 2008 and 2007, respectively, and are included in administrative and other expenses.

10. Other Financial Liabilities

Other financial liabilities are comprised of the following:

	December 31, 2008			December 31, 2007		
	Current	Non-current	Total	Current	Non-current	Total
(in thousands of \$)						
Derivative financial instruments used in hedge accounting	-	-	-	56,211	21,926	78,137
Derivative financial instruments at fair value through profit or loss	-	152,635	152,635	-	94,520	94,520
Miscellaneous other financial liabilities	63,396	-	63,396	60,382	-	60,382
Total other financial liabilities	63,396	152,635	216,031	116,593	116,446	233,039

11. Statements of Cash Flows

Cash provided by operating activities includes the following cash flows:

	2008	2007
(in thousands of \$)		
Interest paid	403,509	428,009
Interest received	293,558	464,528
Income taxes paid, net	1,441	1,214

During 2007, DCFII paid off its short-term borrowings balance. These short-term borrowings consisted of commercial paper.

12. Financial Instruments

a) Carrying amounts and fair values of financial instruments

The following table shows the carrying amounts and fair values of the Company's financial instruments. The fair value of a financial instrument is the price at which a party would accept the rights and/or obligations of this financial instrument from another independent party. 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.

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	December 31, 2008		December 31, 2007	
	Carrying amount	Fair Value	Carrying amount	Fair Value
(in thousands of \$)				
Cash and cash equivalents	537,132	537,132	1,114,576	1,114,576
Receivables from affiliated companies ¹	3,954,377	4,097,215	4,528,067	4,541,486
Derivative financial instruments used in hedge accounting	108,610	108,610	-	-
Derivative financial instruments at fair value through profit or loss	24,755	24,755	-	-
Other receivables and financial assets	32,933	32,933	17,680	17,680
Total financial assets	4,657,807	4,800,645	5,660,323	5,673,742
Notes and bonds	3,707,060	3,515,890	5,240,241	5,206,154
Payables to affiliated companies ²	746,571	764,066	205,863	205,863
Other financial liabilities				
Derivative financial instruments used in hedge accounting	-	-	78,137	78,137
Derivative financial instruments at fair value through profit or loss	152,635	152,635	94,520	94,520
Miscellaneous other financial liabilities	63,396	63,396	60,382	60,382
Total financial liabilities	4,669,662	4,495,987	5,679,143	5,645,056

1 of which, in 2008, \$66,911 thousand represent derivatives on receivables from affiliated companies

2 of which, in 2008, \$6,328 thousand represent derivatives on payables to affiliated companies

The carrying amounts of financial instruments presented according to IAS 39 measurement categories are as follows:

	December 31, 2008	December 31, 2007
(in thousands of \$)		
Assets		
Loans and receivables	3,920,399	4,545,747
Financial assets recognized at fair value through profit or loss	200,276	-
Liabilities		
Notes and bonds	3,707,060	5,240,241
Other financial liabilities	216,031	233,039
Total	3,923,091	5,473,280
Of which financial liabilities measured at cost	3,770,456	5,300,623
Of which financial liabilities recognized at fair value through profit or loss	152,635	172,657

The fair values of financial instruments were calculated on the basis of market information available on the balance sheet date using the methods and assumptions presented below.

Cash and cash equivalents. Due to the short terms of these financial instruments, it is assumed that the fair value is equal to the carrying amount.

Other financial assets.

Financial assets recognized at fair value through profit or loss are comprised of derivative financial instruments not used in hedge accounting. For further details on the currency and interest rate hedging contracts see the comments under derivative financial instruments used in hedge accounting.

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Derivative financial instruments used in hedge accounting include:

- Derivative currency hedging contracts. The fair values of currency forwards are determined on the basis of 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 hedging instruments (e.g. interest rate swaps, cross currency 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.

Other receivables and financial assets are comprised of short-term other receivables and short-term loans. These financial instruments are carried at cost. Because of the short maturities of these financial instruments, it is assumed that the fair values approximate the carrying amount.

Receivables from affiliated companies. DCFI intends to hold receivables from related parties to maturity. None of these receivables have been derecognized and the Company does not believe that these receivables are impaired. The fair values of receivables from affiliated companies are calculated as the present values of the estimated future cash flows, using the interest rates set forth in the underlying intercompany loan agreements, which approximate market rates.

Notes and bonds payable. The fair values of notes and bonds payable are calculated as the present values of the estimated future cash flows, discounted using market interest rates, which approximate quoted market prices.

Other financial liabilities. Financial liabilities recognized at fair value through profit or loss include the following:

- Derivative financial instruments not used in hedge accounting. See the explanations above under other financial assets.
- Derivative financial instruments used in hedge accounting. See the explanations above under other financial assets.

Miscellaneous other financial liabilities. Because of the short maturities of these financial instruments, it is assumed that fair value approximates the carrying amount.

Payables to affiliated companies.

The fair values of payables to affiliated companies are calculated as the present values of the estimated future cash flows, using the interest rates set forth in the underlying intercompany loan agreements, which approximate market rates.

b) Net losses

In 2008 and 2007, the net gains (losses) of financial assets and liabilities recognized at fair value through profit/loss included in the income statement (not including derivative financial instruments used in hedge accounting) were \$(25,928) thousand and \$12,005 thousand, respectively.

In addition to amounts attributable to changes in fair value, net gains and losses of financial assets and liabilities recognized at fair value through profit or loss also include the interest income and expenses of these financial instruments.

c) Information on derivative financial instruments

Use of derivatives. DCFI issued notes and bonds payable in several currencies. The Company uses derivative financial instruments such as interest rate swaps for hedging interest risks arising from these notes and bonds. Currency risks arising from the issuance of notes and bonds in currencies other than the Canadian dollar are hedged mainly through currency forward transactions and swaps.

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Fair values of hedging instruments. The table below shows the fair values of hedging instruments:

	December 31, 2008	December 31, 2007
(in thousands of \$)		
Fair value hedges	34,921	(5,728)
Cash flow hedges	73,689	(72,409)

Positive fair values in the table represent assets, while negative fair values represent liabilities.

Fair value hedges. DCFI uses fair value hedges primarily for hedging of interest rate risks.

The changes in fair value of hedging instruments for 2008 and 2007 amounted to \$41,538 thousand and \$(8,514) thousand, respectively. The offsetting changes in the value of underlying transactions amounted to \$(51,335) thousand in 2008 and \$12,655 thousand in 2007. These changes are included in interest expense – third parties in the accompanying statements of income.

These amounts also include the portions of changes in fair value of derivative financial instruments that are excluded from the hedge effectiveness test and the ineffective portions.

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

In 2008 and 2007, net unrealized gains (losses) on the measurement of derivatives (before income taxes) of \$(72,620) thousand and \$(75,015) thousand, respectively, were recognized in equity without affecting earnings. In addition, in 2008 and 2007, net gains (losses) of \$90,899 thousand and \$(165,171) thousand, respectively, were reclassified from equity to interest expense – third parties.

The maturities of the interest rate hedges and currency hedges correspond with those of the underlying transactions. As of December 31, 2008, the Company expects to reclassify losses, net of applicable income taxes, of \$41,470 thousand and \$9,364 thousand to the statement of income in the years 2010 and 2011, respectively.

DCFI utilized derivative instruments with a maximum maturity of 20 months as hedges for currency risks arising from future transactions.

In 2008 and 2007, the Company terminated cross-currency interest rate swaps used in cash flow hedges. The fair values of the interest component of these swaps at the date of termination was \$53,689 thousand and \$22,876 thousand, respectively. The cumulative gain or loss, net of applicable income taxes, on these hedging instruments that had been recognized in other comprehensive income as a result of applying cash flow hedge accounting was \$38,677 thousand and \$11,859 thousand when the hedging instruments were terminated in 2008 and 2007, respectively. The hedged forecasted transactions – foreign-currency denominated interest payments - remain highly probable and, accordingly, these amounts remained in other comprehensive income and are reclassified to the statements of income when those transactions affect the statements of income.

13. Risk Management

General

DCFI is primarily exposed to market risks from changes in interest rates, and, to a smaller degree, to risks from changes in foreign currency exchange rates. The Company is also exposed to liquidity risks relating to its credit and market risks or financial market disturbances.

DCFI applies the guidelines established by its ultimate parent company, Daimler AG, and when necessary, establishes its own guidelines unique to the transactions of the Company. The guidelines are established for risk controlling procedures and for the use of financial instruments, including a clear segregation of duties with regard to operating financial activities, settlement, accounting and controlling of financial instruments. The guidelines, upon which the Company's risk management processes are based, are designed to identify and analyze these risks, to set appropriate risk limits and controls and to monitor the risks by means of reliable and up-to-date administrative and information systems. The guidelines and systems are regularly reviewed and adjusted to changes in markets and products.

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The Company manages and monitors these risks primarily through its operating and financing activities and, if required, through the use of derivative financial instruments. DCFI does not use derivative financial instruments for purposes other than risk management. Without these derivative financial instruments, the Company would be exposed to higher financial risks. Additional information on financial instruments and especially derivatives is included in Note 12. DCFI regularly evaluates its financial risks with due consideration of changes in key economic indicators and up-to-date market information.

Due to the financial market crisis, all risks have increased. DCFI has taken steps to reduce and minimize the impact of the increased risk, which are discussed below.

Credit risk

Credit risk is the risk of economic loss arising from a counterparty's failure to honor the contractual terms of our derivatives transactions. Credit risk encompasses both the direct risk of default and the risk of a deterioration of creditworthiness as well as concentration risks. The Company's assets consist primarily of receivables from related parties. As a result, the Company is exposed to these related parties', and indirectly to its ultimate parent DAG's, intent and ability to effect the repayment of these receivables.

As it pertains to the remaining assets, DCFI manages the credit risk exposure through the diversification of counterparties with the use of a Daimler Group wide limit system based on the review of each counterparty's financial strength. In view of current financial markets movements, DCFI reduced available limits for certain counterparties that were affected by the financial market crisis.

The maximum exposure to credit risk at the reporting date from liquid assets, derivative financial instruments and other receivables and financial assets is equal to the carrying amount of these assets.

Liquid assets. Liquid assets consist of cash and cash equivalents. In connection with the investment of liquid assets, the Company is exposed to credit-related losses to the extent that banks or issuers of securities fail to fulfill their obligations.

With the investment of liquid assets, DCFI selects the banks and issuers of securities very carefully. In line with the Group's risk policy, the predominant part of the liquid assets is in investments with an external rating of A or better.

Derivative financial instruments. Derivative financial instruments comprise derivatives that are either included in hedge accounting or individually valued. DCFI manages the credit risk exposure of the derivative financial instruments through diversification of counterparties by a limit system that is based on the review of each counterparty's financial strength. The counterparties of the derivative financial instruments are mainly international banks. As these counterparties carry high external credit ratings from Standard & Poor's, Moody's or Fitch, the loss potential regarding credit risk is consequently limited.

Receivables from related parties. The Company monitors DAG's liquidity position. DAG's financial statements are publicly available.

Debt ratings are an assessment by the rating agencies of the credit risk associated with DAG and are based on information provided by DAG or other sources. Lower ratings generally result in higher borrowing costs and reduced access to capital markets. Standard & Poor's Rating Services (S&P), Moody's Investors Service, Inc. (Moody's), Fitch Ratings Ltd. (Fitch) and DBRS rate DAG's commercial paper (short-term) and senior unsecured long-term debt (long-term). DAG's ratings as of December 31, 2008 were as follows:

	S&P	Moody's	Fitch	DBRS
Short-term debt	A-2	P-2	F2	R-1(low)
Long-term debt	A-	A3	A-	A (low)

Fitch lowered Daimler AG's long-term rating to BBB+ with a stable outlook on January 29, 2009.

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Liquidity risk

Liquidity risk encompasses the risk that a company cannot meet its financial obligations in full. In view of current financial markets movements, DCFI reduced our policy of available limits for certain counterparties that were affected by the financial market crisis.

DCFI's main sources of liquidity are external and internal borrowings. The funds are primarily used to finance working capital and capital expenditure requirements as well as the cash needs of the lease and financing business of the DNA subsidiaries.

DCFI manages its liquidity by holding adequate volumes of liquid assets and maintaining syndicated credit facilities in addition to the cash inflow generated by its operating business. The liquid assets consist of cash and cash equivalents. The Company maintains a broad variety of other funding sources. Depending on its cash needs and market conditions, it issues bonds, notes and commercial papers in various currencies. Adverse changes in the capital markets could increase DCFI's funding costs and limit the Company's financial flexibility.

From an operating point of view, the management of the Company's liquidity exposures is centralized by a daily cash concentration process. This process enables DCFI to manage its liquidity surplus and liquidity requirements according to the actual needs of the Company and other DAG subsidiaries. The Company's short-term and mid-term liquidity management takes into account the maturities of financial assets and financial liabilities and estimates of cash flows from the operating business.

The liquidity runoff shown in the following table provides an insight into how the liquidity situation of the Company is affected by the cash flows from financial liabilities as of December 31, 2008. It comprises a runoff of the

- undiscounted principal and interest of the notes and bonds payable,
- undiscounted sum of the net cash outflows of the derivative financial instruments for the respective time band, and
- undiscounted payments from other financial liabilities without derivatives.

	Total	2009	2010	2011
(in thousands of \$)				
Notes and Bonds – Principal	3,672,662	1,422,762	1,714,520	535,380
Notes and Bonds – Interest ¹	260,409	136,841	92,784	30,784
Payables to affiliated companies	783,721	300,345	7,824	475,552
Derivative financial instruments	54,666	(91,056)	145,722	-
Other financial liabilities	30,717	30,717	-	-
Total	4,802,175	1,799,609	1,960,850	1,041,716

¹ Interest payments on the notes and bonds are primarily at fixed rates.

The undiscounted cash outflows of this runoff are subject to the following conditions:

- If the counterparty can request payment at different dates, the liability is included on the basis of the earliest date on which DCFI can be required to pay.
- Cash outflows from payables to affiliated companies include interest payments on intercompany loans, which are based on forward rates. The outflows do not include future interest payments on outstanding cash sweep balances as these balances change daily and the interest on these balances, as a result, cannot be determined reliably. The company believes that the interest payments resulting from cash sweep payables are insignificant.
- Besides derivative financial instruments bearing a negative fair value, this analysis also comprises derivative financial instruments with a positive fair value due to the fact that all derivative financial instruments and not necessarily derivative financial instruments of negative fair value only may contain net cash outflows.

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- The cash flows of floating interest financial instruments are estimated on the basis of forward rates.

Finance market risks

The global nature of the Daimler businesses in Canada exposes DCFI to market risks resulting from changes in interest rates and to a minor extent foreign currency exchange rates. Market risks may adversely affect the Company's financial position, cash flows and profitability. DCFI manages and controls market risks primarily through the Company's regular operating and financing activities, but also uses derivative financial instruments when deemed appropriate. Market risks are evaluated by monitoring changes in key economic indicators and market information on an ongoing basis.

DCFI maintains risk management control systems independent of Corporate Treasury and with a separate reporting line.

Interest rate risk. DCFI holds a variety of interest rate sensitive assets and liabilities to manage the liquidity and cash needs of its day-to-day operations. DCFI's general policy is to match funding in terms of maturities and interest rates, where economically feasible. In order to achieve the targeted interest rate risk positions in terms of maturities and interest rate fixing periods, DCFI uses derivative financial instruments (e.g. interest rate swaps). The interest rate risk position is assessed by comparing assets and liabilities for corresponding maturities, including the impact of the relevant derivative financial instruments.