

Speech by

Dr. Dieter Zetsche

**Chairman of the Board of Management
of Daimler AG**

Annual Press Conference

Stuttgart

February 17, 2009

- Check against delivery -

Introduction

Ladies and gentlemen,
Good morning, and welcome to our annual press conference.

Today we are reporting on a business year that told two completely different stories: an extremely successful first half-year was followed by an abrupt downturn in the second half of the year. You all know why this happened. The financial crisis has triggered one of the most serious recessions in the history of the global economy.

Against this background, I'd like to start by pointing out three basic facts:

- First, Daimler is in a relatively strong position to face this crisis. During the first half of 2008, we proved how well we perform under "normal" conditions.
- Second, we've adapted ourselves to the "extreme" conditions that have prevailed since the end of the third quarter. Our measures are proving to be effective.
- And third, both of these facts together give us the opportunity to emerge strengthened from the current exceptional situation. We're going to seize this opportunity.

Now I'd like to turn to the business developments of the past year.

Group Overview

In the fourth quarter, the passenger vehicle markets in the triad regions dipped to historic lows:

- in the United States, unit sales reached their lowest level in 26 years,
- in Western Europe, unit sales were lower than they've been for 12 years,
- and in Japan they reached their lowest level in the past 21 years.

Our passenger car division has not remained unaffected by the market crash that took place in the second half of 2008. After posting double-digit growth rates in the first half of the year, unit sales declined at Mercedes-Benz Cars in the third quarter, and in the fourth quarter we sold over 20 percent fewer cars than in the fourth quarter of 2007. This chart shows you once again, in a general but vivid way, how different – and contradictory – business developments were in the two halves of 2008.

In the first half-year, many of our business operations were headed for record results.

At Mercedes-Benz Cars, we sold more cars than ever before. No other premium brand grew faster than Mercedes-Benz in the first six months of the year.

The Daimler Trucks division was once again heading for the record level of the previous year.

Our Mercedes-Benz vans were more successful than ever before.

The first half-year was also the best ever for our buses.

And our financial services division achieved its ambitious targets.

All of this illustrates that we were on course for success.

Then came the third quarter – and it became clear that markets were weakening considerably. At the end of July, we therefore revised our earnings forecast for full-year 2008 from more than 7.7 billion euros to more than 7 billion euros, calculated in both cases in terms of our continuing operations.

In September, the dam broke: Lehman Brothers collapsed – and the financial sector imploded. The real economy – including automotive markets – took the full brunt of the fallout. Therefore, at the end of October we once again revised our earnings forecast, this time to more than 6 billion euros from continuing operations. And even though the markets have slumped further since October, Daimler still achieved this profit target. In full-year 2008, our EBIT from continuing operations amounted to 6.2 billion euros. If we include all special reporting items, that figure becomes 2.7 billion euros.

The negative impact of our remaining equity interest in Chrysler accounts for 3.2 billion euros, with 1.4 billion euros of that amount resulting from the equity-method consolidation of our interest in Chrysler and 1.8 billion euros from the impairment of loans and other Chrysler-related assets. At this point, both our equity interest in Chrysler and the loans we extended to it in connection with the divestment are valued at zero in our balance sheets. Talks are continuing with Cerberus and Chrysler regarding the transfer of our shares. Bodo Uebber will give you more details about Chrysler later on.

The Group's net profit amounted to 1.4 billion euros.

The Board of Management therefore proposes to the Supervisory Board that the dividend should be reduced from 2 euros per share to 60 euro cents per share. The discretionary profit-sharing bonus for our employees is also considerably smaller for 2008 than it was in the previous year. Nonetheless, despite the crisis, the positive first half of the year still allows us to honor the good performance of our workforce with a one-time bonus of 1,900 euros per employee.

Let me now turn to the developments in our divisions.

At Mercedes-Benz Cars, annual unit sales were slightly below the previous year's level. Unit sales of the Mercedes-Benz brand declined by five percent, whereas smart increased its unit sales by almost 35 percent. Revenue was lower than in 2007, largely because of the upcoming model changeover of the E-Class. EBIT amounted to 2.1 billion euros – all of which was earned during the first half of the year.

Daimler Trucks slightly increased its unit sales and revenue. However, in line with expectations, its EBIT of 1.6 billion euros was below the very good result posted in the previous year. This was largely due to extraordinary items associated with the repositioning of Daimler Trucks North America.

Our vans almost matched the unit sales volume posted in 2007, a record year. And our buses once again set a new record for unit sales in full-year 2008. More importantly, both units also set new earnings records. The fact that EBIT posted by the "Vans, Buses, Other" division was nonetheless minus 1.2 billion euros is due to the negative effects connected with Chrysler that I mentioned previously.

Daimler Financial Services expanded its contract volume, and, with EBIT of 677 million euros, it surpassed its earnings for the previous year. Earnings at DFS were negatively impacted by rising cost of risk.

To sum up, I have to say that we would have been happier if business had developed differently. However, under these extreme conditions we do not shirk comparison.

So, what have we done in the second half of 2008 and since then to strengthen our position in this turbulent market environment?

First of all, we are preparing to cope with all contingencies and are therefore planning how to respond to diverse scenarios. In each of these scenarios, a key role is played by three levers: consistent crisis management, further, sustainable efficiency improvements, and systematic, future-oriented investments in new products, technologies, and markets.

I'd like to explain each of these levers in more detail.

Decisive crisis management

First of all, we are taking decisive measures in response to the radical upheavals in our market environment.

At minus 3.6 billion euros, the free cash flow in our industrial business was more than unsatisfactory in the fourth quarter. One of the reasons for this development was the increase in our Mercedes-Benz vehicle inventory. That was not solely due to a decline in unit sales, but also to a series of new vehicle launches and the build-out of the new E-Class's predecessor.

In addition, a number of other factors influenced our cash flow, including: disproportionately high payments to our suppliers at year end, the temporary increase in investment expenditure associated with the launch of the new E-Class, investments in technologies for reducing CO2 emissions, and our acquisition of strategic interest in the Russian truck manufacturer Kamaz.

One of the key levers for improving our cash flows is the reduction of our vehicle inventory. In the summer of 2008, we therefore began to adjust our production program. Since December, we've been producing fewer vehicles than we sell. As a result, we reduced our vehicle inventory by 40,000 units by the end of January compared to last year's peak figure. We plan to reduce our vehicle inventory to normal levels by the second half of this year, thus further reducing our working capital.

We've also introduced a strict system of cash management. We've subjected all budgets to a rigid review process. In light of the current situation, we are also fundamentally re-evaluating the necessity of all investment projects that are not directly related to vehicles – such as in the areas of IT and real estate. As a result, we are postponing all expenditures that are not directly relevant to our competitiveness – of course, that includes the construction of a new office building in Stuttgart-Untertürkheim.

The shorter work times that have become necessary as part of our program adjustments are leading to corresponding savings in labor costs – and that, too, is improving our cash flow.

In the passenger car and van divisions we have introduced short-time work almost everywhere; approximately 50,000 employees are affected in total. In addition, at the headquarters and in the divisions we will institute collective work breaks that are covered by vacation and flexi-days. The instrument of flexible work-time accounts has been nearly fully utilized.

These actions are being supplemented by a series of additional measures, including waiving salary increases for the Group's Board of Management and senior executives, reducing the number of temporary workers, suspending our employee shares program, and strictly limiting participation in external training programs and the use of external consultants.

Moreover, we are of course also safeguarding our financial position. We maintain good gross liquidity as well as good access to the capital market. Our balance sheet is sound.

Bodo Uebber will give you more details of these topics later on. However, even in the brief time we have here, you can already see that we have strong resources and that we are well-equipped to face the challenges ahead.

Sustainable efficiency improvements

When it comes to our second lever – sustainable efficiency improvements – we've already made good progress in recent years. Today we can say we're facing this crisis from a position of relative strength, thanks to the following programs:

- CORE at Mercedes-Benz Cars,
- Global Excellence at Daimler Trucks,
- Captive #1 at Daimler Financial Services,
- the New Management Model in our administrative functions,
- and several other efficiency-boosting programs.
- All of these programs have already made us much leaner, faster, and more effective than we were just a few years ago.

In view of the current situation, we have further accelerated the pace and launched additional initiatives.

At Mercedes-Benz Cars, we are realizing further efficiency potential through our "GoFor10" program. The program's main aims are to

- reduce our utilization of resources and review our net assets,
- lower our fixed costs,
- continue to streamline the organization,
- and boost our revenues.

One of the measures we are taking within the framework of "GoFor10" is to coordinate production and sales even more closely than before.

At Daimler Trucks, we've made such excellent progress when it comes to managing market cycles that we are confident we can cope with market contraction of up to 30 percent. If there are even more dramatic market slumps in the future, we'll step up our efforts accordingly. In any case, we'll continue cutting costs substantially at our Daimler Trucks division as well. In addition, we have only recently repositioned the business operations of Daimler Trucks North America. This action will have a positive influence on our results yet this year. Starting in 2011, when these measures take full affect, we expect to improve our earnings by 900 million dollars each year. In addition, we're expanding our production in Mexico.

We will also realize further potential savings in the Vans and Buses units through our existing programs.

At Daimler Financial Services we are focusing on supporting vehicle sales and our vehicle dealers through targeted measures, optimizing our risk costs, and further reducing our operating costs through the "Captive #1" program.

We're also making good progress in terms of productivity and quality.

At Mercedes-Benz Cars, we've boosted productivity by almost a third compared to 2005 – and that's still not the end of the story in a medium-term view. We also aim to further speed up our application of the principle of modular design. Wherever complicated one-off solutions don't offer added value for our customers, we will rigorously standardize processes. In this way we will reduce the complexity of our processes and thus their susceptibility to error. Quality will increase, and costs will decrease. We're already seeing good results with this approach in our current production series.

At Daimler Trucks we will once again increase the percentage of shared components in the next generation of medium- and heavy-duty trucks. This will enable us to more effectively exploit the economies of scale we enjoy as the world market leader.

At the same time, we're working to improve quality even further – and with great success. According to J.D. Power, our Mercedes-Benz production plant in Sindelfingen is already the factory with the world's highest quality standards. What's more, J.D. Power awarded its gold award to the E-Class and the CLK as the highest-quality vehicles in their market segment. As you can see, our work has been worthwhile – for our customers and for ourselves. At Mercedes-Benz Cars, we're spending only half as much on warranties and goodwill payments today as we did in 2005. At Daimler Trucks, we've reduced those costs by 41 percent. We've also set ambitious goals for ourselves in this area for the future.

In our Group-wide administrative functions, we expect to be able to save about 23 percent this year compared to 2004, thanks to our New Management Model. So we fully achieved our goals right on schedule when the program concluded in December 2008. The full effect of these measures will first be realized in the course of this year. In absolute numbers we're counting on more than 1 billion euros in annual savings.

In total, we anticipate potential savings in all of our divisions and at headquarters of several billion euros this year.

All of this illustrates that we are doing what needs to be done in this extraordinary situation – and we're doing it quickly and consistently.

Investment in the future

At the same time, we remain focused on key long-term issues. That's why we'll continue to avoid reductions when it comes to future investments,

- regardless of whether we're talking about new products or green technologies,
- measures related to important growth markets,
- or tapping into additional business potential.

Our rule of thumb is:

The best remedy in these hard times is strong products – and that's exactly what we've got.

The year 2009 will be the year of the E-Class – as a sedan, a coupe, and a station wagon. Customer response to date has been very positive: we've already received about 35,000 orders for the sedan since the order book was opened in Western Europe on January 12. In spite of the difficult economic environment, that order rate is even better than that of the successful C-Class at the same point in time in 2007. The official market launch of the E-Class is scheduled for March. In the second quarter, we will celebrate the market launch of the new-generation S-Class, which will be followed in the third quarter by the new-generation GL-Class. So we will continually update our extensive product range by introducing attractive new models also in 2009.

Our commercial vehicle business will focus, among other things, on the new Actros, which will be available in all model variants in 2009. This year, we will also begin deliveries of the Mercedes-Benz Travego and Setra CC 419 coaches.

Ladies and gentlemen,
clean and economical vehicle operation plays a key role in the market success of our products.

Despite the crisis, we remain committed to our strategy for sustainable mobility, and we've made excellent progress with regard to the optimization of combustion engines, hybridization, and locally emission-free electric driving with batteries and fuel cells. We will make further advances in these areas in 2009.

Let me first turn to the drive technology that will determine how much road traffic emissions will in fact be saved today and tomorrow: the combustion engine.

Our new four-cylinder diesel engine offers an excellent example of just how dynamic and environmentally friendly an innovative combustion engine can be these days. No other four-cylinder engine provides as much torque. In addition, the new E-Class equipped with the "OM 651" – as the engine has been designated – consumes only 5.3 liters of diesel per 100 kilometers. That corresponds to 139 grams of CO₂ emissions per kilometer. This engine will be available in several model series – the C and E-Class, the GLK, and the Sprinter. The fuel consumption of our gasoline engines is also declining – in the case of the new E-Class by as much as 20 percent.

What's more, our commercial vehicles equipped with BlueTec technology are leading the way when it comes to efficiency. More than 200,000 BlueTec trucks are already on the road in Europe today. Next year, this technology will be launched in vehicles in the U.S.

2009 also marks the launch of Daimler's hybrid offensive in the passenger car segment, which will kick off with the S 400 BlueHYBRID in a few months. This vehicle is not only the first German series-produced hybrid but also – and more importantly – the world's first hybrid model equipped with innovative lithium-ion technology. With CO₂ emissions of only 186 grams per kilometer, the S 400 BlueHYBRID is the CO₂ champion in the luxury class.

Our Fuso Canter Eco Hybrid is already a market success, and we are also the world market leader in hybrid buses with our Orion brand. We've sold more than 1,700 hybrid buses to date, and we have booked more than 1,000 additional orders.

We also plan to take the next step toward pure electric mobility this year. For example, we will launch the second-generation electric smart within the framework of a major pilot project in Berlin. We will also produce a small batch of Mercedes-Benz B-Class models equipped with a fuel cell drive system this year. And next year, we will start production of a limited series Mercedes model with battery-electric drive as well. Finally, our Citaro fuel cell bus is already in operation.

All of these vehicles represent milestones on the road to sustainable mobility. However, their production numbers are still limited. In other words, innovative combustion engines will continue to make the biggest contribution to environmentally friendly mobility in the foreseeable future.

The speed at which we can move ahead in the area of electric mobility largely depends on the available battery technology – and lithium-ion batteries play a crucial role here. We have therefore secured direct access to this important technology through our participation in Li-Tec GmbH, a global leader in the production of lithium-ion cells. We have also established a joint venture with Evonik Industries AG that specializes in the development and production of batteries for automotive applications. Beyond that, we are assisting in the creation of the infrastructure required for zero-emission driving; for example, with our "e-mobility" projects that will be launched this year in Berlin, Rome, Milan, and Pisa.

All of this costs money – but it's money well spent.

In total, we will invest more than 10 billion euros in research and development in 2009 and 2010. Such investment is important, because it will ultimately determine which companies will emerge strongest from the crisis.

Another area where we continue to move ahead involves the expansion of our presence in the major growth markets of Russia, India, and China. It's true that the emerging markets are also being impacted by the global financial crisis. However, our industry's long-term growth will be concentrated in these regions, where the potential is still enormous.

China, for example, is on its way to becoming the world's largest car market. With a sales increase of 65 percent, Mercedes-Benz was the fastest-growing premium brand in the Chinese market in 2008. We aim to continue such success stories, which is why we will launch the smart in China this year. We have also signed a letter of intent with the Chinese truck manufacturer Foton covering the establishment of a new joint venture. And within the framework of another joint venture known as Fujian Daimler Automotive Ltd., we will begin producing the Vito and Viano vans in China this year. The Sprinter will follow in 2010.

We are also expanding our commercial vehicle activities in Russia, which is currently the biggest market for heavy-duty trucks in Europe. To this end, we have acquired a ten percent stake in KAMAZ, the Russian market leader in the heavy-duty truck segment. In India, we have established a joint venture with the Hero Group in order to penetrate the Indian volume market for trucks. We are also cooperating with Sulej Motors Ltd. on the production and marketing of buses in India. Our first product – a new Mercedes-Benz luxury intercity travel coach – celebrated its market launch in India in September.

Another objective is to generate additional growth along the automotive value chain. The latest example of our approach here is “Car2go,” an urban mobility concept that is now being tested in a pilot project in Ulm. After completing an initial registration process, test participants can rent a smart at any time using an electronic chip embedded in their driver’s license. The concept offers many benefits: It not only gives customers maximum flexibility, but it’s also relatively inexpensive. Moreover, thanks to the smart’s low fuel consumption and emissions, the system is very environmentally friendly as well.

Outlook

Ladies and gentlemen,
what can we expect in the coming year?

Based on developments that we consider probable from today’s perspective, global demand for cars in 2009 could decline by an additional ten percent compared with 2008. At the same time, the market could bottom out in the second half of the year. However, in terms of our cost targets, we are already preparing for a less optimistic outcome. The outlook for major commercial vehicle markets is also not very good.

In general, Daimler is therefore preparing for a significant decline in unit sales in 2009. As revenue continues to fall, we also expect further substantial pressure on earnings, both at Group level and at the individual divisions.

We will provide more precise statements on earnings later in the year when it becomes easier to predict where the world economy and the markets are headed.

I would now like to make one final point. At last year’s press conference, I said: “It’s full steam ahead.” There appeared to be no obstacles in our way, we were getting off to a dynamic start in the first half of the year, and we were setting new sales records. Meanwhile, we face almost nothing but obstacles; external conditions could hardly be worse.

Nevertheless, internally we remain in good shape.
In other words, if anyone has the strength to overcome this exceptionally difficult situation and further improve its competitive position, it is Daimler.

Allow me now to turn the floor over to Bodo Uebber.

Thank you.