Daimler Finance North America LLC

Annual Report 2018

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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 Finance North America LLC (the Company) 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.

Farmington Hills, MI (USA) April 26, 2019

Rodrigo Garnica	Christoph Rieker
Chief Executive Officer	*Chief Accounting Officer*

Management Report

General

Daimler Finance North America LLC ("DFNA" or the "Company") is a wholly-owned subsidiary of Daimler North America Corporation ("DNA"), which is a wholly-owned subsidiary of Daimler International Nederland B.V. ("DIN"), which is in turn a wholly-owned subsidiary of Daimler AG ("DAG").

DFNA accesses U.S. and foreign capital markets to raise funds, which it lends to DNA 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 DFNA's obligations incurred under its outstanding notes and bonds program and commercial paper program. DFNA and DNA entered into an intercompany loan agreement which is intended to mirror DFNA's external borrowings such that interest expense with third parties is offset by corresponding interest income from DNA.

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

This document contains forward-looking statements that reflect our current views about future events. The words "anticipate," "assume," "believe," "estimate," "expect," "intend," "may," "can," "could," "plan," "project," "should" and similar expressions are used to identify forward-looking statements. These statements are subject to many risks and uncertainties, including:

- an adverse development of global economic conditions, in particular a decline of demand and investment activity in the United States;
- a deterioration of our funding possibilities on the credit and financial markets, which could result in an increase in borrowing costs or limit our funding flexibility;
- changes in currency exchange rates and interest rates;
- changes in laws, regulations and government policies that may affect the Company or any of its sister companies; and
- the business outlook of the Company's sister companies in the United States, which may affect the funding requirements of these companies in the automotive and financial services businesses.

The following discussion should be read in conjunction with the DFNA's financial statements as of and for the years ended December 31, 2018 and 2017, which were prepared using International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Note 3 to the financial statements provides an overview of the Company's significant accounting policies.

The percentages in the following discussion were computed using exact dollar amounts and numbers. Some of those percentages may, therefore, not reflect the ratio between the rounded amounts presented below.

Earnings

Interest Income

Interest income increased to $879,213 in 2018 from $734,368 in 2017, an increase of 20%. The increase was caused by a higher average balance of receivables from related parties and higher interest rates on long term receivables from related parties in 2018 compared to 2017.

Interest Expense

Interest expense increased to $879,213 in 2018 from $734,368 in 2017, an increase of 20%. The increase was caused by a higher average balance of external borrowings and higher interest rates on notes and bonds in 2018 compared to 2017.

Guarantee Fees

Guarantee fees charged by DAG (12.5 bp on outstanding external debt) were $36,890 in 2018, compared to $34,693 in 2017. The Company's outstanding balances of external borrowings were higher on average in 2018 compared to 2017.

Administrative Expenses

Administrative expenses were $4,142 and $3,391 for 2018 and 2017, respectively.

Reimbursement of Expenses from DNA

DFNA and DNA are parties to an agreement where DNA reimburses DFNA for any and all expenses incurred in connection with the administration of DFNA's notes and bonds program and commercial paper program. The reimbursement of net expenses from DNA amounted to $41,032 in 2018 and $38,084 in 2017.

Net Income

Net income was $0 in both 2018 and 2017.

Financial Position

Total assets were $30,668,381 at December 31, 2018 compared to $27,943,104 at December 31, 2017, an increase of $2,725,277 or 10%. The increase is primarily due to issuances of loans to related parties exceeding the repayments of loans to related parties in 2018.

Total liabilities were $30,668,381 at December 31, 2018 compared to $27,943,104 at December 31, 2017, an increase of $2,725,277 or 10%, primarily reflecting the issuances of notes and bonds and commercial paper exceeded the repayments of notes and bonds in 2018.

Liquidity and Capital Resources

In the ordinary course of business, the Company issues notes and bonds and commercial paper in the US and foreign capital markets and lends the proceeds to DNA. In 2018, $9,213,160 new notes and bonds and commercial paper were issued, while there were $6,480,475 new issuances in 2017. The Company had neither cash nor cash equivalents as of December 31, 2018 and 2017.

Risk Report

Many factors could directly and indirectly, through the close affiliation with DAG's affiliated companies, affect the Company's business, financial condition, and cash flows. The results of operations would not be affected due to the existing reimbursement agreements with DNA. The principal risks are described below.

Economic Risk

The escalation of the trade conflict between the United States and China continues to be one of the main risks. But the threat of US tariffs on vehicles and parts imported from other markets, including the European Union, could also affect existing global value chains and have a negative impact on sales opportunities and economic developments. Furthermore, there is a danger that countries will implement increasingly protectionist measures such as specific market-access barriers or industrial policy instruments. Should these trade tensions spread and massively affect global trade, there would be significant impacts on inflation, business climate, consumer confidence and ultimately also on global economic growth.

In the United States, economic and fiscal policy could turn out to be more expansive than previously assumed. These developments would have considerable consequences for the success of the Daimler business in the US. Furthermore, stronger growth in the United States would also have spillover effects on the rest of the world. The disadvantages of such an expansionary fiscal policy are the further worsening of the debt situation in the United States and the risk that inflation will rise more significantly than currently expected, due not least to rising wages and a labor market close to full employment. This would force the Federal Reserve to raise federal funds rates more sharply than expected by the market, which would directly weaken domestic demand. As a further consequence, increasing volatility in the financial markets could adversely affect investor confidence, leading to widespread sales of equities and thus triggering a chain reaction on stock markets, with major market adjustments and phases of exceptional volatility in global financial markets.

Industry Risks

Overcapacity and intense price competition in the automotive industry could force the Daimler companies in the United States, which are financed by DFNA, to decrease production, reduce capacity or increase sales incentives, each of which would be costly and would indirectly affect the financial position 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 their book value (residual value risk), which may lead to additional funding requirements through DFNA.

Financial Risks

Changes in interest rates may have substantial adverse effects on the Company's cash flows. Adverse effects may also arise from downgrades of the long-term debt ratings of the Company's ultimate parent company, DAG, and the ability of the Company to issue debt in the US and European markets. Lower demand for the Company's debt instruments could increase the borrowing costs or otherwise limit DFNA's ability to fund the Daimler operations in the US.

Note 7 to the Company's financial statements describes the risk management strategies employed by the Company to address such risks.

If any of these risks and uncertainties materialize, or if the assumptions underlying any of our forward-looking statements prove incorrect, then our actual results may be materially different from those we express or imply by such statements. We do not intend or assume any obligation to update these forward-looking statements. Any forward looking statement speaks only as of the date on which it is made.

Corporate Governance

Corporate Bodies

As of December 31, 2018, the Company had eight officers and a board of directors which comprised three members. With this segregation, the officers are responsible for managing the day to day operations of the Company while the board of directors advises and monitors the officers.

Compliance

As part of the Daimler organization, the Company has applied all compliance principles the Daimler AG Board of Management has set including an Integrity Code. This Integrity Code is a set of guidelines for behavior defining a binding framework for the actions of all employees worldwide. Among other things, the guidelines define correct behavior in international business and in any cases of conflicts of interest, questions of equal treatment, proscription of corruption, the role of internal control systems and the duty to comply with applicable law as well as other internal and external regulations.

Risk Management and Internal Control

The risk management system is an integral part of the overall planning, controlling and reporting process. Its goal is to enable the Company's management to recognize significant risks at an early stage and to initiate appropriate countermeasures in a timely manner (see note 7).

The officers of the Company are responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined as a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS as issued by the IASB and includes those policies and procedures that (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Accounting Principles

The financial statements of the Company are prepared in accordance with IFRS as issued by the IASB.

Outlook

Management expects net income and equity to be $0 in 2019. This expectation is based on the assumption of a stable economic development and continuation of the Company's business model.

KPMG LLP
Suite 1900
150 West Jefferson
Detroit, MI 48226

Independent Auditors' Report

The Board of Directors
Daimler Finance North America LLC:

We have audited the accompanying financial statements of Daimler Finance North America LLC, which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Daimler Finance North America LLC, as of December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

KPMG LLP

Detroit, Michigan
April 26, 2019

(all amounts in thousands of U.S. dollars)

Statement of Comprehensive Income

		Year ended December 31,	
	Note	**2018**	**2017**
Interest income – related parties		879,213	734,368
Interest expense – third parties		(879,213)	(734,368)
Guarantee fees – DAG	4	(36,890)	(34,693)
Net interest expense		**(36,890)**	**(34,693)**
Administrative expenses	4	(4,142)	(3,391)
Reimbursement of expenses from DNA	4	41,032	38,084
Net income		**-**	**-**
Other comprehensive income		-	-
Total comprehensive income		**-**	**-**

The accompanying notes on pages 13 to 26 are an integral part of the financial statements.

(all amounts in thousands of U.S. dollars)

Statement of Financial Position

		December 31,	
	Note	**2018**	**2017**
Assets			
Receivables from related parties	4	25,374,064	21,129,542
Total non-current assets		**25,374,064**	**21,129,542**
Receivables from related parties	4	5,018,618	6,567,518
Accrued interest income from DNA	4	275,699	246,044
Total current assets		**5,294,317**	**6,813,562**
Total assets		**30,668,381**	**27,943,104**
Equity and liabilities			
Total equity		**-**	**-**
Notes and bonds payable	6	25,374,064	21,129,542
Total non-current liabilities		**25,374,064**	**21,129,542**
Payables to related parties	4	23,498	20,247
Other provisions		-	252
Notes and bonds payable	6	4,496,601	6,547,019
Commercial paper	6	498,519	-
Accrued interest expense	6	275,699	246,044
Total current liabilities		**5,294,317**	**6,813,562**
Total liabilities		**30,668,381**	**27,943,104**
Total equity and liabilities		**30,668,381**	**27,943,104**

The accompanying notes on pages 13 to 26 are an integral part of the financial statements.

Statement of Changes in Equity

	Member's Investment	Retained Earnings	Other Reserves	Total Equity
Balance at January 1, 2017	**-**	**-**	**-**	**-**
Net income	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**-**
Transactions with members directly recognized in equity	-	-	-	-
Balance at December 31, 2017	**-**	**-**	**-**	**-**
Net income	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**-**
Transactions with members directly recognized in equity	-	-	-	-
Balance at December 31, 2018	**-**	**-**	**-**	**-**

The accompanying notes on pages 13 to 26 are an integral part of the financial statements.

(all amounts in thousands of U.S. dollars)

Statement of Cash Flows

		Year ended December 31,	
	Note	**2018**	**2017**
Net income		-	-
Adjustments for			
Non-cash interest expense		30,463	24,814
Changes in			
Receivables from related parties	4	(2,695,622)	(1,006,420)
Payables to related parties	4	3,251	999
Other provisions		(252)	132
Net cash provided by/(used for) operating activities		**(2,662,160)**	**(980,475)**
Net cash provided by/(used for) by investing activities		**-**	**-**
Issuances of notes and bonds payable	6	8,719,279	6,480,475
Issuances of commercial paper	6	493,881	-
Repayments of notes and bonds payable	6	(6,550,000)	(5,500,000)
Repayments of commercial paper	6	(1,000)	-
Net cash provided by/(used for) financing activities		**2,662,160**	**980,475**
Net increase/(decrease) in cash and cash equivalents		**-**	**-**
Cash and cash equivalents at the beginning of the period		**-**	**-**
Cash and cash equivalents at the end of the period		**-**	**-**
Supplemental information:[1]			
Interest paid		(819,095)	(684,480)
Interest received		819,095	684,480

[1] All cash flows from interest are included in cash used in operating activities. The Company does not have any cash flows from income taxes and dividends.

The accompanying notes on pages 13 to 26 are an integral part of the financial statements.

Notes to the Financial Statements

1. General information

Daimler Finance North America LLC ("DFNA" or the "Company") is a limited liability company organized under the laws of Delaware. The Company is a wholly-owned subsidiary of Daimler North America Corporation ("DNA"), which is a wholly-owned subsidiary of Daimler International Nederland B.V. ("DIN"), which is in turn a wholly-owned subsidiary of Daimler AG ("DAG"). The change in parent structure is a direct result of DAG's strategic initiative referred to as "Project Future". Its registered office is located at 1209 Orange Street, Wilmington, Delaware 19801, USA.

DFNA accesses US and foreign capital markets to raise funds, which it lends to DNA through a consolidated funding and cash management system.

In the event of non-payment by DFNA, DAG irrevocably and unconditionally guarantees the debt holders the payment of the amounts corresponding to the principal of, and interest on the respective notes and bonds and commercial paper as they become due. DFNA and DNA entered into intercompany loan agreements which are intended to mirror DFNA's external borrowings such that interest expense with third parties is offset by corresponding interest income from DNA. DFNA has one reportable segment.

The Company's ultimate parent DAG produces consolidated financial statements that are available for public use.

On April 26, 2019, the Board of Directors of DFNA authorized the financial statements for issue.

2. Basis of preparation

(a) Applied IFRS

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(b) IFRSs issued and applied for the first time

DFNA applied IFRS 9 initially for the annual period beginning January 1, 2018. Initial application was made retrospectively except as otherwise provided for in the transition requirements. In accordance with the transition requirements, DFNA did not restate prior periods. There was no difference between the carrying amounts of financial instruments at the end of 2017 and at the beginning of 2018. As such, no difference was recognized in opening retained earnings.

Initial application of IFRS 9 leads to the following major changes:

Classification and measurement of financial assets and financial liabilities

IFRS 9 introduces a comprehensive classification model for financial assets that classifies financial assets into three categories: financial assets at amortized cost, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss. Under IAS 39, financial assets were classified as loans and receivables, available-for-sale financial assets and financial assets at fair value through profit or loss. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on DFNA's accounting policies related to financial assets and liabilities.

The following table shows the measurement categories of financial instruments according to IAS 39 as well as the new measurement categories and carrying amounts of financial instruments according to IFRS 9.

	Measurement categories according to IAS 39	Measurement categories according to IFRS 9	Carrying amount according to IAS 39 at Dec 31, 2017	Carrying amount according to IFRS 9 at Jan 1, 2018
Financial Assets				
Receivables from related parties	Loans and receivables	Amortized cost	27,943,104	27,943,104
Total financial assets			**27,943,104**	**27,943,104**
Financial liabilities				
Notes and bonds payable	Amortized cost	Amortized cost	27,676,561	27,676,561
Other financial liabilities	Amortized cost	Amortized cost	266,291	266,291
Total financial liabilities			**27,942,852**	**27,942,852**

Impairment model based on expected credit losses

IFRS 9 introduces the expected credit loss impairment approach to be applied on all financial assets other than those measured at fair value through profit or loss. Under IAS 39, these instruments were assessed to determine whether there has been objective evidence of impairment. Objective evidence may exist for example if a debtor is facing serious financial difficulties or there is a substantial change in the debtor's technological, economic, legal, or market environment. Incurred losses were recognized as an impairment of financial assets. Under IFRS 9 credit losses are recognized earlier.

Receivables from related parties are considered to have a low credit risk. DFNA considers the 12-month expected credit losses for receivables from related parties as immaterial. For additional information about the impairment of the financial assets please refer to note 3 (d).

(c) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(d) Functional and presentation currency

These financial statements are presented in U.S. dollars ("$"), which is the Company's functional currency. The Company reports the financial information in thousands of U.S. dollars, except where indicated otherwise.

(e) Presentation in the statement of financial position

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 mature within one year.

(f) Accounting estimates and management judgements

The preparation of financial statements requires management to make estimates and judgements that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Management's most important estimates relate to the fair values of the Company's notes and bonds payable and receivables from DNA. Refer to note 6 for additional information.

Estimates and judgements are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and are applied prospectively.

Management judgements

Recoverability of receivables from related parties

At each reporting date, the carrying amounts of receivables from related parties are evaluated to determine whether there is objective significant increase in credit risk since initial recognition. Through December 31, 2018, the credit risk on receivables from related parties has not increased significantly since initial recognition. Therefore, the loss allowance for receivables from related parties would be measured at an amount equal to 12-month expected credit losses. Receivables from related parties are considered to have a low risk of default. Management considers the 12-month expected credit losses for receivables from related parties as immaterial.

Under IAS 39, the receivables from related parties were assessed to determine whether there has been objective evidence of impairment. Incurred losses were recognized as an impairment of the receivable from related parties.

Estimates

Significant areas of estimation uncertainty in applying accounting policies that have the most significant effect on the amounts disclosed in the financial statements relate to the fair value measurements for the Company's financial instruments.

Fair value of financial instruments

The Company measures fair values of its financial instruments using the following hierarchy of methods:

- Quoted market prices in an active market for an identical instrument.
- Valuation techniques based on observable inputs. This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices. For all other financial instruments the Company determines fair values using valuation techniques. In particular, the Company uses widely recognized valuation models for determining the fair value of common and simpler financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment. Observable prices and model inputs are usually available in the market for listed debt securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

3. Summary of significant accounting policies

(a) Interest income and expense

Interest income and expense are recognized in the statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, except future credit losses.

The calculation of the effective interest rate includes all fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

(b) Income taxes

The Company is a single member limited liability company. As such, the Company is not a taxable entity for federal and state income tax purposes. Rather, taxable income or loss is included in its member's federal and state income tax returns and any resulting income taxes are paid by the member.

(c) Transactions with related parties

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

(d) Financial assets

Financial assets consist primarily of receivables from DNA, which arise from intercompany loans. The classification of financial instruments is based on the business model in which these instruments are held and on their contractual cash flows.

Financial assets that give rise to cash flows consisting only of payments of principal and interest are classified in accordance with DFNA's business model for holding these instruments. Financial assets that are held in a business model with the objective to hold them until maturity and collect the contractual cash flows are measured at amortized cost. These business models are managed principally based on interest-rate structure and credit risk.

For the purposes of this assessment, "principal" is defined as the fair value of the financial assets on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time. In assessing whether the contractual cash flows are solely payments of principal and interest, DFNA considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making this assessment, DFNA considers:

- contingent events that would change the amount or timing of cash flows
- terms that may adjust the contractual coupon rate, including variable-rate features
- prepayment and extension features
- terms that limit DFNA's claim to cash flows of specified assets (e.g. non-recourse features)

The determination of the business model is made at the portfolio level and is based on management's intention and past transaction patterns. 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 (business model "hold to collect").

(all amounts in thousands of U.S. dollars)

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 profit or loss 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.

Impairment of financial assets

DFNA recognizes loss allowances for expected credit losses for financial assets other than those to be measured at fair value through profit or loss. The loss allowances for financial assets that are determined to have low credit risk at the reporting date or for which credit risk has not increased significantly since recognition (including receivable from related parties) are measured at 12-month expected credit losses.

When determining if the credit risk of a financial asset has increased significantly DFNA considers reasonable and supportable information that is relevant and available without undue cost or effort, including quantitative and qualitative information based on historical experience and forward-looking information.

DFNA assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

Measurement of expected credit losses

Expected credit losses are measured as the probability-weighted present value of all cash shortfalls over the expected life of each financial asset. 12-months expected credit losses are a portion of expected credit losses that result from default events that are possible within the next 12 months after the reporting date. Expected credit losses are discounted at the effective interest rate of the financial asset.

A financial instrument is written off when there is no reasonable expectation of recovering it in its entirety or a portion thereof, for example at the end of insolvency proceedings or after a court decision of uncollectibility.

(e) Financial liabilities

Financial liabilities include notes and bonds payable, commercial paper, payables to related parties, and accrued interest. New notes and bonds and commercial paper issuances are recognized at fair value based on quoted prices on the day of issuance minus transaction costs, if any. After initial recognition at fair value minus transaction costs, they are subsequently measured at amortized cost using the effective interest method.

4. Transactions with related parties

The following table sets forth amounts receivable from related parties:

	December 31,	
	2018	**2017**
Daimler North America Corporation	30,388,468	27,694,269
Daimler North America Corporation - accrued interest	275,699	246,044
Daimler North America Finance Corporation (DNAF)	4,214	2,791
Total	**30,668,381**	**27,943,104**

(all amounts in thousands of U.S. dollars)

The receivables bear interest at fixed and variable rates ranging from 1.5% to 8.5%, with a weighted average interest rate of 1.89%. Variable rates are re-priced on a 3 month basis. Interest income is recorded using the effective interest method. The Company recorded interest income from DNA of $879,101 in 2018 and $734,327 in 2017. The Company holds cash receivables with DNAF, the US In-House Bank, and recorded interest income of $112 in 2018 and $41 in 2017.

As of December 31, 2018, aggregate annual maturities of receivables from related parties were as follows:

Year	**Amount**
2019	5,294,317
2020	7,540,293
2021	10,277,049
≥2022	7,556,722
Total	**30,668,381**

As of December 31, 2017, aggregate annual maturities of receivables from related parties were as follows:

Year	**Amount**
2018	6,813,562
2019	4,491,554
2020	6,535,565
≥2021	10,102,423
Total	**27,943,104**

The following table sets forth amounts payable to related parties which result from guarantee fees:

	December 31,	
	2018	**2017**
Daimler AG	23,498	20,247
Total	**23,498**	**20,247**

DFNA is charged fees for the full and unconditional guarantees on its outstanding notes and bonds and commercial paper programs by DAG. These fees are calculated as a set percentage of the outstanding notes and bonds and commercial paper at the end of each month at any given year. These guarantee fees were $36,890 and $34,693 for the years ended December 31, 2018 and 2017, respectively.

DFNA is charged for administrative overhead expenses by DNA. These expenses were $4,142 and $3,391 for the years ended December 31, 2018 and 2017, respectively, and are included in administrative expenses in the statement of comprehensive income.

DFNA and DNA are also parties to agreements pursuant to which DNA reimburses DFNA for any and all expenses incurred in connection with the administration of DFNA's notes and bonds and commercial paper programs. These reimbursements are recognized in income.

There are no related party transactions with key management personnel as defined in IAS 24.

(all amounts in thousands of U.S. dollars)

5. Statement of cash flows

In 2018 the changes in liabilities arising from financing activities were as follows.

Financing liabilities	Notes and bonds payable	Commercial Paper	Total
Balance at January 1, 2018[1]	**27,922,605**	**-**	**27,922,605**
Proceeds from Issuance	8,719,279	493,881	9,213,160
Repayments	(6,550,000)	(1,000)	(6,551,000)
Total changes from financing cash flows	**2,169,279**	**492,881**	**2,662,160**
Interest expense	873,575	5,638	879,213
Interest paid	(819,095)	-	(819,095)
Total liability-related other changes	**54,480**	**5,638**	**60,118**
Balance at December 31, 2018[2]	**30,146,364**	**498,519**	**30,644,883**

[1] Notes and bonds payable balance at January 1, 2018 includes accrued interest in the amount of $246,044.
[2] Notes and bonds payable balance at December 31, 2018 includes accrued interest in the amount of $275,699.

In 2017 the changes in liabilities arising from financing activities were as follows.

Liabilities	Notes and bonds payable
Balance at January 1, 2017[1]	**26,892,242**
Proceeds from notes and bonds	6,480,475
Repayments of notes and bonds	(5,500,000)
Total changes from financing cash flows	**980,475**
Interest expense	734,368
Interest paid	(684,480)
Total liability-related other changes	**49,888**
Balance at December 31, 2017[2]	**27,922,605**

[1] Notes and bonds payable balance at January 1, 2017 includes accrued interest in the amount of $220,970.
[2] Notes and bonds payable balance at December 31, 2017 includes accrued interest in the amount of $246,044.

6. Financial instruments

(a) Carrying amounts and fair values of financial instruments

The following table shows the carrying amounts and fair values of the Company's financial instruments. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Given the varying influencing factors, the reported fair values can only be viewed as indicators of the prices that may actually be achieved on the market. The fair values of financial instruments were calculated on the basis of market information available on the balance sheet date.

(all amounts in thousands of U.S. dollars)

	December 31, 2018		December 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets at amortized cost				
Receivables from related parties	30,392,682	30,494,522	27,697,060	28,540,770
Accrued interest income from DNA	275,699	275,699	246,044	246,044
Total financial assets at amortized cost	30,668,381	30,770,221	27,943,104	28,786,814
Total financial assets	**30,668,381**	**30,770,221**	**27,943,104**	**28,786,814**
Financial liabilities carried at amortized cost				
Notes and bonds payable	29,870,665	29,972,505	27,676,561	28,520,403
Commercial paper	498,519	498,519	-	-
Payables to related parties	23,498	23,498	20,247	20,247
Accrued interest expense	275,699	275,699	246,044	246,044
Total financial liabilities carried at amortized cost	30,668,381	30,770,221	27,942,852	28,786,694
Total financial liabilities	**30,668,381**	**30,770,221**	**27,942,852**	**28,786,694**

Financial assets and liabilities not measured at fair value are classified into the following fair value hierarchy:

	December 31, 2018 (IFRS 9)				December 31, 2017 (IAS 39)			
	Total	Level 1[1]	Level 2[2]	Level 3[3]	Total	Level 1[1]	Level 2[2]	Level 3[3]
Financial assets at amortized cost	**30,770,221**	-	30,770,221	-	**28,786,814**	-	28,786,814	-
Financial liabilities carried at amortized cost	**30,770,221**	28,059,728	2,710,493	-	**28,786,694**	27,033,844	1,752,850	-
thereof notes and bonds	**29,972,505**	28,059,728	1,912,777	-	**28,520,403**	27,033,844	1,486,559	-
thereof other financial liabilities	**797,716**	-	797,716	-	**266,291**	-	266,291	-

[1] Fair value measurement based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
[2] Fair value measurement based on inputs for the asset or liability that are observable on active markets either directly (i.e. as prices) or indirectly (i.e. derived from prices).
[3] Fair value measurement based on inputs for the asset or liability that are not observable market data.

The fair values of financial instruments were calculated on the basis of market information available at the reporting date using the methods and assumptions presented below. Due to the short nature of accrued interest income, accrued interest expense, and payables to related parties, management assumes that their fair values are equal to the carrying amounts.

Receivables from related parties

DFNA holds receivables from DNA within a business model whose objective is to collect contractual cash flows. None of these receivables have been derecognized or are impaired, and the Company does not believe that these receivables are at risk of being impaired. The Company believes that the fair value of the receivables from DNA approximates the fair value of the external notes and bonds payable at December 31, 2018 and 2017, as the terms and interest rates of the receivables from DNA are intended to mirror DFNA's external borrowings such that interest expense and debt maturities with third parties are offset by corresponding interest income and loan maturities from DNA.

Notes and bonds payable

When available, the Company uses quoted market prices for its issued identical notes and bonds and classifies such instruments as Level 1 in the fair value hierarchy. If quoted market prices are not available, the fair value of notes and bonds is determined based on internal models calculating present values of the estimated cash flows and using observable inputs such as interest rates for similar types of instruments. Notes and bonds measured using simple proprietary models based on observable inputs are classified as Level 2 in the fair value hierarchy.

Other financial liabilities

Because of the short maturities of these financial instruments, the carrying amount approximates fair value.

(all amounts in thousands of U.S. dollars)

(b) Notes and bonds payable

DFNA's obligations under the notes and bonds program are fully and unconditionally guaranteed by its ultimate parent company, DAG. Contemporaneously, DFNA and DNA entered into an agreement according to which DNA reimburses DFNA for any and all fees incurred by DFNA in the course of the administration of the program. Terms and conditions of notes and bonds payable outstanding at December 31, 2018 are as followed:

US-Dollar Notes and Bonds	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount
Medium Term Note	USD	1.500%	2019	1,500,000	1,499,021
Medium Term Note	USD	Libor+0.74%	2019	250,000	249,915
Medium Term Note	USD	2.250%	2019	750,000	749,324
Medium Term Note	USD	2.250%	2019	500,000	499,638
Medium Term Note	USD	1.750%	2019	1,100,000	1,098,924
Medium Term Note	USD	Libor+0.62%	2019	400,000	399,778
Medium Term Note	USD	2.300%	2020	1,000,000	999,081
Medium Term Note	USD	Libor+0.63%	2020	400,000	399,729
Medium Term Note	USD	2.250%	2020	1,250,000	1,248,433
Medium Term Note	USD	2.125%	2020	400,000	399,140
Medium Term Note	USD	2.125%	2020	100,000	99,996
Medium Term Note	USD	Libor+0.39%	2020	500,000	499,497
Medium Term Note	USD	3.100%	2020	500,000	499,186
Medium Term Note	USD	2.200%	2020	750,000	748,801
Medium Term Note	USD	Libor+0.53%	2020	500,000	499,552
Medium Term Note	USD	2.450%	2020	1,300,000	1,298,215
Medium Term Note	USD	2.700%	2020	850,000	848,663
Medium Term Note	USD	2.300%	2021	1,100,000	1,096,928
Medium Term Note	USD	Libor+0.43%	2021	400,000	399,478
Medium Term Note	USD	3.000%	2021	550,000	548,555
Medium Term Note	USD	Libor+0.45%	2021	400,000	399,428
Medium Term Note	USD	Libor+0.45%	2021	750,000	748,927
Medium Term Note	USD	2.875%	2021	650,000	648,919
Medium Term Note	USD	Libor+0.55%	2021	700,000	698,908
Medium Term Note	USD	3.350%	2021	1,000,000	997,379
Medium Term Note	USD	2.000%	2021	1,250,000	1,248,070
Medium Term Note	USD	3.875%	2021	750,000	746,696
Medium Term Note	USD	2.200%	2021	1,000,000	998,373
Medium Term Note	USD	Libor+0.67%	2021	500,000	499,051
Medium Term Note	USD	3.750%	2021	1,250,000	1,246,336
Medium Term Note	USD	2.850%	2022	850,000	848,026
Medium Term Note	USD	2.850%	2022	250,000	250,950
Medium Term Note	USD	3.350%	2023	675,000	672,409
Medium Term Note	USD	Libor+0.84%	2023	400,000	399,132
Medium Term Note	USD	3.700%	2023	600,000	597,595
Medium Term Note	USD	3.250%	2024	500,000	496,344
Medium Term Note	USD	3.300%	2025	650,000	647,714
Medium Term Note	USD	3.500%	2025	500,000	497,290
Medium Term Note	USD	3.450%	2027	750,000	745,563
Medium Term Note	USD	3.750%	2028	625,000	623,172
Medium Term Note	USD	3.750%	2028	300,000	293,432
Bond	USD	8.500%	2031	1,500,000	1,485,097
Total				**29,950,000**	**29,870,665**

(all amounts in thousands of U.S. dollars)

(c) Commercial paper

In February 2011, DFNA entered into a $3,000,000 private placement of a commercial paper program. The commercial paper balance was $498,519 at December 31, 2018 compared to $0 at December 31, 2017. Fixed interest rates ranged from 2.46% to 2.60% and maturity dates ranged from January 19, 2019 to March 28, 2019. DFNA's obligations under the commercial paper program are fully and unconditionally guaranteed by its ultimate parent company, DAG.

7. Management of financial risks

(a) Introduction

The global nature of the Daimler businesses in the US exposes DFNA indirectly to the risks listed below:

- credit risk
- liquidity risk
- finance market risks

However, the resulting effects of these risks on the Company's financial position, cash flows and profitability are all offset by the existing reimbursement agreements between DFNA and DNA as well as the unconditional guarantee issued by DAG for DFNA's outstanding notes and bonds and commercial paper. As a result, the Company is exposed to DNA's, and indirectly to its ultimate parent DAG's, intent and ability to effect the repayment of these receivables and honor the unconditional guarantee.

This note presents information about the Company's exposure to each of the above risks, and the objectives, policies and processes for measuring and managing risk. As part of its policies and processes for managing and measuring, if necessary, these risks, 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"), the European rating agency Scope Ratings AG ("Scope"), and the Canadian agency DBRS ("DBRS") rate DAG's commercial paper (short-term) and senior unsecured long-term debt (long-term).

DAG's ratings as of December 31, 2018 were as follow:

	S&P	Moody's	Fitch	Scope	DBRS
Short-term debt	A-1	P-1	F2	S-1	R-1(low)
Long-term debt	A	A2	A-	A	A

DAG's ratings as of December 31, 2017 were as follow:

	S&P	Moody's	Fitch	Scope	DBRS
Short-term debt	A-1	P-1	F2	S-1	R-1(low)
Long-term debt	A	A2	A-	A	A

(b) General information on financial risks

DFNA applies the guidelines established by its ultimate parent company, DAG, 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 businesses.

(c) 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 as well as concentration risks.

The Company's assets consist primarily of receivables from DNA. As a result, the Company is exposed to DNA's, and indirectly to its ultimate parent DAG's, intent and ability to effect the repayment of these receivables. The maximum exposure to credit risk at the reporting date from receivables is equal to the carrying amount, which is equal to the total assets of the Company. As part of its policies and processes for managing and measuring, if necessary, the Company's exposure to credit risk, the Company monitors DAG's liquidity position.

(d) Liquidity risk

Liquidity risk encompasses the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities in full when due. DFNA's source of liquidity is its external 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.

Depending on its cash needs and market conditions, DFNA issues bonds and notes and commercial paper in various currencies. Adverse changes in the capital markets could increase DFNA's funding costs and limit the Company's financial flexibility.

In July 2018, DAG successfully concluded negotiations with a consortium of international banks for a new syndicated credit facility with a volume raised from €9 billion to €11 billion. With a term of five years, it grants DAG additional financial flexibility until 2023. The term can be extended to 2025. This facility provides funds for general corporate purposes. Prior approval from DAG is required before the Company can access this credit line. At the end of 2018 and through the issuance date of these financial statements, this facility was not utilized by the Company.

(all amounts in thousands of U.S. dollars)

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 of financial liabilities as of December 31, 2018. It comprises a runoff of the undiscounted contractual principal and interest cash outflows of the financing liabilities and undiscounted payments from other financing liabilities.

	Total	2019	2020	2021	2022	2023	≥ 2024
Notes and bonds – principal	**29,950,000**	4,500,000	7,550,000	10,300,000	1,100,000	1,675,000	4,825,000
Notes and bonds – interest	**4,085,573**	926,539	741,242	541,401	317,464	272,596	1,286,331
Commercial paper	**500,000**	500,000	-	-	-	-	-
Payables to related parties	**23,498**	23,498	-	-	-	-	-
Total	**34,559,071**	**5,950,037**	**8,291,242**	**10,841,401**	**1,417,464**	**1,947,596**	**6,111,331**

The liquidity runoff as of December 31, 2017 is shown in the following table.

	Total	2018	2019	2020	2021	2022	≥ 2023
Notes and bonds – principal	**27,750,000**	6,550,000	4,500,000	6,550,000	5,150,000	1,100,000	3,900,000
Notes and bonds – interest	**3,675,384**	696,672	615,280	459,520	340,849	224,250	1,338,813
Payables to related parties	**20,247**	20,247	-	-	-	-	-
Total	**31,445,631**	**7,266,919**	**5,115,280**	**7,009,520**	**5,490,849**	**1,324,250**	**5,238,813**

Future cash flows for variable rate instruments are estimated using forward rates.

(e) Finance market risks

Finance market risks are the risks that changes in market prices, such as interest rates and foreign exchange rates, will affect the Company's income or the value of its financial instruments. The objective of finance market risks management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The global nature of the Daimler businesses in the US exposes DFNA indirectly to market risks resulting from foreign currency exchange rates and changes in interest rates. However, the resulting effects of these market risks on the Company's financial position, cash flows and profitability are all offset by the existing reimbursement agreements between DFNA and DNA. DFNA maintains risk management control systems independent of Corporate Treasury.

8. Related party relationships

For transactions and balances with other DAG subsidiaries, refer to note 4.

The authority and responsibility for planning, directing and controlling the activities of DFNA resides within DAG's Corporate Treasury and Tax departments rather than with the directors of the entity. Accordingly, the Company does not have key management personnel.

9. Capital management

DFNA is subject to the capital management at the DAG parent level. DAG uses net assets as its basis for capital management. Net assets are managed on a divisional level at DAG rather than at a regional or company level. Accordingly, the net assets of the Company are not subject to review for capital management, but rather are reviewed as part of the net assets of the DAG divisions to which Company net assets are allocated.

The Company is part of the worldwide financial management that is performed for all Daimler Group entities by DAG's Corporate Treasury. Financial management operates within a framework of guidelines, limits and benchmarks; for DFNA, these are described in more detail in note 7.