

Financial Statements and Audit Report

Mercedes-Benz Finance Co., Ltd.

The twenty-eighth fiscal year

From January 1, 2018 to December 31, 2018

Independent Auditor's Report

The Board of Directors
Mercedes-Benz Finance Co., Ltd.

We have audited the financial statements, comprising the balance sheet, the statement of income, the statement of changes in net assets and the related notes, and the supplementary schedules of Mercedes-Benz Finance Co., Ltd. as at December 31, 2018 and for the year from January 1, 2018 to December 31, 2018 in accordance with Article 436-2-1 of the Companies Act.

Management's Responsibility for the Financial Statements and Others

Management is responsible for the preparation and fair presentation of the financial statements and the supplementary schedules in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of financial statements and the supplementary schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements and the supplementary schedules based on our audit as independent auditor. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the supplementary schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the supplementary schedules. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements and the supplementary schedules, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements and the supplementary schedules in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the supplementary schedules.

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

Opinion

In our opinion, the financial statements and the supplementary schedules referred to above present fairly, in all material respects, the financial position and the results of operations of Mercedes-Benz Finance Co., Ltd. for the period, for which the financial statements and the supplementary schedules were prepared, in accordance with accounting principles generally accepted in Japan.

Other Matter

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

KPMG AZSA LLC

March 5, 2019

Tokyo, Japan

Financial Statements (Translation)

The Twenty-eighth Fiscal Year

From January 1, 2018 to December 31, 2018

Mercedes-Benz Finance Co., Ltd.

Mercedes Benz Finance Co., Ltd.

Balance Sheet

As of December 31, 2018

(Unit: 1,000 yen)

ASSETS	Amount	LIABILITIES	Amount
Current assets:	(698,112,748)	Current liabilities:	(374,868,277)
Cash in banks	16,628,719	Trade accounts payable	11,662,325
Short-term loans receivable	99,189,498	Short-term loans payable	144,159,346
Investment in finance leases	231,415,491	Current portion of long-term	79,000,000
Installment sales receivables	320,016,391	Current portion of bonds	110,545,732
Factoring receivables	3,081,419	Other payables	762,756
Other trade receivables	688,045	Accrued expenses	1,756,431
Prepaid expenses	16,721,560	Income taxes payable	2,709,410
Other receivables	824	Advances received	7,097,897
Deferred tax assets	3,531,505	Allowance for bonuses	200,171
Other current assets	7,432,522	Unrealized profit on installment sales	15,756,582
Allowance for doubtful	△ 593,231	Other current liabilities	1,217,623
Non-current assets:	(30,699,233)	Non-current liabilities:	(297,302,079)
Tangible fixed assets:	(29,502,279)	Bonds	96,111,623
Operating lease assets	29,338,234	Long-term loans payable	198,964,578
Leasehold improvements	119,977	Other non-current liabilities	2,225,876
Furniture and fixtures	44,067		
Intangible fixed assets:	(507,678)	TOTAL LIABILITIES	672,170,356
Software	504,696	NET ASSETS	
Telephone rights	2,981	Shareholders' equity:	(56,661,052)
		Paid-in capital	(4,400,000)
Investments and other assets:	(683,072)	Capital surplus:	(4,400,000)
Long-term loans receivable	105,000	Capital reserve	400,000
Guarantee deposits	51,207	Other capital surplus	4,000,000
Investment and others	290,780	Earned surplus:	(47,861,052)
Deferred tax assets	236,084	Legal reserve	1,100,000
Deferred assets:	(6,203)	Retained earnings	46,761,052
Bond issuance cost	6,203	Valuation and translation adjustments:	(△ 19,427)
		Unrealized loss on derivatives	
		used in hedge accounting	△ 19,427
		TOTAL NET ASSETS	56,641,625
TOTAL ASSETS	728,811,981	TOTAL LIABILITIES AND NET ASSETS	728,811,981

(Note) Amounts are rounded down to the nearest thousand yen.

Mercedes-Benz Finance Co., Ltd.

Income Statement

For the fiscal year ended December 31, 2018

(Unit: 1,000 yen)

Sales:		
Installment sales	11,603,698	
Operating lease income	5,571,224	
Interest income on finance leases	8,500,495	
Interest income on loans	406,294	
Other income	6,513,575	32,595,287
Cost of Sales:		
Cost of installment sales	3,150,059	
Cost of operating leases	4,962,738	
Other costs	6,277,178	
Financing costs	1,461,132	15,851,109
Gross profit		16,744,178
Selling, general and administrative expenses		4,845,735
Operating income		11,898,443
Non-operating income:		
Miscellaneous income		3,137
Recovery Prior Year Write-Offs		47,755
Non-operating expense:		
Exchange loss		1,827
Ordinary income		11,947,509
Extraordinary loss		
Loss on retirement of fixed assets		3,814
Net income before taxes		11,943,694
Income taxes - current		4,390,062
- deferred		△ 599,259
Net income		8,152,891

(Note) Amounts are rounded down to the nearest thousand yen.

Mercedes-Benz Finance Co., Ltd.

Statement of Changes in Shareholders' Equity

For the fiscal year ended December 31, 2018

(Unit: 1,000 yen)

	Shareholders' equity								Valuation and translation adjustments		Total net assets
	Paid-in capital	Capital surplus			Earned surplus			Total shareholder's equity	Unrealized loss on derivatives used in hedge accounting	Total valuation and translation adjustments	
		Capital reserve	Other capital surplus	Total capital surplus	Legal reserve	Retained earnings	Total earned surplus				
Balance as of January 1, 2018	4,400,000	400,000	-	400,000	1,100,000	28,060,932	29,160,932	33,960,932	Δ 5,806	Δ 5,806	33,955,125
Changes during the year											
Dividend						Δ 800,064	Δ 800,064	Δ 800,064			Δ 800,064
Net income for the year						8,152,891	8,152,891	8,152,891			8,152,891
Changes due to merger			4,000,000	4,000,000		11,347,293	11,347,293	15,347,293			15,347,293
Changes in items other than shareholders' equity during the year (net)									Δ 13,620	Δ 13,620	Δ 13,620
Total changes during the year	-	-	4,000,000	4,000,000	-	18,700,120	18,700,120	22,700,120	Δ 13,620	Δ 13,620	22,686,500
Balance as of December 31, 2018	4,400,000	400,000	4,000,000	4,400,000	1,100,000	46,761,052	47,861,052	56,661,052	Δ 19,427	Δ 19,427	56,641,625

(Note) Amounts are rounded down to the nearest thousand yen.

Notes to Financial Statements

Amounts included in the following notes to the financial statements are rounded down to the nearest thousand yen.

1. Significant Accounting Policies

(1) Valuation standards and methods for significant assets

Derivative financial instruments

Derivative financial instruments are carried at fair value.

(2) Depreciation and amortization

1) Tangible fixed assets

Operating lease assets are depreciated using the straight-line method over the lease contract period with an estimated disposal value at the expiry of the lease contract as a residual value. Tangible fixed assets other than operating lease assets are depreciated using the declining balance method. However Leasehold improvements acquired on or after April 1, 2016 are depreciated using straight-line method. Useful lives applied are as follows.

Operating lease assets	1 ~ 8 years
Leasehold improvements	8 ~ 50 years
Furniture and fixtures	5 ~ 20 years

2) Intangible fixed assets

Software for internal use is amortized using the straight-line method over the estimated useful life of five years.

(3) Allowances

1) Allowance for doubtful accounts

Allowance for doubtful accounts is recorded based on historical experience to provide for estimated losses on bad debts.

2) Allowance for bonuses

Allowance for bonuses has been established based on amounts incurred in the current year.

(4) Revenue recognition

- 1) Revenue from operating lease contracts is recognized as "operating lease income" on an accrual basis over the lease contract period.
- 2) Revenue from finance leases without ownership-transfer consists of interest income allocated to each period not including lease payments received from users.
- 3) Gross receivable from installment sales are recorded at execution of installment sales contracts. Interest on such receivables is recognized when each installment becomes due. Interest on installment receivables that have not fallen due is deferred as Unrealized profit on installment sales.

(5) Method of amortization for deferred assets

Bond issuance cost: The straight-line method over the bond redemption period.

(6) Hedge accounting

- 1) Method of hedge accounting

The company adopts the deferral method of hedge accounting.

- 2) Hedging instruments and hedged items

<u>Hedging instruments</u>	<u>Hedged item</u>
Interest rates swap	Loans payable
Interest rates swap	Bond Interest rate of foreign currency bond
Currency swap	Foreign currency bond and interest

- 3) Hedging policy

The Company established internal rules regarding derivatives, which include policies and procedures for risk assessment, approval, reporting and monitoring. The Company uses derivatives mainly to hedge market risk exposures resulting from liabilities on the balance sheet and does not own derivatives for trading purposes. The Company uses interest-rate swap contracts for the purpose of avoiding risk against change in bond interest on foreign currency bond. The amounts of derivatives are limited to the extent of interest.

The Company uses currency swap, limited to the range of the issuance amounts and interest amounts of foreign currency bond, for the purpose of mitigating future risks of fluctuation of foreign currency exchange rates.

- 4) Evaluation of the hedging effectiveness

In principle, the Company evaluates hedge effectiveness based on the coverage ratio calculated by comparison between accumulated changes in cash flow of hedged items and hedging instruments from commencement of the hedge through time of the evaluation. However the Company omits the evaluation under the circumstances where important conditions of contract for hedged items match those on hedging instrument and market risk or change in cash flow is supposed to be offset each other at the time of commencement and later period.

(7) Accounting for consumption taxes

Consumption tax is excluded from measurement of related transactions.

2. Notes to the Balance Sheet

(Unit: 1,000 yen)

1) Receivables from and payables to affiliated companies	
Short-term monetary receivables	850,174
Long-term monetary receivables	43,632
Short-term monetary payables	53,706,368
2) Accumulated depreciation of tangible fixed assets	
Operating lease assets	4,652,420
Other tangible assets	83,256
Total	<u>4,735,676</u>
3) Operating lease receivables due after the balance sheet date	15,618,349
4) Trade receivables due after more than one year from the	
Installment sales receivables	217,751,740
Investment in finance leases	132,550,316
Operating lease receivables due after the balance sheet date	9,841,423
Total	<u>360,143,479</u>
5) Breakdown of Investment in finance lease	
Investment in finance lease-Gross	157,725,455
Estimated residual value	87,277,439
Unearned interest	Δ 13,587,402
Total	<u>231,415,491</u>

3. Notes to the Income Statement

(Unit: 1,000 yen)

1) Transactions with affiliated companies	
Cost of sales	499,537
Operating expenses	399,477
2) Details of financing cost	
Interest expense and others	1,461,132
3) Total finance lease revenue and cost	
Gross finance lease revenue	129,187,867
Gross finance lease cost	<u>120,687,372</u>
Net	<u>8,500,495</u>

4. Notes to the Statement of Changes in Shareholders' Equity

(1) Type and total number of outstanding shares

(Unit: Shares)

Share Type	Beginning Balance	Increase	Decrease	Ending Balance
Common stock	96,000	36,736	-	132,736

(2) Dividends

Dividend payments

The following resolution regarding dividends was made at the regular shareholders' meeting held on March 26, 2018.

Dividends on Common Shares

- | | |
|-----------------------|-------------------|
| 1) Total dividend | 800 million yen |
| 2) Dividend per share | 8,334 yen |
| 3) Date of record | December 31, 2017 |
| 4) Effective date | March 28, 2018 |

5. Deferred Tax Accounting

Main sources of deferred tax assets

The deferred tax assets mainly arise from allowances for doubtful accounts, depreciation, deferred subsidies and prepaid incentives.

6. Business Combination

We concluded a merger agreement with Daimler Financial Services Japan Co., Ltd. on November 10, 2017 under which our company is the surviving company and Daimler Financial Services Japan Co., Ltd. is the company absorbed in the merger. In accordance with this agreement, we absorbed Daimler Financial Services Japan Co., Ltd. on January 1, 2018.

(1) Summary of Business Combination

① Name of absorbed company and content of its business

Name of absorbed company : Daimler Financial Services Japan Co., Ltd.

Content of the business : Financing • Loan • Lease

② Reason for the business combination

We conducted an absorption-type merger to further expand our company's business by integrating hitherto dispersed management resources and streamlining our management.

③ Date of Business Combination

January 1, 2018

④ Legal form of the business combination

Absorption type merger in which our company is the surviving company and Daimler Financial Services Japan Co., Ltd. is the absorbed company

⑤ Our company's capital, contents of business, and the like, after the business combination

There is no change regarding our company's name, location, title and name of the representative, contents of business, capital or accounting period after the business combination.

⑥ Voting rights ratio acquired

100%

(2) Summary of accounting treatment

In accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No.21, September 13, 2013) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, September 13, 2013), we treat the merger as a common control transaction.

7. Financial Instruments

(1) General information of financial instruments

The Company manages and controls credit risk and residual value risk inherent in its main business, lease and installment sales of cars, based on the transaction information accumulated in the database. The Company's main sources of funding are bond issue and loans from related companies and banks.

(2) Risk control system for financial instruments

The Company does not conduct qualitative analysis of market risk. Financial instruments that are subject to risk of interest rate fluctuations are mainly Investment in finance leases, Installment sales receivables, bonds, and Long-term loans payable. Assuming all other risk factors remain unchanged, 10 basis point (0.1%) decrease of the market interest rate at December 31, 2018 would have caused an increase of fair value of net financial assets and liabilities by 281 million yen and 10 basis point (0.1%) increase would have caused a decrease of fair value of net financial assets and liabilities by 280 million yen.

(3) Fair values of financial instruments

The following table shows the carrying amounts and fair values of the financial instruments as of December 31, 2018.

(Unit: 1,000 yen)

	Carrying amount	Fair value	Difference
(1) Cash in banks	16,628,719	16,628,719	-
(2) Short-term loans receivable (*1) Allowance for doubtful accounts	99,189,498 Δ 77,999		
	99,111,498	99,112,600	1,101
(3) Investment in finance leases (*1)(*2) Allowance for doubtful accounts	231,415,491 Δ 487,727		
	230,927,763	219,523,490	Δ 11,404,273
(4) Installment sales receivables(*2) Unrealized profit on installment sales	320,016,391 Δ 15,756,582		
	304,259,809	301,317,687	Δ 2,942,122
Financial assets total	650,927,791	636,582,496	Δ 14,345,294
(1) Current portion of bonds	110,545,732	110,403,041	Δ 142,691
(2) Bonds	96,111,623	95,799,589	Δ 312,034
(3) Short-term loans payable	144,159,346	144,129,294	Δ 30,052
(4) Current portion of long-term loans payable	79,000,000	78,976,574	Δ 23,425
(5) Long-term loans payable	198,964,578	198,791,282	Δ 173,295
Financial liabilities total	628,781,281	628,099,782	Δ 681,498
Derivatives(*3)			
① Derivatives not used in hedge accounting	-	-	-
② Derivatives used in hedge accounting	280,454	280,454	-
Liabilities from derivatives total	280,454	280,454	-

(*1) Allowance for doubtful accounts are deducted.

(*2) Deferred subsidies are not deducted from carrying amounts.

(*3) Liabilities from derivatives are shown net of assets from derivatives.

(Note) The following methods and premises were used for calculation of the fair values of financial instruments.

Financial assets

(1) Cash in banks

Because of the predominant short maturities of these instruments in general, it is assumed that the fair values approximate the carrying amounts.

(2) Short-term loans receivable

The fair values of loans with variable interest rates are estimated to be equal to the respective carrying amounts since the actual interest rates and those available on the market do not significantly differ unless credit conditions of debtors materially deteriorate. The fair values of loans 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 could have been borrowed.

(3) Investment in finance leases and (4) Installment sales receivables

The fair values are determined on the basis of discounted expected future cash flows. The discounting is based on the current interest rates at which financial programs could have been utilized.

Financial liabilities

(1) Current portion of bonds, (2) Bonds, (3) Short-term loans payable, (4) Current portion of long-term loans payable and (5) Long-term loans payable

The fair values of loans with variable interest rates are estimated to be equal to the respective carrying amounts since the actual interest rates and those available on the market do not significantly differ. The fair values of loans with fixed interest rates are calculated as the present values of the estimated future cash flows using current market interest rates.

Derivatives

The fair values of derivatives are calculated based on the price presented by the financial institutions.

8. Related Party Transactions

(1) Parent Companies

Relation-ship	Company name	Business	Ownership percentage of voting right	Details of relationship		Transaction details	Transaction amount (1,000 yen)	Account	Ending balance (1,000 yen)
				Concurrent directorship	Business relationship				
Parent company	Mercedes-Benz Japan Co., Ltd.	Import, sales of automobiles and related services	95.01% (direct)	1	Financing services to customers of parent company, Borrowing Funds, Commission of administrative operation	Borrowing operating funds(※1)	-	Short-term loans payable	53,159,346
						Interest expense	355,532	Guarantee deposits	43,632
						Outsourcing fee	399,477	Interest Payable	5,698
								Trade Payable	37,139
								Other Payable	156,085
Parent company	Daimler AG	Production and sales of vehicles	95.01% (indirect)	-	Loan guarantee, Interest rate and Cross currency swap	Borrowing operating funds	144,004	Other Payable	328,154
								Interest Payable	27,404

(※1) The transaction amount is not shown because the transactions are carried out iteratively in accordance with Daimler group funding policy.

(2) Subsidiaries of Parent Companies

Relation-ship	Company name	Business	Ownership percentage of voting right	Details of relationship		Transaction details	Transaction amount (1,000 yen)	Account	Ending balance (1,000 yen)
				Concurrent directorship	Business relationship				
Subsidiary of parent company	Daimler Insurance Services Japan Co., Ltd.	Insurance services	-	3	Automobile insurance Outsourcing services	Outsourcing fee	12,436	Other receivables	824
						Commission income	36,938	Other payables	205
Subsidiary of parent company	Mitsubishi Fuso Truck and Bus Co., Ltd	Production and sales of vehicles	-	-	Borrowing operating funds Purchase of vehicles for leasing and installment sales	Purchase of vehicles for leasing and installment sales	59,966,525	Short-term loans payable	35,000,000

(3) Major shareholder

Relation-ship	Company name	Business	Ownership percentage of voting right	Details of relationship		Transaction details	Transaction amount (1,000 yen)	Account	Ending balance (1,000 yen)
				Concurrent directorship	Business relationship				
Major share-holder	YANASE & Co., Ltd.	Sales of automobiles	4.99% (direct)	-	Purchase of automobiles	Purchase of automobiles	41,395,967	Trade accounts payable Short-term loans receivable	3,097,105 68,218,463

(4) Transaction Terms and Policies to determine Transaction Terms, Etc.

1. Interest associated with the lending or borrowing of funds to or from the companies noted above is determined consistent with market conditions.
2. Outsourcing expenses are determined based on operating expenses incurred by Mercedes-Benz Japan Co., Ltd.
3. Outsourcing revenue is determined based on operating expenses paid on the behalf of Daimler Insurance Services Japan Co., Ltd.
4. Transaction amounts do not include consumption taxes. Ending balances include consumption taxes.

9. Per Share Information

- (1) Net assets per share 426,723.91 yen
- (2) Net income per share 61,421.85 yen

Supplementary Schedules of Financial Statements
(Translation)

The Twenty-eighth Fiscal Year

From January 1, 2018 to December 31, 2018

Mercedes-Benz Finance Co., Ltd.

1. Details of Tangible Fixed Assets and Intangible Fixed Assets

(Unit: 1,000 yen)

Category	Asset type	Net book value at beginning of year	Increase	Decrease	Depreciation and amortization	Net book value at end of year	Accumulated depreciation	Acquisition cost
Tangible fixed assets	Operating lease assets	10,593,937	32,981,301	10,231,606	4,005,398	29,338,234	4,652,420	33,990,654
	Leasehold improvements	115,585	11,669	-	7,278	119,977	33,185	153,162
	Furniture and fixtures	57,000	-	-	12,932	44,067	50,071	94,138
	Total	10,766,524	32,992,971	10,231,606	4,025,609	29,502,279	4,735,676	34,237,956
Intangible fixed assets	Software	451,910	179,413	4,023	122,603	504,696		
	Telephone rights	2,981	-	-	-	2,981		
	Total	454,892	179,413	4,023	122,603	507,678		

(Notes)(1) Major increases for the current year are as follows.

(Unit: 1,000 yen)

Operating lease assets	Purchase of operating lease assets	26,492,136
	Due to merger with Daimler Financial Services Japan Co., Ltd	6,489,165
Software	Purchase of software for internal use	167,845
	Due to merger with Daimler Financial Services Japan Co., Ltd	11,568

(2) The major decrease for the current year is as follows.

(Unit: 1,000 yen)

Operating lease assets	Disposal and sale of lease assets	10,231,606
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2. Details of Allowances

(Unit: 1,000 yen)

Category	Beginning balance	Increase	Decrease		Ending balance
			Utilization	Others	
Allowance for doubtful accounts	278,667	448,169	133,605	-	593,231
Allowance for bonuses	152,800	200,171	152,800	-	200,171

3. Details of Selling, General and Administrative Expenses

(Unit: 1,000 yen)

Account	Amount
Salaries and bonuses	1,577,231
Social insurance	211,163
Temporary staff salaries	194,085
Other personnel expense	290,650
Retirement and severance benefits	102,178
Recruiting	31,421
Couriers	999
Advertising	79,577
Bank charges	55,937
Entertainment	3,577
Travel	114,623
Transportation	69,657
Taxes and public dues	272,370
Rent	100,889
Communication	7,378
Supplies	5,043
Professional fees	413,153
Utilities	17,160
IT costs	259,306
Depreciation and amortization	142,814
Outside services	554,497
Provision for doubtful accounts	212,863
Amortization of guarantee deposits	14,383
Others	114,768
Total	4,845,735