Daimler Finance North America LLC

Annual Report 2017

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Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements of Daimler Finance North America LLC (the Company) provide a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the Company's Management Report provides a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company.

Farmington Hills, MI (USA) April 26, 2018

Ruben Simmons
President & Chief Executive Officer

Gianni P. Gatto
Chief Accounting Officer

Management Report

General

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

DFNA accesses U.S. and foreign capital markets to raise funds, which it lends to DNA through a consolidated funding and cash management system. As such, it has relationships with other subsidiaries of DAG. DAG issued full and unconditional guarantees for DFNA's obligations incurred under its outstanding notes and bonds program and commercial paper program. DFNA and DNA entered into an intercompany loan agreement which is intended to mirror DFNA's external borrowings such that interest expense with third parties is offset by corresponding interest income from DNA.

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

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

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

The following discussion should be read in conjunction with the DFNA's financial statements as of and for the years ended December 31, 2017 and 2016, which were prepared using International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Note 3 to the financial statements provides an overview of the Company's significant accounting policies.

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

Earnings

Interest Income

Interest income increased to $734,368 in 2017 from $640,166 in 2016, an increase of 15%. The increase was caused by a higher average balance of receivables from related parties in 2017 compared to 2016.

Interest Expense

Interest expense increased to $734,368 in 2017 from $640,166 in 2016, an increase of 15%. The increase was caused by a higher average balance of external borrowings in 2017 compared to 2016.

Guarantee Fees

Guarantee fees charged by DAG (12.5 bp on outstanding external debt) were $34,693 in 2017, compared to $31,261 in 2016; the Company's outstanding balances of external borrowings were higher on average in 2017 compared to 2016.

Other Financial Income (Expense), Net

The other financial income (expense), net was $0 in 2017 compared to $11 in 2016.

Administrative Expenses

Administrative expenses were $3,391 and $3,090 for 2017 and 2016, respectively.

Reimbursement of Expenses from DNA

DFNA and DNA are parties to an agreement where DNA reimburses DFNA for any and all expenses incurred in connection with the administration of DFNA's notes and bonds program and commercial paper program. The reimbursement of net expenses from DNA amounted to $38,084 in 2017 and $34,340 in 2016.

Net Income

Net income was $0 in both 2017 and 2016.

Financial Position

Total assets were $27,943,104 at December 31, 2017 compared to $26,911,610 at December 31, 2016, an increase of $1,031,494 or 4%. The increase is primarily due to issuances of loans to related parties exceeding the repayments of loans to related parties in 2017.

Total liabilities were $27,943,104 at December 31, 2017 compared to $26,911,610 at December 31, 2016, an increase of $1,031,494 or 4%, primarily reflecting the issuances of notes and bonds exceeded the repayments of notes and bonds in 2017.

Liquidity and Capital Resources

In the ordinary course of business, the Company issues notes and bonds and commercial paper in the US and foreign capital markets and lends the proceeds to DNA. In 2017, $6,480,475 new notes and bonds were issued, while there were $5,980,789 new issuances in 2016. The Company had neither cash nor cash equivalents as of December 31, 2017 and 2016.

Risk Report

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

Economic Risks

In the United States, the tax reform recently passed and a generally more expansive fiscal policy could result in additional stimulus that has not previously been considered. If a significantly more dynamic investment activity ensues there, leading to stronger growth in combination with positive employment and income effects, this could boost demand in all automotive divisions. Furthermore, stronger growth in the United States would also have spillover effects on the rest of the world. However, the disadvantages of such an expansionary fiscal policy are a worsening of the debt situation in the United States and the risk that the central bank ("Fed") might feel forced to raise interest rates more significantly than previously assumed in order to counteract strong inflationary pressure. This would increase the existing risks arising from the Fed's exit from its expansive monetary policy and from the increase in the federal funds rates. As a result, increasing lending rates could dampen the recovery of the real-estate market and companies' propensity to invest. There is also the risk of sharp falls in share prices triggering a chain reaction on global stock markets, resulting in major market adjustments and phases of exceptional volatility in the global financial markets. Such developments could have a negative impact on the investment climate worldwide, with negative effects on the world economy.

Industry Risks

Overcapacity and intense price competition in the automotive industry could force the Daimler companies in the United States, which are financed by DFNA, to decrease production, reduce capacity or increase sales incentives, each of which would be costly and would indirectly affect the financial position of the Company significantly.

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

Financial Risks

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

Note 8 to the Company's financial statements describes the risk management strategies employed by the Company to address such risks.

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

Corporate Governance

Corporate Bodies

As of December 31, 2017, the Company had eight officers and a board of directors which comprised three members. With this segregation, the officers are responsible for managing the day to day operations of the Company while the board of directors advises and monitors the officers.

Compliance

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

Risk Management and Internal Control

The risk management system is an integral part of the overall planning, controlling and reporting process. Its goal is to enable the Company's management to recognize significant risks at an early stage and to initiate appropriate countermeasures in a timely manner (see note 8).

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

Accounting Principles

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

Outlook

Management expects net income and equity to be $0 in 2018. This expectation is based on the assumption of a stable economic development and continuation of the Company's business model.

KPMG LLP
Suite 1900
150 West Jefferson
Detroit, MI 48226

Independent Auditors' Report

The Board of Directors
Daimler Finance North America LLC:

We have audited the accompanying financial statements of Daimler Finance North America LLC, which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Daimler Finance North America LLC as of December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

KPMG LLP

Detroit, Michigan
April 26, 2018

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

Statement of Comprehensive Income

		Year ended December 31,	
	Note	**2017**	**2016**
Interest income – related parties		734,368	640,166
Interest expense – third parties		(734,368)	(640,166)
Guarantee fees – DAG	4	(34,693)	(31,261)
Net interest expense		**(34,693)**	**(31,261)**
Other financial income	5	–	11
Administrative expenses	4	(3,391)	(3,090)
Reimbursement of expenses from DNA	4	38,084	34,340
Net income		**-**	**-**
Other comprehensive income		–	–
Total comprehensive income		**-**	**-**

The accompanying notes on pages 14 to 25 are an integral part of the financial statements.

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

Statement of Financial Position

		December 31,	
	Note	**2017**	**2016**
Assets			
Receivables from related parties	4	21,129,542	21,173,603
Total non-current assets		**21,129,542**	**21,173,603**
Receivables from related parties	4	6,567,518	5,517,037
Accrued interest income from DNA	7	246,044	220,970
Total current assets		**6,813,562**	**5,738,007**
Total assets		**27,943,104**	**26,911,610**
Equity and liabilities			
Total equity		**-**	**-**
Notes and bonds payable	7	21,129,542	21,173,603
Total non-current liabilities		**21,129,542**	**21,173,603**
Payables to related parties	4	20,247	19,248
Other provisions		252	120
Notes and bonds payable	7	6,547,019	5,497,669
Accrued interest expense	7	246,044	220,970
Total current liabilities		**6,813,562**	**5,738,007**
Total liabilities		**27,943,104**	**26,911,610**
Total equity and liabilities		**27,943,104**	**26,911,610**

The accompanying notes on pages 14 to 25 are an integral part of the financial statements.

Statement of Changes in Equity

	Member's Investment	Retained Earnings	Other Reserves	Total Equity
Balance at January 1, 2016	-	-	-	-
Net income	-	-	-	-
Total comprehensive income	-	-	-	-
Transactions with members directly recognized in equity	-	-	-	-
Balance at December 31, 2016	-	-	-	-
Net income	-	-	-	-
Total comprehensive income	-	-	-	-
Transactions with owners directly recognized in equity	-	-	-	-
Balance at December 31, 2017	-	-	-	-

The accompanying notes on pages 14 to 25 are an integral part of the financial statements.

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

Statement of Cash Flows

		Year ended December 31,	
	Note	2017	2016
Net income		-	-
Adjustments for			
Foreign exchange gains	5	-	(11)
Non-cash interest expense		24,814	24,116
Changes in			
Receivables from related parties	4	(1,006,420)	(929,573)
Payables to related parties	4	999	(480)
Other provisions		132	(8)
Net cash used in operating activities		**(980,475)**	**(905,956)**
Net cash provided by investing activities		**-**	**-**
Repayments of notes and bonds payable	6	(5,500,000)	(4,550,000)
Issuances of notes and bonds payable	6	6,480,475	5,980,789
Repayments of commercial paper		-	(524,833)
Net cash provided by financing activities		**980,475**	**905,956**
Net increase/decrease in cash and cash equivalents		**-**	**-**
Cash and cash equivalents at the beginning of the period		**-**	**-**
Cash and cash equivalents at the end of the period		**-**	**-**
Supplemental information[1]:			
Interest paid		(684,480)	(630,978)
Interest received		684,480	630,978

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

The accompanying notes on pages 14 to 25 are an integral part of the financial statements.

Notes to the Financial Statements

1. General information

Daimler Finance North America LLC ("DFNA" or the "Company") is a limited liability company organized under the laws of Delaware. The Company is a wholly-owned subsidiary of Daimler North America Corporation ("DNA"), which is in turn a wholly-owned subsidiary of Daimler AG ("DAG"). Its registered office is located at 1209 Orange Street, Wilmington, Delaware 19801, USA.

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

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

On April 26, 2018, the Board of Directors of DFNA authorized the financial statements for issue.

2. Basis of preparation

(a) Applied IFRS

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

(b) IFRSs issued but not yet adopted

In July 2014, the IASB published IFRS 9 Financial Instruments, which replaces IAS 39. IFRS 9 includes a uniform model for classification and measurement methods (including impairment) of financial instruments. It also includes regulations for general hedge accounting. IFRS 9 requires additional notes disclosure, resulting from the amendment of IFRS 7 Financial Instruments - Disclosure.

This standard introduces principles-based requirements for classification and measurement of financial assets based on two assessments: the financial asset's contractual cash flow characteristics and the entity's business model for managing the financial asset. IFRS 9 also permits an entity to measure financial assets that would otherwise be mandatorily measured at amortized cost or fair value through other comprehensive income, at fair value through profit or loss, if doing so would eliminate or significantly reduce a measurement or recognition inconsistency.

Changes introduced by this standard in respect of financial liabilities are limited to the measurement of liabilities designated at fair value through profit or loss using the fair value option. Fair value changes of such financial liabilities which are attributable to the change in the entity's own credit risk are presented in other comprehensive income, unless doing so would introduce an accounting mismatch, in which case, the whole fair value change is presented in profit or loss. All other IAS 39 requirements in respect of liabilities have been carried forward.

Application of IFRS 9 is mandatory for reporting periods beginning on or after January 1, 2018. Early adoption is permitted. DFNA will apply IFRS 9 for the first time for the financial year beginning on January 1, 2018. In compliance with the transitional regulations, DFNA will not adjust the prior-year figures and will present the accumulated transitional effects in retained earnings. Effects can result in particular from the fact that the new regulations for recognizing impairments also include expected future losses, whereas IAS 39 only requires the recognition of impairments that have already occurred.

Examination of the effects on the financial statements of applying IFRS 9 with regard to classification and measurement, impairment and hedge accounting indicates that no material impact on DFNA's profitability, liquidity and capital resources or financial position is expected from the transition to IFRS 9.

Other IFRSs issued but not required to be adopted are not expected to have a significant impact on the Company's financial position and performance.

(c) IFRSs issued and applied for the first time

In January 2016, the IASB issued amendments to IAS 7, which requires disclosure of information enabling users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments do not define financing activities, instead they clarify that financing activities are based on the existing definition used in IAS 7. Although there is no specific format required to comply with the new requirements, the amendments include illustrative examples to show how an entity can meet the objective of these amendments. The amendments are to be applied prospectively for annual periods beginning on or after January 1, 2017 with earlier application permitted. Entities are not required to present comparative information for earlier periods. The Company adopted those amendments prospectively from January 1, 2017 and presents a reconciliation between the beginning and ending balances for liabilities with changes arising from financing activities during 2017 in Note 6.

The adoption of those amendments did not have a material impact on the financial position or performance of the Company.

(d) Basis of measurement

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

(e) Functional and presentation currency

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

(f) Presentation in the statement of financial position

Presentation in the statement of financial position differentiates between current and non-current assets and liabilities. Assets and liabilities are classified as current if they mature within one year.

(g) Accounting estimates and assessments

The preparation of financial statements requires management to make estimates, assessments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Management's most important estimates relate to the fair values of the Company's notes and bonds payable and receivables from DNA. Refer to note 7 for additional information.

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

Significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements relate to the recoverability of receivables from related parties and fair value measurements for the Company's financial instruments.

Recoverability of loans and receivables from related parties

At each reporting date, the carrying amounts of loans and receivables are evaluated to determine whether there is objective significant evidence of impairment. Through December 31, 2017, no impairment losses on receivables from related parties have been recognized as management does not believe that there has been objective significant evidence of impairment.

Fair value of financial instruments

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

- Quoted market prices in an active market for an identical instrument.

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

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

3. Summary of significant accounting policies

(a) Interest income and expense

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

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

(b) Foreign currency translation

Transactions in foreign currency are translated at the relevant foreign exchange rates prevailing at the transaction date. In subsequent periods, monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into U.S. dollars at the spot exchange rate at that date. The gains and losses from such remeasurement are recognized in the statement of comprehensive income in the line “other financial income (expense), net” and net to $0 in 2017 compared to $11 in 2016.

(c) Income taxes

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

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

(d) Transactions with related parties

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

(e) Financial assets

Financial assets consist primarily of receivables from DNA, which arise from intercompany loans. These receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition at fair value plus transaction costs, they are subsequently carried at amortized cost using the effective interest method less any impairment losses, if necessary. Gains and losses are recognized in the statement of comprehensive income when the loans and receivables are derecognized or impaired. Interest effects on the application of the effective interest method are also recognized in profit or loss.

(f) Financial liabilities

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

4. Transactions with related parties

The following table sets forth amounts receivable from related parties:

	December 31,	
	2017	**2016**
Daimler North America Corporation	27,694,269	26,687,813
Daimler North America Corporation - accrued interest	246,044	220,970
Daimler North America Finance Corporation (DNAF)	2,791	2,827
Total	**27,943,104**	**26,911,610**

The receivables bear interest at fixed and variable rates ranging from 1.125% to 8.5%, with a weighted average interest rate of 2.7%. Variable rates are re-priced on a 3 month basis. Interest income is recorded using the effective interest method. The Company recorded interest income from DNA of $734,327 in 2017 and $640,155 in 2016. The Company holds cash receivables with DNAF, the US In-House Bank, and recorded interest income of $41 in 2017 and $11 in 2016.

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

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

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

As of December 31, 2016, aggregate annual maturities of receivables from related parties were as follows:

Year	Amount
2017	5,738,007
2018	6,040,754
2019	4,486,597
≥2020	10,646,252
Total	**26,911,610**

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

	December 31,	
	2017	2016
Daimler AG	20,247	19,248
Total	**20,247**	**19,248**

DFNA is charged fees for the full and unconditional guarantees on its outstanding notes and bonds and commercial paper programs by DAG. These fees are calculated as a set percentage of the outstanding notes and bonds and commercial paper at the end of each month at any given year. These guarantee fees were $34,693 and $31,261 for the years ended December 31, 2017 and 2016, respectively.

DFNA is charged for administrative overhead expenses by DNA. These expenses were $2,940 and $3,090 for the years ended December 31, 2017 and 2016, respectively, and are included in administrative expenses in the statement of comprehensive income.

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

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

5. Other financial income (expense), net

Other financial income (expense), net is comprised of the following:

	2017	2016
Result of foreign exchange transactions - gains (losses)	-	11
Total	**-**	**11**

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

6. Statement of cash flows

Changes in liabilities arising from financing activities.

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

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

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

7. Financial instruments

(a) Carrying amounts and fair values of financial instruments

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

	December 31, 2017		**December 31, 2016**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Loans and receivables				
Receivables from related parties	27,697,060	28,540,770	26,690,640	27,473,098
Accrued interest income from DNA	246,044	246,044	220,970	220,970
Total loans and receivables	27,943,104	28,786,814	26,911,610	27,694,068
Total financial assets	**27,943,104**	**28,786,814**	**26,911,610**	**27,694,068**
Financial liabilities carried at amortized cost				
Notes and bonds payable	27,676,561	28,520,403	26,671,272	27,453,729
Payables to related parties	20,247	20,247	19,248	19,248
Accrued interest expense	246,044	246,044	220,970	220,970
Total financial liabilities carried at amortized cost	27,942,852	28,786,694	26,911,490	27,693,947
Total financial liabilities	**27,942,852**	**28,786,694**	**26,911,490**	**27,693,947**

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

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

	December 31, 2017				December 31, 2016			
	Total	Level 1[1]	Level 2[2]	Level 3[3]	Total	Level 1[1]	Level 2[2]	Level 3[3]
Loans and receivables	**28,786,814**	-	28,786,814	-	**27,694,068**	-	27,694,068	-
Financial liabilities carried at amortized cost	**28,786,694**	27,033,844	1,752,850	-	**27,693,947**	24,967,498	2,726,449	-
thereof notes and bonds	**28,520,403**	27,033,844	1,486,559	-	**27,453,729**	24,967,498	2,486,231	-
thereof other financial liabilities	**266,291**	-	266,291	-	**240,218**	-	240,218	-

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

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

Receivables from related parties

DFNA intends to hold receivables from DNA to maturity. None of these receivables have been derecognized or are impaired, and the Company does not believe that these receivables are at risk of being impaired. The Company believes that the fair value of the receivables from DNA approximates the fair value of the external notes and bonds payable at December 31, 2017 and 2016, as the terms and interest rates of the receivables from DNA are intended to mirror DFNA's external borrowings such that interest expense and debt maturities with third parties are offset by corresponding interest income and loan maturities from DNA.

Notes and bonds payable

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

Other financial liabilities

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

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

(b) Notes and bonds payable

DFNA's obligations under the notes and bonds program are fully and unconditionally guaranteed by its ultimate parent company, DAG. Contemporaneously, DFNA and DNA entered into an agreement according to which DNA reimburses DFNA for any and all fees incurred by DFNA in the course of the administration of the program.

Terms and conditions of notes and bonds payable outstanding at December 31, 2017 are as followed:

	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount
US-Dollar Notes and Bonds					
Medium Term Note	USD	1.875%	2018	1,000,000	999,899
Medium Term Note	USD	Libor+0.42%	2018	500,000	499,945
Medium Term Note	USD	1.650%	2018	1,000,000	999,779
Medium Term Note	USD	Libor+0.45%	2018	250,000	249,937
Medium Term Note	USD	1.650%	2018	800,000	799,615
Medium Term Note	USD	Libor+0.86%	2018	250,000	249,927
Medium Term Note	USD	2.375%	2018	1,250,000	1,249,134
Medium Term Note	USD	2.000%	2018	1,000,000	999,121
Medium Term Note	USD	Libor+0.25%	2018	500,000	499,662
Medium Term Note	USD	1.500%	2019	1,500,000	1,497,260
Medium Term Note	USD	Libor+0.74%	2019	250,000	249,748
Medium Term Note	USD	2.250%	2019	750,000	748,200
Medium Term Note	USD	2.250%	2019	500,000	499,170
Medium Term Note	USD	1.750%	2019	1,100,000	1,097,666
Medium Term Note	USD	Libor+0.62%	2019	400,000	399,511
Medium Term Note	USD	2.300%	2020	1,000,000	998,261
Medium Term Note	USD	Libor+0.63%	2020	400,000	399,462
Medium Term Note	USD	2.250%	2020	1,250,000	1,247,210
Medium Term Note	USD	2.125%	2020	400,000	398,500
Medium Term Note	USD	2.125%	2020	100,000	99,999
Medium Term Note	USD	2.200%	2020	750,000	747,975
Medium Term Note	USD	Libor+0.53%	2020	500,000	499,219
Medium Term Note	USD	2.450%	2020	1,300,000	1,297,038
Medium Term Note	USD	2.700%	2020	850,000	847,898
Medium Term Note	USD	2.300%	2021	1,100,000	1,095,588
Medium Term Note	USD	Libor+0.43%	2021	400,000	399,232
Medium Term Note	USD	2.875%	2021	650,000	648,479
Medium Term Note	USD	2.000%	2021	1,250,000	1,247,358
Medium Term Note	USD	3.875%	2021	750,000	745,604
Medium Term Note	USD	2.200%	2021	1,000,000	997,827
Medium Term Note	USD	2.850%	2022	850,000	847,430
Medium Term Note	USD	2.850%	2022	250,000	251,255
Medium Term Note	USD	3.250%	2024	500,000	495,768
Medium Term Note	USD	3.300%	2025	650,000	647,409
Medium Term Note	USD	3.500%	2025	500,000	496,939
Medium Term Note	USD	3.450%	2027	750,000	745,100
Bond	USD	8.500%	2031	1,500,000	1,484,436
Total US-Dollar Notes and Bonds				**27,750,000**	**27,676,561**
Total					**27,676,561**

8. Management of financial risks

(a) Introduction

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

- credit risk
- liquidity risk
- finance market risks

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

This note presents information about the Company's exposure to each of the above risks, and the objectives, policies and processes for measuring and managing risk. As part of its policies and processes for managing and measuring, if necessary, these risks, the Company monitors DAG's liquidity position. DAG's financial statements are publicly available.

Debt ratings are an assessment by the rating agencies of the credit risk associated with DAG and are based on information provided by DAG or other sources. Lower ratings generally result in higher borrowing costs and reduced access to capital markets. Standard & Poor's Rating Services ("S&P"), Moody's Investors Service, Inc. ("Moody's"), Fitch Ratings Ltd. ("Fitch"), the European rating agency Scope Ratings AG ("Scope"), and the Canadian agency DBRS ("DBRS") rate DAG's commercial paper (short-term) and senior unsecured long-term debt (long-term). For the first time, DAG received a credit rating from the European rating agency Scope Ratings AG (Scope). Scope assigned a corporate issuer rating of A and a stable outlook to Daimler AG and its financing subsidiaries, with a short-term rating of S-1.

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

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

DAG's ratings as of December 31, 2016 were as follow:

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

(b) General information on financial risks

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

(c) Credit risk

Credit risk is the risk of economic loss arising from counterparty's failure to repay or service debt in accordance with the contractual terms. Credit risk encompasses both the direct risk of default and the risk of a deterioration of creditworthiness as well as concentration risks.

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

(d) Liquidity risk

Liquidity risk encompasses the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities in full when due. DFNA's source of liquidity is its external borrowings. The funds are primarily used to finance working capital and capital expenditure requirements as well as the cash needs of the lease and financing business of the DNA subsidiaries.

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

In February 2011, DFNA entered into a $3,000,000 private placement of a commercial paper program. The commercial paper balance was $0 at December 31, 2017 and 2016. DFNA's obligations under the commercial paper program are fully and unconditionally guaranteed by its ultimate parent company, DAG.

In September 2013, the Company, together with DAG and other DAG subsidiaries, entered into a Euro 9 billion credit facility for a five year term and two extension options of one year in total with a syndicate of international banks. In 2014, DAG exercised the option to extend the credit line by a further year until 2019. In 2015, DAG exercised the second extension option to extend the credit line by a further year until 2020. This facility provides funds for general corporate purposes. Prior approval from DAG is required before the Company can access this credit line. At the end of 2017 and through the issuance date of these financial statements, this facility was not utilized by the Company.

The liquidity runoff shown in the following table provides an insight into how the liquidity situation of the Company is affected by the cash flows of financial liabilities as of December 31, 2017. It comprises a runoff of the undiscounted contractual principal and interest cash outflows of the financing liabilities and undiscounted payments from other financing liabilities.

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

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

The liquidity runoff as of December 31, 2016 is shown in the following table.

	Total	2017	2018	2019	2020	2021	≥ 2022
Notes and bonds – principal	**26,750,000**	5,500,000	6,050,000	4,500,000	3,900,000	3,650,000	3,150,000
Notes and bonds – interest	**3,634,428**	631,066	538,663	455,818	335,700	268,106	1,405,075
Payables to related parties	**19,248**	19,248	-	-	-	-	-
Total	**30,403,676**	**6,150,314**	**6,588,663**	**4,955,818**	**4,235,700**	**3,918,106**	**4,555,075**

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

(e) Finance market risks

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

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

9. Related party relationships

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

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

10. Capital management

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

The Company is part of the worldwide financial management that is performed for all Daimler Group entities by DAG's Corporate Treasury. Financial management operates within a framework of guidelines, limits and benchmarks; for DFNA, these are described in more detail in note 8.