

Speech by

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Finance & Controlling and Daimler Financial Services

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Overview

Ladies and gentlemen, Dieter Zetsche has explained to you our business development and our outlook for the future.

I would now like to talk in more detail about the key figures of our financial statements, which are preliminary and not yet audited.

The year 2008 was impacted by the dramatic effects of the worldwide financial and economic crisis in the second half of the year, which led to a substantial and abrupt drop in demand for automobiles.

Our earnings were also negatively affected by very high raw-material prices and the development of currencies important to us, especially the US dollar and the British pound.

We demonstrated the profitability that Daimler can achieve in normal market conditions with very good results in the first half of 2008. But in the second half of the year, we then had to accept a substantial drop in earnings. This applies in particular to Mercedes-Benz Cars, where the drastic worsening of economic conditions had a strong effect.

Due to the economic situation in North America and the resulting impact on Chrysler, in addition to our at-equity loss from Chrysler, we also had to revalue our assets relating to Chrysler. This had a substantial effect on our earnings. More than half of the decrease in EBIT compared with 2007 resulted solely from that.

But despite these burdens, Daimler still has a very strong financial position. We have comfortable levels of liquidity and a sound balance sheet structure. And we have good access to the capital market, although currently at higher costs.

Key financials

Ladies and gentlemen, let's now have a look at the key figures for the year 2008.

The Daimler Group's EBIT fell to €2.7 billion from the prior year's €8.7 billion.

Net profit fell from €4 billion in 2007 to €1.4 billion last year. The burdens from Chrysler also had an impact on this result.

The free cash flow was significantly negative at minus €3.9 billion in 2008. This was primarily due to the increase in working capital.

The reduction in the net liquidity of the industrial business was the result not only of the negative free cash flow, but to a large extent – €4.2 billion – also of the share buyback in 2008.

Earnings impact related to Chrysler

Chrysler reduced our earnings in 2008 by €3.2 billion.

The reasons were the negative profit contribution of €1.4 billion from the equity-method inclusion of our interest in Chrysler and the impairment of loans and other Chrysler-related assets of €1.8 billion.

This means that both the equity-method value of our interest and also the two loans that we made to Chrysler in the context of the separation are entered in our balance sheet with values of zero.

Of these charges, only the payment of the subordinate loan was cash effective.

Our discussions with Chrysler and Cerberus are continuing concerning the transfer of our 19.9% equity interest and the transfer of Chrysler's international sales activities.

EBIT from ongoing operations

It is important to us that we have achieved our EBIT target from ongoing operations of more than €6 billion that we announced when we published our Q3 results.

In addition to the impact on our earnings from Chrysler, EBIT included a number of other special items, which in aggregate have a nearly neutral effect.

The positive effects include the sale of Potsdamer Platz and the transfer of EADS shares. But there were also several special factors with negative effects, such as the expenses relating to the repositioning of our truck business in North America and the revaluation of leased vehicles' residual values.

The adjustment of our pension plans for employees covered by collective bargaining had a positive effect on EBIT; we changed over the pension plans to a more up-to-date arrangement.

Mercedes-Benz Cars

And now, ladies and gentlemen, let's look at the various divisions:

Mercedes-Benz Cars sold a total of 1,273,000 automobiles in 2008.

Its return on sales decreased from 9.1% to 4.4%.

The substantial worsening of economic conditions during 2008 caused unit sales to fall by 2% compared with the prior year.

Although we achieved high growth rates in some emerging markets, that was not sufficient to offset the lower unit sales in the volume markets of Western Europe, the United States and Japan. Whereas the Mercedes-Benz brand recorded a 5% decrease in unit sales, the year was very positive for smart: Its unit sales increased by 35% compared with 2007, driven by its great success in the United States.

Due to the lower unit sales and the changed sales structure, mainly caused by the E-Class approaching the end of its lifecycle, Mercedes-Benz Cars' revenue fell by 9% to €47.8 billion.

EBIT of €2.1 billion posted by the Mercedes-Benz Cars division was significantly lower than its prior-year result. After reporting an increase in earnings of 18% for the first half of the year, there was a substantial decrease in the second half.

This development was due primarily to the drop in demand starting in the third quarter, but also to the changed sales structure.

Additional charges on earnings resulted from the unfavorable development of exchange rates, higher raw-material prices, and the revaluation of leased vehicles' residual values. These charges on earnings were partially offset by ongoing efficiency improvements.

Daimler Trucks

Let's now turn to the Daimler Trucks division, which sold 472,000 trucks, a 1% improvement on the prior year's unit sales.

However, the situations in the division's regions were quite varied: In Europe, unit sales were at the same level as in 2007. In Latin America, unit sales increased by another 11%, mainly due to the positive development in Brazil. However, the market recovery originally expected for the United States and Canada in the second half of 2008 did not materialize, so unit sales in North America decreased by 15% due to the economic developments. In Asia and Australia, we surpassed our prior-year unit sales by 8%; the declining market in Japan was more than offset by strong growth especially in Indonesia.

The overall development of unit sales means that Daimler Trucks' revenue was also slightly higher than in the prior year.

Daimler Trucks generated EBIT of €1.6 billion in 2008, which is €0.5 billion less than in 2007.

Its return on sales decreased from 7.5% to 5.6%.

Positive effects on earnings resulted from higher sales – especially in Brazil and some Asian markets, good product positioning and ongoing efficiency improvements. On the other hand, earnings were impacted by weak demand – above all in North America, as well as by higher raw-material prices and exchange-rate effects.

Last October, we decided to reposition our trucks business in North America. This includes focusing on the two brands Freightliner and Western Star, as well as consolidating our production network in North America and adjusting our production capacities. Those actions led to expenses of €233 million in the fourth quarter.

Another factor is that prior-year earnings included special gains on the disposal of real estate and the adjustment of pension plans in Japan.

Daimler Financial Services

Daimler Financial Services' business developed positively last year – despite the difficult environment.

The division's worldwide contract volume grew by 7% and reached €63.4 billion at the end of 2008. However, it is necessary to consider the fact that we fully consolidated several companies for the first time in 2008, mainly in Asia and Eastern Europe. Excluding these effects and adjusting for exchange-rate effects, contract volume increased by 5%.

New business grew by 7% to €29.5 billion; adjusted growth amounted to 6%.

Daimler Financial Services made progress also in terms of its earnings. In 2008, the division generated EBIT of €677 million, surpassing its prior-year result by 7%.

Its return on equity improved from 14.8% to 15.1%.

The main reasons for the positive effect on earnings were the growth in contract volume and improved efficiency. On the other hand, there was a negative effect on earnings from the increased cost of risk caused by the financial and economic crisis. In order to limit this increase in cost of risk, we took countermeasures in good time and intensified our collection management.

Vans, Buses, Other

Our vans business was well on the way to setting a new unit-sales record in 2008. With 287,000 vans sold, we nearly repeated the sales record of the prior year.

Nonetheless, we were able to expand our market share in the segment of medium-sized and large vans in Western Europe, thus extending our market leadership.

The revenue of €9.5 billion posted by Mercedes-Benz Vans was slightly higher than in the prior year.

The Daimler Buses unit sold 40,600 buses and chassis in 2008 – a new unit-sales record. We profited from the fact that the financial and economic crisis had hardly any impact on the bus business in Europe in 2008. We not only raised our unit sales, we also further increased our share of the total market.

We succeeded in selling more buses in North America, but we did not quite match the high level of 2007 in Latin America.

In total, Daimler Buses achieved revenue of €4.8 billion in 2008, surpassing the prior-year level by 11%.

EBIT of Vans, Buses, Other decreased by €3.2 billion to minus €1.2 billion.

There were positive effects on earnings from the good situation of unit sales and revenue at Mercedes-Benz Vans and Daimler Buses. Vans contributed EBIT of €818 million and Buses earned €406 million. These are both very positive results that are significantly higher than in 2007.

The return on sales was 8.6% at Mercedes-Benz Vans and 8.4% at Daimler Buses.

As a result of the increased relative importance of Vans and Buses, we will report on these two businesses as separate segments starting in the first quarter of 2009, and will therefore disclose more information on them than before.

EADS also delivered a better profit contribution. We realized a special gain of €449 million in 2008 from the sale of our real estate at Potsdamer Platz.

However, the main reasons for the segment's sharp drop in earnings compared with the prior year are the special gain of €1.6 billion from the transfer of EADS shares in 2007 and the charges from Chrysler.

EBIT in Q4 2008

The worsened market conditions had a substantial impact on our earnings in the fourth quarter.

The sharp drop in unit sales meant that Mercedes-Benz Cars posted a loss.

Daimler Trucks' earnings were reduced above all by expenditures relating to the repositioning of the truck business in North America.

There was an increase in earnings at Financial Services. Q4 2007 was impacted by expenditures for the new organization of the financial services business in North America following the separation from Chrysler.

The fourth quarter of 2008 was also burdened by charges of €2.0 billion connected with Chrysler.

Excluding the impact from Chrysler and other special effects, fourth-quarter EBIT amounted to €272 million.

Net profit and earnings per share

Let me now return to the figures for full-year 2008.

As we have already seen on a previous chart, net profit fell to €1.4 billion and earnings per share were down to €1.41.

Those decreases were also caused by charges relating to Chrysler.

In light of the effects on earnings of the global economic crisis and due to the current difficulty in estimating the future development of the world economy and the automotive markets, at the Annual Meeting we will propose the distribution of a dividend of €0.60 per share.

Key balance sheet and financial figures

This chart shows you our liquidity situation and equity ratios as well as the free cash flow of the industrial business.

With €8.0 billion, we have a comfortable level of gross liquidity for our continuing operations. The unusually high liquidity at December 31, 2007 was related to the sale of a majority interest in Chrysler. As a result of the decrease, a level of liquidity appropriate to the Daimler Group has been achieved.

The net liquidity of the industrial business decreased to €3.1 billion, due partially to the cash-flow development, but also to the share buyback.

Various bond issues in the fourth quarter of 2008 and in January 2009 have shown that we have good access to the capital market, although at higher refinancing costs at present.

In 2009, we have bonds due for refinancing in an amount of €8 billion, and similar amounts in 2010 and 2011. This means that we require long-term refinancing for approximately €2 billion in each of the coming quarters. We see no problem in placing this volume in the market.

Our credit relations with our partner banks worldwide are stable. In addition, we augmented our non-utilized credit lines in the autumn of 2008.

The Group's equity ratio decreased from 26.9% to 24.3%. In the industrial business, it was 42.7% at the end of the year.

Of course, we are not at all satisfied with the free cash flow of the industrial business.

In 2007, our industrial business delivered a positive free cash flow of €7.6 billion, compared with a negative €3.9 billion in 2008.

The figure for 2007 includes cash inflows of nearly €5 billion from the transfer of EADS shares and from the sale of real estate in Japan.

In 2008, cash inflows from the sale of Potsdamer Platz and the transfer of EADS shares offset the cash outflows for the acquisition of Tognum shares and the payment of the subordinate loan to Chrysler.

The negative cash flow of €3.9 billion primarily resulted from an increase in working capital of €3.8 billion. This is due to the unexpected sharp decrease in unit sales at Mercedes-Benz Cars in the fourth quarter.

Although Daimler substantially reduced its production levels during the last quarter, inventories were still high and disproportionately high payments had to be made to suppliers. The reduction in the free cash flow was also caused by the investment in the new E-Class and in new technologies for the reduction of CO₂ emissions.

As Dieter Zetsche has already explained, we have taken a number of measures to improve our free cash flow.

All budgets have been subjected to strict reviews. The need for all investment projects that are not directly related to our automotive business are being fundamentally reassessed in light of the current situation. Everything that is not directly relevant to our competitiveness is being deferred. On the other hand, all of our strategic investments in pioneering products and drive systems, including corresponding technologies, are continuing unchanged.

We have significantly reduced our production volumes with the extended Christmas break and short-time work in our plants since the beginning of the year. By the second half of the year, we want to reduce our vehicle inventories to a normal level, thus further reducing our working capital.

Market assumptions for 2009

With regard to the outlook for this year, we cannot give you any specific guidance at this press conference.

No one is able to predict the extent of the worldwide recession or when the turnaround will come. In our current assessment, however, we assume that the crisis will reach and pass through the bottom of the curve in the second half of the year.

From today's perspective, global demand for automobiles could decrease by another 10% in 2009 compared with the prior year. In the world's triad markets, further significant falls in overall unit sales are anticipated; falling unit sales are also to be expected in most of the emerging markets.

Prospects for the major markets for commercial vehicles are also unfavorable. The triad markets are likely to suffer a substantial drop in demand. And in Western Europe, the commercial vehicle business is at the beginning of a distinct cyclical downturn phase. The global economic slowdown will dampen demand for commercial vehicles also in the growth regions of Asia, Eastern Europe and Latin America.

On this basis, we expect falling unit sales also for the Daimler Group.

However, Mercedes-Benz Cars is in the market with a very young and competitive model range. And the new E-Class, which we will launch in Europe in March and the United States in the middle of the year, features excellent innovations in the field of safety.

Although we have to assume that the market for trucks could remain weak for some time, we are well positioned also in this area with our attractive model range and efficiency improvements, but we will continue to intensify our efforts.

Outlook 2009

What does all of that mean for Daimler this year?

We expect a distinct fall in revenue in full-year 2009.

And we anticipate further substantial burdens on the earnings of the Daimler Group and its divisions. A more detailed statement on earnings will not be possible until later in the year when the further development of the world economy and the markets becomes clearer.

We will intensify and continue our actions to cut costs and boost efficiency in order to achieve a sustained improvement in the earnings situation of all our divisions.

Ladies and gentlemen, thank you for your attention. We will now be pleased to answer your questions.

The figures in this document are preliminary and have neither been approved yet by the Supervisory Board nor audited by the external auditor.

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 a lack of improvement or a further deterioration of global economic conditions; a continuation or worsening of the turmoil in the credit and financial markets, which could result in ongoing high borrowing costs or limit our funding flexibility; changes in currency exchange rates and interest rates; the introduction of competing, fuel efficient products and the possible lack of acceptance of our products or services which may limit our ability to adequately utilize our production capacities or 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 further decline in resale prices of used vehicles; the effective implementation of cost reduction and efficiency optimization programs at all of our segments, including the repositioning of our truck activities in the NAFTA region; the business outlook of Chrysler, in which we hold an equity interest and some of whose obligations we have guaranteed; the business outlook of companies in which we hold an equity interest, most notably EADS; 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 under the heading “Risk Report” in Daimler’s most recent Annual Report and under the headings “Risk Factors” and “Legal Proceedings” in Daimler’s most recent Annual Report on Form 20-F filed with the Securities and Exchange Commission. 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.