Auto & Related
Germany
Update

Daimler AG

Ratings

Foreign-Currency Long-Term IDR	BBB+
Foreign-Currency Short-Term IDR	F2

Outlook

Foreign-Currency Long-Term IDR	Positive

Financial Data

Daimler AG

	31 Dec 09	31 Dec 08
Revenue (EURm)	78,924	95,873
Total adjusted debt (EURm)[a]	9,620	8,952
Net adjusted debt (EURm)[a]	-2,172	3,468
Equity capital and reserves (EURm)[a]	27,157	28,092
Operating EBITDAR[a]/revenue[a] (%)	5.2	9.8
Cash flow from operations[a] (CFO)/revenue[a] (%)	9.8	-2.2
Total adjusted debt[a]/ operating EBITDAR[a] (x)	2.7	1.1
Net adjusted debt[a]/ operating EBITDAR[a] (x)	-0.6	0.4
CFO[a]/total adjusted debt[a] (x)	68.0	-20.8
Funds from operations fixed charge coverage[a] (x)	1.9	4.2

[a] From industrial operations

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Related Research

Applicable Criteria

- *Corporate Rating Methodology* (November 2009)
- *Rating Automotive Manufacturers: Sector Credit Factors* (July 2010)

Other Research

- *Solid H110 Should Mitigate Challenging H210 for European Automakers* (August 2010)
- *Premium Auto Makers to Lead European Auto Sector Recovery* (April 2010)
- *Global Automotive Industry Outlook 2010* (February 2010)
- *European Auto Manufacturers: Slower, Lower, Weaker* (June 2009)

Rating Rationale

- The ratings reflect Daimler AG's (Daimler) solid business profile, including leading global market positions in the premium passenger car, bus, van and truck markets; improving geographical diversification; and ample liquidity.
- However, the ratings are constrained by the high volatility and cyclicality of the markets in which Daimler operates. The latest economic and sector downturn was unusually simultaneous across regions, and affected all of Daimler's divisions. The operating margins of both the Mercedes-Benz Cars (MBC) and Daimler Truck (DT) divisions turned negative in 2009, to −1.2% (from 4.4% in 2008 and 9.1% in 2007) and −5.5% (from 5.6% in 2008 and 7.5% in 2007), respectively. However, profitability and key credit metrics improved sharply in H110 and Fitch Ratings' expectations that this trend will continue in the next 12 to 18 months support the Positive Outlook.
- Cash flow from operations (CFO) on adjusted debt returned to levels more adequate for the rating category in 2009, to 68% from a negative 20% in 2008. Profitability rebounded to 7.1% in H110, as sales recovered sharply across all divisions and gross adjusted leverage declined to 0.7x at end-June 2010.
- Growth prospects for the premium car segment are better than for volume manufacturers in the next couple of years, as the former benefited less from the vehicle-scrapping incentives in 2009 — and should recover more quickly. Together with new product launches in 2010-2011, this should benefit MBC's revenue growth and profitability and serve to partially offset the division's relative small scale. Daimler has also taken minority equity stakes in Renault SA ('BB'/Stable) and Nissan Motors Co., Ltd. ('BBB−'/Stable); and will cooperate on cars, light commercial vehicles and powertrains, which provides opportunities for significant cost savings in the medium term.
- Likewise, a gradual recovery in economic activity and road freight should support a rebound in revenue at the DT division. DT's recent restructuring efforts, improved cost structure and expected sales growth offer good momentum for structurally better profitability.

What Could Trigger a Rating Action?

- Sustained group operating margins (actual or expected) above 4% and/or further improvement in other key credit metrics including gross adjusted leverage below 2x, funds from operations (FFO) fixed charge cover above 10x and CFO/adjusted debt above 50% could lead to positive rating actions.
- A prolonged recession leading to operating margins remaining below 3% and/or material negative free cash flow (FCF; actual or expected) for more than three years, coming from poor underlying performance, or shareholder-friendly actions, could put pressure on the ratings.

Liquidity and Debt Structure

Daimler's liquidity position is robust, backed by a consistent net cash position from industrial operations (EUR9.4bn at end-June 2010, including gross debt of EUR1.3bn, up from EUR7.3bn at end-2009) before adjustments for operating leases and pension liabilities (EUR4.1bn and EUR5.9bn, respectively, at end-2009). Liquidity is further bolstered by total credit lines of more than EUR21bn at group level; EUR8bn was not utilised at end-2009, including a USD4.9bn syndicated facility maturing in December 2011 and a EUR3bn syndicated credit line maturing in October 2011.

Peer Group

Issuer	Country
A+	
Toyota Motor Corporation	Japan
A	
Honda Motor Co., Ltd	Japan
BBB+	
Daimler AG	Germany
Volkswagen Group	Germany
BBB-	
AB Volvo	Sweden
Hyundai Motor Company	Korea (south), Republic Of
Nissan Motor Co., Ltd.	Japan
BB+	
Fiat S.p.A.	Italy
Peugeot S.A	France
BB	
Renault SA	France

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
19 Jul 10	BBB+	Positive
25 Mar 09	BBB+	Negative
29 Jan 09	BBB+	Stable
20 Nov 08	A-	Stable
13 Jun 08	A-	Positive
6 Aug 07	A-	Stable
14 May 07	BBB+	RWP
15 Sep 06	BBB+	Stable
21 Aug 06	BBB+	Stable
24 Feb 06	BBB+	Stable
19 Jul 05	BBB+	Stable
4 Apr 05	BBB+	Positive
24 Jun 04	BBB+	Positive
23 Oct 03	BBB+	Stable
9 Jul 03	BBB+	Stable

RWP denotes Rating Watch Positive

Snapshot Profile: Major Issuer-Specific Rating Factors and Trends

Rating Factor	Status[a]	Trend
Operations	Strong	Neutral
Market position	Strong	Neutral
Finances	Average	Improving
Governance	Average	Neutral
Geography	Strong	Neutral

[a] Relative to auto manufacturer peers

Immediate Peer Group – Comparative Analysis

Sector Characteristics

Operating Risks

The industry's operational risk is high. Demand is volatile and cyclical, as cars are "big ticket" consumer discretionary items, highly exposed to economic trends. The underlying sales trend was distorted again in 2009 by various state incentives and tax breaks to support sales in several markets. The sector is politically and socially critical to the overall economy, and subject to potential government interference. Overcapacity remains a pivotal issue, difficult to address. Geographical and product diversification is important to mitigate the effect of cyclicality, although the latest downturn was unusually simultaneous across regions.

Financial Risks

The auto industry is characterised by its capital-intensiveness and high operating leverage (high amount of fixed costs), leading manufacturers to look for economies of scale. Profit margins are usually cyclical and low in view of permanent price pressure and sharp competition. Working capital swings can also be material as was the case in 2008 and 2009. Solid and steady liquidity is critical to finance capex and R&D, as well as the refinancing needs of captive finance subsidiaries.

Peer Group, 2009

Industrial operations	Volkswagen	Daimler	PSA	Fiat	Renault
Operating profit (%)	1.34	-2.27	-2.53	1.81	-2.89
Pension-adjusted net debt/EBITDAR (x)	-0.58	0.98	2.0	1.86	3.8
CFO/pension-adjusted net debt (%)	-302	193	108	72	49
FFO/gross interest expenses (x)	8.0	2.3	3.5	4.0	3.6

Source: Fitch, companies

Key Credit Characteristics

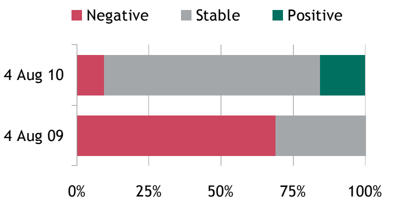
With relatively high operational and financial risks, auto manufacturers' ratings are clustered in the 'BB' and 'BBB' categories, although strong credit characteristics can lift ratings to the 'A' category. Leverage is usually low, and most groups report a net cash position through the cycle. However, this is mitigated by weak and cyclical profitability and cash generation, as well as superior refinancing risk — notably to meet the high and ongoing financing needs of finance subsidiaries.

Overview of Companies

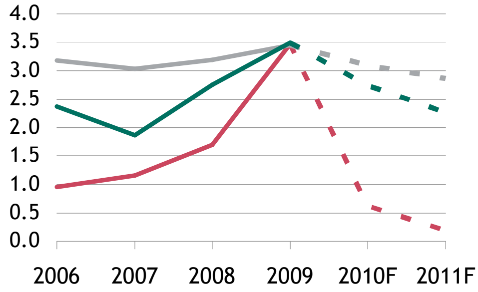
- **Volkswagen Group's** (BBB+/Positive/'F2') ratings are supported by a strong and above-average business and financial profile. The group benefits from an unparalleled product portfolio, high geographical diversification, and a healthy net cash position. However, it remains acquisitive and could participate in a possible consolidation of the heavy-truck market.
- **Peugeot SA** (PSA; 'BB+'/Stable/'B') is the second-largest manufacturer in Europe, from where the majority of its sales derive. The rating also reflects the weak, although strengthening, main credit metrics, and the gradual improvement in geographic diversification.
- **Fiat S.p.A** (Fiat; 'BB+'/Negative/'B') improved its credit metrics in H110, but the Negative Outlook reflects Fiat's decision to spin off its agricultural and construction equipment and commercial vehicles divisions and the uncertainty surrounding the financial structure of the new entity.
- **Renault SA's** (Renault; 'BB'/Stable) ratings reflect the group's leveraged financial profile and its weak, although improving, main credit metrics. However, the ratings benefit from Renault's increased diversification and from synergies with associate Nissan.

Daimler AG —— Auto & Related median —— Developed 'BBB+' median —— Source: Company data; Fitch

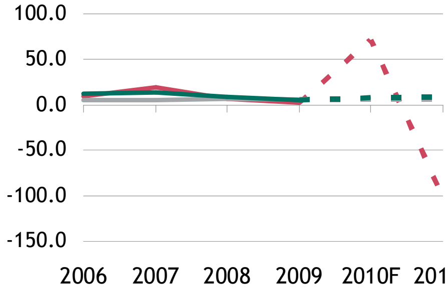
Distribution of Sector Outlooks
Directional Outlooks and Rating Watches



Leverage
including Fitch expectations



Interest Cover
including Fitch expectations



Fitch's expectations are based on the agency's internally produced, conservative rating case forecasts. They do not represent the forecasts of rated issuers individually or in aggregate. Key Fitch forecast assumptions include:

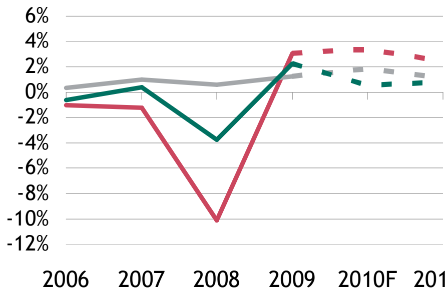
- double-digit revenue growth in 2010 and high-single-digit in 2011 as key end-markets recover (trucks and premium cars);
- a rebound in operating profit between 6% and 7% in 2010-2012, as MBC's margins reach 8% by 2012 and DT's margins 5%;
- normalising working capital patterns, a rebound in capex, and a resumption in dividend payments in 2011.

Debt Maturities and Liquidity at 31 March 2010[a]

Debt maturities	**(EURm)**
2010	4,946
2011	8,235
2012	3,837
2013	4,030
After 2014	6,951
Cash and equivalents[b]	**7,886**
Undrawn committed facilities[b]	
Syndicated USD4.9bn due Dec 2011	3,403
Syndicated EUR3bn due Oct 2011	3,000

[a] At group level
[b] At 30 June 2010
Source: Bloomberg, Fitch

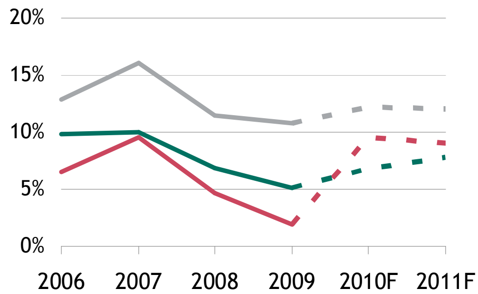
FCF/Revenue
including Fitch expectations



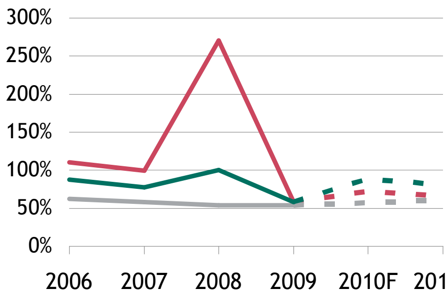
Definitions

- Leverage: Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid plus preferred dividends plus rental expense.
- Interest cover: FFO plus gross interest paid plus preferred dividends divided by gross interest paid plus preferred dividends.
- FCF/revenue: FCF after dividends divided by revenue.
- FFO profitability: FFO divided by revenue.
- For further discussion of the interpretation of the tables and graphs in this report see Fitch's "*Interpreting the New EMEA and Asia-Pacific Corporates Credit Update Format*" Special Report, dated 25 November 2009 and available at www.fitchratings.com.
- *Note: The figures and forecast metrics presented here apply to groups' industrial operations*

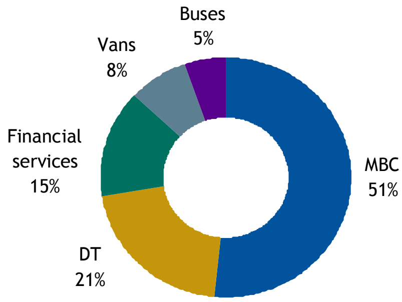
FFO Profitability
including Fitch expectations



Capex/CFO
including Fitch expectations

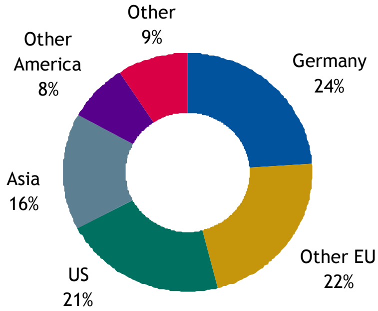


2009 Revenue Segmental Split



Source: Fitch

2009 Revenue by Region



Source: Fitch

Daimler AG

Financial Summary

	31 Dec 2009 EURm Original	31 Dec 2008 EURm Original	31 Dec 2007 EURm Original	31 Dec 2006 EURm Original	31 Dec 2005 EURm Original
INCOME STATEMENT					
Revenues	78,924	95,873	99,399	151,589	149,776
Revenue Growth	(20)	(6)	(35)	1	5
EBIT	(1,513)	2,730	8,710	3,777	4,080
Interest Expense Net of Interest Income	506	(48)	(302)	250	573
Net Income	(2,640)	1,638	4,849	3,227	2,920
BALANCE SHEET					
Cash and Equivalents	14,918	7,623	16,692	13,121	12,647
Total Assets	128,821	132,219	135,094	190,022	201,632
Short-term Debt	25,036	27,428	23,100	34,615	36,483
Senior Long-Term Debt	33,258	31,209	31,867	43,903	44,449
Subordinated Debt	0	0	0	0	n.a.
Total Debt	58,294	58,637	54,967	78,518	80,932
Common Equity	30,261	31,216	36,718	34,155	36,449
Off-Balance Sheet Debt	4,104	4,504	6,536	7,680	7,568
Total Adjusted Capitalisation	94,225	95,865	99,733	121,016	80,932
Total Adjusted Debt	62,398	63,141	61,503	86,198	88,500
Preferred Stock + Minority Interests	1,566	1,508	1,512	663	653
CASH FLOW					
Operating EBITDAR (Op. EBITDAR)	4,397	11,648	16,618	17,547	16,399
Cash Interest Paid, Net of Interest Received	423	(114)	564	4,193	3,652
Cash Tax Paid	358	898	1,020	1,494	700
Associate Dividends	109	67	69	0	n.a.
Other Changes before Funds From Operations**	(3,702)	(1,992)	(901)	2,478	853
FUNDS FROM OPERATIONS	23	8,939	14,202	14,338	12,900
Working Capital	10,938	(7,387)	(143)	3,033	2,347
CASH FLOW FROM OPERATIONS	10,961	1,552	14,059	17,371	15,247
Non-Operational Cash Flow*	0	0	0	0	252
Capital Expenditure	3,845	10,492	16,832	30,761	27,088
Dividends Paid	657	2,020	1,579	1,553	1,575
FREE CASH FLOW	6,459	(10,960)	(4,352)	(14,943)	(13,164)
Receipts from Asset Disposals	280	4,553	5,615	13,653	12,741
Business Acquisitions	141	982	159	473	552
Business Divestments	67	515	26,393	1,158	516
Exceptional & Other Cash Flow Items	64	(951)	(38)	(153)	15
NET CASH IN/OUTFLOW	6,729	(7,825)	27,459	(758)	(444)
Equity Issuance/(Buyback)	1,953	(4,123)	(1,827)	310	200
FX movement	(180)	(206)	(1,199)	(467)	620
Other Items Affecting Cash Flow**	(864)	(2,346)	26,312	3,803	(3,696)
NET CASH FLOW AVAILABLE FOR FINANCING	7,638	(14,500)	50,745	2,888	(3,320)
CLOSING NET DEBT	43,376	51,014	36,514	65,397	68,285
PROFITABILITY					
Op. EBITDAR/Revenues (%)	5.57	12.15	16.72	11.58	10.95
EBIT/Revenues (%)	(1.92)	2.85	8.76	2.49	2.72
FFO Return on Adjusted Capital (%)	1.60	10.62	15.54	13.40	11.91
CREDIT RATIOS					
Funds From Operations/Gross Interest Expense (x)	1.02	14.13	30.59	16.70	12.60
FFO Fixed Charge Cover (x)	1.02	8.19	11.95	8.66	7.27
Op. EBITDAR/Net Fixed Charges (x)	4.32	22.62	32.27	14.50	10.80
Adjusted Leverage/FFO (x)	41.41	6.20	3.97	5.32	5.92
Total Adjusted Debt Net of Cash/Op. EBITDAR (x)	10.80	4.77	2.70	4.16	4.63
Total Adjusted (Recourse) Debt/Total Adjusted Capitalisation (%)	66.22	65.86	61.67	71.23	70.46

Off Balance sheet debt reflects 8 times gross rent expense plus off balance sheet debt with full/limited recourse.
* Includes Analyst Estimate
** Balancing Item