

(Translation)

Conformed Copy

# **SECURITIES REPORT**

(Report pursuant to Article 24, Paragraph 1  
of the Financial Instruments and Exchange Law)

Financial Year (2008)

From: January 1, 2008  
To: December 31, 2008

**Daimler AG**

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of the Financial Instruments and Exchange Law)

Financial Year (2008)  
From: January 1, 2008  
To: December 31, 2008

To: The Director General of the Kanto Local Finance Bureau

Date of Filing: June 3, 2009

Corporate Name: Daimler AG

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**Place at which Copy of the Present  
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**Notes:**

1. Unless otherwise specified, in this report, “we,” “us,” “our,” “Daimler,” the “Daimler Group” or the “Group” refers to Daimler AG and its consolidated subsidiaries, or any one or more of them, as the context may require. “Germany” means the Federal Republic of Germany.
2. In this Securities Report, unless otherwise noted, “Euro” refers to Euro. For the convenience of the Japanese reader, conversion into Japanese Yen has been made at the exchange rate of Euro 1.00 = ¥ 131.38 (the means of the Telegraphic Transfer Spot Selling and Buying Exchange Rates of The Bank of Tokyo-Mitsubishi UFJ, Ltd. on May 1, 2009).
3. Where figures in tables in this Securities Report have been rounded, the totals may not necessarily agree with the sum of the figures.
4. Unless otherwise indicated, “shares” in this document refer to ordinary registered shares of the Company.
5. This annual report contains forward looking statements that reflect our current views about future events. We use the words “anticipate,” “assume,” “believe,” “estimate,” “expect,” “intend,” “may,” “plan,” “project,” “should” and similar expressions to identify forward looking statements. These statements are subject to many risks and uncertainties, including:
  - a lack of improvement in 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 capacity 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 other companies in which we hold an equity interest, most notably the European Aeronautic Defence and Space Company EADS N.V. (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 Factors” in “III Description of Business.”

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 we made it.

## **PART 1. COMPANY'S INFORMATION**

### **I. Outline of the Legal and Other Systems of the Company's Country of Incorporation**

#### **1. Outline of the Corporate System, etc.**

##### **(1) Legal Corporate System of the Federal Republic of Germany**

###### **(a) General**

The laws of the Federal Republic of Germany provide for different types of commercial companies:

- General Partnership (Offene Handelsgesellschaft - "OHG"), governed by Sections 105-160 of the Commercial Code; all partners are fully and personally liable for the liabilities of the partnership.
- Limited Partnership (Kommanditgesellschaft - "KG"), governed by Sections 161- 177a of the Commercial Code; at least one partner is fully and personally liable (general partner) whereas the liability of the other (limited) partner(s) is limited to his/their capital contribution.
- GmbH & Co. KG, special type of a Limited Partnership in which a GmbH acts as general partner with full liability for the partnership. This type of company is basically governed by the provisions applicable to a Limited Partnership.
- Private Limited Liability Company (Gesellschaft mit beschränkter Haftung - "GmbH"), governed by the Private Limited Liability Company Act. A GmbH qualifies as an own legal entity. Only the assets of the company are liable to satisfy the claims of the creditors of the company; with very rare exceptions no personal liability is incurred on the part of the shareholders who have paid in their share of the equity capital. The minimum share capital for a GmbH is Euro 25,000 which is divided into shares. The shares are transferable only by notarial deed. As a special form of the Private Limited Liability Company, the amendment of the Private Limited Liability Company Act as adopted in 2008 provides for the new Business Company (with limited liability) ("Unternehmergesellschaft (haftungsbeschränkt)") that only requires a minimum share capital of €1. Business Companies must use 25 % of their profit to build up equity reserves until €25,000 are reached.
- Stock Corporation (Aktiengesellschaft - "AG"), governed by the Stock Corporation Act. Like a GmbH an AG qualifies as a legal entity. Only the assets of the corporation are liable to satisfy the claims of the creditors of the corporation; no personal liability is incurred on the part of the shareholders who have paid in their share of the equity capital. The corporation must have a share capital of a least Euro 50,000 which is divided into shares. Such shares can be transferred without notarization. In general, however, the Stock Corporation Act gives much less flexibility to the structure of the corporation than the Private Limited Liability Company Act does.
- Finally, European Council Regulation (EC) No. 2157/2001 of Oct. 8, 2001 on the Statute for a European Company (SE) provides for a special European legal entity with a share capital of at least Euro 120,000. Liability of the shareholders is limited to the amount of the capital subscribed.

The legal framework governing Daimler AG (the “Company”) as a corporation is the Stock Corporation Act of September 6, 1965, as amended. The following provides a summary of the principal provisions of this Act, applicable to companies such as the Company.

**(b) Establishment of a German Stock Corporation**

The establishment of a stock corporation (hereinafter: corporation) requires that one person or more persons (the "founders") subscribe to its share capital for a contribution equal to or greater than the par values of the respective shares or the pro rata share capital attributable to no par value shares, and that they "execute" the Articles of Incorporation of the corporation. These must include:

- name and domicile of the corporation,
- objects of the corporation,
- amount of the share capital,
- subdivision of the share capital either into par value shares or into no par value shares, for par value shares the par value of the shares and the number of shares of each par value, for no par value shares the number of no par value shares, and additionally, in case there are several classes of shares, the class of the shares and the numbers of shares in each class,
- whether the shares are issued in registered or bearer form,
- number of members of the Board of Management or rules according to which this number is determined,
- provision for the public notices of the corporation.

The corporation must be recorded in the Commercial Register (Handelsregister), at the domicile of the corporation. The Articles of Incorporation of the corporation must also be submitted to the Commercial Register for registration. Registration includes the following information:

- name and domicile,
- objects,
- amount of the share capital,
- date of the execution of the Articles of Incorporation,
- names of the members of the Board of Management and the extent of their authority to represent the corporation.

Amendments to the Articles of Incorporation become effective when they have been recorded in the Commercial Register.

**(c) Share Capital**

The capital of a corporation is subdivided into par value or no par value shares. It must be denominated in Euro and have a minimum total par value of Euro 50,000, with a minimum par value or a minimum portion of the share capital attributable to a no par value share of Euro 1 per share. No shares may be issued below par. Shares may enjoy different rights, in particular with regard to the distribution of profits and voting rights. All shares enjoying the same rights belong to one class.

The stock corporation may acquire own shares only under special conditions, as set forth in Sections 71 and 71 a)-e) of the Stock Corporation Act. It is not entitled to any rights or benefits from own shares held.

The Board of Management may resolve to increase capital against payments in cash or

contribution in kind only after having been duly authorized to do so by the shareholders' meeting.

The shareholders must be granted rights of pre-emption with respect to new shares issued against capital increase except as provided in §186 (3) - (5) of the Stock Corporation Act. The capital increase other than an increase by means of conditional capital becomes legally effective when it has been recorded in the Commercial Register.

The shareholders' meeting may create such conditional capital to secure conversion or option rights to be granted by the corporation. Such capital increase becomes legally effective as and when the shares are issued.

#### **(d) Shareholders' Meetings**

An ordinary shareholders' meeting is to be held within the first 8 months of each financial year of the corporation. Other shareholders' meetings may also be held whenever this is required in the interest of the corporation.

Shareholders' meetings may be convened by the Board of Management or, if the company's interest so requires, by the Supervisory Board. Such a meeting shall also be called when shareholders holding an aggregate of the 20th part of the share capital request the Board of Management in writing to do so. (The Articles of Incorporation may provide this right to the holders of a smaller percentage of the share capital). Notice of shareholders' meetings must be given in the electronic version of the Federal Gazette no later than thirty days before the date of the meeting or the day on which shareholders must give notice of their intention to attend, if the Articles of Incorporation of the corporation require such prior notice of shareholders. Aside from the time and place of the meeting, the notice must state the conditions for attending the meeting and the agenda including a proposal of the Board of Management and of the Supervisory Board (in certain cases, only of the latter) regarding each issue on which the meeting is to vote. Shareholders (provided they hold at least the 20th part of the share capital or Euro 500,000 of the share capital) may also place items on the agenda of the shareholders' meeting.

Especially Decisions in the following matters are reserved to shareholders' meetings:

- (1) appointment of shareholders' representatives on the Supervisory Board,
- (2) allocation of the distributable profit as shown in the balance sheet,
- (3) ratification of the acts of the members of the Board of Management and of the Supervisory Board in the previous financial year,
- (4) election of the auditors,
- (5) amendments to the Articles of Incorporation,
- (6) capital increase and decrease,
- (7) dissolution of the corporation,
- (8) major restructuring, such as mergers and transformations.

The shareholders' meeting decides matters regarding the management of the corporation only upon request of the Board of Management.

At a shareholders' meeting each shareholder is entitled to receive from the Board of Management answers to his questions, to the extent that the information requested is necessary to enable him to assess objectively the items on the agenda, except as provided in §131 (3) of the Stock Corporation Act.

Each share shall confer voting rights. While preferred shares which confer no voting rights

may be issued in accordance with Stock Corporation Act, multiple voting rights per share shall be prohibited. Voting rights may be exercised in person or by proxy. Whether such proxy has to be duly issued in writing or whether other means of issuance (e.g. e-mail) are permitted depends on applicable law and the Articles of Incorporation.

As a rule, the shareholders' meeting decides by a majority of the votes cast. For certain purposes, such as the amendment of the Articles of Incorporation, capital increases or decreases or the dissolution of the corporation, the Stock Corporation Act requires that a decision may be made only by a majority of no less than 75% of the capital represented at the meeting at the time the resolution is voted upon. The Articles of Incorporation may provide for higher or, in some cases, lower majorities.

The minutes of the shareholders' meeting of a listed stock corporation must be recorded by a notary public. The minutes with certain other documents must be submitted to the Commercial Register after the meeting without undue delay.

#### **(e) Board of Management**

The Board of Management consists of one or more natural persons. These are appointed by the Supervisory Board, each for a term of no more than 5 years. They may be reappointed or their terms extended, for further terms of up to 5 years each by resolution of the Supervisory Board. If the Board of Management consists of more than one person, the Supervisory Board may appoint a chairman of the Board of Management.

The Board of Management represents the corporation vis-a-vis third parties and in court. If the Board of Management consists of more than one person, the Articles of Incorporation may provide that individual members may represent the corporation severally or jointly, or together with another duly authorized officer of the corporation. The Board of Management or members of the Board who are empowered to do so may authorize one of themselves or individuals who are not members of the Board of Management to conduct certain business transactions or certain types of business. The competence of the Board of Management as a whole to represent the corporation cannot be limited.

Any change in the membership of the Board of Management or of the authorization of individual members to represent the corporation must be entered in the Commercial Register.

The Board of Management must conduct the business of the corporation on its own responsibility. It may determine its rules of procedure unless the Supervisory Board decides to provide these rules or is mandated by the Articles of Incorporation to do so.

The Board of Management must report to the Supervisory Board on the projected business policy, the profitability of the corporation, business development and the state of business of the corporation, transactions of considerable impact on the profitability or the liquidity of the corporation and all other matters of considerable significance to the corporation.

The Board of Management must implement the decisions of the shareholders' meeting, provided such implementation is within its competence.

The Supervisory Board determines the remuneration of the members of the Board of Management.

**(f) Supervisory Board**

The members of the Supervisory Board are elected by the shareholders at the General Meeting. In corporations having more than 500 or 2,000 employees in Germany, employees are also represented in the Supervisory Board, which then is composed of employee representatives to one third or to one half respectively. In corporations with more than 2,000 employees, the Chairman of the Supervisory Board, who, for all practical purposes, is a representative of the shareholders, has the casting vote. The representatives elected by the shareholders and the representatives of the employees are equally obliged to act in the company's best interest. The Supervisory Board of corporations which generally employ more than 20,000 persons must consist of 10 members elected by the shareholders and 10 members elected by the employees. Of the latter, seven must be employed by the corporation and three must be representatives of trade unions, who may also be employees of the corporation.

Only natural persons may be members of the Supervisory Board of a corporation. Generally a member of the Board of Management of the relevant corporation, or a deputy member of the Board of Management or a person being otherwise authorized to generally represent the said corporation in its entire business may not be member of the Supervisory Board of this corporation. Additionally a person who

- already serves on the Supervisory boards of 10 companies<sup>(1)</sup> which are legally required to form Supervisory Boards<sup>(2)</sup>

- (1) In determining the maximum number of 10 mandates, the mandate as a Chairman of a Supervisory Board shall count double.
- (2) Membership in up to five Supervisory Boards of subsidiaries or of companies controlled by the corporation does not count for the maximum number.

- is a member of the Board of Management (or equivalent body) of a company which is controlled by the relevant corporation
- is a member of the Board of Management (or equivalent body) of a company whose Supervisory Board includes a member of the Board of Management of the company

may not be a member of the Supervisory Board.

The Supervisory Board may, however, appoint one or more of its members for a period not exceeding one year to substitute members of the Board of Management who are absent or incapacitated. The person so appointed may not serve on the Supervisory Board during the term of such appointment.

The members of the Supervisory Board representing the shareholders are elected by a shareholders' meeting. In a corporation with more than 2,000 employees, the election of the representatives of the employees is governed by sections 9 through 24 of the Co-Determination Act ("CA", "Mitbestimmungsgesetz") with further details in 3 regulations issued under the CA on May 27, 2002, as amended. The election procedure is complicated and takes, in case of parent corporations of groups with more than 20,000 employees, at least 31 weeks.

The term of office of any member of the Supervisory Board may not exceed the period which ends with the shareholders' meeting which decides on the ratification of the acts of such member for the fourth financial year after the beginning of the term of office; the fiscal year in which such term of office commences shall not be taken into account, i.e. the maximum term is about 5 years.

In case of any changes in membership of the Supervisory Board, a complete list of all

members must be filed with the Commercial Register.

The function of the Supervisory Board is to supervise and advise the management of the corporation. Its members may examine the books and the assets of the corporation or authorize individual members, or, with respect to specific tasks, suitable experts to do so. The Supervisory Board must convene a shareholders' meeting when the interests of the corporation so require. It may not assume management functions. The Supervisory Board or the Articles of Incorporation must, however, stipulate that certain types of transaction are subject to its consent.

The remuneration of members of the Supervisory Board may be determined by the Articles of Incorporation or by the shareholders' meeting.

**(g) Financial Statements**

A corporation must keep orderly accounts of its transactions and its assets and liabilities in accordance with the requirements of the Commercial Code and the Stock Corporation Act. The Board of Management must prepare a balance sheet, statement of profit and loss and notes thereto (together: the "financial statements") as well as a management report for the preceding year within the first three months of the current financial year. If applicable the Board of Management has also to prepare consolidated financial statements and a management report for the group. The form and content of the financial statements are stipulated in provisions of the Commercial Code and the Stock Corporation Act.

According to IAS Regulation (EC), publicly traded companies shall prepare their consolidated financial statements in conformity with the international accounting standards (IAS/IFRS) as adopted according to such IAS Regulation.

The Board of Management has to issue a responsibility statement that declares, that, to the best of the Board's 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 the company 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 the company. The Board of Management has to issue the same statement of responsibility with regard to consolidated statements and group management report, if applicable.

For corporations exceeding certain thresholds of key figures, the financial statements and consolidated financial statements must be audited by an independent auditor or auditing company elected by the shareholders' meeting and mandated by the Supervisory Board.

The independent auditor is responsible for summarizing the audit findings in an auditor's opinion on the financial statements and consolidated financial statements. The auditor's opinion must contain a description of the object, type and scope of the audit, as well as an evaluation of the audit findings. If the independent auditor does not have any objections regarding the financial statements and consolidated financial statements, the auditor's opinion must state that the audit conducted by him in conformity with § 317 of the Commercial Code did not present any grounds for objections and that, according to the knowledge gained by the independent auditor during the audit, in his professional judgment the financial statements and consolidated financial statements prepared by the company's management present a true and fair view of the assets, financial position and results of operations of the company or Group in accordance with generally accepted accounting principles in Germany including IFRS, if applicable.

The evaluation of the audit findings is to be carried out in a comprehensible and problem-oriented way in consideration of the fact that the financial statements are the responsibility of the company's management. Any risks which may jeopardize the continued existence of the company are to be disclosed individually.

The auditor's opinion must also state whether in the auditor's professional judgment the management report and group management report present a true and fair view of the condition of the company or group. Moreover, the auditor should also state whether the chances and risks associated with the future development of the company are adequately presented.

If objections are to be raised, the independent auditor is required to issue a qualified auditor's opinion or a disclaimer. The disclaimer must be noted in the auditor statement. Qualified auditor's opinions and disclaimers must be supported by sufficient justification.

The independent auditor is required to sign the auditor's opinion or disclaimer, stating the place and date of signing. The auditor's opinion or disclaimer is to be included as part of the auditor's report to be submitted to the Supervisory Board.

The Board of Management must submit the financial statements and, in case of a parent corporation, also the consolidated financial statements as well as a proposal for allocation of distributable profit to the Supervisory Board, which in turn must examine these documents and report the results of its examination in writing to the shareholders' meeting. The Supervisory Board must also comment on the auditor's report and state whether it approves the financial statements of the company and of the group. If approved by the Supervisory Board, the financial statements of the company are final unless the Board of Management and the Supervisory Board decide to request the shareholders' meeting to approve the financial statements, which would be rather uncommon.

The legal representatives of a corporation must file with the operator of the electronic version of the Federal Gazette the financial statements and consolidated financial statements, if applicable, together with the opinion or disclaimer of opinion of the independent auditor, the management report and group management report, if applicable., the report of the Supervisory Board, as well as the compliance declaration according to section 161 of the German Stock Corporation Act (Aktiengesetz) and the shareholders' meeting's resolution on the allocation of distributable profit. Filing must incur without undue delay after presentation of said documents to the shareholders but not later than 12 months, and, i. a. in case of corporations with their shares listed on a German Stock Exchange not later than four months after the end of the respective financial year. The legal representatives of corporations are required to cause publication of the aforementioned documents in the electronic version of the Federal Gazette without undue delay.

#### **(h) Allocation of distributable profit**

The allocation of the distributable profit is determined by the shareholders' meeting. The shareholders are entitled to the distributable profit unless the shareholders' meeting resolves different allocation in accordance with the law and the Articles of Incorporation of the corporation. The allocation of the distributable profit to the shareholders must be published in a separate notice each year. Until the liquidation of the corporation, only distributable profit may be paid out to shareholders.

**(i) Enterprise Contracts**

Enterprise contracts are contracts under which a corporation agrees to be controlled by and/or to transfer all its profits and losses to another business organization, as well as certain other similar contracts. Such contracts may be entered into and amended only with the approval of the shareholders' meeting, by the majority prescribed by law and the Articles of Incorporation. Upon request, individual shareholders are entitled to receive a copy of such a contract after publication of the invitation to the respective shareholders' meeting in the electronic Federal Gazette and to inspect the contract and additional documents from that time on in the offices of the company or at the respective shareholders' meeting. The contract takes effect when its conclusion has been entered in the Commercial Register at the domicile of the subordinated corporation. The Commercial Register publishes the new entry.

**(j) Amendment of the Articles of Incorporation**

The Articles of Incorporation of a corporation may be amended only by a resolution of the shareholders' meeting. The law and the Articles of Incorporation prescribe the majority required to resolve each of various types of amendment. An amendment becomes effective when it has been entered in the Commercial Register at the domicile of the corporation.

**(2) The Corporate System as provided for in the Articles of Incorporation of the Company**

The system under the Articles of Incorporation (Satzung) of the Company is as follows:

**(a) Organization and Register**

Daimler AG is a stock corporation organized in the Federal Republic of Germany under the German Stock Corporation Act. It is registered in the Commercial Register maintained by the local court in Stuttgart, Germany, under the entry number "HRB 19360".

**(b) Corporate Governance**

German stock corporations are principally governed by three separate bodies: the General Meeting of shareholders, the Supervisory Board and the Board of Management. Their roles are defined by German law and by the corporation's Articles of Incorporation.

Several of the specific corporate governance provisions of Daimler AG are summarized below, as well as in section V. Description of the Company, subsection 4 Directors and Officers under (c) Compensation of the Supervisory Board and Board of Management and subsection 5. Description of Corporate Governance, etc. under (1) Description of Corporate Governance — I Corporate Governance at Daimler.

**(c) Business Purposes**

The Articles of Incorporation of Daimler AG state that its business purpose is to engage, directly or indirectly, in the business of development, production and sale of products and to render services, especially in the following lines of business:

- land vehicles,
- watercraft, aircraft, spacecraft and other products in the fields of road transport, aerospace,

and marine technology,

- engines and other propulsion systems,
- electronic equipment, devices and systems,
- communication and information technology,
- financial services of all kinds, insurance brokerage, and
- management and development of real property.

The Articles authorize to take all actions that serve to accomplish the business purposes, except that Daimler AG is not permitted to carry out directly financial services transactions or banking and real property transactions that require a government license.

#### **(d) Ordinary Shares**

The share capital of Daimler AG consists solely of one class of ordinary shares without par value (Stückaktien), which are issued in registered form. Record holders of the ordinary shares are registered in the share register (Aktienregister). Registrar Services GmbH, a subsidiary of Deutsche Bank AG, acts as the transfer agent and registrar in Germany and various other countries and administers the share register on behalf of the Company. The transfer agent and registrar in the United States is The Bank of New York Mellon. The following is a summary of significant provisions under German law and the Articles of Incorporation relating to the Company's ordinary shares:

- *Capital Increases.* In accordance with authorized or conditional capital passed upon by the Company's shareholders, Daimler AG may increase the share capital in consideration of cash or non-cash contributions. Authorized capital provides the Board of Management with the flexibility to issue new shares during a period of up to five years, generally to preserve liquidity. Conditional capital allows the issuance of new shares for specified purposes, including subscription rights (e.g. from stock option plans) for employees and members of the Board of Management, mergers, and upon conversion of option bonds and convertible bonds. Authorized and conditional capital increases require an approval by 75% of the issued shares present at the shareholders' meeting at the time the increase is voted upon. The Articles of Incorporation of the Company do not provide for a larger capital majority or additional requirements that are more stringent than the law requires.
- *Redemption.* The share capital may be reduced by a specific resolution adopted by the shareholders. The share capital may also be reduced by retiring and canceling shares purchased in a share buyback program if the authorization by the shareholders contemplates such cancellation.
- *Preemptive Rights.* The Articles of Incorporation provide that the preemptive right (Bezugsrecht) of shareholders to subscribe for the issue of additional shares under existing authorized or conditional capital in proportion to their shareholdings in the existing capital may be excluded under certain circumstances.
- *Liquidation.* If Daimler AG were to be liquidated, any liquidation proceeds remaining after all of its liabilities are paid would be distributed to its shareholders in proportion to their shareholdings.
- *No Limitation on Foreign or Substantial Ownership.* Neither German law nor our articles of incorporation limit the rights of persons who are not citizens or residents of Germany, or who hold a substantial number of the shares, with respect to holding or voting the ordinary shares of Daimler AG.

**(e) Dividends**

The Board of Management submits the unconsolidated financial statements (prepared in accordance with German GAAP) of the Group's parent company, Daimler AG, for each fiscal year to the Supervisory Board for approval and both boards recommend a resolution on the allocation of all unappropriated profits, including the amount of net profits to be distributed as a dividend to the shareholders, for approval at the annual general shareholders' meeting. Shareholders holding shares on the date of the annual general meeting are entitled to receive the dividend as resolved. The Company pays dividends to shareholders in proportion to their percentage ownership of the outstanding share capital. The statute of limitations for a shareholder's claim to payment of the dividend is three years after the end of the year in which the shareholders' meeting adopted the resolution on the dividend and the shareholder should have become aware of such resolution without gross negligence.

The Articles of Incorporation, in accordance with the German Stock Corporation Act, authorize the Board of Management, with the approval of the Supervisory Board, to make an interim payment to shareholders with respect to the foreseeable unappropriated profit of the prior financial year, if a preliminary closing of the financial statements for that year shows a profit. The interim payment may not exceed 50% of the amount of the foreseeable unappropriated profit, after deducting any amounts required to be transferred to retained earnings. Furthermore, the interim payment may not exceed 50% of the previous fiscal year's unappropriated profit.

The Articles of Incorporation provide for issuing new shares from authorized and conditional capital previously approved by the shareholders. With respect to the conditional capital, the Articles further provide that such new shares may be entitled to the entire per ordinary share annual dividend for the year in which they are issued.

**(f) Voting Rights**

Each of the ordinary shares represents one vote. German law does not permit cumulative voting. The Articles of Incorporation provide that resolutions are passed at shareholder meetings by a simple majority of votes cast, unless a higher vote is required by law. German law requires that any resolution imposing additional obligations on shareholders requires the consent of all affected shareholders in order to be effective. German law further requires that the following matters, among others, be approved by the affirmative vote of 75% of the issued shares present at the time the shareholders' meeting resolves upon them:

- changing the objects and purposes provision in the Articles of Incorporation;
- approving authorized and conditional capital increases;
- excluding preemptive rights of shareholders to subscribe for new shares;
- dissolving of the company;
- merging into, or consolidating with, another stock corporation;
- transferring all or virtually all of the company's assets; and
- changing the corporate form.

**(g) Shareholder Meetings**

The Board of Management, under certain conditions the Supervisory Board, or shareholders owning in the aggregate at least 5% of the issued share capital may call a meeting of shareholders. The Supervisory Board must convene a general shareholders' meeting if this is deemed necessary for the well-being of Daimler AG. There is no minimum quorum

requirement for shareholder meetings. At the annual general meeting, the management presents the financial statements, the consolidated financial statements, the management reports for Daimler AG and the Group and the report of the Supervisory Board. Further the shareholders are asked to ratify the actions of the Board of Management and Supervisory Board during the prior year and to approve the allocation of unappropriated profit and the appointment of an independent auditor. The shareholders also elect their representatives to the Supervisory Board at the General Meeting of Shareholders for terms of up to five years and decide on certain other matters as assigned to its competence by applicable law.

If a shareholder wants to participate and vote at any of the General Shareholders' Meetings of Daimler AG, the shareholder must be registered in the share register on the meeting date and must also have notified the Company no later than the third day before the meeting that he or she wishes to attend the meeting. Instead of voting in person at the meeting, shareholders may vote their shares by proxy nominated by him/her or by proxy granted to the proxy representative appointed by the Company. The details, in particular the form and terms for conferring and revocation of proxies, shall be announced together with the convention of the General Meeting of Shareholders. The Company shall publish the convention of the General Shareholders' Meeting including the agenda with the items to be voted on in the electronic Federal Gazette and send a meeting notice to the shareholders which includes a proxy card and the agenda. The items for the agenda to be published in the electronic Federal Gazette may be proposed either by the Board of Management and/or the Supervisory Board, or by a shareholder or group of shareholders holding a minimum of either 5% of the issued share capital or shares representing at least Euro 500,000 of the Company's share capital.

#### **(h) Directors**

Under German law, the Supervisory Board members and Board of Management members owe a duty of loyalty and care to the Company. They must exercise the standard of care of a prudent and diligent businessman and bear the burden of proving they did so if their actions are contested. Both boards must consider the Company's interest, interests of the shareholders, the workers and, to some extent, the common interest. The Company may hold those Board Members who violate their duties jointly and severally liable for any resulting damages. The Board members are not liable to the Company if they acted pursuant to a lawful resolution of the shareholders meeting. The German Stock Corporation Act also provides that a Board member is not liable for breach of duty if the Board member makes a business decision that he or she reasonably believes is based on appropriate information and is in the Company's interest. Supervisory Board or Board of Management members are not obligated to own shares of the corporation to qualify for the board membership. According to German law, the Supervisory Board or Board of Management members may not receive a loan from Daimler AG unless approved by the Supervisory Board. Besides the limitations on loans imposed by German law, the Sarbanes-Oxley Act, which was enacted in the United States in July 2002 and which is also applicable to foreign private issuers such as Daimler AG, now prohibits almost all loans to directors and executive officers. This prohibition applies to members of the Supervisory Board and the Board of Management of Daimler AG. German law stipulates that Supervisory Board and Board of Management members may not vote on a matter that concerns ratification of his or her own acts or discharges the Board member from liability or enforcement of a claim of the Company against the Board member. The compensation of the Supervisory Board members is determined in the Articles of Incorporation. A change to the Articles requires the approval of the shareholders' meeting of Daimler AG.

### ***Board of Management***

The Board of Management of Daimler AG shall consist of not less than two members. The Supervisory Board shall appoint the members of the Board of Management in accordance with the provisions of the Stock Corporation Act and the Co-determination Act (Mitbestimmungsgesetz) and shall determine their number.

The Board of Management, which acts under the principle of collective responsibility, manages the day-to-day business. It is authorized to represent Daimler AG and to enter into binding agreements with third parties on its behalf.

### ***Supervisory Board***

The Supervisory Board of Daimler AG shall consist of twenty members, ten of whom shall be elected by the shareholders and ten by the employees. They are elected for a period ending no later than at the close of the General Meeting which ratifies the member's actions for the fourth financial year following the commencement of their term of office, excluding the financial year in which that term begins. At the election, the General Meeting of Shareholders may determine a shorter period of office for the shareholders' representatives.

Any member of the Supervisory Board may retire from his office, even without cause, by giving four weeks' notice in writing to the Chairman of the Supervisory Board and the Board of Management. An amicable reduction of the notice period is admissible. If the Chairman or the Deputy Chairman retires before the expiration of their term of office, a successor shall promptly be elected.

According to the Articles of Daimler AG no more than two former members of the Board of Management of the corporation elected by the General Meeting of Shareholders may be members of the Supervisory Board. Furthermore, the General Meeting shall not elect any persons to the Supervisory Board who at the time of election hold executive positions or advisory roles in major competitors of the corporation or in major competitors of its subsidiaries, or, if they are also members of the Board of Management of a listed company, hold more than four other Supervisory Board mandates in listed companies outside the group in addition to the Supervisory Board mandate for Daimler AG.

The Supervisory Board may form from among its members committees entrusted with special tasks and powers. As far as the law permits, the Supervisory Board's powers regarding decisions may also be exercised by the committees of the Supervisory Board.

A quorum of the Supervisory Board shall be constituted when notices have been issued to all its members at their last known address and at least ten members of the Supervisory Board participate in passing the resolution. Abstentions from members of the Supervisory Board are included when determining whether there is a quorum. In justified exceptional cases, members of the Supervisory Board can, subject to the approval of the Chairman, take part in a meeting of the Supervisory Board or its committees via a telephone or video conference.

Members of the Supervisory Board who do not take part in the meeting nor in the manner described in the previous sentence may participate in a resolution of the Supervisory Board and its committees by submitting their vote in writing (or also by fax) to the person chairing the meeting, prior to the vote. This shall also apply to the additional casting vote of the Chairman.

If not all members of the Supervisory Board attend a meeting of the Supervisory Board and the absent members of the Supervisory Board do not submit their votes as described above, the passing of the resolution shall be postponed if at least two members of the Supervisory

Board taking part in the meeting so request. In the event of postponement and if a special meeting of the Supervisory Board is not convened, the resolution shall be deferred to the next regular meeting. A minority request for postponement shall not be permitted for the second resolution.

If the Chairman of the Supervisory Board participates the meeting, or if one of the attending members is in possession of his vote submitted in the manner described above, the aforementioned paragraph shall not apply when the number of shareholders' representatives on the Supervisory Board take part in the meeting or take part in the passing of a resolution by submitting their vote in the manner described above equals the number of employee representatives, or when an imbalance is offset by the voting abstention of certain Supervisory Board members.

The Chairman, or in his absence, the Deputy Chairman may also arrange for the voting on a resolution of the Supervisory Board to be carried out in writing, by fax or e-mail – or by a combination of these communication media – if no member of the Supervisory Board objects to this procedure within an appropriate period of time, to be determined by the Chairman. The Chairman shall determine the details of the procedure. This regulation also applies to resolutions in committees.

Resolutions of the Supervisory Board shall be passed by a simple majority of votes cast unless other forms of majority are required by law. Abstentions shall not be counted in determining the outcome of the vote. In the event of an equality of votes, any member of the Supervisory Board may request that a second vote be conducted. The Chairman, or in his absence, the Deputy Chairman shall decide when the vote is to be repeated. If the second vote also results in an equality of votes, the Chairman of the Supervisory Board shall have an additional casting vote.

This regulation also applies to resolutions in committees, with the Chairman of the Supervisory Board and his Deputy being replaced by the Chairman of the Committee or his Deputy, unless otherwise required by applicable law.

The members of the Supervisory Board maintain secrecy regarding confidential corporate information, especially company or business secrets, being disclosed to the members of the Supervisory Board in their service; this obligation continues beyond the end of their office as a member of the Supervisory Board. The members of the Supervisory Board are particularly obliged to maintain secrecy concerning confidential reports and confidential consultations. Upon the termination of their mandate, all confidential documents must be returned to the Chairman of the Supervisory Board.

If, contrary to the aforementioned paragraph, a member of the Supervisory Board for a special reason intends to communicate information concerning, in particular, the content and events of Supervisory Board meetings and the content of Supervisory Board submittals and resolutions to a third party, (s)he must first inform the Chairman of the Supervisory Board of this in order to resolve any differences of opinion regarding the obligation to secrecy.

The members of the Supervisory Board shall ensure that any employee they involve similarly abide by the obligation to secrecy.

Members of the Supervisory Board shall be covered by insurance against pecuniary damage, taken out by and in the interest of the corporation for executive bodies and certain senior executives, insofar as such coverage exists. The insurance premiums shall be paid by the corporation.

**(i) Change of Control**

The Articles do not contain any specific provisions that would have an effect of delaying, deferring or preventing a change in control or that would only apply in the context of a merger, acquisition or corporate restructuring involving the Company or any of its subsidiaries. The German Takeover Act (Wertpapiererwerbs- und Übernahmegesetz) requires, among other things, that a bidder seeking control of a company with its corporate seat in Germany and traded on a stock exchange in the European Economic Area must publish advance notice of a tender offer; submit a draft offer statement to the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht) for review; and obtain certification from a qualified financial institution that adequate financing is in place to complete the offer. Once a shareholder has acquired shares representing 30% of the voting power, it must make an offer for all remaining shares of the target. The German Takeover Act requires the Board of Management of the target to refrain from taking any measures that may frustrate the success of the takeover offer. However, the target Board of Management is permitted to take any action which a prudent and diligent management of a company that is not the target of a takeover bid would also take. Moreover, the target Board of Management may search for other bidders and, with the prior approval of the Supervisory Board, may take other defensive measures, provided that both boards act within their general authority under the German Stock Corporation Act (Aktiengesetz). The Board of Management may also adopt specific defensive measures if the Supervisory Board has approved such measures and if the measures were specifically authorized by the shareholders no later than 18 months in advance of a takeover bid by resolution of 75% of the votes cast present at the shareholders' meeting at the time the resolution is voted upon. The Takeover Act also provides that a company's Articles of Incorporation may be amended to replace the above rules on prohibiting the frustration of tender offers with more restrictive rules. The Articles of Daimler AG do not contain any more restrictive rules.

**(j) Disclosure of Shareholdings**

The Articles do not require shareholders to disclose their shareholdings. The German Securities Trading Act (Wertpapierhandelsgesetz), however, requires holders of voting securities of a corporation whose shares are listed on a stock exchange to notify the corporation of the number of shares they hold if the voting rights reach, exceed or fall below specified thresholds. These thresholds are 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% of the corporation's voting rights. Upon reaching or crossing these thresholds, holders must promptly, and within no more than four trading days, notify the issuer and concurrently the German Federal Financial Supervisory Authority.

In addition, with respect to derivative instruments, under German law, anyone who directly or indirectly holds financial instruments that grant the holder the right to unilaterally acquire, under a legally binding agreement, previously issued voting shares of an issuer must promptly upon obtaining, exceeding, or no longer holding 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75%, and within no more than four trading days, must provide notice thereof to the issuer and to the German Federal Financial Supervisory Authority. Until February 28, 2009, the disclosure obligation under the German Securities Trading Act for voting rights from shares, both held and attributed, was independent of the disclosure obligation with respect to other financial instruments. Starting on March 1, 2009, revisions to the German Securities Trading Act have become effective which provide that the voting rights from shares and voting rights obtainable through financial instruments will be aggregated. In instances where a disclosure with respect to voting rights is or has been made, an additional disclosure regarding financial instruments will not be necessary unless the aggregate amount of voting

rights from or relating to all securities meets, exceeds or falls below any of the above thresholds.

A German issuer must publish promptly any such notice it receives, but in any event no later than three trading days after receiving the notice. The notice must be published through an electronically operated information dissemination system, a news agency, a news provider, a print medium, and a website for the financial markets (jointly known as a media bundle). In that regard, at least one of those media must allow an active dissemination throughout Europe. In addition, the issuer must promptly, though not necessarily prior to publication, transmit a copy of the notice to the company register (Unternehmensregister). At the same time, the issuer must notify the German Federal Financial Supervisory Authority of the publication.

The German Securities Trading Act also contains various provisions designed to ensure that shareholdings in listed companies are attributed to the person who actually controls the voting rights associated with such shares. Failure by a shareholder to give a required notice results, for the duration of the failure, in the loss of the rights (including voting rights and dividend rights) attaching to the shares that belong to such shareholder or to shares whose voting rights are attributable to it. In certain cases involving a willful or grossly negligent breach of the notification obligations, the loss of rights will continue for an additional six months. In addition, a fine may be imposed for failure to comply with the notice requirement.

Beginning on May 31, 2009, based on revisions to the German Securities Trading Act, any party whose voting rights from shares meet or exceed the 10% threshold or a higher threshold must notify the issuer, within twenty trading days, of its intentions with respect to the acquisition as well as identify the source of the funds used to make the acquisition and, in the process, make other required disclosures.

#### **(k) Basis of Potential Claims**

Claims against members of the Supervisory Board or Board of Management may be asserted on behalf of Daimler AG if the shareholders' meeting so resolves by simple majority. The claim must be brought within six months from the day of the annual meeting of shareholders at which the resolution was passed. Admission of an action against the Supervisory Board and Board of Management members on behalf of the company may be claimed by shareholders holding in the aggregate at least 1% of the issued shares or shares representing at least Euro 100,000 of the share capital. The competent court will allow the action to proceed if (i) the shareholders acquired their shares before any information was published from which they could have become aware of the alleged breach of duty or damage; (ii) the company failed to file a suit itself within a reasonable period of time after being asked to do so by the shareholders; (iii) facts exist that justify the suspicion that the company has suffered damage by dishonesty or gross breach of the law or the articles; and (iv) there are no overriding interests of the company against the assertion of such damage claim.

#### **(l) German Corporate Governance Code Declaration**

As a German corporation listed on a German stock exchange, Daimler AG is subject to the German Corporate Governance Code that recommends specific corporate governance practices. The Code was issued in 2002 by a government appointed commission, and amended most recently in June 2008. The German Stock Corporation Act requires a company's Supervisory Board and Board of Management to declare annually if the Code's recommendations have been and are being met by the company or, if not, which recommendations have not been or are not being applied. Shareholders must be given permanent access to such declaration. The Supervisory Board and Board of Management

issued a statement declaring that Daimler AG has complied, does comply and intends to comply in the future with the recommendations of the Corporate Governance Code, subject to the exceptions identified in the declaration. For shareholders and others who may wish to read the English convenience translation of the declaration, the Company has made it available on the website at

[www.daimler.com/Projects/c2c/channel/documents/1647025\\_dai\\_declaration\\_2008.pdf](http://www.daimler.com/Projects/c2c/channel/documents/1647025_dai_declaration_2008.pdf).

For further information on corporate governance, please also read 5. Description of Corporate Governance under V. Description of the Company.

**(m) Financial year and accounting**

The financial year of the Company is the calendar year.

The Board of Management shall prepare the financial statements and the management report for the previous financial year during the first three months and the consolidated financial statements and the group management report during the first four months of the financial year and shall submit them immediately to the Supervisory Board and to the auditors. The proposal to be made by the Board of Management at the General Meeting of Shareholders for the allocation of unappropriated profits is to be submitted to the Supervisory Board with the financial statements and the management report.

**(n) Announcements**

Announcements of the Company shall be published in the electronic version of the Federal Gazette (elektronischer Bundesanzeiger).

**2. Foreign Exchange Control System**

Under the Foreign Trade Act (Aussenwirtschaftsgesetz) as amended and substantiated by the Foreign Trade Ordinance (Aussenwirtschaftsverordnung) as amended, restrictions can under certain circumstances be imposed on the purchase of shares of German corporations by non-residents. With an exception for the acquisition of a major shareholding in warfare-related companies, the Federal Republic of Germany presently does not impose foreign exchange control restrictions on the acquisition or disposition by a non-resident of shares of a corporation domiciled in the Federal Republic of Germany, on remittances to non-residents of a) dividends or any other distribution on such shares or b) sales proceeds from such shares, notwithstanding financial sanctions based on resolutions adopted by the European Union or the United Nations.

### **3. Tax Treatment**

#### **(a) German Tax Treatment**

Until 2008, dividends paid by Daimler AG to a Japanese shareholder were subject to a withholding tax levied at source at an aggregate rate of 21.1% (consisting of a 20% income tax and a 5.5% solidarity surcharge on the 20% income tax).

According to the Corporate Tax Reform Act 2008, the withholding tax on dividends has increased to 25% starting from January 1, 2009. The solidarity surcharge of 5.5% on 25% has to be added also, totaling to a new aggregate rate of 26.4%, effective January 1, 2009.

In accordance with the Tax Convention between Germany and Japan, the 21.1% (26.4% from January 1, 2009 onwards) aggregate German withholding tax on the dividends will be reduced to 15% upon application with the German tax authorities. A special application for such reduction has to be filed with the following German tax authority: Bundeszentralamt für Steuern, 53225 Bonn, Germany, to obtain the refund. The refund claim has to be filed with the Bundeszentralamt für Steuern by the end of the fourth calendar year following that in which the dividends have been received. The remaining withholding tax of 15% may be offset as a tax credit in Japan.

Capital gains realized by a Japanese resident from the sale of shares of Daimler AG are not subject to German income tax.

German inheritance tax (Erbchaftsteuer) with respect to shares of Daimler AG owned by a Japanese resident would only be due if the shares held by such Japanese resident amounted to 10 % or more of the share capital of Daimler AG.

#### **(b) Japanese Tax Treatment**

Subject to compliance with and the limitations of the Income Tax Law, the Corporation Tax Law, the Inheritance Tax Law and other current and pertinent laws and regulations of Japan, credits may be claimed as offsets to taxes payable in Japan pursuant to the applicable tax convention by Japanese persons or Japanese corporations for German taxes to which the income (and estates, as to individuals) of such persons or corporations have been subjected as noted above. See also VIII. 2. (4) Tax Treatment of Dividends etc. in Japan, below.

### **4. Legal Opinion**

The legal department of the Company has submitted a legal opinion of Dr. Thomas Altenbach and Ms. Veronika Revesz of the legal department of Daimler AG rendering, to the effect:

- (1) the Company is a corporation duly incorporated and validly existing under the laws of the Federal Republic of Germany; and
- (2) to the best of its knowledge and belief, the description of the laws of the Federal Republic of Germany contained in this Securities Report is true and correct and without fault.

## **II. Outline of the Company**

### **1. Changes in Major Management Accounts, etc.**

In the fiscal year ended December 31, 2007, we changed our financial reporting from Generally Accepted Accounting Principles in the United States (U.S. GAAP) to International Financial Reporting Standards (IFRS). Accordingly, we have prepared the consolidated financial statements included in this report (Consolidated Financial Statements) in accordance with IFRS as issued by the International Accounting Standards Board (IASB).

We have derived the selected financial data presented in the tables below from our audited consolidated financial statements for the years ended December 31, 2008, 2007, 2006, and 2005. We prepared the consolidated financial statements included in this report (Consolidated Financial Statements) for those four years in accordance with IFRS as issued by the IASB. Our financial statements are denominated in euros, which is the currency of our home country, Germany.

You should read the tables together with our Consolidated Financial Statements and the notes thereto and the discussion in “III. Description of Business”.

<b>Daimler Group</b>	<b>Year ended December 31,</b>				
	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>08 : 07 % change</b>
(€in millions, except for otherwise indicated)					
<b><i>Income Statement data</i></b>					
Revenue	95,873	99,399	99,222	95,209	-4
Earnings before interest and taxes (EBIT) <sup>1</sup>	2,730	8,710	4,992	2,873	-69
Net profit from continuing operations	1,704	4,855	3,166	2,253	-65
Net profit (loss) from discontinued operations	(290)	(870)	617	1,962	—
Net profit	1,414	3,985	3,783	4,215	-65
Profit attributable to shareholders of Daimler AG	1,348	3,979	3,744	4,149	-66
Earnings (loss) per share for profit attributable to shareholders of Daimler AG (in €)					
<i>Basic</i>					
Net profit from continuing operations	1.71	4.67	3.06	2.16	-63
Net profit (loss) from discontinued operations	(0.30)	(0.84)	0.60	1.93	—
Net profit	1.41	3.83	3.66	4.09	-63
<i>Diluted</i>					
Net profit from continuing operations	1.70	4.63	3.04	2.15	-63
Net profit (loss) from discontinued operations	(0.30)	(0.83)	0.60	1.93	—
Net profit	1.40	3.80	3.64	4.08	-63

<b>Daimler Group</b>	<b>Year ended December 31,</b>				
	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>08 : 07 % change</b>
(€in millions, except for otherwise indicated)					
<b><i>Balance Sheet data (end of period)</i></b>					
Total assets	132,219	135,094	217,634	228,012	-2
Non-current liabilities	47,313	47,998	90,452	96,823	-1
Current liabilities	52,182	48,866	89,836	95,232	+7
Share capital	2,768	2,766	2,673	2,647	+0
Equity attributable to shareholders of Daimler AG <sup>2</sup>	31,216	36,718	36,925	35,545	-15
Equity <sup>2</sup>	32,724	38,230	37,346	35,957	-14
<b><i>Other data</i></b>					
Employees (at year-end) <sup>3</sup>	273,216	272,382	274,024	293,839	+0
Employees <sup>3</sup> (average annual number)	274,330	271,704	277,771	296,109	+1
Research and development expenditure	4,442	4,148	3,733	3,928	+7
thereof capitalized	1,387	990	715	591	+40
Investments in property, plant and equipment	3,559	2,927	3,005	3,445	+22
Cash provided by operating activities (incl. discontinued operations)	3,205	13,088	14,337	11,032	-76
Total dividend	556	1,928	1,542	1,527	-71
Weighted average number of shares Outstanding (basic) (in million shares)	957.7	1,037.8	1,022.1	1,014.7	-8
Weighted average number of shares Outstanding (diluted) (in million shares)	959.9	1,047.3	1,027.3	1,017.7	-8
Dividend per share (in €)	0.60	2.00	1.50	1.50	-70

- 1) EBIT includes expenses from compounding of provisions (2008: €129 million; 2007: €144 million; 2006: €118 million; 2005: €350 million).
- 2) We adjusted Equity and Equity attributable to shareholders of Daimler AG at January 1, 2005 by reducing each by €103 million. As a result, Equity and Equity attributable to shareholders of Daimler AG at December 31, 2005 and 2006 was also reduced by €103 million.
- 3) Figures for the years 2006 and 2005 reflect continuing operations only.

As required by Japanese disclosure regulations, we are required to also to show the financial data for the year 2004 as we have presented those numbers in prior reports filed in Japan.

However, those figures are completely not comparable with any financial statements presented for the financial years 2005, 2006, 2007 and 2008 in this Securities Report, mainly as a result of a different set of accounting rules and regulations applied (IFRS for financial years 2005, 2006, 2007 and 2008, compared to US GAAP for the financial year 2004).

Although the financial statements for the financial year 2004 have been audited with an unqualified opinion by the external auditor in prior periods, they are not covered by the auditors' report related to the 2008 Consolidated Financial Statements.

<b>DaimlerChrysler Group</b>	<b>Year ended December 31,</b>
(€in millions, except for otherwise indicated)	<b>2004 (US GAAP)</b>

***Income Statement data***

Revenues	142,059
Income before financial income	4,612
Income (loss) from continuing operations and before cumulative effects of changes in accounting principles	2,466
Basic earnings (loss) per share (in €)	2.43
Diluted earnings (loss) per share (in €)	2.43
Income from discontinued operations	—
Income on disposal of discontinued operations	—
Total income from discontinued operations including net gain on disposals	—
Basic earnings per share (in €)	—
Diluted earnings per share (in €)	—
Net income	2,466
Basic earnings per share (in €)	2.43
Diluted earnings per share (in €)	2.43
Operating Profit	5,754

<b>DaimlerChrysler Group</b>	<b>Year ended December 31,</b>
(€in millions, except for otherwise indicated)	<b>2004 (US GAAP)</b>

***Balance Sheet data (end of period)***

Total assets	182,872
Short-term financial liabilities	33,306
Long-term financial liabilities	42,964
Share capital	2,633
Stockholders' equity	33,522

***Other data***

Employees (at year-end)	384,723
Employees (average annual number)	379,019
Research and development expenditure	5,658
Investments in property, plant and equipment	6,386
Cash provided by operating activities	11,060
Total dividend	1,519
Dividend per share (in €)	1.50
Weighted average number of shares Outstanding (basic)(in million shares)	1,012.8
Weighted average number of shares Outstanding (diluted)(in million shares)	1,014.5

## **2. Brief History of the Company**

### **(a) Organization**

The legal and commercial name of our company is Daimler AG. It is a stock corporation organized under the laws of the Federal Republic of Germany and was incorporated on May 6, 1998 under the name DaimlerChrysler AG. In October 2007, following the transfer of a majority interest in the Chrysler activities, we changed the name of the company from DaimlerChrysler AG to Daimler AG. Our registered office is located at Mercedesstrasse 137, 70327 Stuttgart, Germany, telephone +49-711-17-0.

### **(b) History**

In 1998, Daimler-Benz Aktiengesellschaft and Chrysler Corporation combined their respective businesses, stockholder groups, managements and other constituencies. In May 2007, we agreed to transfer an 80.1% interest in the Chrysler Group and the related Chrysler financial services business in the NAFTA region (the Chrysler activities) to a subsidiary of the private equity firm Cerberus Capital Management L.P. (Cerberus). The transaction closed on August 3, 2007. Following a resolution adopted at an extraordinary shareholders' meeting in October 2007, we changed the name of the company from DaimlerChrysler AG to Daimler AG. On April 27, 2009, Daimler AG, Chrysler, Cerberus and the US Pension Benefit Guaranty Corporation signed a binding term sheet covering issues still pending between the parties in connection with Chrysler. Under this agreement, Daimler's remaining 19.9% shareholding in Chrysler will be redeemed.

### 3. Contents of Business

Daimler AG is the ultimate parent company of the Daimler Group. The Group develops, manufactures, distributes and sells a wide range of automotive products, mainly passenger cars, trucks, vans and buses. It also provides financial and other services relating to its automotive businesses.

As a result of the transfer of a majority interest in the Chrysler activities, we report the Chrysler activities in our consolidated statements of income as discontinued operations, with all recorded income and expense items related to the Chrysler activities included in the line item "Net profit (loss) from discontinued operations." We do not include amounts related to discontinued operations in our segment reporting. For further information, please refer to Notes 2 and 31 to our Consolidated Financial Statements.

Beginning with August 4, 2007, we account for our non-controlling equity interest in Chrysler Holding LLC using the equity method of accounting. We include our proportionate share of the results of Chrysler Holding LLC in Vans, Buses, Other with a three-month time lag. In accordance with IFRS, we consider significant transactions and events which affect Chrysler Holding LLC during the three-month lag period. On April 27, 2009, Daimler AG, Chrysler, Cerberus and the US Pension Benefit Guaranty Corporation signed a binding term sheet covering issues still pending between the parties in connection with Chrysler. Under this agreement, Daimler's remaining 19.9% shareholding in Chrysler will be redeemed.

Until fiscal year 2008, we reported the following four segments:

- Mercedes-Benz Cars
- Daimler Trucks
- Daimler Financial Services
- Vans, Buses, Other

In Vans, Buses, Other, we report our reportable Mercedes-Benz Vans segment, our Daimler Buses business unit and all other businesses and investments in businesses not allocated to one of our reportable business segments. Beginning with the financial disclosure for the first quarter of 2009, we report Mercedes-Benz Vans and Daimler Buses as separate segments.

We offer our automotive products and related financial services primarily in Western Europe and in the NAFTA region, which consists of the United States, Canada and Mexico. We derived approximately 48% of our 2008 revenue from sales in Western Europe and 19% from sales in the United States. With respect to Western Europe, approximately 23% of the total revenue achieved in that region resulted from sales in Germany and 25% from sales in other countries of Western Europe. Over the past several years, we have also taken significant steps towards increasing our presence in the Asian markets. Revenue in Asia represents approximately 14% of our total revenue in 2008.

For information on acquisitions and dispositions of businesses during the last three years, please refer to Notes 2 and 12 to our Consolidated Financial Statements. For a discussion of their effect on revenue and operating results, please refer to "7. Analysis of Financial Condition and Results of Operations" in "III. Description of Business."

*Capital expenditures.* Our aggregate capital expenditures for property, plant and equipment of our continuing businesses were €3.6 billion in 2008 and €2.9 billion in 2007. In 2008, the United States and Germany accounted for 7.2% and 70.4%, respectively, of these capital expenditures. Expenditures for equipment on operating leases related to our continuing businesses were €0.2 billion in 2008 and €0.8 billion in 2007. For additional information

on our capital expenditures, please refer to “IV. Conditions of Facilities.”

**(a) Mercedes-Benz Cars**

Mercedes-Benz Cars designs, produces and sells Mercedes-Benz passenger cars, Maybach high-end luxury sedans and smart micro compact passenger cars. In 2008, Mercedes-Benz Cars contributed approximately 48% of our revenue.

***Products***

***Mercedes-Benz.*** Mercedes-Benz passenger cars are world-renowned for innovative technology, highest levels of comfort, quality and safety, and pioneering design. We offer most Mercedes-Benz passenger cars with a choice of several diesel and gasoline engines. In 2009, we plan to offer the S-Class and the ML-Class also with a gasoline hybrid engine. With the exception of the A-, B-, R-, GL- and GLK-Classes, we offer high performance versions with V8 or V12 engines in all classes under the AMG brand. The availability of individual models differs by geographic market. The Mercedes-Benz passenger car product range consists of the following classes:

- *S-Class.* The S-Class is a line of full-size luxury sedans which are available in short and long wheelbase versions. In June 2009, we intend to introduce a new generation of the S-Class sedans, including a hybrid version, the new S 400 BlueHYBRID. The S-Class sedans are complemented by the CL, a top-of-the-line two-door coupe, and the SL, a luxury roadster. In April 2008, we launched a new generation of the SL. Through McLaren Cars Ltd., we also offer a high performance Mercedes-Benz sports car, the SLR.
- *E-Class.* The E-Class is a line of luxury sedans and station wagons. We also offer the CLS, a four-door coupe based on the E-Class. We introduced a new generation of the CLS in April 2008. We launched a successor model of the E-Class sedan in March 2009 and intend to launch a successor model of the E-Class station wagon in November 2009.
- *C-Class.* The C-Class is a line of compact luxury sedans and station wagons. The CLC Sports Coupe, the SLK (a two-seat roadster) and the CLK coupe and convertible complement the C-Class product family. We introduced a new generation of the SLK in April 2008 and a new CLC Sports Coupe in June 2008. We intend to reposition the successor models of the current CLK coupe and CLK convertible as E-Class coupe and E-Class convertible models. The E-Class coupe was launched in May 2009.
- *A-/B-Class.* The A-Class is a front wheel drive compact and the B-Class is a front wheel drive 4-door Compact Sports Tourer (CST). We launched new generations of the A- and B-Class in June 2008. We do not offer the A- and B-Class in the United States.
- *ML-/R-/G-/GL-/GLK-Class.* The ML-Class is a line of sport utility vehicles with permanent all-wheel drive. We introduced a new generation of the ML-Class in August 2008. The R-Class is an SUV Tourer, which is available in a short and a long wheelbase version, and the GL-Class is a seven seat luxury sport utility vehicle. We intend to introduce a new generation of the GL in August 2009. In October 2008, we added an all-new compact sport utility vehicle, the GLK-Class, to the line-up. The G-Class is a four-wheel drive cross country vehicle that comes in a short and a long wheelbase version and as a convertible.

**Maybach.** Under the prestigious Maybach brand, we offer a line of exclusive high-end luxury sedans with outstanding luxury, comfort, and individuality. Maybach sedans are available in a short and a long wheelbase version, including the Maybach 57S and 62S as sportier versions.

**smart.** The smart brand represents a micro compact car concept. We currently offer two models, the smart fortwo coupe and the smart fortwo cabrio. In 2008, we introduced both models in the United States. In 2009, we intend to introduce the smart brand in Denmark, in major metropolitan areas in China and in Sao Paulo, Brazil.

### **Competition**

In Western Europe, our Mercedes-Benz passenger cars compete primarily with products of BMW (BMW, Rolls-Royce), Volkswagen (Audi, Bentley, VW) and, depending on the market segment, Fiat (Lancia, Alfa Romeo, Ferrari, Maserati), Ford (Volvo), General Motors (Opel, Saab, Vauxhall), Porsche, PSA (Peugeot/Citroen), Renault, Tata Motors (Jaguar, Land Rover) and Toyota (Lexus).

In the United States, our principal competitors include BMW (BMW, Rolls-Royce), Ford (Lincoln, Volvo), Honda (Acura), Nissan (Infiniti), Porsche, Tata Motors (Jaguar, Land Rover), Toyota (Lexus), Volkswagen (Audi, Bentley, VW) and, depending on the market segment, Nissan, other Toyota brands and certain models produced by General Motors (Cadillac, Saab).

Competitors of the Maybach are Rolls-Royce and Bentley sedans.

Principal competitors of smart vehicles are certain models of Fiat, Ford, PSA (Peugeot/Citroen), Renault, Suzuki, Toyota (Toyota, Daihatsu), BMW (Mini) and Volkswagen (Seat, Skoda, VW).

### **(b) Daimler Trucks**

Daimler Trucks manufactures and sells trucks and specialty vehicles under the brand names Mercedes-Benz, Freightliner, Sterling (until March 2009), Western Star, Thomas Built Buses (TBB) and Mitsubishi Fuso. Our worldwide facilities provide us with a strong production and assembly network for commercial vehicles and core components. Daimler Trucks contributed approximately 27% of our 2008 revenue. In October 2008, we announced our plans to cease production of trucks under the Sterling brand name in 2009.

In the fourth quarter of 2008, as part of a strategic partnership, we acquired a 10% equity interest in the Russian commercial vehicle manufacturer Kamaz OAO (Kamaz) for US\$250 million in cash. The purchase agreement requires us to make an additional one-time payment in 2012 which will depend on Kamaz's interim business performance and which will not exceed US\$50 million. We plan to work with Kamaz on joint projects in several areas, including product distribution, component sharing and technology transfers. We account for our equity interest in Kamaz using the equity method of accounting.

## **Products**

*Mercedes-Benz Trucks.* Our European Mercedes-Benz truck lines consist of the Actros and the Axor in the heavy-duty category, the Atego in the medium-duty category, and the specialty vehicles Econic and Zetros. The Unimog, a four-wheel drive vehicle for special purpose applications, complements this line-up. In Turkey and Brazil, we manufacture heavy-duty and medium-duty trucks for the respective local and certain export markets. Overall, our Mercedes-Benz trucks range from 6 metric tons gross vehicle weight (GVW) to 41 metric tons GVW. In August 2008, we introduced a new generation of the Actros and, in September 2008, we added three models with alternative drive systems, the Axor BlueTec Hybrid, the Econic BlueTec Hybrid and the Econic CNG Hybrid.

*Freightliner Trucks, Sterling Trucks, Western Star Trucks, and Thomas Built Buses.* Our U.S. subsidiary Daimler Trucks North America LLC manufactures trucks and buses (based on truck chassis) in Classes 3 through 8 (from 9,000 lbs. GVW to 160,000 lbs. GVW) and sells them under the Freightliner, Sterling, Western Star, and Thomas Built Buses brand names, primarily in the NAFTA region. It also manufactures chassis for trucks, buses, walk-in vans and motor homes in Classes 3 through 7 (from 10,000 lbs. GVW to 33,000 lbs. GVW). In 2008, the Freightliner Cascadia line was the first truck available with engines from our new global engine family, the Heavy Duty Engine Platform (HDEP). Other brands of the Daimler Trucks segment will use the HDEP in upcoming models.

In the fourth quarter of 2008, we adopted a wide-ranging plan to optimize and reposition the business operations of Daimler Trucks North America. Measures provided for in the plan include the discontinuation of the Sterling Trucks brand in 2009, a further consolidation of our production network in the NAFTA region, capacity adjustments, including closing two truck manufacturing plants in 2009 and 2010, respectively, and headcount reductions of up to 3,500 (of a total headcount of 20,205 at the end of October 2008) to be accomplished primarily in 2009 and 2010. In order to compensate for the discontinuation of Sterling brand products and address market segments that have been served exclusively by Sterling offerings, Daimler Trucks North America expects to supplement the Freightliner and Western Star product ranges accordingly. Please refer to the discussion under the heading “7. Analysis of Financial Condition and Results of Operation” in “III. Description of Business” for information on how this program affected EBIT of our Daimler Trucks Segment in 2008.

*Mitsubishi Fuso Trucks and Buses.* Our Japanese subsidiary Mitsubishi Fuso Truck and Bus Corporation (MFTBC) offers a comprehensive truck and bus portfolio, primarily for the Japanese and other Asian markets. The line-up includes the Canter trucks (light-duty), the Fighter trucks (medium-duty) and the Super Great trucks (heavy-duty) and also certain bus models (Rosa and Aero) and specialty vehicles. MFTBC also sells trucks in Europe, the United States, Latin America and Africa. In 2009, we intend to introduce a new version of the Mitsubishi Fuso Super Great truck in Japan.

On May 13, 2009, MFTBC announced a major realignment of its operations to address structural changes in the company’s business and markets. The realignment measures cover five key areas: The streamlining of the product portfolio, the realignment of manufacturing operations, the streamlining and strengthening of the retail network in Japan and the enhancing of the international after sales business, material cost optimization, and fixed cost reduction. MFTBC’s realignment initiatives are expected to improve annual earnings by €760 million by 2011 with estimated program costs of €260 million in total in 2009 and 2010. The realignment is intended to strengthen the company’s operations for the mid- to long-term and to complement numerous short-term steps, which have already been implemented to reduce costs and adapt capacity.

### ***Competition***

Competitors of our Daimler Trucks segment vary in each geographic region. In Western Europe, our main competitors are Scania, MAN, Iveco, Volvo, DAF and Renault. In the NAFTA markets, our main competitors in the Class 5 through 8 truck categories are Navistar International, Paccar (Kenworth, Peterbilt), Volvo/Mack, General Motors and Ford. In Latin America, our main competitor is Volkswagen, and in Japan and the South East Asian markets, our main competitors (including buses) are Hino, Isuzu and Nissan Diesel.

#### **(c) Daimler Financial Services**

Our financial services activities, which contributed approximately 9% of our revenue in 2008, consist principally of financing and leasing services supporting our Mercedes-Benz and other vehicle businesses.

The financial services we offer consist mainly of customized financing and leasing packages for our retail and wholesale customers in the automotive sector. We also provide financing to our dealers for vehicle inventory and property, plant and equipment purchases and we offer insurance brokerage and fleet management services, including dealer property and casualty insurance. In Germany, we operate a fully licensed bank, the Mercedes-Benz Bank. The Mercedes-Benz Bank offers financial services to our customers and employees in Germany. These services include leasing and sales financing services, car savings plans, credit cards and demand deposit accounts. At December 31, 2008, the Mercedes-Benz Bank held deposits of €6.0 billion.

We also hold an ownership interest in Toll Collect. In September 2002, our subsidiary Daimler Financial Services AG, Deutsche Telekom AG and Compagnie Financière et Industrielle des Autoroutes S.A. (Cofiroute) contracted with the Federal Republic of Germany to develop, install and operate a system for electronic collection of tolls from all commercial vehicles over 12t GVW using German highways. Toll Collect GmbH, a German limited liability company in which we and Deutsche Telekom each hold a 45% interest and Cofiroute holds the remaining 10%, is the principal builder and operator of the system. We account for our equity interest in Toll Collect using the equity method of accounting. You can find additional information about Toll Collect in Note 28 to our Consolidated Financial Statements.

### ***Competition***

In the financial services area, our main competitors are leasing and finance subsidiaries of banks and financial institutions and the financial services businesses of other automobile manufacturers to the extent they do not limit their activities to their own automobile brands.

#### **(d) Vans, Buses, Other**

Vans, Buses, Other includes our Mercedes-Benz Vans segment and our bus business. We design, produce, and sell a wide range of vans and buses. The other businesses and investments comprising Vans, Buses, Other consist primarily of our equity investments in EADS and Chrysler Holding LLC (since August 4, 2007), our real estate activities and, since 2008, an equity interest in Tognum AG (Tognum).

As part of our ongoing strategy to focus on the core automotive business, in December 2007,

we agreed to sell our real estate at Potsdamer Platz in Berlin to the SEB Group for a sales price of €1.4 billion in cash, effective February 1, 2008 (including €0.1 billion in cash in 2007). The transaction had a positive effect on the 2008 EBIT of Vans, Buses, Other of €0.4 billion.

In 2008, Vans, Buses, Other contributed approximately 15% of our total revenue.

### ***Vans and Buses***

*Mercedes-Benz Vans.* Worldwide, we currently offer three lines of Mercedes-Benz vans between 1.9 metric tons (t) and 7.5t gross vehicle weight (GVW): the Vario, the Vito/Viano and the Sprinter. Pursuant to an agreement with Volkswagen, we assemble a Volkswagen van at our German plants. In 2008, the units assembled under this contract represented approximately 25% of the total units produced at these plants and resulted in revenue of €0.9 billion.

*Daimler Buses.* We are a full-line supplier in the worldwide bus and coach market. Our product portfolio includes city buses, coaches, intercity buses, midi buses and bus chassis. We sell completely built-up buses under the Mercedes-Benz and Setra brands in Europe and under the Setra and Orion brand names in the United States and Canada. In addition to completely built-up buses, we produce and sell worldwide a wide range of bus chassis under the brand name Mercedes-Benz.

### ***Other***

*Chrysler Holding LLC.* On August 3, 2007, we transferred an 80.1% controlling interest in the Chrysler automotive activities and the related Chrysler financial services business in the NAFTA region (the Chrysler activities) to a subsidiary of Cerberus. We retained a 19.9% non-controlling equity interest in Chrysler Holding LLC, a newly established holding company for the Chrysler activities. On April 27, 2009, Daimler AG, Chrysler, Cerberus and the US Pension Benefit Guaranty Corporation signed a binding term sheet covering issues still pending between the parties in connection with Chrysler. Under this agreement, Daimler's remaining 19.9% shareholding in Chrysler will be redeemed.

*EADS.* EADS is a publicly-traded company and a global supplier and service provider in the aerospace and defense sectors. The EADS Group includes the aircraft manufacturer Airbus, the helicopter manufacturer Eurocopter and the joint venture Matra BAe Dynamics Aerospatiale SAS, a guided missile producer. In addition, EADS is a partner in the Eurofighter consortium and a prime contractor for the Ariane launcher. The company is also developing the A400M military transport aircraft and is the industrial partner for the European satellite navigation system Galileo.

In 2004, 2006 and 2007, we entered into several transactions involving our EADS shares which reduced the Group's legal ownership percentage in EADS to 22.5%. Our share in the results of EADS in 2007 is based on an equity interest which declined from 33% to 24.9% at year end 2007 and our share in the results of EADS in 2008 is based on an equity interest which declined from 24.9% to 22.5% at year-end 2008. We hold our remaining EADS interest through a subsidiary in which minority investors have a 33% interest. For further information on these transactions, please refer to Note 12 to our Consolidated Financial Statements.

In 2007 and 2008, EADS announced that problems with the Airbus A400M program and resulting delivery delays would negatively affect its operating results. For a discussion on how these developments affected the operating results of Vans, Buses, Other, please refer to

“7. Analysis of Financial Conditions and Results of Operation” in “III. Description of Business.”

*Tognum.* In 2008, we acquired shares in Tognum, a global supplier of off-highway engines, propulsion systems and decentralized energy systems, for a total amount of €702 million in cash. As of December 31, 2008, we held a 28.4% equity interest in Tognum. We account for our investment in Tognum with a three-month time lag using the equity method of accounting.

Revenue of Other also includes revenue from the sale of Chrysler spare parts outside the U.S., Canada and Mexico. This revenue is included in the line “Real estate and other business”.

### ***Competition***

*Mercedes-Benz Vans.* In Western Europe, our principal competitors in the van category are Fiat (Fiat, Iveco), Ford, Volkswagen and Renault. In the United States, competitors include Ford and General Motors (Chevrolet, GMC).

*Daimler Buses.* Our main competitor in the worldwide bus sector (over 8t GVW) is Volvo. In Western Europe, our other major competitors are MAN Commercial Vehicles (MAN, Neoplan), Scania and Irisbus (Irisbus, Heuliez Bus, Karosa, Renault, Iveco and Ikarus). Our main competitors in South America are Volkswagen and Agrale, although Volvo and Scania also compete in that region.

#### 4. Description of Related Companies

##### (a) Parent Company

The Company has no parent company.

##### (b) Significant Subsidiaries and Affiliated Companies

The following table shows the significant subsidiaries and affiliated companies Daimler AG owned, directly or indirectly, as of December 31, 2008. For the term “significant” we have used the criteria applicable according to Sec. 285 of the German Commercial Code (HGB).

Name and Location of the Company	Capital share <sup>1</sup> (in %)	Equity (in mn of €)	Net income (Net loss) (in mn of €)	The Contents of the Principal Business and Relationship
<b>Subsidiaries:</b>				
<i>Automotive Business</i>				
Anlagenverwaltung Daimler AG & Co. OHG Berlin, Schönefeld	100	219	21	Property management
Daimler Vermögens- und Beteiligungsgesellschaft mbH, Stuttgart <sup>2</sup>	100	7,899	—	Financial company
EvoBus GmbH, Stuttgart	100	281	101	Holding and production company
Grundstücksverwaltungsgesellschaft EvoBus GmbH & Co. OHG, Schönefeld <sup>3</sup>	100	114	14	Real estate management
Grundstücksverwaltungsgesellschaft Mercedes-Benz AG & Co. OHG, Schönefeld <sup>4</sup>	100	3,918	421	Real estate management
Maschinenfabrik Esslingen AG & Co. OHG, Schönefeld <sup>4</sup>	100	174	32	Holding company
MB-technology GmbH, Sindelfingen <sup>2,4</sup>	100	17	—	Research and development company
Mercedes-AMG GmbH, Affalterbach <sup>2</sup>	100	21	—	Production company
Mercedes-Benz Accessories GmbH, Stuttgart <sup>2</sup>	100	5	—	After sales company
Mercedes-Benz Ludwigsfelde GmbH, Ludwigsfelde <sup>2</sup>	100	84	—	Production company
Daimler Automotive de Venezuela C.A., Carabobo, Venezuela	100	33	10	Sales company
Daimler South East Asia Pte. Ltd., Singapore, Singapore	100	95	20	Sales company

Daimler Tractocamiones, S. de R.L. de C.V., Mexico City, Mexico <sup>4</sup>	100	1	(32)	Sales and production company
Daimler Trucks North America LLC, Portland, USA <sup>4,5</sup>	100	864	(407)	Sales and production company
Mercedes-Benz (China) Ltd., Beijing, PR China	51	276	199	Sales and production company
Mercedes-Benz (Thailand) Ltd., Bangkok, Thailand	100	105	11	Sales and production company
Mercedes-Benz Argentina S.A., Buenos Aires, Argentina <sup>3</sup>	100	36	54	Sales company
Mercedes-Benz Australia/Pacific Pty. Ltd., Mulgrave, Australia <sup>4</sup>	100	159	(11)	Sales company
Mercedes-Benz Belgium Luxembourg S.A., Brussels, Belgium	100	72	(13)	Sales company
Mercedes-Benz Canada Inc., Toronto, Canada <sup>4</sup>	100	46	4	Sales company
Mercedes-Benz Danmark A/S, Copenhagen, Denmark	100	167	13	Sales company
Mercedes-Benz do Brasil Ltda., Sao Bernardo do Campo, Brazil	100	846	565	Sales and production company
Mercedes-Benz Espana, S.A., Madrid, Spain	100	236	(18)	Sales company
Mercedes-Benz France SAS, Rocquencourt, France	100	342	(43)	Sales company
Mercedes-Benz Hong Kong Ltd., Hong Kong, PR China	100	29	16	Sales company
Mercedes-Benz Italia S.p.A., Rome, Italy	100	249	1	Sales company
Mercedes-Benz Japan Co., Ltd., Tokyo, Japan <sup>4</sup>	100	170	9	Sales company
Mercedes-Benz Korea Ltd., Seoul, South Korea	51	21	4	Sales company
Mercedes-Benz Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia	51	63	28	Sales company
Mercedes-Benz Manufacturing (Thailand) Ltd., Bangkok, Thailand <sup>4</sup>	100	40	16	Sales and production company
Mercedes-Benz Nederland B.V., Utrecht, Netherlands	100	256	47	Sales company
Mercedes-Benz Polska Sp. z.o.o., Warsaw, Poland	100	8	(6)	Sales company
Mercedes-Benz Portugal, S.A., Mem Martins, Portugal	100	77	1	Sales company

Mercedes-Benz Russia SAO, Moscow, Russia	100	151	38	Sales company
Mercedes-Benz Schweiz AG, Schlieren, Switzerland	100	174	24	Sales company
Mercedes-Benz South Africa (Pty) Ltd., Pretoria, Republic of South Africa	100	529	190	Sales and production company
Mercedes-Benz Sverige AB, Malmö, Sweden <sup>4</sup>	100	15	(8)	Sales company
Mercedes-Benz Türk A.S., Istanbul, Turkey <sup>6</sup>	67	128	113	Sales and production company
Mercedes-Benz U.S. International, Inc., Tuscaloosa, USA <sup>4</sup>	100	349	8	Production company
Mercedes-Benz UK Ltd., Milton Keynes, Great Britain <sup>4</sup>	100	42	125	Sales company
Mercedes-Benz USA, LLC, Montvale, USA <sup>4</sup>	100	302	(123)	Sales company
Mitsubishi Fuso Truck and Bus Corporation, Kawasaki, Japan <sup>3</sup>	85	222	106	Holding and production company
Starexport Trading S.A., Sao Paulo, Brazil <sup>4</sup>	100	49	34	Trading company
<b><i>Daimler Financial Services</i></b>				
Daimler Financial Services AG, Berlin <sup>2</sup>	100	1,139	—	Financial services company
Daimler Fleet Management GmbH, Stuttgart <sup>2,4</sup>	100	.	—	Fleet management
Mercedes-Benz Bank AG, Stuttgart <sup>2,4</sup>	100	846	—	Financial services company
Mercedes-Benz CharterWay GmbH, Berlin <sup>2,4</sup>	100	1	—	Financial services company
Mercedes-Benz Leasing GmbH, Stuttgart <sup>2,4</sup>	100	36	—	Financial services company
Mercedes-Benz Mitarbeiter- Fahrzeuge Leasing GmbH, Stuttgart <sup>2,4</sup>	100	.	—	Sales company
Toll Collect GmbH, Berlin <sup>4,7</sup>	45	386	69	Toll collection
Banco Mercedes-Benz do Brasil S.A., Sao Paulo, Brazil <sup>4,6</sup>	100	88	94	Financial services company

Daimler Canada Finance, Inc., Montreal, Canada <sup>4,8</sup>	100	0	(14)	Financial services company
Daimler Capital Services LLC, Farmington Hills, USA <sup>4,6,8</sup>	100	190	40	Financial services company
DCFS USA LLC, Farmington Hills, USA <sup>4,6,8</sup>	100	1,736	88	Financial services company
DCFS Canada Corporation, Mississauga, Canada <sup>4,6,8</sup>	100	105	32	Financial services company
Mercedes-Benz Financial Services France S.A., Bailly, France <sup>4,6</sup>	100	131	11	Financial services company
Mercedes-Benz Financial Services Nederland B.V., Utrecht, Netherlands <sup>4,6</sup>	100	81	20	Financial services company
Mercedes-Benz Financial Services South Africa (Pty) Ltd., Centurion, Republic of South Africa <sup>4,6</sup>	100	114	25	Financial services company
Mercedes-Benz Financial Services UK Ltd., Milton Keynes, Great Britain <sup>3,4</sup>	100	301	29	Financial services company
Mercedes-Benz Finansman Türk A.S., Istanbul, Turkey <sup>6</sup>	100	54	14	Financial services company
<b><i>Regional holding and financial companies</i></b>				
Daimler AG & Co. Finanzanlagen OHG, Schönefeld <sup>4</sup>	100	1,025	41	Holding and financing company
Daimler AG & Co. Wertpapierhandel OHG, Schönefeld	100	1,711	71	Holding and financing company
Daimler Coordination Center SCS, Brussels, Belgium <sup>4,9</sup>	100	611	40	Holding and financing company
Daimler International Finance B.V., Utrecht, Netherlands	100	2	(10)	Holding and financing company
Daimler Investments US Corporation, Montvale, USA <sup>4,8</sup>	100	16,777	447	Holding and financing company
Daimler Japan Ltd., Tokyo, Japan	100	271	41	Holding and financing company

Daimler North America Corporation, Montvale, USA <sup>8</sup>	100	3,536	(1,024)	Holding and financing company
Daimler North America Finance Corporation, Newark, USA <sup>4,8</sup>	100	30,299	22	Holding and financing company
Daimler UK PLC, Milton Keynes, Great Britain	100	336	16	Holding and financing company
<b>Others</b>				
Daimler Aerospace GmbH & Co. KG, Stuttgart	67	1,617	22	Holding company
Daimler Luft- und Raumfahrt Holding AG, Ottobrunn <sup>2</sup>	100	3,445	—	Holding company
EHG Elektroholding GmbH, Frankfurt am Main <sup>2</sup>	100	1,115	—	Holding company
Daimler Unterstützungskasse GmbH, Stuttgart <sup>6,10</sup>	100	1,369	(97)	Financing company
Daimler Verwaltungsgesellschaft für Grundbesitz mbH, Schönefeld <sup>2</sup>	100	2,898	—	Real estate management
Grundstücksverwaltungsgesellschaft Daimler AG & Co. OHG, Schönefeld <sup>4</sup>	100	359	136	Real estate management
<b>Affiliated companies:</b>				
<b>Others</b>				
DADC Luft- und Raumfahrt Beteiligungs AG, Munich <sup>3,4</sup>	25	569	.	Holding company
Tognum AG, Friedrichshafen <sup>3,4</sup>	28	560	166	Holding company
European Aeronautic Defence and Space Company EADS N.V., Schiphol-Rijk, Netherlands <sup>3,4</sup>	23	13,090	(446)	Holding company

- 1) Relating to Daimler AG
- 2) Profit and loss transfer agreement with Daimler AG (direct or indirect)
- 3) Financial statements 2007
- 4) Indirect interest
- 5) Consolidated group financial statements
- 6) Preliminary financial statements
- 7) Financial statements September 1, 2007 - August 31, 2008
- 8) Financial statements according to IFRS
- 9) Financial statements December 1, 2007 - November 30, 2008
- 10) Financial statements November 1, 2007 - October 31, 2008

## 5. Description of Employees

At December 31, 2008, we employed a workforce of 273,216 people worldwide, slightly more than the prior year. The following table shows the number of employees at December 31, 2008, 2007, and 2006, adjusted to reflect changes in segment composition:

	Employees at December 31,								
	2008			2007			2006		
	Total	Germany	U.S.	Total	Germany	U.S.	Total	Germany	U.S.
Mercedes-Benz									
Cars	97,303	85,046	3,782	97,526	85,322	3,869	99,343	87,272	4,012
Chrysler Group <sup>1</sup>	—	—	—	—	—	—	80,735	25	62,334
Daimler Trucks	79,415	30,060	15,004	80,067	28,975	16,667	83,237	27,617	20,339
Daimler Financial Services <sup>2</sup>	7,116	2,451	1,121	6,743	2,410	1,088	10,718	2,503	4,415
Vans, Buses, Other <sup>3</sup>	40,255	24,331	879	39,968	24,032	816	39,400	23,096	2,134
Sales organization for automotive business	49,127	25,865	1,690	48,078	25,940	1,613	46,952	26,104	1,558
<b>Daimler Group</b>	<b>273,216</b>	<b>167,753</b>	<b>22,476</b>	<b>272,382</b>	<b>166,679</b>	<b>24,053</b>	<b>360,385</b>	<b>166,617</b>	<b>94,792</b>

1 In 2007, we transferred a majority interest in the Chrysler Group and the related Chrysler financial services business in the NAFTA region to a subsidiary of Cerberus. Employees allocable to the financial services business of the Chrysler activities are included in the 2006 figures of our Financial Services segment.

2 The 2006 figures include 3,905 employees allocable to the Chrysler activities.

3 The 2006 figures include 1,721 employees allocable to the Chrysler activities.

The table above also includes temporary employees. On average, we had approximately 9,300 temporary employees in 2008.

The average personnel expenses per employee were €55,379 in 2008. This amount also includes bonuses.

The average age of the Group's worldwide workforce was 41.1 years at the end of December 2008, compared to 40.9 years at December 2007.

Worldwide, Daimler employees' average period at the Group increased slightly from 14.7 to 15 years. In Germany, our employees had been with us for an average of 17.7 years at the end of 2008 (2007: 17.5). The average period for our employees outside Germany was 10.8 years (2007: 10.6).

Women accounted for 12.9% of the total workforce of Daimler AG at the end of 2008 (2007: 12.7%). In management positions of levels 1 to 4, the proportion of women increased from last year's 9.8% to 10.4%.

Almost all our employees in Germany who are members of labor unions belong to the German metalworkers' union (Industriegewerkschaft Metall). We do not operate any of our facilities in Germany on a "closed shop" basis. In Germany, the regional association of companies within a particular industry and the unions covering that industry negotiate collective bargaining agreements for blue collar workers and for white collar employees below senior management level. We are a member of the associations of employers in the regions in which we operate. Even though the collective bargaining agreement is legally binding only for members of the negotiating parties, i.e., the member companies of the

employers' associations and the employees who are union members, we extend the applicability of the agreement to all employees below senior management level by including a pertinent clause in our employment contracts.

In November 2008, the regional associations of employers and the German metalworkers' union concluded a new collective bargaining agreement covering the period from November 1, 2008 through April 30, 2010. The new agreement provides for a lump sum payment of €10 for the first three months of the contract period. A 2.1% increase in base salary became effective on February 1, 2009. In addition, the agreement provides for another lump sum payment in September 2009. For the four-month period from January to April 2010, an additional base salary increase of 0.4% applies. This increase, however, will not be paid out in cash, but will be used to fund the existing early retirement program. In response to decreasing sales, we reached agreements with the works councils of some of our manufacturing plants to reduce the number of hours worked per week by the workers in those plants during the first quarter of 2009. The agreements have the effect of reducing the wages we pay to the workers in the affected plants. The reduction in wages will be partially compensated by payments from the German employment agency (Agentur für Arbeit).

On April 28, 2009, the management and the Employee Council of Daimler AG have agreed on a package of measures to be taken to reduce labor costs while safeguarding employment at Daimler AG. The key points of the agreement are the collective reduction in working time for employees who are not included in short-time working arrangements, a reduction in the allowance paid towards the short-time compensation and the postponement by five months of the wage-tariff increase, originally agreed upon for May 1, 2009. As a result of these measures and of other measures previously decided upon, the labor costs of Daimler AG will be reduced by €2 billion in the current difficult economic situation. The measures include actions to reduce costs and to avoid increased expenditure.

Beginning in March 2006, Daimler Trucks North America LLC (former Freightliner LLC) negotiated new collective bargaining agreements at its major facilities in the U.S., Canada and Mexico. In general, the agreements have a duration of three years and provide for annual wage increases from 2.5% to 3.0%.

### III. Description of Business

#### 1. Outline of Business Results, etc.

The following table provides an overview of the profit and loss account for the fiscal year 2008:

<b>Consolidated Statements of Income</b> (In millions of € except per share amounts)	<b>Year ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Revenue</b>	<b>95,873</b>	<b>99,399</b>
Cost of sales	(74,314)	(75,404)
<b>Gross profit</b>	<b>21,559</b>	<b>23,995</b>
Selling expenses	(9,204)	(8,956)
General administrative expenses	(4,124)	(4,023)
Research and non-capitalized development costs	(3,055)	(3,158)
Other operating income (expense), net	780	27
Share of profit (loss) from companies accounted for using the equity method, net	(998)	1,053
Other financial income (expense), net	(2,228)	(228)
<b>Earnings before interest and taxes (EBIT) <sup>1</sup></b>	<b>2,730</b>	<b>8,710</b>
Interest income (expense), net	65	471
<b>Profit before income taxes</b>	<b>2,795</b>	<b>9,181</b>
Income tax expense	(1,091)	(4,326)
Net profit from continuing operations	1,704	4,855
Net profit (loss) from discontinued operations	(290)	(870)
<b>Net profit</b>	<b>1,414</b>	<b>3,985</b>
Minority interest	(66)	(6)
<b>Profit attributable to shareholders of Daimler AG</b>	<b>1,348</b>	<b>3,979</b>

#### **Earnings (loss) per share (in €) for profit attributable to shareholders of Daimler AG**

<b>Basic</b>		
Net profit from continuing operations	1.71	4.67
Net profit (loss) from discontinued operations	(0.30)	(0.84)
<b>Net profit</b>	<b>1.41</b>	<b>3.83</b>
<b>Diluted</b>		
Net profit from continuing operations	1.70	4.63
Net profit (loss) from discontinued operations	(0.30)	(0.83)
<b>Net profit</b>	<b>1.40</b>	<b>3.80</b>

<sup>1</sup> EBIT includes expenses from compounding of provisions (2008: €429 million; 2007: €444 million).

The accompanying notes are an integral part of these Consolidated Financial Statements. A detailed analysis of the business results is provided under the item “7. Analysis of Financial Condition and Results of Operation.”

## **2. Results of Productions, Orders Received and Sales**

There has been significant production overcapacity in the worldwide automotive industry for some time, which has become even more pronounced as a result of the global economic downturn. This overcapacity threatens the continued profitability of many manufacturers. As part of our strategic planning and operations, we monitor our production capacity in relation to developing and anticipated industry changes and market conditions. As such conditions fluctuate, we adjust our capacity by opening, closing, selling, expanding, or downsizing production facilities, or by adding or eliminating work shifts.

For further information about the conditions of our production facilities, please also refer to “2. Conditions of Major Facilities” under “IV. Conditions of Facilities.”

### **(a) Supplies and Raw Materials**

We conduct our worldwide procurement activities through a global procurement function. We aim to maximize the efficiency of our supply networks by working with first tier suppliers, select sub-suppliers, raw material suppliers, and transportation carriers.

We manage our current and future supplies and raw material requirements and delivery needs on an ongoing basis in close cooperation with our suppliers and sub-suppliers in order to ensure an adequate supply of parts and components at competitive pricing levels. For example, in an effort to avoid possible future shortages and further limit price increases, we enter into, or renegotiate as necessary, annual or long-term supply agreements with suppliers. We also purchase certain raw materials or commodities on the spot market where appropriate. We have established a corporate commodity risk management committee to provide enhanced control and oversight over our commodity price exposure.

In 2008, raw material prices continued to adversely affect the automotive industry as prices for most raw materials, including steel, oil and oil-based products, reached historically high levels. Even though prices for some raw materials declined towards the end of the year, overall, higher raw material prices increased our material costs in 2008. We were, however, able to offset these increases through bundling, long-term agreements, materials substitutions and other cost reduction measures.

Prices of precious metals, including platinum, palladium and rhodium, which we primarily use in catalytic converters, reached historically high levels in 2008 before declining towards the end of the year. We use derivative commodity instruments to hedge against the volatility of precious metals prices to the extent we deem appropriate. We also research the possible use of alternative materials and processes for use in catalytic converters and other components.

In 2008, high raw material prices, intense competition in the automotive industry and significant declines in vehicle sales as a result of the economic crisis had a significant adverse effect on the financial position of some of our suppliers. As a result, some of our suppliers are in financial distress or are the subject of bankruptcy proceedings. Consistent with general industry practice, we source select parts or components from a single supplier. This practice carries the risk of potential production disruption if the supplier is unable to perform its obligations. In order to ensure a reliable supply chain for parts, sub-assemblies and other materials, we provide assistance, including financial assistance, to some of our suppliers. The need for such assistance will likely continue in 2009 and may increase significantly if global economic conditions do not improve.

Our financial performance also depends in part on obtaining competitive prices from suppliers. Our ability to achieve further price reductions from suppliers, however, may be

limited by a combination of factors, including consolidation among automotive suppliers, the use of a single supplier for certain components, supplier financial difficulties due to the global economic downturn and increasing supplier insolvencies.

**(b) Orders Received**

Mercedes-Benz Cars, Daimler Trucks, Mercedes-Benz Vans and Daimler Buses produce vehicles to order in accordance with the specifications of their individual customers. We use all opportunities to flexibly adjust the production capacities of individual models to the changing levels of demand.

**(c) Sales Results**

The development of unit sales and revenue is discussed under the sub-items (b) to (e) of “7. Analysis of Financial Condition and Results of Operation” in “III. Description of Business.”

**(d) Production Results**

The following tables set forth the distribution of production volume by product segments for 2008 and 2007:

<b>Mercedes-Benz Cars</b> (production volume in units)	<b>Year ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
Mercedes-Benz and Maybach <sup>1</sup>	1,198,300	1,197,400
smart	139,900	102,700
<b>Total</b>	<b>1,338,200</b>	<b>1,300,100</b>

1 Figure for 2008 includes 3,500 units (2007: 8,600 units) of Mitsubishi vehicles assembled by one of our subsidiaries in South Africa.

<b>Daimler Trucks</b> (production volume in units)	<b>Year ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Daimler Trucks</b>		
Trucks Europe / Latin America	177,300	161,500
Trucks Nafta	99,600	118,300
Trucks Asia	196,000	189,200

<b>Vans, Buses, Other</b> (production volume in units)	<b>Year ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Mercedes-Benz Vans</b>		
Mercedes-Benz vans	296,500	289,600
<b>Daimler Buses</b>		
Buses and coaches	42,100	38,200

### 3. Matters to be Dealt with

The material contracts, agreements and business developments are described under:

- “3. Contents of Business” in section “II. Outline of the Company”, and
- “5. Material Contracts Relating to Business”,
- “6. Activities on Research and Development” and
- “7. Analysis of the Financial Condition and Results of Operation” all in section “III. Description of Business.”

Furthermore, the automotive industry is subject to extensive governmental regulations worldwide. Laws in various jurisdictions regulate occupant safety and the environmental impact of vehicles, including emission levels, fuel economy and noise, as well as the levels of pollutants generated by the plants that produce them. The cost of compliance with these regulations is significant, and we expect to incur higher compliance costs in the future. New legislation may subject us to additional expense in the future, which could be significant.

For a full description of risk factors influencing the Groups business development, please refer to “4. Risk Factors” hereunder and consider note 5 of the “Table of Contents” on page ii of this document.

### 4. Risk Factors

Many factors could affect our business, financial condition, cash flows and results of operations. We are subject to various risks resulting from changing economic, political, social, industry, business and financial conditions. The principal risks are described below.

#### (a) Economic Risks

**A lack of improvement in global economic conditions could have significant adverse effects on our business and future operating results and cash flows.**

Tightening of credit as a result of the turmoil in the financial industry, the resulting downturn of economies throughout the world, and declining debt and equity markets have combined with numerous other factors creating a fear of a severe global recession and have resulted in a significant decline in consumer confidence and resulting declines in investment activity and consumer demand. Recessions in the United States and in many economies of Western Europe have created an extremely challenging business environment. If economic conditions in Western Europe, the U.S. and our other key markets deteriorate further or do not show improvement over the near term, our financial condition, our profitability and our cash flows would be adversely affected.

In this environment, the occurrence of any events that threaten consumer and investor confidence generally (for example, international disputes, political instability, terrorism, volatility in equity or housing markets or rising energy prices) may exacerbate any adverse effects of the global economy on future sales, primarily in Western Europe, the United States and in some emerging markets. Since a high proportion of our costs is fixed, even small declines in sales can significantly affect our operating results and cash flows.

In addition, if severe deflation were to occur in some of our key markets, our business, future operating results and cash flows would be adversely affected. Similarly, inflationary pressure caused by recurring high energy prices or an increase in interest rates as a result of a sharp increase in money supply or large fiscal deficits could result in a further decline in automotive sales. A recurrence of high fuel prices could also accelerate the shift toward smaller, lighter, more fuel-efficient cars, which generally provide a lower gross margin than larger vehicles, or could lead to consumers deferring purchases.

**A further decline in consumer demand and investment activity in Western Europe, the most important market for our products, could significantly adversely affect our businesses.**

We derive approximately half our revenue from our business in Western Europe. A major slowdown in the Western European economies or in the industries in which we operate adversely affects our business. In 2008, the weakening of the world economy and the financial crisis negatively affected the Western European economies, resulting in significantly reduced demand for vehicles in the second half of 2008. At year end 2008, the major Western European economies were in recession. A sustained financial crisis and the associated lack of consumer and investor confidence could result in a further decline in demand.

Our business in Western Europe could be further impacted if business conditions deteriorate due to the structural weakness of some European economies or the spillover effects of a deeper U.S. recession or a pronounced appreciation of the euro. In addition, consumer demand may be further affected by the uncertainty, particularly in several Western European countries, caused by plans to impose vehicle taxes based on emission levels.

**A deepening recession in the United States could result in a pronounced decline in demand for automotive products in the U.S. and other markets which could severely affect our sales and our profitability and cash flows.**

The United States is an important market for our products. The major short-term risk of the U.S. economy is a deeper than expected recession of the economy due to the economic effects resulting from the credit and financial crisis and the decline in real estate values. A more pronounced recessionary trend in the U.S. economy could negatively impact stock markets worldwide and result in a further decline in investment and private consumption in the U.S. and other markets which could severely affect our sales of passenger cars and commercial vehicles. In addition, the U.S. economy continues to require significant capital inflow from non-U.S. investors to finance the large current account deficit of the United States. A pronounced decline in demand for U.S. dollar denominated investments could lead to an uncontrolled depreciation of the U.S. dollar which could negatively impact our passenger car sales in the U.S. and the profitability of our Mercedes-Benz Cars segment. Because of the global importance of the U.S. economy and the existing interdependencies between the United States economy and other major economies throughout the world, any significant economic downturn in the United States would likely also adversely affect Western European and other world markets.

**A sustained slowdown or economic downturn in Asian economies could delay our plans for expansion in Asian markets and intensify competitive pressures.**

During 2008, the economic risks for major Asian economies increased, primarily as a result of the weakening world economy. A decline in Asian economies could negatively affect future business prospects of our subsidiary MFTBC and sales of our Mercedes-Benz passenger cars in Asia. An economic downturn in Asia, particularly in China, could delay our long-term strategic expansion plans in that increasingly important market. Moreover, if economic conditions in Asia were to deteriorate, especially if coupled with depreciating Asian currencies, then Asian competitors with excess capacity might intensify their efforts to export vehicles to North America and Western Europe. This would not only intensify competition for market share, but also increase further the existing pressure on margins within the automotive industry.

**Our results of operations and cash flows could be adversely affected by economic or political change in some regions.**

We, in particular our Daimler Trucks segment, our Daimler Buses operating unit, and our Daimler Financial Services segment, have significant operations in several Latin American countries and in Turkey. Some of these countries may experience severe economic or political change, including currency fluctuations, which could adversely affect our investments as well as local demand in those and neighboring countries, thereby negatively affecting our cash flows and results of operations.

In addition, lower prices for raw materials could have a significant adverse effect on the economic outlook of some emerging markets that depend to a large degree on exporting raw materials. As a result, our sales in those countries may be negatively affected.

**Protectionist trade policies could negatively affect our business in several markets.**

Demand for motor vehicles could also be affected by adverse developments in the political and regulatory environment in the markets in which we operate. For example, a discord in international trade relations and the implementation of new tariff or non-tariff trade barriers could negatively affect our global sales and procurement activities as well as expansion plans in affected areas. The proliferation of bilateral free trade agreements between third party countries could negatively affect our position in those foreign markets, especially in Southeast Asia where Japan increasingly gains preferential market access.

**(b) Industry and Business Risks**

**Overcapacity and intense competition in the automotive industry create pricing pressure and force further cost reductions which could negatively affect our profitability and cash flows.**

Overcapacity and intense price competition in the automotive industry could continue to force manufacturers of passenger cars and commercial vehicles, including us, to decrease production, reduce capacity or increase sales incentives, each of which would be costly and therefore could negatively affect our profitability and cash flows. For example, the global economic slowdown that began towards the end of 2008 has caused a significant decline in demand for passenger cars and commercial vehicles which further increased overcapacity and intensified price competition in the automotive industry. Our ability to improve or even maintain our profitability depends, among other things, on maintaining competitive cost structures and introducing attractive and fuel efficient new products. If we are unable to continue to provide competitive pricing, customers may elect to purchase competitors' products and our future profitability and cash flows may suffer.

In addition, significant discounts and other sales incentives have become increasingly common in many automotive markets, including Western Europe. Sales incentives in the new vehicle business also influence the price level of used vehicles, which could adversely affect the

profitability of our used vehicle sales and, indirectly, the profitability of our future new vehicle sales.

In 2008 the Board of Management of Daimler AG approved a plan to optimize and reposition the business operations of Daimler Trucks North America, a wholly owned subsidiary of the Group. The future profitability and cash flows of our Daimler Trucks segment depend in part on the successful implementation of this plan.

As a response to decreasing sales during the second half of 2008, we initiated measures to temporarily reduce production of passenger cars and commercial vehicles. Should the decline in demand be more pronounced than anticipated, we may be forced to initiate additional measures to adjust production and increase efficiency, which could negatively affect our results of operations and cash flows.

**Increased pressure on our suppliers, supplier insolvencies and possible interruptions in our supply chain, or a renewed increase in commodities prices could negatively impact our profitability and cash flows.**

Our financial performance depends in part on obtaining competitive prices from suppliers and a reliable supply chain for parts, sub-assemblies and other materials. Our ability to achieve further price reductions from suppliers may be limited by a combination of factors, including consolidation among automotive suppliers, the use of a single supplier for certain components, supplier financial difficulties due to the global economic downturn and increasing supplier insolvencies. High raw material prices, intense competition in the automotive industry and significant declines in vehicle sales as a result of the current economic crisis are having a significant adverse effect on the financial position of certain of our suppliers. As a result, some of our suppliers are in financial distress or are the subject of bankruptcy proceedings. In some cases, we provide financial assistance to suppliers in order to avoid prolonged interruption in the supply of parts or components. Providing such assistance in the future could negatively impact our profitability and cash flows. Many of our suppliers also supply other automotive manufacturers. If one or more of the major global automotive manufacturers were to experience severe financial difficulties, this could have a significant negative financial effect on one or more of our suppliers which in turn could result in further supplier insolvencies or the need to provide additional support to those suppliers. Consistent with general industry practice, we source selected parts or components from a single supplier. This practice carries a risk of potential production disruption if the supplier is unable to perform its obligations.

Prices for raw materials that we or our suppliers use in manufacturing our products or components, such as steel, aluminum, petroleum-based products and a number of precious metals, reached historically high levels in 2008, although prices for some raw materials declined toward the end of the year. Renewed price increases for these or other raw materials may lead to higher component and production costs that could in turn negatively impact our future profitability and cash flows because we may not be able to pass all those costs on to our customers or require our suppliers to absorb such costs.

**The current financial crisis could jeopardize the business viability of our dealers.**

The financial viability of our vehicle dealers and importers is currently jeopardized by declining demand for passenger cars and commercial vehicles reflecting the global economic slowdown and the tightening of the credit markets, which has resulted in higher refinancing costs and significantly reduced access to credit. Any measures taken by us to support our dealers or importers could negatively impact our cash flows and profitability.

**Risks arising from our leasing and sales financing business may adversely affect our future operating results and cash flows.**

The financial services we offer in connection with the sale of vehicles, including the financing of dealer inventories, involve several risks. These include higher refinancing costs and the potential inability to recover our investments in leased vehicles or to collect our sales financing receivables if the resale prices of the vehicles securing these receivables are insufficient. For instance, our ability to recover our investments in leased vehicles may deteriorate as a result of a decline in resale prices of used vehicles. In addition, our ability to collect our sales financing receivables could be negatively affected by consumer or dealer insolvencies.

New vehicle sales incentives indirectly lower the resale prices of used vehicles. A decline in resale prices of used vehicles in turn results in downward pressure on the fair values of leased vehicles and negatively affects the carrying amount of vehicles on operating lease and sales financing and finance lease receivables.

As a result of the current economic downturn, some of these risks have already materialized and are more likely to materialize in the future, which could adversely affect our future operating results, financial condition and cash flows.

**Our future profitability will depend on our ability to offer competitive prices while maintaining a high level of product quality.**

Product quality significantly influences the consumer's decision to purchase passenger cars and commercial vehicles. Reductions in our product quality could severely tarnish our image as a manufacturer, thereby negatively affecting our future sales and, as a consequence, our future operating results and cash flows.

Increasing consumer sensitivity to pricing may limit our ability to pass higher costs on to customers. Our attempts to reduce costs along the automotive value chain may place additional cost and pricing pressure on suppliers, which can also negatively affect product quality.

Additionally, component parts or assembly defects could require us to undertake service actions and recall campaigns, or even to develop new technical solutions requiring regulatory certification prior to implementation. We may need to expend considerable resources for these remediation measures, resulting in higher provisions for new warranties issued and expenses in excess of already established provisions for product warranties previously issued.

**Our future success depends on our ability to offer attractive and fuel efficient new products and meet consumer demand.**

Meeting consumer demand with attractive and fuel efficient new vehicles developed over increasingly shorter product development cycles is critical to the success of automobile manufacturers. Our ability to strengthen our position within our traditional product and market segments through research and development of attractive and fuel efficient new products and services while expanding into additional market segments with those new products will play an important role in determining our future success. A general shift in consumer preference toward smaller, lower margin vehicles could have a negative effect on our profitability. Such a shift could result from, among other things, increasing fuel prices, government regulations, for example regarding the level of carbon dioxide emissions, speed limits or higher taxes on certain types of vehicles, such as sport utility vehicles or luxury automobiles, or environmental concerns. Potential delays in bringing new vehicles to market, the inability to achieve defined efficiency targets without a decline in quality, and a lack of market acceptance of new models or temporary shortages of parts and materials required for new vehicles could adversely affect our financial condition, results of operations and cash flows.

**We are subject to legal proceedings and environmental and other government regulations.**

A negative outcome in one or more of our pending legal proceedings could materially adversely affect our future financial condition, results of operations and cash flows. Please refer to the discussion under the heading “(e) Legal Risks” hereunder for further information.

The automotive industry is subject to extensive governmental regulations worldwide. Laws in various jurisdictions regulate occupant safety and the environmental impact of vehicles, including emission levels, fuel economy and noise, as well as the levels of pollutants generated by the plants that produce them. The cost of compliance with these regulations is significant, and we expect to incur higher compliance costs in the future. New legislation may subject us to additional expense in the future, which could be significant. For example, in an effort to reduce greenhouse gases, several countries and the EU have already imposed more stringent regulations on carbon dioxide emissions or are currently in the process of adopting such regulations.

**Risks arising from contingent obligations could affect us adversely.**

We sometimes provide guarantees for third party liabilities, principally in connection with liabilities of our non-consolidated affiliated and/or related companies, guarantees under buy-back commitments, and performance guarantees related to the contractual performance of joint ventures and consortia. These guarantees may expose us to financial risk. For example, as a result of the guarantees and other obligations Daimler Financial Services AG undertook as one of the consortium members of Toll Collect, our future operating results and cash flows may be adversely affected by penalties, damage claims and losses associated with an underperformance of the system. In connection with the transfer of a majority interest in the Chrysler Group and the related financial services business in the NAFTA region, we have also provided guarantees, including a guarantee of amounts payable to Chrysler pension plans up to an aggregate amount of US\$1 billion.

**(c) Financial Risks**

**We are exposed to fluctuations in currency exchange rates and interest rates.**

Our businesses, operations and reported financial results and cash flows are exposed to a variety of market risks, including the effects of changes in the exchange rates of the U.S. dollar, the British pound, the Japanese yen and other world currencies against the euro. In addition, in order to manage the liquidity and cash needs of our day-to-day operations, we hold a variety of interest rate sensitive assets and liabilities. We also hold a substantial volume of interest rate sensitive assets and liabilities in connection with our lease and sales financing business. Changes in currency exchange rates and interest rates may have substantial adverse effects on our operating results and cash flows. For more information on how changes in exchange rates and interest rates may impact our operating results and cash flows, please refer to the discussion under the headings “Exchange Rate Risk” and “Interest Rate Risk” in “(d) Market Risks” hereunder.

**Downgrades of our long-term debt ratings may increase our cost of capital and may negatively affect our businesses.**

Downgrades by rating agencies may increase our cost of capital and, as a result, could negatively affect our businesses, especially our leasing and sales financing business which is typically financed with a high proportion of debt.

**We depend on the issuance of debt to manage liquidity. Declines in our operating performance and the tightening of the credit markets may limit our ability to issue such debt.**

To manage the liquidity of the Group, we depend on the issuance of debt, principally in the European and U.S. capital markets. A decline in our operating performance or lower demand for these types of debt instruments could increase our borrowing costs or otherwise limit our ability to fund operations, either of which would negatively affect our operating results and cash flows.

The tightening of the credit and commercial paper markets resulted in significantly higher borrowing costs, in particular with respect to large amounts. If these difficult financing conditions continue or worsen, we could be faced with ongoing high borrowing costs and reduced funding flexibility. In particular, this could negatively affect the competitiveness and profitability of our financial services business or even result in a limitation of the financial services we offer, thereby negatively affecting our vehicle sales.

**The carrying value of our equity investments in companies in which we hold a non-controlling equity interest depends on the ability of those companies to operate their businesses profitably.**

We hold non-controlling equity interests in various companies. Most notably, we hold an equity interest in EADS. Any factors negatively affecting the profitability of the businesses of these companies may adversely affect our ability to recover the full amount of our equity investments, and as a result, could require us to record impairment charges. In addition, if we account for those investments using the equity method of accounting such factors may also affect our proportionate share in the future operating results of our equity investees. For more information on how EADS and our investment in Chrysler Holding LLC affected the 2007 through 2008 operating results of Vans, Buses, Other, please refer to the discussion under the heading “7. Analysis of Financial Condition and Results of Operation” in “III. Description of Business.”

**We may need to make cash contributions with respect to the funding of our pension benefit plans. In addition, our total pension benefit expense may increase.**

We have pension and, to a minor degree, other post-employment benefit obligations which are underfunded. The funded status of our off-balance sheet pension and other post-employment benefit plans is subject to changes in actuarial and other related assumptions and to actual developments.

Even small changes in the assumptions which affect the benefit plan valuation, such as discount rates, mortality rates, retirement rates, and other factors, may lead to increases in the size of the respective obligations, which would affect the reported funded status of our plans and, as a consequence, could negatively affect our total pension and other post-employment benefit expense in subsequent years.

Actual developments, such as unfavorable developments in the capital markets — particularly with respect to equity and debt securities — can result in lower actual returns on plan assets or in a significant decrease in the market value of plan assets at year end. This in turn would affect the reported funded status of our plans. In addition, a decrease in the rate of expected return on plan assets can result in higher pension and other post-employment benefit expense in subsequent years.

Please refer to the discussions under the headings “(f) Discussion of Liquidity and Capital Resources” in “7. Analysis of Financial Condition and Results of Operation” in “III. Description of Business” and to Note 21 to our Consolidated Financial Statements for additional information on employee benefits accounting.

#### **(d) Market Risks**

The global nature of its businesses exposes Daimler to significant market risks resulting from fluctuations in foreign currency exchange rates and interest rates. In addition, the Group is exposed to market risks in terms of commodity price risk associated with its business operations, which the Group hedges partially through derivative financial instruments. The Group is also exposed to equity price risk. Market risks may adversely affect the Group's financial position, cash flows and profitability.

Daimler manages market risks to minimize the impact of fluctuations in foreign exchange rates, interest rates and commodity prices on the results of the Group and its segments. The Group calculates its overall exposure to these market risks to provide the basis for hedging decisions, which include the selection of hedging instruments and the determination of hedging volumes and the corresponding periods. Decisions regarding the management of market 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 Daimler risk management committees.

As part of its risk management system, Daimler employs value at risk analyses as recommended by the Bank for International Settlements. In performing these analyses, Daimler quantifies its market risk exposure to changes in foreign currency exchange rates, interest rates and equity prices on a continuous basis by predicting the maximum loss over a target time horizon (holding period) and confidence level. The value at risk calculations employed:

- express potential losses in fair values; and
- assume a 99% confidence level and a holding period of five days.

Daimler calculates the value at risk for exchange rate, interest rate and equity price risk according to the variance-covariance approach. The value at risk calculation method for commodity price risk is based on the Monte Carlo simulation.

When calculating the value at risk by using the variance-covariance approach, Daimler first computes the current fair value of the Group's financial instruments portfolio. Then the sensitivity of the portfolio value to changes in the relevant market risk factors, such as particular foreign currency exchange rates or interest rates of specific maturities, is quantified. Based on expected volatilities and correlations of these market risk factors which are obtained from the RiskMetrics™ dataset, a statistical distribution of potential changes in the portfolio value at the end of the holding period is computed. The loss which is reached or exceeded with a probability of only 1% can be deduced from this calculation and represents the value at risk.

The Monte Carlo simulation uses random numbers to generate possible changes in market risk factors over the holding period. The changes in market risk factors indicate a possible change in the portfolio value. Running multiple repetitions of this simulation leads to a distribution of portfolio value changes. The value at risk can be determined based on this distribution as the portfolio value loss which is reached or exceeded with a probability of 1%.

In accordance with the risk management standards of the international banking industry, Daimler maintains its financial controlling system independent of Corporate Treasury and with a separate reporting line.

#### ***Exchange Rate Risk***

*Transaction Risk and Currency Risk Management.* The global nature of Daimler's businesses exposes the cash flows and results related to the operating businesses to risks arising from

fluctuations in exchange rates. These risks primarily relate to fluctuations between the US dollar and the euro. In accordance with its internal guidelines, Daimler refinances receivables denominated in foreign currencies, which relate to the Group's invested liquidity, in the same foreign currencies. As a result, the Group is not exposed to significant exchange rate risks. Payables in foreign currencies that result from the Group's refinancing are generally hedged against currency risks at the time of the refinancing. The Group uses appropriate derivative financial instruments to hedge against currency risk.

In the operating vehicle businesses, the Group's exchange rate risk primarily arises when revenue is generated in a currency that is different from the currency in which the costs of generating the revenue are incurred (so-called transaction risk). When the revenue is converted into the currency in which the costs are incurred, it may be inadequate to cover the costs if the value of the currency in which the revenue is generated declined in the interim relative to the value of the currency in which the costs were incurred. This risk exposure primarily affects the Mercedes-Benz Cars segment, which generates a major portion of its revenue in foreign currencies and incurs manufacturing costs primarily in euros. The Daimler Trucks segment is also subject to transaction risk, but to a lesser extent because of its global production network. The Mercedes-Benz Vans segment and the Daimler Buses unit included in Vans, Buses, Other are also directly exposed to transaction risk, but only to a minor degree compared to the Mercedes-Benz Cars and Daimler Trucks segments. In addition, through its proportionate share in the results of its equity investment in EADS, Vans, Buses, Other is indirectly exposed to transaction risk.

Cash inflows and outflows of the business segments are offset if they are denominated in the same currency. This means that the exchange rate risk resulting from revenue generated in a particular currency can be offset by costs in the same currency, even if the revenue arises from a transaction independent of that in which the costs are incurred. As a result, only the unmatched amounts are subject to transaction risk. In addition, natural hedging opportunities exist to the extent that currency exposures of the operating businesses of individual segments offset each other at Group level, thereby reducing overall currency exposure. These natural hedges eliminate the need for hedging to the extent of the matched exposures. To provide an additional natural hedge against any remaining transaction risk exposure, Daimler strives, where appropriate, to increase cash outflows in the same currencies in which the Group has a net excess inflow.

In order to mitigate the impact of currency exchange rate fluctuations for the operating business (future transactions), Daimler continually assesses its exposure to exchange rate risks and hedges a portion of those risks by using derivative financial instruments. Daimler's Foreign Exchange Committee (FXCo) manages the Group's currency exposures and the use of currency derivatives. The FXCo consists of the Chief Financial Officer and members of the treasury department of the affected divisions as well as members of Corporate Controlling. The Corporate Treasury department assesses foreign currency exposures and carries out the FXCo's decisions concerning foreign currency hedging through transactions with international financial institutions. Risk Controlling regularly informs the Board of Management of the actions taken by the Corporate Treasury department based on the FXCo's decisions.

The Group's targeted hedge ratios for forecasted operating cash flows in foreign currency are indicated by a reference model. On the one hand, the hedging horizon is naturally limited by the uncertainty related to cash flows that lie far in the future, and, on the other hand, it may be limited by the fact that appropriate currency contracts are not available. This reference model aims to protect the Group from unfavorable movements in exchange rates while preserving some flexibility to participate simultaneously in favorable developments. Based on this

reference model and depending on the market outlook, the FXCo determines the hedging horizon, which usually varies from one to three years, as well as the average hedge ratios. Reflecting the character of the underlying risks, the hedge ratios decrease with increasing maturities. At year-end 2008, the centralized foreign exchange management showed an unhedged position in the automotive business in calendar year 2009 amounting to 12% of the underlying forecasted cash flows in US dollars. The corresponding figure at year-end 2007 for calendar year 2008 was 30%. The lower unhedged position compared to last year and a lower US dollar volume in the operating business contributes to a lower exposure of cash flows to currency risk with respect to the US dollar. This also applies in part to the Group's exposures to currency risks with respect to other foreign currencies.

The hedged position is determined by the amount of derivative currency contracts held. The derivative financial instruments used to cover foreign currency exposure are primarily forward foreign exchange contracts and currency options. Daimler's guidelines call for a mixture of these instruments depending on the view of market conditions. Value at risk is used to measure the exchange rate risk inherent in these derivative financial instruments.

The following table shows the period-end, high, low and average value at risk figures for the 2008 and 2007 portfolio of these derivative financial instruments. The average exposure has been computed on an end-of-quarter basis. The offsetting transactions underlying the derivative financial instruments are not included in the following value at risk presentation.

<u>Value-at-Risk</u>	2008			2007				
	<u>Period-End</u>	<u>High</u>	<u>Low</u>	<u>Average</u>	<u>Period-End</u>	<u>High</u>	<u>Low</u>	<u>Average</u>
				(€in millions)				
Exchange Rate Risk .....	572	572	253	380	236	236	147	183

The value at risk figures of the financial instruments used to hedge exchange rate risks were higher in 2008 as a result of increased exchange rate volatilities.

*Effects of Currency Translation.* For purposes of Daimler's consolidated financial statements, the income and expenses and the assets and liabilities of subsidiaries located outside the euro zone are converted into euros. Therefore, period-to-period changes in average exchange rates may cause translation effects that have a significant impact on, for example, revenue, segment results (earnings before interest and taxes — EBIT) and net profit or loss of the Group. Unlike exchange rate transaction risk, exchange rate translation risk does not affect future cash flows. The Group's equity position reflects changes in book values due to exchange rates. Daimler does not hedge against exchange rate translation risk. In 2008 and 2007, currency effects negatively affected our operating results.

### ***Interest Rate Risk***

Daimler uses a variety of interest rate sensitive financial instruments to manage the liquidity and cash needs of its day-to-day operations. A substantial volume of interest rate sensitive assets and liabilities results from the leasing and sales financing business which is operated by the Daimler Financial Services segment. The Daimler Financial Services companies enter into transactions with customers that primarily result in fixed-rate receivables. Daimler's general policy is to match funding in terms of maturities and interest rates, where economically feasible. However, for a limited portion of the receivables portfolio, the Group does not match funding in terms of maturities in order to take advantage of market opportunities. As a result, Daimler is exposed to risks due to changes in interest rates.

An asset-liability committee consisting of members of the Daimler Financial Services segment, the Corporate Treasury department and the Corporate Controlling department manages the

interest rate risk relating to Daimler's leasing and financing activities by setting targets for the interest rate risk position. The Treasury Risk Management department and the local Daimler Financial Services companies are jointly responsible for achieving these targets. As a separate function, the Daimler Financial Services Global Portfolio Management department monitors target achievement on a monthly basis. In order to achieve the targeted interest rate risk positions in terms of maturities and interest rate fixing periods, Daimler also uses derivative financial instruments, such as interest rate swaps, forward rate agreements, swaptions and caps and floors. Daimler assesses its interest rate risk position by comparing assets and liabilities for corresponding maturities, including the impact of the relevant derivative financial instruments.

Derivative financial instruments are also used in conjunction with the refinancing related to the industrial business. Daimler coordinates the funding activities of the industrial and financial services businesses at the Group level.

The following table shows the period-end, high, low and average value at risk figures for the 2008 and 2007 portfolio of interest rate sensitive financial instruments of the Group, including the leasing and sales financing business. The average values have been computed on an end-of-quarter basis.

<u>Value-at-Risk</u>	2008				2007			
	<u>Period-End</u>	<u>High</u>	<u>Low</u>	<u>Average</u>	<u>Period-End</u>	<u>High</u>	<u>Low</u>	<u>Average</u>
	(€in millions)							
Interest Rate Risk .....	237	237	59	120	51	54	39	47

The value at risk figures of the interest rate sensitive financial instruments were higher in 2008 due to increased interest rate volatilities.

### ***Commodity Price Risk***

Daimler is exposed to the risk of changes in raw material prices in connection with procuring raw materials and manufacturing supplies used in production. Some of the raw material price risk, primarily relating to procuring precious metals, is mitigated with the use of derivative financial instruments.

The following table shows the period-end, high, low and average value at risk figures for the 2008 and 2007 portfolio of derivative financial instruments used to hedge raw material price risk. The average exposure has been computed on an end-of-quarter basis. The offsetting transactions underlying the derivative financial instruments are not included in the following value at risk presentation.

<u>Value-at-Risk</u>	2008				2007			
	<u>Period-End</u>	<u>High</u>	<u>Low</u>	<u>Average</u>	<u>Period-End</u>	<u>High</u>	<u>Low</u>	<u>Average</u>
	(€in millions)							
Commodity Price Risk .....	41	45	5	25	5	5	4	4

The period-end value at risk of financial instruments used to hedge commodity price risks was higher in 2008 due to a strong increase of commodity price volatilities in the second half of the year.

### ***Equity Price Risk***

Daimler holds investments in marketable equity securities and equity derivatives. In line with international banking standards, the Group does not include investments in marketable equity securities that it classifies as long-term investments in its equity price risk assessment. Also not

included in this assessment are equity derivatives used to hedge the market price risk of investments accounted for using the equity method. The remaining equity price risk in the years 2008 and 2007 was not, and is not currently, material to Daimler.

**(e) Legal Risks**

Various legal proceedings are pending against Daimler or could develop in the future. In our view, most of these proceedings constitute ordinary, routine litigation that is incidental to our business. We recognize provisions for litigation risks if the resulting obligations are probable and can be reasonably estimated. It is possible, however, that due to the final resolution of some of these pending lawsuits, our provisions could prove to be insufficient and therefore substantial additional expenditures could arise. This also applies to legal disputes for which the Group saw no requirement to recognize a provision. Although the final result of any such lawsuit could have a material effect on the Group's earnings in any particular period, Daimler believes that any resulting obligations are unlikely to have a sustained effect on the Group's cash flows, financial position or profitability. Further information on legal proceedings can be found in Note 27 of the Notes to the Consolidated Financial Statements.

**5. Material Contracts Relating to Business**

**(a) Change-of-Control Clauses**

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

- 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 non-utilized syndicated credit line in a total amount of €3 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 "AFCC Automotive Fuel Cell Cooperation Corp," which has the goal of further developing fuel cells for automotive applications and making them marketable. In the case of a change of control of 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 regulating the exercise of voting rights in EADS. 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 under appropriate conditions to a third party that is not a competitor of EADS 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 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.

## **(b) Material Contracts**

In May 2007, DaimlerChrysler AG, DaimlerChrysler North America Finance Corporation, DaimlerChrysler Holding Corporation and a subsidiary of the private-equity firm Cerberus Capital Management L.P. (Cerberus) entered into a Contribution Agreement pursuant to which we agreed to transfer a majority interest in the Chrysler Group and the related Chrysler financial services business in the NAFTA region (the Chrysler activities) to a subsidiary of Cerberus. The agreement provided for Cerberus to make a capital contribution of €5.2 billion (US\$7.2 billion) in return for an 80.1% equity interest in Chrysler Holding LLC, a newly established holding company for the Chrysler activities. We retained a 19.9% non-controlling equity interest in Chrysler Holding LLC. The transaction closed on August 3, 2007.

In connection with the Chrysler transaction, our subsidiary DaimlerChrysler North America Finance Corporation agreed pursuant to that certain Second Lien Term Loan Agreement, dated as of August 3, 2007, among Carco Intermediate Holdco II, LLC, Chrysler LLC, the several banks and other financial institutions or entities from time to time party thereto, JP Morgan Chase Bank, N.A., as administrative agent and the other agents party thereto, as amended to date, to provide second lien loans of up to US\$1.5 billion. These loans, which were drawn in 2008, are to be used in Chrysler's automotive business and were due on February 2014.

On April 27, 2009, Daimler AG, Chrysler, Cerberus and the US Pension Benefit Guaranty Corporation signed a binding term sheet covering issues still pending between the parties in connection with Chrysler. Under this agreement, Daimler's remaining 19.9% shareholding in Chrysler will be redeemed and Daimler will forgive repayment of the loans extended to Chrysler, which were already written off in the 2008 financial statements.

For additional information on the Chrysler transaction, please refer to Note 2 to our Consolidated Financial Statements.

## **6. Activities on Research and Development**

### ***Strategic Approach and Organization***

To be competitive in our principal markets and to secure technological leadership, it is essential for us to develop innovative products and technologies and to further shorten lead times in research and development. Innovation is an important element of our overall corporate strategy, and our corporate research and advanced engineering function plays a significant role in meeting this strategic goal together with our operating businesses. In particular, key challenges for sustainable mobility will be the further reduction of both, conventional fossil fuel-based fuel

consumption and exhaust emissions, especially carbon dioxide. We follow a three-step strategy to meet these challenges: first, further improvement of our vehicles with conventional combustion engine technology; second, realization of an efficiency gain through hybridization; and third, commercial development of fuel cell propulsion and electric drive vehicles. It is a cornerstone of our corporate strategy to have a leading position in the area of alternative propulsion technologies.

In addition to the corporate function for research and advanced engineering, we have development functions in each of our automotive businesses that are responsible for developing production-ready vehicles.

Our corporate function for research and advanced engineering

- approaches research and development systematically and comprehensively, and formulates a technological strategy for our Group as a whole in close cooperation with our operating business units;
- performs research and advanced engineering tasks that cross divisional boundaries or require long lead times;
- assists the product development teams of our operating units in applying new technologies in the design, development and testing of new products and production processes;
- works as a centralized forum for the exchange of new ideas and a think tank for the development of new technologies, materials and concepts; and
- performs internal R&D reviews to ensure the strategic alignment, quality, efficiency, and effectiveness of our programs.

This function is closely integrated with the development function of Mercedes-Benz Cars.

On the corporate level, we conduct our research and advanced engineering work in twelve strategic fields which are assigned to three primary technical areas:

- *Sustainable Mobility*: Combustion engines and powertrain; alternative energy and propulsion systems; electric drive systems and high voltage batteries; powertrain electrics/electronics and controls; reliability and diagnosis.
- *Accident Free Driving*: Assistance systems and chassis; cabin electrics/electronics; software technology.
- *Individualized Vehicles*: Vehicle concepts; human/machine interaction; materials and manufacturing technology; product creation and information technology; infotainment and telematics; interrelationship between society and technology to identify long-term trends.

Most of the facilities of our centralized research and advanced engineering function are located in Germany, but we also maintain several research centers in North America and Asia. These include a research and technology center in Palo Alto, California, a research center for information and communication technology in Bangalore, India, and an R&D collaboration regarding hybrid powertrain systems with General Motors and BMW in Troy, Michigan. In addition, we participate in the international exchange of new ideas and concepts through collaborations and joint ventures with world renowned research institutes and exchange programs for scientists and employees.

### ***Employees and Funding***

18,900 men and women were employed at Group Research and in the development

departments of Mercedes-Benz Cars, Daimler Trucks, Mercedes-Benz Vans, and Daimler Buses at the end of 2008 (2007: 18,000).

In 2008, research and development expenditures represented 4.6% of our total revenue in 2008. Research and development expenditures for the year 2007 do not include the amounts spent by the former Chrysler Group since we present all income and expense items of the Chrysler activities for the year 2007 as discontinued operations. The table below shows research and development expenditures during each of the last two years:

Research and development expenditures (€in millions)	Year ended December 31,	
	2008	2007
Research and development expenditures	4,442	4,148
thereof: Capitalized development costs	1,387	990

Daimler's expenditure for research and development increased to €4.4 billion in 2008 (2007: €4.1 billion). Of the total R&D expenditure, we capitalized development costs in an amount of €1.4 billion (2007: €1.0 billion), in accordance with IFRS accounting principles.

A key area for *Daimler's* research and development activities in 2008 was the development of new, particularly fuel-efficient and environmentally friendly drive technologies, in line with our roadmap for sustainable mobility. In order to further reduce CO<sub>2</sub> emissions and to be able to supply vehicles that fulfill future needs, we were occupied both with the optimization of conventional drive technologies and the reduction of vehicle weight, as well as with alternative drive systems such as fuel cells and electric vehicles. Another focus is on new safety technologies: In the context of our vision of accident-free driving, we are pursuing the goal of avoiding accidents as far as possible and of ameliorating the consequences of any accidents that might still occur.

The most important projects at *Mercedes-Benz Cars* were the successor models for the E-Class, the CLK-Class and the A-/B-Class, as well as new-generation engines and alternative drive systems. In total, we increased research and development expenditure at Mercedes-Benz Cars from €2.7 billion in 2007 to €3.0 billion in 2008.

*Daimler Trucks* spent €1.1 billion on research and development (2007: €1.0 billion). The main areas there were new engines for medium and heavy-duty trucks, a new light-duty truck and a new, globally used truck platform, to be gradually launched around the world as of the year 2011.

The focus of R&D expenditure at *Mercedes-Benz Vans* was on the further development of engines to fulfill future emission regulations.

The *Daimler Buses* unit concentrated its development activities on new products and alternative drive systems such as diesel hybrid and fuel cells.

## 7. Analysis of Financial Condition and Results of Operation

We report the following four segments: Mercedes-Benz Cars (see (b)), Daimler Trucks (see (c)), Daimler Financial Services (see (d)) and Vans, Buses, Other (see (e)). Vans, Buses, Other also includes our reportable Mercedes-Benz Vans segment.

### Information about EBIT

We measure the performance of our operating segments through a measure of segment profit (loss) which we refer to as “EBIT” in our management and reporting system.

EBIT comprises gross profit; selling and general administrative expenses; research and non-capitalized development costs; other operating income, net; our share of profit (loss) from companies accounted for using the equity method, net; and other financial expense, net. The segment information presented below does not include amounts relating to discontinued operations and prior period figures of reported segments reflect the activities of continuing businesses only.

Our consolidated EBIT is the sum of the EBITs of our segments, adjusted for reconciling items. Reconciling items include elimination entries made in the context of consolidation and corporate and other items which are not part of or allocated to any of our segments. Please also refer to Note 31 to our Consolidated Financial Statements for information on how we determine EBIT.

### Overview of Business Segment Revenue and EBIT

You should read the following discussion in conjunction with Notes 1 and 31 to our Consolidated Financial Statements and the discussions under section “III. Description of Business,” “4. Risk Factors.”

The following table presents revenue and EBIT for each of our four segments during the last two fiscal years.

	<b>Year Ended December 31,</b>			
	<b>2008</b>		<b>2007</b>	
	<b>Revenue</b>	<b>EBIT<sup>1</sup> (Loss)</b>	<b>Revenue</b>	<b>EBIT<sup>1</sup> (Loss)</b>
(€in million)				
Mercedes-Benz Cars	47,772	2,117	52,430	4,753
Daimler Trucks	28,572	1,607	28,466	2,121
Daimler Financial Services	9,282	677	8,711	630
Vans, Buses, Other	14,970	(1,239)	14,123	1,956
<i>thereof: Mercedes-Benz Vans</i>	9,479	818	9,341	571
Reconciliation	(4,723)	(432)	(4,331)	(750)
<b>Total</b>	<b>95,873</b>	<b>2,730</b>	<b>99,399</b>	<b>8,710</b>

1 EBIT includes expenses from compounding of provisions (2008: €429 million; 2007: €444 million).

The segment discussions hereunder describe in more detail the specific market factors which affected segment EBIT.

**(a) Daimler Group**

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

***Revenue***

Group revenue in 2008 was €5.9 billion, 3.5% lower than in the prior year (2007: €9.4 billion). Following is a brief overview of year-to-year changes in revenue of our business segments.

Revenue of the *Mercedes-Benz Cars* segment decreased 9% from €2.4 billion in 2007 to €1.7 billion in 2008. The decrease primarily reflects weaker unit sales in all classes except the C-Class and the smart. Currency effects and, to a lesser degree, increased price competition also contributed to the decline in revenue.

Revenue of the *Daimler Trucks* segment in 2008 was slightly higher at €2.6 billion (2007: €2.5 billion). The increase was mainly the result of the favorable business developments in Latin America and various emerging markets.

Revenue of our *Daimler Financial Services* segment increased from €0.7 billion in 2007 to €1.3 billion in 2008, a 7% improvement. This increase was primarily the result of a larger portfolio of leasing and finance contracts in 2008, partially offset by currency translation effects.

The revenue we report in *Vans, Buses, Other* originates primarily from Mercedes-Benz Vans and Daimler Buses. Revenue in 2008 was €5.0 billion compared to €4.1 billion in 2007. The increase was largely due to higher unit sales of Daimler buses.

***Cost of sales***

Cost of sales was €7.3 billion in 2008 compared to €7.4 billion in 2007, a 1.4% decrease. The decrease in cost of sales, which was less than the decrease in revenue, is mainly the result of lower sales of passenger cars, lower expenses due to efficiency gains and currency translation effects. The gross margin decreased from 24.1% in 2007 to 22.5% in 2008.

***Selling expenses***

Selling expenses increased from €0.0 billion in 2007 to €0.2 billion in 2008. As a percentage of revenue, selling expenses represented 9.6% in 2008 compared to 9.0% in 2007. The increase is partially a reflection of impairments recognized on trade receivables and expenses relating to the measures initiated in 2008 to optimize and strengthen the business operations of Daimler Trucks North America (€0.1 billion).

***General administrative expenses***

General administrative expenses increased 2.5% to €1.1 billion (2007: €1.0 billion). This increase was primarily due to expenses relating to the measures initiated in 2008 to optimize and strengthen the business operations of Daimler Trucks North America (€0.1 billion). Higher expenses for consulting and IT services were compensated by cost savings achieved through ongoing efficiency programs. As a percentage of revenue, general administrative

expenses were 4.3%, an increase of 0.3%, mainly due to lower revenue in 2008.

### ***Research and non-capitalized development costs***

Research and non-capitalized development expenses amounted to €3.1 billion in 2008 (2007: €3.2 billion), or 3.2% as a percentage of revenue in 2008 and 2007. The Group's total research and development spending, however, including both capitalized and expensed items, increased considerably over last year (2008: €4.4 billion; 2007: €4.1 billion).

### ***Other operating income, net***

Other operating income, net, increased to €0.8 billion (2007: €27 million), of which €0.4 billion relate to gains realized in 2008 on the sale of our real estate properties at Potsdamer Platz. In addition, we had lower expenses in connection with legal proceedings in 2008. In 2007, other operating income, net, included a gain of €0.1 billion from the sale of real estate. You can find further details about the composition of "Other operating income, net," in Note 5 to our Consolidated Financial Statements.

### ***Share of profit (loss) from companies accounted for using the equity method, net***

In 2008, our share of profit (loss) from companies accounted for using the equity method was a net loss of €1.0 billion (2007: a net profit of €1.1 billion). The main reason for the sharp decline was our proportionate share in the net loss of Chrysler (2008: a net loss of €1.4 billion; 2007: a net loss of €0.4 billion). The decrease was also partially due to the fact that 2007 included significantly higher gains in connection with the transfer of portions of our equity interest in EADS (2008: €0.1 billion; 2007: €1.5 billion). Our proportionate share in the net profit of EADS improved to €0.2 billion in 2008 (2007: €13 million).

### ***Other financial income (expense), net***

Other financial expense, net, increased from €0.2 billion in 2007 to €2.2 billion in 2008. A €1.7 billion portion of this increase reflects the impairment of loans and other Chrysler-related assets. In addition, the prior-year result included a gain of €0.1 billion from the mark-to-market valuation of derivative transactions entered into in connection with the transfer of portions of our equity interest in EADS.

### ***Interest income (expense), net***

In 2008, we had interest income, net, of €0.1 billion (2007: €0.5 billion). The decline of the net interest result is due to higher interest expense and lower interest income caused by our lower average liquidity in the year 2008. Other factors with a negative effect in 2008 were lower expected returns on pension plan assets and higher expenses from the compounding of our pension obligations.

### ***Profit before income taxes***

Profit before income taxes in 2008 amounted to €2.8 billion compared to €9.2 billion in 2007.

### ***Income tax expense***

Income tax expense was €1.1 billion in 2008 compared to €4.3 billion in 2007. We computed income tax expense in 2008 based on pre-tax income of €2.8 billion and in 2007 based on pre-tax income of €9.2 billion. The effective tax rate was 39% in 2008 and 47.1% in 2007. In general, the effective tax rate reflects the composition of our earnings.

The effective tax rate in 2008 was approximately 9% higher than the expected tax rate. This is partially the result of impairments recognized on deferred tax assets at non-German subsidiaries. In addition, pretax income in 2008 includes losses related to our investments in Chrysler, not all of which were tax deductible. In the prior year, the high effective tax rate (47.1%) and high income tax expense reflect a €2.2 billion impairment of deferred tax assets mostly held by Chrysler entities in prior years which have been allocated to the Daimler Group following the transfer of a majority interest in the Chrysler activities. We recognized an impairment of these deferred tax assets when we determined that the parameters for realizing future tax benefits associated with those tax assets had changed as a result of the transfer of the Chrysler activities. For further information on income taxes, please refer to Note 8 to our Consolidated Financial Statements.

### ***Net profit from continuing operations***

Net profit from continuing operations amounted to €1.7 billion (2007: €4.9 billion). The decrease is primarily a reflection of lower EBIT of €2.7 billion (2007: €8.7 billion) and lower income tax expense.

### ***Net loss from discontinued operations***

In 2008, we recorded a net loss of €0.3 billion from discontinued operations (2007: loss of €0.9 billion). The loss in 2008 is primarily related to the reimbursement of costs to our Chinese joint venture, Beijing Benz-DaimlerChrysler Automotive, which were incurred as a result of the transfer of a majority interest in the Chrysler activities in 2007. For further information, please see Note 2 to our Consolidated Financial Statements. The prior year loss of €0.9 billion includes the operating result, net interest result and income taxes of the Chrysler activities until August 3, 2007, as well as the loss from the deconsolidation of the Chrysler activities (€0.8 billion).

### ***Net profit***

Net profit in 2008 was €1.4 billion compared to €4.0 billion in 2007. These amounts include net profit attributable to the shareholders of Daimler AG (excluding minority interests) of €1.3 billion in 2008 and €4.0 billion in 2007, respectively. Basic and diluted earnings per share in 2008, for profit attributable to shareholders of Daimler AG, amounted to €1.41 and €1.40, respectively, compared to basic and diluted earnings per share of €3.83 and €3.80, respectively, in 2007.

### ***Group EBIT***

In 2008, we recorded EBIT of €2.7 billion, a decrease of 69% compared to 2007 (€8.7 billion).

The decrease in Group EBIT was mainly the result of losses and impairment charges totaling €3.2 billion related to our investments in Chrysler and weaker operating results of Mercedes-

Benz Cars and, to a lesser extent, Daimler Trucks. The decrease in EBIT was also partially due to the fact that 2007 EBIT included significantly higher gains in connection with the transfer of portions of our equity interest in EADS (2008: €0.1 billion; 2007: €1.6 billion). Daimler Financial Services, the Mercedes-Benz Vans segment and the Daimler Buses unit all achieved higher operating results than in the prior year.

The reconciliation from total segment EBIT to Group EBIT includes corporate expenses of €0.4 billion, compared to €0.8 billion in the prior year, and eliminations of transactions within the Group (2008: income of €10 million; 2007: income of €35 million). Corporate expenses in both years mainly related to expenses arising from workforce reductions in the Group's administrative functions (New Management Model) and expenses incurred in connection with legal proceedings that were not attributable to the segments.

The table in "Overview of Business Segment Revenue and EBIT" shows the business segment contributions to Group EBIT. The segment discussions below describe in more detail the specific factors which affected the operating results of each segment.

**(b) Mercedes-Benz Cars**

	<b>Year ended December 31,</b>			
	<b>2008</b>		<b>2007</b>	
	<b>Revenue</b> (€in mill.)	<b>Unit Sales</b> (units)	<b>Revenue</b> (€in mill.)	<b>Unit Sales</b> (units)
Western Europe	25,676	733,200	28,972	779,200
of which Germany	12,277	332,500	13,492	342,900
NAFTA region	9,721	282,200	11,655	276,100
of which United States	8,620	251,200	10,600	251,800
Asia	7,600	144,100	6,575	123,400
of which Japan	1,334	37,000	1,855	46,300
Other markets	4,775	113,500	5,228	114,600
<b>World / Total</b>	<b>47,772</b>	<b>1,273,000</b>	<b>52,430</b>	<b>1,293,200</b>

Revenue of the Mercedes-Benz Cars segment decreased 9% from €52.4 billion in 2007 to €47.8 billion in 2008, while total unit sales went down 2% from 1,293,184 units to 1,273,013 units in 2008.

Unit sales of the E-Class declined 25%, in part because this model is approaching the end of its life cycle. Sales of the S-Class (including Maybach) were 13% lower than the 2007 level, sales of the ML-/R-/G-/GL-/GLK- Class declined 10% in 2008 compared to 2007, and sales of the A-/B- Class went down 9%. Strong sales performance of the C-Class sedan and station wagon launched in 2007 resulted in a 16% increase in C-Class unit sales. Unit sales of smart at 138,957 were 35% higher in 2008 than in 2007 (103,068), in part due to the introduction of the new smart fortwo in the U.S. market.

In Germany, 2008 revenue of Mercedes-Benz Cars was 9% lower than in 2007, while unit sales declined 3%. With revenue of €12.3 billion, Germany continues to be the most important market for this segment, representing 26% of the segment's worldwide revenue and unit sales. In the other Western European countries, revenue of Mercedes-Benz Cars decreased 13% from

€15.5 billion in 2007 to €13.4 billion in 2008. Overall unit sales in these countries were down 8%.

In the United States, unit sales in 2008 were virtually the same as in 2007, however, revenue declined 19% from €10.6 billion in 2007 to €8.6 billion in 2008. Revenue in Japan fell 28% to €1.3 billion in 2008, mainly due to lower unit sales, while revenue in Asia (excluding Japan) went up 33% compared to the previous year, reaching €6.3 billion. The revenue increase in Asia (excluding Japan) developed largely in line with unit sales, which were 39% higher in 2008 than in 2007.

In 2008, Mercedes-Benz Cars recorded EBIT of €2.1 billion, compared to EBIT of €4.8 billion in 2007. The segment's return on sales (calculated as EBIT divided by revenue) was 4.4% (2007: 9.1%). Earnings in the first six months of 2008 showed a positive development, also reflecting higher unit sales in emerging markets. The overall drop off in demand in the NAFTA region and major European markets beginning in the third quarter of 2008 had a significant negative effect on EBIT. The significant weakening of the world economy in the second half of 2008 also forced us to reassess the residual values of leased vehicles which resulted in impairment charges of €465 million. In the second half of the year, we also experienced increased price competition and a less favorable model mix. Additional factors that burdened the year-to-year development of EBIT were currency effects and increased raw material prices. These negative effects were only partially offset by further efficiency improvements. An amendment of a defined benefit plan resulted in past service income (before income taxes) of €84 million in 2008.

**(c) Daimler Trucks**

	<b>Year ended December 31,</b>			
	<b>2008</b>		<b>2007</b>	
	<b>Revenue</b> (€in mill.)	<b>Unit Sales</b> (units)	<b>Revenue</b> (€in mill.)	<b>Unit Sales</b> (units)
Western Europe	9,671	86,700	9,761	87,700
of which Germany	5,665	41,600	5,634	41,000
NAFTA region	6,656	97,300	7,599	114,000
of which United States	5,372	78,000	6,241	94,600
Latin America (excl. Mexico)	3,046	59,000	2,442	53,000
of which Brazil	2,174	34,500	1,654	27,900
Asia (incl. Australia)	6,090	164,800	5,358	153,200
of which Japan	3,124	42,000	3,215	54,000
Other markets	3,109	64,300	3,306	59,800
<b>World / Total</b>	<b>28,572</b>	<b>472,100</b>	<b>28,466</b>	<b>467,700</b>

Revenue of our Daimler Trucks segment in 2008 was virtually unchanged at €28.6 billion (2007: €28.5 billion). Unit sales developed in line with revenue, showing a slight increase of 1% from 467,667 units in 2007 to 472,074 units in 2008. Higher unit sales in Brazil, the Middle East and Indonesia largely compensated for lower unit sales in the NAFTA region (mainly the United States and Canada) and Japan.

In the NAFTA region, Daimler Trucks revenue went down 12% from €7.6 billion in 2007 to €6.7 billion in 2008. Total unit sales in that region declined 15% from 114,049 units to 97,313 units. This development mainly reflects a general decline in demand in the United States due to deteriorating market conditions. Unit sales in the United States represent 17% of our total 2008 truck sales. The disproportionate development of revenue and unit sales in the NAFTA region was primarily the result of a favorable shift in model mix.

In Germany, revenue of Daimler Trucks increased 1% from €5.6 billion to €5.7 billion. Unit sales went up at the same rate from 41,006 units in 2007 to 41,597 units in 2008. Revenue in Western Europe (excluding Germany) decreased 3% from €4.1 billion in 2007 to €4.0 billion in 2008. Unit sales in that region were also down 3%, from 46,659 units in 2007 to 45,145 units in 2008. Unit sales in Germany represented 9%, and the remaining Western European market 10%, of our total 2008 Daimler Trucks vehicle sales.

Sales in Asia (including Australia and the Middle East) increased 8% from 153,162 units in 2007 to 164,765 vehicles in 2008, while revenue was up 14% at €6.1 billion in 2008 (2007: €5.4 billion). Higher unit sales in Indonesia and, to a lesser extent, the Middle East more than offset a significant decrease in unit sales in Japan. Revenue in Asia increased at a higher rate than unit sales, mainly due to currency translation effects. Unit sales in Asia represented 35% of total 2008 Daimler Trucks sales.

Unit sales in Japan, which consisted primarily of sales by MFTBC, declined 22% from 53,992 units in 2007 to 42,035 units in 2008, while revenue decreased 3% from €3.2 billion to €3.1 billion. The declines in unit sales and revenue generally reflect the weakening economy in Japan. The appreciation of the Japanese yen against the euro primarily contributed to the disproportionate development of unit sales and revenue.

In Latin America, sales increased 11% from 53,017 units in 2007 to 58,951 units in 2008. Revenue in that region increased 25% to €3.0 billion in 2008. The increase in unit sales and revenue resulted from strong demand, particularly in Brazil. Rising inflation and the resulting price increases in Brazil were primarily responsible for the disproportionate increase in revenue.

In 2008, our Daimler Trucks segment achieved EBIT of €1.6 billion (2007: €2.1 billion). The segment's return on sales was 5.6%, compared with 7.5% in the prior year. The decline in EBIT was mainly the result of lower unit sales in the NAFTA region and, to a smaller degree, Japan due to the ongoing difficult economic situation in those markets. In addition, higher raw material prices and currency effects negatively affected EBIT in 2008. The measures initiated in 2008 to optimize and strengthen the business operations of Daimler Trucks North America resulted in expenses of €0.2 billion. We expect to incur further expenses in connection with these measures in 2009 and 2010. Higher truck sales in Brazil and Asia, improved product positioning and efficiency improvements positively affected EBIT.

EBIT in 2007 included a gain on the sale of real estate properties in Japan (€0.1 billion) and adjustments to pension and healthcare plans (€0.1 billion).

(d) **Daimler Financial Services**

Revenue (€in million)	Year ended December 31,	
	2008	2007
Western Europe	4,524	4,308
of which Germany	2,659	2,508
NAFTA region	3,586	3,546
of which United States	3,165	3,153
Other markets	1,172	857
<b>World / Total</b>	<b>9,282</b>	<b>8,711</b>

Revenue of our Daimler Financial Services segment increased from €3.7 billion in 2007 to €3.3 billion in 2008, a 7% improvement. This increase was primarily the result of a larger portfolio of leasing and finance contracts in 2008, partially offset by currency translation effects.

Activities of our Daimler Financial Services segment in the NAFTA region contributed €3.6 billion, or 39%, of total segment revenue in 2008, which is below last year's level of 41%. Revenue generated in Germany was €2.7 billion, or 29%, of total revenue compared to €2.5 billion, or 29%, of total revenue in 2007. Revenue derived from financial services activities in Western Europe (excluding Germany) amounted to €1.9 billion, or 20%, of total revenue compared to €1.8 billion, or 21%, in 2007.

In 2008, the Daimler Financial Services segment originated new leasing and finance contracts with a total value of €29.5 billion compared to €27.6 billion in 2007, a 7% increase. At December 31, 2008, our Daimler Financial Services segment managed a portfolio of leasing and finance contracts of €33.4 billion, a 7% increase over the comparable portfolio of €31.1 billion managed at December 31, 2007. Excluding currency translation effects, the portfolio value in 2008 was 9% higher than in the prior year.

EBIT of Daimler Financial Services was €0.7 billion, compared to €0.6 billion in 2007. The increase in EBIT was primarily the result of the larger portfolio of leasing and finance contracts, partially offset by a significant increase in cost of risk (mainly credit risk), especially in the last quarter of 2008.

(e) **Vans, Buses, Other**

	<b>Year ended December 31,</b>			
	<b>2008</b>		<b>2007</b>	
	<b>Revenue</b> (€in mill.)	<b>Unit Sales</b> (units)	<b>Revenue</b> (€in mill.)	<b>Unit Sales</b> (units)
Mercedes-Benz Vans <sup>1, 2</sup>	9,479	287,200	9,341	289,100
Daimler Buses	4,808	40,600	4,350	39,000
Real Estate and other businesses	715	—	508	—
Eliminations	(32)	—	(76)	—
<b>World / Total</b>	<b>14,970</b>	<b>—</b>	<b>14,123</b>	<b>—</b>

- 1 Revenue and unit sales include sales of Sprinter vans to a subsidiary of Chrysler Holding LLC for subsequent resale to dealers under the Freightliner and Dodge brand names.
- 2 Revenue in 2008 and 2007 includes €0.9 billion and €0.9 billion, respectively, from the production of a van for Volkswagen. These vans are not included in our unit sales figures.

The revenue we report in Vans, Buses, Other originates primarily from Mercedes-Benz Vans and Daimler Buses. Revenue in 2008 was €5.0 billion compared to €4.1 billion in 2007.

Worldwide unit sales of Mercedes-Benz Vans decreased 1% from 289,073 units in 2007 to 287,198 units in 2008, while revenue went up 1% from €3 billion to €5 billion. Revenue in each of 2008 and 2007 includes €0.9 billion from the production of a van for Volkswagen, the sales of which are not included in the unit sales of Mercedes-Benz Vans.

Daimler Buses recorded an 11% improvement in revenue from €4.4 billion in 2007 to €4.8 billion in 2008. Worldwide unit sales went up 4% from 39,049 units in 2007 to 40,591 units in 2008. The disproportionate development of revenue and unit sales was primarily the result of increased sales of high-end buses and coaches in Europe.

EBIT of Vans, Buses, Other was €1.2 billion in 2008 (2007: €2.0 billion). The main reason for the sharp decline in operating results was our proportionate share in the losses at Chrysler and related charges which we recognized in 2008 and describe in more detail below (a total of €3.2 billion). In addition, EBIT in 2008 included a gain of €0.4 billion from the sale of the Group's real estate properties at Potsdamer Platz and a gain of €0.1 billion from the sale of EADS shares, while EBIT in 2007 included a gain of €1.6 billion related to the transfer of portions of our equity interest in EADS.

The Mercedes-Benz Vans segment and the Daimler Buses unit were both able to improve their operating results as a result of strong revenue over the year as a whole, although market conditions deteriorated towards the end of the year. Mercedes-Benz Vans had EBIT of €18 million in 2008 compared to €71 million in 2007 and returns on sales of 8.6% and 6.1%, respectively. Daimler Buses had EBIT of €106 million in 2008 and €308 million in 2007 and returns on sales of 8.4% and 7.1%, respectively.

Our 19.9% share in Chrysler's net loss reduced EBIT by €1.4 billion in 2008. In 2007, our proportionate share in the results of Chrysler Holding LLC was a loss of €0.4 billion.

We also recorded charges of €1.8 billion as a result of the impairment of loans and other assets relating to Chrysler. For additional information regarding our investment in Chrysler, please refer to Note 2 and Note 12 to our Consolidated Financial Statements.

Our proportionate share in EADS's net results had a positive effect on EBIT of €0.2 billion (2007: €13 million). The year-to-year increase in EADS's results was primarily due to the fact that EADS's 2007 results were burdened with higher expenses in connection with the Power8 restructuring program and delivery delays for the Airbus A400M.

**(f) Discussion of Liquidity and Capital Resources**

In 2008, our liquidity and, in particular, our cash flow from operations was negatively affected by the economic downturn, especially in the fourth quarter. Despite the difficult market conditions, we expect the funds available from operations, external borrowings, and securitization transactions and other sources to be sufficient to satisfy our working capital needs and to service our debt in the foreseeable future. We also believe that our liquidity and capital resources give us adequate flexibility to manage our planned capital spending programs and are appropriate to address short-term changes in business conditions. If the negative trend in the financial markets continues or worsens, however, we could be faced with ongoing high borrowing costs and reduced funding flexibility. In particular, this could negatively affect the competitiveness and profitability of our financial services business or even result in a limitation of the financial services we offer, thereby negatively affecting our vehicle sales.

In 2008 our main sources of cash were operations and external borrowings from financial institutions and from the money and capital markets. In 2007, we also used the sale of finance receivables in securitization transactions as a further funding source. In addition, in 2007 we had a significant cash inflow in connection with the transfer of a majority interest in the Chrysler activities to Cerberus (net cash inflow of €22.6 billion). For further information, please refer to the discussion below under the heading "Analysis of Cash Flow Statement" and to Note 2 to our Consolidated Financial Statements.

We used the funds raised to finance our lease and sales financing business and to meet the working capital and capital expenditure requirements of our industrial businesses. We typically finance our lease and sales financing activities with a high proportion of debt. In 2007 and in the first half of 2008, we used the additional cash inflow received in connection with the transfer of a majority interest in the Chrysler activities primarily to repay indebtedness, to refinance our cash needs and to repurchase some of our ordinary shares.

In the ordinary course of our business we issue bonds and commercial paper, execute securitization transactions or borrow money from financial institutions in various currencies to cover our funding needs. The tightening of the credit and commercial paper markets led to significantly higher borrowing costs, in particular with respect to large amounts.

Liquidity refers to the liquid financial assets we have available to fund our business operations and pay for near term obligations. Liquid financial assets consist of cash and cash equivalents as well as short-term securities, such as money market investments. Some of these instruments subject us to market risks that we typically hedge with interest rate swaps, forward rate agreements, caps, floors, futures and options.

The following table shows our liquid financial assets as of the end of each of the last two years:

(€in billion)	Year ended December 31,	
	2008	2007
Cash and cash equivalents with an original maturity of three months or less	6.9	15.6
Securities and other liquid assets	1.1	1.5
<b>Liquidity</b>	<b>8.0</b>	<b>17.1</b>

The decrease in overall liquidity was primarily caused by a significant decline in cash and cash equivalents. For a description of the factors contributing to this decrease, please refer to the discussion of the year-to-year development of our cash flows presented below. Total liquidity in 2007 was significantly higher due to payments received in the context of the transfer of a majority interest in the Chrysler activities.

We hold our liquidity primarily in euros and U.S. dollars. As of December 31, 2008, euro denominated liquid assets represented 36% and U.S. dollar denominated liquid assets represented 46% of total liquid financial assets. Liquid financial assets as a whole were 6.1% of total assets compared to 12.6% at the end of 2007.

As a result of our global funding and investment policies, we are exposed to risks associated with fluctuations in foreign currency exchange rates and interest rates, which may adversely affect our businesses, operations and reported financial results and cash flows. We hedge these risks with derivative financial instruments, primarily interest rate swaps and cross currency interest rate swaps. For information about our market risk exposure, including risks associated with currency exchange rates and interest rates, and our related hedging activities, please refer to “(d) Market Risks” under “4. Risk Factors” in section “III. Description of Business” and to Note 30 to our Consolidated Financial Statements.

### *Analysis of Cash Flow Statement*

(€in million)	Year ended December 31,	
	2008	2007
Net cash provided by operating activities	3,205	13,088
<i>thereof from discontinued operations</i>	—	3,064
Net cash provided by (used for) investing activities	(8,803)	20,537
<i>thereof from discontinued operations</i>	—	(2,875)
Net cash provided by (used for) financing activities	(2,915)	(25,204)
<i>thereof from discontinued operations</i>	—	(2,655)

Our cash flow statement includes the Chrysler activities only from January 1 through August 3, 2007. Accordingly, the discussion below reflects cash flow effects arising from the Chrysler automotive activities and the related Chrysler financial services business in the NAFTA region during that period.

*Cash provided by operating activities* in 2008 was €3.2 billion, €0.9 billion below the 2007 level of €13.1 billion. The following factors primarily contributed to this decrease:

- lower earnings before interest and taxes in 2008, especially at our Mercedes-Benz Cars segment;
- an increase of €3.9 billion in inventories and the balance of trade receivables and trade liabilities compared to a increase of €1.3 billion in 2007; and
- a higher period-to-period increase of inventory-related receivables from financial services in 2008 compared to 2007.

The negative factors described above were partially offset by:

- lower contributions to our pension and other post-retirement benefit funds (€0.1 billion in 2008 compared to €0.7 billion in 2007);
- lower income taxes paid in 2008 (€0.9 billion) compared to 2007 (€1.0 billion);
- a €0.7 billion decrease in net interest payments in the industrial business, primarily reflecting higher payments in 2007 due to the early redemption of long-term debt.

Cash provided by operating activities in 2007 included €3.1 billion attributable to discontinued operations, primarily the Chrysler Financial Services business through August 3, 2007.

*Cash used for investing activities* was €8.8 billion in 2008 compared to cash provided by investing activities of €20.5 billion in 2007. This change is mostly due to:

- net cash inflows in 2007 of €22.6 billion attributable to the transfer of the Chrysler activities. In addition to the payment received from Cerberus for its investment in Chrysler Holding LLC (€0.9 billion), cash inflows in 2007 include proceeds from the repayment of inter-company receivables related to the refinancing of the Chrysler activities (€24.7 billion), which were partially offset by the reduction in cash and cash equivalents due to the deconsolidation of such activities (€3.0 billion);
- lower net cash inflows from the acquisition and sale of securities (2008: €0.2 billion; 2007: €4.6 billion);
- lower proceeds from the transfer of EADS shares, which in 2008 were €0.4 billion compared to €3.6 billion in the prior year;
- the drawdown by a subsidiary of Chrysler Holding LLC in 2008 of US\$1.5 billion (€1.0 billion) of second lien loans committed by Daimler in 2007 in connection with the transfer of a majority interest in the Chrysler activities; and
- cash outflows in 2008 for the acquisition of shares in Tognum (€0.7 billion) and Kamaz (€0.2 billion).

The factors described above were partially offset by:

- decreased net funding requirements for equipment on operating leases and receivables from our retail and wholesale activities (€4.0 billion in 2008 compared to €6.0 billion in 2007), primarily due to the fact that investing activities of the Chrysler businesses were not included in 2008 but through August 3, 2007;
- lower expenditures for property, plant and equipment, solely attributable to the inclusion in 2007 of the Chrysler activities; and
- the inclusion of proceeds from the sale of real-estate properties at Potsdamer Platz in 2008

(€1.3 billion), while cash provided by investing activities in 2007 included proceeds from the sale of properties at MFTBC (€1.0 billion).

Cash provided by investing activities in 2007 included €2.9 billion attributable to discontinued operations.

*Cash used for financing activities* was €2.9 billion in 2008, compared to cash used for financing activities of €5.2 billion in 2007. This development was due to increased borrowings as a result of lower cash provided by operating activities and less cash provided by investing activities. These factors were partially offset by increased cash outflows in connection with our share buyback programs (2008: €4.2 billion; 2007: €3.5 billion) and the fact that 2007 included cash inflows in connection with the exercise of stock options (€1.6 billion).

Cash used for financing activities in the year 2007 included €2.7 billion of cash provided by financing activities attributable to discontinued operations.

*Cash and cash equivalents* with an original maturity of three months or less decreased by €8.7 billion from €15.6 billion in 2007 compared to €6.9 billion in 2008.

*Total liquidity*, which includes cash and cash equivalents and long-term investments and securities, decreased from €17.1 billion in 2007 to €8.0 billion in 2008. Total liquidity in 2007 was significantly higher due to payments received in the context of the transfer of a majority interest in the Chrysler activities.

### ***Funding Policies***

Our policy is to maintain a high degree of flexibility in our funding activities by using a broad variety of financial instruments. Depending on our cash needs and market conditions, we issue bonds and commercial paper or, depending on market availability, execute securitization transactions in various currencies. In addition, we use credit facilities in our day-to-day financial management.

In accordance with the guidelines established by the Bank for International Settlements, we separate our corporate treasury function organizationally, physically and in its technical systems from the administrative functions of settlement, financial accounting and controlling.

### ***Financial Liabilities***

The following table presents the carrying values of our primary financing instruments, which are notes and bonds, commercial paper, borrowings from financial institutions, and deposits from our direct banking business which we conduct through the Mercedes-Benz Bank in Germany, as of December 31, 2008 and 2007:

<b>Carrying values</b> (€in billions)	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Notes and bonds	34.1	35.7
Commercial paper	2.3	0.1
Liabilities to financial institutions	14.6	12.6
Deposits from direct banking business	6.0	4.1

As of December 31, 2008, the breakdown by currency of the financing liabilities presented in the table above was as follows: 43% in U.S. dollars, 30% in euros, 6% in Japanese yen, 3% in Canadian dollars and 3% in British pounds. In most cases, our subsidiaries borrow money in their functional currency. As of December 31, 2008, the aggregate borrowing rate of the financing liabilities presented in the table above was 5.27%, and approximately 68% of these financing liabilities were at fixed rates.

In both 2008 and 2007, we sold receivables in asset-backed security (ABS) transactions, which under IFRS are accounted for as secured borrowings. As of December 31, 2008 and December 31, 2007, these transactions resulted in financing liabilities of €0.7 billion and €1.4 billion, respectively, which liabilities are not included in the above table.

Our total financing liabilities, which include liabilities from ABS transactions and finance lease transactions, amounted to €8.6 billion at December 31, 2008 compared to €5.0 billion at December 31, 2007. Of our total financing liabilities at December 31, 2008 €7.4 billion were due within one year. Our total financing liabilities represented 44% of total equity and liabilities in 2008 and 41% in 2007.

We typically finance our lease and sales financing activities with a high proportion of debt. As of December 31, 2008, the total carrying amount of equipment on operating leases and receivables from our financial services business amounted to €1.1 billion, compared to €8.9 billion at the end of 2007.

In the Euro-Market we have a US\$35 billion Euro-Medium Term Note Program, permitting Daimler AG and several of its subsidiaries to issue notes and bonds. Of this program, US\$8.3 billion remained unused as of February 13, 2009.

In Japan, Daimler AG has a JPY500 billion debt securities Shelf Registration Statement on file with the Ministry of Finance, of which JPY456.5 billion remained unused as of February 13, 2009.

In South Africa we established a ZAR18 billion Medium Term Note Program, permitting Mercedes-Benz South Africa (Proprietary) Limited to issue notes. Of this program, ZAR10.4 billion remained unused as of February 13, 2009.

The weighted average interest rate payable under notes and bonds we held as of December 31, 2008, was 5.18%. The weighted average interest rate payable under the deposits from the direct banking business as of December 31, 2008, was 4.57%.

### ***Credit Lines***

At December 31, 2008 and December 31, 2007, we had short- and long-term credit lines available of €2.7 billion and €1.6 billion, respectively, of which €8.5 billion and €5.1 billion, respectively, were unused as of such dates. The weighted average interest rate payable under the lines of credit available to us as of December 31, 2008, was 5.72%. These credit lines include a syndicated US\$5 billion credit facility of Daimler AG. This facility will mature in December 2011. In order to bolster our Group liquidity we entered into a new € billion 364-day-credit-facility with a syndicate of international banks in October 2008. These facilities serve as a back-up for commercial paper drawings and provide funds for general corporate purposes. At the end of 2008, both facilities remained unused.

Included in the borrowings from financial institutions are loans of approximately €0.1 billion from the European Investment Bank (EIB) which contain a rating trigger. If any two of the rating agencies Standard & Poor's Rating Services, Moody's Investor Service and Fitch Ratings assign a BBB/Baa2 rating to our senior unsecured long-term debt, or any one of these

three rating agencies assigns a rating lower than BBB/Baa2 to our senior unsecured long-term debt, then EIB has the right to demand collateralization after consulting with us. For information about our current short-term and long-term debt ratings, see the discussion below under the heading “Credit Ratings.”

### ***Commercial Paper Programs***

We have a €10 billion multi-currency commercial paper program in the Euro-Market of which €8.4 billion was unused as of February 13, 2009. In addition, we have US\$3 billion and AUS\$1 billion commercial paper programs of which US\$3 billion and AUS\$0.98 billion, respectively, remained unused as of February 13, 2009.

The weighted average interest rate payable under commercial paper we had outstanding as of December 31, 2008, was 5.63%.

For additional information regarding our liquidity, please refer to the discussion under the subheading “Liquidity Risk” in Note 30 to our Consolidated Financial Statements.

### ***Credit Ratings***

Standard & Poor’s Rating Services (S&P), Moody’s Investors Service, Inc. (Moody’s), Fitch Ratings Ltd. (Fitch) and DBRS rate our commercial paper (short-term) and our senior unsecured long-term debt (long-term). Our current ratings are as follows:

	<b>S&amp;P</b>	<b>Moody's</b>	<b>Fitch</b>	<b>DBRS</b>
Short-term debt	A-2	P-2	F2	R-1 (low)
Long-term debt	A-	A3	BBB+	A (low)

Debt ratings are an assessment by the rating agencies of the credit risk associated with us and are based on information provided by us or other sources. Lower ratings generally result in higher borrowing costs and reduced access to capital markets. Debt ratings are not a recommendation to buy, sell or hold securities. Ratings may be subject to revision or withdrawal by the rating agencies at any time. As rating agencies may have different criteria in evaluating the risks associated with a company, you should evaluate each rating independently of other ratings.

*S&P Ratings.* On February 14, 2008, S&P placed its BBB+ long-term corporate credit ratings on Daimler AG and related entities on credit watch with positive implications following strong operating performance. On April 14, 2008, our long-term rating was raised to A- with a positive outlook. The upgrade followed S&P’s reassessment of Daimler’s business and financial risk profiles and the strong operating performance and progress it has made since the separation of its Chrysler unit in August 2007. In view of the rapidly weakening state of most global automotive markets, S&P revised its outlook on October 8, 2008, from positive to stable and on February 27, 2009, from stable to negative.

*Moody’s Ratings.* On October 15, 2008, Moody’s affirmed the A3 long-term rating of Daimler AG and its subsidiaries and changed the outlook to stable, which had been positive since October 1, 2007. The outlook change reflected the increasingly worsening global car and truck markets and Moody’s expectation of negative impacts on the operating performance of the company. On February 18, 2009, Moody’s changed the outlook of Daimler’s A3 long term ratings to negative from stable. According to Moody’s the negative outlook reflects the more severe decline of Daimler’s key markets than previously anticipated by magnitude as well as by

pace.

*Fitch Ratings.* On June 13, 2008, Fitch changed the outlook for Daimler AG's A- long-term issuer default rating to positive from stable reflecting the improvements in Daimler's financial profile in 2007 and in the first quarter of 2008. On November 20, 2008, Fitch changed the outlook for Daimler AG's long-term issuer default rating back to stable as the rating agency expected new car and truck sales to continue to fall, which according to Fitch would put pressure on Daimler's profitability and cash generation. As a result of a reassessment of the business prospects of the automotive industry in general, and, as a result, the profit and cash flow expectations for Daimler, Fitch lowered Daimler AG's long-term rating to BBB+ with a stable outlook on January 29, 2009, and further changed the outlook to negative on March 25, 2009.

*DBRS Ratings.* DBRS confirmed the long-term ratings of Daimler AG and its related companies at A (low), all with a stable trend on September 10, 2008, reflecting the company's strong business and financial profiles.

The short-term ratings of all four rating agencies remained unchanged during 2008.

### ***Convertible bonds and notes with attached warrants***

We may issue ordinary shares or bonds convertible into ordinary shares as another potential source of funding. For further information about the ability of our Board of Management, with the approval of our Supervisory Board, to issue new ordinary shares for cash and to issue convertible bonds and/or notes with attached warrants, please refer to Note 19 to our Consolidated Financial Statements.

After partial execution of Authorized Capital I in March 2009 against cash contribution by issuing 96,408,000 new registered no par value shares, the annual shareholders' meeting held on April 8, 2009 resolved to cancel the remaining Authorized Capital I as well as Authorized Capital II with effect as of the time when the new Approved Capital 2009 as resolved by the same shareholders' meeting comes into effect by way of entry in the Commercial Register. The Approved Capital 2009 specifies that the Board of Management is authorized with the consent of the Supervisory Board to increase the Company's share capital in the period until April 7, 2014 by a total of €1,000,000,000.00, in one lump sum or by separate partial amounts at different times, by issuing new, registered no par value shares in exchange for cash and/or non-cash contributions.

### ***Contractual obligations and commercial commitments***

The table below presents our on- and off-balance sheet contractual obligations as of December 31, 2008:

<b><u>Contractual Cash Obligations</u></b>	<b><u>Total</u></b>	<b><u>Payments due by period</u></b>			<b><u>More than 5 years</u></b>
		<b><u>Less than 1 year</u></b>	<b><u>1 - 3 years</u></b>	<b><u>3 - 5 years</u></b>	
		(€in millions)			
Long-Term Debt	42,612	12,819	20,229	7,464	2,100
Finance Lease Obligations	637	77	116	88	356
Operating Leases	2,542	306	541	456	1,239
Purchase and Investment Obligations	11,597	11,138	416	41	2
Other Long-Term Obligations	1,599	143	1,135	110	211

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<b>Total Contractual Obligations</b>	58,987	24,483	22,437	8,159	3,908
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Contractual obligations are obligations to make payments or transfer assets under existing contracts. “Long-Term Debt” represents future principal payments that we need to make to settle our financing liabilities with original maturities of more than one year. “Finance Lease Obligations” encompass the total minimum future lease payments for finance leases. “Operating Leases” represent the total minimum future lease payments for operating leases. “Purchase and Investment Obligations” are obligations arising from future purchases for, among other things, production materials or for future investments in property, plant and equipment. This line also includes our trade liabilities. The line “Other Long-Term Obligations” contains all our other contractual cash obligations that are not included in one of the other categories and do not include accrued liabilities. Therefore, the line “Other Long-Term Obligations” does not include our provisions for income taxes and our provisions for other risks. The contractual cash obligations also do not reflect our pension benefit and other post-employment benefit obligations. For the estimated future pension benefit payments, please refer to Note 21 to our Consolidated Financial Statements.

### ***Pension Benefit Obligations and Cost***

The obligations and expenses recognized in our Consolidated Financial Statements for our employee pension benefit plans are not necessarily indicative of our future obligations and cash funding requirements. The reason is that we normally experience actual results that differ from the assumptions used in the actuarial determination of our defined pension benefit obligations and cost. We subsequently recognize the accumulated differences (the actuarial gains and losses) in our consolidated statements of income (loss) through amortization over future periods when certain conditions are met. Please refer to Note 1 and Note 21 to our Consolidated Financial Statements for further information regarding our pension benefit obligations, including the significant assumptions used.

### ***Current funding and asset allocation***

Plan assets, which are primarily held in trusts and invested to provide for current and future pension benefits, partially offset our defined pension benefit obligations. Plan assets consist of investments in equity securities, debt securities and other investments.

The funded status of our defined pension benefit obligations expresses the extent to which plan assets are available to satisfy our obligations. At December 31, 2008, our pension plans had an underfunded status of €4.9 billion compared to an underfunded status of €1.9 billion at December 31, 2007. The increase of the underfunded status of our pension benefit plans in 2008 is mainly attributable to the lower fair value of our plan assets at December 31, 2008, largely due to the financial turmoil in the capital markets and the increase of the discount rates assumed for all German plans in 2008.

### ***Further funding requirements***

We do not expect to increase cash contributions to our pension plans substantially in the near term. For 2009, we intend to contribute €0.1 billion in cash to our pension plans.

## **IV. Conditions of Facilities**

### **1. Outline of Capital Expenditures, etc.**

Daimler invested €3.6 billion in property, plant and equipment in the year under review. The focus was on investments in new vehicle models and new drive systems. €2.5 billion of the total volume of capital expenditure was invested in Germany.

Expenditure for research and development increased to €4.4 billion in 2008 (2007: €4.1 billion). Of the total R&D expenditure, we capitalized development costs in an amount of €1.4 billion (2007: €1.0 billion), in accordance with IFRS accounting principles. One of the main areas of our work was the development of new, particularly fuel-efficient and environmentally friendly drive technologies, in line with our roadmap for sustainable mobility. In order to further reduce CO<sub>2</sub> emissions and to be able to supply vehicles that fulfill future needs, we were occupied both with the optimization of conventional drive technologies and the reduction of vehicle weight, as well as with alternative drive systems such as fuel cells and electric vehicles. Another focus is on new safety technologies: In the context of our vision of accident-free driving, we are pursuing the goal of avoiding accidents as far as possible and of ameliorating the consequences of any accidents that might still occur.

The tables below provides a break down for each division for both capital expenditures (investment in property, plant and equipment), and research and development expenses.

(€in millions)	<b>Capital Expenditure</b>	
	Year ended December 31,	
	<b>2008</b>	<b>2007</b>
Mercedes-Benz Cars	2,246	1,910
Daimler Trucks	991	766
Daimler Financial Services	41	29
Vans, Buses, Other	270	241
<b>Daimler Group</b>	<b>3,559</b>	<b>2,927</b>

(€in millions)	<b>R&amp;D Expenses</b>	
	Year ended December 31,	
	<b>2008</b>	<b>2007</b>
Mercedes-Benz Cars	2,994	2,733
<i>thereof capitalized</i>	1,060	705
Daimler Trucks	1,056	1,047
<i>thereof capitalized</i>	326	283
Vans, Buses, Other	392	368
<i>thereof capitalized</i>	1	2
<b>Daimler Group</b>	<b>4,442</b>	<b>4,148</b>
<i>thereof capitalized</i>	1,387	990

*Mercedes-Benz Cars.* In 2008, the increase in capital expenditures primarily reflects significantly increased expenditures for new engines with higher fuel efficiency and lower carbon dioxide emissions. Other primary drivers of our investment activities in 2008 were the successor models of the E-Class sedan and station wagon, the new GLK-Class and the successor model of the CLK.

Research and development activities of the Mercedes-Benz Cars segment in 2008 related primarily to the development of new car models, especially the new generation of the S-Class and the new E-Class, as well as measures to reduce fuel consumption and carbon dioxide

emissions, such as Hybrid-, Bluetec-, Electro- and Fuel Cell-technologies.

*Daimler Trucks.* Capital expenditures in 2008 related primarily to our Heavy Duty Engine Platform project, emission regulation technologies and the construction of a new production plant in Mexico.

Research and development expenditures in 2008 focused on new truck generations and new low emission engines, including the Heavy Duty Engine Platform.

*Daimler Financial Services.* The division's capital expenditures for property, plant and equipment and intangible assets were largely related to the acquisition of data processing equipment and additions to equipment under operating leases of our financial services business.

*Vans, Buses, Other.* At the Mercedes-Benz Vans unit, the focus of investment was on the model upgrade for the Vito/Viano and the establishment of a van plant in China. At Daimler Buses, higher amounts were invested in 2008 in the development of future exhaust technologies.

Research and development activities of our van and bus businesses in 2008 were directed at the development of engines compliant with future emission regulations. Our bus business also focused on successor models of buses.

For further information on R&D expenses please refer to "6. Activities on Research and Development" in section "III. Description of Business".

## **2. Conditions of Major Facilities**

We produce vehicles and related components at approximately 66 manufacturing facilities worldwide, of which 18 are located in Germany and 16 in the United States. Most of the remaining facilities are in Japan, Mexico, France, Spain, Canada, Brazil, South Africa and Turkey. We also have other properties, including office buildings, sales and service locations as well as research laboratories, development centers and test tracks. We own most of these facilities, and we believe that they are adequate to meet our needs. The total carrying amount of land, leasehold improvements and buildings including buildings on land owned by other, was €6.0 billion at December 31, 2008.

The tables below show as an abstract some major locations of each automotive division and the contents of business of each location. As far as available, we show the number of employees working at such location and the share of employees attributable to the division under which the location is stated:

Mercedes-Benz Cars

Location	Contents of operations	Number of Employees	
		From division	On site
Sindelfingen, Germany	C-Class Saloon, E-Class Saloon, E-Class Estate, CLS-Class, S-Class, CL-Class, Maybach	25,797	28,804
Untertürkheim, Germany	Engines, rear axles, front axles, transmissions, components	16,939	18,146
Bremen, Germany	C-Class Saloon, C-Class Estate, GLK-Class, SLK-Class, SL-Class	11,194	12,993
Rastatt, Germany	A-/B-Class	5,514	5,741
Berlin, Germany	Engines, components, parts	2,874	2,991
Hamburg, Germany	Rear axles, front axles, components	2,297	2,595
Tuscaloosa, Alabama, USA	ML-, R-, GL-Class	3,782	3,782
East London, South Africa	C-Class Saloon	2,932	2,932
Juiz de Fora, Brazil	CLC-Class	1,153	1,153
Hambach, France	smart fortwo	824	824

*Daimler Trucks*

<b>Location</b>	<b>Contents of operations</b>	<b>Number of Employees</b>	
		<b>From division</b>	<b>On site</b>
<i>Trucks Europe/Latin America (Mercedes-Benz)</i>			
Wörth, Germany	Truck assembly including driver's cab production; chassis and assembly plant for Unimog	11,631	11,774
Sao Bernardo do Campo, Brazil	Assembly plant, engines, transmissions, axles, stamping	10,754	10,754
Aksaray, Turkey	Assembly plant	1,751	1,751
Mannheim, Germany	Production of commercial vehicle and industrial engines, foundry	5,353	5,427
Kassel, Germany	Front and rear axles, trailer axles, propeller shafts for commercial vehicles	3,008	3,024
Gaggenau, Germany	Gearboxes, planetary hub axles, portal axles, converter production, Consolidation Center (Logistics)	6,522	6,606
Molsheim, France	Assembly plant (special purposes)	581	581
<i>Trucks NAFTA (Freightliner / Western Star / Thomas Built Buses)</i>			
Portland, USA	Assembly plant	3,018	3,018
Cleveland, USA	Assembly plant	2,441	2,441
Mount Holly, USA	Assembly plant	741	741
Redford, USA	Engines, axles	2,044	2,044
High Point, USA	Assembly plant	1,303	1,303
Santiago Tianguistenco, Mexico	Assembly plant	2,486	2,486

***Trucks Asia (Mitsubishi Fuso)***

Kawasaki, Japan	Assembly plant, engines, axles	5,135	5,135
Toyama, Japan	Assembly plant	615	615
Tramagal, Portugal	Assembly plant	364	364
Oye/Nagoya, Japan	Assembly plant	173	173
Bangkok, Thailand	Assembly plant	171	171

***Mercedes-Benz Vans***

<b>Location</b>	<b>Contents of operations</b>	<b>Number of Employees</b>	
		<b>From unit</b>	<b>On site</b>
Düsseldorf, Germany	Assembly plant	7,329	7,432
Ludwigfelde, Germany	Assembly plant	2,580	2,580
Vitoria/Barcelona, Spain	Assembly plant	3,399	3,399
González Catan, Argentina	Assembly plant	2,084	2,084
Charleston, USA	Assembly plant	111	111

*Daimler Buses*

<b>Location</b>	<b>Contents of operations</b>	<b>Number of Employees</b>	
		<b>From unit</b>	<b>On site</b>
Mannheim, Germany	Assembly plant	3,533	3,533
Ulm/Neu-Ulm, Germany	Assembly plant	3,820	3,820
Dortmund, Germany	Assembly plant	223	223
Istanbul-Hosdere, Turkey	Assembly plant	3,497	3,497
Ligny-en-Barrois, France	Assembly plant	436	436
Oriskany, USA	Assembly plant	612	612
Sao Bernardo do Campo, Brazil	Chassis plant	1,907	1,907

Our property, plant and equipment include buildings, technical equipment, and other equipment capitalized under finance lease arrangements with a carrying amount of €11 million (2007: €104 million). For additional information, please refer to Note 10 to our Consolidated Financial Statements.

We are party to various joint ventures, assembly contracts and other arrangements that allow us to gain access to additional production capacity, utilize our plants more efficiently or gain access to new geographic markets. For example, we have a joint venture in China for the production and distribution of Mercedes-Benz passenger cars and we have arrangements with third parties to assemble some of our vehicles at facilities in Austria and Germany. Pursuant to an agreement with Volkswagen, we assemble a Volkswagen van at our German plants.

### 3. Plans for Installation and Removal of Facilities

In light of the current economic situation, we are focusing our investment budget as far as possible on projects that are essential for the market success of our products. However, due to the increased demands placed on our products and the necessity to develop sustainable solutions for future mobility, we will probably invest a total of more than €9.4 billion in property, plant and equipment in 2009 and 2010 combined. The planned expenditure is significantly higher than in previous years, in particular at Mercedes-Benz Cars but also at Daimler Trucks.

Investments in property, plant and equipment (€in billion)	Period	
	2008	2009-2010
Mercedes-Benz Cars	2.2	5.9
Daimler Trucks	1.0	2.7
Daimler Financial Services	0.04	0.1
Vans, Buses, Other	0.3	0.7
<b>Daimler Group</b>	<b>3.6</b>	<b>9.4</b>

*Mercedes-Benz Cars.* At the Mercedes-Benz Cars division, the focus of investment will be on advance expenditure for new vehicles such as the new models of the A- and B-Class. Substantial investment is also planned for new families of engines with low fuel consumption and emissions.

*Daimler Trucks.* The focus in the coming years at Daimler Trucks is on capital expenditure for new platforms for heavy and medium-duty trucks, new global engine projects, and the modernization of production facilities.

*Vans, Buses, Other.* At Mercedes-Benz Vans, the main areas of investment are for the model upgrade of the Vito and Viano vans and for setting up a van plant in China. Key projects at Daimler Buses include advance expenditure for future emission technologies and alternative drive systems, as well as for new products.

In October 2008, we entered into a contract with the Ministry for National Development and Economy of the Republic of Hungary to establish a production plant for Mercedes-Benz passenger cars in Kecskemét, Hungary. We estimate total expenditures for this investment to be approximately €0.8 billion. We plan to complete construction of the plant and start production in 2013. In January 2009, we signed a cooperation agreement to form a joint venture in China for the production of medium- and heavy-duty trucks. This joint venture remains subject to approval by the Chinese authorities.

## V. Description of the Company

### 1. Description of Shares, Etc.

#### (a) Total Number of Shares, Etc.

##### (i) Total Number of Shares

Approved number of Shares: (as of December 31, 2008)	1,457,832,950
Issued and outstanding Shares: (as of December 31, 2008)	964,557,432 (37,116,831 of them treasury shares)
Shares not yet issued: (as of December 31, 2008)	493,275,518
	174,259,246 (authorized capital I)
	174,259,246 (authorized capital II)
	104,555,547 (conditional capital I)
	40,201,479 (conditional capital II)

As of December 31, 2008, the Board of Management was authorized by the annual shareholders' meeting held on April 9, 2008, with the consent of the Supervisory Board to increase the Company's share capital in the period until April 8, 2013 (i) by a total of € 500,000,000 in exchange of cash contributions and (ii) by a total of another €500,000,000 in exchange of non-cash contributions, in both cases in one lump sum or by several partial amounts at different times by issuing new registered no par value shares (Authorized Capital I and Authorized Capital II). After partial execution of Authorized Capital I in March 2009 against cash contribution by issuing 96,408,000 new registered no par value shares (see "Changes after the end of Fiscal Year 2008" below), the annual shareholders' meeting held on April 8, 2009 resolved to cancel the remaining Authorized Capital I as well as Authorized Capital II with effect as of the time when the new Approved Capital 2009 as resolved by the same shareholders' meeting comes into effect by way of entry in the Commercial Register.

Approved Capital 2009: The Board of Management is authorized with the consent of the Supervisory Board to increase the Company's share capital in the period until April 7, 2014 by a total of €1,000,000,000.00, in one lump sum or by separate partial amounts at different times, by issuing new, registered no par value shares in exchange for cash and/or non-cash contributions. Approved Capital 2009 will come into effect with its entry in the Commercial Register.

Conditional capital I: The share capital of the Company may be conditionally increased by an amount not to exceed €300,000,000.00. The conditional capital increase shall be undertaken only to the extent that

- a) the holders or creditors of conversion rights or option certificates attached to the convertible bonds and notes with warrants to be issued by Daimler AG or its majority-

owned direct or indirect subsidiaries up to April 5, 2010 in accordance with the authorizing resolution of the Shareholders' Meeting on April 6, 2005 actually exercise their conversion or option rights or

- b) the holders or creditors of the convertible bonds to be issued by Daimler AG or its majority-owned direct or indirect subsidiaries up to April 5, 2010 in accordance with the authorizing resolution of the Shareholders' Meeting on April 6, 2005 fulfill their conversion obligation.

Conditional capital II: The share capital of the Company may be conditionally increased by an amount not to exceed €15,349,630.47 through the issuance of up to 40,201,479 no-par-value registered shares (residual Conditional Capital II). The conditional capital increase shall be undertaken only to the extent that the holders of option rights issued by Daimler AG in the period up to April 18, 2005 in conformity with the authorizing resolution passed at the Shareholders' Meeting held on April 19, 2000 actually exercise their options and the Company does not grant any of its own shares in fulfillment of the options.

For further details on the before mentioned authorized and conditional capital, please refer to section II. Share capital and Shares, paragraph 3 of the Company's Articles of Incorporation.

(ii) *Issued and outstanding shares*

Kind:	registered ordinary shares, no par value
Number of shares: (as of December 31, 2008)	964,557,432
Stock Exchanges on which the Shares are listed or Securities Dealers Associations with which the Securities are registered:	The principal trading markets for our ordinary shares are the Frankfurt Stock Exchange and the New York Stock Exchange. In addition, our ordinary shares are listed in Germany on the Stuttgart Stock Exchange.
Contents:	N/A

**(b) Changes in the Number of Issued and Outstanding Shares and Share Capital**

<b>Date or time</b>	<b>Increase / Decrease in share capital</b>	<b>Total share capital after the increase / decrease in € (ten thousand Yen)</b>	<b>Remarks</b>
Balance as of Dec. 31, 2003	1,012,824,191 shares	2,633,342,896.60 (34,596,859)	End of fiscal 2003
Fiscal 2004	—	—	—
Balance as of Dec. 31, 2004	1,012,824,191 shares	2,633,342,896.60 (34,596,859)	End of fiscal 2004
Fiscal 2005	€13,906,113.00 5,348,505 shares	2,647,249,009.60 (34,779,557)	Exercise of stock options
Balance as of Dec. 31, 2005	1,018,172,696 shares	2,647,249,009.60 (34,779,557)	End of fiscal 2005
Fiscal 2006	€25,976,743.00 9,991,055 shares	2,673,225,752.60 (35,120,840)	Exercise of stock options
Balance as of Dec. 31, 2006	1,028,163,751 shares	2,673,225,752.60 (35,120,840)	End of fiscal 2006
Jan 1 to Sept 28, 2007	€75,748,998.00 29,134,230 shares	2,748,974,750.60 (36,116,030)	Exercise of stock options
Sept 29, 2007	€0.00 (13,235,000 shares)	2,748,974,750.60 (36,116,030)	Cancellation of shares after share buyback
Sept 29 to Dec 15, 2007	€17,194,839.84 6,530,615 shares	2,766,169,590.44 (36,341,936)	Exercise of stock options
Dec 20, 2007	€0.00 (36,725,000 shares)	2,766,169,590.44 (36,341,936)	Cancellation of shares after share buyback
Balance as of Dec. 31, 2007	1,013,868,596 shares	2,766,169,590.44 (36,341,936)	End of fiscal 2007
Jan 1 to Apr 2, 2008	€54,020.96 19,800 shares	2,766,223,611.40 (36,342,646)	Exercise of stock options
Apr 3, 2008	€0.00 (49,808,314 shares)	2,766,223,611.40 (36,342,646)	Cancellation of shares after share buyback
Apr 3 to Dec 31, 2008	€1,369,654.73 477,350 shares	2,767,593,266.13 (36,360,640)	Exercise of stock options
Balance as of Dec. 31, 2008	964,557,432 shares	2,767,593,266.13 (36,360,640)	End of fiscal 2008

In accordance with the authorization granted by our shareholders at the annual general meeting held on April 4, 2007, the Board of Management and the Supervisory Board approved a program on August 29, 2007, for the company to acquire up to approximately 10% of its share capital as of April 4, 2007, for a maximum consideration of €7.5 billion. In connection with this share buyback program, Daimler AG repurchased 49,960,000 shares in 2007 and 49,808,314 shares in 2008 for an aggregate consideration of €6.2 billion. The repurchased shares represent approximately 10% of the share capital as of the date of the

shareholder's authorization. All of the shares were cancelled without reduction of the share capital.

At the annual general meeting held on April 9, 2008, our shareholders again authorized us, until October 9, 2009, to repurchase ordinary shares up to 10% of our share capital as of April 9, 2008. Pursuant to this authorization, the Board of Management decided, with the approval of the Supervisory Board, to conduct a further share buyback program of up to 10% of the share capital for a maximum consideration of €6 billion. At December 31, 2008, Daimler AG had repurchased 37,283,831 shares for an aggregate consideration of €1.45 billion under this program. The repurchased shares are held as treasury shares and represent 3.87% of the shares outstanding as of April 9, 2008. As a result of the uncertainty in the markets we suspended the further execution of our share buyback program on October 24, 2008. As 167,000 treasury shares have been used to satisfy execution of stock options, 37,116,831 treasury shares were held by the Company as of December 31, 2008.

By resolution of the annual general meeting held on April 8, 2009, the authorization to repurchase shares as granted by the annual general meeting on April 9, 2008, was cancelled insofar as it has not been utilized by that time and our shareholders again authorized us, until October 8, 2010, to repurchase ordinary shares up to 10% of our share capital as of April 8, 2009.

For a description of the stock option plans for our management and employees, such as the exercise prices, please refer to Note 20 of our Consolidated Financial Statements. Issuance of new shares under conditional capital II in case of execution of stock options leads to a corresponding increase of share capital in the pro-rata amount of the share capital attributable to the new shares at the business day following to the exercise date (valuta date). As a result the conditional capital II will be reduced correspondingly in the amount by which the share capital increases.

### **(c) Distribution of Share by Holders**

As of December 31, 2008, Daimler AG had approximately 1.3 million stockholders. Approximately 210,000 were U.S. holders, of which approximately 55,000 were record holders. Based on our share register, U.S. holders held approximately 16% of Daimler AG's ordinary shares as of that date.

As of December 31, 2008, the current members of our Supervisory Board and our Board of Management, as a group, owned 139,137 of Daimler AG ordinary shares (0.01% of all outstanding shares) and had the right to acquire 2,646,800 ordinary shares pursuant to options granted under the plans described below.

In 2000, we instituted a shareholder approved stock option plan for Board of Management members and other levels of management. We granted options under this plan in 2000, 2001, 2002, 2003 and 2004. Our predecessor company, Daimler-Benz AG, instituted a shareholder approved stock option plan for management board members and other senior executives in 1996. For a description of these stock option plans and further details, such as the exercise prices, please refer to Note 20 to our Consolidated Financial Statements.

As part of our value-based management approach, we support employee stock ownership. We offer employees of Daimler AG and of our subsidiaries in Germany, Austria, France, Italy, the Netherlands, Portugal, Spain, Switzerland and the United Kingdom the opportunity to purchase Daimler AG ordinary shares. In 2008, each eligible employee in Germany had the right to acquire up to 90 shares with a maximum aggregate discount of €135 plus three bonus shares. In total, employees in Germany acquired approximately 1,428,000 shares in 2008. The programs

established for employees in other European countries are comparable to the German program except for changes resulting from different national legal requirements. Under the programs offered outside of Germany, employees acquired a total of approximately 48,000 shares in 2008.

The tables below provide a breakdown of the shareholder structure by both the type of shareholder and the major regions as of December 31, 2008:

	<b>December 31, 2008</b>
<b>By type of shareholder</b>	
Kuwait Investment Authority	7.6%
Institutional investors	68.8%
Retail investors	23.6%
<b>By region</b>	
Germany	48.6%
Europe excl. Germany	27.7%
USA	15.7%
Rest of the world	8.0%

Please refer to Notes 1, 19 and 20 to our Consolidated Financial Statements for additional information.

**(d) Major shareholders**

The table below shows the number of ordinary shares of the major shareholders as defined under Japanese regulation, and their percentage of ownership as of December 31, 2008:

<b>Identity of the Person or Group</b>	<b>Shares owned</b>	<b>Percent</b>
Kuwait Investment Authority as agent for the Government of the State of Kuwait	73,169,320	7.6%

Our share capital consists of ordinary shares without par value (Stückaktien). Our ordinary shares are issued in registered form. Under our articles of incorporation (Satzung), each ordinary share represents one vote. Major shareholders do not have different voting rights.

Under the German Securities Trading Act (Wertpapierhandelsgesetz), shareholders of a listed German company and holders of certain financial instruments must notify the company of the level of their holding whenever it reaches, exceeds, or falls below specified thresholds.

The Kuwait Investment Authority, as agent for the Government of the State of Kuwait, informed us that, as of December 31, 2008, it held 73,169,320 shares, representing 7.6% of Daimler AG's outstanding ordinary shares at that time. Capital Research and Management Company (USA) notified us that as of February 14, 2008 its holdings exceeded the threshold of 3%. Capital Research held 30,688,637 shares, or 3.03%, of Daimler AG's outstanding shares as of that date. Deutsche Bank AG notified us that as of June 5, 2008 its direct and indirect holdings fell below the 3% threshold. In connection with our share buyback program, as of December 31, 2008, Daimler AG held 37,116,831 shares, or 3.85%, of its outstanding ordinary

shares.

### ***Changes after the end of Fiscal Year 2008***

On March 24, 2009, Daimler AG increased the share capital by issuing 96,408,000 new registered no par value shares in exchange for cash contributions to Semare Beteiligungsverwaltungs GmbH, a wholly owned subsidiary of Gutiba Beteiligungsverwaltungs GmbH, the latter a wholly owned subsidiary of Aabar Investments PJSC. The shares issued represent approximately 9.1% of the new increased share capital.

The capital increase was carried out by issuing the new shares by making use of the Authorized Capital I approved by the Annual Shareholders' Meeting of April 9, 2008. Existing shareholders' rights to subscribe to these new shares were excluded. The issue price of the shares was €20.27 per share, resulting in an equity contribution for Daimler of €1.95 billion.

Aabar Investments PJSC is an investment company headquartered in Abu Dhabi, United Arab Emirates, and is listed on the Abu Dhabi Securities Exchange. It directly invests in various sectors including energy, infrastructure, real estate, automotive and financial services companies. Its largest shareholder is the International Petroleum Investment Company (IPIC), which in turn is wholly owned by the Government of the Emirate of Abu Dhabi.

As of March 24, 2009, the total number of issued shares of the Company therefore amounted to 1,060,965,432 (37,116,831 of them treasury shares).

### **(e) Related party transactions**

For a description of our related party transactions, please refer to Note 34 to our Consolidated Financial Statements.

## **2. Dividend Policy**

We generally pay dividends each year and expect to continue to do so in the near future. Our payment of future dividends will however depend upon our earnings, our financial condition, including our cash needs, our future earnings prospects and other factors. As a result, we may not pay dividends in the future or may not pay them at rates we have paid in previous years.

On April 9, 2008, the annual meeting resolved to distribute the unappropriated profit of €1,928 million for the 2007 financial year, representing a dividend of €2.00 per share.

On April 8, 2009, the annual meeting resolved to distribute €556 million of the unappropriated profit for the 2008 financial year, representing a dividend of €0.60 per each share entitled to dividend payment.

For additional information on dividends and exchange rates please refer to "I. Outline of the Legal and other Systems of the Company's Country of Incorporation" and "5. Description of Corporate Governance" in "V. Description of the Company."

### 3. Trends in Stock Prices

Our ordinary shares are traded on the floor of the Frankfurt Stock Exchange, the most significant of the German stock exchanges, and also on Xetra, which stands for Exchange Electronic Trading. Xetra is an integrated electronic exchange system which is an integral part of the Frankfurt Stock Exchange. In 2008, Xetra accounted for approximately 98.9% of the trading volume of our ordinary shares on the Frankfurt Stock Exchange.

#### (a) Yearly High and Low Share Prices for Each Business Period during the Most Recent Five (5) - Year Period

The table below shows, for the periods indicated, the Xetra high and low closing sales prices for our ordinary shares:

Year	Price per Share	
	<u>High</u>	<u>Low</u>
	(Euro(Yen))	
2004	39.41 (5,177.6858)	31.63 (4,155.5494)
2005	45.65 (5,997.4970)	30.20 (3,967.6760)
2006	50.09 (6,580.8242)	37.01 (4,862.3738)
2007	77.76 (10,216.1088)	46.30 (6,082.8940)
2008	64.68 (8,497.6584)	19.35 (2,542.2030)

#### (b) Monthly High and Low Share Prices for Each of the Most Recent Six (6) Months in This Business Year

The following are the Xetra high and low closing sales prices for our ordinary shares during the periods shown:

<u>Month/Year</u>	Price per Share	
	<u>High</u>	<u>Low</u>
	(Euro(Yen))	
July 2008	42.56 (5,591.5328)	36.38 (4,779.6044)
August 2008	43.37 (5,697.9506)	36.64 (4,813.7632)
September 2008	42.62 (5,599.4156)	35.40 (4,650.8520)
October 2008	32.38 (4,254.0844)	19.35 (2,542.2030)
November 2008	28.09 (3,690.4642)	20.24 (2,659.1312)
December 2008	26.70 (3,507.8460)	22.43 (2,946.8534)

#### **4. Directors and Officers**

In accordance with the German Stock Corporation Act (*Aktiengesetz*), we have a two-tier board structure with a Supervisory Board (*Aufsichtsrat*) and a Board of Management (*Vorstand*). The two boards are separate and no individual may simultaneously serve as a member of both boards.

The Supervisory Board supervises and advises our Board of Management and appoints and removes its members. Although it may not make management decisions, our Supervisory Board has determined categories of transactions which require its approval. The Board of Management, which acts under the principle of collective responsibility, manages our day-to-day business. It is authorized to represent Daimler AG and to enter into binding agreements with third parties on its behalf.

Each of our Supervisory Board and our management board has adopted rules of procedure providing for additional rules relating to its governance.

##### **(a) The Supervisory Board**

As required by the German Stock Corporation Act (*Aktiengesetz*), the German Co-determination Act (*Mitbestimmungsgesetz*) and our articles of incorporation, our Supervisory Board consists of twenty members. Ten members are elected by our shareholders at the general meeting of shareholders and ten members are elected by our employees. Any member of our Supervisory Board elected by our shareholders may be removed by a majority of the votes cast at a general meeting of shareholders. Any member of our Supervisory Board elected by our employees may be removed by three quarters of the votes cast by the electoral delegates representing the employees.

The Supervisory Board elects a chairman and a deputy chairman from among its members. Unless the board elects candidates for chairman and deputy chairman with at least a two-thirds majority of votes cast, the representatives of the shareholders have the right to elect the chairman and the representatives of the employees have the right to elect the deputy chairman with simple majority votes cast.

At least half of the total number of members of the Supervisory Board, in our case at least ten, must be present or participate in decision-making to constitute a quorum. Unless otherwise provided for by law, the Supervisory Board passes resolutions by a simple majority of the votes cast. In the event of a deadlock, passing a resolution requires another vote and, in the case of a second deadlock, the chairman of the Supervisory Board casts the deciding vote. A member of the Supervisory Board is under a duty to disclose any material interest the member has in proposals, arrangements or contracts between us and third parties.

Under German corporate law, the maximum permissible term of office for members of a Supervisory Board is five years. If appointed for the maximum permissible term, a member's term expires at the end of the annual general shareholders' meeting resolving upon ratification of the acts of such member for the fourth fiscal year following the year in which the Supervisory Board member was elected. Supervisory board members may be re-elected and are not subject to a compulsory retirement age. The rules of procedure for our Supervisory Board, however, provide that future candidates under consideration for a full term of office on our Supervisory Board should generally not exceed the age of 68 at the time of their election.

The following individuals either joined or resigned from the Supervisory Board in 2008:

- Gerd Rheude resigned from the Supervisory Board, effective April 9, 2008;

- Wolf-Jürgen Röder resigned from the Supervisory Board, effective April 9, 2008;
- Jörg Hofmann was appointed to the Supervisory Board, effective April 9, 2008; and
- Ansgar Osseforth was appointed to the Supervisory Board, effective April 9, 2008.

All other members of the Supervisory Board whose terms expired in 2008 were re-elected to the Supervisory Board. Sari Baldauf and Jürgen Hambrecht, who had been appointed by the local district court as members of the Supervisory Board, effective on February 11, 2008, and on February 8, 2008, respectively, for a term ending with the annual general meeting held on April 9, 2008, were elected to the Supervisory Board at that annual general meeting.

In addition, the following changes occurred since year-end 2008:

- At the close of the Annual Meeting of the shareholders on April 8, 2009, the period of office terminated for Mr. William A. Owens, Dr. Manfred Schneider, Mr. Bernhard Walter, Mr. Lynton R. Wilson and Dr. Mark Wössner as members of the Supervisory Board representing the shareholders.
- On April 8, 2009, the Annual Meeting of our shareholders re-elected Dr. Manfred Schneider, Mr. Bernhard Walter and Mr. Lynton R. Wilson to the Supervisory Board.
- On the same date, the Annual Meeting of our shareholders elected Mr. Gerard Kleisterlee and Mr. Lloyd G. Trotter as shareholder representatives to the Supervisory Board.

As of December 31, 2008, the members of the Supervisory Board held a total of 0.1 million shares, options or stock appreciation rights of Daimler AG (0.08% of the shares issued).

The following table shows the members of our Supervisory Board as of April 9, 2009. Employee representatives are identified by an asterisk.

<b>Name (Birthday mm/dd/yyyy)</b>	<b>Position/ Responsibility at the Company</b>	<b>Brief Resume / First appointed / Term expires</b>
Dr. Manfred BISCHOFF (04/22/1942)	Chairman	Former Chairman of the Board of EADS First appointed: 04/12/2006 Term expires: 2011
Erich KLEMM* (04/25/1954)	Deputy Chairman of the Supervisory Board	Chairman of the General Works Council, Daimler AG and Daimler Group First appointed: 12/15/1998 Term expires: 2013
Sari Maritta BALDAUF (08/10/1955)	—	Former Executive Vice President and General Manager of the Networks Business Group of Nokia Corporation First appointed: 02/11/2008 Term expires: 2013
Dr. Clemens BÖRSIG (07/27/1948)	—	Chairman of the Supervisory Board of Deutsche Bank AG First appointed: 04/04/2007 Term expires: 2012

Prof. Dr. Heinrich FLEGEL* (10/13/1948)	—	Director Research Materials and Manufacturing, Daimler AG; Chairman of the Management Representative Committee, Daimler Group First appointed: 04/09/2003 Term expires: 2013
Dr. Jürgen HAMBRECHT (08/20/1946)	—	Chairman of the Board of Executive Directors of BASF SE First appointed: 02/08/2008 Term expires: 2013
Jörg HOFMANN* (12/03/1955)	—	District Manager of German Metalworkers' Union Baden-Württemberg (IG Metall) First appointed: 04/09/2008 Term expires: 2013
Dr. Thomas KLEBE* (08/14/1948)	—	General Counsel of the German Metalworkers' Union First appointed: 04/09/2003 Term expires: 2013
Gerard KLEISTERLEE (09/28/1946)	—	President and Chief Executive Officer of Royal Philips Electronics First appointed: 04/08/2009 Term expires: 2014
Arnaud LAGARDÈRE (03/18/1961)	—	General Partner and CEO of Lagardère SCA First appointed: 04/06/2005 Term expires: 2010
Jürgen LANGER* (11/07/1954)	—	Chairman of the Works Council of the Frankfurt/Offenbach Dealership, Daimler AG First appointed: 04/09/2003 Term expires: 2013
Helmut LENSE* (11/26/1951)	—	Chairman of the Works Council, Stuttgart- Untertürkheim Plant, Daimler AG First appointed: 12/15/1998 Term expires: 2013
Ansgar OSSEFORTH* (11/10/1946)	—	Member of the Works Council Sindelfingen Plant, Daimler AG First appointed: 04/09/2008 Term expires: 2013
Valter SANCHES* (02/02/1964)	—	General Secretary of Confederação Nacional dos Metalúrgicos/CUT (National Confederation of Metalworkers Brazil) First appointed: 11/21/2007 Term expires: 2013

Dr. rer. pol. Manfred SCHNEIDER (12/21/1938)	—	Chairman of the Supervisory Board of Bayer AG First appointed: 05/18/1999 Term expires: 2011
Stefan SCHWAAB* (05/09/1952)	—	Vice Chairman of the Works Council, Gaggenau Plant, Daimler AG; Vice Chairman of the General Works Council, Daimler AG and Daimler Group First appointed: 10/26/2000 Term expires: 2013
Lloyd G. TROTTER (04/09/1945)	—	Former Vice Chairman of General Electric; President & Chief Executive Officer of the General Electric Group's Industrial Division First appointed: 04/08/2009 Term expires: 2014
Bernhard WALTER (03/03/1942)	—	Former Spokesman of the Board of Management of Dresdner Bank AG First appointed: 05/18/1999 Term expires: 2014
Uwe WERNER* (10/11/1952)	—	Chairman of the Works Council, Bremen Plant, Daimler AG First appointed: 10/01/2007 Term expires: 2013
Lynton R. WILSON (04/03/1940)	—	Chairman of the Board of CAE Inc.; Chairman Emeritus, Nortel Networks Corporation; Chancellor, McMaster University First appointed: 05/18/1999 Term expires: 2011

\* Employee representatives

The Supervisory Board held seven meetings in 2008. It has established and maintains the following committees responsible for audit, nomination and compensation matters:

- The *presidential committee* (Präsidialausschuss) determines the compensation of the members of the Board of Management within the framework of the compensation system approved by the Supervisory Board. In particular, the presidential committee determines salaries and incentive compensation awards for members of the Board of Management. The current members of the presidential committee are Manfred Bischoff, Thomas Klebe, Erich Klemm and Manfred Schneider. The presidential committee held two meetings in 2008.
- The *audit committee* (Prüfungsausschuss) according to German law nominates our independent auditors and our Supervisory Board recommends their appointment to the annual general meeting of our shareholders. After our shareholders appoint the independent auditors, the audit committee formally engages them, determines their compensation and reviews the scope of the external audit. The audit committee also reviews our annual, half-year and quarterly reports and financial statements, taking into

account the results of any audits or reviews performed by the independent auditors. The committee also maintains procedures for dealing with complaints regarding accounting, internal controls and auditing matters and for the confidential and anonymous submission of communications from company employees concerning questionable accounting and auditing matters. The current members of the audit committee are Bernhard Walter, Clemens Börsig, Erich Klemm and Stefan Schwaab. The audit committee held six meetings in 2008.

- In December 2007, the Supervisory Board established a *nomination committee* (Nominierungsausschuss) in accordance with the requirements of the German Corporate Governance Code. The nomination committee, which consists exclusively of shareholder representatives of the Supervisory Board, recommends candidates as future shareholder representatives of the Supervisory Board. The current members of the nomination committee are Manfred Bischoff, Manfred Schneider and Lynton R. Wilson. The nomination committee held two meetings in 2008.

As required by the German Co-determination Act, we also have a *mediation committee* (Vermittlungsausschuss). The committee was not required to take action in 2008. The charge of the mediation committee is to resolve any impasse among the members of the Supervisory Board in the event the Supervisory Board is unable to achieve the two-thirds supermajority vote of its members required to appoint or dismiss a member of the Board of Management. The current members of the mediation committee are Manfred Bischoff, Thomas Klebe, Erich Klemm and Manfred Schneider.

The business address of the members of our Supervisory Board is the same as our business address, which is Mercedesstrasse 137, 70327 Stuttgart, Germany.

## **(b) The Board of Management**

Our articles of incorporation require our Board of Management to have at least two members. Our Supervisory Board determines the size of the Board of Management and appoints its members and deputy members, all of whom have the same rights and duties. Our Board of Management currently has five members.

Although the German Stock Corporation Act permits five year terms for members of the Board of Management, our Supervisory Board decided to limit, as a general rule, appointments and reappointments of members of the Board of Management to a period of three years. Once a member of our Board of Management has reached age 60, the Supervisory Board may reappoint that member only in one-year increments, except in special circumstances. The Supervisory Board may remove a member of the Board of Management prior to the expiration of his term if he commits a serious breach of duty, if the member is incapable of carrying out his duties or if there is a vote of no confidence by a majority of the votes cast at a general meeting of shareholders.

A member of the Board of Management is under a duty to disclose any material interest the member has in proposals, arrangements or contracts between us and third parties. Significant transactions between a member of the Board of Management and us or one of our subsidiaries require the approval of the Supervisory Board.

In December 2008, the Supervisory Board appointed Wilfried Porth (49) as the member of the Board of Management responsible for Human Resources and to serve as Labor Relations Director, effective as of the end of the annual general meeting held on April 8, 2009. Wilfried Porth succeeded Günther Fleig who retired from the Board of Management, effective as of

the end of the annual general meeting held on April 8, 2009.

Dr. Rüdiger Grube, member of the Board of Management responsible for Corporate Development left the Board of Management by the end of April 30, 2009 and assumed responsibility as CEO of Deutsche Bahn AG as of May 1, 2009.

As of December 31, 2008, the members of the Board of Management held a total of 2.8 million shares, options or stock appreciation rights of Daimler AG (0.29% of the shares issued).

The table below shows each member of our Board of Management as of May 1, 2009:

<b>Name (Birthday mm/dd/yyyy)</b>	<b>Position/ Responsibility</b>	<b>Brief Resume / First appointed to current position/ Term expires</b>
Dr.-Ing. Dieter ZETSCHKE (05/05/1953)	Chairman of the Board of Management and Head of Mercedes- Benz Cars	Joined Daimler-Benz in 1976 First appointed: 01/01/2006 Term expires: 2010
Wilfried PORTH (02/02/1959)	Human Resources & Labor Relations Director	Joined Daimler-Benz in 1985 First appointed: 04/08/2009 Term expires: 2012
Andreas RENSCHLER (03/29/1958)	Daimler Trucks	Joined Daimler-Benz in 1988 First appointed: 10/01/2004 Term expires: 2010
Bodo UEBBER (08/18/1959)	Finance & Controlling / Daimler Financial Services	Joined Daimler-Benz in 1985 First appointed: 12/16/2004 Term expires: 2011
Dr.-Ing. Thomas WEBER (05/26/1954)	Group Research & Mercedes-Benz Cars Development	Joined Daimler-Benz in 1987 First appointed: 05/01/2004 Term expires: 2010

For further information, especially regarding remuneration, retirement provisions and benefits upon termination of service, please read the compensation report hereunder.

### **(c) Compensation of the Supervisory Board and Board of Management**

#### ***Supervisory Board***

The compensation we pay to our Supervisory Board members is determined by resolution of the shareholders' meeting as laid down in the articles of incorporation. Each member of our Supervisory Board receives €100,000 annually for serving on the board plus reimbursement of expenses and of the cost of any value added tax incurred in performance of the office. The chairman of our Supervisory Board receives three times that amount. We pay twice this amount to the deputy chairman of the Supervisory Board and the chairman of the audit committee, 1.5 times this amount to the chairmen of other Supervisory Board committees and for members of the audit committee, and 1.3 times this amount to members of all other Supervisory Board committees. If a member of the Supervisory Board occupies more than one of these positions, we only pay the compensation payable for the highest paying function

held by that member. We only compensate a member for service on a committee if the relevant committee has held at least one meeting in the relevant fiscal year to discharge its duties. All members of the Supervisory Board receive a flat fee of €1,100 for each meeting of the Supervisory Board and each committee meeting they attend. Supervisory board members receive no benefits upon termination of their service.

The following table sets forth the compensation we paid members of our Supervisory Board for services to Daimler in all capacities (other than compensation paid to employee representatives on the Supervisory Board in their capacity as Daimler employees) for the year ended December 31, 2008, as disclosed in accordance with the German Corporate Governance Code.

<b>Name</b>	<b>Function(s)</b>	<b>Total 2008 (in €)</b>
Dr. Manfred Bischoff <sup>1</sup>	Chairman of the Supervisory Board, the Presidential Committee and the Nomination Committee	313,200
Erich Klemm <sup>2</sup>	Deputy Chairman of the Supervisory Board, the Presidential Committee and the Audit Committee	217,600
Sari Baldauf	Member of the Supervisory Board (since February 11, 2008)	96,498
Dr. Clemens Börsig	Member of the Supervisory Board and the Audit Committee	164,300
Prof. Dr. Heinrich Flegel	Member of the Supervisory Board	108,800
Dr. Jürgen Hambrecht	Member of the Supervisory Board (since February 8, 2008)	95,117
Jörg Hofmann <sup>2</sup>	Member of the Supervisory Board (since April 9, 2008)	79,551
Dr. Thomas Klebe <sup>2, 4</sup>	Member of the Supervisory Board and the Presidential Committee	154,700
Arnaud Lagardère <sup>1</sup>	Member of the Supervisory Board	103,300
Jürgen Langer <sup>2</sup>	Member of the Supervisory Board	108,800
Helmut Lense <sup>2</sup>	Member of the Supervisory Board	108,800
Ansgar Osseforth <sup>6</sup>	Member of the Supervisory Board (since April 9, 2008)	80,651
William A. Owens	Member of the Supervisory Board	108,800
Gerd Rheude <sup>2</sup>	Member of the Supervisory Board (until April 9, 2008)	28,422
Wolf-Jürgen Röder <sup>2</sup>	Member of the Supervisory Board (until April 9, 2008)	28,422
Valter Sanches <sup>3</sup>	Member of the Supervisory Board	107,700
Dr. Manfred Schneider	Member of the Supervisory Board, the Presidential Committee and the	142,100

	Nomination Committee	
Stefan Schwaab <sup>2</sup>	Member of the Supervisory Board and the Audit Committee	165,400
Bernhard Walter	Member of the Supervisory Board and Chairman of the Audit Committee	215,400
Uwe Werner <sup>2</sup>	Member of the Supervisory Board	108,800
Lynton R. Wilson <sup>5</sup>	Member of the Supervisory Board and the Nomination Committee	147,415
Dr. Mark Wössner	Member of the Supervisory Board	107,700

- 1 Dr. Bischoff (until April 5, 2007) and Mr. Lagardère also received compensation in 2008 (for 2007) and meeting fees (for 2008) in connection with their respective positions on the Board of Directors of EADS amounting to €46,375 and €178,109, respectively.
- 2 These employee representatives have stated that their board compensation will be transferred to the Hans-Böckler Foundation, in accordance with the guidelines of the German Trade Union Federation. The Hans-Böckler Foundation is a German not-for-profit organization of the German Trade Union Federation.
- 3 Mr. Sanches has directed that his board compensation shall be paid to the Hans-Böckler Foundation.
- 4 The compensation paid to Dr. Klebe includes compensation and meeting fees of €13,700 for his board services at Daimler Luft- und Raumfahrt Holding AG. These compensation and fees will also be transferred to the Hans-Böckler Foundation.
- 5 The compensation paid to Mr. Wilson includes €1,924 for his board services at Mercedes-Benz Canada Inc.
- 6 Mr. Osseforth has directed that a portion of his board compensation shall be paid to a foundation called Treuhandstiftung Erwachsenenbildung.

### ***Board of Management***

We have entered into service agreements with members of our Board of Management. Pursuant to the compensation structure adopted by the Supervisory Board, the 2008 compensation consisted of the following three principal elements:

- ***Base Salary*** — Base salaries are established based on the responsibilities of the respective member of the Board of Management. Base salaries as well as total compensation are reviewed annually based on a comparative analysis of compensation paid by a select peer group of international companies.
- ***Annual Bonus*** — The annual bonus is a variable cash compensation component, 50% of which is determined by the degree to which Daimler's planned EBIT for the most recent financial year is achieved and 50% of which is determined by comparing the actual EBIT for that year with the prior year's EBIT. Bonuses are expressed as a percentage of base salary and may be adjusted, upward or downward, based on total shareholder return, and individual performance. In this regard, the Supervisory Board also established individual targets for the members of the Board of Management in order to fully implement and enforce all compliance policies and guidelines of the company and to ensure all necessary measures to establish a sustainable compliance environment. The achievement of compliance targets cannot increase the annual bonus, i.e., even if targets are fully achieved, the effect on compensation is neutral. If compliance targets are not accomplished, however, annual bonuses will be reduced accordingly.
- ***Performance Phantom Share Plan (PPSP)*** — Under the PPSP, we award phantom shares to members of our Board of Management and other executives. Three years after an award grant to a plan participant, the actual number of phantom shares to be credited

to that participant is calculated based on the achievement of corporate performance goals. These performance goals are based on Daimler's actual return on net assets and return on sales, the latter compared to a peer group of other vehicle manufacturers (BMW, Ford, General Motors, Honda, Toyota, AB Volvo and Volkswagen). Once we have calculated the number of phantom shares earned by the participant based on the plan conditions that were previously defined at the grant date, he or she must hold the phantom shares for one additional year after which the participant receives a cash payment equal to the product of the number of phantom shares and the average of the Daimler share price over a specified period. A dividend equivalent is paid during the four-year holding period. We require members of our Board of Management to use half of the net payout under our PPSP to purchase Daimler ordinary shares until the requirements of our share ownership guidelines described below are satisfied.

The presidential committee of our Supervisory Board has established stock ownership guidelines for the Board of Management. These guidelines require a portion of the personal assets of members of our Board of Management to consist of Daimler shares throughout the period of their board membership.

The compensation paid by Group companies to the members of our Board of Management consisted of compensation paid in cash, the grant value of long term incentive components and benefits in kind. The latter consist mainly of the provision of company cars and payment of expenses for security precautions.

The following table shows the base salary and the variable compensation of the members of the Board of Management for the year 2008. The presentation in the table below complies with German Accounting Standard DRS 17. In line with DRS 17, we present the long-term share-based compensation based on the value of the phantom shares at the time they were granted in February 2008. The number of phantom shares allocated to a particular Board of Management member may change by the time of the payout in 2012. Whether and to what extent there is a payout depends on whether internal and external performance targets during the relevant period are achieved.

			<b>Long-term variable compensation</b> (Performance Phantom Share Plan PPSP)		
<small>in thousands of euro, except for Number of PPSPs</small>	<b>Base Salary</b>	<b>Short-term variable compensation (Annual bonus)</b>	<b>Number</b>	<b>Value when PPSPs granted (at a share price of €55.80)</b>	<b>Total</b>
Dr. Dieter Zetsche	1,530	494	50,164	2,799	<b>4,823</b>
Günther Fleig	545	199	21,297	1,188	<b>1,932</b>
Dr. Rüdiger Grube	560	203	20,613	1,150	<b>1,913</b>
Andreas Renschler	575	207	22,392	1,250	<b>2,032</b>
Bodo Uebber	660	233	23,988	1,339	<b>2,232</b>
Dr. Thomas Weber	545	199	21,297	1,188	<b>1,932</b>
<b>Total</b>	<b>4,415</b>	<b>1,535</b>	<b>159,751</b>	<b>8,914</b>	<b>14,864</b>

The value of phantom shares granted in February 2008 was €4,230,000 (valued as of

December 31, 2008). For example, the value granted to the chairman of the Board of Management was €1,328,342 as of December 31, 2008.

The costs to us in 2008 of taxable non-cash benefits granted to members of the Board of Management, primarily the provision of company cars and expenses for security measures, are as set forth in the table below:

in thousands of euro	<b>Taxable non-cash benefits</b>
Dr. Dieter Zetsche	213
Günther Fleig	159
Dr. Rüdiger Grube <sup>1</sup>	103
Andreas Renschler	881
Bodo Uebber	130
Dr. Thomas Weber	311
<b>Total</b>	<b>1,797</b>

1 After subtraction of €9,000 for Supervisory Board fees received.

*Retirement Provisions.* Until the end of 2005, our German Board of Management members had pension agreements which included a commitment to an annual retirement pension, calculated contingent on the years of service as a percentage of the member's base salary (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). Those pension rights remain, but have been frozen at that level. Retirement pensions start at request if the term of service ends at or after the age of 60, or are paid as disability pensions if the term of service ends before age 60 due to disability. The agreements provide for a 3.5% annual increase in benefits. Similar to retirement pensions payable under arrangements with our German workforce, a provision for widows and orphans is included.

Effective January 1, 2006, for service in 2006 and beyond, we substituted the pension agreements with a defined-contribution pension system similar to the one existing for senior management below the Board of Management level. Under this 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 equivalent to a certain rate of return, at present 6%. This pension benefit is payable at the age of 60 at the earliest.

The following table sets forth the 2008 service costs of the pension plans for our Board of Management:

in thousands of euro	<b>Service costs in connection with pension plans<sup>1</sup></b>
Dr. Dieter Zetsche	696
Günther Fleig	365
Dr. Rüdiger Grube	426
Andreas Renschler	262
Bodo Uebber	464
Dr. Thomas Weber	272
<b>Total</b>	<b>2,485</b>

<sup>1</sup> Service costs represent the increase in 2008 of the present value of the defined pension benefit obligation resulting from service of the respective member of the Board of Management in 2008. Service costs do not include interest costs, i.e., the increase in 2008 of the present value of the defined pension benefit obligation arising from the fact that the benefit obligation with respect to the respective board member is one year closer to settlement.

The overall accrual at December 31, 2008 to provide pension, retirement and similar benefits to members of our Board of Management was €2.9 million lower than at December 31, 2007.

*Significant benefits to Board of Management members upon termination of their services.*

No severance payments are established for Board of Management members in case of early termination of their service contracts. If a service contract with a member of the Board of Management is terminated early by mutual consent, we have a commitment under the service contract to pay the base salary and to provide a company car until the end of the original service period. With respect to short-term performance-based compensation, the member is only entitled to a pro-rata payment for the respective fiscal year until the day when the Board of Management member leaves the company. Whether the member is entitled to receive any payment with respect to performance-related compensation components with a long-term incentive effect depends on the exercise conditions specified in the respective long-term incentive plan.

If the service contract of any of the current Board of Management members expires and is not extended, in general the member will be entitled to receive pension payments and a company car for the period beginning after the end of the service period.

For further information regarding compensation of our Supervisory Board and our Board of Management, please refer to Note 35 to our Consolidated Financial Statements. For further information regarding stock based compensation and incentives, please refer to Notes 1 and 20 to our Consolidated Financial Statements.

## **5. Description of Corporate Governance, etc.**

### **(1) Description of Corporate Governance**

**I Corporate Governance at Daimler** Daimler's Board of Management and Supervisory Board are committed to the principles of good corporate governance. All of our activities are based on the principles of responsible, transparent and sustainable management and supervision. In this way, we aim to fulfill the legitimate demands of our shareholders. On the following pages, the Board of Management and the Supervisory Board explain Daimler's internationally oriented system of corporate governance. Further information can be found on our website at [www.daimler.com/corpgov\\_e](http://www.daimler.com/corpgov_e).

#### **(a) General Conditions**

Daimler AG is a stock corporation with its domicile in Germany. The legal framework for corporate governance therefore derives from German law, in particular the Stock Corporation Act, the Codetermination Act and legislation concerning capital markets, as well as from the Articles of Incorporation of Daimler AG. Additionally, the German Corporate Governance Code states suggestions and recommendations for good corporate governance. In case of non-compliance with its recommendations, stock corporations listed on a German Stock Exchange have to disclose such non-compliance.

As our shares are also listed on the New York Stock Exchange, we are obliged to adhere to the capital-market legislation and listing requirements applicable in the United States. A description of the differences between Daimler's corporate governance principles and those applicable to US companies under NYSE corporate governance listing standards can be seen on our website at [www.daimler.com/corpgov\\_e](http://www.daimler.com/corpgov_e).

#### **(b) Daimler's corporate bodies**

*Shareholders and the General Shareholders' Meeting.* The company's shareholders exercise their rights and cast their votes in the General Shareholders' Meeting. Each share in Daimler AG entitles its owner to one vote. There are no Daimler shares with multiple voting rights, no preferred stock, and no maximum voting rights.

Various important decisions can only be made by the General Shareholders' Meeting. These include the decision on the appropriation of distributable profits, the ratification of the actions of the members of the Board of Management and the Supervisory Board, the election of the external auditors and the election of members of the Supervisory Board representing the shareholders. The General Shareholders' Meeting also makes other decisions, especially on amendments to the Articles of Incorporation, capital measures, and the approval of certain intercompany agreements.

The influence of the General Shareholders' Meeting on the management of the company is limited by law, however. The General Shareholders' Meeting can only make management decisions if it is requested to do so by the Board of Management.

*Separation of corporate management and supervision.* Daimler AG is obliged by the German Stock Corporation Act to apply a dual management system featuring the strict separation of the two boards responsible for managing and supervising the company (two-tier board). With this system, the company's Board of Management is responsible for the executive functions, while the Supervisory Board monitors the Board of Management. No person may be a member of the two boards at the same time.

*Supervisory Board.* In accordance with the German Codetermination Act, the Supervisory Board of Daimler AG comprises 20 members. Half of them are elected by the shareholders at the General Meeting. The other half comprises members who are elected by the company's employees who work in Germany.

The members representing the shareholders and the members representing the employees are equally obliged by law to act in the company's best interests. The Supervisory Board has also decided that more than half of the members of the Supervisory Board representing the shareholders are to be independent in order to ensure that the Board of Management is advised and monitored independently. The Supervisory Board of Daimler AG fulfills this criterion in its present composition.

The Supervisory Board monitors and advises the Board of Management in its management of the company. It has given itself a set of rules of procedure, has retained the right of approval for transactions of fundamental importance, and has explicitly formulated the Board of Management's duties of information and reporting. The Supervisory Board's duties also include appointing and recalling members of the Board of Management, as well as deciding on their individual remuneration, whereby setting the details of the remuneration of the Board of Management's members is delegated to the Presidential Committee. The competence to pass resolutions on the structure of the Board of Management's remuneration system and the key contractual elements was returned from the Audit Committee to the plenum of the Supervisory Board due to changes in the German Corporate Governance Code that were made in the summer of 2008. The Supervisory Board also reviews the individual and consolidated annual financial statements and reports to the Annual Shareholders' Meeting on the results of its review.

The work of the Supervisory Board is coordinated by its chairman. The Supervisory Board has formed four committees: the Presidential Committee, the Nomination Committee, the Audit Committee and the Mediation Committee.

*The Presidential Committee* has particular responsibility for the contractual affairs of the members of the Board of Management and for determining the details of their individual remuneration. It advises and decides on questions of corporate governance, on which it also makes recommendations to the Supervisory Board. In addition, the Presidential Committee supports and advises the Chairman of the Supervisory Board and his deputy, and prepares the meetings of the Supervisory Board.

*The Nomination Committee*, which is the only Supervisory Board Committee comprised solely of members representing the shareholders, makes recommendations to the Supervisory Board concerning persons to be proposed for election as members of the Supervisory Board at the General Shareholders' Meeting and defines the requirements for each specific position to be occupied.

*The Audit Committee* deals with questions of accounting, risk management, internal auditing, compliance and the annual external audit. At least once a year, it discusses with the Board of Management and the external auditors the effectiveness of the internal control systems and the risk management system, and regularly receives reports on the work of the Corporate Audit department. In addition, the Audit Committee has established procedures for dealing with complaints about accounting and the internal control systems and receives regular reports about such complaints and how they are dealt with. It also discusses the interim reports with the Board of Management before they are published, and reviews the annual financial statements, individual and consolidated, of Daimler AG. The Audit Committee is informed by the Board of Management about the Group's financial disclosure and discusses this matter. It makes recommendations concerning the selection of external auditors, assesses such auditors'

suitability and independence, and, after the external auditors are elected by the Annual Meeting, it commissions them to conduct the annual audit of the individual and consolidated financial statements and to review the interim reports, negotiates an audit fee, and determines the focus of the annual audit. The Audit Committee receives reports from the external auditors on any accounting matters that might be regarded as critical and on any differences of opinion with the Board of Management. In addition, it makes recommendations to the Supervisory Board, concerning for example the appropriation of distributable profits and capital measures. Finally, the Audit Committee approves services provided to Daimler AG or to companies of the Daimler Group by the firm of external auditors or its affiliates that are not directly related to the annual audit.

The Supervisory Board is convinced of the independence of the members of the Audit Committee representing the shareholders. The Chairman of the Audit Committee, Mr. Bernhard Walter, has special expertise and experience in the application of accounting principles and internal control systems. Therefore, the Supervisory Board has appointed Mr. Walter as its Financial Expert, as defined by the Sarbanes Oxley Act.

*The Mediation Committee* is formed solely to perform the functions laid down in Section 31, Subsection 3 of the German Codetermination Act. Accordingly, the Mediation Committee has the task of making proposals for the appointment of members of the Board of Management if a previous proposal did not obtain the legally prescribed majority of votes.

*Board of Management.* As of December 31, 2008, the Board of Management of Daimler AG comprised six members, as of May 1, 2009 only five. The duties of the Board of Management include setting the Group's strategic focus and managing its business. It is also responsible for preparing the individual and consolidated financial statements and the interim financial statements, and for installing and monitoring a risk management system. The Rules of Procedure define the areas of responsibility of the Board of Management and its members; these are described in section "V. Description of the Company," in "4. Directors and Officers" under "(b) The Board of Management."

With regard to the compensation of the board members, please refer to "(c) Compensation of the Supervisory Board and Board of Management" of "4. Directors and Officers" in "V. Description of the Company."

### **(c) Principles guiding our activities**

*Integrity Code.* The Integrity Code is a set of guidelines for behavior, which has been in effect since 1999 and was revised in 2003, defining a binding framework for the actions of all our employees worldwide. Among other things, the guidelines define correct behavior in international business and in any cases of conflicts of interest, questions of equal treatment, proscription of corruption, the role of internal control systems and the duty to comply with applicable law as well as other internal and external regulations. Daimler expects all of its employees to adhere strictly to the provisions of the Integrity Code.

*Code of Ethics.* We introduced our Code of Ethics in July 2003. This code addresses the members of the Board of Management and persons with special responsibility for the contents of financial disclosure. The provisions of the code aim to prevent mistakes by the persons addressed and to promote ethical behavior as well as the complete, appropriate, accurate, timely and clear disclosure of information on the Group. The wording of the Code of Ethics can be seen on our website at [www.daimler.com/corpgov\\_e](http://www.daimler.com/corpgov_e).

*Risk management.* Daimler has a risk management system commensurate with its position as a company with global operations. The risk management system is one component of the overall

planning, controlling and reporting process. Its goal is to enable the company's management to recognize significant risks at an early stage and to initiate appropriate countermeasures in a timely manner. The Chairman of the Supervisory Board has regular contacts with the Board of Management to discuss not only the Group's strategy and business development, but also the issue of risk management. The Corporate Audit department monitors adherence to the legal framework and Group standards by means of targeted audits and initiates appropriate actions as required.

*Accounting principles.* The consolidated financial statements of the Daimler Group are prepared in accordance with the International Financial Reporting Standards (IFRS). Details of the IFRS can be found in this Securities Report in the Notes to the Consolidated Financial Statements (see Note 1).

The annual financial statements of Daimler AG, which is the parent company, are prepared in accordance with the accounting guidelines of the German Commercial Code (HGB). Both sets of financial statements are audited by external auditors.

*Transparency.* Daimler regularly informs its shareholders, financial analysts, shareholder associations, the media and the interested public about the situation of the Group and any significant changes in its business. We have posted an overview of all the significant information disclosed in the year 2008 on our website at [www.daimler.com/ir/annualdoc08](http://www.daimler.com/ir/annualdoc08).

*Fair disclosure.* All new facts that are communicated to financial analysts and institutional investors are simultaneously also made available to all shareholders and the interested public. If any information is made public outside Germany as a result of the regulations governing capital markets in the respective countries, we also make this information available without delay in Germany in the original version or at least in English. In order to ensure that information is provided quickly, Daimler makes use of the Internet and other methods of communication.

*Financial calendar.* All the dates of important disclosures (e.g. the Annual Report and interim reports) and the date of the Annual Meeting are announced in advance in a financial calendar. The financial calendar can be seen inside the rear cover of this Annual Report attached to this Securities Report and on our website at [www.daimler.com/ir/calendar](http://www.daimler.com/ir/calendar).

*Ad-hoc disclosure.* In addition to its regular scheduled reporting, Daimler discloses, in accordance with applicable law and without delay, any so-called insider information that relates directly to the company.

*Major shareholdings.* Daimler also reports without delay after receiving notification that by means of acquisition, disposal or any other method, the shareholding in Daimler AG of any person or entity has reached, exceeded or fallen below 3, 5, 10, 15, 20, 25, 30, 50 or 75 percent of the company's voting rights.

*Shares held by the Board of Management and the Supervisory Board.* As of December 31, 2008, the members of the Board of Management held a total of 2.8 million shares, options or stock appreciation rights of Daimler AG (0.29% of the shares issued). As of the same date, members of the Supervisory Board held a total of 0.1 million shares, options or stock appreciation rights of Daimler AG (0.08% of the shares issued).

*Directors' dealings.* Daimler discloses without undue delay after receiving respective notification the transactions in shares of Daimler AG or related financial instruments involving members of the Board of Management and the Supervisory Board (and, pursuant to the provisions of the German Securities Trading Act, involving persons in a close relationship with the aforementioned persons). In 2008, nine of such transactions took place and have been disclosed on our website. A table of directors' dealings in 2008 is also disclosed in the Daimler Annual Report 2008. Information about directors' dealings in the current year is

available on our website at [www.daimler.com/corpgov\\_e](http://www.daimler.com/corpgov_e).

#### **(d) Liability Limitation Agreements**

##### ***Board of Management and Supervisory Board***

Daimler AG has relieved its board members of liability only in cases that do not involve infringements of duty. The Company has not set any further liability limits for members of the Board of Management or Supervisory Board.

##### ***Independent Auditor***

With respect to the statutory audits of Daimler's (Single and Consolidated) Financial Statements according to applicable GAAP, Section 323, Subsection 2 of the German Commercial Code applies, which limits the liability of the independent auditor KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG AG) for acts of negligence (including gross negligence) to €4 million.

The limitation of liability of KPMG does not apply to the audit services performed under the standards of the Public Company Accounting Oversight Board (United States).

## **II Compliance at Daimler**

*Our understanding of compliance and our principles.* By the term compliance, we understand the observance in all of our business activities of applicable laws and regulations, of the relevant internal guidelines and procedures, and of our own voluntary commitments.

We already formulated the Daimler Integrity Code in 1999. On the basis of our corporate values - Passion, Respect, Integrity and Discipline - this comprehensive code of conduct applies without exception to our entire workforce. In the year 2003, we updated the Integrity Code with the Principles of Social Responsibility and supplemented it with the Code of Ethics. The Integrity Code is supplemented and put into precise form with specific Corporate Policies and Guidelines, which transfer the principles of the Integrity Code with ethical or compliance relevance into explicit guidelines for behavior, and serve as a key aid to orientation in the complex field of business operations.

In the year 2008, the Board of Management approved a new form of policy management. This House of Policies brings together all of the Group's policies and guidelines and further facilitates their understanding, because all of the policies and guidelines will soon be additionally accessible in a central database on Daimler's intranet. The corporate policy framework describes the requirements placed on guidelines as well as the various duties and responsibilities in the new system of policy management.

*Further development of compliance organization.* At the beginning of 2008, Daimler AG took a further step to substantially strengthen its self-monitoring function with regard to ethically correct corporate management. Directly below the Board of Management, the upgraded position of Chief Compliance Officer was newly created at the level of senior vice president. In addition, the Corporate Compliance department was merged with the Legal Affairs department to form a new department under the name of Legal & Compliance (LC). In order to strengthen the sustained anchoring of compliance in all business units and central functions, at the end of the year we also decided to establish the Group Compliance Board (GCB), which replaces the previous Compliance Committee.

An independent external advisor supports and advises the Supervisory Board, the Audit Committee and the Board of Management with compliance issues.

*Systematic approach to the sustained fight against corruption.* In the context of the Group-wide risk strategy, the compliance risks relevant to Daimler are analyzed and evaluated. Based on the results obtained, decisions are made on the key points of the annual compliance program for the prevention and elimination of corruption.

To determine the necessary measures for the prevention of corruption, we carried out compliance reviews in sales companies and business units in several countries, starting in 2006. In 69 sales companies and business units (thereof 22 in 2008), we also established standardized monitoring systems which help to secure legally and ethically correct conduct. The effectiveness of these monitoring systems is assessed in audits carried out by our Corporate Auditing department. IT applications create transparency and help us to maintain the processes and monitoring mechanisms we have introduced.

In this context, we also appropriately expanded our worldwide network of local compliance managers (LCM). They support the local management with the maintenance of all the Group's compliance standards. We ensure they are independent of local management by means of close organizational links with Corporate Compliance in Stuttgart. The local compliance managers regularly report on the status and progress of the compliance programs in their business units.

As part of the further development of the Legal & Compliance department, the two existing global networks of local compliance managers and legal staff were merged in July 2008. This has enabled us to enhance our worldwide reach on the issue of compliance: we have meanwhile named 85 local compliance managers in 41 countries as competent contact persons in the respective companies.

Corporate Compliance provides support with the selection of new business partners by means of an appropriate preliminary audit in a due diligence process. This due diligence process culminates in clear recommendations made by the Legal & Compliance department.

In order to improve the transparency of government transactions, Daimler has implemented the Mandatory Consultation Process, which standardizes the required monitoring mechanisms. This enhances the efficiency and quality of processes to be carried out by the Group in connection with government transactions. Documentation is supported with a specially developed IT tool.

*Comprehensive compliance services.* A company with worldwide operations like the Daimler Group cannot guarantee compliance solely with a specialized headquarters department. It is also necessary that each individual employee is aware of his or her responsibility and behaves correctly. Executives have an additional special role, because staff members base their behavior on that of their superiors. The personal accountability of each individual member of staff or management in his or her area of responsibility is not transferrable and is part of the day-to-day business in the same way as other tasks. Compliance is therefore an integral and long-term component of Daimler's corporate culture.

Daimler provides its employees and executives with support in the fulfillment of their compliance responsibilities in day-to-day situations at all times. In addition to superiors and local contact persons, the Daimler Group currently has two main central departments for compliance matters: the Compliance Consultation Desk (CCD) and the Business Practices Office (BPO).

All of the Group's employees can contact the Compliance Consultation Desk with specific compliance questions. The most common questions and answers on the issue of compliance are accessible in the online database, QuISS. This allows all of our employees to make use of the experience gathered over the past three years at any time and in a structured form.

One of the tasks of the Business Practices Office, which has offices in Germany and the United States, is to receive, document and process complaints. This facility allows both Daimler employees and external persons to report any indications of possible misconduct confidentially and, if desired, anonymously.

After recording the details of such complaints, representatives of the Legal, Human Resources, Corporate Audit and Corporate Security departments discuss the matter and instigate internal investigations if necessary. In certain clearly defined cases, the Business Practices Committee then makes a decision on the basis of these investigations. The Business Practices Committee is composed of high-level executives from various areas of the Group.

There is no tolerance at Daimler for behavior that is against the law or contrary to applicable regulations. The possible consequences of any misconduct discovered include appropriate measures for training and communication and the correction of existing processes, as well as sanctions in accordance with the Group's policy of the "Zero Tolerance Principle" and the Group's guidelines on disciplinary actions. The status and position of the affected persons are irrelevant, because all of our employees are equally treated in accordance with the four principles of fairness, consistency, transparency and sustainability.

*Broad-based training and communication program.* Since 2006, more than 22,000 employees worldwide have attended training courses on compliance-relevant topics. We offer our employees courses tailored to the needs of the various target groups. In the year 2008, the scope of the courses was once again significantly broadened through the provision of additional e-learning modules.

We provide comprehensive information on the issue of compliance via the Group's internal media. The Board of Management of Daimler AG regularly makes statements on compliance in internal print and online media and at organized events, and emphasizes the importance of a functioning compliance program. The issue of compliance was also dealt with in detail in a special edition of our staff newspaper. This special edition had a print run of more than 230,000.

Furthermore, the Group's entire executive staff receives additional information and support via a quarterly compliance newsletter.

### **III Description of Audit Activities**

#### **(a) Organization and Procedures of Internal Audit Activities**

Corporate Audit is an independent and objective assurance and advisory function of Daimler Group and affiliate designed to support the optimization of the company's risk exposure and assess internal controls and processes regarding:

- compliance with applicable laws and regulations,
- compliance with internal and external policies and guidelines,
- safeguarding of corporate assets,
- reliability of internal and external reporting,
- effectiveness and efficiency of operations and administration.

The Head of Corporate Audit reports disciplinarily and functionally to the Chairman of the Board of Management. In addition, the Head of Corporate Audit reports to the Board of Management and periodically to the Audit Committee.

Corporate Audit derives its authority from the Board of Management. In order to execute its duties, Corporate Audit is authorized to have unrestricted access to all functions, records, property, and personnel in consideration to data protection regulations with respect to personal data.

Corporate Audit has 155 staff members worldwide. Engagements are conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. Corporate Audit's activities are also guided by Daimler's Integrity Code, Code of Ethics for Senior Management, and Principles of Corporate Social Responsibility.

Corporate Audit meets with the Company's external auditor on a regular basis to discuss the results of internal audits, the risk oriented audit approach it employs and new international regulatory requirements.

**(b) Interrelationships between the Company and the Independent Auditors**

The audit committee (Prüfungsausschuss) according to German law nominates our independent auditors and our Supervisory Board recommends their appointment to the annual general meeting of our shareholders. After our shareholders appoint the independent auditors, the audit committee formally engages them, determines their compensation and reviews the scope of the external audit (agreement on additional significant audit issues).

In 2003, our audit committee adopted a policy requiring management to obtain the Committee's approval before engaging our independent auditors to provide any other audit or permitted non-audit services to us or our subsidiaries. Pursuant to this policy, which is designed to assure that such engagements do not impair the independence of our auditors, the audit committee pre-approves annually a catalog of specific audit and non-audit services in the categories Audit Services, Audit Related Services, Tax Services, and Other Services that may be performed by our independent auditors. In addition, the audit committee limited the aggregate amount in fees our independent auditors may receive during the 2008 fiscal year for non-audit services in certain categories.

Our Chief Accounting Officer reviews all individual management requests to engage our independent auditors as a service provider in accordance with this catalog and, if the requested services are permitted pursuant to the catalog, approves the request accordingly. We inform the audit committee about these approvals on a quarterly basis. Services that are not included in the catalog require pre-approval by the audit committee chairman on a case-by-case basis. The audit committee's chairman is not permitted to approve any engagement of our independent auditors if the services to be performed either fall into a category of services that are not permitted by applicable law or the services would be inconsistent with maintaining the auditors' independence.

The company's audit committee also reviews our annual, half-year and quarterly reports and financial statements, taking into account the results of any audits or reviews performed by the independent auditors. The company's audit committee also maintains procedures for dealing with complaints regarding accounting, internal controls and auditing matters and for the confidential and anonymous submission of communications from company employees concerning questionable accounting and auditing matters.

For further information regarding the Audit Committee and the Supervisory Board as well as business relationships to those members, please also refer to section V. Description of the Company:

- subsection "1. Description of Shares, etc." under "(e) Related party transactions,"

- subsection “4. Directors and Officers” under “(a) The Supervisory Board,”
- and subsection “5. Description of Corporate Governance, etc” under “(1) Description of Corporate Governance - I Corporate Governance at Daimler.”

**(c) Description of Independent Auditors**

At the annual meeting held on April 9, 2008, our shareholders appointed KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, since October 1, 2008 KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG AG), to serve as our independent auditor for the 2008 fiscal year. The lead audit engagement partner for the 2008 fiscal year was Mr. Hans-Dieter Krauss, who has been succeeded by Mr. Mathieu Meyer since April 1, 2009, pursuant to the partner rotation rules established by the U.S. Securities and Exchange Commission and by German Commercial Law. The other partners and managers within the audit engagement team are German certified public accountants (Wirtschaftsprüfer) too, and supervise a number of senior and junior auditors. The audit engagement team further includes specialists in IT and taxes. Some of the partners within the engagement team are also subject to partner rotation rules in Germany and the U.S.

**(2) Details of Remuneration of Auditors, etc.**

The following table summarizes fees charged in connection with professional services provided by KPMG AG and other independent member firms within the international KPMG network for each of the last two fiscal years.

(€in millions)	Year ended December 31,	
	2008	2007
Audit Fees	50	63
Audit-Related Fees	2	3
Tax Fees	1	2
All Other Fees	2	3
<b>Total</b>	<b>55</b>	<b>71</b>

“*Audit Fees*” are the aggregate fees billed or expected to be billed for the audit of our consolidated and annual financial statements, the audit of internal control over financial reporting, reviews of interim financial statements, attestation services that are provided in connection with statutory and regulatory filings or engagements as well as business system controls audits.

“*Audit-Related Fees*” are fees billed for services rendered during the respective fiscal years for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under “Audit Fees.” This category comprises fees for agreed-upon procedure engagements and other attestation services subject to regulatory requirements as well as allowed advisory services associated with our financial reporting.

“*Tax Fees*” are fees billed for services rendered during the respective fiscal years for tax compliance services and tax consulting associated with international transfer prices.

“*All Other Fees*” are fees billed for services rendered during the respective fiscal years for advisory services in connection with our internal controls over financial reporting. This category also includes other immaterial support services.

## **VI. Financial Conditions**

The consolidated financial statements, prepared according to IFRS, and additional explanations required under Japanese law have been omitted. They are included on pages 121 to 326 of the original Japanese version.

## **VII. Trends in Foreign Exchange Rates**

Omitted because the foreign exchange rates between Yen and Euro, currency used in the Company's financial statements, have been published for the last 5 fiscal years and/or the last 6 months in more than one Japanese news papers concerning current events.

## **VIII. Summary of Share Handling, etc. in Japan**

### **1. Summary of Share Handling, etc. in Japan**

#### (1) Handling of the Shares

A rule concerning the Foreign Securities Transactions Account (the “Foreign Securities Transactions Account Rule”) between a person acquiring the Shares (a “Beneficial Shareholder”) and a securities company acting as broker for the acquisition of the Shares (the “Broker”) will provide for the opening of a foreign securities transactions account in the name of the Beneficial Shareholder (the “Transactions Account”). All matters relating to the trading, settlement of sale and purchase prices, custody of securities and other transactions in respect of the Shares shall be processed through the Transactions Account.

The following is a summary of the standard procedures for handling the Shares which are taken in accordance with the model of Foreign Securities Transactions Account Rule established by Tokyo Stock Exchange:

#### **(a) Custody of Shares**

The Shares will be registered in the name of the Deutsche Börse Clearing Aktiengesellschaft (the "Custodian") in Germany or its nominee on behalf of the Broker. The Beneficial Holder will be recorded as the holder in the Broker's book, and the Broker will issue a post-transaction balance report to the Beneficial Holder.

(b) Procedure for Transfer of Shares

The Beneficial Shareholder may place an order to change the custody of, or an order to sell, his holding. Settlement of transactions between the Beneficial Shareholder and the Broker will be made in Japanese yen, or foreign currencies designated by the Beneficial Shareholder to the extent that the Broker may accept such designation.

(c) Notices to Beneficial Shareholders

All notices and communications to be given or made by Daimler AG to its shareholders and received by the Broker will be maintained by the Broker and made available at the counter of the Broker for inspection by Beneficial Shareholders. If the Beneficial Shareholders wish to have these notices and communications, the Broker will send them to such Beneficial Shareholders, the actual expenses thereof being charged to such Beneficial Shareholders.

(2) Special Privileges to Shareholders

Not applicable.

(3) Restrictions on the Transfer of the Shares

Not applicable.

(4) Other Matters Concerning the Handling of Shares

(a) Close of Accounts:

December 31, each year.

(b) Annual Shareholders' Meeting:

The Annual Shareholders' meeting is held within the first eight months of the financial year at the registered office of the Company or other places permitted by applicable laws.

(c) Record Dates:

The Beneficial Shareholders entitled to receive dividends are those Beneficial Shareholders who are recorded in the Broker's book as of the day when the Shareholders entitled thereto are determined in Germany, which resolves the payment of the said dividend.

(d) Denominations of Share Certificates:

No par value registered ordinary shares. (The Company may issue certificates of shares representing one or more shares.)

(e) Charges Respecting Share Holdings:

The Beneficial Shareholders are required to pay the annual charge for opening and maintaining a Foreign Securities Transactions Account at a securities company in Japan as well as fees for the execution of specific transactions, pursuant to the Foreign Securities Transaction Account Agreement.

- (f) Newspaper in which Public Notice shall be made:  
No public notice is given in Japan.

## **2. Exercise of Rights of Beneficial Shareholders in Japan, etc.**

### (1) Places for Accepting Applications for Registration of Transfer of Shares and Transfer Agent in Japan

The Company has neither a transfer agent nor a place for handling transfers of share ownership in Japan.

### (2) Exercise of Voting Rights of Beneficial Shareholders

The right to vote will be exercised by the Custodian or its nominee in accordance with instructions given by the Beneficial Shareholders through the Broker. In the absence of instructions from the Beneficial Stockholders, no voting rights shall be exercised by the Custodian or its nominee.

### (3) Distribution of Dividends, etc.

In accordance with Foreign Securities Transactions Account Rule, the payment of cash dividends will be made to each Beneficial Shareholder through its Transactions Account, subject to receipt by the Broker of such dividends in a lump sum from the Custodian or its nominee.

### (4) Tax Treatment of Dividends, etc. in Japan

It should be noted that the tax treatment may be changed and that tax treatment of the Beneficial Shareholder may be different from the descriptions specified below, depending upon affairs particular to each Beneficial Shareholder. Each person should consult with his or her tax counsel with respect to the tax treatment to be applied him or her.

#### (a) Dividends

##### Individual Income Taxpayers:

Dividends to Beneficial Shareholders are basically treated as dividend income under the Japanese income tax laws. With respect to dividends to be received through a paying agent in Japan by individuals who are Japanese residents (excluding those having 5% or more of the aggregate number of issued shares), the balance of such dividends remaining after collection of the withholding tax in Germany or any local public entity thereof from the payment of such dividends in Germany, will be subject to (i) if such amounts are to be received by December 31, 2011, a 10 % Japanese income tax (including a 3% local income tax) and (ii) if such amounts are to be received on and after January 1, 2012, a 20% Japanese income tax (including a 5% local income tax) to be withheld at source. No final tax return needs to be filed with regard to such dividends regardless of their amount.

With respect to the amount of tax withheld in Germany, a foreign tax credit may be

claimed in accordance with the Tax Convention between Germany and Japan and the Japanese tax laws, if the individual taxpayers file the final tax return.

Corporate Income Taxpayers:

With regard to Japanese corporations, the full amount of dividends after grossing up the German withholding tax and the Japanese withholding tax will be subject to the Japanese corporate income tax. In such case, a foreign tax credit may be claimed in accordance with the Tax Convention between Germany and Japan and the Japanese tax laws with respect to the amount of income taxes withheld in Germany. In addition, the amount of the Japanese income tax withheld from dividends received by the taxpayer corporation is creditable against corporate income tax. Japanese corporations may treat the amount of the German withholding income tax and/or the Japanese withholding income tax as deductible costs rather than tax credits.

With respect to the amount of dividends to be received by Japanese corporations during the fiscal years commencing on and after April 1, 2009, such amounts may not be subject to the Japanese corporate income tax under certain circumstances.

(b) Capital Gain and Loss

The tax treatment of the capital gain or loss arising from the transaction in the shares of the Company in Japan is the same as that of the capital gain or loss from transactions in the shares of a domestic corporation.

(c) Inheritance Tax

The beneficial holders of the shares of the Company in Japan who have inherited the shares of the Company by succession or by will are liable for the inheritance tax in accordance with the Inheritance Tax Law of Japan. However, they may be entitled to the foreign tax credit under certain circumstances.

(5) Other Notices and Reports

All notices and communications to be given or made by the Company to its shareholders and received by the Broker will be maintained by the Broker and made available at the counter of the Broker for inspection by Beneficial Shareholders. If the Beneficial Shareholders wish to have these notices and communications, the Broker will send them to such Beneficial Shareholders, the actual expenses thereof being charged to such Beneficial Shareholders.

## **IX. Reference Information**

### **1. Information about Parent Company, etc.**

Not Applicable

### **2. Other Reference Information**

The following documents have been filed since the commencement of the relevant year up to the filing date of this securities report.

- 1 Securities Report and its attachments filed with the Director General of the Kanto Local Finance Bureau on April 23, 2008.

(For the fiscal year from January 1, 2007 through December 31, 2007)

- 2 Semi-Annual Report filed with the Director General of the Kanto Local Finance Bureau on September 3, 2008.

(For the period from January 1, 2008 through June 30, 2008)

- 3 Extraordinary Report

- (i) Extraordinary Report filed with the Director General of the Kanto Local Finance Bureau on December 25, 2008 (pursuant to Article 24-5, Paragraph 4 of the Securities and Exchange Law of Japan and Article 19, Paragraph 2, Item 9 of the Cabinet Office Ordinance Concerning Disclosure of the Contents, etc. of Companies).

- (ii) Extraordinary Report filed with the Director General of the Kanto Local Finance Bureau on April 8, 2009 (pursuant to Article 24-5, Paragraph 4 of the Securities and Exchange Law of Japan and Article 19, Paragraph 2, Item 2 of the Cabinet Office Ordinance Concerning Disclosure of the Contents, etc. of Companies).

- (iii) Extraordinary Report filed with the Director General of the Kanto Local Finance Bureau on May 14, 2009 (pursuant to Article 24-5, Paragraph 4 of the Securities and Exchange Law of Japan and Article 19, Paragraph 2, Item 9 of the Cabinet Office Ordinance Concerning Disclosure of the Contents, etc. of Companies).

- 4 Amendment

- (i) An Amendment Report (an amendment report to the Securities Report described in 1 above) filed with the Director General of the Kanto Local Finance Bureau on September 3, 2008.

- 5 Shelf Registration Statement

Shelf Registration Statement filed with the Director General of the Kanto Local

Finance Bureau on April 23, 2008.

6 Shelf Registration Supplements

Shelf Registration Supplements filed with the Director General of the Kanto Local Finance Bureau on September 12, 2008.

7 Amendment to Shelf Registration Statement

- (i) Amendment to Shelf Registration Statement (two statements) filed with the Director General of the Kanto Local Finance Bureau on September 3, 2008.
- (ii) Amendment to Shelf Registration Statement filed with the Director General of the Kanto Local Finance Bureau on December 25, 2008.
- (iii) Amendment to Shelf Registration Statement filed with the Director General of the Kanto Local Finance Bureau on April 8, 2009.
- (iv) Amendment to Shelf Registration Statement filed with the Director General of the Kanto Local Finance Bureau on May 14, 2009.

**PART 2. INFORMATION CONCERNING GUARANTOR, ETC.**

Not applicable.