

Corporate Governance in detail

On the following pages we want to give you an explicit information about the corporate governance of a German stock corporation and to present the corporate governance elements of Daimler AG in detail.

Available issues:

- **The Stock Corporation Under German Law**
- **Shareholders and the General Meeting**
- **The Board of Management**
- **The Supervisory Board**
- **Transparency**
- **Reporting**

I. The Stock Corporation Under German Law

Daimler AG as the parent company of the Group is a stock corporation under German law.

1. The Three Corporate Bodies

A stock corporation under German law recognizes three corporate bodies:

- The General Meeting
- The Board of Management
- The Supervisory Board

The decision-making authorities of the three corporate bodies are strictly delimited from one another.

2. Tasks and Areas of Responsibilities of the Corporate Bodies

The Board of Management is responsible for independently managing and representing the enterprise in dealings with third parties, whilst the Supervisory Board appoints and dismisses the members of the Board of Management and supervises management. Therefore German law provides for a two-tier management structure in a stock corporation, i.e. the strict division between Board of Management and Supervisory Board. Membership of both bodies is not permitted, i.e. members of the Board of Management may not at the same time be members of the Supervisory Board and vice versa.

The General Meeting is not involved in the decisions of day-to-day management of the enterprise. However, the General Meeting of co-determined companies elects half the members of the Supervisory Board and the Supervisory Board in turn appoints and dismisses the Board of Management. Furthermore, the General Meeting resolves on the ratification of the actions of the Board of Management and Supervisory Board, on the appropriation of distributable profits and the appointment of the external auditor.

In addition, certain fundamental measures require the approval of the General Meeting. These include amendments to the Memorandum and Articles of Incorporation, capital

measures, the dissolution of the enterprise, mergers, spin-offs or other transformation measures as well as the transfer of the total or majority of the assets of the enterprise.

3. Co-determination in the German Stock Corporation

3.1 Legal Basis

The essential part of the corporate constitution in Germany is the co-determination of the employees in enterprises. Through co-determination the employees participate in material decisions of the enterprise and thus bear part of the responsibility for the development of the enterprise. The legal basis for co-determination is the German Co-determination Act of 1976 (Mitbestimmungsgesetz). This legally regulates the representation of employee interests in stock corporations with more than 2,000 employees. The German Works Constitution Act of 1972 (Betriebsverfassungsgesetz) contains regulations on cooperation with the Works Council. These provisions also apply to the company.

3.2 Corporate Bodies and Rights

3.2.1 The Supervisory Board

Beside the shareholder General Meeting and the Board of Management as the managing body of the enterprise, German corporation law provides for a Supervisory Board for stock corporations as a controlling body of corporate management. The Co-determination Act of 1976 specifies that in the case of stock corporations with more than 20,000 employees, the Supervisory Board should consist of a total of 20 members.

Of these, 10 members are representatives of the shareholders and 10 members are representatives of the employees. The 10 members from the employee side are divided into three union representatives, a representative of the executive managers and six further members of the workforce.

The principles of Article 25 Co-determination Act apply with regard to the internal organization as well as the rights and obligations of the Supervisory Board. Among the most important tasks of the Supervisory Board are the supervision of the management, the appointment of the Board of Management and the approval of important corporate planning and decisions. All members of the Supervisory Board - independently of whether they are elected by shareholders or employees - have the same rights and obligations. They are not bound by orders or instructions. The employee representatives are elected directly by the workforce or through election delegates, whereas the shareholder representatives are elected by the General Meeting. The Chairman of the Supervisory Board, elected from the group of shareholder representatives, has a casting vote in the case of split resolutions.

The right to co-determination only applies to companies within German national borders. This also means that only employees in companies in Germany can take part in the election of employee representatives to the Supervisory Board. The nationality of the employees and the individual employee representatives is not a consideration. The unions are free to propose their own representatives for the Supervisory Board. The three union representatives are also elected by the employees of the Group in Germany.

3.2.2 Labor Relations Director

In a co-determined stock corporation, the Board of Management must always include a Labor Relations Director as a member. The Labor Relations Director is appointed by the Supervisory Board. In the case of the company, the Labor Relations Director is the member of the Board of Management responsible for Human Resources. His task is to include the possible effects of enterprise decisions on the employees directly in corporate planning, so that, besides technical and commercial considerations, social aspects of personnel management are taken into account at an early stage of the planning process.

3.2.3 The Works Council

The Works Council has the task of safeguarding the interests of the employees within the enterprise as well as working with the employer. In enterprises with several places of business, Central or Group Works Councils are formed, to which the Works Councils of individual branches send their representatives. Organization, rights and obligations ensue from the Works Council Constitution Act.

Part of the overall task of the Works Council is to monitor compliance with the laws, administrative orders, accident prevention regulations, collective wage agreements and internal wage agreements. At the same time, it also serves as the employees' authority for hearing grievances, in addition to the employer. Furthermore, the Works Council Constitution Act contains various regulations which establish certain information, notification, advisory and co-determination rights. In particular, these concern social matters such as working hours, holiday planning, health and safety provisions at the workplace and social facilities, the organization of work processes and working environment, co-determination in dismissals as well as the participatory right in changes to plant operation and social compensation plans.

The Works Council is elected by all the employees of a company for a period of four years. The size of the Works Council is dependent upon the number of employees in the company. A certain number of employees elected to the Works Council, dependent upon the number of employees, are fully released from work duties.

At the Group a "World Employee Committee" has also been founded on a voluntary basis. This is a world employee representative body, consisting of 13 members, whose objective is to ensure and consolidate the exchange of information and opinions among employee representatives worldwide. At the same time, this committee provides a framework for intensive dialogue between employee representatives and Group management on economic and social aspects in the global enterprise. Within this framework the corporate management has agreed on principles of social responsibility with the World Employee Committee, in which the enterprise declares its social responsibility and its support for the nine principles of the "Global Compact".

The "Global Compact" was born of an initiative by the former General Secretary of the United Nations, Kofi Annan, which establishes minimum standards for working conditions and industrial relations. The enterprise is committed to the principles of international recognition of human rights. A further focal point of the agreement is the commitment to minimum standards in health protection, in remuneration, working hours and training. The enterprise expressly recognizes the right to freedom of association and collective wage bargaining.

4. Germany/USA - Differences in Corporate Governance

The supervisory bodies of enterprises in the USA and in Germany, the American "Board of Directors" and the German "Supervisory Board" basically fulfill the same functions in supervising the performance of the Board of Management in its management of the enterprise. There are, however, some important differences in the respective legislations as well as in the formal and informal structures and procedures.

Whereas in the USA the interests of the owners are predominantly represented by the Board of Directors, the German Supervisory Board is concerned with the interests of the owners and the employees. According to law, the German Supervisory Board is responsible for the long-term well being of the enterprise, whereas the American Board of Directors must act in the best interest of shareholders.

The culture, history and legal system of the respective countries have led to different approaches to corporate governance. Corporate regulation in the United States comes under the control of the individual states, which has led to a multiplicity of legislation, whereby most follow the main features of Delaware law. Enterprises in Germany are subject to clear and specific legislation through the Federal Government.

One of the greatest differences in comparison with structures of the American board lies in the two-tier system of German corporate governance. Under German law, simultaneous membership of the Board of Management and Supervisory Board is not permitted so as to separate the executing and supervising bodies of an enterprise. The majority of American Boards of Directors are, however, chaired by the CEO of the respective company, and in many Boards of Directors at least one further member is also a member of the Board of Management. Whilst the directors of American Boards of Directors are largely independent, their chairmen also represent the interests of the management.

Another difference in the supervisory organization of the two corporate governance systems is in the different perception of the relationship between the members of the supervisory bodies and the enterprise. In the United States, great value is placed on a composition of the Board of Directors, in which the majority of the members are independent and come from outside the enterprise, while few members come from the enterprise management. This is based on the conviction that members without any other connection to the enterprise can judge the interests of the shareholders more objectively.

Due to the Co-determination Act in Germany employees are granted big influence. Their role in the Supervisory Board is based on the principle that employees in Germany have an almost equal right of co-determination in corporate governance as the owners. In the USA there is, apart from rare exceptions, practically no employee representation on the Boards of Directors.

Furthermore, there is a great difference in the structures of the supervisory bodies and their formal procedures. The size of the German Supervisory Board is determined by law and, depending on the number of employees, generally comprises between 12 and 20 members, whereby the latter is more common. In the United States, the number of members in supervisory bodies is not stipulated by law. However, a comparatively smaller number of 10 to 12 members is usual, which makes for greater consensus among committee members. Besides the size of the supervisory body, there is a further difference in the frequency of meetings. Whereas German Supervisory Boards have to

meet twice a year, their American counterparts, the Boards of Directors, usually hold their meetings six times a year, sometimes even once a month.

As a result of the regulations of different stock exchanges and the Securities Exchange Commission, US enterprises listed on a national stock exchange are obligated to set up a number of committees. The committees to be appointed in accordance with the listing standards of the NYSE are an Audit Committee, which supervises the corporation's internal setting up of the financial statements and the external auditors and a Compensation Committee, which has the task of specifying the remuneration of the top managers and its relation to the performance of the enterprise, as well as a Nomination Committee, that is responsible for the selection of the Boards. Furthermore, nearly every Board has set up additional optional committees, e.g. for board matters, corporate governance, finance, environment and technology. Through the delegation of tasks to the committees, which report regularly to the Board of Directors, the members can fulfill their obligations more effectively.

Under German law, Supervisory Boards are only legally bound to establish a Mediation Committee, which only meets in the case of disagreements regarding the appointment of members to the Board of Management. Nonetheless, most Supervisory Boards have set up additional committees, which make their work easier. Usually a Presidential Committee is appointed, which is responsible for the nomination and compensation of Board of Management members or for the contracts of employment for the members of the Supervisory Board. Furthermore there is usually an Audit Committee for examining the annual financial statements and for discussing financial matters.

II. Shareholders and the General Meeting

1. Shareholders

Shareholders exercise their rights at the General Meeting and participate in voting. Each share in the company carries one vote. There are no shares with multiple voting rights, preferential voting rights ("golden shares") or maximum voting rights.

2. General Meeting

In a German stock corporation various important decision-making powers are reserved for the General Meeting, to which the Board of Management and the Supervisory Board or the Supervisory Board alone submit proposals. These include:

2.1 Ordinary Rights

At the annual ordinary General Meeting of the company the following resolutions fall to the General Meeting: Appropriation of the distributable profits and - in so far as this has been resolved by the Board of Management and the Supervisory Board - the approval of the annual financial statements, the ratification of the actions of the members of the Board of Management and Supervisory Board and the appointment of the external auditor

2.2 Appointment and Dismissal of Supervisory Board Members

At least once every five years, the shareholder representatives are elected and appointed to the Supervisory Board by the General Meeting. They can be dismissed at

any time by a resolution of the shareholders without indication of the reasons therefore.

2.3 Participation in Corporate Decisions

The influence of the General Meeting on the decisions of the Board of Management in the ordinary course of business is limited. Nevertheless, according to law, certain fundamental matters require the approval of the General Meeting. These include, among other things, amendments to the Memorandum and Articles of Incorporation, capital increases (including increases of the authorized and conditional capital, e.g. for the issuing of stock options to the Board of Management), capital reductions, the sale of the enterprise, the approval of stock buybacks (limited to 10% of the shares issued). Furthermore, the approval of the General Meeting is required for certain matters, which involve an amendment to the Memorandum and Articles of Incorporation, the corporate purpose or the structure of the company or that of the Group. These also include inter-company agreements in the context of the law relating to groups of affiliated companies. The most important examples of this are control and profit transfer agreements. Moreover, the approval of the General Meeting is required for integrations, mergers or any other form of transformation, including spin offs and transfers of the total or majority of the company assets.

3. Individual and Majority Rights of the Shareholders

In addition to the decision-making authorities held by the General Meeting, the shareholders have certain rights both individually and together with other shareholders. These are detailed here:

3.1 Right to Information

Each shareholder is entitled to request verbal information in the General Meeting from the Board of Management on corporate matters relevant to the General Meeting provided that the information requested serves to assist the shareholder in the making a proper evaluation of the relevant item on the agenda. Such a request need not be complied with if this would be detrimental to the enterprise or to an affiliated enterprise or in certain other cases. The German Stock Corporation Act does not permit shareholders to view the books and documents of the enterprise. The shareholders do, however, receive certain written information on the company via its publications in the media - in particular on the company's internet site, in the Commercial Register and in the electronic version of the Federal Gazette.

3.2 Nomination of Shareholder's Representatives to the Supervisory Board

If a shareholder wishes to nominate persons other than those nominated by the existing Supervisory Board for election to the Supervisory Board of the company, he can make a corresponding application up to two weeks prior to the General Meeting. The nomination must contain details of the name, the profession, the place of residence and membership of other Supervisory Boards and shall furthermore specify mandates held by the person nominated on committees and comparable supervisory bodies within the country and abroad. In addition, every shareholder entitled to participate and vote in the General Meeting can nominate persons for election to the Supervisory Board of the company at the General Meeting.

3.3 Pre-emptive Rights

According to the German Stock Corporation Act, a shareholder in a German stock corporation has pre-emptive rights to all issues of shares by the company, convertible bonds and income bonds, corresponding to the share of the existing company equity held by the shareholder. The German Stock Corporation Act permits the exclusion of this pre-emptive right only by resolution of the General Meeting. For the exclusion of the pre-emptive right a 75% majority of the shares issued and **represented** at the Meeting is required.

3.4 Right of Valuation

According to the German Stock Corporation Act and the German Transformation Act (UmwG), the shareholders can institute a German valuation proceeding in order to examine the appropriateness of valuations in certain corporate transactions. These include mergers, control and profit transfer agreements between a majority shareholder and the company he controls as well as the forced squeeze-out of minority shareholders from a company.

3.5 Shareholder Suits

Any shareholder can file a suit against the validity of the resolutions of the General Meeting. The General Meeting, by a simple majority of the votes cast, can request the company to institute legal proceedings against the Members of the Board of Management and the Supervisory Board. Further 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 €100,000 of our capital stock. The competent court will allow the action to proceed if (i) the shareholders acquired their shares before any information was published from which they became 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.

3.6 Minority Rights

Shareholders holding 5% of the shares issued or the pro rata value of € 500,000 between them are entitled to have matters for resolution placed on the agenda of the General Meeting, which must be published in the electronic version of the Federal Gazette.

Shareholders holding 5% of the shares issued can demand a General Meeting to be convened. Shareholders holding 1% of the shares issued or shares representing at least €100,000 of the capital stock may under certain requisites claim the admission of court actions against members of the Board of Management and Supervisory Board. Shareholders holding shares amounting to 1% of the capital stock or a pro rata value of € 100,000 can also demand that the competent court appoint special auditors to examine matters relating to the enterprise or corporate governance in so far as facts are

at hand that would indicate dishonesty or gross breaches of the law or of the Memorandum and Articles of Incorporation where these matters are concerned.

3.7 Right of Veto

A right of veto with regard to certain decisions of General Meeting arises from the majority requirements defined in the German Stock Corporation Act or the Memorandum and Articles of Incorporation for shareholders who hold a certain proportion of shares. All of these rights cannot be listed here, only the following shall be mentioned:

- Shareholders holding more than 5% of the shares have a right of veto with regard to incorporation into another enterprise
- Shareholders holding more than 10% of the shares have a right of veto with regard to the suspension of the assertion of certain claims against the Board of Management
- Shareholders holding more than 25% of the shares have a right of veto with regard to certain resolutions, if these require a majority of at least 75% of the shares issued and represented in the resolution and a simple majority of the votes cast at the General Meeting. These include certain capital measures (authorized or conditional capital), the liquidation of the company, a merger involving the company or any other form of transformation and the exclusion of pre-emptive rights.

4. Formalities and the Holding of the General Meeting, Proxies

4.1 Convention and Notification

The General Meeting is convened in all cases provided for in the German Stock Corporation Act or Memorandum and Articles of Incorporation or when required in the interests of the enterprise. The General Meeting is convened by the Board of Management, which resolves on the convention with a simple majority of the votes cast. Furthermore, the Supervisory Board can convene a meeting of shareholders whenever the interests of the enterprise so require. Pursuant to the Memorandum and Articles of Incorporation, the annual General Meeting, at which the actions of the Board of Management and the Supervisory Board are ratified and resolutions are taken on the appropriation of distributable profits, the appointment of the external auditor and, where applicable, on the approval of the audited annual financial statements, takes place in the first eight months of the financial year.

Notification of the General Meeting is published at the 30 days prior to the last day, shareholders can notify the company of their attendance in the General Meeting in the newspapers authorized to publish company announcements. The publication contains the name and seat of the enterprise, the time and place of the General Meeting and the conditions of participation in the General Meeting. If the agenda provides for the election of Supervisory Board members, the regulations governing the composition of the Supervisory Board are published in addition to the publication of the agenda and it is announced whether the General Meeting is to be bound by proposals for election. If the General Meeting is to resolve an amendment to the Memorandum and Articles of Incorporation or an agreement dependent upon the approval of the General Meeting,

the text of the amendment to the Memorandum and Articles of Incorporation or the main features of the agreement is published.

The reports and documents required by law for the General Meeting, including the annual report, are published on the company's internet site together with the agenda from the time of disclosure.

The Board of Management and Supervisory Board make a proposal with regard to each item of the agenda to be resolved by the General Meeting in the publication. No resolutions may be adopted in respect of items on the agenda which have been not been properly published.

The company is to inform all domestic and foreign financial services providers, shareholders and shareholder associations of the convening of the General Meeting together with the convention documents, upon request, also using electronic channels, provided that the requirements are fulfilled.

4.2 Chairmanship, Voting and Resolutions

Pursuant to the Memorandum and Articles of Incorporation, the Chairman of the Supervisory Board chairs the General Meetings. The resolutions of the General Meeting must be taken down in notarized minutes of the proceedings of the Meeting.

The resolutions are passed generally by simple majority of the votes cast whereby each share represents one vote. No quorum is required for the General Meeting of the company. Resolutions of the General Meeting of the company are passed with a simple majority of the votes cast, in so far as neither the law nor the Memorandum and Articles of Incorporation requires a greater majority of the shares represented at the Meeting. For resolutions of particular importance, such as amendments to the purpose of the corporation, the German Stock Corporation Act requires a qualified majority of a minimum of 75% of the share capital represented in the resolution.

The company facilitates the personal exercising of its shareholders voting rights. The company also assists its shareholders in the use of proxies by appointing a proxy representative to exercise shareholders voting rights in accordance with instructions at the General Meeting. Through such a representative, shareholders can cast their votes in writing, by fax or via the internet without participating in the General Meeting in person. The possibility of issuing instructions to the company proxy representative via the internet exists until shortly before the voting procedure.

The report of the Chairman of the Supervisory Board and the speech of the Chairman of the Board of Management on the company's condition shall be broadcast via the internet for the information of the shareholders and of the interested public.

III. The Board of Management

1. Overview of the Areas of Responsibilities

The sole responsibility for the management of the company lies with its Board of Management. This is responsible for managing, coordinating and controlling business within the framework of the objectives it has specified for the company. Furthermore, the Board of Management represents the enterprise in court and in dealings with third parties.

The rights and obligations of the Board of Management are specified in the German Stock Corporation Act, in the Memorandum and Articles of Incorporation, the Rules of

Procedure of the Board of Management and the employment contracts of the members of the Board of Management, that are supplemented by the catalog of approval of the Supervisory Board as well as the reporting requirements determined by law and by the Supervisory Board.

Company transactions are jointly managed by the Board of Management (collegial principle).

The internal organization of the Board of Management is specified in the Rules of Procedure. This contains rules which specify the areas of responsibility of the whole Board of Management, of the Chairman and the individual Board of Management members. It also contains regulations on the meetings of the Board of Management as well as the relationships between the Board of Management and the Supervisory Board. The main duties of the members of the Board of Management can be summarized as follows:

The Board of Management manages the company in the best interests of the company in compliance with the laws and standards of good practice.

The Board of Management develops the strategic planning of the enterprise. It identifies and develops strategic planning for the company and coordinates this with the Supervisory Board. The Board of Management implements the planning after the Supervisory Board has given its approval and supervises its implementation; it recommends amendments, in so far as these appear to be necessary.

Preparation of the annual plan and budget.

The Board of Management develops an annual operating plan and annual budget in line with its strategic approach for the enterprise.

Setting up a risk monitoring system.

The Board of Management sets up a risk monitoring system for early identification of possible risks, develops this system on an ongoing basis and monitors its efficiency.

Preparation of the annual financial statements for the Company and the Group.

The Board of Management is responsible for preparing the annual financial statements for the company and the Group and for their correctness. The Board of Management ensures that the annual financial statements correctly reflect the asset and earnings situation of the company and presents the annual financial statements and the consolidated financial statements to the General Meeting.

2. Composition and Allocation of Areas of Responsibility

2.1 Appointment and Term of Office of Board of Management Members

In accordance with the German Stock Corporation Act, the members of the Board of Management can be appointed by the Supervisory Board for a maximum period of five years. The Supervisory Board decided that, as a rule, Board of Management members of the company shall be reappointed for a period of three years. The initial appointment of Board of Management members is also generally for a period of three years. According to the rules of procedure of the Supervisory Board, each member of the

Board of Management, older than 60 years, should generally be appointed to the Board of Management for a period of one year.

Persons 65 years of age or older shall only be appointed to the Board of Management in special circumstances. Reappointments to the Board of Management are possible according to an approval of the Supervisory Board.

Reappointment before the end of one year prior to the end of the term of the appointment with a concurrent rescission of the current appointment is only possible under extenuating circumstances. Members of the Board of Management can only be relieved of their duties before termination of their term of office by the Supervisory Board for important reasons, e.g. in cases of serious breach of contract or inability to administer their tasks in accordance with their obligations.

2.2 Appointment of the Chairman and the Labor Relations Director

The Supervisory Board appoints one of the Board of Management members as Chairman of the Board of Management. The Supervisory Board appointed Dr. Dieter Zetsche as Chairman of the Board of Management.

In line with the German Co-determination Act the Board of Management must include a Labor Relations Director. He is appointed by the Supervisory Board. Mr. Günther Fleig, the member of the Board of Management responsible for Human Resources has been appointed as Labor Relations Director.

2.3 Members of the Board of Management and Allocation of Areas of Responsibility

The company has the following members of the Board of Management.

Dr. Dieter Zetsche (Chairman of the Board of Management)

Günther Fleig

Dr. Rüdiger Grube

Andreas Renschler

Bodo Uebber

Dr. Thomas Weber

The Business Allocation is issued by the Supervisory Board and can be found under the category "The Board of Management".

3. Tasks and Obligations of the Members of the Board of Management

3.1 Management of the Enterprise

The Board of Management is responsible for independently managing the enterprise. Management includes all legal or de facto measures for the realization of corporate objectives. Besides operating tasks, this mainly involves corporate policy.

The members of the Board of Management are obliged to fulfill their business tasks with the due care of a prudent businessman. The interests of the company include the interests of the shareholders in a sustained increase in the value of the enterprise as well as the interests of the workforce and, to a certain extent, the interests of the

general public. In its actions and decisions the Board of Management must take all these interests into account.

In managing the business, the Board of Management is bound neither by instructions from the Supervisory Board nor from the shareholders. The Supervisory Board, however, has determined certain measures and transactions which may only be undertaken by the Board of Management with its prior approval.

3.2 Representation of the Enterprise

The Board of Management represents the enterprise in court and in dealings with third parties.

According to the Memorandum and Articles of Incorporation of the company, two members of the Board of Management or one Board of Management member together with an authorized signatory ("Prokurist") are empowered to represent the enterprise. Furthermore, individual members of the Board of Management can be empowered to implement certain transactions.

Generally the representative authority of the Board of Management is unlimited and cannot be restricted. Even if the Board of Management were to exceed its authorities specified under business purposes in the Memorandum and Articles of Incorporation, its dealings with third parties are binding.

The German Stock Corporation Act, however, provides for certain exceptions: in transactions or contracts between the enterprise and a member of the Board of Management, the enterprise is represented exclusively by the Supervisory Board. This also applies to the conclusion of employment contracts and the granting of loans to members of the Board of Management. Certain agreements also require the approval of the General Meeting, e.g. inter-company agreements with affiliated companies, mergers and transfers of the total or majority of the assets of the enterprise.

3.3 Reporting

The Board of Management has to report regularly to the Supervisory Board. The great significance attached to the Board of Management reports to the Supervisory Board derives from the fact that these reports form the basis of the monitoring activities of the Supervisory Board. The Board of Management is obliged to report to the Supervisory Board about intended business policy and other fundamental matters of enterprise planning (particularly finance, investment and personnel planning), whereby deviations from the actual development of targets reported at an earlier date and the reasons for these deviations are to be reported. If the company is the parent company, then the report also has to deal with the subsidiaries and joint ventures. Furthermore, the profitability of the company, particularly the return on equity, must be reported to the Supervisory Board. The Board of Management also regularly reports on the course of business, particularly revenues and the condition of the company as well as transactions of considerable importance. In addition the Supervisory Board has determined further reporting requirements.

The Supervisory Board or individual Supervisory Board members can also request separate reports on matters which are of particular significance for the enterprise.

3.4 Statement on the Corporate Governance Code

The Board of Management and Supervisory Board reports each year on the enterprise's corporate governance in the annual report. This includes explanation of possible deviations from the recommendations of the German Corporate Governance Code. The Board of Management makes the declaration permanently available on the Internet. It also comments on deviations from the Code's suggestions, without being legally obliged to do so.

3.5 Commercial Accounts and Annual Financial Statements

The Board of Management is responsible for the commercial accounts of the enterprise. The annual financial statements including the management report are to be forwarded by the Board of Management to the Supervisory Board as soon as they are completed. Furthermore, the Board of Management must make a recommendation on the appropriation of distributable profits to the Supervisory Board for presentation at the General Meeting.

3.6 Secrecy

The members of the Board of Management have a special relationship of mutual trust to the enterprise. Part of this obligation to loyalty is to treat secret information of the enterprise confidentially, particularly business secrets. The obligation to secrecy does not end with the termination of duties as a member of the Board of Management, but continues beyond this.

3.7 Conflicts of Interest

Members of the Board of Management are bound by the enterprise's best interests and do not pursue private interests which are contrary to the best interests of the enterprise. During their employment at the enterprise, members of the Board of Management are subject to a comprehensive prohibition of competition obligation. This prohibition of competition applies to the period of employment as member of the Board of Management. However, a prohibition of competition obligation, which goes beyond the term of the contract, can also be stipulated in the employment contracts of members of the Board of Management.

In connection with their work members of the Board of Management may not demand nor accept from third parties payments or other advantages for themselves or for any other person nor grant third parties unjustified advantages.

No member of the Board of Management may pursue personal interests in his decisions or use business opportunities intended for the enterprise for himself. The members of the Board of Management are under obligation to immediately disclose to the Chairman of the Supervisory Board any personal interests in the business of the company and its affiliated companies or any other conflicts of interests in this connection. The member of the Board of Management concerned will inform the other members of the Board of Management about this.

Important transactions between a member of the Board of Management and the company or its subsidiaries require the approval of the Supervisory Board.

The pursuance of additional activities, particularly Supervisory Board activities, must not conflict with the obligations of Board of Management members to the company. Acceptance of such activities requires the approval of the Supervisory Board.

Board of Management members may not take on more than five Supervisory Board mandates in companies listed on the stock exchange outside the Group.

3.8 Meetings

Board of Management meetings are convened by the Chairman. As a rule, the Board of Management meets every fortnight. Meetings, however, can also be held via telephone or video conference. The members of the Board of Management receive agenda documentation in good time before the meeting.

The adoption of resolutions at Board of Management meetings must be substantiated by written documentation containing particulars of the motion proposed as well as the supporting considerations involved.

The Board of Management reaches decisions by a simple majority vote, without prejudice to legal regulations. In the case of a tied vote, the Chairman has the casting vote. The Chairman of the Board of Management is, however, required to exploit every possible avenue to achieve an unanimous decision, particularly on questions of principal or substantial importance.

Minutes are taken of every meeting, which are sent to every member of the Board of Management. The official language of the Board of Management is English.

3.9 Cooperation and Coordination of the Divisions and Matters of Fundamental Importance

The relationship between the executive divisions represented on the Board of Management is governed by the principle of mutual trust and cooperation as well as reciprocal frankness and transparency.

All members of the Board of Management cooperate to fulfill the duties of the Board of Management and each on his own account. Besides this joint responsibility, the Board of Management can delegate certain tasks to a Board of Management committee or to individual Board of Management members. This is done according to the regulations of the Rules of Procedure of the Board of Management.

Every Board of Management member is directly responsible for his respective division, within the framework of his obligations. The other members of the Board of Management monitor the fulfillment of his assigned responsibilities in accordance with his duties. In the case of objections, a binding decision of the whole Board of Management may be effectuated.

Every Board of Management member has to continuously report to the Chairman with regard to all developments and matters within his respective area of responsibility, in so far as these are of importance to the company.

The activities of the Board of Management members in the framework of their scopes of duty are coordinated by the Chairman. All members of the Board of Management keep their fellow members on the Board continually informed of all developments and matters affecting the latter's respective area of responsibility, and coordinate and agree upon the appropriate action with them. Matters of principal or substantial importance or matters involving the areas of responsibility of several Board of Management members are dealt with in the Board of Management as a whole.

Furthermore the Board of Management has determined matters of principal or substantial importance, that require the resolution of the Board of Management as a whole.

3.10 Takeover Bids

In the event of a takeover bid, the Board of Management and Supervisory Board of the target company must submit a statement of their reasoned position so that the shareholders can make an informed decision on the bid.

After the announcement of a takeover bid, the Board of Management of the target company may not take any actions outside of the ordinary course of business that could prevent the success of the bid unless the Board of Management has been authorized by the General Meeting or the Supervisory Board has given its approval. In making their decisions, the Board of Management and the Supervisory Board are obliged to act in the best interests of the shareholders and of the enterprise.

In appropriate cases, the Board of Management will convene an extraordinary General Meeting at which shareholders discuss the takeover bid and may decide on corporate actions.

3.11 Relationship to the Supervisory Board

The Chairman of the Board of Management discusses the current course of business with the Chairman of the Supervisory Board and the Supervisory Board. The Board of Management informs the Supervisory Board regularly, without delay and comprehensively, of all issues important to the enterprise with regard to planning, business development, the risk situation and risk management. In addition, the Board of Management informs the Supervisory Board about matters which are presented to the Supervisory Board for resolution or for information.

4. Compensation of the Board of Management

Besides their appointment as members as Board of Management, the members of the Board of Management are also in contractual relationship with the company. The rights and obligations of the members of Board of Management are specified in these employment contracts, as is, among other things, their remuneration. The legal regulations regarding compensation are specified in Article 86 et sqq. of the German Stock Corporation Act.

The compensation of the Board of Managements comes under the authority of the Presidential Committee of the Supervisory Board. However, the Supervisory Board reviews and discusses the compensation structure for the members of the Board of Management at the request of the Presidential Committee. The current compensation system contains fixed and performance-related components as well as long-term incentives and risk character:

- A fixed basic salary, paid out in twelve monthly rates, based on the area of responsibility of the respective Board of Management member.
- The annual bonus is a variable cash compensation, the level of which is related to the fixed base salary and varies in relation to the degree to which Daimler's planned financial targets have been achieved. Additional goals may also be taken into account, such as the development of total shareholder return. When setting the level of the annual bonus, the Presidential Committee of the Supervisory Board also has the possibility to reflect the Board of Management members' individual performance, which is not directly reflected in the performance of the Group, with a supplementary payment or a deduction of up to

25%. The operating profit target is determined annually in advance on the basis of the planning approved by the Supervisory Board.

- The new component of share-based compensation which was introduced in 2005 as a so-called Performance Phantom Share Plan, is linked to the long-term development of corporate value. The new program is based on the principles of performance orientation, benchmark comparison and share ownership. The new share-based Plan contains all essential criteria which are recommended in line with good Corporate Governance. This is achieved on the one hand by a medium-term performance-based model of four year's duration and on the other hand it comes to a long-term effect by the obligation to keep the shares. Target achievement is oriented towards the return on net assets that is actually achieved by the Group and on its return on sales compared with selected vehicle manufacturers (BMW, Ford, GM, Honda, Toyota, Volvo and VW). Due to the allocation of phantom shares at the beginning of a period of four years, the development of the share price is also taken into consideration. The phantom shares are entitled to dividend as well. After three years, the final number of phantom shares is calculated from the degree of target achievement. These phantom shares must then be held for one more year. After four years, the amount to be paid out is calculated by multiplying the number of phantom shares by the share price valid at that time. The members of the Board of Management have to use a quarter of this gross amount paid out to purchase "real" shares in the company, until the share ownership guidelines (see below) are fulfilled.
- In connection with the allocation of stock-based compensation, retroactive changes of performance targets or comparison parameters are expressly excluded.

In addition to these three components, the Presidential Committee of the Supervisory Board also has drawn up Stock Ownership Guidelines for the Board of Management, according to which the members of the Board of Management are obliged to maintain part of their personal assets in the company's shares over several years. The shares must be kept during the affiliation to the Board of Management. In compliance with the guidelines the real company's shares which are acquired within the new share-based compensation must be employed. The acquisition of shares may be carried out ulteriorly as well. The compensation system is arranged so that the compensation of the members of the Board of Management is appropriate in relation to their areas of activity and responsibility as well as in comparison with outside parties - also on an international basis. As a whole, it ensures the competitiveness of the enterprise by attracting and retaining international top-class managers. The compensation of the members of the Board of Management will be individually reported in the notes of the consolidated financial statements subdivided according to fixed, performance-related and long-term incentive components.

5. Liability und Damages

5.1 Liability

The members of the Board of Management manage the enterprise in a conscientious and cautious manner. Should they fail to honor their obligations, they are jointly and individually liable to the company for damages. The severity of the liability is clarified by the reversal of the burden of proof according to which a breach of duty is assumed if the member of the Board of Management cannot demonstrate that he has acted in a conscientious and cautious manner.

There is no liability for damages if the member of the Board of Management acts upon a lawful resolution of the General Meeting. Nevertheless, a breach of duty to the enterprise is also possible in the case of actions taken with the approval of the Supervisory Board. The German Stock Corporation Act stipulates that the company cannot limit or annul the personal liability of the members of the Board of Management for breaches of duty in the performance of their official tasks in advance. In cases of gross negligence, the Presidential Committee of the Supervisory Board which is responsible for the Board of Management members' service contracts may agree to make a percentage deduction from the variable portion of the compensation of the member of the Board of Management concerned. The enterprise can, however, waive its claim for damages for a breach of duty, or it can propose an agreement on such claims if more than three years have passed since the date on which the claim arose. This, however, requires the approval of the General Meeting, whereby such a waiver of claim respectively such an agreement does not come about if an objection is raised by shareholders holding shares of over ten percent.

5.2 Damages and Directors and Officers' Liability Insurance (D&O policy)

In general, the company cannot pay damages for members of its Board of Management. It can, however, conclude appropriate insurance policies for the members.

The D & O policy for the Board of Management and Supervisory Board does not provide any insurance cover for intentional acts and omissions or for breaches of duty knowingly committed. Insurance cover is provided only for negligent breaches of duty by members of the Board of Management and Supervisory Board, so that this is the only context in which the question of the agreement of a deductible arises.

The company's D & O policy does provide for a deductible for the area of ordinary or gross negligence on the part of members of the Board of Management. Moreover, in cases of grossly negligent breaches of duty by members of the Board of Management the Presidential Committee of the Supervisory Board with responsibility for personnel matters may agree to make a percental deduction from the variable portion of the remuneration of the member of the Board of Management concerned. In terms of its overall financial result, this would be the same as a deductible. In the view of the company, this rule enables individual cases to be judged more fairly on their merits than the blanket approach of the German Corporate Governance Code.

IV. The Supervisory Board

1. Overview of the Areas of Responsibility

The Supervisory Board is one of the corporate bodies of the enterprise that is required by law and is elected by the General Meeting and the employees. Its most important functions include the appointment and dismissal of members of the Board of

Management and the provision of independent advice to, and examination of the work of the Board of Management.

2. Composition of the Supervisory Board

2.1 Size of the Supervisory Board

The Supervisory Board is comprised of representatives of the shareholders and employees. As the enterprise is bound by the 1976 Co-determination Act, the number of members of the Supervisory Board is specified as twenty.

2.2 Composition of the Codetermined Supervisory Board

The shareholders elect half of the members of the Supervisory Board. To permit the Supervisory Board's independent advice and supervision of the Management Board, at least more than half of the shareholder representatives should be independent. The employees elect the other half. Three of the members representing the employees are trade union representatives. The remaining seven employee representatives on the Supervisory Board must be employees of the enterprise in Germany; one of whom must be a representative of the senior executives.

2.3 Election of the Chairman and the Deputy Chairman

The Supervisory Board elects a Chairman and a Deputy Chairman from its midst. A member of the shareholder representatives is regularly elected as Chairman of the Supervisory Board and a member of employee representatives as his deputy. In the event of a tied vote on the Supervisory Board, the Chairman has the casting vote.

The Chairman of the Supervisory Board coordinates the work of the Supervisory Board and chairs its meetings. The Chairman of the Supervisory Board maintains regular contact with the Board of Management, in particular with the Chairman of the Board of Management and consults with him on the strategy, business development and risk management of the enterprise. The Chairman of the Supervisory Board is informed by the Chairman of the Board of Management without delay of important events that are essential for the assessment of the situation and development as well as for the management of the company. The Chairman of the Supervisory Board then informs the Supervisory Board and, if required, convenes an extraordinary meeting of the Supervisory Board.

The Supervisory Board has elected Dr. Manfred Bischoff as its Chairman and Mr. Erich Klemm as its Deputy Chairman.

2.4 Conditions of Membership

2.4.1 General Conditions

The members of the Supervisory Board shall collectively be in possession of the information, skills and professional experience required to correctly perform their duties, be sufficiently independent and reflect the international orientation of the enterprise. The members of the Supervisory Board shall not be subject to any conflicts of interest. Members of the Supervisory Board shall not exercise directorships or similar positions or advisory tasks for important competitors of the company. It is expected of

Supervisory Board members that they be well prepared for Supervisory Board meetings and relevant committees and take an active part in these. Each Supervisory Board Member is urged to arrange other planned commitments present and future in such a way that they do not limit him or her in the performance of his or her Supervisory Board mandate.

2.4.2 Legal Restrictions

The legal requirements for membership of a Supervisory Board are specified in Article 100 German Stock Corporation Act. The number of memberships of Supervisory Boards is limited to ten. Positions as Chairman of a Supervisory Board are counted twice in this connection.

According to the Articles of the Incorporation of the company the number of Supervisory Board mandates in listed companies outside the group, officiated in addition to the mandate for the company is limited to four, if the concerned person is also a member of the Board of Management of a listed company.

Simultaneous membership of the Supervisory Board and the Board of Management of an enterprise or of a company subordinate to the enterprise is prohibited by law.

2.5 Period of Office, Appointment and Dismissal

Pursuant to the law and the Articles of Incorporation of the company, the period of membership of the Supervisory Board is a maximum of five years. The members of the Supervisory Board can be elected for different periods of office. Reelection is possible. Candidates are elected to the Supervisory Board based on the highest number of yes votes actually submitted.

The shareholder representatives on the Supervisory Board can be removed by a resolution of the General Meeting. Every member of the Supervisory Board can, upon good cause, including gross breaches of duty, be dismissed. The election and dismissal of the employees on the Supervisory Board is determined in the Co-determination Act and in special voting guidelines.

3. Tasks and Duties of the Members of the Supervisory Board

3.1 General Tasks

The members of the Supervisory Board are jointly responsible for performing their duties. All members of the Supervisory Board have the same rights and duties. There is no distinction between the employee representatives and the shareholder representatives on the Supervisory Board. The tasks and duties of the members of the Supervisory Board are defined in Rules of Procedure for the Supervisory Board.

Certain tasks can be assigned to a committee or to individual members of the Supervisory Board. The committee members must fulfill the duties assigned to them independently.

The members of the Supervisory Board are exclusively responsible for the well being of the enterprise. They represent neither the shareholders nor the employees and must therefore consider the interests of the company in their decisions and actions. The interests of the company incorporate the interests of the shareholders and the workforce and, to a certain extent, the interests of the public. The members of the Supervisory Board act entirely independently and on their own account.

3.2 Advice and Supervision of the Board of Management

The Supervisory Board is not entrusted with the day-to-day business of corporate governance and therefore cannot set directives for the Board of Management. The most important task of the Supervisory Board is the advice, control and supervision of the corporate governance exercised by the Board of Management. This advisory and supervisory role covers all of the activities of the Board of Management, whereby these are not only assessed according to their legitimacy, but also according to their appropriateness. For control purposes, the Board of Management reports regularly to the Supervisory Board.

The Supervisory Board and each of its members can request a report from the Board of Management on the transactions of the enterprise, on legal and business relations with affiliated companies and on the course of business of these companies, in so far as they are of economic importance to the enterprise. Every member of the Supervisory Board is entitled to inspect these reports.

The Supervisory Board can also arrange for special audits and investigations of the work of the Board of Management, in particular the examination of certain transactions, the books of the enterprise or certain assets of the company such as securities or real estate.

3.3 Approval of Decisions by the Board of Management

Certain transactions and measures resolved by the Supervisory Board itself require the approval of the Supervisory Board. Furthermore, in certain cases the approval of the Supervisory Board is required by law (e.g. the granting of a loan to the members of the Board of Management or the Supervisory Board pursuant to Articles 89, 115 German Stock Corporation Act; the issue of new shares from authorized capital pursuant to Article 202 German Stock Corporation Act).

3.4 Annual Financial Statements and Audit of Annual Financial Statements

The Supervisory Board mandates the external auditor with auditing the annual financial statements. This takes place through the Audit Committee of the Supervisory Board, which also specifies the particulars of the audit and ensures the function and the independence of the auditor.

The Supervisory Board examines the annual financial statements, the management report, the proposal for the appropriation of distributable profits and the consolidated financial statements presented by the Board of Management. The external auditor takes part in the Supervisory Board's deliberations on the annual financial statements and consolidated financial statements and reports on the material results of his audit.

The Supervisory Board reports to the General Meeting in writing on the results of the audit. When the Supervisory Board approves the annual financial statements, the latter are established and formally approved. On this basis, the General Meeting resolves on the appropriation of distributable profits.

3.5 Appointment and Dismissal of Members of the Board of Management

The Supervisory Board is responsible for the appointment and dismissal of members of the Board of Management. Together with the Board of Management, it ensures there is long-term successor planning.

3.6 Proposals to the General Meeting

The Supervisory Board has the right and the duty to convene the General Meeting when this is necessary for the benefit of the enterprise. Moreover, the members of the Supervisory Board participate in the General Meeting. The Supervisory Board - and in general also the Board of Management - makes a proposal for every item of the agenda to be resolved by the General Meeting, which is published with the agenda of the General Meeting.

3.7 Statement on the Corporate Governance Code

The Board of Management and Supervisory Board report each year on the enterprise's corporate governance in the annual report. This includes explanation of possible deviations from the recommendations of the German Corporate Governance Code.

It also comments on deviations from the Code's suggestions, without being legally obliged to do so. The Board of Management makes the declaration permanently available on the Internet.

3.8 Representation of the Enterprise

The Supervisory Board has a limited right of representation. It represents the enterprise in legal transactions and in the event of legal disputes with members of the Board of Management. Furthermore, the Supervisory Board represents the enterprise together with the Board of Management in the event of an action to annul a General Meeting resolution on the part of the shareholders.

3.9 Duty of Confidentiality

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 deliberations. On the termination of their mandate, all confidential documents must be returned to the Chairman of the Supervisory Board.

If 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 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.

3.10 Conflicts of Interest

All members of the Supervisory Board undertake to serve the interests of the company. When taking decisions, they shall neither pursue personal interests nor exploit the company's commercial opportunities for their own purposes.

All members of the Supervisory Board shall disclose conflicts of interest to the Supervisory Board, particularly those that may arise due to any advisory role or board

membership on behalf of customers, suppliers, lenders or other commercial partners of the company or any of its group companies.

The Supervisory Board reports any arising conflicts of interest concerning members of the Supervisory Board and the measures taken to rectify these conflicts in its report to the Annual Meeting.

In the event of major long-term conflicts of interest arising in the person of a member of the Supervisory Board, the member in question must resign his mandate.

Any consultancy agreements or other service or work contracts between a member of the Supervisory Board and the company or a group company are subject to the approval of the Presidential Committee.

3.11 Self-evaluation

The Supervisory Board examines the efficiency of its activities on a regular basis, where appropriate in consultation with external consultants.

4. Committees

4.1 Committees of the Supervisory Board

The Supervisory Board forms professionally qualified committees from among its members, especially for specific subjects such as audits and for the preparation of proposals and resolutions of the Supervisory Board. In doing so the Supervisory Board delegates various powers of resolution to the committees. However, due to legal provisions, certain duties and powers of resolution may not be transferred. Providing the Chairman of the Supervisory Board makes no other disposition, Supervisory Board members may participate in the committee meetings. The Supervisory Board can revoke the delegation to a committee at any time. Transferring specific tasks to a committee does not affect the joint responsibility of all Supervisory Board members.

4.1.1 Mediation Committee

Functions

The Mediation Committee has the task of making proposals for the appointment of Board of Management members if a prior proposal for appointment did not obtain the necessary approval for approval required pursuant to Article 31 par. 2 of the Co-determination Act.

Composition

The Mediation Committee is composed of the Chairman and the Deputy Chairman of the Supervisory Boards and two other members, one being a Supervisory Board member of the employees and one a Supervisory Board member of the shareholders elected with the majority of the votes cast.

Meetings

The Mediation Committee meets only in the cases provided for in Article 31 par. 3 Co-determination Act.

4.1.2 Presidential Committee

The company's Supervisory Board has established a Presidential Committee.

Functions

The Presidential Committee decides on the service contract and other contractual matters relating to the Board of Management, in particular determining the compensation of the members of the Board of Management, on the legally stipulated approvals required pursuant to Article 98 (granting of credit to members of the Board of Management), Article 114 (Contracts with members of the Supervisory Board) and Article 115 (granting of credit to Members of the Supervisory Board) German Stock Corporation Act. The Presidential Committee advises and decides on issues relating to corporate governance and issues recommendations on such issues to the extent Supervisory Board approval is required. Furthermore it supports and advises the Chairman of the Supervisory Board and its representatives.

Composition

The Presidential Committee is constituted from the Chairman of the Supervisory Board, his deputy and two further members, elected with the majority of the votes cast. In the Committee, there is an equal representation from the shareholder and the employee side.

Meetings

The Chairman of the Supervisory Board chairs the committee meetings. He prepares the agenda for the meeting and distributes this in advance to the committee members. Each member can propose subjects for inclusion in the agenda.

4.1.3 Audit Committee

The Supervisory Board has formed an Audit Committee.

Functions

Its responsibilities include the discussion of the interim financial statements and the annual financial statements for the Group and the company and examines the effectiveness and further development of the risk management. To do so, the Audit Committee can regularly involve the Board of Management or individual members of the Board of Management. Unless resolved otherwise in individual cases, the external auditor attends the meeting of the Audit Committee. Furthermore, the Audit Committee supervises the work of the business practice office a organisation pursuing questions to which employees can get in touch in cases they have any notes regarding reporting and business practices. Also the Audit Committee deals with compliance issues.

The Audit Committee deals with questions of accounting and risk management. It discusses the interim and the year-end financial statements, individual and consolidated, of the company and the Group. The Audit Committee makes recommendations concerning the selection of external auditors, assesses such auditors' suitability and independence, and, after a company of auditors is elected by the Annual Meeting, commissions it to conduct the annual audit, negotiates an audit fee and determines the main focus of this 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, for example, concerning the use of inappropriate profit and capital measures. Finally, the Audit Committee approves services provided by the external auditors or affiliated companies to Daimler AG or to Group companies which are not directly related to the annual audit.

Furthermore, the Audit Committee makes a proposal for the election of the auditor for presentation to the General Meeting by the Supervisory Board.

Before submitting the proposal, the Audit Committee will obtain a declaration from the prospective external auditor detailing if any business, financial, personal or other relationships exist between the auditors and its executive bodies and audit managers on the one hand and the company and its board members on the other, that may bring the independence of the auditor into question, and the nature of any such relations where applicable. The declaration should also cover any other services rendered for the enterprise during the last financial year or contractually agreed for the coming year, particularly in the consultancy sector.

Furthermore, the Audit Committee will obligate the auditor of the annual financial statements to inform the Audit Committee immediately of any possible grounds for exclusion or bias that arise during the audit, and immediately report all findings and incidents material to the duties of the Supervisory Board arising during the audit. The Audit Committee further agrees that the auditor informs of or reports in the audit report, facts discovered during the audit that indicate any inaccuracy in the declaration submitted by the Board of Management and Supervisory Board concerning the German Corporate Governance Code.

Composition

The Audit Committee is composed of four members, who are elected by the majority of the casted votes. Mr. Bernhard Walter, the Chairman of the Audit Committee, is appointed as Financial Expert by the Supervisory Board.

In the Committee is an equal representation from the shareholder and the employee side. The Audit Committee members are independent according to the applicable provisions.

Meetings

The committee meetings are chaired by the Chairman of the Audit Committee. He prepares the agenda for the meeting and distributes this to the committee members in advance. Each member can propose subjects for inclusion in the agenda.

4.1.4 Labor Committee

The employee representatives in the Supervisory Board have established a Labor Committee. This body is not a committee in terms of the law, as it does not act for the Supervisory Board as a whole. Rather it serves the employee representatives as a forum for discussing matters that have been presented to the Supervisory Board for information purposes or for resolution.

The Labor Committee is composed of the ten employee representatives of the Supervisory Board and five external members.

5. Meetings

5.1 Frequency of Meeting, Convening and Agenda

The meetings of the Supervisory Board take place at the company domicile or at another venue to be stated in the invitation. The Supervisory Board should at least convene once every calendar quarter and must convene twice within every six month period. The representatives of the shareholders and the employees can prepare for the meetings of the Supervisory Boards separately, if necessary together with the members of the Board of Management.

If required, the Supervisory Board can meet without the Board of Management.

If a member of the Supervisory Boards participates in less than half of the meetings of the Supervisory Board in a financial year, this is noted in the report of the Supervisory Board to the General Meeting.

The Chairman of the Supervisory Board - or the Deputy Chairman if the Chairman is indisposed - invites members of the Supervisory Board to the meetings in writing, by fax or by e-mail two weeks prior to the date of the impending meeting. In cases deemed to be urgent, meetings may be called at as little as three days notice. The day of the meeting is not included in the notice period for calling meetings.

No special invitation is required for the constituent meeting of the Supervisory Board meeting. If the purpose of this meeting is to elect the Chairman of the Supervisory Board and his Deputy and set up and appoint committees, it is not necessary to publish an agenda.

The invitation to the Supervisory Board meeting must include an agenda that sets out the items to be voted on so clearly that members of the Supervisory Board who are unable to attend the meeting may exercise their right to vote in writing. Any documents required for preparation are generally sent to Supervisory Board members at least one week before the meeting.

5.2 Participation of Non-members at Supervisory Board Meetings

Only members of the Supervisory Boards and of the Board of Managements who may participate in the meetings of the Supervisory Boards and its official committees, i.e. the Mediation Committee, the Presidential Committee and the Audit Committee. However, experts can be invited on specific items of the agenda.

5.3 Selection of Items on the Agenda

The Chairman of the Supervisory Board draws up the agenda for the meetings. In so doing, he ensures that certain topics relevant to provide the Supervisory Board with an appropriate overview, or which require its approval are included in the agenda. Each member can propose items for inclusion in the agenda. The individual items on the agenda must be rendered in such a precise and unequivocal manner that members of the Supervisory Board not present at the meeting can avail themselves of their right to submit their vote in written form using these agenda items as a basis.

5.4 Distribution of Resolution Documents

Information of relevance to the Supervisory Board and data on business processes must be submitted to the Supervisory Board prior to its meetings. The Board of

Management ensures that these documents are as concise as possible, containing the relevant information.

Documents on specific topics are to be sent to the members of the Supervisory Board within an appropriate period prior to the meetings in order that the time available for the meeting can be used primarily for the clarification of issues relating to the documents.

5.5 Voting, Resolutions and Minutes

The resolutions of the Supervisory Board are passed with a simple majority of the votes cast unless other majorities are required by law. Abstentions are not to be counted in the determination of the result of voting. In the event of a tied vote, the Chairman has the casting vote.

In 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 telephone or video conference. Members of the Supervisory Board not able to attend the meeting may participate in resolutions of the Supervisory Board and its committees by submitting their votes in writing or by fax to the person chairing the meeting. This also applies to the additional casting vote of the Chairman of the Supervisory Board.

The Chairman of the Supervisory Board - or in his absence the Deputy Chairman - may arrange for the voting on a resolution of the Supervisory Board to be carried out in writing, by fax or e-mail - or by using 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 decided by the Chairman.

Minutes are to be prepared of the negotiations and resolutions of the Supervisory Board and its committees. These are to be signed by the respective Chairman. Copies of the minutes are to be passed on to all members of the respective committee; the original copies are to be kept in the safe custody of the company.

6. Compensation

6.1 Compensation Supervisory Board

The compensation of the members of the Supervisory Board is specified in the Memorandum and Articles of Incorporation by resolution of the General Meeting.

Under the Articles of Incorporation of the company, members of the Supervisory Board currently receive a fixed fee in addition to expenses at the end of the financial year. This fee amounts to € 75,000 for each member, three times this amount for the Chairman of the Supervisory Board, twice this amount for the Deputy Chairman of the Supervisory Board and the Chairman of the Audit Committee, 1.5 times this amount for the chairmen of other Supervisory Board committees and 1.3 times this amount for members of the Supervisory Board committees. If a member of the Supervisory Board exercises several of the aforementioned functions, he is remunerated solely according to the function with the highest remuneration. Furthermore, the members of the Supervisory Board receive an attendance fee of € 1,100 for each meeting of the Supervisory Board and for each meeting of the Committees they attend.

6.2 Service or Employment Contracts

Service or employment contracts with Supervisory Board members, by which they are engaged for certain activities besides their activities on the Supervisory Board, require separate and individual approval by the Supervisory Board.

7. Liability and Damages

7.1 Liability and Damages

The regulations on liability and damages applicable to the members of the Board of Management apply in the same manner to the members of the Supervisory Board. Each member of the Supervisory Board is thus liable to the enterprise for the fulfillment of his individual obligations. The members of the Supervisory Board are subject to the same guidelines concerning due care and secrecy as the members of the Board of Management.

7.2 D & O policy (Directors and Officers Liability Insurance)

The D & O policy for the Board of Management and Supervisory Board does not provide any insurance cover for intentional acts and omissions or for breaches of duty knowingly committed. Insurance cover is provided only for negligent breaches of duty by members of the Board of Management and Supervisory Board, so that this is the only context in which the question of the agreement of a deductible arises.

The company's D & O policy does not provide for a deductible for the area of negligent action on the part of members of the Supervisory Board. The company endeavors to staff its Supervisory Board with prominent members of the community from Germany and abroad who have extensive business experience, and the company may be impeded in this aim if members of its Supervisory Board have to accept far-reaching liability risks for potential negligence. The fact that a deductible is still fairly unusual in other countries makes this even more of a problem.

V. Transparency

1. Duty to Inform/Information about the Company

1.1 Ad hoc Disclosures

The Board of Management will disclose inside information concerning the company directly without delay, according to statutory requirements.

1.2 Shareholding Structure

As soon as the company is informed or becomes aware by other means that an individual acquires, exceeds or falls short of 3%, 5%, 10%, 25%, 50% or 75% of the voting rights in the company by means of a purchase, sale or any other manner, the Board of Management will disclose this without delay pursuant to legal regulations.

1.3 Transactions of persons, who perform executive functions

The purchase or sale of shares in the company or of related purchase and sale rights (e.g. options) and of other financial instruments and derivatives by persons, who

perform executive functions at the company as well as by “related persons” of the mentioned persons, will be reported without delay to the company by them. Transactions up to € 5,000 within a calendar year are excepted from the reporting requirement. The company will publish this information without delay. Corresponding information will be provided in the annual report in the corporate governance chapter. The enterprise shall report the shareholdings, including options and other derivatives, held by individual Board of Management and Supervisory Board Members, if these directly or indirectly exceed one percent of the shares issued by **the company**. If the entire holdings of all Members of the Board of Management and Supervisory Board exceed one percent of the shares issued by **the company**, these shall be reported separately according to Board of Management and Supervisory Board.

2. Financial Communication

2.1 Fair Disclosure

The company complies with the legal provisions in the communication of information.

The company strives to treat all shareholders equally in respect of information, by making available without delay to the shareholders all new facts made known to securities analysts and similar persons.

Any information which the company discloses outside Germany in line with corresponding capital market law provisions will also be disclosed domestically without delay in the original version or at least in the English language.

The company will make particular use of the Internet to inform shareholders and capital market participants in a prompt and uniform manner.

2.2 Financial Calendar

As part of regular information policy, the dates of important regular publications (including the annual report, interim reports, General Meetings) are published sufficiently in advance in a financial calendar.

Information on the enterprise, which the company discloses, will also be accessible via the internet site. The internet site is clearly structured and is also available in English.

VI. Reporting

The Board of Management is responsible for Group reporting.

The annual consolidated financial statements as well as the interim consolidated financial statements (quarterly financial statements) were prepared in accordance with Generally Accepted Accounting Principles in the United States of America (US-GAAP) until the year 2006. Since 2007 the International Financial Reporting Standards (IFRS) have been applied.

The consolidated financial statements for both annual and interim periods include the financial statements of the company and all of its material, majority-owned subsidiaries. Intercompany transactions and balances subsidiaries relating to these majority-owned entities are eliminated. Significant investments in which the company has 20% to 50% of the voting rights or the ability to exercise significant influence over the operating and financial policies of the investee (associated companies) are accounted for using the equity method.

For corporate law purposes, the Annual Financial Statements are also prepared according to the regulations of the German Commercial Code, which in turn form the basis for taxation. In compliance with the requirements of the German Commercial Code, the Annual Financial Statements of the company provide a true and fair overview of the net assets, financial position and earnings situation of the company in accordance with generally accepted accounting principles.

Adequate consideration is taken of risks. The company has developed and implemented effective control and management systems for early recognition of potential risks and for the evaluation and correct handling of existing risks. This risk management forms an integral component of the entire planning, controlling and reporting process and aims at the systematic identification, assessment, control and documentation of risks. With reference to predefined risk categories, risks arising from management of the divisions and business units are identified and evaluated with regard to the probability of occurrence and the possible level of damage. Management regulates the reporting of relevant risks by means of specified threshold values. Measures to avoid, reduce and protect against risks are developed and implemented in the course of risk management. Risks are continually monitored within the framework of a risk monitoring system.

The aim of the risk management system at the Group is to enable company management to recognize significant risks at an early stage and then take appropriate action. Observance of the uniform Group guidelines, as defined in the company's Risk Management Manual, is checked by internal auditing. In addition, external auditors monitor the risk early warning system integrated into the risk management system for its fundamental suitability for early recognition of developments that could jeopardize the continued existence of the enterprise.

The Consolidated Financial Statements are prepared by the Board of Management and examined by the auditor and the Supervisory Board. The Consolidated Financial Statements are made publicly accessible within 90 days of the end of the financial year, which in the case of the company corresponds to the calendar year. For the purpose of greater clarity, the Annual Report is also published in an interactive form on the Internet. Interim reports are also made publicly accessible within 45 days of the end of the reporting period.

The Consolidated Financial Statements contain detailed information on stock option programs and similar securities-based incentive systems at the enterprise.

The company publishes a list of third party companies in which it has a financial interest that is not of subordinate importance to the Group.

Notes on relationships with shareholders considered to be "related parties" pursuant to the applicable accounting regulations are provided in the Consolidated Financial Statements.