DAIMLER

DAIMLER INTERNATIONAL FINANCE B.V.

Annual Report

31 December 2019

Daimler International Finance B.V.

Contents

Corporate profile

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

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

The Company decided to initially apply IFRS for the reporting period beginning on January 1, 2019 in accordance with its broadened business role and related transparency requirements. The Financial Statements of the Company have been prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code and comply with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

At the end of 2019, the Company employed 6 people (2018: 5).

Business development

In the year 2019, the Company's Interest result of euro 16.7 million (2018: euro 4.9 million) was significantly above the prior-year level. This development was positively affected by a compensation payment from Daimler AG of euro 34.3 million (2018: euro 6.0 million).

The Financial result from foreign currency translation and revaluation of financial instruments improved to an income of euro 1.7 million (2018: nil) in line with market developments. The General administrative expense rose to euro 2.7 million in the year 2019 mainly driven by higher advisory, rating and legal costs related to the maintenance of debt issuance programs.

The Income tax expense of euro 10.9 million (2018: euro 1.0 million) went up primarily due to non-creditable foreign withholding tax. Overall, this results in a Net income of euro 4.8 million, two-thirds higher compared to 2018. The effective tax rate for 2019 was 69.7% (2018: 25.2%).

The Other comprehensive income was comprised of unrealized gains and losses as well as reclassifications from cash flow hedges. Thus, the Company recorded net gains after tax of euro 3.7 million in 2019 in comparison with net losses of euro 6.3 million in the previous year.

The balance sheet total increased compared with December 31, 2018 from euro 16,228 million to euro 20,300 million. This increase of 25% in total assets was primarily due to the extension of funding activities for Daimler Group companies mainly driven by their growing leasing and sales-financing business. The Company's growth of Receivables from Daimler Group companies from euro 14,629 million to euro 18,025 million (without the Inhouse Bank cash position) was refinanced by an equal rise of Debt securities from euro 14,947 million to euro 19,076 million.

The Company participated as an issuer in Daimler's euro 70.0 billion Euro Medium Term Note program ("EMTN") and the euro 15.0 billion Multi-Currency Commercial Paper program ("CP"). At the end of the reporting period, the Company registered a Private Placement program for debt financing instruments ("Bond Connect") with NAFMII, which allows for access to the China interbank bond market. In 2019, the Company issued 8 bonds under the EMTN program in the total amount of euro 6.4 billion and one promissory-note loan. The outstanding volume under the CP program amounted to euro 1.0 billion at December 31, 2019.

The Company's equity improved compared with December 31, 2018 from euro 530 million to euro 539 million. The positive effect in equity resulted from the Net income of euro 4.8 million and the Other comprehensive income of euro 3.7 million. The first-time application of IFRS solely led to the positive, but cash-neutral adjustment of euro 2.0 million up in equity (after tax) as well as euro 2.7 million down in Debt securities at the date of transition, January 1, 2018.

The cash flow used for operating activities amounting to euro 3,643 million (2018: euro 11,549 million) was largely influenced by the growth of the Receivables from Daimler Group companies, while the cash flow provided by financing activities of euro 3,643 million (2018: euro 11,549 million) was mainly driven by the related development of the Debt Securities.

Risk and opportunity report

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

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

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

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

Integrity and compliance

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

Outlook

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

For the year 2020, the Interest result from the Company's operating activities is expected to evolve in line with the balance sheet development. The changes in the fair value of derivative financial instruments may have another impact on the financial performance of the Company.

In the light of the ongoing spread of COVID-19, the Board of Management has performed an analysis with regard to its potential effects on the Company and especially on the Company's liquidity. The principal risk to the Company arising from the pandemic is that, due to the impact of COVID-19 on its operations, Daimler AG is unable to meet its commitments to the Company under the terms of the guarantee in situations where group companies are unable to repay loans provided by the Company. Based on the analysis performed and taking into account the very high uncertainty surrounding the possible financial impact of the disease and the outcome of the going concern assessment performed at the Group level by Group Management, the Board of Management believes that the going concern assumption remains appropriate. The Board of Management will constantly monitor the situation and will take measures if required.

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

Diversity of Board members

The Board of Management and the Supervisory Board are unbalanced since less than 30% of its members are female. The Board members have been appointed based on qualifications and availability, irrespective of gender. In order to create more balance, the Boards will take these regulations into account to the extent possible for future appointments of Board members.

Daimler International Finance B.V.

Statement of Income and Statement of Comprehensive Income/Loss

in euro thousand	Note	2019	2018
Interest income Daimler Group companies		392,471	193,152
Interest income third parties		6,792	9,807
Interest income	**4**	**399,263**	202,959
Interest expense Daimler Group companies		-217,921	-121,987
Interest expense third parties		-164,673	-76,040
Interest expense	**4**	**-382,594**	-198,027
Interest result	**4**	**16,669**	4,932
Other financial income and expense	**5**	**663**	-238
Result from financial transactions	**6**	**1,062**	224
Financial result		**18,394**	4,918
General administrative expense	**7**	**-2,731**	-1,021
Income before taxation		**15,663**	3,897
Income taxes	**8**	**-10,910**	-983
Net income/loss		**4,753**	2,914

Other comprehensive income/loss			
Derivative financial instruments			
Unrealized gains/losses (pre-tax)		-198,177	-45,825
Reclassifications to profit and loss (pre-tax)		203,133	37,410
Taxes on unrealized gains/losses and on reclassifications		-1,239	2,102
Derivative financial instruments (after tax)	**14**	**3,717**	-6,313
Unrealized revaluation of cash flow hedges charged directly to shareholder's equity		**3,717**	-6,313
Total comprehensive income/loss		**8,470**	-3,399

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

Daimler International Finance B.V.
Statement of Financial Position

Assets in euro thousand	Note	31.12.2019	31.12.2018	31.12.2017
Property, plant and equipment	9	881	21	21
Receivables from Daimler Group companies	10	9,280,083	6,659,845	3,627,798
Derivative assets	22	217,063	71,704	353
Deferred tax assets	8	918	2,175	19
Total non-current assets		9,498,944	6,733,745	3,628,191
Receivables from Daimler Group companies	10	10,790,436	9,478,346	818,454
Derivative assets	22	9,291	16,118	-
Other assets	8	1,034	-	-
Cash and cash equivalents	11	-	-	-
Total current assets		10,800,761	9,494,464	818,454
Total assets		20,299,705	16,228,209	4,446,645

Equity and liabilities in euro thousand	Note	31.12.2019	31.12.2018	31.12.2017
Issued capital	12	500	500	500
Share premium reserve	13	500,000	500,000	500,000
Cash flow hedge reserve	14	-2,590	-6,307	6
Retained earnings	15	35,868	32,954	28,768
Undistributed income	16	4,753	2,914	4,186
Total equity		538,531	530,061	533,460
Debt securities	17	16,842,098	11,143,677	2,848,408
Liabilities due to Daimler Group companies	18	210,355	300,000	30,000
Derivative liabilities	22	126,821	41,396	92,561
Total non-current liabilities		17,179,274	11,485,073	2,970,969
Debt securities	17	2,233,624	3,802,928	417,225
Liabilities due to Daimler Group companies	18	156,627	201,255	508,529
Derivative liabilities	22	120,369	158,673	-
Interest payables and other liabilities	19	71,280	50,219	16,462
Total current liabilities		2,581,900	4,213,075	942,216
Total equity and liabilities		20,299,705	16,228,209	4,446,645

Daimler International Finance B.V.

Statement of Cash Flows

in euro thousand	Note	2019	2018
Net income/loss		4,753	2,914
Adjustments for non-cash items			
Interest income		-399,263	-202,959
Interest expense		382,594	198,027
Other financial income and expense		-663	238
Result from financial transactions		-1,062	-224
Income taxes		10,910	983
Changes in operating assets and liabilities			
Additions to Receivables from Daimler Group companies		-21,219,616	-22,362,954
Repayment of Receivables from Daimler Group companies		17,528,644	10,777,474
Other liabilities		257	537
Derivative foreign currency received		500,649	175,009
Derivative foreign currency paid		-455,355	-170,486
Interest received		380,782	144,483
Interest paid		-363,048	-111,640
Tax paid		-12,497	-865
Cash used for/provided by operating activities		-3,642,915	-11,549,463
Cash used for investing activities		-	-
Change in financing assets and liabilities			
Additions to Debt securities		8,059,297	18,399,353
Repayment of Debt securities		-4,286,382	-6,744,890
Additions to Liabilities due to Daimler Group companies		-	1,600,000
Repayment of Liabilities due to Daimler Group companies		-130,000	-1,705,000
Cash provided by financing activities	20	3,642,915	11,549,463
Net increase/decrease in Cash and cash equivalents		-	-
Cash and cash equivalents at January 1		-	-
Cash and cash equivalents at December 31	11	-	-

There are no material adjustments within the Statement of Cash Flows related to the first-time application of IFRS.

Daimler International Finance B.V.

Statement of Changes in Equity

in euro thousand	Issued capital	Share premium reserve	Cash flow hedge reserve	Retained earnings	Undis-tributed income	**Total equity**
Balance at January 1, 2018 (Dutch GAAP)	500	500,000	6	24,955	5,996	531,457
First-time application of IFRS	-	-	-	2,003	-	2,003
Balance at January 1, 2018 (IFRS)	500	500,000	6	26,958	5,996	533,460
Net income/loss	-	-	-	-	2,914	2,914
Other comprehensive income/loss after tax	-	-	-6,313	-	-	-6,313
Total comprehensive income/loss	-	-	-6,313	-	2,914	-3,399
Appropriation of results 2017	-	-	-	5,996	-5,996	-
Balance at December 31, 2018 (IFRS)	500	500,000	-6,307	32,954	2,914	530,061
Balance at January 1, 2019 (IFRS)	**500**	**500,000**	**-6,307**	**32,954**	**2,914**	**530,061**
Net income/loss	**-**	**-**	**-**	**-**	**4,753**	**4,753**
Other comprehensive income/loss after tax	**-**	**-**	**3,717**	**-**	**-**	**3,717**
Total comprehensive income/loss	**-**	**-**	**3,717**	**-**	**4,753**	**8,470**
Appropriation of results 2018	**-**	**-**	**-**	**2,914**	**-2,914**	**-**
Balance at December 31, 2019 (IFRS)	**500**	**500,000**	**-2,590**	**35,868**	**4,753**	**538,531**

01. Significant accounting policies

General information

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

Daimler International Finance B.V. is a private limited company under the laws of the Netherlands. The Company is entered in the Commercial Register of the Utrecht District Court under No. 30078162 and its registered office is located at Ravenswade 4, Nieuwegein, The Netherlands. The issued share capital is fully owned by the parent company Daimler AG in Stuttgart, Germany. The Supervisory Board comprised the three members: Frank Wetter (chairman), Peter Zirwes and Tim Zech. The purpose of the Company is to assist the financing of business activities conducted by Daimler Group companies and to provide financial services in connection therewith. During the year, the Company employed 6 persons (2018: 5 persons).

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

The Board of Management authorized the Financial Statements for issue on April 29, 2020.

Basis of preparation

Applied IFRS

The accounting policies applied in the Financial Statements comply with the IFRS required to be applied in the EU as of December 31, 2019.

Certain interest rate benchmarks such as the London Interbank Offered Rate (for USD, GBP, CHF and JPY) will be globally reformed and replaced by alternative risk-free interest rates by the end of 2021. As a reaction to the uncertainty arising from the transition, the IASB has published amendments to IFRS 9, IAS 39 and IFRS 7 (Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7). These amendments contain exceptions to specific hedge accounting requirements, which allow the hedge to be continued as if the reference rates on which the hedged item and hedging instrument are based were not changed by the benchmark reform. Application is mandatory for reporting periods beginning on or after January 1, 2020. Application ends when the uncertainty arising from the interest benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item and the hedging instrument. Daimler adopts the amendments early and avoids the hedge accounting implications that could have been caused by the replacement of the interest rate benchmarks in the form of ineffectiveness or de-designation.

Presentation

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

The Statement of Income is presented using the cost-of-sales method.

Measurement

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

Foreign currency translation

Transactions in foreign currency are translated at the relevant foreign exchange rates prevailing at the transaction date. In subsequent periods, assets and liabilities denominated in foreign currency are translated using period-end exchange rates. The gains and losses from this measurement are recognized in profit and loss (note 5).

Accounting policies

Financial result

The Financial result comprises the Interest result (note 4), the Other financial income and expense (note 5), and the Result from financial transactions (note 6).

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

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

Income taxes

The Income taxes (note 8) are comprised of current income taxes and deferred taxes.

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

Changes in deferred tax assets and liabilities are generally recognized through profit and loss in deferred taxes in the Statement of Income, except for changes recognized in the Other comprehensive income/loss or directly in equity.

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

Property, plant and equipment

The Property, plant and equipment (note 9) are measured at acquisition costs less accumulated depreciation. If necessary, accumulated impairment losses are recognized.

Leasing

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

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

Lease liabilities, which are assigned to Liabilities due to Daimler Group companies (note 18), are measured initially at the present value of the lease payments. Subsequent measurement of a lease liability includes the increase of the carrying amount to reflect interest on the lease liability and reducing (while affecting the Other comprehensive income) the carrying amount to reflect the lease payments made.

According to IFRS 16, the depreciation of right-of-use assets and the lease expenses of leases are recognized within the General administrative expense (note 7). The interest due on the lease liability is a component of interest expense. The Company applies IFRS 16 in compliance with the transition regulations, the Company does not adjust the prior-year figures.

Financial instruments

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

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

Financial assets

Financial assets primarily comprise the Receivables from Daimler Group companies (note 10) and the Derivative assets (note 22). The classification of financial instruments is based on the business model in which these instruments are held and on their contractual cash flows.

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

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

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

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

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

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

Impairment of financial assets

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

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

Stage 1: expected credit losses within the next twelve months

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

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

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

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

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

The determination of whether a financial asset has experienced a significant increase in credit risk is based on external and internal information on the credit quality of the financial asset. The Receivables from Daimler Group companies are mainly guaranteed by Daimler AG, and thus the credit risk of intergroup financial receivables is substantially mitigated (note 23).

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

Offsetting of financial instruments

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

Financial liabilities

Financial liabilities primarily include the Debt securities (note 17), the Liabilities due to Daimler Group companies (note 18), the Derivative liabilities (note 22) and Other liabilities (note 19).

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

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

Derivative financial instruments and hedge accounting

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

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

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

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

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

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

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

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

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

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

Employee benefits

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

Presentation in the Statement of Cash Flows

The changes in the Receivables from Daimler Group companies, the Derivative foreign currency received/paid and the Interest received/paid are classified as cash used for/provided by operating activities. The cash flows from the changes in the Debt securities and the Liabilities due to Daimler Group companies are presented within cash provided by financing activities.

02. Accounting estimates and management judgments

In the Financial Statements, to a certain degree, estimates and management judgments have to be made which can affect the amounts and reporting of assets and liabilities, the reporting of contingent assets and liabilities on the balance sheet date, and the amounts of income and expense reported for the period. The major items affected by such estimates and management judgments are described as follows. Actual amounts may differ from the estimates. The estimates and the underlying assumptions are constantly assessed. Revisions of estimates are recognized in the period, in which the estimate is revised and in future periods, on which the revision has an impact.

In the context of fair value measurement for financial instruments, estimates have to be made to determine the fair values of financial assets and liabilities, especially when no quoted prices in active markets are available. In accordance with the established Daimler Group framework, the Company uses valuation techniques on the basis of the discounted estimated future cash flows by applying appropriate market interest rates and forward exchange rates (note 22).

The Company regularly estimates the creditworthiness of Daimler Group companies related to the default risk of Daimler AG, even though the Receivables from Daimler Group companies and Debt securities are both guaranteed by Daimler AG. In this context, further factors are taken into consideration, including historical loss experience, size and composition of certain portfolios as well as current and forward-looking economic conditions (note 23).

The calculation of income taxes is based on the legislation and regulations applicable in various countries. Different interpretations can occur especially in connection with the recognition and measurement of balance sheet items as well as in connection with the tax assessment of expenses and income. For the calculation of deferred tax assets, assumptions have to be made regarding future taxable income and the time of realization of the deferred tax assets. In this context, the Company takes into consideration, among other things, the projected earnings from business operations, the effects on earnings of the reversal of taxable temporary differences, and realizable tax strategies. As future business developments are uncertain and are sometimes beyond the Company's control, the assumptions to be made in connection with accounting for deferred tax assets are connected with a substantial degree of uncertainty. On each balance sheet date, the Company carries out impairment tests on deferred tax assets on the basis of the planned taxable income in future financial years; if the Company assesses that the probability of future tax advantages being partially or fully unrealized is more than 50%, the deferred tax assets are impaired (note 8).

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

03. First-time application of IFRS

The Company decided to initially apply IFRS for the reporting period beginning on January 1, 2019 in accordance with its broadened business role and related transparency requirements. In compliance with IFRS 1, the first IFRS Financial Statements consist of three Statements of Financial Position and two of each Statement of Income and Comprehensive Income/Loss, Statement of Cash Flows and Statement of Changes in Equity based on the most recent IFRS.

If the requirements for hedge accounting set out in IFRS 9 are met, the Company designates and documents the hedge relationship from the date a derivative contract is entered into as a fair value hedge or a cash flow hedge. A detailed description can be found in note 2 under the section *Derivative financial instruments and hedge accounting*.

The main effect of the transition from Dutch GAAP to IFRS is the application of the hypothetical derivative method replacing the hypothetical underlying method for fair value hedges. The hypothetical derivative method is an expedient for valuation of the hedged item used for effectiveness assessment and determination of the basis adjustment. The change from hypothetical underlying to hypothetical derivative method leads to a positive effect in the Financial result (after tax) of euro 2.0 million and a decline of Debt securities by euro 2.7 million.

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

For derivative instruments designated in a hedge relationship, certain components can be excluded from designation and the changes in these components' fair value are then deferred in the Other comprehensive income under IFRS 9. Therefore, the Company chose to exclude the currency basis spread from designation for cross currency interest rate swaps designated in a hedge relationship, and thus to defer the corresponding fair value changes as cost of hedging in the Other comprehensive income.

The effects resulting from the first-time application of IFRS are presented in the Statement of Changes in Equity. There are no further material adjustments within the Financial Statements related to the first-time application of IFRS. Reporting requirements for the classification and measurement of financial assets and liabilities result in no significant changes for the Company.

04. Interest income and expense

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

in euro thousand	2019	2018
Interest income on financial assets at amortized cost	135,465	67,233
Interest income on financial assets included in a hedge relationship	263,798	135,726
Interest income on derivatives not included in a hedge relationship	-	-
Interest income	399,263	202,959
Interest expense on financial liabilities at amortized cost	-52,528	-23,546
Interest expense on financial liabilities included in a hedge relationship	-329,970	-174,406
Interest expense on derivatives not included in a hedge relationship	-96	-75
Interest expense	-382,594	-198,027
Interest result	16,669	4,932

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

in euro thousand	2019	2018
Interest income Daimler Group companies	392,471	193,152
Interest income third parties	6,792	9,807
Interest income	399,263	202,959
Interest expense Daimler Group companies	-217,921	-121,987
Interest expense third parties	-164,673	-76,040
Interest expense	-382,594	-198,027
Interest result	16,669	4,932

The Interest income from third parties euro 6,792 thousand (2018: euro 9,807 thousand) was mainly earned on amortized discounts from bonds above par and commercial papers with negative interest rates. The Interest expense from third parties euro 164,673 thousand (2018: euro 76,040 thousand) comprised the interest expense due to transactions in debt securities.

The Interest result increased to euro 16,669 thousand (2018: euro 4,932 thousand) in line with the balance sheet development as well as on the basis of the matched funding principle and hedging strategy of its financing activities. Furthermore, the Company received a compensation payment from Daimler AG of euro 34,300 thousand (2018: euro 6,000 thousand) related to its business model and presented as interest income on financial assets at amortized cost.

05. Other financial income and expense

The Company incurred a minor foreign currency risk on its intergroup cash positions (note 10) which was recognized against the foreign exchange rates applying on the balance sheet date. In 2019, the line item comprised a gain of euro 663 thousand (2018: loss of euro 238 thousand) due to exchange rate differences which slightly increased the Financial result.

06. Result from financial transactions

in euro thousand	2019	2018
Ineffective portion of financial instruments included in a hedge relationship	-	911
Revaluation of derivatives not included in a hedge relationship	667	-687
Close-out gains of derivative financial instruments	395	-
Result from financial transactions	**1,062**	224

The steady rise of the Result from financial transactions to an income of euro 1,062 thousand (2018: euro 224 thousand) mainly referred to the revaluation of derivatives not included in a hedge relationship related to forward loans, and the one-time close-out gains of derivatives.

07. General administrative expense

in euro thousand	2019	2018
Salaries and social security charges	-817	-521
Pension costs – defined contribution plan	-25	-37
Audit and advisory costs	-786	-145
Other general administrative expense	-1,103	-318
General administrative expense	**-2,731**	-1,021

The General administrative expense in total amounted to euro 2,731 thousand in 2019 (2018: euro 1,021 thousand) and consisted of expenses not directly attributable to operating activities, such as personnel expenses, audit and advisory costs, and other general administrative costs.

The personnel expenses comprised salaries and wages in the amount of euro 800 thousand (2018: euro 495 thousand), social contributions in the amount of euro 17 thousand (2018: euro 26 thousand), and pension costs. The average numbers of people employed are shown in the section General Information (note 1). The Remuneration of the members of the Board of Management and the Supervisory Board being active during the periods is shown in note 26.

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

in euro thousand	2019	2018
Audit services	-100	-95
thereof KPMG Accountants N.V.	-100	-95
Advisory services	-686	-50
thereof KPMG Accountants N.V.	-	-
Tax services	-32	-50
thereof KPMG Accountants N.V.	-	-

The Other general administrative expense primarily comprised rating costs and legal charges related to the debt issuance program update of euro 521 thousand (2018: euro 75 thousand), non-deductible value-added tax of euro 269 thousand (2018: euro 28 thousand) and housing costs of euro 123 thousand (2018: euro 81 thousand).

08. Income taxes

The following table shows the components of Income taxes:

in euro thousand	2019	2018
Current tax income/expense	-10,893	-1,037
Deferred tax income/expense	-17	54
Income taxes in the Statement of Income	-10,910	-983

The reconciliation of the effective tax rate is shown below:

in euro thousand		2019		2018
Income before taxation		15,663		3,897
Income taxes using the domestic corporate tax rate (calculation)	25%	-3,904	25%	-964
Tax benefit/loss related to other periods and other foreign taxes		-9,340		-19
Income taxes in the Statement of Income		-10,910		-983
Effective tax rate		69.7%		25.2%

The deferred tax assets of euro 918 thousand (2018: euro 2,175 thousand) mainly consisted of taxes on unrealized gains or losses and on reclassifications of cash flow hedges within the Other comprehensive income charged with a tax rate of 25% directly to shareholder's equity.

In 2019, Other assets of euro 1,034 thousand related to taxation and social security premiums.

09. Property, plant and equipment

Property, plant and equipment as shown in the Statement of Financial Position with a carrying amount of euro 881 thousand (2018: euro 21 thousand) mainly included right-of-use assets from lessee accounting related to a lease contract with Mercedes-Benz Cars Nederland B.V. for an office space with a non-cancellable term of 10 years and a carrying amount of euro 860 thousand. The remaining duration is 9 years. The lease payment per year is euro 96 thousand.

10. Receivables from Daimler Group companies

in euro thousand	**31.12.2019**	31.12.2018	31.12.2017
Non-current receivables from Daimler Group companies	**9,280,083**	6,659,845	3,627,798
Current receivables from Daimler Group companies	**10,790,436**	9,478,346	818,454
Receivables from Daimler Group companies	**20,070,519**	16,138,191	4,446,252

The Receivables from Daimler Group companies increased by euro 3,933 million to a level of euro 20,071 million as per December 31, 2019. In 2018, Daimler decided at group level to concentrate certain of its European non-euro intercompany loan funding to the Netherlands. The revision of business allocation also included a transfer of existing intercompany loans and related outstanding debt securities denominated in sterling from Daimler AG to the Company. In the most recent reporting period 2019, the funding portfolio grew further mainly driven by the growing leasing and sales-financing business of Daimler Group companies.

The Receivables from Daimler Group companies consisted of 91% (2018: 83% and 2017: 81%) fixed interest rate loans. The Inhouse Bank position with Daimler AG is described in note 11.

in euro thousand	**31.12.2019**	31.12.2018	31.12.2017
Receivables from Daimler Group companies	**18,025,032**	14,629,388	4,429,873
Inhouse Bank Daimler AG	**2,045,487**	1,508,803	16,379
Receivables from Daimler Group companies	**20,070,519**	16,138,191	4,446,252

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

in euro thousand	Maturity within one year	Maturity between one and five years	Maturity later than five years	**Total receivables**
31.12.2019	**10,790,436**	**9,190,083**	**90,000**	**20,070,519**
31.12.2018	9,478,346	6,569,845	90,000	16,138,191
31.12.2017	818,454	3,627,798	-	4,446,252

11. Cash and cash equivalents

The Company participates in the Global Payment Platform from Daimler AG. Therefore, the daily available intergroup cash positions are reflected in the Inhouse Bank position with Daimler AG. The total balance is accounted for as Receivable from Daimler Group companies (note 10).

12. Issued capital

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

13. Share premium reserve

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

14. Cash flow hedge reserve

The Cash flow hedge reserve comprises the effective portion of the accumulated net change in the fair value of cash flow hedge instruments for hedged transactions. This Cash flow hedge reserve is released during the period that the cash flows from the hedged items are realized. The Cash flow hedge reserve is not freely distributable in accordance with the Dutch Civil Code. At December 31, 2019, the Cash flow hedge reserve charged directly to shareholder's equity add up to euro 3.7 million positive (2018: euro 6.3 million negative and 2017: euro 6 thousand). The Cash flow hedge reserve is presented in the Statement of Other comprehensive income.

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

in euro thousand	2019	2018	2017
Balance at January 1	**-6,307**	6	-
Unrealized gains/losses (pre-tax)			
Foreign currency derivatives	**-198,805**	-43,166	-
Interest rate derivatives	**628**	-2,659	6
Reclassifications to profit and loss (pre-tax)			
Foreign currency derivatives	**203,133**	37,410	-
Taxes on unrealized gains/losses and on reclassifications	**-1,239**	2,102	
Balance at December 31	**-2,590**	-6,307	6
Unrealized revaluation of cash flow hedges charged directly to shareholder's equity	**3,717**	-6,313	6

15. Retained earnings

The Retained earnings comprise the accumulated net income and loss of the Company. In addition, the effects of remeasuring the deferred taxes are presented within Retained earnings. Within the reporting period effects of first-time adoption of IFRS were included in this line item of Statement of Changes in Equity (note 3).

16. Undistributed income

The Board of Management proposes to add the net income for the year 2019 amounting to euro 4.8 million (2018: euro 2.9 million and 2017: euro 4.2 million) to the Retained earnings.

17. Debt securities

in euro thousand	31.12.2019	31.12.2018	31.12.2017
Total bonds	17,801,499	13,183,458	3,095,531
Non-current bonds	16,575,394	11,143,677	2,848,408
Current bonds	1,226,105	2,039,781	247,123
Commercial papers (solely current)	1,007,519	1,763,147	170,102
Promissory-note loan (solely non-current)	266,704	-	-
Debt securities	19,075,722	14,946,605	3,265,633

The euro 70.0 billion Euro Medium Term Note program ("EMTN") has been utilized in several currencies by the Company. In 2019, the Company issued 8 bonds (2018: 23 and 2017: 6) under the EMTN program in the total amount of euro 6.4 billion (2018: euro 10.3 billion and 2017: euro 2.3 billion) and one promissory-note loan. Furthermore, the Company participated in the euro 15.0 billion Multi-Currency Commercial Paper program ("CP") which supported the flexible and broad access to the international money markets.

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

18. Liabilities due to Daimler Group Companies

in euro thousand	31.12.2019	31.12.2018	31.12.2017
Non-current liabilities due to Daimler Group companies	210,355	300,000	30,000
Current liabilities due to Daimler Group companies	156,627	201,255	508,529
Liabilities due to Daimler Group companies	366,982	501,255	538,529

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

in euro thousand	31.12.2019	31.12.2018	31.12.2017
Liabilities due to Daimler AG	65,847	70,906	352,897
Liabilities due to Daimler Nederland B.V.	300,275	430,349	185,632
Liabilities due to Mercedes-Benz Cars Nederland B.V.	860	-	-
Liabilities due to Daimler Group companies	366,982	501,255	538,529

19. Interest payables and other liabilities

in euro thousand	31.12.2019	31.12.2018	31.12.2017
Interest payables to third parties	70,656	49,414	15,845
Other liabilities	624	805	617
Interest payables and other liabilities	71,280	50,219	16,462

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

20. Statement of cash flows

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

in euro thousand	2019	2018
Cash provided by financing activities	3,642,915	11,549,463
Changes in foreign exchange rates	220,526	-26,141
Fair value changes	136,385	54,819
Other changes	-709	-2,169

21. Contingent liabilities

At December 31, 2019, the Company had no off-balance sheet commitments (2018: euro 40 million and 2017: euro 80 million; both related to forward loans to a Daimler Group company).

22. Financial instruments

Carrying amounts and fair values of financial instruments

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

Assets		**Carrying amount**				**Fair value**
in euro thousand	**31.12.2019**	31.12.2018	31.12.2017	**31.12.2019**	31.12.2018	31.12.2017
Derivative assets						
Fair value hedges	**215,650**	80,848	-	**215,650**	80,848	-
Cash flow hedges	**9,545**	6,974	353	**9,545**	6,974	353
Other derivative assets	**1,158**	-	-	**1,158**	-	-
Receivables from Daimler Group Companies	**20,070,519**	16,138,191	4,446,252	**20,314,225**	16,201,698	4,495,706
Cash and cash equivalents	**-**	-	-	**-**	-	-
Total financial assets	**20,296,872**	16,226,013	4,446,605	**20,540,578**	16,289,520	4,496,059

Liabilities		**Carrying amount**				**Fair value**
in euro thousand	**31.12.2019**	31.12.2018	31.12.2017	**31.12.2019**	31.12.2018	31.12.2017
Derivative liabilities						
Fair value hedges	**148,824**	146,881	92,214	**148,824**	146,881	92,214
Cash flow hedges	**78,938**	52,175	347	**78,938**	52,175	347
Other derivative liabilities	**19,428**	1,013	-	**19,428**	1,013	-
Debt securities	**19,075,722**	14,946,605	3,265,633	**19,243,530**	14,827,530	3,289,492
Liabilities due to Daimler Group Companies	**366,982**	501,255	538,529	**370,780**	506,322	539,184
Interest payables and other liabilities	**71,280**	50,219	16,462	**71,280**	50,219	16,462
Total financial liabilities	**19,761,174**	15,698,148	3,913,185	**19,932,780**	15,584,140	3,937,699

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

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

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

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

Offsetting of financial instruments

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

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

in euro thousand	31.12.2019		31.12.2018		31.12.2017	
	Assets	**Liabilities**	Assets	Liabilities	Assets	Liabilities
Gross amounts (balance sheet)	**226,353**	**-247,190**	87,822	-200,069	353	-92,561
Possible netting in case of insolvency	**-226,353**	**226,353**	-87,822	87,822	-353	353
Net amount after offsetting	**-**	**-20,837**	-	-112,247	-	-92,208

Measurement hierarchy

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

Assets	31.12.2019			31.12.2018			31.12.2017		
in euro thousand	**Level 1**	**Level 2**	**Level 3**	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Derivative assets									
Fair value hedges	**-**	**215,650**	**-**	-	80,848	-	-	-	-
Cash flow hedges	**-**	**9,545**	**-**	-	6,974	-	-	353	-
Other derivative assets	**-**	**1,158**	**-**	-	-	-	-	-	-
Receivables Daimler Group companies	**-**	**20,314,225**	**-**	-	16,201,698	-	-	4,495,706	-
Cash and cash equivalents	**-**	**-**	**-**	-	-	-	-	-	-

Liabilities	31.12.2019			31.12.2018			31.12.2017		
in euro thousand	**Level 1**	**Level 2**	**Level 3**	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Derivative liabilities									
Fair value hedges	**-**	**148,824**	**-**	-	146,881	-	-	92,214	-
Cash flow hedges	**-**	**78,938**	**-**	-	52,175	-	-	347	-
Other derivative liabilities	**-**	**19,428**	**-**	-	1,013	-	-	-	-
Debt securities	**14,029,571**	**5,213,959**	**-**	12,911,830	1,915,700	-	3,119,368	170,124	-
Liabilities Daimler Group companies	**-**	**370,780**	**-**	-	506,322	-	-	539,184	-
Interest payables and other liabilities	**-**	**71,280**	**-**	-	50,219	-	-	16,462	-

Level 1 inputs are based on quoted prices (unadjusted) in active markets for these or identical assets or liabilities.
Level 2 inputs are based on inputs that are observable on active markets either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3 inputs are based on inputs for which no observable market data is available.

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

Measurement categories

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

Assets in euro thousand	31.12.2019	31.12.2018	31.12.2017
Receivables from Daimler Group companies	20,070,519	16,138,191	4,446,252
Cash and cash equivalents	-	-	-
Total financial assets measured at amortized cost	20,070,519	16,138,191	4,446,252

Liabilities in euro thousand	31.12.2019	31.12.2018	31.12.2017
Debt securities	19,075,722	14,946,605	3,265,633
Liabilities due to Daimler Group companies	366,982	501,255	538,529
Interest payables and other liabilities	71,280	50,219	16,462
Total financial liabilities measured at amortized cost	19,513,984	15,498,079	3,820,624

Net gains or losses

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

in euro thousand	2019	2018
Financial instruments measured at fair value through profit and loss	-54,230	-28,887
Financial assets measured at amortized cost	1,568,418	454,793
Financial liabilities measured at amortized cost	-1,292,661	-384,490

The net gains or losses on financial instruments measured at fair value through profit or loss comprised the realized interest result from hedging instruments and the revaluation of derivatives not included in a hedge relationship (note 6).

The net gains or losses on financial assets and liabilities measured at amortized cost comprised the effects of interest income and expense (note 4) and currency translation (note 5).

Information on derivative financial instruments

Use of derivatives

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

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

in euro thousand	Interest rate risks		Currency risks
	Fair value hedges[1]	Cash flow hedges[1]	Cash flow hedges[2]
December 31, 2019			
Carrying amount of the hedging instruments			
Derivative assets non-current	**215,133**	**1,929**	**-**
Derivative assets current	**518**	**1,704**	**5,911**
Derivative liabilities non-current	**112,185**	**14,636**	**-**
Derivative liabilities current	**36,640**	**27,986**	**36,315**
Fair value changes[3]	**87,875**	**-126,706**	**-71,470**
December 31, 2018			
Carrying amount of the hedging instruments			
Derivative assets non-current	69,712	1,992	-
Derivative assets current	11,137	245	4,736
Derivative liabilities non-current	21,310	19,693	-
Derivative liabilities current	125,572	16,340	16,142
Fair value changes[3]	26,180	-33,801	-12,025
December 31, 2017			
Carrying amount of the hedging instruments			
Derivative assets non-current	-	353	-
Derivative assets current	-	-	-
Derivative liabilities non-current	91,680	347	-
Derivative liabilities current	534	-	-
Fair value changes[3]	61,719	6	-

1 includes the following derivative instrument types: interest rate swaps, cross currency interest rate swaps.
2 includes the following derivative instrument types: currency forward transactions.
3 Gains and losses from hedging instruments used for recognizing hedge ineffectiveness.

Fair value hedges

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

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

in euro thousand	Interest rate risks		
	2019	2018	2017
December 31			
Carrying amounts of the hedged items			
Receivables from Daimler Group Companies non-current	6,085,842	262,200	-
Receivables from Daimler Group Companies current	3,429,226	1,314,409	-
thereof hedge adjustments			
Receivables from Daimler Group Companies non-current	73,271	-500	-
Receivables from Daimler Group Companies current	-34,140	-963	-
Debt securities current	1,230,055	2,039,228	-
Debt securities non-current	16,401,256	11,111,198	3,093,095
thereof hedge adjustments			
Debt securities current	483	559	534
Debt securities non-current	183,620	56,689	1,902
Fair value changes of the hedged items[1]	-87,875	-25,269	-59,711
Accumulated amount of hedge adjustments from inactive hedges remaining in the Statement of Financial Position	4,545	-	-

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

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

in euro thousand	2019	2018
Revaluation on hedging instruments (Foreign currency derivatives)	-42,107	-33,310
Revaluation on hedging instruments (Interest rate derivatives)	129,982	59,490
Fair value changes from hedged items attributable to hedged risk	-87,875	-25,269
Ineffective portion of fair value hedges	-	911

Fair value hedge ineffectiveness is recognized in Result from financial transactions (note 6).

Cash flow hedges

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

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

in euro thousand	Interest rate risks			Currency risks		
	2019	2018	2017	**2019**	2018	2017
Fair value changes of the hedged items[1]	**126,706**	33,801	-6	**71,470**	12,025	-
Balance of the reserves for derivative financial instruments (pre-tax)	**-3,453**	-8,409	6	**-**	-	-

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

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

in euro thousand	**2019**	2018
Revaluation on hedging instruments (Foreign currency derivatives)	**-198,805**	-43,166
Revaluation on hedging instruments (Interest rate derivatives)	**628**	-2,659
Ineffective portion of cash flow hedges	**-**	-
Unrealized gains/losses (pre-tax)	**-198,177**	-45,825
Reclassifications to profit and loss (pre-tax)	**203,133**	37,410
Taxes on unrealized gains/losses and on reclassification	**-1,239**	2,102
Unrealized revaluation of cash flow hedges charged directly to shareholder's equity	**3,717**	-6,313

For the reconciliation of the Cash flow hedge reserve see note 14.

Nominal values of derivative financial instruments

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

Assets		31.12.2019		31.12.2018		31.12.2017
in euro thousand	**Nominal amount**	**Fair value**	Nominal amount	Fair value	Nominal amount	Fair value
Interest rate derivatives	**9,941,546**	**198,193**	7,022,331	58,436	500,000	353
thereof fair value hedges	**9,941,546**	**198,193**	7,022,331	58,436	-	-
thereof cash flow hedges	-	-	-	-	500,000	353
Foreign currency derivatives	**2,929,788**	**28,160**	2,985,093	29,386	-	-
thereof fair value hedges	**1,243,965**	**17,458**	1,767,781	22,413	-	-
thereof cash flow hedges	**1,038,042**	**9,545**	1,217,312	6,973	-	-
thereof other derivative assets	**647,781**	**1,158**	-	-	-	-
Total derivative financial instruments	**12,871,334**	**226,353**	10,007,424	87,822	500,000	353

Liabilities		31.12.2019		31.12.2018		31.12.2017
in euro thousand	**Nominal amount**	**Fair value**	Nominal amount	Fair value	Nominal amount	Fair value
Interest rate derivatives	**4,741,878**	**19,054**	3,987,992	4,535	1,450,146	2,889
thereof fair value hedges	**3,391,267**	**17,028**	1,397,381	1,487	750,146	2,542
thereof cash flow hedges	**1,350,611**	**2,026**	2,550,611	2,654	700,000	347
thereof other derivative assets	-	-	40,000	394	-	-
Foreign currency derivatives	**7,153,771**	**228,136**	4,654,317	195,534	639,768	89,672
thereof fair value hedges	**2,956,719**	**131,796**	1,178,301	145,394	639,768	89,672
thereof cash flow hedges	**3,862,933**	**76,912**	3,387,477	49,521	-	-
thereof other derivative assets	**334,119**	**19,428**	88,539	619	-	-
Total derivative financial instruments	**11,895,649**	**247,190**	8,642,310	200,069	2,089,914	92,561

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

in euro thousand	Maturity within one year	Maturity between one and five years	Maturity later than five years	**Total nominal amounts**
December 31, 2019				
Nominal amount of the hedging instruments				
Interest rate risks	**2,774,415**	**13,712,543**	**4,164,167**	**20,651,125**
Fair value hedges	**1,133,448**	**12,235,882**	**4,164,167**	**17,533,497**
Cash flow hedges	**1,640,967**	**1,476,661**	**-**	**3,117,628**
Foreign currency risks	**3,133,958**	**-**	**-**	**3,133,958**
December 31, 2018				
Nominal amount of the hedging instruments				
Interest rate risks	3,271,452	9,573,505	2,914,167	15,759,124
Fair value hedges	1,193,864	7,257,763	2,914,167	11,365,794
Cash flow hedges	2,077,588	2,315,742	-	4,393,330
Foreign currency risks	2,762,071	-	-	2,762,071
December 31, 2017				
Nominal amount of the hedging instruments				
Interest rate risks	250,146	2,339,768	-	2,589,914
Fair value hedges	250,146	1,139,768	-	1,389,914
Cash flow hedges	-	1,200,000	-	1,200,000
Foreign currency risks	-	-	-	-

Further disclosures of interest rate and currency risk see note 23 under the section *Market risk*.

23. Management of risks

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

Risk management framework

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

Solvency

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

Credit risk

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

The Company solely provides financing within the Daimler Group and concludes derivative financial instruments for hedging risks almost exclusively with Daimler AG. Therefore, the Company's minor exposure to credit risk is mainly influenced by the Group related default risk.

The Receivables from Daimler Group companies are guaranteed by Daimler AG. The Company receives from Daimler AG the then outstanding amount of such financing minus 1% retention which in any case not exceeds the overall maximum threshold of euro 10 million. As a result, the credit risk of intergroup financial receivables is substantially mitigated.

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

in euro thousand	31.12.2019	31.12.2018
Receivables from Daimler Group companies (incl. Inhouse Bank Daimler AG)	20,070,519	16,138,191
Cash and Cash equivalents	-	-
Derivative assets	226,353	87,822
Gross exposure	**20,296,872**	16,226,013
Receivables guaranteed by Daimler AG	20,060,519	16,128,191
Residual unguaranteed exposure	**236,353**	97,822

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

Liquidity risk

Liquidity risk comprises the risk that a company cannot meet its financial obligations in full. The Company manages its liquidity by holding adequate volumes of intergroup cash (note 10) and by applying as far as possible the matched funding principle. In accordance with internal guidelines, this principle ensures that financial obligations generally have the same maturity profile as the financial assets, and thus mitigates the Company's liquidity risk.

The following table provides an overview of how the future liquidity situation of the Company can be affected by the cash flows from liabilities as of December 31, 2019.

in euro thousand[1]	Total	2020	2021	2022	2023	2024	≥2025
Debt securities[2]	19,647,600	2,399,977	3,175,077	3,342,796	4,731,228	1,740,658	4,257,864
Liabilities due to Daimler Group companies[2]	302,684	101,517	201,167	-	-	-	-
Derivative financial instruments[3]	407,830	230,679	96,024	63,089	2,411	3,096	12,531

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

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

3 The undiscounted sum of the overall net cash outflows of the derivative financial instruments is shown for the respective year.

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

Market risk

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

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

The effect of the application of the new interest rates on the consolidated financial statements is currently being reviewed. In order to conduct financial transactions based on the new indices, Daimler is preparing its IT-systems accordingly. Market uncertainty still exists about when the new interest rates will be available, how they will be calculated and how their application will affect financial transactions. Daimler regularly discusses current developments of alternative risk-free interest rates with its international banking partners.

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

The value at risk calculations employed:
- express potential losses in fair values, and
- assume a 99% confidence level and a holding period of five days.

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

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

Interest rate risk

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

The following table shows the period-end value at risk figures of the interest rate risk for the 2019 and 2018 portfolios of interest rate sensitive financial instruments and derivative financial instruments of the Company. In this respect, the table shows the interest rate risk regarding the unhedged position of interest rate sensitive financial instruments.

in euro thousand	**31.12.2019**	31.12.2018
Interest rate risk	**1,107**	898

In the course of the year 2019, changes on the value at risk of interest rate sensitive financial instruments were primarily determined by the development of interest rate volatilities.

Currency risk

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

The following table shows the period-end value at risk figures of the exchange rate risk for the 2019 and 2018 portfolios of exchange rate sensitive financial instruments and derivative financial instruments of the Company (including interest payments).

in euro thousand	31.12.2019	31.12.2018
Currency risk	**1,499**	1,153

The Company mainly incurred a minor currency risk on the intergroup cash position (note 10) which is recognized against the exchange rate applying on the balance sheet date (note 5).

Operating and Compliance risks

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

24. Capital management

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

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

25. Related party disclosures

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

Identity of related parties

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

Key management personnel

Daimler International Finance B.V. has two directors in the Board of Management who receive compensation from Daimler International Finance B.V. The Company does not have other key management personnel than the Board of Management. Therefore, the details regarding the compensation of key management personnel is described in note 26.

Transactions with Daimler Group companies

Daimler International Finance B.V. obtains funds mainly from the capital markets, and affiliated companies by entering into loan agreements. The issues under the EMTN and CP programs are unconditionally and irrevocably guaranteed by Daimler AG for which the Company pays a guarantee fee to its parent company. The funds represent currently 98% of the borrowed funds (2018: 97% and 2017: 86%). The Company also obtained funds from affiliated companies in the amount of euro 300 million (2018: euro 430 million and 2017: euro 535 million). Together with the Company's equity, all of these funds are made available to Daimler Group companies.

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

The remuneration for directors, including pension obligations as intended in Section 2:383 of the Dutch Civil Code, which were charged in the financial year to the Company, amounted to euro 0.3 million (2018: euro 0.4 million). These costs were partly recharged for rendered services to other Daimler Group companies. The members of the Supervisory Board did not receive any remuneration in the relevant reporting periods.

27. Events after the reporting period

In the light of the ongoing spread of COVID-19, the Board of Management has performed an analysis with regard to its potential effects on the Company and especially on the Company's liquidity. The principal risk to the Company arising from the pandemic is that, due to the impact of COVID-19 on its operations, Daimler AG is unable to meet its commitments to the Company under the terms of the guarantee in situations where group companies are unable to repay loans provided by the Company. Based on the analysis performed and taking into account the very high uncertainty surrounding the possible financial impact of the disease and the outcome of the going concern assessment performed at the Group level by Group Management, the Board of Management believes that the going concern assumption remains appropriate. The Board of Management will constantly monitor the situation and will take measures if required.

28. Independent Auditor's Report

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

29. Statutory rules as to appropriation of result

Article 13 of the Articles of Association states:

1. The Company's income is wholly at the disposal of the general meeting of shareholder.

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

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

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

5. The entitlements to income distribution lapse after a period of five years after the date on which they became payable.

Responsibility Statement

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

Nieuwegein, April 29, 2020

Daimler International Finance B.V.
The Board of Management

Maarten van Pelt

Volker Lach

- The responsibility for the audit committee function for the Company has been placed and will be executed by the Supervisory Board.
- Pursuant to the Articles of Association, we are pleased to submit the Financial Statements for the year 2019 and 2018 as drawn up by the Board of Management.
- The Financial Statements, which both the Supervisory Board and the Board of Management have signed, has been audited by KPMG Accountants N.V.
- The Independent Auditor's Report is included under the section *Other Information* below.

Nieuwegein, April 29, 2020

Daimler International Finance B.V.
The Supervisory Board

Frank Wetter Chairman	Peter Zirwes	Tim Zech

Independent auditor's report

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

Report on the audit of the financial statements 2019 included in the annual report

Our opinion

In our opinion the accompanying financial statements give a true and fair view of the financial position of Daimler International Finance B.V. as at 31 December 2019 and of its result and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the financial statements 2019 of Daimler International Finance B.V. (the Company) based in Utrecht.

The financial statements comprise:

1 the statement of financial position as at 31 December 2019;

2 the following statements for the year ended 31 December 2019: the statement of income, the statement of comprehensive income/loss, the statement of changes in equity and the statement of cash flows; and

3 the notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

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

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

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

Audit approach

Summary

Materiality
— Materiality of EUR 90 million — 0.5% of total assets — Reporting threshold EUR 4.5 million (5% of materiality)

Key audit matters
— Estimation uncertainty for Financial Instruments measured at Fair Value — Hedge accounting — Estimation uncertainty in respect of the valuation of loans and receivables to Group entities — Assessment of going concern assumption in the light of the potential impact of Covid-19

Opinion
Unqualified

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 90,000,000 (2018: EUR 42,000,000). The materiality is determined with reference to total assets (0.5%). We consider total assets as the most appropriate benchmark as the assets of the Company generate the cash flows required to service the notes issued, the Company's noteholders – as the primary stakeholders of the entity – will focus primarily on the appropriate accounting (including valuation) for these assets. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

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

Our key audit matters

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

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

Estimation Uncertainty for Financial Instruments Measured at Fair Value

Description

The Company entered into derivative contracts to manage its interest rate risks and currency risks relating to the financial instruments issued by the Company as well as the loans granted to Daimler Group companies. The Company's portfolio consists of forward contracts, long-term interest rate swaps and cross currency swaps. These derivative financial instruments are measured at fair value based on market information.

Because observable market prices are not available, since individual derivative financial instruments are not listed or are not traded regularly, the market value is estimated by the Board of Management, as disclosed in Note 2 and in the Accounting Principles for the financial statements.

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

Our response

We have involved valuation specialists in our audit team to evaluate the methodologies, inputs and assumptions used by the Company in determining the fair values of derivative financial instruments. In this respect we compared the outcome of the Company's valuation model with the values calculated independently by our valuation specialists.

Additionally, we assessed the appropriateness of the disclosures included in note 22 of the financial statements relating to derivative financial instruments in the financial statements in accordance with IFRS.

Our observation

The results of our procedures relating to the company's valuation of derivative contracts measured at fair value were satisfactory. We observed that Board of Management valued the financial instruments in a neutral way and that the disclosure of the assumptions, risks and valuations of the derivative financial instruments is adequate, in accordance with the requirements of the EU-IFRS.

Hedge accounting

Description

The Company manages its exposure to interest rate and foreign currency risk by means of derivative financial instruments and applies hedge accounting to a significant part of its derivatives portfolio to avoid the accounting mismatch between the measurement of the derivatives (fair value) and the hedged item (amortized cost or off balance) in its financial statements. The accounting treatment of derivative financial instruments depends on whether the hedge relationship qualifies for hedge accounting and whether it is a fair value or cash flow hedge accounting relationship.

Given the significance of the application of hedge accounting for the financial position as a whole and the inherent complexity of hedge accounting we consider this a key audit matter.

Our response

We have inspected the hedge documentation provided by the Company supporting hedge accounting and have assessed the calculation method of the defined hedged risk, and we have assessed the Company's hedge effectiveness testing. We have assessed each hedge relationship based on the accounting requirements of IFRS 9. We have also assessed whether the disclosure requirements were met in the financial statements.

Our observation

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

Estimation Uncertainty in Respect of the Valuation of Loans and Receivables to Group Entities

Description

The Company is a financing entity entering into financing arrangements to fund Daimler AG and its subsidiaries ('the Group'). The company has no substantial assets other than the loans to Group companies. The repayment of loans extended to Group companies is guaranteed by Daimler AG above a threshold of EUR 10 million on a portfolio level. The Company is therefore, besides being dependent on the creditworthiness of the direct counterparty of its loans, dependent on the creditworthiness of Daimler AG as a whole for repayment of loans extended to Group companies. This is highlighted in Note 10 of the financial statements. Given the relevance to the financial statements of the Company, we consider this a key audit matter.

Our response

Our audit procedures included an assessment of the creditworthiness of the financial position and liquidity of the Daimler Group to assess whether the loans and receivables extended to other Group entities are recoverable under the terms of the guarantee. To this end we have performed, amongst others, the following procedures with respect to the exposure on Group entities:

- Inspect the audited 2019 financial statements of Daimler AG;
- Inquired with management regarding recent developments in the financial position and cash flows of the Group and whether any conditions exist as at, or subsequent to the reporting date that may lead to Daimler AG's inability to meet its contractual obligations. In this respect we also refer to the following key audit matter "Assessment of going concern assumption in the light of the potential impact of Covid-19.
- Evaluation of the information from rating agencies Moody's Investor Service, Standard & Poor's Ratings Group and Fitch Ratings with respect to the credit ratings of Daimler AG as at 31 December 2019.
- Perform an assessment of the financial condition and performance of the direct counterparties to identify potential impairment triggers for the loans advanced by DIF.
- Inspect the terms and conditions of the Guarantee Agreement between Daimler AG and the Company in relation to the loans and receivables extended to Group entities.

Our observation

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

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

Description

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

Our response

We considered the uncertainties arising from Covid-19 in planning and performing our audit. Our procedures included, amongst other things:

- consideration of management's assessment of Covid-19 related of risk for the company's business and financial resources compared with our own understanding of the risks. This includes the consideration of management's plans to take action to mitigate the risks;
- evaluation of the assumptions in respect of projected available future cash flows from operating and financing activities;
- comparison of management's analysis to our assessment of the full range of reasonably possible scenarios resulting from Covid-19 uncertainty;
- inspection of supporting documentation such as contracts, waivers and underlying calculations and correspondence with financing and other relevant parties;
- evaluation of the KPMG Group audit team's assessment performed on the going concern assumption at Daimler AG level, which could impact the ability of the Parent company to meet its commitments under the terms of the guarantee related to the recoverability of intercompany receivables;
- evaluation of the disclosure about liquidity risk and the related going concern assumption as set forth in note 23, including those in the management report.

Our observation

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

Report on the other information included in the annual report

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

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

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

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

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

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

Report on other legal and regulatory requirements

Engagement

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

No prohibited non-audit services

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

Description of responsibilities regarding the financial statements

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

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

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

The Supervisory Board is responsible for overseeing the Company’s financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

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

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

Utrecht, 29 April 2020

KPMG Accountants N.V.

S. van Oostenbrugge RA

Appendix:
Description of our responsibilities for the audit of the financial statements

Appendix

Description of our responsibilities for the audit of the financial statements

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

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

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

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

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

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

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