MOODY'S
INVESTORS SERVICE

Credit Opinion: Daimler AG

Global Credit Research - 29 Jul 2010

Stuttgart, Germany

Ratings

Category	Moody's Rating
Outlook	Negative
Senior Unsecured	A3
Commercial Paper -Dom Curr	P-2
Other Short Term -Dom Curr	P-2
Daimler Finance North America LLC	
Outlook	Negative
Sr Unsec Bank Credit Facility	A3
Senior Unsecured	A3
Bkd Commercial Paper	P-2
Bkd Other Short Term	P-2
Daimler Japan Ltd.	
Outlook	Negative
Bkd Sr Unsec MTN	A3
Bkd Other Short Term	P-2
Mercedes-Benz Australia/Pacific	
Outlook	Negative
Bkd Senior Unsecured	A3
Daimler International Finance B.V.	
Outlook	Negative
Bkd Senior Unsecured	A3

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Key Indicators

Daimler AG[1]

	2009	2008	2007	2006
EBITA Margin %	**-1.5%**	**4.5%**	**7.9%**	**4.5%**
EBIT / Interest Expense	**-1.9x**	**4.2x**	**12.0x**	**6.8x**
FCF / Debt	**18.7%**	**-42.3%**	**-9.3%**	**-13.7%**
Debt / EBITDA	**9.3x**	**2.5x**	**1.3x**	**1.1x**
Debt /Book Capitalisation	**52.1%**	**46.3%**	**34.6%**	**35.7%**

[1] based on Moody's standard adjustments

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Corporate Profile

Headquartered in Stuttgart, Germany, Daimler AG ("Daimler" or "the company"; rated A3/P-2/negative outlook) 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 to its automotive businesses. Daimler's key activities are divided into the following segments: i) Mercedes-Benz Cars ("MBC"); ii) Daimler Trucks; iii) Mercedes-Benz Vans iv) Daimler Buses; and v) Daimler Financial Services. In fiscal year 2009 the group generated revenues of EUR 78.9 billion.

Recent Developments

On April 7, Daimler and Renault-Nissan announced a strategic cooperation in various areas. The major elements of the agreement are:

A cooperation on the next-generation smart fortwo and Renault Twingo, including electric versions, as well as on expanding the smart and Twingo families;

Powertrain sharing between Daimler, Renault and Nissan's Infinity brand as well as co-development on future projects across passenger cars and light commercial vehicles;

Collaboration on light commercial vehicles where Daimler will expand its product range into the entry level van segment based on the technical basis of Renault including small diesel engines procured from Renault-Nissan

In addition, Daimler, Renault and Nissan will underline the cooperation with cross shareholdings through an exchange of shares finally resulting in Daimler becoming a 3.1% shareholder in Renault as well as in Nissan whereas Renault as well as Nissan will ultimately each own 1.55% of Daimler treasury shares. Moody's understands that the transaction will be largely cash neutral at the outset and as such not materially impact any of the company's liquidity profile.

The announced agreement could help to address the competitive disadvantage in both company's product portfolio regarding the relative scale compared to key competitors in the volume segment that already have similar kind of cooperation for engines (e.g. Peugeot with BMW) and platforms (e.g. Peugeot with Toyota) in place or benefit from a multi brand strategy (Peugeot/Citroen, Volkswagen Group). Furthermore, it offers the opportunity to widen the product offering for both companies in the small car segment as well as the light commercial vehicle segment. In Moody's view, large scale effects especially in small cars are a key necessity for OEMs to be able to generate a decent margin in the very competitive and price sensitive small car segments.

Potential benefits resulting for Daimler and Renault from economies of scale, sale of platforms, engines and components might occur only over the medium term.

Going forward, Moody's will closely monitor the progress in the execution of the announced cooperation to allow for improved efficiencies, cost savings and higher capacity utilization rates and to what extent these would result in better profitability and higher cash generation.

We note that it will take time to implement and execute the above-mentioned opportunities as the first passenger cars resulting from the cooperation are not expected to come to market before 2013. The final market acceptance of the resulting products will be most critical in determining the success of the co-operation as well as management's ability to generate sustainable profits and cash flows.

Rating Rationale

Daimler's A3 ratings continue to reflect (i) the company's highly valued Mercedes brand in premium passenger cars; (ii) its well diversified truck business positioning as the global market leader with leading market positions in Europe, North America, South America and Japan as well as the division's growth potential in emerging markets, particularly in Russia together with its local joint venture partner Kamaz; as well as (iii) Daimler's strong market positions in Busses and in the European Van business.

The rating also takes into consideration (i) the challenge to comply with various emission legislations in most markets in particular the CO2 emission target set by the European Union by 2015 for Mercedes-Benz passenger cars as well as (ii) the costs coming along with the applied technologies and potential impact on the mix of Daimler's product line, both effects could materially impact future profitability and cash generation on a sustainable basis.

Drivers of Rating Change

Mercedes-Benz Cars to benefit from higher volume and better mix in 2010

The premium car manufacturer brand Mercedes (as well as BMW and Audi) has lost 0.7% of market shares in its Western European markets in 2009, as it was not able to benefit from the demand created by attractive incentive schemes (scrapping bonuses). However, we view this development as mostly temporary, as we anticipate the premium segment will outperform the market in Western Europe in the current year. The outperformance of the Mercedes brand is supported by the young product range, with the E-class in all its versions being available for the first full year. However, towards the end of the year and beyond, it might be difficult for the brand to keep pace with BMW and Audi (the key competitors in the premium segment), as both peers are renewing key models in their ranges, with Daimler's cadence weakening in 2010-11.

But long-term burden on profitability from CO2 emission costs and mix deterioration

The efforts to become compliant with emission regulations leads to rising cost of a car and has resulted in an underlying trend towards smaller cars and smaller engines. This trend is also supported by recently introduced vehicle tax schemes that base the annual tax for a passenger car on the amount of emissions, compared to previous schemes that where mainly based on engine size or other factors. We view this trend as a key challenge for Mercedes-Benz Cars in returning to historical levels of profitability.

Daimler Trucks still in difficult market environment

Daimler Trucks' North American operations should benefit from rising market demand and higher sales volumes due to the substantial efforts to reduce its cost base in this region over the last few years, including relocation of production to Mexico from the US.

However, we do not expect truck market demand to materially recover in European markets this year. Daimler Trucks held a 23% market share in the Western European heavy duty and medium duty trucks in 2009.

We are closely monitoring the price development of used trucks and the discounts offered on new trucks, as we believe any deterioration in pricing could directly impact earnings and cash flows of the truck manufacturer and therefore offset any improvements in the cost structure of the manufacturer.

A prolonged European market weakness could adversely affect Daimler Trucks' operating profits and cash flows, and might even necessitate restructuring efforts when the ability to apply the short working hours regulation ends (possible to be used for 24 months in Germany, where Daimler has its key European manufacturing site).

In Moody's methodology for the global automotive manufacturer industry Daimler scores at Baa1, one notch below its currently assigned A3 rating. The difference is a reflection of the very weak 2009 financial metrics that are far below the current rating category and impact the calculated 3 year historical averages to an extent also no longer in line with the current rating category. Moody's anticipates Daimler's key rating drivers to recover within the next two years and to close the one notch gap by 2011.

Liquidity Profile

Daimler has ongoing financing needs related to the funding of its customers while the industrial activities should be largely self funding. In a scenario, where access to debt markets is assumed to be closed for 12 months and maturing finance assets are replaced, the company's available cash on balance sheet of EUR 13.0 billion, committed bank lines of EUR 3.0 billion as well as US$ 5.0 billion and expected operating cash flow generation would fully cover the potential needs arising from capital expenditures, working capital, day to day needs as well as short-term debt maturities.

Rating Outlook

The negative outlook reflect the very weak operating performance and credit metrics at FY 2009 that will need to show steady and significant improvements in order for the rating to be sustained. The negative outlook also reflects (i) the risk of a slower than anticipated recovery in the North American truck markets and/or (ii) a more severe downturn in the European truck market together with the risk of declining prices resulting from high inventories, low capacity utilization rates and/or rising used trucks stocks; (iii) the risk that the expected outperformance of premium market in Western Europe versus the light vehicle markets in Europe following the end of the positive impact of scrapping bonuses especially in the second half of 2010 may fail to materialize; (iv) the adequacy of the planned downscaling of production as well as (iii) the challenge to sustain free cash flow generation absent a substantial cash contribution from working capital and an anticipated rise in capital expenditures.

What Could Change the Rating - Down

Moody's anticipates Daimler's financial metrics to recover to the levels required for a weak single A-rating by 2011. Daimler's ratings could be downgraded should there be no clear path of recovery of credit metrics beyond 2010 such as (i) EBITA margin in the industrial business below 5%, (ii) a negative free cash flow generation as well as (iii) a significant increase in leverage (Debt/EBITDA) to around 2.5x, resulting from higher debt levels and a weaker profitability, (iv) cash & marketable securities/Debt falling below 40% as well as (v) the inability to preserve financial services' conservative policies and profitability.

What Could Change the Rating - Up

A rating upgrade within the next 12-18 months is currently unlikely but would be considered in case of (i) sustainable credit metrics evidenced by an average 3-year EBIT margin above 7% and a sustainable Free Cash Flow generation in the industrial business, (ii) a balanced approach between shareholders' and bondholders' interests as well as (iii) preservation of financial services' conservative policies and profitability despite rising cost of risk.

Rating Factors

Daimler AG[1][2]

Global Automobile Manufacturer Industry	Aaa	Aa	A	Baa	Ba	B	Caa
Factor 1: Mkt Share and Product Portfolio Strength (35%)							
Market Share Trend							
a) Trend in Global unit share over 3 years						X	
b) Trend in Top 2 Markets unit share over 3 years					X		
Product Portfolio Strength							
a) Product breadth and strength			X				
Factor 2: Leverage and Liquidity (20%)							
a) 3 Yr Average Debt / EBITDA			2.4x				
b) 3 Yr Average Debt / Capital			43.4%				
c) 3 Yr Average (Cash + Mkt Sec) / Total Debt	60.2%						
Factor 3: Profitability and Returns (15%)							
a) 3 Yr Average EBITA Margin				4.1%			
b) 3 Yr Average EBITA / Average Assets				4.5%			
Factor 4: Cash Flow and Debt Service (25%)							
a) 3 Yr Average FCF / Debt							-10%
b) 3 Yr Average RCF / Debt					16.3%		
c) 3 Yr Average RCF / Net Debt				39.5%			
d) 3 Yr Average EBIT / Interest Expense				4.5x			
Factor 5: Captive Finance Company (5%)							
a) Captive Finance Company			X				
Rating:							
a) Indicated Rating from Methodology			Baa1				
b) Actual Rating Assigned			A3				

[1] Based on the period 2007-2009 [2] Market Share trend based on the period 2006-2008