

# DAIMLER



Annual Financial Statements 2007. Daimler AG

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# Management Report of Daimler AG

## Business and General Conditions

### The Company

The name of DaimlerChrysler AG was changed into Daimler AG by a resolution of the Extraordinary Shareholders' Meeting in October 2007. Previously, the majority of interest in Chrysler Holding LLC (80.1 % of the equity interest) had been transferred from our subsidiary Daimler North America Cooperation in August 2007.

As of January 1, 2007, smart gmbh was merged into Daimler AG. All of the functions of the smart company were integrated into the Mercedes-Benz organization.

In December 2007, subsidiaries of Daimler AG sold its real-estate properties at Potsdamer Platz in Berlin to SEB Asset Management AG and respectively to their affiliates. The transaction was carried out at the beginning of 2008.

Daimler AG is the parent company of the Daimler Group and has its registered office in Stuttgart.

The company can look back on a tradition covering more than one hundred years that features pioneering achievements in automotive engineering and extends back to Gottlieb Daimler and Carl Benz, the inventors of the automobile.

The business activities of Daimler AG comprise the development, production and distribution of passenger cars and commercial vehicles, in particular of the brands Mercedes-Benz, Maybach and smart, as well as the management of an automotive group with worldwide operations including additional brands such as Setra, Freightliner, Mitsubishi Fuso, Sterling, Orion, Western Star and Thomas Built Buses.

We support the sales of our automotive divisions with the financial services provided by our division Daimler Financial Services, which is managed by our subsidiary Daimler Financial Services AG.

Our portfolio ranges from high-quality small cars to premium automobiles and luxury sedans, and from versatile small vans to medium and heavy trucks for local and long-distance delivery and construction-site work. Worldwide, we are extremely well positioned with our passenger car and commercial-vehicle brands in nearly all markets and market segments.

Daimler AG develops its products primarily in its technology centers in Sindelfingen and Stuttgart-Untertürkheim. Research is carried out mainly in Ulm and Sindelfingen.

The vehicles are produced in our domestic plants as well as – within the framework of contract-manufacturing for example – by some of our foreign subsidiaries (e.g. M-, GL- and R-Class by Mercedes-Benz U.S. International, Inc., Tuscaloosa) and by manufacturers of special vehicles.

The distribution of the products of Daimler AG primarily takes place through our own sales network with 35 branches in Germany and numerous international sales subsidiaries and authorized agencies on all continents.

Our sales activities are particular the sale and leasing of new and used vehicles as well as the provision of repair services and the spare-parts business.

## Production locations of Daimler AG

<b>Passenger cars</b>	
Sindelfingen	C-Class sedan and sports coupe, E-Class sedan and station wagon, CLS, S-Class, CL coupe, Maybach
Bremen	C-Class sedan and station wagon, CLK coupe, SL roadster, SLK roadster
Rastatt	A-Class, B-Class
Stuttgart-Untertürkheim	Engines, axles and transmissions
Berlin	Engines
Hamburg	Axles, steering columns, pedal equipment, switches, parking brakes, exhaust manifolds and welded components
<b>Commercial vehicles</b>	
Düsseldorf	Sprinter
Kassel	Axles
Gaggenau	Axles, transmissions, torque converters
Mannheim	Engines, castings
Wörth	Actros, Atego, Axor, Unimog, Eonic

## Branch locations of Daimler AG

Aachen	Hanover	NDL-Verbund Rhein-Ruhr
Augsburg	Kassel	NDL-Verbund Ulm / Schwabisch Gmünd
Baden-Baden	Koblenz	NDL Weser-Ems
Berlin	Cologne	Nuremberg
Braunschweig	Landau	Ravensburg
Darmstadt	Leipzig	Regensburg
Dortmund	Magdeburg	Reutlingen
Dresden	Mainz	Saarland
Frankfurt / Offenbach	Mannheim	Stuttgart
Freiburg	Munich	Wuppertal / Solingen / Remscheid
Fulda	NDL-Verbund Ostsee	Würzburg / Schweinfurt
Hamburg	NDL-Verbund Ostwestfalen-Lippe	

## Selected sales companies of Daimler AG

DaimlerChrysler Automotive Polska Sp. z.o.o.	Mercedes-Benz Hong Kong
DaimlerChrysler Danmark AS	Mercedes-Benz Italia S.p.A.
DaimlerChrysler France S.A.S.	Mercedes-Benz Japan Co., Ltd.
DaimlerChrysler Nederland B.V.	Mercedes-Benz Korea Limited
DaimlerChrysler Schweiz AG	Mercedes-Benz Portugal - Comercio de Automoveis S.A.
DaimlerChrysler Sverige AB	Mercedes-Benz Russia SAO
Mercedes-Benz Australia / Pacific Pty. Ltd.	Mercedes-Benz (Thailand) Limited
Mercedes-Benz Belgium Luxembourg S.A.	Mercedes-Benz UK Limited
Mercedes-Benz Canada Inc.	Mercedes-Benz USA, LLC

## Legal Framework

The report of the legal framework provides also details pursuant to Section 289, Subsection 4 of the German Commercial Code as well as Section 120, Subsection 3 of the German Stock Corporation Act (AktG).

## Management

The distribution of tasks between the six members of the Board of Management of Daimler AG reflects the structure of the Group's organization as of December 31, 2007. The organizational structure of the Company and the Group features functional and divisional elements. Further information on persons and responsibilities can be found in the Notes to the Financial Statements on pages 76 ff.

The Company is managed by a Board of Management, whose members are authorized to represent it vis-à-vis third parties. The Board of Management must have at least two members, who, in accordance with Section 84 of the German Stock Corporation Act, are appointed by the Supervisory Board for a maximum period of office of five years. Reappointment or the extension of a period of office, in each case for a maximum of five years, is permissible. However, the Supervisory Board of Daimler AG has resolved to limit both initial appointments and reappointments in general to a maximum of three years in the future. These appointments and reappointments can only be made by a resolution of the Supervisory Board, and not more than one year before the end of the current period of office of the relevant Board of Management member. The Supervisory Board appoints one of the members of the Board of Management as the Chairman of the Board of Management. In exceptional cases, a member of the Board of Management can be appointed by the court in accordance

with Section 85 of the German Stock Corporation Act.

The Supervisory Board can revoke the appointment of a member of the Board of Management and of the Chairman of the Board of Management if there is an important reason to do so. Such a reason could be, for example, gross neglect of duty, lack of ability to conduct the management in a proper manner, or a vote of no confidence by the Annual Meeting.

## Remuneration

A description of the system of remuneration and the individualized details of the remuneration of the members of the Board of Management and of the Supervisory Board are shown in the **Remuneration Report** on pages 28 ff.

## Purpose of the Company, amendment to the Articles of Incorporation

The general purpose for which the Company is organized is defined in Article 2 of the Articles of Incorporation. Pursuant to Sections 133 and 179 of the German Stock Corporation Act, the Articles of Incorporation can only be amended by a resolution of the Annual Meeting. In accordance with Article 19, Paragraph 1 of the Articles of Incorporation, resolutions of the Annual Meeting are passed with a simple majority of the votes cast, unless otherwise required by binding provisions of applicable law, and with a simple majority of the capital stock represented at the Annual Meeting if this be required. Pursuant to Section 179, Subsection 2, Sentence 2 of the German Stock Corporation Act, any amendment to the purpose of the Company requires a 75 % majority of the capital stock represented at the Annual Meeting. Amendments to the Articles of Incorporation that only affect the word-

ing can be decided upon by the Supervisory Board in accordance with Article 7, Paragraph 3 of the Articles of Incorporation.

## Capital

The share capital of Daimler AG amounts to € 2,766 million as of December 31, 2007. It is divided into 1,013,868,596 individual registered shares. All shares grant equal rights to their holders. Each share confers one vote and the right to participate in dividend distributions. The rights and duties arising from the shares are derived from the provisions of applicable law.

## Share buyback, approved and conditional capital

By resolution of the Annual Meeting of April 4, 2007, the Board of Management was authorized until October 4, 2008, to acquire the Company's own shares for certain purposes up to a maximum corresponding amount of the capital stock of € 267 million, which is nearly 10 % of the capital stock. By December 31, 2007, this authorization has been utilized to buy back 49.96 million shares in a total amount of € 3,479 million; following their acquisition, the shares were cancelled without any reduction of the capital stock. The volume of the shares bought back is equivalent to 4.7 % of the shares outstanding at the beginning of the buyback program.

By resolution of the Annual Meeting of April 9, 2003, the Board of Management was authorized, with the consent of the Supervisory Board, to increase the capital stock during the period until April 8, 2008, by up to € 500 million through the issue of new registered no par value shares in exchange for cash contributions and by up to € 500 million through the issue of new registered no par value shares in exchange for non-cash contributions. The Board of Management is also au-

thorized to increase the capital stock by up to € 26 million for the purpose of issuing employee shares.

In addition, the Board of Management was authorized, with the consent of the Supervisory Board, during the period until April 5, 2010, to issue convertible and / or option bonds in a total amount of up to € 15 billion with a maximum term of 20 years and to grant the owners / lenders of these bonds conversion or option rights to new shares in Daimler AG with a corresponding amount of the capital stock of up to € 300 million, in accordance with the terms and conditions of the bonds.

## Change-of-control clause

Daimler AG has concluded various material agreements, as listed below, that include clauses regulating the possible occurrence of a change of control:

- A non-utilized syndicated credit line in a total amount of US \$5 billion, which the lenders are entitled to terminate if Daimler AG becomes a subsidiary of another company or comes under the control of one person or several persons acting jointly.

- A joint venture with Ford Motor Company for the development of fuel-cell systems; this joint venture can be terminated by either of the contracting parties if the other party is subject to a change of control. A change of control is defined here as the right to give instructions to the Board of Management and to determine the Company's guiding principles, the possibility to elect the majority of the members of the Supervisory Board, or possession of at least 40 % of the voting rights.

- An agreement concerning the acquisition of a majority (50.1 %) of the newly founded "Automotive Fuel Cell Cooperation", which has the goal of further developing fuel cells for automotive applications and making them marketable. In the case of a

change of control at Daimler AG, the agreement allows the right of termination by the other main shareholder Ford Motor Company as well as a put option for the minority shareholder Ballard Power Systems. Control as defined by this agreement is the beneficial ownership of the majority of the voting rights and the resulting right to appoint the majority of the members of the Board of Management.

- An agreement concerning rights to the intellectual property connected with a joint venture with BMW, General Motors and Chrysler for the development of a hybrid drive system, which, in the case of a change of control of one of the parties involved, allows the other parties to terminate the agreement. A change of control as defined by this agreement refers to the beneficial ownership of the majority of the voting rights in the company, and, in the case of a company listed on a stock exchange, the beneficial ownership of at least 20 % of the voting rights in the company if within 18 months after this limit is exceeded the majority of the members of the Supervisory Board representing the shareholders consists of persons who were proposed by the owner of the 20 % of the voting rights; a change of control is also understood as a merger or amalgamation with another company, unless, in the case of a company listed on a stock exchange, after the merger the majority of votes are held by the previous owners and no-one has beneficial ownership of more than 20 % of the total voting rights; a change of ownership is also understood as the transfer of all or nearly all of the assets.

- An agreement regulating the exercise of voting rights in EADS N.V. In the case of a change of control, this agreement stipulates that Daimler AG is obliged, if so requested by the French party to the agreement, to make all efforts to dispose of its shares in EADS N.V. under appropriate conditions to a third party that is not a competitor of EADS N.V. or of the French contracting partner of Daimler AG. In this case, the French party has the right of preemption under the same conditions as were offered by a third party. A change of control can also lead to the dissolution of the voting consortium. According to the EADS agreement, a change of control has taken place if a competitor of EADS N.V. or of the French contracting party either appoints so many members of the Supervisory Board of Daimler AG that it can appoint the majority of the members of the Board of Management or holds an investment that enables it to control the day-to-day business of Daimler AG.

## Economic Conditions

### World economy

The generally stable growth trend of the world economy continued in 2007. Although real economic growth of 3.8 % did not quite equal the dynamism of the prior year (4.1 %), it was still significantly higher than the long-term average of approx. 3%.

The solid economic development of Western Europe (+2.7 %) and the continuing upswing in the emerging markets (+7.3 %) were particularly pleasing. On the other hand, economic growth decreased slightly in Japan (to +1.9 %) and significantly in the United States (from +2.9 % to +2.2 %).

Although the German economy did not quite match the excellent prior year, it was one of the sources of growth in Europe with a real increase in gross domestic product of 2.5 %.

Within the emerging markets, all regions contributed to global growth, especially the booming economies of China and India. China in particular is increasingly taking over the role of global growth driver and for the first time delivered a bigger contribution to the expansion of the world economy than the United States.

In view of significant increases in raw-material prices, the growth-dampening effects of the more restrictive monetary policy at the beginning of the year, and the turbulences in financial markets caused by the US mortgage crisis in the second half of the year, the global economy proved to be remarkably resistant. Nonetheless, the rate of expansion decreased during the second half of 2007 – but with significant regional differences.

With regard to global economic imbalances, the US current-account deficit improved only slightly, while the foreign-exchange reserves and current-account surpluses of the Asian and oil-exporting countries increased again significantly. Over the year 2007, the euro gained just under 12 % against the US dollar, approx. 5 % against the

Japanese yen, and a little over 9 % against the British pound.

### Automotive markets

Worldwide sales of vehicles continued to grow in the year 2007, although at a slightly lower rate than in the prior year. Growth in global sales of passenger cars (just under +4 %) was almost solely due to strong demand in the emerging markets of Asia, Latin America and Eastern Europe. Within the triad markets, only Western Europe showed a stable development, while new registrations decreased in North America and Japan. With the exceptions of Japan and the United States, where stricter emission regulations led to significant drops in sales, the global market for commercial vehicles was in good shape (around +5 %).

With sales of 16.1 million units (2006: 16.5 million), the US market for passenger cars and light trucks continued to decline parallel to the slowdown of economic growth. The weakening of the world's biggest automobile market was worsened by the effects of the mortgage crisis, the related distinct drop in private consumption, and the continuation of high fuel prices. In terms of vehicle segments, over the full year it was mainly the so-called compact crossover vehicles offering a fuel-efficient combination of sedan, station wagon and sport utility vehicle (SUV) that profited.

The development of the Western Europe region was generally stable with a market volume similar to the prior-year level (14.8 million passenger cars). However, there were substantial differences between the individual major markets. Whereas sales of passenger cars declined in Germany (-9.2 %) and Spain (-1.2 %), there was growth in Italy (+7.1%), France (+3.2 %) and the United Kingdom (+2.5 %).

The Japanese market once again failed to deliver any stimulus (-5 %), whereby demographic developments proved to be an increasingly negative factor.

But the rapid expansion of markets in the Asian emerging economies continued unabated, led by China and India.

In Central and Eastern Europe, the very positive growth trend was confirmed once again. The Russian market was particularly strong, boosted by increased sales of foreign brands.

The strong expansion of previous years also continued in Latin America.

The world's major markets for commercial vehicles developed disparately in 2007.

In North America, manufacturers were confronted with a massive decline in demand for trucks (-32 %). On the one hand, this was primarily due to the cyclical weakening of demand for investment goods. On the other hand, the new EPA07 emission regulations that came into force in the United States on January 1, 2007, had led to purchases being brought forward to the year 2006.

Sales of commercial vehicles slumped by about 25 % in Japan, also mainly as a result of stricter emission standards.

But there was further market growth in Western Europe due to continued robust demand for investment goods (+1 %).

China was once again the main growth market for commercial vehicles in Asia, with double-digit growth rates in all segments.

## Business Developments

The business development of Daimler AG was generally very positive. Revenue and unit sales both continued to increase, as had been expected. Operating income was also higher than in the prior year. Negative impacts on the operating income such as exchange-rate effects and increases in raw-material prices were more than offset by efficiency improvements. The positive development of financial income is substantially due to the transfer of profits from subsidiaries to Daimler AG and the disposal and contribution of investments. Income from ordinary activities therefore increased significantly and was higher than projected in the outlook published in the Management Report 2006.

### Passenger cars

The operating income improved significantly compared to prior year. As a result of structural changes and exchange-rate effects revenue was slightly lower than year before. Unit sales increased primarily due to the market success of the new C-Class. With a renewed increase in unit sales, the S-Class maintained its position as the market leader in the luxury segment. Unit sales of the M-Class matched the high prior-year level, while sales of the E-Class and the A- and B-Class decreased for lifecycle reasons. Unit sales of the smart brand almost reached the prior-year level despite the rationalization of the product range

from three model series to the smart fortwo. The new version of the fortwo, which has been on the market since April 2007, has been given a very good reception by the customers. In consideration of expenses, the passenger cars business recorded a disproportionately low increase in material and personnel expenses as well as significantly higher advances for research and development.

### Commercial vehicles

Operating income also improved significantly in the commercial-vehicle business.

Daimler Trucks set a new record for unit sales in 2007, due in particular to the new Actros. This development is the result of a strong demand in Germany and especially East Europe, as well as the strong competitiveness of our products. Material and personnel expenses increased at a lower rate than revenue due to the measures taken to improve efficiency.

Mercedes-Benz Vans' earnings trend was also very positive. Increased unit sales of the Sprinter and Viano / Vito models significantly outweighed negative exchange-rate effects and higher material prices.

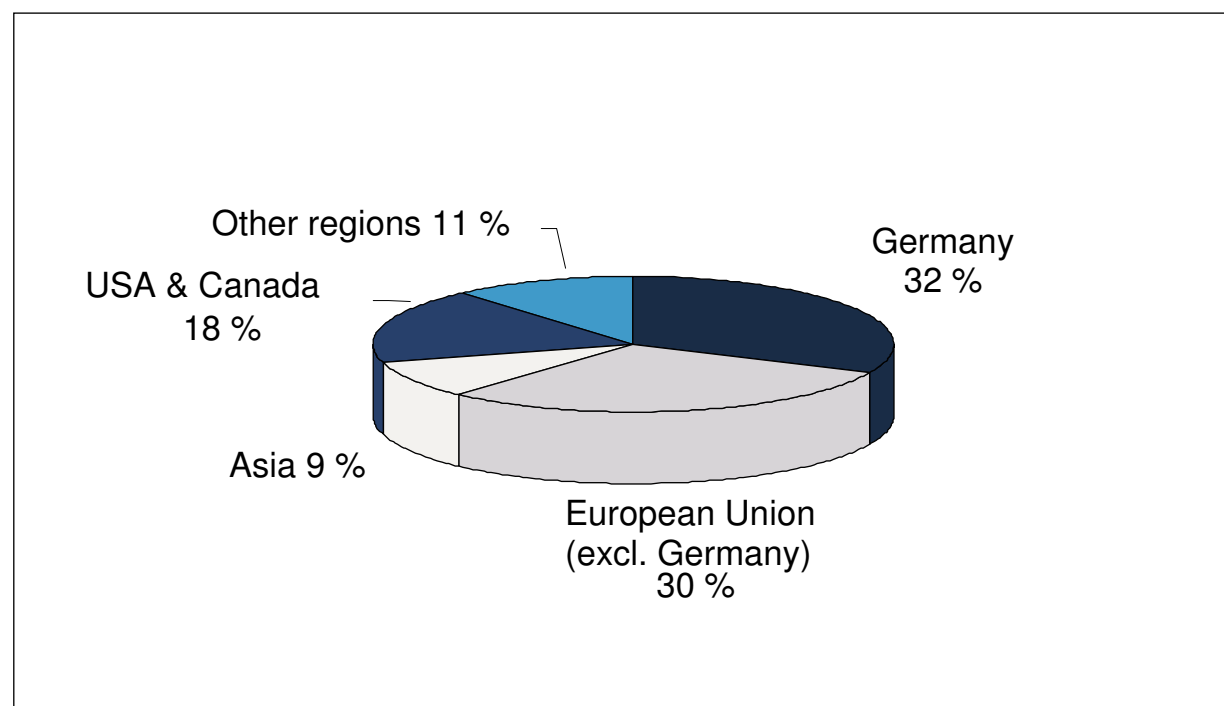
## Profitability, Financial Position, Liquidity and Capital Resources

### Profitability

#### Key earnings figures for Daimler AG

Amounts in million of €	2007	2006	2005
Revenue	66,962	64,571	59,150
Cost of sales (excluding R&D)	(54,450)	(53,669)	(51,253)
<b>Gross profit (excluding R&amp;D)</b>	<b>12,512</b>	<b>10,902</b>	<b>7,897</b>
Research and development expenses (R&D)	(3,592)	(3,120)	(3,150)
Selling expenses and general administrative expenses	(8,130)	(8,202)	(7,988)
Other operating expenses / income	82	1,011	783
<b>Income from ordinary activities</b>	<b>872</b>	<b>591</b>	<b>(2,458)</b>
Financial income	11,668	751	4,125
<b>Net income</b>	<b>12,540</b>	<b>1,342</b>	<b>1,667</b>
Income taxes	(172)	(653)	(61)
<b>Net profit</b>	<b>12,368</b>	<b>689</b>	<b>1,606</b>

#### Revenue by region for Daimler AG



## Revenue

Revenue developed positively to € 66,962 million in 2007, as had been forecasted in the previous outlook (2006: € 64,571 million). Revenue grew by 3.7 % compared with the prior year.

€ 21,455 million of the total revenue was generated in Germany (2006: 21,382 million) and € 45,507 million was generated in foreign markets (2006: € 43,189 million). The export rate thus increased from 66.9 % in 2006 to 68.0 %. Revenue in the United States and Canada decreased by -7.6 % to € 12,057 million. In the European Union (excluding Germany), revenue of € 19,898 million was +8.4 % higher than in the prior year (2006: € 18,351 million).

€ 47,409 million of total revenue was accounted for by passenger cars (2006: € 47,813 million) and € 19,553 million was accounted for by commercial vehicles (2006: € 16,758 million).

## Unit sales

Unit sales of new and used vehicles increased in 2007. Total sales rose from approx. 1,812,000 units to approx. 1,933,000 units, including smart cars.

In Germany, unit sales fell by -4.4 % to approx. 687,000 vehicles. Market share increased from 9.8 % to 10.5% in the area of passenger cars affected by the attractive model range and from 21.8 % to 22.1 % in the area of commercial vehicles.

In the European Union (excluding Germany), unit sales increased by 20.3 % to the new record of approx. 635,000 vehicles.

In the United States and Canada, unit sales decreased by -0.9 % to approx. 311,000 vehicles.

In Asia, unit sales increased by +18.8 % to approx. 142,000 vehicles.

An increase to approx. 157,000 units was recorded in the other regions.

In the area of **passenger cars**, unit sales increased. With approx. 1,285,000 new Mercedes-Benz and smart vehicles sold, the prior-year figure of 1,160,000 was surpassed by approx. 125,000 units. This includes the smart unit sales of approx. 103,000 cars (2006: approx. 8,000 units at DaimlerChrysler AG). Smart gmbh achieved unit sales of approx. 96,000 cars in 2006. Of the total number (including smart), approx. 119,000 cars were directly leased to customers (2006: approx. 113,000 units).

Sales of the new C-Class, which was launched in 2007, increased by approx. 57,000 units to approx. 388,000 units.

Sales of the A- and B-Class decreased by approx. 11,000 units to approx. 278,000 units.

The E-Class also posted lower unit sales than in the prior year. Sales of the E-Class fell by approx. 19,000 units to approx. 226,000 units.

Approx. 110,000 units of the S-Class were sold in 2007, slightly fewer than in the prior year.

Unit sales of the R-, G-, GL- and M-Class also increased slightly by approx. 1,000 to 180,000 vehicles.

<b>Passenger cars unit sales in thousands</b>	<b>2007</b>	<b>2006</b>
C-Class	388	331
A- and B-Class	278	289
E-Class	226	245
R-, G-, GL- and M-Class	180	179
S-Class	110	108
smart	103	8*

\* Unit sales by smart gmbh: approx. 96,000 units

In the area of **commercial vehicles**, unit sales increased both for Mercedes-Benz Vans and for MB Trucks Europe / Latin America. Unit sales of new vehicles amounted to approx. 407,000 units, which was 11.2 % higher than the figure of approx. 366,000 units in the prior year. Of the total unit sales, approx. 33,000 vehicles were directly leased

to our customers in 2007 (2006: approx. 29,000 vehicles).

Mercedes-Benz Vans increased its unit sales by approx. 30,000 units from approx. 263,000 units to approx. 293,000 units. The increase was a result of the Sprinter, Viano and Vario models.

Unit sales by MB Trucks Europe / Latin America increased by approx. 11,000 vehicles to 114,000 vehicles (2006: approx. 103,000 vehicles), primarily due to the Actros model.

<b>Commercial vehicle unit sales in thousands</b>	<b>2007</b>	<b>2006</b>
Sprinter	190	164
Vito	78	77
Viano	20	17
Vario	5	5
Actros	71	59
Atego	23	25
Axor	17	16
Unimog	2	2
Econic	1	1

### Cost of sales (excluding R&D)

The cost of sales increased from € 53,669 million to € 54,450 million.

Production output increased from approx. 1,519,000 units to approx. 1,705,000 units in 2007. This number breaks down to approx. 1,292,000 units in the passenger car area including smart (2006: approx. 1,157,000 units; +11.6 %) and approx. 413,000 units in the area of commercial vehicles (2006: approx. 361,000 units; +14.4 %). This means that more new cars were built than were sold, which led to higher inventories.

The increases in production volumes and raw-material prices led to an increase in material expenses.

Personnel expenses within the cost of sales decreased significantly compared with the prior year, due in particular to lower expenses for personnel and social provisions as well as provisions

for pension obligations. In addition, severance expenses decreased in 2007.

### Research and development expenses

Research and development expenses of € 3,592 million were substantially higher than in the prior year (2006: € 3,120 million). 5.4 % of total revenue was spent on future developments and innovations (2006: 4.8 %).

In 2007, the central research departments of Daimler AG (2006: € 465 million) were allocated to the passenger car area.

The majority of R&D spending was incurred in the area of **passenger cars** (2007: € 2,696 million; 2006: € 1,952 million).

In the area of **commercial vehicles**, € 896 million was spent on R&D, € 193 million more than in the prior year (2006: € 703 million), mainly on new engine generations.

Material expenses within R&D expenses increased significantly as a result of projects.

Personnel expenses decreased slightly compared with the prior year. This was primarily due to lower expenses for pension obligations as well as lower expenses to personnel and social provisions. Approx. 14,000 persons were employed in the area of research and development in 2007.

### Administrative expenses

Administrative expenses fell from € 2,762 million to € 2,594 million.

Material expenses within administrative expenses increased as a result of IT expenses and the provision of external services.

Personnel expenses decreased compared with the prior year as a result of lower severance expenses, lower expenses for personnel and social provisions as well as lower expenses for pension obligations. Bonuses were higher than in the prior year, however.

The reduction was additionally caused by lower allocations to other provisions, lower rents and leases, and lower expenses for expertise, advice and fees.

### Selling expenses

Selling expenses increased compared with the prior year to € 5,536 million (2006: € 5,440 million).

Material expenses within selling expenses increased, resulting from the first-time consideration of the smart volumes at Daimler AG and from increased marketing expenses.

Personnel expenses decreased compared with the prior year. This was primarily due to lower severance expenses and lower allocations to personnel and social provisions. Lower expenses for wages and salaries also contributed to the reduction.

On the other hand, consulting services related to marketing activities and higher unit sales contributed to the increase in selling expenses.

### Income from ordinary activities

Operating income – defined as income from ordinary activities less financial income – improved to € 872 million in 2007 (2006: € 591 million).

The contribution to operating income from the area of commercial vehicles increased sharply due to the strong growth in unit sales and revenue. In the area of passenger cars, there were negative effects in particular from the weak domestic market and the significant increase in investment in development projects, which will bring advantages in the future.

Retirement benefit expenses amounted to € 817 million, which was € 548 million lower than in the prior year. There were negative effects from restructuring; this was partially related to the transfer of a majority interest in Chrysler.

### Financial income

Financial income (€ 11,668 million) was far higher (€ +10,917 million) than in the prior year (2006: € 751 million). This strong increase was primarily due to income from investments in affiliated and related companies. In the year 2007, profits that were previously retained by the subsidiaries were transferred to Daimler AG, so that significantly higher profit contributions were received. Financial income was also improved by higher profit transfers particularly of Daimler Luft- und Raumfahrt Holding AG, caused by the sale of EADS-shares and the contribution of a related company in the context of group restructuring.

Despite the significant increase in profit from continuing operations, the income tax expense decreased to € 172 million from € 653 million in the prior year. The strong increase in financial income only had a slight impact on the tax assessment basis. This is due to the fact that dividends and capital gains on transfers of related companies are almost fully exempted from income tax according to Section 8b of the German Corporate Income Tax Act (KStG).

### Dividend payout of € 2.00 per share

Daimler AG posted net income of € 12,368 million in 2007, compared with € 689 million in 2006.

After the transfer of € 6,184 million to retained earnings, unappropriated profit of € 6,184 million remain.

We will recommend to the Annual Meeting to be held on April 9, 2008, to pay a dividend of € 2,028 million, respectively € 2.00 per share, for the year 2007 (2006: € 1,542 million, respectively € 1.50 per share). We will also recommend to the Annual Meeting that the remaining amount of unappropriated profit be transferred to retained earnings.

## Workforce

As of December 31, 2007, Daimler AG employed a workforce of 151,495 people (2006: 151,226 people). The number of apprentices and trainees at year-end was 7,026 (2006: 6,966). Due to the very good business development, the size of the workforce increased slightly compared with the prior year, despite the implementation of the efficiency-enhancing programs.

The implementation of the new management model, which was presented in January 2006, continued to progress according to plan in 2007. Since the program was launched, administrative functions have been rationalized all over the world and processes have been standardized. Our staff reductions in administrative functions are also running on schedule. Of the original number of 6,000 jobs that DaimlerChrysler wanted to eliminate by the end of 2008, 5,500 were at Daimler's continuing operations. By the end of 2007, approx. 4,300 employees had signed contracts in this context or had already left the Group.

The employees' average period at Daimler AG increased slightly from 17.3 to 17.7 years in 2007.

Women accounted for 12.7 % of the total workforce at the end of 2007 (2006: 12.9 %). In management positions of levels 1 to 4, the proportion of women increased from last year's 9.1 % to 9.8 %.

## Employee share program 2007

In the year 2007, in two separate actions, a total of approx. 22,600 employees (2006: 32,000 employees) in Germany acquired shares in the Company.

## Personnel expenses

Personnel expenses decreased to € 11,400 million in 2007 (2006: € 12,296 million).

Wage and salary expenses fell by € 265 million to € 9,145 million (2006: € 9,410 million). This was due to lower severance expenses in connection with the staff-reduction programs as well as lower expenses for personnel and social provisions. However, expenses for special bonuses increased because of higher employee profit sharing.

The expenses for social-security contributions also fell, by 5.5 % to € 1,438 million (2006: € 1,521 million).

Expenses for retirement benefits decreased from € 1,365 million to € 817 million. The provision for pensions is calculated according to IFRS regulations (IAS 19). At the beginning of 2007, a scheduled allocation was calculated on the basis of the Company's pension obligations and the assets of the fund company, Daimler Unterstützungskasse GmbH. The calculation was based on the assumptions of a 4.5 % interest rate (2006: 4.0 %), future salary increases of 2.5 % as of 2007 (2006: 3.0 %), annual cost-of-living increases of 1.9 % (2006: 1.75 %), the Heubeck Tables 2005 G and the expected earnings of 7.5 % for Daimler Unterstützungskasse GmbH (2006: 7.5 %).

## Environment

Daimler AG spent € 1.8 billion on environmental protection in 2007 (2006: € 1.6 billion, without Chrysler). Our prime goal in this area is to make mobility sustainable for the future. We therefore permanently work on improving our products' environmental compatibility, further reducing the fuel consumption and emissions of our gasoline and diesel engines, and developing alternative drive systems. We apply environmentally friendly production methods and promote the improvement of fossil fuels and the development and use of regenerative fuels.

With the help of environmentally friendly production processes, we have succeeded in recent years in continually reducing our plants' CO<sub>2</sub> emissions, production-related solvent emissions and noise pollution.

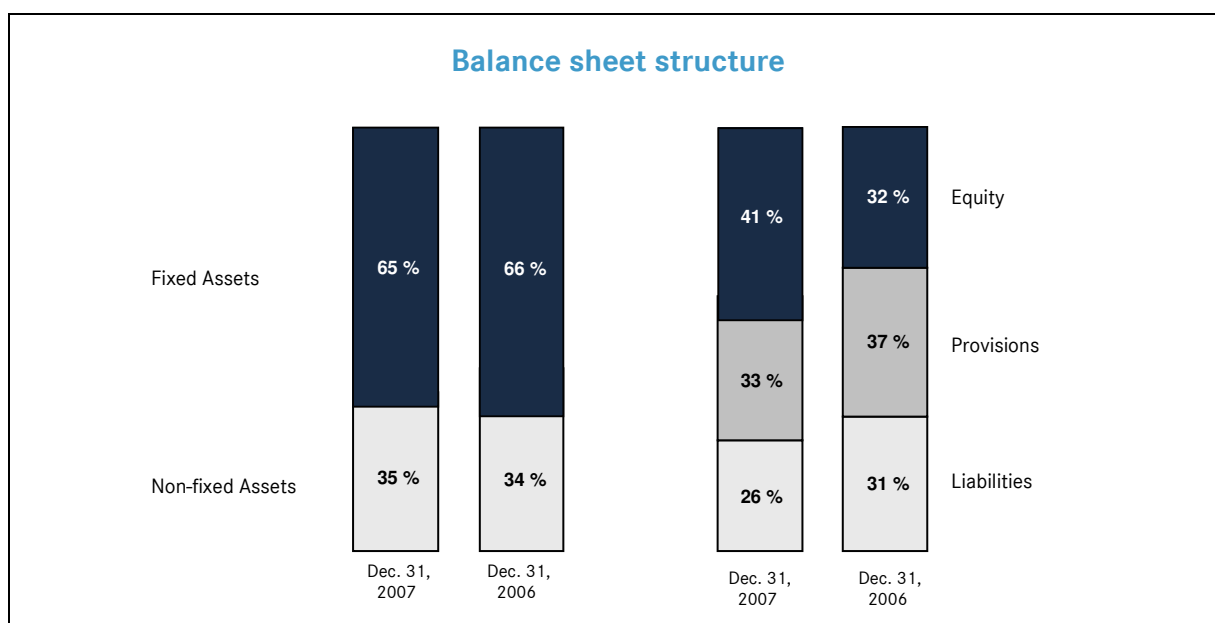
The CO<sub>2</sub> emissions of the Mercedes-Benz vehicles sold in Europe have fallen by approx. 20 % since 1995; a reduction that is nearly 50 % higher than the average for European manufacturers. In Germany, we have reduced the fleet consumption of our passenger cars by around 32 % since 1990. And in the past fifteen years, we have reduced the overall emission of pollutants by our cars by 70 %; for some pollutants the percentage is even higher. Emissions of particulate matter have fallen by 97 %.

We are global leaders for clean diesel engines with our BLUETEC technology. Our BLUETEC automobiles fulfill the world's strictest emission standards and are the cleanest diesel cars in the world. In the year 2006, this clean diesel technology was launched in the E 320 BLUETEC in the United States and Canada, and since the end of 2007 the E 300 BLUETEC has been available in Europe. Our BLUETEC trucks already fulfill the strict Euro-5 limits, which are due to come into force in October 2009. Since market launch in 2005, Mercedes-Benz has sold well over 100,000 BLUETEC trucks.

## Financial Position

### Key balance sheet figures

Amounts in millions of €	2007	2006	2005
Fixed Assets	<b>47,045</b>	41,521	41,201
<i>thereof special asset Pension Trust</i>	<b>9,819</b>	8,875	7,974
Non-fixed Assets	<b>25,395</b>	21,381	20,435
Equity	<b>29,323</b>	20,054	20,522
Provisions	<b>24,092</b>	23,255	21,608
Liabilities	<b>18,949</b>	19,512	19,434
Balance sheet total	<b>72,457</b>	62,921	61,651



### Balance sheet total

The balance sheet total rose by € 9,536 million (+15.2 %) to € 72,457 million.

Fixed assets' share of the balance sheet total amounted to 64.9 %, which was lower than a year earlier (2006: 66.0 %). On the other hand, the proportion of the balance sheet total accounted for by non-fixed assets increased slightly to 35.1 % (2006: 34.0 %).

Non-fixed assets increased by € 5,524 million. While property, plant and equipment remained fairly constant, financial assets increased significantly due to restructuring within the Group.

The book value of the Pension Trust rose to € 9,819 million (2006: € 8,875 million). There were no allocations to the Pension Trust in 2007.

## Equity ratio

Amounts in million of €	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005
Share capital	2,766	2,673	2,647
Capital reserves	14,185	12,356	12,012
Retained earnings	6,188	3,483	4,336
Unappropriated profit	6,184	1,542	1,527
Equity	29,323	20,054	20,522

Equity increased during 2007 due to capital contributions from the exercise of options and due to the net income. After deducting the dividend payout and the share buybacks that took place in 2007, there was a net increase in equity of € 9,269 million or 46.2 %. The equity ratio also increased compared with a year earlier – from 31.9 % to 40.5 %.

As a proportion of the balance sheet total, provisions decreased to 33.3 % (2006: 37.0 %) and the proportion of liabilities fell from 31.0 % to 26.2 %.

## Capital expenditure

Investment in property, plant and equipment (excluding leased items) amounted to € 1,733 million in 2007 (2006: € 1,692 million).

Most of this amount was accounted for by the acquisition of assets of € 1,388 million in the area of passenger cars (2006: € 1,140 million). The focus of investment activity was on initial investments for the C-Class and the new GLK.

Investment in property, plant and equipment in the area of commercial vehicles amounted to € 345 million (2006: € 552 million). This was primarily due to investment for the new Sprinter model and for various engine and transmission projects.

Leased items in a total amount of € 4,575 million were close to the prior-year level (2006: € 4,597 million). Additions during 2007 amounted to € 2,977 million (2006: € 2,785 million).

## Non-fixed assets

Non-fixed assets increased to € 25,395 million (2006: € 21,381 million).

Inventories rose from € 5,055 million to € 5,517 million. Growth took place in all inventory categories and was mainly due to new model start-ups.

Receivables and other assets increased from € 11,261 million at the end of 2006 to € 15,762 million at the end of 2007. This primarily reflects an increase in receivables due from affiliated and related companies, due to intra-Group invoicing and subject to central finance and liquidity management.

Securities decreased by € 2,661 million to € 471 million due to the sale of annuity and special funds and the maturity of short-term investments.

Cash and cash equivalents increased sharply compared with the prior year: from € 1,933 million to € 3,645 million.

## Provisions and liabilities

In 2007, provisions increased by € 837 million from € 23,255 million to € 24,092 million. Of that total, approx. 23 % is accounted for by short-term provisions (2006: approx. 19 %) and approx. 77 % by long-term provisions (2006: approx. 81 %). The provisions are a reflection of the increased risk, especially in the areas of personnel obligations, obligations arising from liability and lawsuit issues, and from the adoption of risks of smart gmbh.

Of the total provisions, retirement benefit obligations account for € 12,307 million (2006: € 11,850 million), provisions for taxes account for € 1,745 million (2006: € 2,280 million) and other provisions account for € 10,127 million (2006: € 9,125 million).

Liabilities decreased by € 563 million to € 18,949 million at the end of 2007 (2006: € 19,512 million).

### **Contingent liabilities**

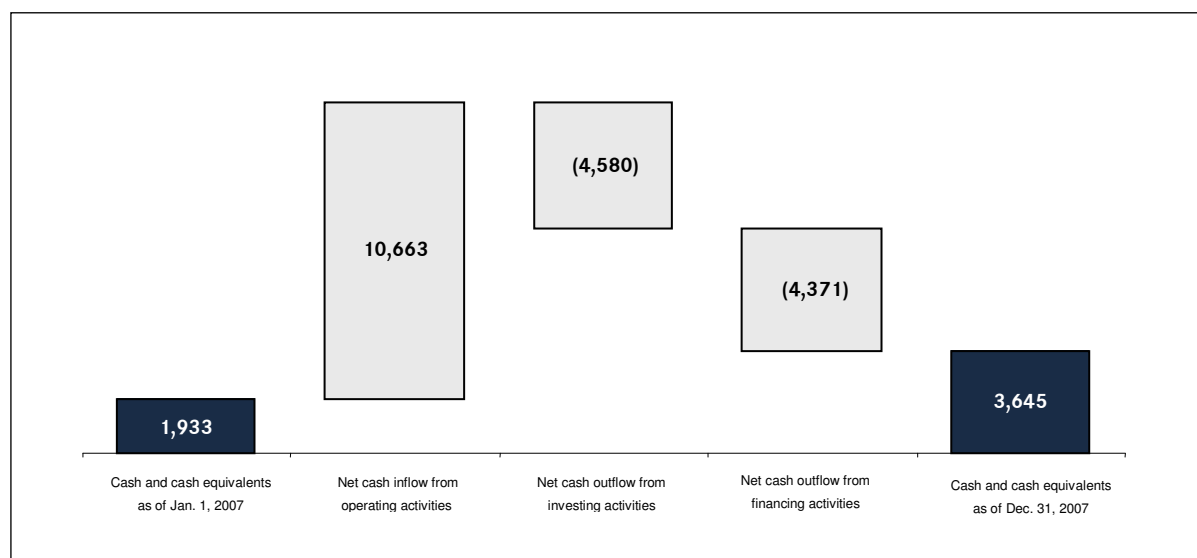
Daimler AG has provided a guarantee of US \$ 1 billion for the retirement benefit obligations of Chrysler companies, which will only be drawn upon if Chrysler's pension plans are terminated within the next five years. At the time when a majority interest in Chrysler was transferred, the pension plans were significantly over-funded.

Other obligations exist, in particular relating to payment guarantees, and are shown under contingent liabilities (see Notes to the Financial Statements, page 70 f.).

## Liquidity and Capital Resources

### Cash flow statement of Daimler AG

Amounts in millions of €	2007	2006	2005
<b>Net profit</b>	<b>12,368</b>	<b>689</b>	<b>1,606</b>
Depreciation / write-ups on:			
- leased assets	1,257	1,098	1,007
- other fixed assets	2,121	1,782	1,796
Gain / loss on:			
- the disposal of fixed assets	(4,505)	10	(796)
Changes in:			
- inventories	(425)	697	333
- receivables	(779)	264	(463)
- liabilities	226	(411)	440
- provisions	378	1,643	3,000
- other assets and / or liabilities	22	(92)	(185)
<b>Net cash inflow from operating activities</b>	<b>10,663</b>	<b>5,680</b>	<b>6,738</b>
Proceeds from the disposal of fixed assets	2,277	3,029	3,761
Payments for the acquisition of fixed assets <i>thereof Pension Trust</i>	(6,857) 0	(5,750) (64)	(7,604) (158)
<b>Net cash outflow for investing activities</b>	<b>(4,580)</b>	<b>(2,721)</b>	<b>(3,843)</b>
Changes in commercial paper and other short-term borrowing	1,067	(1,016)	(1,280)
Repayment / proceeds from long-term financial liabilities	(2,339)	863	(2,403)
Dividends	(1,542)	(1,527)	(1,519)
Buyback / issue of own shares	(1,557)	370	184
<b>Net cash outflow for financing activities</b>	<b>(4,371)</b>	<b>(1,310)</b>	<b>(5,018)</b>
Net change in cash and cash equivalents	1,712	1,649	(2,123)
Cash and cash equivalents at the beginning of the year	1,933	284	2,407
<b>Cash and cash equivalents at the end of the year</b>	<b>3,645</b>	<b>1,933</b>	<b>284</b>



## Overview of cash flows

The **net cash inflow from operating activities** increased compared with the prior year by approx. € 4,983 million to € 10,663 million (2006: € 5,680 million). This significant increase was primarily a result of the income from investments in affiliated and related companies. On the other hand, changes in inventories and receivables led to cash outflows.

The **net cash outflow for investing activities** increased compared with the prior year by approx. € 1,859 million to € 4,580 million (2006: € 2,721 million). This increase in the cash outflow was primarily due to investments in financial assets

The **net cash outflow for financing activities** increased compared with the prior year by approx. € 3,061 million to € 4,371 million (2006: € 1,310 million). This development is mainly the result of buying back the Company's own shares. An additional factor was the reduction in external borrowing. There were opposing effects from the capital increase resulting from the stock option plans.

The net effect of all cash flows was an increase in cash and cash equivalents of € 1,712 million.

The increase in liquidity was within the scope of our targets, and is summarized below.

	Dec. 31, 2007 € million	Dec. 31, 2006 € million	Dec. 31, 2005 € million
Cash and cash equivalents	3,645	1,933	284
Marketable securities	471	3,132	1,871
<b><u>Gross liquidity</u></b>	<b>4,116</b>	<b>5,065</b>	<b>2,155</b>
<b><u>External debt</u></b>			
Liabilities to banks	(66)	(745)	(108)
Loans and bonds	(155)	(1,070)	(1,457)
<b><u>Net liquidity</u></b>	<b>3,895</b>	<b>3,250</b>	<b>590</b>

## Principles and objectives of financial management

Central financial activities are controlled by Daimler AG for the entire Daimler Group; the following statements therefore refer to the Daimler Group.

Financial management at Daimler consists of capital structure management, cash and liquidity management, pension asset management, market price risk management (foreign exchange rates, interest rates and commodity prices) and credit and financial country risk management.

Worldwide financial management is performed within the scope of legal requirements for all Group entities by Treasury. Financial management operates within a framework of guidelines, limits and benchmarks. Financial management is separated from other financial functions such as financial controlling, reporting, settlement and accounting.

**Capital structure management** designs the capital structure for the Group and all of its subsidiaries. Decisions regarding the capitalization of financial services companies, production, distribution, financing and regional holding companies are based on the principles of cost-optimized and risk-optimized liquidity and capital resources.

**Cash management** determines cash requirements and surpluses on a worldwide basis. The number of external bank transactions is minimized by the Group's internal netting of cash requirements and surpluses. Netting is done by means of cash-concentration or cash-pooling procedures. Daimler has established standardized processes and systems in order to control its bank accounts, internal cash clearing accounts and the execution of automated payment transactions.

**Liquidity management** secures the Group's ability to meet its payment obligations at any time. For this purpose, liquidity planning provides information about all cash flows from operating and financial activities for a rolling period of twelve months. Resulting financial requirements are covered by the use of appropriate instruments for liquidity management; liquidity surpluses are invested in the money market to optimize return. Besides operational liquidity, Daimler keeps additional liquidity reserves, which are available on a short-term basis. These liquidity reserves include a pool of receivables from the financial services business that are readily available for securitization in the credit market, as well as a confirmed syndicated credit line.

**Management of market-price risks** aims to minimize the impact of fluctuations in foreign exchange rates, interest rates and commodity prices on the results of the divisions and the Group. The Group's overall exposure to these market price risks is determined to provide the basis for hedging decisions. These cover the selection of the hedging instruments and the definition of the hedging volume and the corresponding period. Decisions regarding the management of risks resulting from fluctuations in foreign exchange rates, interest rates and commodity prices as well as decisions on asset-liability management are regularly made by the relevant committees.

**Management of pension funds** comprises the optimal investment in terms of risk-return profile of pension assets to cover the corresponding pension obligations. The major part of pension assets is held in separate pension funds and is not available for general business purposes. The funds are allocated to different asset classes such as equities and bonds, based on an optimization process that takes into account the expected growth of pension obligations. The performance of the

asset management is measured by comparing with defined benchmark indexes. Decisions on ordinary and extraordinary capital contributions to the pension funds are centralized worldwide in the Global Pension Committee. Another function of this committee is the determination of limits for each asset class to secure risk management and risk limitation of the pension funds.

The risk volume that is subject to **credit risk management** includes all of Daimler's worldwide creditor positions with financial institutions, issuers of securities and customers. Credit risks with financial institutions and issuers of securities arise primarily from investments executed as part of our liquidity management and from trading in derivative financial instruments. The management of these credit risks is mainly based on an internal limit system that reflects the creditworthiness of the respective financial institution or issuer. The credit risk with customers results from granting them a payment period for goods delivered or services provided, and includes the risk of default by contracted dealerships or general agencies, other corporate customers and retail customers. In connection with the export business, general agencies that do not have sufficient creditworthiness are generally required to provide credit security such as first-class bank guarantees.

**Financial country risk management** includes various risk aspects: the risk from investments in subsidiaries and joint ventures, the risk from the cross-border financing of Group companies in risk countries, and the risk from direct sales to customers in these countries. Daimler has developed an internal rating system that divides all countries with Daimler operations into risk categories. Equity capital transactions in risk countries are hedged against political risks with the use of investment-protection insurance such as the German government's investment guarantees. Some cross-

border receivables due from customers are hedged with the use of export-credit insurance, first-class bank guarantees and letters of credit.

## Refinancing

The **refinancing measures** of Daimler AG are primarily determined by the Group's financial services activities. Daimler AG makes use of a broad spectrum of financial instruments to cover its funding requirements. Depending on funding requirements and market conditions, the Company issues bonds, commercial paper and financial instruments secured by receivables in various currencies. Credit lines are also used to cover financing requirements.

In the year 2007, Daimler AG applied cash inflows to refinance and repay funds raised on the capital market. With the closing of the Chrysler transaction on August 3, 2007, we gave notice to terminate US \$ 7 billion of the US \$ 12 billion credit facilities.

At the end of 2007, Daimler AG had short-term and long-term **credit lines** totaling € 3.5 billion, of which € 3.4 billion was not utilized. These credit lines include the US \$ 5 billion credit facility with a syndicate of international banks. The syndicated credit line allows Daimler AG to utilize revolving loans in various currencies in a total amount of up to US \$ 5 billion until December 2009, and up to US \$ 4.9 billion in the period of December 2009 until December 2011. A part of this US \$ 5 billion credit facility serves as collateral for borrowing in the context of the commercial-paper program.

The liquid reserves, short-term and long-term credit lines, and the possibility to generate cash inflows by securitizing receivables give Daimler sufficient financial flexibility to cover its refinancing requirements at any time.

## Financial performance measures

As the parent company of the Daimler Group, Daimler AG is integrated into the Group's financial controlling instruments in accordance with IFRS.

The financial performance measures used at Daimler are oriented towards our investors' interests and expectations, and provide the foundation for value-based management.

**Value added.** For purposes of performance measurement, Daimler differentiates between the Group level and the divisional level. Value added is one element of the performance measurement system at both levels and is calculated as the difference between the operating result and the cost of capital of the average net assets in that period.

$$\begin{aligned} & \text{Profit measure} \\ - & (\text{Net assets} \times \text{Cost of capital}) \\ = & \text{Value added} \end{aligned}$$

Alternatively, value added for the industrial divisions can be determined by using the main value drivers return on sales (ROS; quotient of EBIT and revenue) and net asset productivity (quotient of revenue and net assets).

$$\begin{aligned} & (\text{Return on sales} \times \text{Net asset productivity} - \\ & \text{Cost of capital}) \\ \times & \text{Net assets} \\ = & \text{Value added} \end{aligned}$$

The use of ROS and net assets productivity within the context of a strategy focused on revenue growth provides the basis for a positive development of value added. Value added shows to which extent the Group and its divisions achieve or exceed the minimum return requirements of the shareholders and creditors, thus creating additional value.

**Profit measure.** The measure of operating profit at divisional level is EBIT (earnings before interest and taxes). EBIT is determined before in-

terest, income taxes and results from discontinued operations and hence reflects the profit and loss responsibility of the divisions.

**Net assets.** Net assets represent the basis for the investors' required return. The industrial divisions are accountable for operational net assets; all assets, liabilities and provisions for which they are responsible in day-to-day operations are therefore allocated to them. The average annual net assets are calculated from the average quarterly net assets. The average quarterly net assets are calculated as the average of net assets at the beginning and at the end of the quarter.

**Cost of capital.** The required rate of return on net assets and thus the cost of capital are derived from the minimum returns that investors expect on their invested capital. The cost of capital of the Group and the industrial divisions comprises the cost of equity as well as the costs of debt and pension obligations of the industrial business; the expected returns on liquidity and plan assets of the pension funds of the industrial business are considered with the opposite sign.

The cost of equity is calculated according to the capital asset pricing model (CAPM), using the interest rate for long-term, risk-free securities (such as government bonds) plus a risk premium reflecting the specific risks of an investment in shares of Daimler AG.

The cost of debt is derived from the required rate of return on financial liabilities.

The cost of capital for the pension obligations is calculated on the basis of discount rates used according to IFRS.

The expected return on liquidity is based on money market interest rates

The expected return on plan assets of the pension funds results from the expected rate of

return on the plan assets invested to fulfill the pension obligations.

The Group's cost of capital is the weighted average of the individually required or expected rates of return; in the year under review, the cost of capital amounted to 7 % after taxes (2006: 7 %). For the industrial divisions, the cost of capital amounted to 11 % before taxes (2006: 11 %).

Due to the altered capital structure resulting from the transfer of a majority interest in Chrysler and changes in the German tax legislation, the cost of capital for the Group will change to 8 % (after taxes) and for the industrial divisions to 12 % (before taxes) starting in 2008.

**Return on sales.** As one of the main drivers of value added the return on sales (ROS) is of particular importance for the assessment of profitability of the industrial divisions.

#### Daimler ScoreCard

The Daimler ScoreCard supports the implementation of our corporate strategy. It acts as the link between our target system and the operational management of the divisions by evaluating the progress made towards our strategic goals. The Daimler ScoreCard is thus an additional management instrument; it supplements the financial controlling instruments with the application of non-financial performance indicators.

#### Credit ratings

During the year 2007, our credit ratings with the rating agencies Standard & Poor's (S&P), Moody's Investors Service (Moody's), Fitch Ratings (Fitch) and Dominion Bond Rating Service (DBRS) generally developed positively. This was primarily due to the transfer of a majority interest in Chrysler and the related financial services business and the good business development in Daimler's continuing

operations. The rating agencies justified the upgrades in particular with the improved business and financial risk profile of the new Daimler Group. In their view, the volatility of earnings should be much lower in the future, following the transfer of a majority interest in Chrysler. The removal of Chrysler's pension and healthcare obligations also had a positive impact. The rating agencies assume that Daimler will have a better risk exposure, lower volatility, higher profitability and an improved financial structure in the future. The improved ratings also reflect Mercedes-Benz Cars' strong increase in earnings and Daimler Trucks' significantly reduced susceptibility to market downturns.

Ratings	2007	2006
<b>Long-term credit ratings</b>		
Standard & Poor's	BBB+	BBB
Moody's	A3	Baa1
Fitch	A-	BBB+
DBRS	A-	A-
<b>Short-term credit ratings</b>		
Standard & Poor's	A-2	A-2
Moody's	P-2	P-2
Fitch	F2	F2
DBRS	R-1-	R-1-

**S & P** placed the BBB rating on creditwatch with positive implications immediately after the announcement on May 14, 2007, that a majority interest in Chrysler would be transferred to Cerberus. On August 10, 2007, a few days after the closing, the long-term rating was upgraded from BBB to BBB+ with a stable outlook.

On February 14, 2007, following the presentation of our preliminary profit figures for the year 2006 and of Chrysler's recovery and transformation plan, **Moody's** concluded its ratings review and confirmed its Baa1 rating with a negative outlook. The rating had been under review for a possible downgrade since September 15, 2006. Following the announcement of the decision on Chrysler, Moody's changed the outlook from negative to positive on May 15, 2007. And on October 1, 2007,

the rating was upgraded from Baa1 to A3 with a continuation of the positive outlook.

Immediately after the announcement of the transfer of a majority interest in Chrysler, on May 14, 2007, **Fitch** placed the BBB+ rating under review for a possible upgrade. On August 6, 2007, just three days after the Chrysler transaction was closed, Fitch concluded its rating review and upgraded the rating from BBB+ to A- with a stable outlook.

Due to the Chrysler Group's difficult competitive situation, **DBRS** changed its long-term rating from A (low) to BBB (high) on February 14, 2007. But as a result of the Group's changed situation, DBRS placed the rating under review with positive implications on August 31, 2007. Already on September 6, 2007, the long-term rating was then upgraded from BBB (high) to A (low) with stable outlook.

The short-term ratings of all four rating agencies remained unchanged during 2007.

## Supplementary Report

### Further events after the end of the 2007 financial year

Since the end of the 2007 financial year, there have been no further occurrences that are of major significance to Daimler AG and which would lead to a modified assessment of the Company's position.

## Remuneration Report

The Remuneration Report summarizes the principles that are applied to determine the remuneration of the Board of Management of Daimler AG and explains both the level and the structure of its members' remuneration.

It also describes the principles and the level of remuneration of the Supervisory Board.

## Principles of Board of Management remuneration

### Responsibility

The Supervisory Board has transferred responsibility for determining the structure and level of remuneration for the Board of Management of Daimler AG to the Presidential Committee, and has laid down the principles to be applied in the Rules of Procedure for the Presidential Committee. The Supervisory Board holds discussions as required on the structure of the remuneration system for the Board of Management and regularly reviews this structure in connection with the annual financial statements. The Presidential Committee regularly informs the Supervisory Board about its decisions.

### Goals

The remuneration system for the Board of Management aims to remunerate its members commensurately with their areas of activity and responsibility when compared internationally. The system should also clearly and directly reflect in the variability of remuneration the joint and individual performance of the Board of Management members and the success of the Group.

For this purpose, the remuneration system comprises an element of fixed base salary, an annual bonus and an element of variable remunera-

tion with medium-term and long-term incentive effects. The latter element has a risk component as recommended by the German Corporate Governance Code due to the link to the share price and the dependence on actual value added and return on sales compared with competitors.

In order to ensure the competitiveness and appropriateness of Board of Management remuneration, its structure and individual components and the total remuneration are reviewed each year in relation to a benchmark group of companies in the United States, Germany and other European countries. For this purpose, the Presidential Committee is regularly assisted by external consultants.

### Structure of Board of Management remuneration

Board of Management remuneration for the year 2007 comprised three components, as described below:

The element of fixed base salary, paid out in twelve monthly installments, is related to the area of responsibility of each Board of Management member.

The annual bonus is variable cash remuneration, the level of which is related to the fixed base salary, and depends to an equal extent on the degree to which the Daimler Group's planned EBIT is actually achieved and a comparison of the EBIT achieved in the current year and the prior year. There is an upper limit to the level of the annual bonus. The target for EBIT is determined annually in advance on the basis of the planning approved by the Supervisory Board. In addition, the development of total shareholder return in relation to comparable automotive companies is also taken into consideration.

When setting the annual bonus, the Presidential Committee of the Supervisory Board also has the possibility to reward the Board of Management members' individual performance that is not directly reflected in the performance of the Group with a supplementary payment or deduction of up to 25 %. In this context, individual goals were also set with the Board of Management members in the year 2007 relating to the development and long-term functionality of a compliance system. However, meeting these targets cannot have a positive effect on individual goal accomplishment; even in the case of complete fulfillment, the effect is only neutral.

Variable remuneration, in the form of the Performance Phantom Share Plan, is linked to the long-term development of enterprise value and is based on the principles of performance orientation, value added, benchmark comparison and share ownership. This component of remuneration takes into consideration all of the key criteria recommended in connection with good corporate governance.

With a term of four years, the plan is oriented towards medium-term performance targets, while also having a long-term effect through the obligation to acquire shares and hold them for a sustained period of time. With this model, target achievement is measured in terms of the return on net assets that is actually achieved by the Group, i.e. the level of value added and return on sales, the latter compared with the relevant competitors, which are BMW, Ford, General Motors, Honda, Toyota, Volvo and Volkswagen. Due to the allocation of phantom shares at the beginning of the four-year period, the development of Daimler's share price is taken into consideration; these phantom shares are also entitled to a dividend equivalent, the level of which depends on the dividend paid on real Daimler shares in the respective year. After three years, the final number of phantom shares is calculated in accordance with the conditions laid

down in the Plan and depending on the degree of target achievement. These phantom shares must then be held for one more year. After the fourth year, the amount to be paid out is calculated by multiplying the number of phantom shares by the share price relevant at that time. The members of the Board of Management have to use a quarter of this gross amount paid out to purchase "real" Daimler shares so that the stipulations of the guidelines for share ownership are fulfilled (see below).

No retroactive change in the defined performance targets or competitive parameters is possible in connection with allocating the share-based payments.

### **Guidelines for share ownership**

As a supplement to these three components of Board of Management remuneration, the Presidential Committee of the Supervisory Board of Daimler AG has approved Stock Ownership Guidelines for the Board of Management. The Guidelines require the members of the Board of Management to invest a portion of their private assets in Daimler shares over several years and to hold those shares until the end of their Board of Management membership (the chairman of the Board of Management triple and the members of the Board of Management twice of their annual base salary). The real shares acquired in the context of the Performance Phantom Share Plans are generally to be used to fulfill the provisions of the Guidelines, but the required shares can also be acquired in different ways.

### **Board of Management remuneration in 2007**

#### **Total Board of Management remuneration in 2007**

The total remuneration paid by Group companies to the members of the Board of Management

of Daimler AG is calculated from the amounts of remuneration paid in cash and from the non-cash benefits in kind. The latter primarily comprise the provision of company cars and the reimbursement of expenses for security precautions.

€ 7.2 million was paid as fixed, i.e. non-performance-related remuneration (2006: € 7.5 million); € 17.0 million as short-term variable, i.e. short-term performance-related remuneration (2006: € 9.2 million); and € 5.6 million as variable performance-related remuneration with medium-term and long-term incentive effects that was granted in previous years and became due for payment in 2007 (2006: € 3.8 million). This totaled an amount of € 29.8 million for the year 2007 (2006: € 20.5 million). The increase compared with the prior year is primarily due to the growth in the Group's operating profit (EBIT) from € 5.0 billion to € 8.7 billion.

The Board of Management members who stepped down from their positions during 2007 in the context of the transfer of a majority interest in Chrysler were also entitled to payments related to the phantom shares granted in the years 2006 and

2007, prorated until the time of leaving the Group. Furthermore, in connection with the transaction, two departing Board of Management members were granted performance-related bonuses and another departing Board of Management member was paid severance remuneration. The total amount of these items was € 19.3 million.

For the sake of transparency, the payments to the Board of Management members who were still active as of December 31, 2007, and the payments and bonuses to Board of Management members who stepped down in the context of the Chrysler transaction are listed separately below. These details are given solely pursuant to the requirements of the German Commercial Code.

#### Payments to Board of Management members active on the balance sheet date of December 31, 2007

The table below shows the individual remuneration of the members of the Board of Management active on December 31, 2007.

	Fixed remuneration		Variable remuneration		Total
	Base salary	Benefits in kind	Annual bonus	Mid- and long-term compensation <sup>1</sup>	
Dr. Dieter Zetsche	1,500	369	5,395	1,286	<b>8,550</b>
Günther Fleig	525	203	1,787	708	<b>3,223</b>
Dr. Rüdiger Grube	550	185	1,753	710	<b>3,198</b>
Andreas Renschler	550	162	1,910	184	<b>2,806</b>
Bodo Uebber	600	180	2,135	606	<b>3,521</b>
Dr. Thomas Weber	525	764	1,787	593	<b>3,669</b>
<b>Subtotal</b>	<b>4,250</b>	<b>1,863</b>	<b>14,767</b>	<b>4,087</b>	
<b>Total</b>	<b>6,113</b>		<b>18,854</b>		<b>24,967</b>

<sup>1</sup> The amounts shown here comprise the payment of the Medium Term Incentive 2004 and the dividend equivalent relating to the phantom shares of the current Performance Phantom Share Plan. The so-called Medium Term Incentive is a share based payment, which was replaced with the Performance Phantom Share Plan as of the year 2005.

The active members of the Board of Management were granted a total of 178,390 phantom shares in 2007 within the framework of the share-based component of remuneration, the so-called Performance Phantom Share Plan (2006: 276,160 phantom shares). The reference share price for the allocation of phantom shares is the average price of DaimlerChrysler shares between January 1, 2007, and the day before the first meeting of the Presidential Committee in which the allocation is decided upon. This value was € 49.26 per phantom share in 2007.

This remuneration was not paid out in 2007; payment does not take place until after four years. Until then, the number of phantom shares may change, depending on internal and external performance targets and continuous activity in the Board of Management. Payment continues to depend on the share price at the time of payment.

<b>Phantom shares granted in 2007</b>	
Number	
Dr. Dieter Zetsche	55,826
Günther Fleig	24,107
Dr. Rüdiger Grube	22,838
Andreas Renschler	24,868
Bodo Uebber	26,644
Dr. Thomas Weber	24,107
<b>Total</b>	<b>178,390</b>

#### **Payments made to departing Board of Management members in the context of the Chrysler transaction**

The table below shows solely the prorated individual remuneration of the Board of Management members who stepped down as of August 3, 2007, for their normal Board of Management activities; the bonuses and payments connected with the Chrysler transaction and departure from the Board of Management are described separately below.

Amounts in thousands of €	Fixed remuneration		Variable remuneration		Total
	Base salary	Benefits in kind	Annual bonus	Mid- and long-term compensation <sup>1</sup>	
Thomas W. LaSorda	390	43	1,104	597	<b>2,134</b>
Eric R. Ridenour	273	29	773	266	<b>1,341</b>
Thomas W. Sidlik	273	42	394	681	<b>1,390</b>
<b>Subtotal</b>	<b>936</b>	<b>114</b>	<b>2,271</b>	<b>1,544</b>	
<b>Total</b>	<b>1,050</b>		<b>3,815</b>		<b>4,865</b>

1 The amounts shown here comprise the payment of the Medium Term Incentive 2004 and the dividend equivalent relating to the phantom shares of the current Performance Phantom Share Plan. The so-called Medium Term Incentive is a share based payment, which was replaced with the Performance Phantom Share Plan as of the year 2005.

Furthermore, in connection with the process for transferring a majority interest in Chrysler, performance-related agreements were entered into with Mr. LaSorda and Mr. Ridenour that were contingent on the transfer of a majority interest in Chrysler actually taking place. The agreements served the goals of concluding the transaction for the transfer of a majority interest in Chrysler quickly and advantageously for the Group and of

setting the conditions for the simultaneous departure of those members from the Board of Management of the former DaimlerChrysler AG.

Before the performance-related agreements were signed, the service contracts of Mr. LaSorda and Mr. Ridenour were valid until April 2012 and August 2008 respectively. By accepting the performance-related agreements, Mr. LaSorda and Mr.

Ridenour also accepted a term set by the Presidential Committee by which they waived all claims against Daimler AG for remuneration and pension benefits arising from their existing service contracts. The success factors stipulated by the Presidential Committee were primarily dependent on the valuation of DaimlerChrysler Company LLC and its obligations as well as the speed of the transaction. Both the definition of the success factors and the measurement of goal accomplishment were reviewed and evaluated by external consultants. The resulting allocations to the performance-related components of remuneration were approx. € 10.4 million for Mr. LaSorda and approx. € 3.2 million for Mr. Ridenour.

In May 2007, the Presidential Committee reached an agreement with Mr. Sidlik, whose service contract at that time was valid until December 2008, concerning his early departure from the Group's Board of Management in the case of the successful conclusion of the Chrysler transaction. The severance agreement corresponded with the contractual arrangement with Mr. Sidlik as described in Annual Report 2006. That arrangement stipulated that Mr. Sidlik would receive compensation in an amount equal to double his base salary and annual bonus on the basis of a three-year average in the case of the early and amicable termination of his service contract. In this context, Mr. Sidlik received a commitment to the payment of approx. € 2.7 million.

Claims to payment of share-based remuneration granted for the years 2006, and 2007, prorated until the time of leaving the Group, result in payments of € 1.2 million to Mr. LaSorda, € 0.9 million to Mr. Ridenour and € 0.9 million to Mr. Sidlik.

All claims to remuneration and pensions of Mr. LaSorda, Mr. Ridenour and Mr. Sidlik against

Daimler AG are fully satisfied as a result of the payments described above or their fulfillment has been transferred to the new majority owner of Chrysler. This applies in particular to any claims resulting from severance. Solely the claims against Daimler AG from non-lapsing rights from share options, value increases and phantom shares are partially retained for a defined period.

## Commitments upon termination of service

### Retirement provision

Until the year 2005, the pension agreements of the German Board of Management members included a commitment to an annual retirement pension, calculated as a proportion of the base salary and depending on the years of service. Those pension rights remain and have been frozen at that level<sup>1</sup>. The pension payments begin in the form of a retirement pension when a member's contract of service ends or after his 60th birthday, or in the form of an invalidity pension when a member's service contract ends before his 60th birthday due to disability. An annual increase of 3.5 % is effected. Similar to the retirement pension of the German workforce, arrangements for widows and orphans are also included.

Effective January 1, 2006, those pension agreements were converted into a defined-contribution pension system. Each Board of Management member is credited with a capital component each year. This capital component comprises an amount equal to 15 % of the sum of the Board of Management member's fixed base salary and the annual bonus that was actually achieved, multiplied by an age factor based on an assumed rate of interest of

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<sup>1</sup> 70 % for Dr. Dieter Zetsche, 69 % for Günther Fleig, 60 % for Dr. Rüdiger Grube and Dr. Thomas Weber and 50 % for Andreas Renschler and Bodo Uebber

6%. This pension is payable at the age of 60 at the earliest.

In the year 2007, the pension provision was increased by service costs of € 2.2 million (2006: € 2.5 million):

<b>Service costs in connection with Board of Management pension plans in 2007</b>	
Amounts in thousands of €	
Dr. Dieter Zetsche	660
Günther Fleig	370
Dr. Rüdiger Grube	386
Andreas Renschler	210
Bodo Uebber	318
Dr. Thomas Weber	247
<b>Total</b>	<b>2,191</b>

#### **Commitments upon early termination of service**

No severance payments are foreseen for Board of Management members in the case of early termination of their service contracts. Solely in the case of early termination of a service contract by mutual consent, the Board of Management service contracts include a commitment to payment of the base salary and to provision of a company car until the end of the original service period. Such persons are only entitled to payment of the performance-related component of remuneration pro rata for the period until they leave the Group. Entitlement to payment of the performance-related component of remuneration with a long-term incentive is defined by the exercise conditions specified in the respective plans. For the period beginning after the end of original service period, Board of Management members can receive pension payments in the amounts of the commitments granted until 2005 as described in the previous section, as well as the use of a company car.

As a result of these provisions and the fact that in accordance with a Supervisory Board resolu-

tion of 2006, Daimler AG Board of Management service contracts - both initial contracts and extensions - generally have a term of only three years, Daimler AG is significantly below the limit for severance compensation of two years' remuneration suggested by the German Corporate Governance Code.

#### **Sideline activities of Board of Management members**

The members of the Board of Management should accept management board or supervisory board positions and / or any other administrative or honorary functions outside the Group only to a limited extent. Furthermore, the members of the Board of Management require the consent of the Supervisory Board before commencing any sideline activities. This ensures that neither the time required nor the remuneration paid for such activities leads to any conflict with the members' duties to the Group.

Insofar as such sideline activities are memberships of other supervisory boards or comparable boards, they are disclosed in the Notes to the Financial Statements of Daimler AG and on our website.

No remuneration is paid to Board of Management members for other positions held at companies of the Group.

### **Loans to members of the Board of Management**

In 2007, no advances or loans were made to members of the Board of Management of Daimler AG.

### **Payments made to former members of the Board of Management of Daimler AG and their survivors**

The payments made in 2007 to former members of the Board of Management of Daimler AG and their survivors amounted to € 58.6 million (2006: € 24.2 million). The pension provisions for former members of the Board of Management and their survivors amounted to € 175.3 million as of December 31, 2007 (2006: € 188.8 million).

Pension claims of former members of the Board of Management against companies of the Chrysler Group, which were covered by the pension provisions of the former DaimlerChrysler Group after the business combination, were no longer covered by the pension provisions of the Daimler Group at December 31, 2007, following the transfer of the majority interest in the Chrysler Group.

The Management Board Membership is listed on pages 76 to 78 of the Notes to the Financial Statements.

## Remuneration of the Supervisory Board

### Supervisory Board remuneration in 2007

The remuneration of the Supervisory Board is determined by the Annual Meeting of Daimler AG and is governed by the company's Articles of Incorporation. The current regulations specify that the members of the Supervisory Board receive, in addition to the refund of their expenses and the costs of any value-added tax incurred by them in performance of their office, fixed remuneration of € 75,000, with three times this amount for the Chairman of the Supervisory Board, twice this amount for the Deputy Chairman of the Supervisory Board and the Chairman of the Audit Committee,

1.5 times this amount for the chairmen of other Supervisory Board committees, and 1.3 times this amount for the members of Supervisory Board committees. If a member of the Supervisory Board exercises several of the aforementioned functions, he is to be remunerated solely for the function with the highest remuneration. The individual remuneration of the members of the Supervisory Board is shown in the table below.

The members of the Supervisory Board and its committees receive a meeting fee of € 1,100 for each Supervisory Board meeting and committee meeting that they attend.

Name	Functions(s) remunerated	Total in 2007
		€
Dr. Manfred Bischoff <sup>1</sup>	Member of the Supervisory Board and of the Presidential Committee, Chairman of both since April 4, 2007	207,081
Hilmar Kopper	Chairman of the Supervisory Board, of the Presidential Committee and Member of the Audit Committee (until April 4, 2007)	63,445
Erich Klemm <sup>2</sup>	Deputy Chairman of the Supervisory Board, of the Presidential Committee and of the Audit Committee	173,100
Dr. Clemens Börsig	Member of the Supervisory Board and of the Audit Committee (since April 4, 2007)	86,958
Prof. Dr. Heinrich Flegel	Member of the Supervisory Board	84,900
Ron Gettelfinger <sup>3</sup>	Member of the Supervisory Board (until September 1, 2007)	56,532
Earl G. Graves	Member of the Supervisory Board	83,800
Dr. Thomas Klebe <sup>2,4</sup>	Member of the Supervisory Board and of the Presidential Committee	111,800
Arnaud Lagardère <sup>1</sup>	Member of the Supervisory Board	76,100
Jürgen Langer <sup>2</sup>	Member of the Supervisory Board	84,900
Helmut Lense <sup>2</sup>	Member of the Supervisory Board	83,800
Peter A. Magowan	Member of the Supervisory Board	81,600
William A. Owens	Member of the Supervisory Board	84,900
Gerd Rheude <sup>2</sup>	Member of the Supervisory Board	84,900
Udo Richter <sup>2</sup>	Member of the Supervisory Board (until September 30, 2007)	64,896
Wolf Jürgen Röder <sup>2</sup>	Member of the Supervisory Board	84,900
Valter Sanches <sup>3</sup>	Member of the Supervisory Board (since November 21, 2007)	9,525
Dr. Manfred Schneider	Member of the Supervisory Board and since April 4, 2007 also Member of the Presidential Committee	104,073
Stefan Schwaab <sup>2</sup>	Member of the Supervisory Board and of the Audit Committee	116,200
Bernhard Walter	Member of the Supervisory Board and Chairman of the Audit Committee	167,600
Uwe Werner <sup>2</sup>	Member of the Supervisory Board (since October 1, 2007)	20,004
Lynton R. Wilson <sup>5</sup>	Member of the Supervisory Board	84,900
Dr. Mark Wössner	Member of the Supervisory Board	83,800

- 1 Dr. Bischoff (until April 5, 2007) and Mr Lagardère also received meeting fees (for 2007) and remuneration (for 2006) in their capacity as Chairman of the Board of Directors of EADS N.V. amounting to € 153,750 and € 163,750 respectively. Since EADS is consolidated at equity in the consolidated financial statements, these payments are not considered in the calculation of the remuneration of the Supervisory Board.
- 2 The members representing the employees have stated that their board remuneration will be paid to the Hans-Böckler Foundation, in accordance with the guidelines of the German Trade Union Federation.
- 3 Mr. Gettelfinger and Mr. Sanches abstained from receiving their remuneration. At their request, these amounts will be paid to the Hans-Böckler Foundation.
- 4 Dr. Klebe also received remuneration and meeting fees for this board services at Daimler Luft- und Raumfahrt Holding AG and the former DaimlerChrysler Aerospace AG amounting to € 21,400. Footnote 2 applies respectively.
- 5 Mr. Wilson also received € 6,812 for board services at Mercedes-Benz Canada Inc., Chrysler Canada Inc. and Daimler Chrysler Financial Services Canada Inc.

Except for the remuneration paid to the members of the Supervisory Board representing the employees in accordance with their contracts of employment, no remuneration was paid for services provided personally beyond the aforementioned board and committee activities, in particular for advisory or agency services.

The remuneration paid in 2007 to the members of the Supervisory Board of Daimler AG for their services to the Group therefore totaled € 2.1 million (2006: € 2.1 million).

### Loans to members of the Supervisory Board

In 2007, no advances or loans were made to members of the Supervisory Board of Daimler AG.

The Supervisory Board Membership is listed on pages 79 to 83 of the Notes to the Financial Statements.

## Risk Report

Within the framework of its business operations in the fields of passenger cars and commercial vehicles, as a result of increasingly intense competition, and as the parent company of the Daimler Group, Daimler AG is naturally exposed to a large number of **risks** that are inextricably linked with entrepreneurial activities. These entrepreneurial activities consist not least of identifying and utilizing **opportunities** that serve to secure and enhance the Group's competitiveness.

Risks and opportunities can affect Daimler AG either directly or indirectly through its subsidiaries.

### Risk management system

Effective **management and monitoring instruments** are combined into a uniform risk management system, meeting the requirements of applicable law and subject to continuous improvement, which is employed for the early detection, evaluation and management of risks. The risk management system is integrated into the value-based management and planning system. It is an integral part of the overall planning, monitoring and reporting process in all relevant legal entities and headquarters functions, and aims to systematically identify, assess, monitor and document risks. Taking defined risk categories into account, risks are identified by the management of the divisions and operating units, the key associated companies and the headquarters departments, and are assessed regarding their probability of occurrence and possible extent of damage. Assessment of the possible extent of damage usually takes place in terms of the risks' effect on EBIT. The communication and reporting of relevant risks is controlled by value limits set by management. The responsible persons also have the task of developing, and initiating as required, measures to avoid, reduce and hedge risks. Major risks and the countermeasures taken

are monitored within the framework of a regular controlling process. As well as the regular reporting, there is also an internal reporting obligation within the Group for risks arising unexpectedly. The Group's headquarters risk management department regularly reports on the identified risks to the Board of Management and the Supervisory Board.

The risk management system enables the Board of Management to identify key risks at an early stage and to initiate suitable countermeasures. By carrying out targeted audits, the Corporate Audit department should monitor compliance with the statutory framework and with the Group's internal guidelines as defined in the Risk Management Manual, and, if required, initiates appropriate action. In addition, the external auditors examine the system for the early detection of risks that is integrated into the risk management system in terms of its fundamental suitability for the early recognition of developments that could jeopardize the continued existence of the Group.

Entrepreneurial opportunities are not reported on within the risk management system, but in the context of the annual operational planning. The divisions have direct responsibility for the early identification and utilization of opportunities. Within the framework of the strategy process, the opportunities for further profitable growth are identified and included in the decision-making process.

### Economic risks

Overall, the **world economy** developed very positively once again in 2007. Even though the global rate of economic growth will decrease in the year 2008, most analysts do not anticipate a sustained slump of the world economy. However, due to the significant growth slowdown in the United States, high raw-material prices, the US mortgage

crisis and its impact on financial markets, as well as the related increase in uncertainty among investors and consumers, the risks of a distinctly less favorable development have increased perceptibly. There is also the danger that the high energy prices will reduce potential purchasing power. The ongoing relatively robust development of the world economy in 2008 that is anticipated by the majority of economic research institutions, and also by Daimler, is highly dependent on the development of these risks factors. This means that there are still considerable economic risks for the financial position, cash flows and profitability of Daimler AG.

The risk that the **US economy** could drift into recession increased significantly towards the end of 2007. The impact of the mortgage crisis on investment and consumption could be considerably more drastic than assumed by the majority of analysts in their base scenarios. Growth in gross domestic product of 1 % or less would have negative consequences worldwide due to the ongoing high importance of the US economy for global growth. Although the current-account deficit decreased in 2007, the US economy continues to depend on capital inflows from abroad. If the required capital inflows failed to materialize or were too low, a correction of the current account deficit would be inevitable. The probability of this scenario has increased against the backdrop of the growth slowdown and the mortgage crisis; it would entail further depreciation of the US dollar and could additionally exacerbate the danger of recession through the resulting interest-rate reactions. This could have negative effects on both the passenger car industry and the commercial vehicle industry.

Economic growth in **Western Europe** in 2007 was close to the level of the good prior year. In view of the cyclical weakening of investment activity, which is already apparent, and due to poorer export prospects caused by the slowdown in global

growth, a large part of the growth expectations for Western Europe in the year 2008 are dependent on a revival of consumption. Hopes for growth are justified in view of the favorable labor-market developments, but purchasing power could be reduced considerably by a massive acceleration of inflation induced by rising energy prices. Growth could also be dampened by rising interest rates resulting from anti-inflationary measures being taken by the European Central Bank. This would have a corresponding negative impact on consumption and investment, and thus also on demand for passenger cars and commercial vehicles. Due to the importance of Germany and the rest of Western Europe as key sales markets for Daimler, this situation has considerable risk potential.

Economic risks have risen recently also in **Japan**. With consumption tending to weaken, the Japanese economy is increasingly dependent on exports. Against this background, falling demand in the key US market and the relative strength of the Japanese yen are particularly negative factors. A more significant weakening of growth in Japan would have a substantial negative impact not only on the Group's exports of vehicles to Japan, but also on the earnings trend of our subsidiary Mitsubishi Fuso Truck and Bus Corporation.

A marked reduction in growth rates in **China** would also be strategically relevant for the Group, as this is currently the most dynamic vehicle market in the world and has enormous potential for the future. In view of China's economic power and the sharp increase in the flows of international investment and trade with China, such a slump would not only have serious consequences for the whole of Asia, but could also cause significant growth losses for the world economy, with negative effects on Daimler's activities. Potential economic crises in the other emerging markets in which the Group has important production facilities could also be of

particular relevance. On the other hand, crises in emerging markets where the Group is solely active in a sales function would result in more limited risk exposure.

We see an additional significant risk in the development of **raw-material prices**. If prices were to remain high or actually continued rising, the assumed global economic outlook would be jeopardized, despite the pleasing resistance to negative factors that the world economy has recently displayed. The consequences would be on the one hand a decrease in private households' purchasing power, and on the other hand rising costs for companies. All of this would result in a negative impact on growth, especially in the oil-importing countries. An abrupt and sustained rise in the price of oil could even cause some economies to slip into recession.

Risks for market access and the global networking of the Group's facilities could arise as a result of a failure of multilateral **trade liberalization**, in particular if international free trade were weakened in favor of regional trade blocks or a return to protectionist tendencies. A sharp rise in bilateral free-trade agreements outside the European Union could affect Daimler's position in key foreign markets, particularly in Southeast Asia, where Japan is increasingly gaining preferred market access.

Finally, the world economy could be negatively affected by a sustained deterioration in **consumer and investor confidence**. This could be triggered by geopolitical and military instability, concern about a possible sharp drop in share prices and the battle against terrorism.

## Industry and business risks

Intense **competitive pressure** in automobile markets could lead to the increased use of discount financing and other sales incentives. These sales incentives are commonly used in the United States and Canada, particularly in the volume segments. As a result of intensifying competition in Western Europe, the practice of offering incentives - especially in the mass market - is spreading also in this region. This would not only reduce our earnings from the sale of new vehicles, but would also lead to lower prices for used vehicles and thus to falling residual prices. In some markets, the United States in particular, higher fuel prices have caused many consumers to prefer smaller, more fuel-efficient vehicles. In order to enhance the attractiveness of less fuel-efficient vehicles, additional measures could be necessary with an adverse effect on profitability. A shift in the model mix towards smaller vehicles with lower margins would also place an additional burden on Daimler AG's financial position, cash flows and profitability.

In order to achieve the targeted level of prices, factors such as **brand image and product quality** are becoming increasingly important, as well as additional technical features resulting from innovative research and development. Furthermore, it is essential for the Group's profitability to realize **efficiency improvements** while simultaneously fulfilling Daimler AG's own high quality standards.

**Product quality** has a major influence on a customer's decision to buy a particular brand of passenger car or commercial vehicle. At the same time, technical complexity continues to grow as a result of additional features, for example for the fulfillment of various emission and fuel-economy regulations, increasing the danger of vehicle malfunctions. Technical problems could lead to further recall and repair campaigns, or could even necessi-

tate new development work. Furthermore, deteriorating product quality can also lead to higher warranty and goodwill costs.

**Legal and political frameworks** also have a considerable impact on Daimler's future business success. Regulations concerning vehicles' exhaust emissions, fuel consumption and safety play a particularly important role. Complying with these varied and often diverging regulations all over the world requires considerable efforts on the part of the automotive industry. We expect to have to significantly increase our spending aimed at fulfilling these requirements in the future. Many countries have already implemented stricter regulations to reduce vehicles' emissions and fuel consumption, or are about to pass such legislation. This also applies to the European regulations on exhaust emissions and fuel consumption. The European Commission is currently working on a draft directive that, among other things, specifies reduced limits on vehicles' emissions of carbon dioxide as of 2012. Non-compliance with these limits could lead to penalty payments. Daimler AG monitors these factors and attempts to anticipate foreseeable requirements during the phase of product development.

Daimler AG counteracts **procurement risks** through targeted commodity and supplier risk management. But in view of developments in international supply markets, the effects of these measures are limited. If prices were to remain at their current levels for a longer period of time or continued to rise even further, this would result in a negative impact on Daimler's profitability. Increasing pressure in procurement and sales markets could also seriously jeopardize the financial situation and continued operations of suppliers and dealers. To an increasing extent, individual or joint support actions have been required by automobile manufacturers such as Daimler in order to safeguard pro-

duction and sales. If the situation of important suppliers should continue to deteriorate, this could require further support actions to be taken with a negative effect on earnings. If suppliers experience delivery difficulties, this could have a negative impact on the production and sales of vehicles and thus also on the profitability of Daimler AG.

Production and business processes could also be disturbed by **unforeseeable events** such as natural disasters or terrorist attacks. Consumer confidence would be significantly affected and production could be interrupted by supply problems and intensified security measures at territorial borders. In addition, our manufacturing processes could also be disturbed by failures at our data centers. Security measures and emergency plans have been prepared for such eventualities. Because the importance of storing and exchanging information is becoming increasingly important at a global Group like Daimler, and in order to counteract the growing risks for the operation of central IT systems and the **security of confidential data**, we have our own risk management system for IT security. Guidelines from headquarters and the decentralized security organization we have established worldwide help to minimize these IT risks. For this reason, most IT risks have a very low probability of occurrence, but if such a case actually arose, it would have a significant negative impact on earnings.

The result of upcoming wage-tariff negotiations with the trade unions could lead to increases in **labor costs**. Major production disturbances leading to lower vehicle deliveries are not to be expected for 2008, however, due to the wage settlements valid for our employees in Germany until October 2008.

Daimler's success is highly dependent on the expertise and commitment of its workforce. The application of our personnel instruments makes allowances for existing **personnel risks** and contributes towards the targeted safeguarding of staff with high potential and expertise, while securing transparency with regard to our resources. Another focus of our human resources management is on the targeted personnel development and further training of our workforce. Our managerial staff and specialists profit from the range of courses offered by the Daimler Corporate Academy and from the transparency created by LEAD, our uniform worldwide performance and potential management system.

Due to the issue of **guarantees** and Daimler's interest in the system for recording and charging tolls for the use of highways in Germany by trucks with more than 12 metric tons gross vehicle weight, we are exposed to a number of risks that could have negative effects on the Group's financial situation, cash flows and profitability. The operation of the electronic toll-collection system is the responsibility of the operator company, Toll Collect GmbH, in which Daimler holds a 45% ownership interest and which is included in the consolidated financial statements using the equity method of accounting. In addition to Daimler's membership of the Toll Collect consortium and its equity interest in Toll Collect GmbH, guarantees were issued supporting obligations of Toll Collect GmbH towards the Federal Republic of Germany concerning the completion and operation of the toll system. Risks can arise primarily due to lower tolls derived from the system and the non-fulfillment of certain contractually defined parameters, additional alleged offsetting claims by the Federal Republic of Germany beyond such claims already made, or a refusal to grant the final operating permit.

Daimler AG bears a proportionate share of the risks of its **subsidiaries and affiliated companies** in line with its share of those companies' equity capital. At EADS (European Aeronautic Defence and Space Company EADS N.V.) for example, unit sales could fall due to lower demand from the airlines for aircraft. Relations with companies in which we have equity investments can also result financial burdens due to statutory and contractual liability (in particular regarding financing). Due to the continued difficult market situation in the US, particular mention must be made of the further development of the Daimler North America Corporation.

### Finance market risks

Daimler AG's international business orientation means that it is exposed to market-price risks due to changes in foreign currency exchange rates and interest rates. Market-price risks may adversely affect Daimler's financial position, cash flows and profitability. Daimler AG seeks to monitor and manage these risks by performing appropriate market analyses and, if appropriate, through the use of derivative financial instruments. As part of the risk management process, Daimler regularly assesses these risks by considering changes in key economic indicators and market information. Furthermore, commodity price risks, a part of market-price risks, arise in the area of procurement.

Information on financial instruments and derivatives can be found on page 68 and 69 of the Notes to the Financial Statements.

**Exchange rate risks** result from fluctuations in foreign exchange rates, especially of the US dollar and other important currencies against the euro. An exchange rate risk arises in the operating business primarily when revenues are denominated in a different currency than the related costs (transaction risk). This applies in particular to the passenger cars business, as a significant portion of

its revenue is generated in foreign currencies while most of its production costs are incurred in euros. The commercial-vehicle business is also exposed to such transaction risks, but only to a minor degree because of its worldwide production network. Currency exposure is assessed in the form of centralized foreign exchange management and ongoing foreign exchange forecasts, and is hedged using the appropriate financial instruments, primarily foreign exchange transactions and currency options.

Daimler AG holds a variety of interest rate sensitive financial instruments to hedge the **risk of changes in interest rates**. These include interest rate swaps, forward rate agreements, swaptions, caps and floors.

To a minor extent, derivative commodity instruments are used to reduce some of the market-price risks relating to supplies of goods and raw materials, especially precious metals. The risk resulting from these derivative commodity instruments was not material in 2007 and 2006; the same applies to the present situation.

Risk management at Daimler AG is an integral part of the Group's overall risk management with regard to finance market risks.

#### **Risks from changes in credit ratings**

The rating agencies Standard & Poor's, Moody's Investors Service, Fitch Ratings and DBRS assess the creditworthiness of Daimler. Downgrades or upgrades of individual ratings by the rating agencies could lead to increases or decreases in the cost of capital due to changes in effective interest rates.

#### **Legal risks**

Various legal proceedings, claims and governmental investigations are pending against Daimler AG and its subsidiaries on a wide range of topics, including vehicle safety; emissions and fuel economy; financial services; dealer, supplier and other contractual relationships; intellectual property rights; product warranties; environmental matters; and shareholder matters. Some of these proceedings allege defects in various components in several different vehicle models or allege design defects relating to vehicle stability, pedal misapplication, brakes, or crashworthiness. Some of these proceedings are filed as class action lawsuits that seek repair or replacement of the vehicles or compensation for their alleged reduction in value, while others seek recovery for damage to property, personal injuries or death. Adverse decisions in one or more of these proceedings could require us to pay substantial compensatory and punitive damages, or undertake service actions, recall campaigns or other costly actions.

The Federal Republic of Germany initiated arbitration proceedings against Daimler Financial Services AG (formerly DaimlerChrysler Financial Services AG), Deutsche Telekom AG and Toll Collect GbR and submitted its statement of claims in August 2005. It seeks damages, contractual penalties and the transfer of intellectual property rights to Toll Collect GmbH. In particular, the Federal Republic of Germany is claiming lost revenue of € 3.51 billion plus interest (€ 236 million through July 31, 2005, plus 5 % per annum over the respective base rates since then) for the period September 1, 2003, through December 31, 2004, and contractual penalties of approx. € 1.65 billion through July 31, 2005, plus interest (€ 107 million through July 31, 2005, plus 5 % per annum over the respective base rates since then). Since some of the contractual penalties, among other things, are

dependent on time and as further claims for contractual penalties have been asserted by the Federal Republic of Germany, the amount claimed as contractual penalties may increase. Daimler (formerly DaimlerChrysler) believes the claims are without merit and is defending itself vigorously. The response was submitted to the arbitrators on June 30, 2006. The reply of the plaintiff's was delivered to the arbitrators on February 15, 2007. The rejoinder of the defendants was delivered to the arbitrators on October 1, 2007.

As previously reported, the US Securities and Exchange Commission ("SEC") and the US Department of Justice ("DOJ") are conducting an investigation into possible violations of law by Daimler (formerly DaimlerChrysler) including the anti-bribery, record-keeping, and internal control provisions of the US Foreign Corrupt Practices Act ("FCPA"). Daimler has voluntarily shared with the DOJ and the SEC information from its own internal investigation of certain accounts, transactions and payments, primarily relating to transactions involving government entities, and has provided the agencies with information pursuant to outstanding subpoenas and other requests. Daimler has also had communications with the office of the German public prosecutors have also taken place regarding these matters.

In connection with its internal investigation, Daimler has determined that in a number of jurisdictions, primarily in Africa, Asia and Eastern Europe, improper payments were made which raise concerns under the FCPA, under German law and under the law of other jurisdictions.

Daimler has also identified and self-reported potential tax liabilities to tax authorities in several jurisdictions. These tax liabilities of Daimler AG and certain foreign affiliates result from misclassifications of, or the failure to record, commissions and other payments and expenses.

Daimler has taken various actions designed to address and resolve the issues identified in the

course of its investigation to safeguard against the recurrence of improper conduct. These include establishing a company-wide compliance organization, evaluating and revising Daimler's governance policies and internal control procedures and taking personnel actions.

Daimler is working towards completing its internal investigation into possible violations of law. Some investigative and remediation work, however, is still ongoing and further issues may arise as Daimler completes the investigation. The DOJ or the SEC could seek criminal or civil sanctions, including monetary penalties, against Daimler and certain of its employees, as well as additional changes to its business practices and compliance programs.

Daimler also determined that for a number of years a portion of the taxes related to remuneration paid to expatriate employees was not properly reported. Daimler voluntarily reported potential tax liabilities resulting from these issues to the tax authorities in several jurisdictions and took various remedial actions to address these issues.

Litigation is subject to many uncertainties, and Daimler AG cannot predict the outcome of individual matters with assurance. The Company, recognizes provisions in connection with pending or threatened litigation if a loss is probable and can be reasonably estimated. Since these provisions represent estimates, it is reasonably possible that the resolution of some of these matters could require us to make payments in excess of the amounts of the provisions and in an amount or range of amounts that could not be reasonably estimated at December 31, 2007. It is also reasonably possible that the resolution of some of the matters for which provisions could not be recognized, may require the Company to make payments in an amount or range of amounts that could not be reasonably estimated at December 31, 2007. Although the final resolution of any such matters could have a material effect on Daimler's operating

results for a particular reporting period, Daimler AG believes that it should not materially affect its consolidated financial position or cash flow.

#### **Overall risk**

No risks are recognizable that, either alone or in combination with other risks, could jeopardize the continued existence of the Company.

## Outlook

The statements made in the "Outlook" section are based on the operative planning of the Daimler Group for the years 2008 through 2010. This planning is based on premises regarding the economic situation derived from assessments made by renowned economic institutions, and on the targets set by our divisions. The forecasts for future business developments reflect the opportunities and risks offered by the anticipated market conditions and the competitive situation during the planning period.

In our planning, we assume that in the coming years, the euro will remain fairly stable against the US dollar on an annual average basis compared with 2007. We expect further slight appreciation against the British pound, and a slight fall against the Japanese yen.

### World economy

Although prospects for growth of the world economy decreased significantly at the beginning of 2008, most analysts do not anticipate a sustained slump. One of the decisive factors for the world economy will be whether a serious recession in the United States resulting from the effects of the mortgage crisis can be avoided. Private consumption is likely to fall substantially as a result of wealth losses and households' lower increases in purchasing power, but in view of major cuts in interest rates and the planned fiscal measures, a severe and sustained slump is not expected.

Overall, the US economy will recover only slowly and will expand at a below-average rate also in the year 2008.

Growth of the Japanese economy is likely to slow down and only amount to 1.5 %.

Prospects in Western Europe of 2 % growth are better, despite the general weakening of growth

rates, because the assumed increase in exports will partially compensate for lower consumption.

As an export-oriented economy, Germany will not match its rather better than average growth rates of recent years due to the ongoing strength of the euro and weak demand in major export markets.

The emerging markets will probably lose a little of their dynamism as a result of the global growth slowdown and the expected economic cooling-off in China and India. Nonetheless, we assume that the emerging markets will continue their strong growth at an average rate of more than 6 %, and their overall prospects remain very positive also in the coming years.

However, the risk increased perceptibly due to higher raw-material prices, the latest turbulence in financial markets, and a general increase in uncertainty among investors and consumers.

In our view, the biggest individual risks for the global economy are to be seen in further rises in raw-material prices, a lasting recessive development of the US economy, and a continuation of the drastic depreciation of the US dollar.

### Automotive markets

We anticipate a generally positive development of worldwide demand for automobiles once again in the year 2008, although expansion will at best equal last year's rate. The North American market for cars and light trucks is likely to continue suffering from the impact of falling house prices. Parallel to the general slowdown of economic growth, we expect a decrease in that region's market. In Western Europe, the market for passenger cars is likely to remain flat, with total sales of approx. 14.8 million units. Germany, Europe's biggest individual market, should expand again slightly after the weak year 2007. Once again, the Japanese car market will not expand significantly in 2008. We therefore expect global growth in 2008 once again

to be primarily driven by the high growth rates of the major emerging markets. Especially China, India and Russia offer additional opportunities.

Worldwide markets for commercial vehicles are likely to continue expanding in 2008. We anticipate a cyclical recovery of the North American market for medium and heavy trucks of Classes 5 to 8, which will not gain strength until the second half of the year, however. In Western Europe, the robust development of the market for medium and heavy trucks seems likely to continue, so demand should be similar to the very high prior-year level. Also for the Japanese market for commercial vehicles we foresee a volume similar to the prior-year.

Overall demand for automobiles will display differing tendencies in the year 2008 and probably also thereafter. The main growth impetus will come from the emerging markets. This is mainly due to dynamic increases in purchasing power, improved infrastructures and the general increase in mobility requirements in these markets. On the other hand, growth prospects in the industrialized countries are limited in quantitative terms because of market maturity and demographic developments.

The main opportunities are in terms of quality - through the application of new technologies and the enhanced value of vehicles. The industry's key challenges in the coming years will be to fulfill future statutory emission limits and to expand product ranges with fuel-efficient and environmentally friendly vehicles. Automobile manufacturers will therefore intensify their efforts to secure sustainable mobility in the coming years. This will increase the need for producers to cooperate and, as a consequence, the consolidation of the industry will continue. At the same time, the ability to differentiate oneself from the competition through innovation and strong brands will become more important as a factor for success.

Economic conditions also have an impact on the earnings situation of Daimler AG. For the years 2008 and 2009, we assume that unit sales, sales revenue and operating income will continue rising. We will steadily proceed with our policy of achieving continuous efficiency improvements. At the same time, we will develop and apply technologies that will make our products even more attractive and environmentally friendly in the coming years. The related expenditure and also the anticipated development of currency exchange rates will affect the earnings trend. However, we expect to be able to offset these negative effects due to the market success of our products and further efficiency improvements.

A fundamental condition for the targeted increase in earnings is a generally stable economic and political environment, as well as the anticipated moderate rise in the worldwide demand for cars and commercial vehicles.

Opportunities and risks may arise from the development of currency exchange rates and raw-material prices, as well as from our assessments of the market success of our products.

### Passenger cars

For the area of passenger cars, we assume that both unit sales and revenue will continue to grow in 2008 and 2009.

The full availability of the sedan and station wagon versions of the C-Class and of the new smart fortwo will make a decisive contribution to this development. These models will be followed by seven new products in 2008. The new model of the E-Class should then provide renewed sales impetus in 2009.

Also in the future we expect unit sales to continue to focus on the five current biggest markets: Germany, the United States, the United Kingdom,

Italy and France. We see conditional opportunities in Russia and Asia.

Additional development activities for the reduction of fuel consumption and emissions will at first have a negative impact on earnings.

### **Commercial vehicles**

Varied developments are anticipated within the area of commercial vehicles.

Starting from a situation of a high order backlog, Daimler Trucks expects to increase its unit sales once again in 2008. Further efficiency improvements in combination with the anticipated higher unit sales should lead to another slight increase in earnings. After the very high levels of demand in the previous years, a cyclical market weakening is expected as of 2009. This will be reflected by falling unit sales and revenue. However, we see additional changes in Eastern Europe.

The profitability of Mercedes-Benz Vans should continue improving during the planning period of 2008 through 2010 due to an expected steady rise in unit sales. This will be primarily due to the new Sprinter, which will be gradually extended with the addition of new variants.

Negative effects caused by high raw-material prices and unfavorable exchange rates will be offset by ongoing cost reductions and efficiency improvements.

### **Capital expenditure**

During the planning period of 2008 through 2010, Daimler AG expects to invest a total of € 7.7 billion in property, plant and equipment. The planned investments are significantly higher than in the prior years, especially in the area of passenger cars. The focus of investment will be on advance expenditure for new vehicles, primarily for the new E-Class model. Substantial investment is also planned for new families of engines with low fuel consumption and emissions, in the context of a strategy of increased application of alternative drive

systems. The focus in the coming years in the area of commercial vehicles is on capital expenditure for new engine projects as well as the expansion and modernization of production capacities. At Mercedes-Benz Vans, the main areas of investment are the model upgrade for the Vito and Viano vans.

### **Research and development**

Over the period of the next three years, we will probably spend approx. € 10.3 billion on research and development.

The focus of research and development expenditure at Daimler AG will be on the area of passenger cars; substantial expenditure is planned for the E-Class family and for new engines and alternative drive systems. Key projects in the area of commercial vehicles include the development of a new engine generation that fulfills future emission regulations, in the United States, Western Europe and Japan, as well as a new platform for the successor models to the Actros, Atego and Axor.

In addition to the aforementioned projects, we have planned substantial amounts in the research budget for new technologies with which we intend to achieve a sustained improvement in the safety, environmental compatibility and economy of road traffic. In this area we see our chances in fulfilling our clients' demands.

#### **Forward-looking statements in the Management Report**

This document contains forward-looking statements that reflect our current views about future events. The words “anticipate,” “assume,” “believe,” “estimate,” “expect,” “intend,” “may,” “plan,” “project,” “should” and similar expressions are used to identify forward-looking statements. These statements are subject to many risks and uncertainties, including an economic downturn or slow economic growth in important economic regions, especially in Europe or North America; changes in currency exchange rates and interest rates; the introduction of competing products and the possible lack of acceptance of our products or services which may limit our ability to raise prices; price increases in fuel, raw materials, and precious metals; disruption of production due to shortages of materials, labor strikes, or supplier insolvencies; a decline in resale prices of used vehicles; the business outlook for Daimler Trucks, which may be affected if the U.S. and Japanese commercial vehicle markets experience a sustained weakness in demand for a longer period than originally expected; the effective implementation of cost reduction and efficiency optimization programs; the business outlook of Chrysler, in which we hold an equity interest, including its ability to successfully implement its restructuring plans; the business outlook of EADS, in which we hold an equity interest, including the financial effects of delays in and potentially lower volumes of future aircraft deliveries; changes in laws, regulations and government policies, particularly those relating to vehicle emissions, fuel economy and safety, the resolution of pending governmental investigations and the outcome of pending or threatened future legal proceedings; and other risks and uncertainties, some of which we describe in this Report. 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.

## Balance Sheet of Daimler AG

	Notes	12/31/2007 € in million	12/31/2006 € in million
<b>ASSETS</b>			
<b>Fixed Assets</b>			
Intangible assets	(1)	62	40
Property, plant and equipment incl. equipment on operating leases, net	(2)	8,871	9,078
Financial assets	(3)	38,112	32,403
		<b>47,045</b>	<b>41,521</b>
<b>Non-fixed Assets</b>			
Inventories	(4)	5,517	5,055
Trade receivables	(5)	2,115	1,940
Receivables from affiliated companies	(5)	11,337	7,948
Other receivables and other assets	(5)	2,310	1,373
Securities	(6)	471	3,132
Cash and cash equivalents	(7)	3,645	1,933
		<b>25,395</b>	<b>21,381</b>
<b>Prepaid expenses</b>		<b>17</b>	<b>19</b>
		<b>72,457</b>	<b>62,921</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital (conditional capital € 417 million)	(8a)	2,766	2,673
Capital reserves	(8b)	14,185	12,356
Retained earnings	(8c)	6,188	3,483
Unappropriated profit	(8d)	6,184	1,542
		<b>29,323</b>	<b>20,054</b>
<b>Provisions</b>			
Provisions for pensions and similar obligations	(9)	12,307	11,850
Other provisions	(10)	11,785	11,405
		<b>24,092</b>	<b>23,255</b>
<b>Liabilities</b>			
Trade liabilities	(11)	4,012	3,980
Liabilities due to affiliated companies	(11)	13,423	12,305
Other liabilities	(11)	1,514	3,227
		<b>18,949</b>	<b>19,512</b>
<b>Deferred Income</b>		<b>93</b>	<b>100</b>
		<b>72,457</b>	<b>62,921</b>

## Income Statement of Daimler AG

	Notes	2007 € in million	2006 € in million
<b>Revenue</b>	(12)	<b>66,962</b>	<b>64,571</b>
Cost of sales	(13)	(58,042)	(56,789)
<b>Gross profit</b>		<b>8,920</b>	<b>7,782</b>
Selling expenses	(13)	(5,536)	(5,440)
General administrative expenses	(13)	(2,594)	(2,762)
Other operating income	(14)	1,152	1,394
Other operating expenses	(15)	(1,070)	(383)
Result from investments in affiliated and related companies	(16)	10,358	(11)
Interest income	(17)	857	738
Other financial income	(18)	453	24
<b>Income from ordinary activities</b>		<b>12,540</b>	<b>1,342</b>
Income taxes	(19)	(172)	(653)
<b>Net income</b>	(20)	<b>12,368</b>	<b>689</b>
<b>Transfer to (2006: from) retained earnings</b>		<b>(6,184)</b>	<b>853</b>
<b>Unappropriated profit</b>		<b>6,184</b>	<b>1,542</b>

# Notes to the Financial Statements of Daimler AG

## Accounting policies and methods

The financial statements of Daimler AG have been prepared in accordance with the accounting principles of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG); the amounts shown are in millions of euros (€) and the comparable figures for the year ended December 31, 2006 are also shown. The items summarized in the balance sheet and the income statement are listed individually and explained in these Notes.

For the sake of clarity, the system of presentation has been modified in accordance with Section 266 of the HGB. Other receivables and other assets comprise receivables due from affiliated companies and other assets. Other provisions comprise provisions for taxes and other provisions. Other liabilities comprise liabilities to affiliated companies, loans and bonds, liabilities to banks and other liabilities. No use was made in 2007 of the possibility to net off liabilities to subsidiaries from the transfer of losses with receivables.

The income statement has been prepared according to the internationally predominant cost-of-sales method. The system of presentation has been modified to improve clarity with regard to financial activities. Financial activities are presented as income from investments in affiliated and related companies, interest income and other financial income.

As of January 1, 2007, smart gmbh was merged into Daimler AG. The individual notes on the balance sheet and the income statement have been supplemented insofar as this was material.

## Recognition and measurement

*Intangible assets* are measured at cost of acquisition, reduced by systematic straight-line amortization. Most of them have a useful life of three years.

*Property, plant and equipment* are measured at cost of acquisition or production, reduced by systematic depreciation.

The production costs of self-constructed assets comprise individual items as well as prorated material and production overheads, including depreciation, to the extent that they are caused by the production process.

Systematic depreciation for technical equipment and machinery, other equipment and furniture and office equipment is usually based on a useful life of 3 to 10 years. Correspondingly shorter periods apply for equipment used in multiple shifts.

Movable goods with useful lives of four years and longer are generally depreciated using the declining-balance method. The method of depreciation is changed from declining-balance to straight-line as soon as the equal distribution of the carrying value over the remaining useful life leads to higher depreciation amounts. In general, the maximum depreciation rates permitted for tax purposes are applied. Impairments are recognized if an asset has to be measured at a lower value.

Low-value assets are written off immediately.

*Leased assets* are measured at cost of acquisition or production and systematically depreciated. Systematic depreciation is based on a useful life of 3 to 21 years. Depending on the various lessees, leased assets are depreciated using the straight-line method or the declining-balance method. The method of depreciation is changed from declining-balance to straight-line as soon as the equal distribution of the carrying value

over the remaining useful life leads to higher depreciation amounts.

For the sake of better clarity, we have supplemented the statement of non-current assets with the item of leased assets under property, plant and equipment and with the item of special asset pension trust under financial assets.

*Shares in affiliated, related companies and other financial assets* are measured at cost of acquisition, or, if there is an indication of permanent impairment, at the lower fair value. Loans bearing low interest or no interest are measured at their present value.

*Raw materials and manufacturing supplies and goods* are measured at the lower of cost of acquisition or fair value; *unfinished and finished products* are measured at cost of production. Cost of production comprises direct material and labor as well as the prorated material and production overheads, including depreciation, to the extent that they are caused by the production process. Impairments for inventory risks are recognized to an appropriate extent. The principle of loss-free valuation is applied in accordance with applicable tax regulations.

*Receivables and other assets* are measured at their nominal values with consideration of all recognizable risks. If they have a remaining maturity of more than one year and are non-interest bearing, they are discounted to their present value on the balance sheet date. General allowances are recognized for doubtful accounts.

*Other securities* are measured at the lower of cost of acquisition or fair value on the balance sheet date.

*Provisions for pensions and similar obligations* are measured with the use of the projected unit credit method. This method has been used for the

measurement of pension obligations in the 2007 financial statements in accordance with IFRS (IAS 19), i.e. in accordance with the accounting method applied for the consolidated financial statements since January 1, 2007, and leads to a higher amount than the method according to Section 6a of the German Income Tax Act. When using the projected unit credit method, the obligation at the balance sheet date is recognized in accordance with the expected claims with consideration of expected future increases in wages and salaries.

*Provisions for taxes and other provisions* are calculated in accordance with the principle of reasonable commercial judgment.

Derivative financial transactions (especially currency futures and currency option transactions and interest rate swaps) are pooled as a unit of valuation with an underlying transaction, provided there is a direct hedging context between the financial transaction and the underlying transaction.

In these cases, the results of currency contracts concluded as foreign exchange hedges are not recognized until maturity. Financial transactions for which no units of valuation are formed are measured individually at fair value. Any resulting unrealized losses are expensed.

*Liabilities* are measured at their repayment amounts.

*Receivables and liabilities denominated in foreign currencies* are translated into euros at the exchange rate on the date of the bookkeeping entry or at the exchange rate on the balance sheet date if that is lower or higher, respectively.

## Fixed Assets Schedule of Daimler AG

	Cost of acquisition or production					Balance at 12/31/2007
	Balance at 01/01/2007	Additons from merger of smart gmbh	Additions	Reclassi- fications	Disposals	
€ in million						
<b>Intangible assets</b>						
Concessions, industrial property rights and similar rights and values, as well as licenses to such rights and values	208	.	37	.	16	229
Advance payments made	.	-	11	.	-	11
	<b>208</b>	.	<b>48</b>	.	<b>16</b>	<b>240</b>
<b>Property, plant and equipment</b>						
Technical equipment and machinery	8,479	19	561	131	239	8,951
Other equipment, factory and office equipment	5,686	421	698	96	201	6,700
Leased assets	6,649	-	2,977	52	2,976	6,702
Advance payments and construction in progress	368	1	474	(279)	15	549
	<b>21,182</b>	<b>441</b>	<b>4,710</b>	.	<b>3,431</b>	<b>22,902</b>
<b>Financial assets</b>						
Shares in subsidiaries	23,432	3	7,890	.	3,159	28,166
Loans to subsidiaries	286	-	35	-	4	317
Shares in affiliated companies	1,045	-	69	.	84	1,030
Other loans	18	-	-	-	10	8
Special assets Pension Trust	8,875	-	1,266	-	322	9,819
	<b>33,656</b>	<b>3</b>	<b>9,260</b>	-	<b>3,579</b>	<b>39,340</b>
<b>Fixed assets</b>	<b>55,046</b>	<b>444</b>	<b>14,018</b>	-	<b>7,026</b>	<b>62,482</b>

Depreciation/Amortization/Write-ups							Book value		
Balance at	Additions					Balance at	Balance at	Balance at	
01/01/2007	from merger	Current year	Write-ups	Reclassi-	Disposals	12/31/2007	12/31/2007	12/31/2006	
of smart gmbh				fications					
168	-	26	-	.	16	178	51	40	
-	-	-	-	-	-	-	11	.	
<b>168</b>	<b>-</b>	<b>26</b>	<b>-</b>	<b>-</b>	<b>16</b>	<b>178</b>	<b>62</b>	<b>40</b>	
6,148	17	1,051	-	.	233	6,983	1,968	2,331	
3,904	346	852	-	.	181	4,921	1,779	1,782	
2,052	-	1,257	-	.	1,182	2,127	4,575	4,597	
-	-	-	-	-	-	-	549	368	
<b>12,104</b>	<b>363</b>	<b>3,160</b>	<b>-</b>	<b>.</b>	<b>1,596</b>	<b>14,031</b>	<b>8,871</b>	<b>9,078</b>	
758	-	72	(7)	-	157	666	27,500	22,674	
-	-	6	.	-	-	6	311	286	
493	-	121	-	-	59	555	475	552	
2	-	.	.	-	1	1	7	16	
-	-	-	-	-	-	-	9,819	8,875	
<b>1,253</b>	<b>-</b>	<b>199</b>	<b>(7)</b>	<b>-</b>	<b>217</b>	<b>1,228</b>	<b>38,112</b>	<b>32,403</b>	
<b>13,525</b>	<b>363</b>	<b>3,385</b>	<b>(7)</b>	<b>-</b>	<b>1,829</b>	<b>15,437</b>	<b>47,045</b>	<b>41,521</b>	

# Notes to the Balance Sheet of Daimler AG

## 1 Intangible assets

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Intangible assets of € 62 million primarily comprise acquired licenses (computer software) and similar values. Systematic amortization amounted to € 26 million in 2007.

## 2 Property, plant and equipment

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Additions of € 4,710 million include € 2,977 million of leased assets. These are primarily vehicles sold with leasing contracts. Further additions consist only of movable property. Systematic depreciation amounted to € 3,160 million (2006: € 2,775 million). In connection with the merger of smart gmbh into Daimler AG, assets were acquired with a residual book value of € 78 million.

## 3 Investments and long term financial assets

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Shares in affiliated and related companies increased by € 4,749 million to € 27,975 million (2006: € 23,226 million).

The addition was mainly connected with the transfer within the consolidated group of shares in Daimler Verwaltungsgesellschaft für Grundbesitz mbH to Daimler Vermögens- und Beteiligungsgesellschaft mbH and the purchase of shares in Daimler Luft- und Raumfahrt Holding AG. In 2007, shares in affiliated and related companies were written off by € 193 million (2006: € 71 million).

Pursuant to Section 287 of the German Commercial Code, a list of the principal holdings of Daimler AG is attached as a separate appendix to these Notes.

Loans to affiliated companies increased by € 25 million, primarily as a result of new loans made to DaimlerChrysler Financial Services France S.A. and to DaimlerChrysler Mitarbeiter Wohnfinanz GmbH. There were opposing effects from the repayment of capital on loans, in particular to Grundstücksverwaltungsgesellschaft Auto-Henne GmbH & Co. OHG.

The Special asset Pension Trust comprises the financial assets transferred to the DaimlerChrysler Pension Trust e.V. These assets and the yield from them are solely used for the purpose of meeting the pension obligations. No additional funds were allocated to the special asset in 2007.

The development of fixed assets is presented in the statement of non-current fixed assets schedule.

## 4 Inventories

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	12/31/2007 € in million	12/31/2006 € in million
Raw material and manufacturing supplies	1,119	970
Unfinished products, unfinished services	871	812
Finished products and goods	3,583	3,319
<u>Inventories</u>	<u>5,573</u>	<u>5,101</u>
Advance payments received	(56)	(46)
	<b>5,517</b>	<b>5,055</b>

Finished products and goods comprise vehicles and spare parts produced both in the plants of Daimler AG and in the context of contract manufacturing spare parts and used vehicles are also included.

## 5 Other receivables and Other assets

	12/31/2007		12/31/2006	
	€ in million	€ in million	€ in million	€ in million
Trade receivables		2,115		1,940
thereof more than 1 year until maturity	12		29	
Receivables from affiliated companies		11,337		7,948
thereof more than 1 year until maturity	206		9	
Receivables from related companies		664		166
thereof more than 1 year until maturity	11		1	
Other assets		1,646		1,207
thereof more than 1 year until maturity	194		229	
<b>Receivables and Other assets</b>		<b>15,762</b>		<b>11,261</b>
thereof more than 1 year until maturity	423		268	

Receivables due from affiliated companies primarily consist of receivables that originally arose from invoicing within the consolidated group within the context of central financial and liquidity management (€ 9,099 million, 2006: € 6,106 million), as well as from the supply of goods and services to companies of the consolidated group in Germany and abroad (€ 2,238 million, 2006: € 1,842 million). Receivables due from related companies primarily comprise trade receivables that originally arose from companies of the consolidated group in Germany and abroad (€ 365 million, 2006: € 146 million) and from internal invoicing within the context of central financial and liquidity management (€ 299 million, 2006: € 20 million).

Other assets include tax-refund claims (€ 903 million, 2006: € 510 million), shares in companies that are to be transferred to Chrysler (€ 188 million), premiums for currency options (€ 175 million, p. y. € 76) and a bill transaction (€ 57 million, 2006: € 89 million).

## 6 Securities

	12/31/2007	12/31/2006
	€ in million	€ in million
Other securities	471	3,132

Other securities comprise shares and fixed-interest securities. Fixed-interest securities account for € 470 million and shares account for € 1 million.

The sharp decrease in other securities is primarily due to a reduction in commercial papers of € 1,176 million and a reduction in bonds of € 19 million. The amount shown for the prior year comprises annuity funds (€ 78 million) and special funds (€ 1,389 million). These funds were all sold in 2007.

In 2007, Daimler AG acquired a total of 453,942 of its own shares (representing € 1,238,499.59 or 0.05 % of the share capital) at an average price of € 59.25 per share. These shares were bought as part of the employee wealth-creation actions of Daimler AG. Of these shares, 441,650 (representing € 1,204,963.07 or 0.04 % of the share capital) were sold on to employees. Another 12,247 shares (representing € 33,413.75 or 0.001 % of the share capital) were sold at the price of acquisition to companies of the consolidated group to be sold on to their employees. The following table gives an overview of the average price per share for the employees:

Period	Price per share €
February - March 2007	51.34
October 2007	72.99

In addition, voluntary contributions were made by Daimler AG. With an acquisition of 5 shares, this contribution amounted to € 67.50, with 10 shares € 135. If an employee acquired at least 15 shares, a bonus share was granted free of charge.

In June and October 2007, 45 shares (representing € 122.77 of the share capital) were sold to Deutsche Bank AG at an average price of € 74.82.

## 7 Cash and cash equivalents

Cash and cash equivalents amounted to € 3,645 million at the end of the year (2006: € 1,933 million) and consisted of bank balances, cash in hand and checks.

Liquidity also includes securities (€ 471 million, 2006: € 3,132 million).

## 8 Equity

	12/31/2007 € in million	12/31/2006 € in million
Share capital	2,766	2,673
Capital reserves	14,185	12,356
Retained earnings	6,188	3,483
Unappropriated profit	6,184	1,542
<b>Equity</b>	<b>29,323</b>	<b>20,054</b>

### a) Share capital

Share capital	2007 € in million	2006 € in million
<b>Balance at 01/01</b>	<b>2,673</b>	<b>2,647</b>
Contribution from exercise of options	93	26
<b>Balance at 12/31</b>	<b>2,766</b>	<b>2,673</b>

Number of shares	2007	2006
<b>Balance at 01/01</b>	<b>1,028,163,751</b>	<b>1,018,172,696</b>
Exercise of options	35,664,845	9,991,055
Share buyback	(49,960,000)	-
<b>Balance at 12/31</b>	<b>1,013,868,596</b>	<b>1,028,163,751</b>

At December 31, 2007, the company's share capital amounted to € 2,766,169,590.44, divided into 1,013,868,596 registered ordinary shares of no par value. All shares are fully paid up. Each share entitles its owner to one vote at the Annual Meeting of Daimler AG as well as the right to a dividend in accordance with the dividend distribution decided upon at the Annual Meeting.

On April 4, 2007, the Annual Meeting authorized the Board of Management to acquire treasury shares through October 4, 2008 for certain predefined purposes up to a maximum nominal amount of € 267 million of the share capital, representing nearly 10 % of the share capital at that time. On August 29, 2007, the Supervisory Board of Daimler AG approved a share buyback program. During the period between August 30, 2007 and December 11, 2007, the company partially utilized the authorization granted by the Annual Meeting to buy back and cancel a total of 49,960,000 million of the company's own shares, representing approximately € 131 million of the share capital. The cancellation of the shares that were bought back took place without any reduction in the share capital.

In 1998, as the legal successor to Daimler-Benz AG, DaimlerChrysler AG took over the obligations arising from the convertible bonds and option bonds issued by Daimler-Benz AG. The holders of these bonds now have the right to Daimler shares through exercise or conversion. The option and convertible bonds and their conditions are described below.

Within the context of the share-based management remuneration, stock option plans were created with the approval of the Annual Meeting in the years 1996 through 1998 and in 2000. Since the year 2005, an annual performance phantom share plan has been created.

The plans of 1997 and 1998 granted certain members of the top management the right to acquire shares in Daimler AG in the context of subscribing to non-transferrable convertible bonds. The period of the convertible bonds, each of which has a nominal value of € 511.29, is ten years. The annual interest paid on the convertible bonds is 5.3 % (Plan 1997) and 4.4 % (Plan 1998). The stock option plans of 1997 and 1998 were changed over to stock appreciation right (SAR) plans in 1999. The right to conversion of the bonds into shares was replaced with the right to participate in the shares' increase in value in the form of a cash payment in that amount. The equity capital was not affected by this procedure. The stock appreciation rights from 1997 expired on July 23, 2007 and were redeemed at a nominal value of € 10,209,476.28.

Stock Option Plan 2000 was created with the approval of the Annual Meeting in the form of a so-called premium priced plan. In the years 2000 through 2004, five tranches were issued. The options granted entitle their owners to acquire one Daimler share for each option right. Within the context of Stock Option Plan 2000, upon exercise of the option an exercise price is to be paid for each share equal to a 20 % markup on the reference price. If the stock market price (last closing auction price in Xetra trading at the Frankfurt Stock Exchange before exercise) reaches at least the exercise price of the option (hurdle), the participant receives an additional variable remuneration per exercised option. It was possible to exercise the options for the first time, after a two-year waiting period, as of April 2002. Each of the tranches had a ten-year term. Options that have not been exercised expire at the end of the term.

In the year 2007, 35,664,845 options were exercised from the tranches of Stock Option Plans 2000. The share capital and the capital reserves therefore increased by € 93 million and € 1,829 million respectively.

## Stock Option Plan 2000

Tranche	2000	2001	2002	2003	2004
Exercise price of the option per share, €	74.76	66.96	51.52	34.40	43.57
Reference price, €	62.30	55.80	42.93	28.67	36.31
Variable remuneration, €	12.46	11.16	8.59	5.73	7.26
Options in circulation, as of December 31, 2007	7,771,790	6,865,265	5,285,640	3,691,605	5,562,550

Stock Option Plan 2000 was replaced with the performance phantom share plans as of the year 2005 (see other notes on personnel expenses/employees).

The company has the following conditional and approved capital:

## Conditional capital

Number	I	II	Sum
Balance at 12/31/2007, in €	300,000,000	116,773,306.16	<b>416,773,306</b>
Balance at 12/31/2007, number of shares	115,384,615	42,800,263	<b>158,184,878</b>
Purpose	Option or convertible bonds 2005/2010	Stock Option Plan 2000	

The Board of Management was authorized, until April 5, 2010 with the consent of the Supervisory Board to issue convertible bonds and option bonds in a total nominal amount of up to € 15 billion with a maximum term of 20 years and to grant to the holders of those bonds conversion or option rights to new Daimler shares representing up to € 300 million of the share capital, in accordance with the conditions laid down (Conditional Capital I). The share capital was conditionally increased by up to € 116,773,306.16 through the issue of up to 42,800,263 new registered shares of the company (remaining Conditional Capital II).

## Approved capital

Number	I	II	III
12/31/2007, in €	500,000,000	500,000,000	26,000,000
Expiry	04/08/2008	04/08/2008	04/08/2008
Purpose	Capital increase	Capital increase	Employee shares

On April 9, 2003, the Annual Meeting authorized the Board of Management until April 8, 2008, with the consent of the Supervisory Board, to increase the share capital by up to € 500 million by issuing new, registered shares of no par value in exchange for cash contributions (Approved Capital I) and by € 500 million by issuing new, registered shares with no par value against non-cash contributions (Approved Capital II). The Board of Management is also authorized to increase the share capital by up to € 26 million for the purpose of issuing employee shares (Approved Capital III).

## b) Capital reserves

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<b>Capital reserves</b>	<b>2007</b>	<b>2006</b>
	<b>€ in million</b>	<b>€ in million</b>
<b>Balance at 01/01</b>	<b>12,356</b>	<b>12,012</b>
Transferred from exercise of options	1,829	344
<b>Balance at 31/12</b>	<b>14,185</b>	<b>12,356</b>

The capital reserves amounted to € 14,185 million at the end of 2007. During 2007, € 1,829 million was transferred to the capital reserves as a result of the exercise of share options from Stock Option Plan 2000 (tranches 2000 through 2004).

## c) Retained earnings

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<b>Other retained earnings</b>	<b>2007</b>	<b>2006</b>
	<b>€ in million</b>	<b>€ in million</b>
<b>Balance at 01/01</b>	<b>3,483</b>	<b>4,336</b>
Applied for share buyback	(3,479)	-
Transferred from net income	6,184	-
Withdrawal	-	(853)
<b>Balance at 31/12</b>	<b>6,188</b>	<b>3,483</b>

At December 31, 2007, retained earnings amounted to € 6,188 million. € 3,479 million was withdrawn from retained earnings for the share buyback. As allowed by Section 58, Subsection 2 of the German Stock Corporation Act (AktG), the Board of Management and the Supervisory Board have transferred half of the net profit in an amount of € 6,184 million to retained earnings.

## d) Unappropriated Profit

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As allowed by Section 58, Subsection 2 of the German Stock Corporation Act (AktG), half of the net profit has been transferred to retained earnings. At December 31, 2007, the remaining unappropriated profit amounted to € 6,184 million.

## 9 Provision for pensions and similar obligations

	<b>12/31/2007</b>	<b>12/31/2006</b>
	<b>€ in million</b>	<b>€ in million</b>
Provisions for pensions	<b>12,307</b>	<b>11,850</b>

The measurement of provisions for pensions is based upon the projected unit credit method in accordance with IFRS (IAS 19). They were determined at the beginning of the financial year 2007 based on the pension liabilities of the company and the assets of Daimler Unterstützungskasse GmbH. The assumptions used in calculating the actuarial values according to the "Richttafeln 2005 G" (actuarial mortality assumptions) of Dr. Klaus Heubeck for the pension liabilities were a discount rate of 4.5 % (2006: 4.0 %), a long-term rate for increasing remunerations from 2007 of 2.5 % (2006: 3.0 %), an increase in living costs of 1.90 % (2006: 1.75 %) and an expected long-term rate of return on plan assets (Daimler Unterstützungskasse GmbH) of 7.5 % (2006: 7.5 %).

In the prior year the accrual was based on the full "Projected Benefit Obligation" in accordance with the US financial accounting standards SFAS 87 and SFAS 158 corresponding to the method used in the consolidated financial statements. The calculation of pension obligation based on SFAS 87 and SFAS 158 would result in provision for pensions of € 10,705 million.

The calculation of DBO is based on "Richttafeln 2005 G" (actuarial mortality assumptions) of Dr. Klaus Heubeck. The valuation of DBO is based on a discount rate of 5.4 % (2006: 4.5 %) and the estimated annual increase of cost of living of 1.9 % (2006: 1.9 %).

## 10 Other provisions

	<b>12/31/2007</b>	<b>12/31/2006</b>
	<b>€ in million</b>	<b>€ in million</b>
Provisions for taxes	1,745	2,280
Other provisions	10,040	9,125
	<b>11,785</b>	<b>11,405</b>

The provisions recorded for income and other taxes relate to income taxes for years not yet finally assessed.

Other provisions consist mainly of accrued warranty costs, accrued personnel and social costs, reserves for lawsuits, obligations from sales business, obligations for end-of-life vehicles, obligations from free service and maintenance contracts as well as unrealized losses from valuation of forward exchange dealings. Additionally, other provisions include accruals for deferred maintenance to be carried out in the first quarter of the following year. The change in other provisions compared with the prior year is mainly due to an increase in personnel and social obligations, reserves for lawsuits and assumption of risks in connection with the merger with smart gmbh.

	12/31/2007		12/31/2006	
	€ in million	€ in million	€ in million	€ in million
Notes/Bonds and Commercial Paper		155		1,070
of which due in less than 1 year	47		950	
of which due in more than 5 years	-		-	
of which convertible	-		.	
Liabilities to financial institutions		66		745
of which due in less than 1 year	31		710	
of which due in more than 5 years	7		-	
Trade liabilities		4,012		3,980
of which due in less than 1 year	4,011		3,980	
of which due in more than 5 years	.		.	
Liabilities due to affiliated companies		13,423		12,305
of which due in less than 1 year	13,423		12,305	
of which due in more than 5 years	-		-	
Liabilities due to related companies		30		13
of which due in less than 1 year	30		13	
of which due in more than 5 years	-		-	
Other liabilities		1,263		1,399
of which due in less than 1 year	1,255		1,387	
of which due in more than 5 years	-		.	
of which tax liabilities	128		141	
of which obligations concerning social security	55		93	
<b>Total of liabilities</b>		<b>18,949</b>		<b>19,512</b>
of which due in less than 1 year	18,797		19,345	
of which due in more than 5 years	7		.	

Liabilities due to affiliated companies include intragroup (cash) payables and trade liabilities within the scope of the central financial and liquidity management (€ 12,850 million, 2006: € 11,886 million) as well as trade liabilities with domestic and foreign affiliated companies (€ 573 million, 2006: € 419 million).

Liabilities to related companies contain intragroup (cash) payables and trade liabilities within the scope of the central financial and liquidity management (€ 9 million, 2006: € 9 million) as well as trade liabilities with domestic and foreign group companies (€ 21 million, 2006: € 4 million).

Notes/Bonds and Commercial Papers are mainly a Yen-Bond, launched in 2000 (€ 108 million, 2006: € 108 million).

Other liabilities include mainly liabilities of wages and salaries, withheld income tax and social security contributions as well as option premiums.

# Notes to the Income Statement of Daimler AG

## 12 Revenue

	2007 € in million	2006 € in million
<b>Revenues classified by type:</b>		
Passenger cars	47,409	47,813
Commercial vehicles	19,553	16,758
	<b>66,962</b>	<b>64,571</b>
<b>Revenues classified by region:</b>		
Domestic	21,455	21,382
Foreign	45,507	43,189
	<b>66,962</b>	<b>64,571</b>
<b>Allocation of foreign revenues:</b>		
EU-Member countries	19,898	18,351
Rest of Europe	4,156	3,258
North America	12,057	13,044
Asia	5,936	5,529
Africa	1,557	1,398
Australia	638	628
Latin America	1,265	981
	<b>45,507</b>	<b>43,189</b>

## 13 Functional costs

Functional costs reported in the income statement are broken down into the categories cost of sales, selling expenses and general administrative expenses.

Cost of goods sold consists of manufacturing costs. These costs consist mainly of the costs of production materials, purchased services, personnel expenses, depreciation and rental expenses for the production departments. Cost of goods sold also includes € 3,592 million (2006: € 3,120 million) of research and development expenses as well as gains or losses from hedging activities conducted by the industrial business segment.

Selling costs include mainly purchased services, e.g. advertising and marketing expenses. Furthermore, personnel expenses, commissions, outgoing freight costs and rental expenses of the selling and distribution organization are also included in selling costs.

General administrative expenses include mainly purchased services, e.g. IT costs. Personnel expenses, consulting fees and rental expenses of the general administration are also included. Furthermore, general administrative expenses include the following statutory auditor fees:

	2007 € in million
Audit (include central audit projects)	17.6
Other audit services	4.1
Tax consultancy	0.1
Other services	0.9
	<b>22.7</b>

Other taxes and customs duties amounting to € 83 million (2006: € 78 million) are included within functional costs.

## 14 Other operating income

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Other operating income totaling € 1,152 million consists of income from cost reimbursements, other deliveries and services as well as rent and lease income.

Other operating income includes € 493 million (2006: € 764 million) of income assignable to prior financial periods and relates mostly to income from the release of provisions and reserves, income from fixed asset disposals, income from the write-off of liabilities and income from insurance payments.

## 15 Other operating expenses

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Other operating expenses of € 1,070 million comprise additions to provisions, expenses in the context of group restructuring as well as rental expenses.

Other operating expenses include € 67 million (2006: € 161 million) of expenses attributable to prior financial periods and expenses related to disposals of fixed and charge-off of receivables.

## 16 Income from investments in affiliated and related companies

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	2007	2006
	€ in million	€ in million
Income from profit and loss transfer agreements	4,497	1,362
thereof: Daimler Luft- und Raumfahrt Holding AG	3,308	246
Daimler Verwaltungsgesellschaft für Grundbesitz mbH	534	488
Daimler Vermögens- und Beteiligungsgesellschaft mbH	352	299
Expenses related to loss assumptions	(21)	(1,659)
Income from affiliated companies	1,643	366
Income from related companies	19	20
Appreciation of investments in affiliated and related companies	7	0
Depreciation of investments in affiliated and related companies	(193)	(71)
Earnings from disposals of investments in affiliated and related companies	4,414	53
Losses from disposals of investments in affiliated and related companies	(8)	(82)
	<b>10,358</b>	<b>(11)</b>

The income from investments in affiliated and related companies is described in the above schedule.

The increase of the investment income results i.a. from higher gain transfers and lower loss assumptions in comparison to last year. The positive result of Daimler Luft- und Raumfahrt Holding AG is mainly caused by the sale of shares of EADS.

The distributions from affiliated and related companies primarily contain payments of DaimlerChrysler AG & Co. Wertpapierhandel OHG (€ 400 million), Mercedes-Benz do Brasil Ltda. (€ 228 million) and Mercedes-Benz South Africa (Pty) Ltd. (€ 199 million).

The earnings from disposals of investments in affiliated and related companies result essentially from the intercompany transfer of shares of Daimler Verwaltungsgesellschaft für Grundbesitz mbH (€ 4,288 million).

## 17 Interest income

	2007		2006	
	€ in million	€ in million	€ in million	€ in million
Income from other securities and loans of financial assets		23		27
thereof from subsidiaries	13		27	
Other interest and similar income		661		434
thereof from subsidiaries	326		243	
Interest and similar expenses		(688)		(531)
thereof from subsidiaries	(587)		(377)	
Income from Pension Trust		861		808
		<b>857</b>		<b>738</b>

The increase in interest income is mainly due to higher interest on deposits at financial institutions.

## 18 Other financial income

	2007	2006
	€ in million	€ in million
Currency result	(61)	23
Write-offs of securities (short term assets)	0	(5)
Other Income	29	34
Income from disposal of non-fixed securities	453	1
Other expenses	(51)	(58)
Other financial income Pension Trust	83	29
	<b>453</b>	<b>24</b>

The improvement of the other financial income is mainly caused by disposals of securities on non-fixed securities.

## 19 Income taxes

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Daimler AG is also a taxpayer with respect to the management and profit sharing agreements concluded with its affiliated companies. The most important affiliated companies with existing agreements are Daimler Luft- und Raumfahrt Holding AG, Daimler Financial Services AG, Daimler Verwaltungsgesellschaft für Grundbesitz mbH, Daimler Vermögens- und Beteiligungsgesellschaft mbH and Mercedes-Benz Ludwigsfelde GmbH.

Despite the considerable increase in income from ordinary activities income taxes have declined from € 653 million in the previous period to € 172 million in 2007. Due to Section 8b of the German corporate tax law (KStG) the strong increase in financial income has only limited effect on the tax assessment basis.

## 20 Net Income

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In the 2007 financial year, net income is € 12,368 million. After an addition of € 6,184 million to retained earnings according to Section 58 Subsection 2 German Stock Corporation Act (AktG) unappropriated profit amounts to € 6,184 million.

## Other Notes

### Personnel expenses/Employees

	2007 € in million	2006 € in million
Wages and salaries	9,145	9,410
Social contributions	1,438	1,521
Pension costs	817	1,365
	<b>11,400</b>	<b>12,296</b>
<b>Personnel (annual average)</b>	<b>Number</b>	<b>Number</b>
Hourly employees	90,020	90,618
Salaried employees	52,412	53,909
Trainees/Apprentices	9,141	9,558
Annual average	<b>151,573</b>	<b>154,085</b>
<b>Personnel (year ended)</b>	<b>151,495</b>	<b>151,226</b>

Wages and salaries include direct labor, salaries, severance pay, holiday bonus, special bonus and changes in provisions for personnel expenses.

The social contributions relate to the employer's contributions to pension, unemployment, nursing care and medical insurance plans.

The pension costs include the current year's additions to pension accruals.

#### Share-based component of remuneration: Performance Phantom Share Plans

With the performance phantom share plans, virtual ("phantom") shares are issued at the beginning of a four-year term; these phantom shares were allocated at a certain reference price of shares of Daimler AG (opening price in Xetra trading at the Frankfurt Stock Exchange). At December 31, 2007, 6,012,098 phantom shares had been allocated. The holders of these phantom shares are entitled to a dividend equivalent in the amount of the actual dividend for Daimler shares annually in June. As these are only phantom shares, they do not confer any shareholder voting rights. After three years, the performance of the management is measured in comparison to relevant competitors with the use of two equally weighted criteria. This results in the final allocation of phantom shares, which are subsequently subject to a one-year holding period. The payout value is calculated from the average price of Daimler shares (opening price in Xetra trading at the Frankfurt Stock Exchange) between January 1 of the respective year and the day of the first meeting of the Presidential Committee of the Supervisory Board of Daimler AG. 25 % of amount of the gross proceeds is to be used to build up a package of shares in Daimler AG. This is not necessary if the package of shares prescribed in the Stock Ownership Guidelines is already held. The Stock Ownership Guidelines oblige the executives involved to hold the package of shares until they leave the Group. In this way, the shareholders' interests are strengthened.

## Cost of materials

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<b>Cost of materials</b>	<b>2007</b>	<b>2006</b>
	<b>€ in million</b>	<b>€ in million</b>
Cost of raw materials, supplies and purchased goods	41,939	39,534
Cost of purchased services	8,574	7,969
	<b>50,513</b>	<b>47,503</b>

## Derivative financial instruments

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Derivative financial instruments solely serve the purpose of hedging interest-rate and exchange-rate risks, equity-price risks, and raw-material price risks. They cover the underlying transactions of the companies of the Daimler Group and the original financial transaction. In connection with risk management and monitoring, at Group level market risks are quantified using the value-at-risk method, which is commonly used among banks. Limits have also been set for the limitation of risks relating to contracting parties and types of business. Hedging transactions are only conducted with international financial institutions or with companies of the Daimler Group.

According to an assessment of the contracting parties by respected rating agencies, the general credit risk is minimal. The transactions are carried out under strict functional separation into trading, processing, documentation and controlling transactions.

<b>Nominal value</b>	<b>12/31/2007</b>	<b>12/31/2006</b>
	<b>€ in million</b>	<b>€ in million</b>
Foreign exchange contracts	22,776	22,610
Interest rate contracts	3,549	2,313
Pricing contracts	115	2,179
Commodity contracts	76	115
	<b>26,516</b>	<b>27,217</b>

The currency hedging contracts primarily comprise forward exchange transactions and currency options. They mainly serve to hedge receivables and liabilities in the vehicle business and to hedge transactions in the currencies of large industrial countries. The interest rate contracts primarily comprise interest-rate swaps, which are used to minimize the risk of changes in interest rates. The commodities contracts currently consist solely of commodity swaps on raw materials for the purpose of hedging the price risk. The pricing contracts are forward sales, which are used for hedging exchange rates. The nominal values represent the non-netted off totals of all purchase and sales contracts of the derivative financial transactions.

	12/31/2007		12/31/2006	
	Book Value € in million	Fair Value € in million	Book Value € in million	Fair Value € in million
<b>Assets</b>				
Foreign exchange contracts	175	1,200	76	491
Interest rate contracts	.	47	-	38
Pricing contracts	-	-	-	398
Commodity contracts	-	17	-	7
	<b>175</b>	<b>1,264</b>	<b>76</b>	<b>934</b>
<b>Liabilities</b>				
Foreign exchange contracts	(170)	(176)	(102)	(189)
Interest rate contracts	.	(37)	.	(39)
Pricing contracts	(15)	(15)	(16)	(16)
Commodity contracts	-	-	(4)	(4)
	<b>(185)</b>	<b>(228)</b>	<b>(122)</b>	<b>(248)</b>
<b>Balance</b>	<b>(10)</b>	<b>1.036</b>	<b>(46)</b>	<b>686</b>

The book values are taken from the items of the balance sheet (other assets, other liabilities and other provisions). The fair values are derived from the amounts at which the relevant derivative financial instruments are sold or listed on the balance sheet date, without taking into consideration opposing value developments from the underlying transactions. If no market values were available, the fair values were arrived at with the use of recognized calculating methods.

The fair values of forward exchange transactions are determined on the basis of current ECB reference rates, taking into consideration the respective forward premium or discount. Currency and interest rate options are measured with the use of exchange rate lists or option price models. The fair values of interest rate and pricing contracts (e.g. interest swaps, interest/currency swaps) are arrived at on the basis of the discounted expected future cash flows; whereby the market interest rates valid for the remaining terms of the financial instruments are used. The fair value of the commodities futures are determined on the basis of current price listings on the commodity exchanges, taking forward premiums and discounts into consideration.

## Contingent liabilities

	<b>12/31/2007</b>	<b>12/31/2006</b>
	<b>€ in million</b>	<b>€ in million</b>
Payment guarantees in favor of the holders of the issued Bonds and Euro-Medium-Term-Notes of Daimler Finance North America LLC, Wilmington/USA	16,433	-
Payment guarantees in favor of the holders of the issued Bonds and Euro-Medium-Term-Notes of Daimler North America Corporation, Newark/USA	11,050	32,578
Payment guarantees in favor of the holders of the issued Bonds and Euro-Medium-Term-Notes of DaimlerChrysler Canada Finance Inc., Montreal/Canada	3,639	5,216
Payment guarantees in favor of the holders of the issued Bonds and Euro-Medium-Term-Notes of DaimlerChrysler UK Finance plc, Milton Keynes/UK	1,115	1,602
Payment guarantees in favor of the holders of the issued Bonds and Euro-Medium-Term-Notes of Daimler International Finance B. V., Nieuwegein/Netherlands	1,000	1,000
Payment guarantees in favor of the European Investment Bank and of the holders of the issued Bonds of Daimler Coordination Center S.C.S./G.C.V., Zaventem/Belgium	973	1,287
Payment guarantees in favor of the Pension Benefit Guaranty Cooperation of the pension liabilities of Chrysler companies, Auburn Hills/USA	679	-
Payment guarantees in favor of the holders of the issued Bonds of Mercedes-Benz Australia/Pacific Pty. Ltd., Mulgrave/Australia	630	880
Payment guarantees in favor of the holders of the issued Bonds of Mercedes-Benz South Africa (Pty.) Ltd., Pretoria/South Africa	449	594
Payment guarantees in favor of the European Investment Bank for the commitment of Daimler-Benz AG & Co. "Optima" Grundstücksvermietung Potsdamer Platz OHG, Schönefeld-Waltersdorf	390	390
Payment guarantee in favor of the holders of the commitment of Toll Collect GmbH, Berlin	230	230
Payment guarantees in favor of the holders of the issued Bonds of Mercedes-Benz Japan Co., Ltd., Tokyo/Japan	200	229
Payment guarantee in favor of the holders of the commitment of Mercedes-Benz (Thailand) Ltd., Bangkok/Thailand	50	42
Payment guarantees in favor of the holders of the commitment of DC Aviation GmbH, Stuttgart	46	-

## Contingent liabilities

	12/31/2007 € in million	12/31/2006 € in million
Payment guarantee in favor of the holders of the commitment of Karmann GmbH, Osnabrück	44	82
Payment guarantees in favor of the creditors of Rosola Grundstücks-Vermietungsgesellschaft mbH & Co, Düsseldorf	44	61
Payment guarantee in favor of the Crédit Commercial de France for the commitment of Groupement d'intérêt économique "Spring Rain", Hambach/Frankreich	35	30
Payment guarantee in favor of the European Investment Bank for the commitment of DaimlerChrysler Espana Holding S.A., Madrid/Spanien	30	30
Payment guarantees in favor of Commerzbank AG, Gummersbach, for the loan collateralization of Tignaris Beteiligungsgesellschaft mbH & Co. Objekt Duisburg/Witten KG, Düsseldorf	30	28
Payment guarantees in favor of the holders of the commitment of B&S Stanz- und Umformtechnik Schweißtechnologie GmbH, Haan	29	29
Payment guarantee in favor of GRISLEVA und der GRAMEDA Vermietungsgesellschaft mbH for the commitment of Kunststofftechnik Sachsen, Grünwald	24	24
Payment guarantees in favor of the KfW for the commitment of DaimlerChrysler Argentina S. A., Buenos Aires/Argentinien	15	21
Payment guarantees in favor of the holders of the issued Bonds of Chrysler LLC, Auburn Hills/USA	14	1,385
Payment guarantees in favor of the European Investment Bank for the commitment of Mercedes-Benz do Brasil Ltda., Sao Bernardo do Campo/Brasilien	4	30
Payment guarantees in favor of the holders of the issued Bonds and Euro-Medium-Term-Notes of Daimler UK Holding plc, Milton Keynes/Großbritannien	-	617
Payment guarantees in favor of the KfW for the commitment of Chrysler de México S. A. de C. V., Mexiko City/Mexiko	-	31
Payment guarantees in favor of the KfW for the commitment of DaimlerChrysler Financial Services de México S. A. de C. V., Mexiko City/Mexiko	-	15
Other guarantees	160	330
Liabilities from other warranty agreements	2	2
Guarantees against domestic and foreign equity investments as well as to third parties	124	231
thereof to affiliated companies	70	191

Guarantees include guarantees to affiliated companies amounting to € 36,369 million (p.y. € 46,552 million).

In the financial year, payment guarantees of Daimler AG decreased slightly. This development was additionally supported by exchange rate effects of dollar bonds. Daimler AG is liable on behalf of the co-shareholders of Dornier GmbH for all future non-estimable equalization payments guaranteed by DADC Luft- und Raumfahrt Beteiligungs AG for 2008 and subsequent years. Claims on future non-estimable equalization payments for 2008 and subsequent years are in existence for the minority shareholders of Daimler Luft- und Raumfahrt Holding AG. Payment guarantees of DaimlerChrysler UK Holding plc, Milton Keynes, Untited Kingdom were transfered to Daimler UK Finance plc, Milton Keynes, Untited Kingdom.

## Other financial liabilities

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Other financial liabilities total € 9,932 million (thereof due in 2008: € 6,568 million). Financial liabilities to affiliated companies amount to € 2,251 million (thereof due in 2008: € 949 million).

In connection with vehicle sales and leasing, vehicle buyback obligations common in the industry exist towards third parties and affiliated companies of Daimler AG.

Other financial liabilities resulting from rental and leasing agreements amount to € 2,708 million (thereof due in 2008: € 937 million). Effective June 30, 1998, a large part of the intangible assets and movable property of Daimler-Benz AG was sold to Daimler Vermögens- und Beteiligungsgesellschaft mbH, Stuttgart, from which company Daimler AG rents back these movable assets. At December 31, 2007, the rent for the following years amounts to € 444 million (thereof due in 2008: € 94 million). Rental obligations towards the property management companies Grundstücksverwaltungsgesellschaft Mercedes-Benz AG & Co. OHG, Ludwigsfelde and Grundstücksverwaltungsgesellschaft Daimler-Benz AG & Co. OHG, Ludwigsfelde amount to a total of € 1,181 million (thereof due in 2008: € 578 million).

The remaining financial liabilities, in particular the purchase commitment for expansionary investment, are of a magnitude typical of the industry.

## Proposal for the appropriation of earnings

As of December 31, 2007, Daimler AG reported net income of € 12,368 million (2006: € 689 million). After addition to retained earnings according to Section 58, Subsection 2 of the German Stock Corporation Act (AktG) accumulated profits of € 6,184 million are shown. It is proposed to the Annual Meeting to distribute this amount as follows:

### Proposal of Profit Distribution

	€
Dividend of € 2,00 per share	2,028
Transfer to retained earnings	4,156
Profit carried forward	-
Unappropriated profit	6,184

# Compensation of the Members of the Board of Management and the Supervisory Board

The following information regarding the compensation of the members of the Board of Management and of the Supervisory Board is disclosed on an individual basis in the Remuneration Report (see Management Report, page 28).

The total compensation paid by Group companies to the members of the Board of Management of Daimler AG is calculated from the amount of compensation paid in cash and from benefits in kind. The latter primarily comprise the provision of company cars and the reimbursement of expenses for security precautions.

€ 7.2 million are paid as fixed, i.e. non-performance-related remuneration (2006: € 7.5 million); € 17.0 million as short-term variable, i.e. short-term performance-related remuneration (2006: € 9.2 million); and € 5.6 million as variable performance-related remuneration with medium-term and long-term incentive effects that was granted in previous years and became due for payment in 2007 (2006: € 3.8 million). This totaled an amount of € 29.8 million for the year 2007 (2006: € 20.5 million). The increase compared with the prior year is primarily due to the growth in the Group's operating profit (EBIT) of Daimler group from € 5.0 billion to € 8.7 billion.

The Board of Management members who stepped down from their positions during 2007 in the context of the transfer of a majority interest in Chrysler were also entitled to payments related to the phantom shares granted in the years 2006 and 2007, prorated until the time of leaving the Group. Furthermore, in connection with the transaction, two departing Board of Management members were granted performance-related bonuses and another departing Board of Management member was granted severance remuneration. The total amount of these items was € 19.3 million.

The active members of the Board of Management were granted a total of 178,390 phantom shares in 2007 within the framework of the share-based component of remuneration, the so-called Performance Phantom Share Plan (2006: 276,160 phantom shares). The reference share price for the allocation of phantom shares is the average price of DaimlerChrysler shares between January 1, 2007 and the day before the first meeting of the Presidential Committee in which the allocation is decided upon. This value was € 49.26 per phantom share in 2007.

This remuneration was not paid out in 2007; payment does not take place until after four years. Until then, the number of phantom shares may change, depending on internal and external performance targets and continuous activity in the Board of Management. Payment continues to depend on the share price at the time of payment.

Board of Management members included a commitment to an annual retirement pension, calculated as a proportion of the base salary and depending on the years of service. Those pension rights remain and have been frozen at that level (70 % for Dr. Dieter Zetsche, 69 % Guenther Fleig, 60 % for Dr. Ruediger Grube and Dr. Thomas Weber and 50 % for Andreas Renschler and Bodo Uebber). The pension payments begin in the form of a retirement pension when a member's contract of service ends or after his 60th birthday, or in the form

of an invalidity pension when a member's service contract ends before his 60th birthday due to disability. An annual increase of 3.5 % is effected. Similar to the retirement pension of the German workforce, arrangements for widows and orphans are also included.

Effective January 1, 2006, those pension agreements were converted into a defined-contribution pension system. Each Board of Management member is credited with a capital component each year. This capital component comprises an amount equal to 15 % of the sum of the Board of Management member's fixed base salary and the annual bonus that was actually achieved, multiplied by an age factor based on an assumed rate of interest of 6 %. This pension is payable at the age of 60 at the earliest.

In the year 2007, the pension provision was increased by service costs of € 2.2 million (2006: € 2.5 million).

No severance payments are foreseen for Board of Management members in the case of early termination of their service contracts. Solely in the case of early termination of a service contract by mutual consent, the Board of Management service contracts include a commitment to payment of the base salary and to provision of a company car until the end of the original service period. Such persons are only entitled to payment of the performance-related component of remuneration pro rata for the period until they leave the Group. Entitlement to payment of the performance-related component of remuneration with a long-term incentive is defined by the exercise conditions specified in the respective plans. For the period beginning after the end of original service period, Board of Management members can receive pension payments in the amounts of the commitments granted until 2005 as described in the previous section, as well as the use of a company car.

As a result of these provisions and the fact that in accordance with a Supervisory Board resolution of 2006, Daimler AG Board of Management service contracts - both initial contracts and extensions - generally have a term of only three years, Daimler AG is significantly below the limit for severance compensation of two years' remuneration suggested by the German Corporate Governance Code.

The payments made in 2007 to former members of the Board of Management of Daimler AG and their survivors amounted to € 58.6 million (2006: € 24.2 million). The pension provisions for former members of the Board of Management and their survivors amounted to € 175.3 million as of December 31, 2007 (2006: € 188.8 million).

Pension claims of former members of the Board of Management against companies of the Chrysler Group, which were covered by the pension provisions of the former DaimlerChrysler Group after the business combination, were no longer covered by the pension provisions of the Daimler Group at December 31, 2007 following the transfer of the majority interest in the Chrysler Group.

In 2007, no advances or loans were made to members of the Board of Management of Daimler AG.

The compensation paid in 2007 to the members of the Supervisory Board of Daimler AG for their services to the Group therefore totaled € 2.1 million (2006: € 2.1 million).

Except for the remuneration paid to the members of the Supervisory Board representing the employees in accordance with their contracts of employment, no remuneration was

paid for services provided personally beyond the aforementioned board and committee activities, in particular for advisory or agency services.

In 2007, no advances or loans were made to members of the Supervisory Board of Daimler AG.

## Reportable procedures according to Section 160, Subsection 1, No. 8 of the German Stock Corporation Act (AktG)

Regarding Section 25, Subsection 1 of the German Securities Trading Act (WpHG), there were the following notifiable events in 2007 and therefore this note relating to Section 160, Subsection 1, Number 8 AktG is to be reported:

Deutsche Bank Aktiengesellschaft, Frankfurt am Main, has notified us pursuant to Article 21 Section 1, Article 24 of the German Securities Trading Act (WpHG) that as of April 26, 2007, DB Equity S.à.r.l., 6, avenue Pasteur, L-2310, Luxembourg, exceeded the threshold participation interest of 3 % of the voting rights in Daimler AG, and now holds 4.35 % of the voting stock (equal to 44,808,714 voting rights). Deutsche Bank Aktiengesellschaft has also informed us pursuant to Article 21 Section 1 WpHG that Deutsche Bank AG, Taunusanlage 12, 60325 Frankfurt am Main, Germany, as of April 26, 2007 indirectly holds 4.35 % of the voting rights in Daimler AG due to a redemption of a security loan transaction within the Deutsche Bank AG Group. In addition Deutsche Bank Aktiengesellschaft notified us that these voting rights in Daimler AG are assigned to Deutsche Bank AG pursuant to Article 22 Section 1 Sentence 1 No. 1 WpHG. Deutsche Bank Aktiengesellschaft has further informed us that these changes did not notifiably change the overall participation interest in the voting stock held by Deutsche Bank AG.

## Declaration of Compliance with the German Corporate Governance Code

The obligatory statement pursuant to Section 161 of German Stock Corporation Act (AktG) was executed by the Board of Management and the Supervisory Board and also permanently accessed to the shareholders.

## Members of the Board of Management and their mandates

### Members of the Board of Management

### Supervisory Board Memberships/ Directorships

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**Dr.-Ing. Dieter Zetsche**

Stuttgart  
Chairman of the Board of Management /  
Head of Mercedes-Benz Cars  
Appointed until 2010

Internal Directorships

Daimler Trucks North America LLC

External Directorships

None

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**Günther Fleig**

Stuttgart  
Human Resources & Labor Relations Director  
Appointed until 2009

Internal Directorships

Daimler Financial Services AG

Daimler Unterstützungskasse GmbH

External Directorships

Wohnstätten Sindelfingen GmbH (Chairman)  
(retired on December 31, 2007)

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**Dr. phil. Rüdiger Grube**

Stuttgart  
Corporate Development  
Appointed until 2010

Internal Directorships

Daimler-Financial Services AG

Daimler Luft und Raumfahrt Holding AG (Chairman)

External Directorships

Beijing Benz-DaimlerChrysler Automotive Co., Ltd. (Vice-Chairman)

Chrysler Holding LLC

EADS Participations B. V. (Chairman)

European Aeronautic Defence and Space Company EADS N.V. (Chairman)

Hamburg Port Authority

## Members of the Board of Management

## Supervisory Board Memberships/ Directorships

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### **Andreas Renschler**

Stuttgart  
Daimler Trucks  
Appointed until 2010

#### Internal Directorships

Daimler Financial Services AG  
Daimler Trucks North America LLC (Chairman)  
Detroit Diesel Corporation (Chairman)  
EvoBus GmbH (Chairman)  
Mitsubishi Fuso Truck and Bus Corporation

#### External Directorships

Deutsche Messe AG

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### **Bodo Uebber**

Stuttgart  
Finance & Controlling /  
Daimler Financial Services  
Appointed until 2011

#### Internal Directorships

Mercedes-Benz Bank AG  
DaimlerChrysler Espana Holding S. A.  
DaimlerChrysler France Holding S. A. S. (Chairman)  
Daimler Financial Services AG (Chairman)  
Daimler Trucks North America LLC  
Daimler Unterstutzungskasse GmbH

#### External Directorships

European Aeronautic Defence and Space Company EADS N.V.  
McLaren Group Ltd.  
Talanx AG

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### **Dr.-Ing. Thomas Weber**

Stuttgart  
Group Research  
Mercedes-Benz Cars Development  
Appointed until 2010

#### Internal Directorships

MB-technology GmbH (Chairman)  
Mercedes-Benz HighPerformanceEngines Ltd. (Chairman)

#### External Directorships

Ballard Power Systems Inc.  
McLaren Automotive Ltd.  
McLaren Group Ltd.

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**Retired from the Board of Management:**

**Thomas W. LaSorda**

Auburn Hills  
Chrysler Group  
Retired August 3, 2007

**Eric Ridenour**

Auburn Hills  
Chief Operating Officer (COO) Chrysler Group  
Retired August 3, 2007

**Thomas W. Sidlik**

Auburn Hills  
Global Procurement & Supply  
Retired August 3, 2007

# Members of the Supervisory Board and their mandates

## Members of the Supervisory Board

## Supervisory Board Memberships/ Directorships

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### Dr. Manfred Bischoff

Munich  
Chairman (since April 4, 2007)  
of the Supervisory Board  
of Daimler AG

Fraport AG  
Royal KPN N.V.  
Nortel Networks Corporation and Nortel Networks Ltd.  
SMS GmbH  
Unicredit S.p.a.  
Voith AG

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### Erich Klemm \*)

Sindelfingen  
Chairman of the General Works  
Council, Daimler Group and  
Daimler AG  
Deputy Chairman

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### Dr. Clemens Börsig

Frankfurt  
Chairman of the Supervisory Board  
of Deutsche Bank AG  
(since April 4, 2007)

Deutsche Lufthansa AG  
Linde AG  
Bayer AG

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### Prof. Dr. Heinrich Flegel \*)

Stuttgart  
Director Research Materials and  
Manufacturing, Daimler AG; Chairman of the  
Management Representative Committee,  
Daimler Group

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### Earl G. Graves

New York  
Publisher, Black Enterprise Magazine  
(until December 31, 2007)

Aetna Life and Casualty Company  
AMR Corporation (American Airlines)  
Earl G. Graves Ltd.

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### Dr. Thomas Klebe \*)

Frankfurt/Main  
General Counsel of the German Metalworkers'  
Union (IG Metall)

Daimler Luft- und Raumfahrt Holding AG  
Thyssen Krupp Services

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## Members of the Supervisory Board

## Supervisory Board Memberships/ Directorships

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### Arnaud Lagardère

Paris  
General Partner and CEO of Lagardère SCA

Hachette SA  
EADS N.V.  
EADS Participations B.V.  
Hachette Livre (SA)  
Lagardère Services (SA)  
Virgin Stores (SA)  
Lagardère Active (SAS)  
Lagardère Active Broadband (SAS)  
Lagardère Active Publicité, Lagardère Active Radio  
International (SA)  
Lagardère (SAS)  
Lagardère Capital & Management (SAS)  
Arjil Commanditée - Arco (SA)  
Lagardère Ressources (SAS)  
France Telecom (SA)  
LVHM Moët Hennessy Louis Vuitton (SA)  
Le Monde (SA)  
Lagardère Sports (SAS)  
SOGEADE Gérance (SAS)

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### Jürgen Langer \*)

Frankfurt/Main  
Chairman of the Works Council of the  
Frankfurt/Offenbach Dealership, Daimler AG

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### Helmut Lense \*)

Stuttgart  
Chairman of the Works Council,  
Untertürkheim Plant, Daimler AG

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### Peter A. Magowan

San Francisco  
President of San Francisco Giants  
(until December 31, 2007)

Caterpillar Inc.

## Members of the Supervisory Board

## Supervisory Board Memberships/ Directorships

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### **William A. Owens**

Kirkland  
Retired President and Chief Executive Officer  
of Nortel Networks Corporation,  
CEO and Chairman of AEA Holdings Asia

Polycom Inc.  
AEA Investors LLC  
Wipro Ltd.  
Embarq Corp.  
Intelius Inc.  
Force 10 Networks Inc.  
Unifrax Corp.

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### **Gerd Rheude \*)**

Wörth  
Chairman of the Works Council,  
Wörth Plant, Daimler AG

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### **Wolf Jürgen Röder \*)**

Frankfurt/Main  
Member of the President's  
Staff of German Metalworkers'  
Union (IG Metall)

Robert Bosch GmbH

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### **Valter Sanches\*)**

São Paulo  
General Secretary of Confederação  
Nacional dos Metalúrgicos/CUT  
(since November 21, 2007)

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### **Dr. rer. pol. Manfred Schneider**

Leverkusen  
Chairman of the Supervisory Board of  
Bayer AG

Linde AG  
Metro AG  
RWE AG  
TUI AG

**Members of the  
Supervisory Board**

**Supervisory Board Memberships/  
Directorships**

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**Stefan Schwaab \*)**

Gaggenau  
Vice Chairman of the General Works  
Council, Daimler Group and  
Daimler AG,  
Vice Chairman of the Works Council  
Gaggenau Plant, Daimler AG

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**Bernhard Walter**

Frankfurt/Main  
Former Spokesman of the  
Board of Management of Dresdner Bank AG

BilfingerBerger AG  
Deutsche Telekom AG  
Henkel KGaA  
Staatliche Porzellan-Manufaktur Meissen GmbH  
Wintershall AG  
Wintershall Holding AG

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**Uwe Werner \*)**

Bremen  
Chairman of the Works Council,  
Bremen Plant,  
Daimler AG  
(since October 1, 2007)

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**Lynton R. Wilson**

Toronto  
Chairman of the Board of CAE Inc. ;  
Chairman Emeritus, Nortel  
Networks Corporation;  
Chancellor McMaster University

CAE Inc.

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**Dr. Ing. Mark Wössner**

Munich  
Former CEO and Chairman of the  
Supervisory Board of Bertelsmann AG

Citigroup Global Markets Deutschland  
AG & Co. KGaA  
eCircle AG  
Loewe AG  
Reuters AG  
Douglas Holding AG  
Heidelberger Druckmaschinen AG

**Appointed by resolution of the local district court from February 7, 2008:**

**Sari Maritta Baldauf**

Helsinki  
Former Executive Vice President and General Manager of Networks Business Group of Nokia Corporation

**Dr. Jürgen Hambrecht**

Neustadt/Weinstraße  
Shareman of the Board of Management of BASF SE

**Retired from the Supervisory Board:**

**Hilmar Kopper**

Frankfurt/Main  
Chairman of the Supervisory Board (retired April 4, 2007)

**Ron Gettelfinger \*)**

Detroit  
President of the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW) (retired September 1, 2007)

**Udo Richter\*)**

Bremen  
Chairman of the Works Council, Bremen Plant, Daimler AG (retired September 30, 2007)

**Committees of the Supervisory Board:**

**Committee pursuant to Section 27, Subsection 3 of The German Codetermination Act (MitbestG)**

Dr. Manfred Bischoff (Chairman)  
Erich Klemm \*)  
Dr. rer. pol. Manfred Schneider  
Dr. Thomas Klebe \*)

**Presidential Committee**

Dr. Manfred Bischoff (Chairman)  
Erich Klemm \*)  
Dr. rer. pol. Manfred Schneider  
Dr. Thomas Klebe \*)

**Audit Committee**

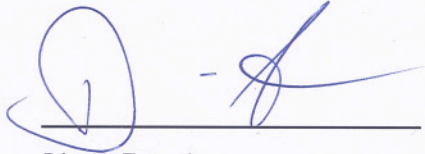
Bernhard Walter (Chairman)  
Dr. Clemens Börsig  
Erich Klemm \*)  
Stefan Schwaab \*)

**Nomination Committee**

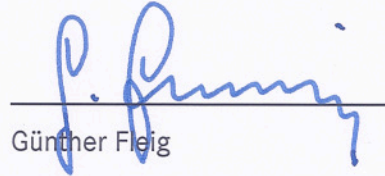
Dr. Manfred Bischoff (Chairman)  
Dr. rer. pol. Manfred Schneider  
Lynton R. Wilson

\*) Representative of the employees

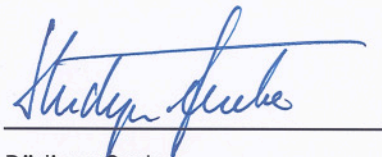
Stuttgart, February 25, 2008



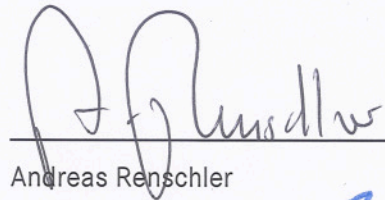
Dieter Zetsche



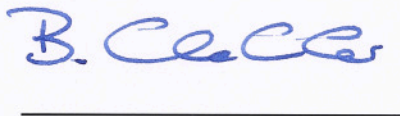
Günther Fleig



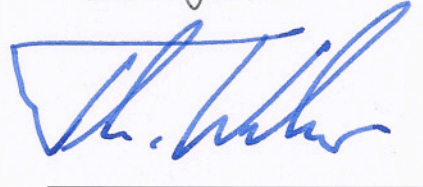
Rüdiger Grube



Andreas Renschler



Bodo Uebber



Thomas Weber

# Responsibility Statement

in accordance with Section 264 (2), 3 and Section 289 (1), 5 of the German Commercial Code

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of Daimler AG, and the management report includes 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 Daimler AG.

Stuttgart, February 25, 2008



Dieter Zetsche



Günther Fleig



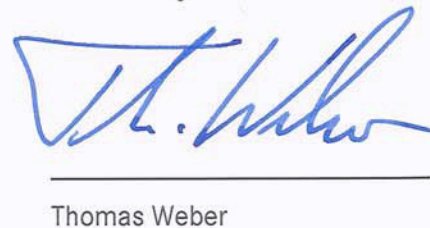
Rüdiger Grube



Andreas Renschler



Bodo Uebber



Thomas Weber

## Auditors' Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system and the management report, of Daimler AG (formerly DaimlerChrysler AG), Stuttgart, for the business year from January 1 to December 31, 2007. The maintenance of the books and records and the preparation of the annual financial statements and the management report in accordance with German commercial law are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system and the management report based on our audit.

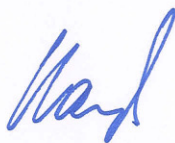
We conducted our audit of the annual financial statements in accordance with § 317 HGB [Handelsgesetzbuch: German Commercial Code] and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Board of Management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of Daimler AG in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Stuttgart  
February 25, 2008

KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft



Krauß  
Wirtschaftsprüfer  
[German public auditor]



Hug  
Wirtschaftsprüfer  
[German public auditor]

**The Annual Financial Statements and the Management Report of Daimler AG and the Consolidated Financial Statements of Daimler AG for the year 2007 were filed with the operator of the electronic version of the German Federal Gazette, and they were then published in the electronic version of the German Federal Gazette.**

**These documents are the English translation of the German “Jahresabschluss” and “Lagebericht”, which are the sole authoritative version.**

