

Remuneration Report.

The Remuneration Report summarizes the principles that are applied to determine the remuneration of the Board of Management of Daimler AG, and explains both the level and the structure of its members' remuneration. It also describes the principles and level of remuneration of the Supervisory Board.

Principles of Board of Management remuneration

Goals. The remuneration system for the Board of Management aims to remunerate its members commensurately with their areas of activity and responsibility and in compliance with applicable law, so that Daimler is an attractive employer also for first-class executives. By means of adequate variability, the system should also clearly and directly reflect the joint and individual performance of the Board of Management members and the sustained performance of the Group.

Practical implementation. For each upcoming financial year, the Presidential Committee at first prepares a review by the Supervisory Board of the system and level of remuneration on the basis of a comparison with competitors. The main focus is on checking for appropriateness, based on a horizontal and vertical comparison. In the horizontal comparison, the following aspects are given particular attention in relation to a group of comparable companies in Germany:

- the effects of the individual fixed and variable components, that is, the methods behind them and their reference parameters;
- the relative weighting of the components, that is, the relationship between the fixed base salary and the short-term and long-term variable components;
- the ratio of an average employee's income to that of a member of the Board of Management;

and the resulting target remuneration consisting of base salary, annual bonus and long-term variable remuneration, also with consideration of entitlement to a retirement pension and fringe benefits.

The vertical comparison focuses on the ratio of Board of Management remuneration to the remuneration of the senior executives and the entire workforce of Daimler AG in Germany, also in terms of development over time. For this purpose, the Supervisory Board has defined the group of senior executives with the use of the Company's internal levels of hierarchy.


In carrying out this review, the Presidential Committee and the Supervisory Board consult independent external advisors, above all to facilitate a comparison with remuneration systems common in the market. If the review results in a need for changes to the remuneration system for the Board of Management, the Presidential Committee submits the relevant proposals to the entire Supervisory Board for its approval.

On the basis of the approved remuneration system, the Supervisory Board decides at the beginning of the year on the base and target remuneration for the individual members of the Board of Management and decides on the success parameters relevant for the annual bonus in the coming year. Furthermore, individual goals are decided upon for each member of the Board of Management for the respective areas of personal responsibility; those goals are then taken into consideration after the end of the financial year when the annual bonus is decided upon by the Supervisory Board.

For the long-term variable component of remuneration, the Supervisory Board sets an amount to be granted for the upcoming financial year in the form of an absolute amount in euros and sets the respective performance targets.

In this way, the individual base and target remuneration and the relevant performance parameters are set by the beginning of each year.

After the end of each year, target achievement is measured and the actual remuneration is calculated by the Presidential Committee and is submitted to the Supervisory Board for its approval.

The system of Board of Management remuneration in 2013. The remuneration system comprises a fixed base salary (approximately 29% of the target remuneration), an annual bonus (approximately 29% of the target remuneration), and a variable component of remuneration with a long-term incentive effect (approximately 42% of the target remuneration). The spectrum of target achievement and the reference parameters remained unchanged. Only 50% of the annual bonus is paid out in the March of the following year. The other 50% is paid out a year later with the application of a bonus-malus rule (so-called deferral), depending on the development of the Daimler share price compared with an automotive index (Dow Jones STOXX Auto Index)  see pages 22 f, which Daimler AG uses as a benchmark for the relative share-price development. Both the delayed payout of the portion of the

annual bonus (with the use of the bonus-malus rule) and the variable component of remuneration with a long-term incentive effect with its link to additional, ambitious comparative parameters and to the share price reflect the recommendations of the German Corporate Governance Code and give due consideration to both positive and negative developments. The details of the system are as follows:

The **base salary** is fixed remuneration relating to the entire year, oriented towards the area of responsibility of each Board of Management member and paid out in twelve monthly installments.

The **annual bonus** is variable remuneration, the level of which is primarily linked to the operating profit of the Daimler Group (EBIT). For the past financial year, the annual bonus was also linked to the target for the respective financial year determined by the Supervisory Board (derived from the level of return targeted for the medium term and the growth targets), the actual result compared with the prior year, the individual performance of the Board of Management members and the achievement of compliance targets. Optionally, additional key figures/assessment bases and targets can be included.

Primary reference parameters:

- 50% relates to a comparison of actual EBIT in 2013 with EBIT targeted for 2013.
- 50% relates to a comparison of actual EBIT in 2013 with actual EBIT in 2012.

Amount with 100% target achievement (target annual bonus):

In the year 2013, 100% of the base salary.

Range of possible target achievement:

0 to 200%, that is, the annual bonus due to EBIT achievement has an upper limit of double the base salary and may also be zero (see below). Both primary reference parameters, each of which relates to half of the bonus, can vary between 0% and 200%. The limits of this bandwidth are defined by a deviation of plus or minus 2% of the prior-year revenue.

On the basis of the resulting degree of target achievement, an amount of up to 10% can be added or deducted, depending on the aforementioned predefined key figures/assessment basis. Since 2012, non-financial targets have been used as a basis for assessment; for the past financial year, those targets were employee and customer satisfaction, diversity as well as the further development and permanent establishment of the corporate value of integrity. Furthermore, the Supervisory Board has the possibility, based for example on the agreed targets that have been set, to take account of the personal performance of the individual Board of Management members with an addition or deduction of up to 25%.

Once again in 2013, further individual targets were agreed upon with the Board of Management with regard to the development and sustained function of the compliance management system. The complete or partial non-achievement of individual compliance targets can be reflected by a deduction of up to 25% from the individual target achievement. However, the compliance targets cannot result in any increase in individual target achievement, even in the case of full accomplishment.

The **Performance Phantom Share Plan (PPSP)** is a variable element of remuneration with long-term incentive effects. At the beginning of the plan, the Supervisory Board specifies an absolute amount in euros in the context of setting the individual annual target remuneration. This amount is divided by the relevant average price of Daimler shares calculated over a long period of time, which results in the preliminary number of phantom shares allocated. Also at the beginning of the plan, performance targets are set for a period of three years. Depending on the achievement of these performance targets with a possible range of 0% to 200%, after three years, the phantom shares allocated at the beginning of the plan are converted into the final number of phantom shares allocated. After another plan year has elapsed, the amount to be paid out is calculated from this number of phantom shares and the applicable share price at that time. The share price relevant for the payout under this plan is also relevant for allocating the preliminary number of phantom shares for the plan newly issued in this year.

Reference parameters for Plan 2013:

- 50% relates to the Group's return on sales compared with a group of competitors (BMW, Fiat, Ford, Honda, Paccar, Renault, Toyota, Volvo and Volkswagen). For the measurement of this success criterion, the competitors' average return on sales is calculated over a period of three years, whereby the best and worst values are not taken into consideration. The extent that Daimler's return on sales deviates by up to +/-2 percentage points from the average thus calculated is deemed to be the range of target achievement. This means that target achievement is 200% if Daimler's return on sales is 2 percentage points or more above the competitors' average. Target achievement is 0% if Daimler's return on sales is 2 percentage points or more below the competitors' average.
- 50% relates to the Group's return on net assets in relation to the cost of capital. This criterion stands for the value created by the Group. In a defined range between 6% and 8% and between 8% and 16% (since the 2013 plan), appropriate performance factors are allocated to the individual figures for return on net assets in a linear relationship. This means that target achievement is 200% if Daimler's return on net assets is 16% or more. Target achievement is 0% if Daimler's return on net assets is 6% or less.

Value upon allocation:

Determined annually in relation to a market comparison; for 2013, approximately 1.3 to 1.6 times the base salary.

Range of possible target achievement:

0 to 200%, that is, the plan has an upper limit. It may also be zero.

Value of the phantom shares on payout:

The value of the phantom shares to be paid out depends on target achievement measured according to the criteria described above and on the share price relevant for the payout. This share price is limited to 2.5 times the share price at the beginning of the plan. In addition, the amount to be paid out is limited to 2.5 times the absolute euro amount specified at the beginning of the plan, which is relevant for the preliminary number of phantom shares allocated. During the four-year period between the allocation of the preliminary phantom shares and the payout of the plan proceeds, the phantom shares earn a dividend equivalent in the amount of the actual dividend paid on ordinary Daimler shares.

Guidelines for share ownership. As a supplement to these three components of remuneration, "Stock Ownership Guidelines" exist for the Board of Management. These guidelines require the members of the Board of Management to invest a portion of their private assets in Daimler shares over several years and to hold those shares until the end of their Board of Management membership. The number of shares to be held was set when the Performance Phantom Share Plan was introduced in relation to double the then annual base salary for each ordinary member of the Board of Management and triple the then annual base salary for the Chairman of the Board of Management. In fulfillment of the guidelines, up to 25% of the gross remuneration out of each Performance Phantom Share Plan is generally to be used to acquire ordinary shares in the Company, but the required shares can also be acquired in other ways.

Appropriateness of Board of Management remuneration.

In accordance with Section 87 of the German Stock Corporation Act (AktG), the Supervisory Board of Daimler AG once again had an assessment of the system of Board of Management remuneration carried out by an external remuneration expert in 2013. The result was that the remuneration system as described above was confirmed as being in conformance with the requirements of applicable law. The remuneration system, which in 2013 was fundamentally unchanged from 2012 and 2011, had already been approved by the Annual Shareholders' Meeting in 2011.

New recommendations of the German Corporate Governance Code/Adjustment of the remuneration system with effect as of January 1, 2014. According to the recommendation newly included in the German Corporate Governance Code as amended on May 13, 2013, the maximum amount of Board of Management remuneration is to be limited, both overall and with regard to its variable components.

When the amended Code of May 2013 took effect, the remuneration agreements with the members of the Board of Management already called for limits on the components of remuneration, which however, did not completely meet the requirements of the new recommendation. Effective January 1, 2014, the members of the Board of Management approved the inclusion in their current contracts of service of limits in line with Clause 4.2.3 Paragraph 2 Sentence 6 of the Code. In the adjustment agreements, percentage limits with reference to the base salary were agreed upon also for the annual bonus payments that had not yet been paid for financial years 2012 and 2013. The percentage limit

referring to the grant value for the remuneration from the long-term and share-based component of remuneration, the so-called Performance Phantom Share Plan, was also extended to future dividend equivalents falling due from tranches issued before January 1, 2014 and still running.

In addition to these also retroactive arrangements (i.e. limitation of the total amount to be paid out from the annual bonus of a financial year to 2.35 times the base salary of the respective financial year and the inclusion of the dividend equivalent in the limit of the PPSP), the maximum limit of total remuneration for the Board of Management was set as of financial year 2014 at 1.9 times the target remuneration for its members and 1.5 times the target remuneration for its Chairman. The target remuneration consists of the base salary, the target annual bonus and the grant value of the PPSP, excluding fringe benefits and retirement benefit commitments. With the inclusion of fringe benefits and retirement benefit commitments from the respective financial years, the maximum limit of total remuneration increases by these amounts. The possible cap on the amount exceeding the maximum limit takes place with the payment of the PPSP issued in the relevant financial year.

In addition, effective January 1, 2014, the bandwidth of possible target achievement for the annual bonus was adjusted as follows:

For the primary reference parameter defining 50% of the annual bonus, "comparison of actual EBIT in the financial year with the EBIT targeted for the financial year," the limits of the unchanged possible bandwidth of 0 to 200% are defined as of 2014 as a deviation of +/- 3% from prior-year revenue (previously 2%).

Furthermore, the Supervisory Board decided, with first-time application for PPSP 2014, to redefine the competitive group relevant for the performance measure "return on sales" to include all stock-exchange-listed vehicle manufacturers with an automotive proportion of more than 70% and an investment-grade rating. Another increase in the criteria is that within the context of the unchanged possible bandwidth of 0 to 200%, target achievement of 100% is only granted with an average return on sales of 105% of the competitive group. Moreover, the previous "return on net assets" performance measure has been replaced with the development of the price of Daimler shares compared with the share-price development of the competitive group newly defined for the calculation of "return on sales." The limits of possible target achievement of 0 to 200% are defined by a deviation of +/- 50% from the average share-price development of the competitive group.

The system of remuneration of the Board of Management otherwise remains unchanged.