ANNUAL REPORT

2012/2013

THE YEAR IN REVIEW

Major new product launches, burgeoning global sales and investment in new facilities were the highlights of 2012/13.

HEADLINE FIGURES FOR 2013 FINANCIAL YEAR

REVENUE

£15,784m
Revenue 2013

£13,512m
Revenue 2012

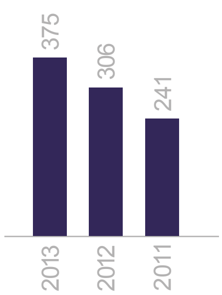
£9,871m
Revenue 2011

PROFIT BEFORE TAX

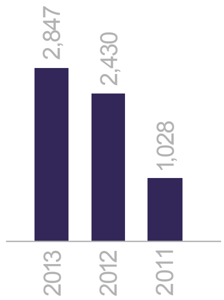
£1,675m
Profit before tax 2013

£1,507m
Profit before tax 2012

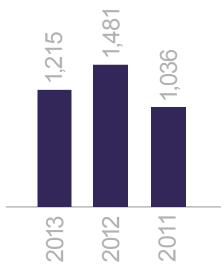
£1,115m
Profit before tax 2011



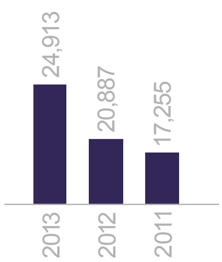
Retail volume (units, 000s)



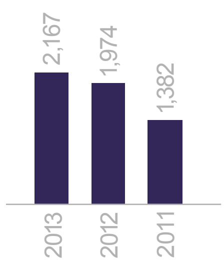
Cash (£m)



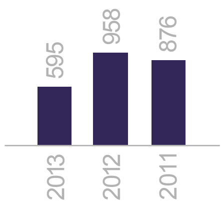
Profit after tax (£m)



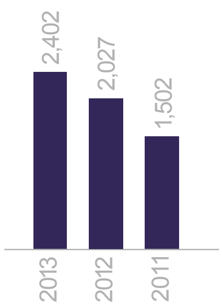
Average number of employees



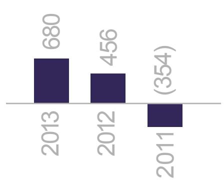
Debt (£m)



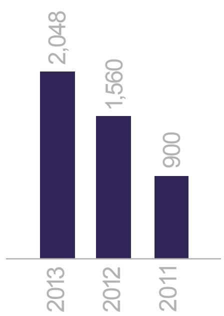
Free cash flow (£m)



EBITDA (£m)



Net cash (debt) (£m)



Product Investment (£m)

CHAIRMAN'S STATEMENT

THIS YEAR I HAD THE GREAT PLEASURE to assume the role of Chairman of Jaguar Land Rover Automotive PLC.

Under the enlightened and inspirational leadership of Mr Ratan Tata, Tata Sons has evolved from being a large business group operating primarily in India into an even larger institution with a global footprint. Strong foundations have been laid for a culture committed to innovation, quality and collaboration. And thanks to Mr Tata's uncompromising adherence to a resilient value system, a platform has been created which we can cherish and that evokes pride in all of us.

Jaguar Land Rover is making good progress and is a flagship asset for the Tata Group. As we approach five years of ownership of these iconic British car brands, Jaguar Land Rover has reaffirmed our confidence in the premium car market – and rewarded our commitment to its expansion – by harnessing the opportunities created by rising overall demand for high-performance and luxury off-road vehicles across the world.

In this pursuit of global excellence, Jaguar Land Rover like other Tata Group companies must stay true to its tenets, traditions and heritage. We must harness the collective strength of our Group and continue to recognise the invaluable contribution made by our employees as we look to celebrate even greater success in the future.

Cyrus Mistry
Chairman
Jaguar Land Rover Automotive PLC

“Strong foundations have been laid for a culture committed to innovation, quality and collaboration.”

08

“Jaguar Land Rover is on a path to sustainable growth, we have the necessary building blocks in place to shape our future.”

CEO'S STATEMENT

JAGUAR LAND ROVER is at an exciting juncture in its rich history. During five years of ownership by our nurturing and supportive parent, Tata Motors, we have transformed our business. Today Jaguar Land Rover is the UK's largest premium automotive manufacturer, representing two of the most iconic British motoring brands.

Our unrelenting focus on design, technology, innovation and quality has seen Jaguar Land Rover reach global consumers in more markets than ever before thanks to its most engaging product line-up, enriched further by the Jaguar F-TYPE and all-new Range Rover.

Our customers are at the heart of everything we do. Our cars are bought not just for what they can do but because they make our customers feel special and we remain committed to exceeding expectations and delivering outstanding customer experience in all areas of our business.

Jaguar Land Rover has a clear vision for its future that can only be realised through investment. During this fiscal year we committed more than £2 billion to product creation, facility and infrastructure investment. From a joint venture with Chery Automotive in China to developing our own range of low-emission engines, our destiny is firmly in our hands and it is a responsibility our senior leadership team takes very seriously.

Our future success also lies with every employee in our business. We strengthened our team with more than 3,000 new hires this year, 10% of which joined our leading apprentice and graduate programmes. Our workforce, together with our supply chain and global dealer network have delivered 374,636 (up 23%) cars to customers around the world receiving more than 100 international awards – that is something for which we must all be incredibly proud.

Demand for our vehicles around the world remains strong. From traditional markets like the UK, US and Europe – where we continue to see challenging trading conditions, to growth economies such as China, Russia and India. We are committed to delivering a range of new and refreshed products driven by advanced sustainable technologies to meet the needs of this diverse and discerning population.

Financially 2013 was a positive year. Revenues rose 17% to £15.8 billion, while underlying earnings jumped by 19% to £2.4 billion, representing a return on sales margin of 15.2%. Pre-tax profits rose 11% to £1.67 billion with free cashflow of £595 million.

Jaguar Land Rover is on a path to sustainable growth, we have the necessary building blocks in place to shape our future. Through a steadfast commitment to delivering cutting edge advances in automotive technology, as showcased in the C-X75 hybrid supercar prototype, Jaguar Land Rover will continue to deliver vehicles which meet the ethical and emotional demands of its customers delivering a truly unique experience synonymous only with our two iconic British brands.

Dr Ralf Speth
Chief Executive Officer
Jaguar Land Rover

KEY MILESTONES 2012/2013

From launching critically-acclaimed new cars to supporting programmes with global impact, it was an action-packed year for the company.

29 June 2012

Land Rover's most ambitious fundraising project to date, the Journey of Discovery raised £1million for the International Federation of Red Cross and Red Crescent Societies and supported a water and sanitation project in Uganda. The 50-day, 10,000-mile Birmingham to Beijing expedition celebrated the production of the millionth Land Rover Discovery.

26 September 2012

Two new models from Jaguar Land Rover created a stir on their global public debut at the Paris Motor Show. The F-TYPE, an all-new, two-seater sports car, impressed with its clean lines, stunning performance and involving driving experience, while the fourth-generation Range Rover, the world's first SUV with a lightweight all-aluminium body, blended greater luxury and refinement with enhanced all-terrain performance and handling.

18 November 2012

The foundation stone was laid for a manufacturing facility near Shanghai, China. The joint venture with Chery Automobile Company will manufacture Jaguar Land Rover vehicles and models for a new partnership brand, which will assemble cars tailored specifically for the Chinese market. The £1.15 billion investment includes a new R&D centre and engine production facility.

28
November 2012

The XFR-S - the fastest and most powerful Jaguar sports saloon to date – was unveiled at the Los Angeles Auto Show. The second model in Jaguar’s ultra-high performance R-S range, the XFR-S joins its XKR-S sibling in the exclusive 300km/h club. Developed by the company’s specialist Engineered To Order (ETO) division, it boasts electrifying performance from its 550PS, 5.0-litre supercharged V8 petrol engine.

20
January 2013

Race2Recovery, the Land Rover-sponsored group of injured soldiers fundraising for Forces charities, became the first-ever disabled team to complete the gruelling Dakar Rally, covering 8,570km of harsh terrain from Peru to Chile in two weeks. Besides four Land Rover Defender-based Wildcat vehicles that raced in the Rally, Land Rover provided the 28-strong team with off-road training, parts, Discovery support vehicles and financial support.

26
March 2013

The new Range Rover Sport made its debut with quintessentially British fanfare – driven to the stage at the New York Auto Show by James Bond actor Daniel Craig. Significantly lighter, more fuel efficient and emitting 15% less CO_2, it offers impeccable on-road dynamics and the world’s best all-terrain performance in a superbly crafted package.

A YEAR OF MAJOR AWARDS SUCCESS

As well as launching crtically-acclaimed cars, Jaguar Land Rover received a host of major awards for its class-leading products.

RANGE ROVER EVOQUE AWARDED BEST COMPACT SUV BY *AUTO EXPRESS*

The Range Rover Evoque was, for the second year running, adjudged Best Compact SUV at the 2012 *Auto Express* Awards in June. The British magazine's Editor-in-Chief Steve Fowler said: 'Last year's Car of the Year is still the one to beat and easily keeps hold of its Best Compact SUV title.'

LAND ROVER DISCOVERY IS *AUSTRALIA'S BEST CARS* BEST ALL TERRAIN 4WD

The Discovery 4 3.0 SDV6 SE won *Australia's Best Cars* Best All-Terrain 4WD Award for 2012 in November. This is the fourth time in a row that the Discovery 4 has won this award – and eighth consecutive year that the Discovery has won it. 'This is a 4WD that will take you anywhere, on road or off road, with complete peace of mind and in the lap of luxury,' said the judging panel.

RANGE ROVER WINS *WHAT CAR?* LUXURY CAR OF THE YEAR

The Range Rover 3.0 TDV6 Vogue SE opened 2013 by bagging this prestigious award from *What Car?* magazine, the UK's definitive buying guide. Judges commented: 'This all-new generation marries all the merits of a 4x4 with those of the finest luxury limos. It can traverse extreme terrain and ferry your family and all its paraphernalia around in lavish comfort and convenience. Few cars offer this breadth of ability.'

JAGUAR IS NUMBER ONE IN J.D. POWER'S 2012 AND 2013 SATISFACTION SURVEYS

Jaguar is the UK's top automotive brand for the second consecutive year. Data for the 2013 Vehicle Ownership Satisfaction Survey (VOSS), which considers the opinions of over 16,000 UK car owners who rate 116 car models from 28 brands, was analysed by J.D. Power and Associates in partnership with buying guide *What Car?*, who together identified Jaguar as Best Brand in the UK for the second successive year.

JAGUAR WINS ACCOLADE AT WALPOLE AWARDS FOR EXCELLENCE

Jaguar won the British Luxury Brand Overseas accolade at the prestigious Walpole Awards for Excellence 2012, which are a highlight in the British luxury calendar. This award is presented to a company judged to have achieved outstanding success in raising its profile and business overseas through export, expanding retail presence, increasing sales and special events.

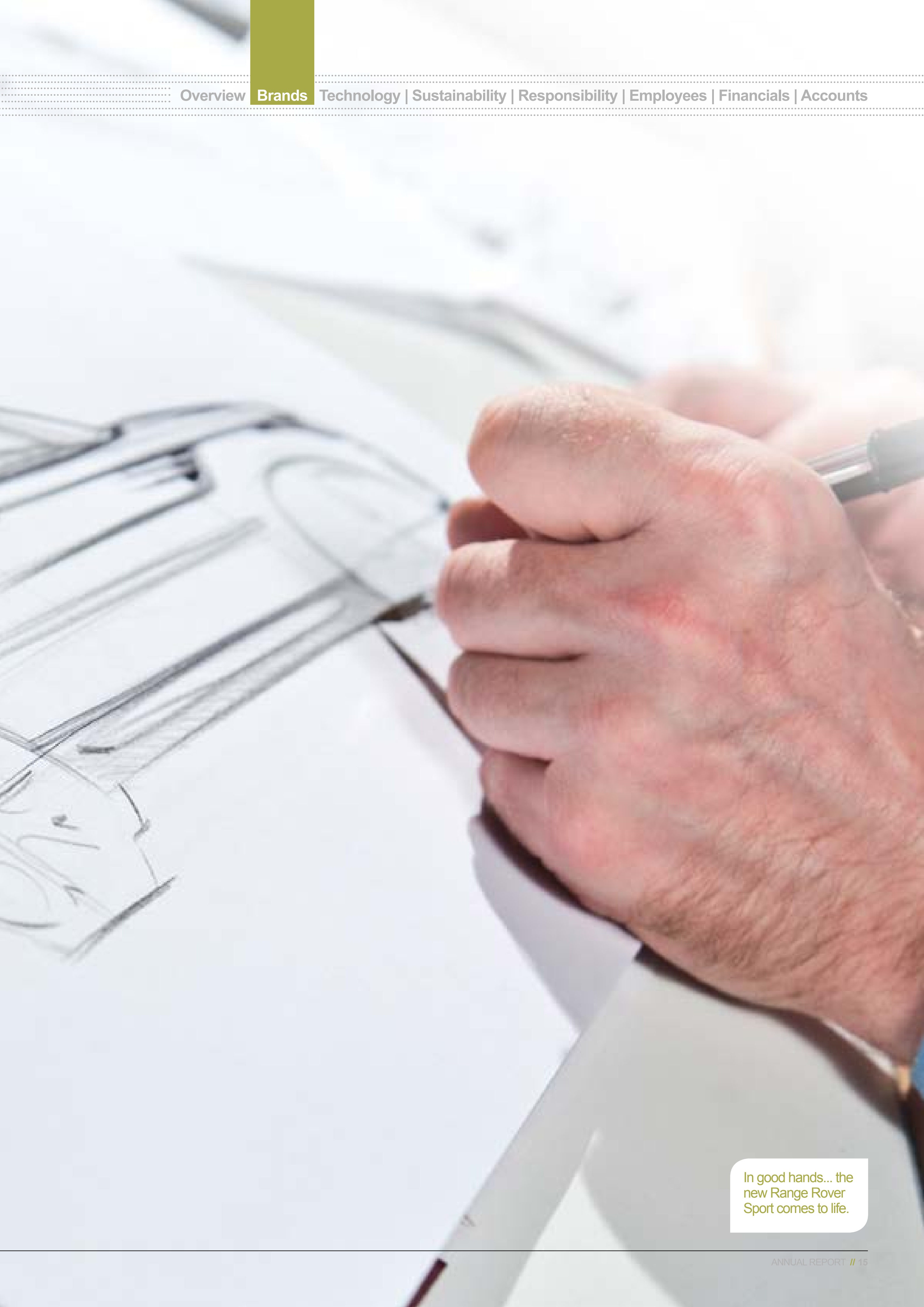
Previous award winners include Alexander McQueen, Victoria Beckham, the Royal Opera House and other iconic British brands.

JAGUAR F-TYPE DECLARED 2013 WORLD CAR DESIGN OF THE YEAR

The Jaguar F-TYPE scooped the prestigious 2013 World Car Design of the Year. Some 43 cars were considered for the award, this selection being reduced to a shortlist by an advisory panel of design experts before final consideration by the 66 World Car of the Year jury members. Ian Callum, Director of Design, Jaguar, said: 'The F-TYPE is a sports car that is true to Jaguar's design values – beauty of line and purity of form – and I'm honoured that the World Car of the Year jury has recognised our work.'

14

OUR BRANDS AND CARS



In good hands... the new Range Rover Sport comes to life.

F-TYPE LEADS THE JAGUAR NEW MODEL OFFENSIVE

From iconic new sportscars to the ultimate in luxury saloons, Jaguar's new model offering in 2012/13 set new standards.

JAGUAR LAUNCHED the latest in a distinctive bloodline of iconic sportscars in 2012 with the unveiling of the stunning new F-TYPE convertible.

Powerful, agile and distinctive, the F-TYPE is a true Jaguar, engineered for high performance and responsive handling. Supercharged V6 and V8 engines, lightweight body construction and advanced driving technologies deliver an experience that is intuitive, instinctive and alive.

The engineering ethos underpinning the F-TYPE is centred on Jaguar's industry-leading expertise in the use of aluminium. Featuring the most advanced iteration of Jaguar's acclaimed rigid and lightweight aluminium architecture to date, the F-TYPE has ideally balanced weight distribution that allows its involving rear-wheel drive dynamics to be explored to the full.

Utilising extensive Computer Aided Engineering programmes, the attention to detail involved in the F-TYPE's creation extended to the development of a new, lighter, aluminium front subframe. In order to maximise the benefits of its advanced structure, the F-TYPE features all-aluminium double wishbone front and rear suspension and a quick-ratio steering rack for ultimate responsiveness. The aluminium architecture has been optimised to provide the stiffest possible underpinnings for the suspension with rigidity gains of more than 30% compared to any other Jaguar application.

Three variants are available - F-TYPE, F-TYPE S and F-TYPE V8 S. Each is distinguished by the power output of its supercharged petrol engine with all models featuring stop/start technology to maximise efficiency. The V6-powered F-TYPE is designed to deliver pure driving pleasure. F-TYPE S adds greater power and an increased range of sophisticated driving technologies, while F-TYPE V8 S provides towering performance and even greater levels of dynamic ability and control.

ALL-WHEEL DRIVE ADDS TO XF AND XJ APPEAL

A new all-wheel drive (AWD) system has been developed by Jaguar for its XF sports saloon and XJ flagship, specifically to increase their capability and versatility in weather conditions in which grip may be compromised. The system has been created in response to customer demand for Jaguars with all the driver involvement and feedback for which the marque is renowned but with the added layer of confidence that AWD provides in low-grip conditions.

The system, developed using Jaguar Land Rover's expertise in AWD, is based around the new 340PS 3.0-litre V6 supercharged petrol engine, allied to the acclaimed ZF eight-speed automatic gearbox and Jaguar Intelligent Stop/Start system. The new engine is the perfect partner to the AWD system thanks to its high specific output that provides unruffled refinement and smooth, safe power and torque delivery whatever the conditions underfoot.

In order to maintain the essential Jaguar driver appeal the system is rear-wheel drive-biased and has undergone 18 months of extensive cold weather and all-surface testing to ensure that steering integrity and suspension refinement are unaffected. The longitudinal engine installation means Jaguar's engineers were able to retain the rear axle as the primary drive path, with a multiplate clutch within the transfer case apportioning torque to the front axle as dictated by grip and driver inputs.

The primary benefit of this system is that both the AWD XF and XJ remain every bit as agile and communicative as their rear-wheel drive counterparts with no dilution of steering feel or feedback during spirited driving. In dry road conditions the system will deliver drive predominantly to the rear axle while constantly monitoring grip levels, steering and throttle inputs, allowing it to intervene unobtrusively and almost instantaneously should it detect the possibility of wheel-slip, delivering torque to the front axle as appropriate to maximise traction.

The AWD system dovetails with Jaguar Drive Control to add yet another layer of security and confidence by allowing the driver to select Winter mode. This pre-warns the system that traction may be compromised and causes it to allocate a greater proportion of drive torque to the front axle. Integration with the Dynamic Stability Control and anti-lock braking systems allows each wheel to be braked individually and torque apportioned from side-to-side across each axle to further enhance security.

Offered in appropriate left-hand drive markets only, the sole external differentiation between these and rear-wheel drive XF and XJ models is the addition of '3.0 AWD' badging on the bootlid. The AWD system is available with both standard and long-wheelbase derivatives of the XJ.

JAGUAR 13MY: XJ ULTIMATE

Launched in April 2012, the XJ Ultimate represents the pinnacle of the luxurious, innovative XJ experience with heightened levels of opulence for rear-seat passengers.

The flagship Jaguar XJ ushered in a new interpretation of the company's established reputation for dramatic design and – with its lightweight aluminium architecture – unrivalled performance. Now, the XJ Ultimate focuses on two further Jaguar hallmarks: innovation and luxury, extending the model's emotive appeal.

Based on the long-wheelbase XJ, the interior changes applied to the Ultimate focus on the rear accommodation, extending the car's limousine remit to provide a fully-appointed luxury business class experience for the most discerning of global customers.

The XJ Ultimate offers the appointments of a private jet in a package to suit a wide range of requirements. A full-length, leather-trimmed centre console separates the two individually tailored rear seats which feature power adjustment, ventilation, massage and lumbar functions. A table, machined from solid aluminium with piano-black and chrome detailing, rises up from the centre console at the touch of a button to provide a working area, its role supplemented by the provision of two iPads® with wireless keyboards that are housed in bespoke leather-trimmed docks.

Switching the focus from business to pleasure is the bespoke champagne chiller mounted between the two rear seats. This cools the bottle to the perfect temperature before 'presenting' it forwards when the chiller is opened. Two specially commissioned champagne flutes reside in a purpose-made cabinet beneath the centre table. A full rear-seat entertainment package with twin headrest screens and wireless headphones completes the experience in combination with a new 20-speaker surround sound system.

To underline its purpose in ensuring that passengers remain cosseted at all times, the XJ Ultimate features revisions to the suspension to optimise rear ride comfort, with no compromise to the car's breadth of dynamic ability.

The exterior detailing of the XJ Ultimate offers discreet clues to the model's figurehead status with sculpted lower air intakes chromed to match the grille, polished stainless steel oval exhaust pipe finishers, unique dual-surfaced alloy wheels and subtle 'Ultimate' badging. The XJ Ultimate was launched with three engine options: Jaguar's 5.0-litre V8 supercharged petrol engine, its powerful and efficient 3.0-litre V6 turbocharged diesel or new 3.0-litre V6 supercharged petrol unit, all driving the rear wheels via an eight-speed transmission.

1,675

Litres of cargo volume in the stunning new XF Sportbrake, which combines seductive design with superb practicality.

JAGUAR 13MY: XF SPORTBRAKE

In 2012 the new XF Sportbrake took Jaguar's globally acclaimed sporting saloon and extended its versatility and practicality.

The XF Sportbrake is entirely new from the B-pillar backwards, endowing it with a very different aesthetic, exemplified by the tautly-drawn elegance of the side-window line and highlighted by its polished finish. The conjunction of flowing rear window graphic, rising waist and estate roofline lends the XF Sportbrake a dynamic, broad-shouldered stance.

The design-led approach that created the XF Sportbrake's exterior has been achieved in tandem with the goal of maximising practicality. The extended roofline affords rear-seat passengers an additional 48mm of headroom and the seats offer both a 60:40 split fold function and integral ski hatch. Remote-fold levers inside the load-space opening allow the seats to be stowed flat quickly and easily, creating a cargo volume of up to 1,675 litres.

Befitting the XF Sportbrake's perfect balance between usability and beauty, it is powered exclusively by Jaguar's range of powerful, refined and efficient diesel engines, driving the rear wheels via an eight-speed automatic gearbox. The 2.2-litre engine is fitted with Jaguar's Intelligent Stop-Start system, while the 3.0-litre V6 is available in two states of tune, with 275PS in the range-topping Diesel S.

Every derivative of the XF Sportbrake is fitted as standard with self-levelling air suspension at the rear to replace the coil springs fitted to the saloon. This system has been developed and tuned by Jaguar's chassis engineers to offer the same linear responses and ensure the XF Sportbrake offers identical dynamic attributes in terms of ride and handling as the saloon while keeping the car level even when fully laden.

JAGUAR BACKS TEAM SKY'S RIDE TO TOUR DE FRANCE GLORY

Jaguar's support of Team Sky Pro Cycling led to incredible success as Sir Bradley Wiggins swept to victory in the Tour de France.

IN APRIL 2012 JAGUAR announced an exciting new three-year global partnership with Team Sky Pro Cycling, to coincide with the launch of the new XF Sportbrake.

Jaguar's partnership with Team Sky is effective for Britain's leading cycling team. The XF Sportbrake provides invaluable support to the team during the races, carrying over £100,000 of cutting-edge cycling equipment on the roof alone. The car also acts as the 'nerve centre' of the team on the road, from where all vital strategic and split-second tactical decisions are made.

Team Sky is a professional UCI World Tour team that competes in everything from the one-day classics to stage races and the 'Grand Tours'. The team's stated objective was not only to inspire a love of cycling but also to produce a winner of the legendary Tour de France by 2014, and Jaguar was hugely proud to play a part in helping Sir Bradley Wiggins and Team Sky to win the world's most prestigious cycle race in 2012.

£100k

worth of cycling equipment is carried by Team Sky on the roof of each Jaguar XF Sportbrake support car.

The XF Sportbrake, which was launched at the 2012 Geneva Motor Show, draws on the strengths of the highly successful XF saloon. The car combines the performance and craftsmanship of the award-winning XF along with the space and practicality of a luxury estate, perfectly aligning itself with the needs of the most active of lifestyles.

Team Sky Pro Cycling required a vehicle capable of delivering space, performance and a practical and comfortable environment in which to work and store vital pieces of equipment to allow the team to operate effectively. Its self-levelling air suspension at the rear and substantial 1,675-litre loadspace allowed it to meet Team Sky's exacting requirements.

Jaguar continues to activate the sponsorship globally and in the UK, largely across the four Grand Tours: the Giro d'Italia, the Tour de France, the Vuelta a España and the Tour of Britain.


sky
PRO CYCLING

JAGUAR ACADEMY OF SPORT STRIKES GOLD IN OLYMPIC YEAR

Jaguar's support of some of Britain's most promising athletes is supported by Olympic heroes Jessica Ennis-Hill and Sir Chris Hoy.

50
Rising Stars mentored by Dame Kelly Holmes with Jaguar's support.

THE JAGUAR ACADEMY of Sport aims to nurture and inspire excellence and we have an incredible line up of sporting legends from Sir Chris Hoy to Sir Steve Redgrave who work with us to achieve our goals. Each year, Jaguar, through Sports Aid, recruits 50 Rising Stars that go through a unique Mentoring and Education Programme delivered by Kelly Holmes Education.

The programme is an integral part of the Academy's success and provides the Rising Stars with invaluable non-financial support to enhance their overall development and learning, helping them on their journey to fulfilling their sporting dreams. Rising Stars work with the Academy's Patrons and Ambassadors through tailored workshops and talent days, which are delivered by experts in their fields.

November 2012 saw the Jaguar Academy of Sport Awards. The event, hosted by David Walliams and Kirsty Gallacher at The Savoy, celebrated some of the most inspirational British sporting performances over the past year. Jessica Ennis-Hill was named 'Most Inspirational Sportswoman of the Year', while Sir Bradley Wiggins, David Weir and Lord Coe also earned recognition for their incredible successes in 2012.

Jessica Ennis-Hill was named 'Most Inspirational Sports Woman of the Year'.

RANGE ROVER FAMILY REFRESHED IN RECORD SALES YEAR

The new Range Rover launch crowned Land Rover's strongest ever results.

2012/2013 saw Land Rover launch the fourth generation of the iconic Range Rover.

Unveiled in Paris in September 2012, the all-new Range Rover has been developed from the ground up to provide the ultimate in luxury. Its clean, elegant shape is a fresh interpretation of the car's iconic design cues and while instantly recognisable as a Range Rover, the new vehicle takes a significant step forward with a bold evolution of the much-loved design.

The all-new Range Rover has been engineered to be the most refined, most capable Range Rover ever. With the adoption of the latest body and chassis technologies, the vehicle's all-terrain performance has moved on to another level, both in the breadth and accessibility of its off-road capability and its on-road handling and refinement.

Inspired by aerospace construction, the all-new Range Rover is the world's first SUV with all-aluminum monocoque body structure. It remains strong and rigid but at 39% lighter than the previous generation Range Rover it is far more agile and responsive. Aluminium also absorbs more energy per kilogramme than steel, so the Range Rover is able to withstand punishing off-road impacts and offers improved collision safety.

£370m

Investment in the most advanced aluminium manufacturing facility in the world

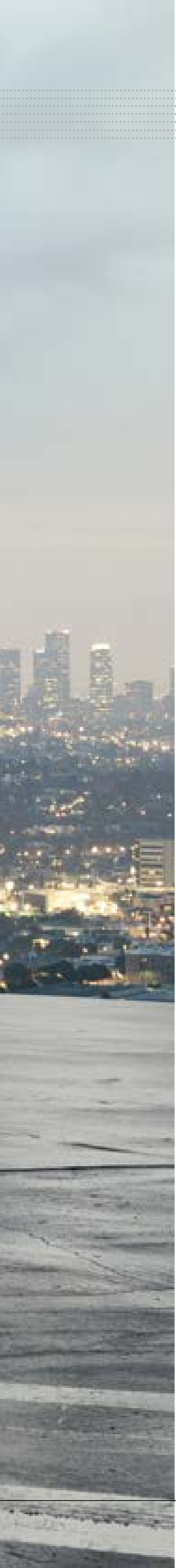
The new Range Rover is even more capable off-road, with its advanced lightweight body structure, state-of-the-art suspension and unique Terrain Response® technologies. Its lightweight suspension architecture delivers class-leading wheel travel, exceptional wheel articulation and composure to deal with the toughest conditions.

The new model is built at Jaguar Land Rover's advanced manufacturing facility in Solihull, which has benefited from a £370 million investment in all-aluminium production processes including a state-of-the-art aluminium bodyshop – the largest of its kind in the world – and upgrades to paint-applications technologies, trim assembly and warehousing. In April 2012 the plant moved to three shift production to support the introduction of this exciting new model which directly supports 1,000 jobs in design, product development and manufacturing.

In March 2013, the New York Auto Show played host to the global debut of the all-new Range Rover Sport. The all-new Range Rover Sport marks a significant step forward for the model, adopting advanced lightweight vehicle technologies and new powertrains to transform the driving experience for customers seeking the ultimate premium sports SUV.


JBS 768


RANGE ROVER



SUCCESS ACROSS THE RANGE

Over the past year every Land Rover model has enjoyed success. The Freelander 2 was given a premium overhaul, delivering even better comfort, convenience and driving enjoyment. New colours, new exterior design features, upgraded equipment levels and the new lightweight and efficient petrol engine all contribute to make this SUV even better.

Land Rover Defender customers seeking a higher level of specification can now enhance their vehicle even further with three additional options and a choice of two new exterior body colours, Barolo Black and Havana. A new premium seat design, upgraded in-car entertainment and four new contrast roof colours are also available customers.

The new Discovery 4 HSE Luxury Limited Edition is probably the most luxurious specification yet offered on the Discovery 4, with striking exterior treatments and colour choices allowing customers to stamp their own personality on the vehicle. The stunning equipment levels are backed up by rugged durability, great performance and high efficiency.

The Range Rover Evoque has asserted itself as Land Rover's most popular model, selling in excess of 100,000 vehicles in its first full year and sales continuing to show rapid growth worldwide. The new Sicilian Yellow Special Edition offers customers highly desirable styling features which will build on the Evoque's success and reinforce its global appeal.

GLOBAL EXPANSION FOR LAND ROVER EXPERIENCE

Land Rover Experience gives the opportunity to get behind the wheel of a Land Rover and Range Rover for a unique, adrenaline-fuelled driving session. This allows the driver to experience the sure-footed control, renowned handling and impressive agility of our vehicles first hand. The Land Rover Experience was established in 1989 with the first franchise centre opening in 2000. In 2012 there were 34 centres globally, with 40,000 guests between them. The most recent centre opening was in Huzhou, China, in November 2012, and becomes the third experience centre in the country.

Surrounded by tea plantations and bamboo forests, the Land Rover Huzhou Experience centre is the biggest of its kind in East China.

100,000+

The number of Range Rover Evoques sold in its first full year of production.

NEW LUXURY CUSTOMER HANDOVER FACILITY

A new luxury customer handover facility at Land Rover's advanced manufacturing facility in Solihull opened in January 2013. It is the first Jaguar Land Rover facility of its kind and brings a highly personalised feel to the customer handover experience. An experiential centre evokes the feel of a boutique hotel and gives customers to chance to feel a part of the Land Rover family from the moment they take the keys to their new car.

This facility has been designed to provide customers with the opportunity to come into direct contact with the Land Rover brand. It offers an intimate setting while delivering bespoke and premium experiences using the latest technologies and offers the very highest levels of customer service.

RALLYING SUPPORT FOR SOLDIERS

Land Rover supported a team of wounded servicemen in their Race2Recovery.

IN JUNE 2012 LAND ROVER was pleased to announce major sponsorship support for an amateur rally team of wounded soldiers, as they bid to overcome the challenges of their injuries and complete the most gruelling off-road racing challenge in the world. It would be the first entry into the Dakar Rally for an amputee driver and co-driver.

Land Rover's sponsorship of the Race2Recovery project was designed to enable the 31-strong team to realise their ambition of completing the Dakar Rally in January 2013, while raising money for charities including Help for Heroes that support wounded soldiers in their recovery and rehabilitation.

Land Rover's support of Race2Recovery included the supply of Land Rover engines for use in the team's race vehicles, Land Rover Discovery support vehicles, off-road driving training, a favourable spares and parts supply arrangement, plus PR, marketing and financial support. The provision and funding of these resources assisted the team’s logistical and management tasks that would otherwise require a major outlay of funds.

The team became record holders as the first disability team to complete the challenge.

5,000 miles in 15 days: the Dakar Rally is a gruelling test of man and machine alike.


dakar.com
373
TOTAL
RACE2RECOVERY.COM
Castrol
COOPERTIRES
GOODRIDGE
alcon
TECHO
CATHY DEROUSSEAUX
PELTOR
3M
RACE2RECOVERY.COM

LAND ROVER'S JOURNEY OF DISCOVERY

Epic journey marks production of one-millionth Land Rover Discovery and raises £1million for the Red Cross.

£1m

The amount raised by the 10,000-mile Land Rover Journey of Discovery for the Red Cross in 2012.

THE LAND ROVER 'Journey of Discovery' in 2012 raised £1million for the International Federation of Red Cross and Red Crescent Societies (IFRC), which has been Land Rover's Global Humanitarian Partner since 2007.

This landmark effort was Land Rover's most ambitious fundraising project to date and supported a much-needed water and sanitation project in Uganda, which will benefit 40,000 people over the next three years.

The project is in addition to the three-year global initiative 'Reaching Vulnerable People Around the World'. This initiative, launched in 2010, provides additional support for IFRC programmes in over 15 countries worldwide.

The 50-day, 10,000-mile 'Journey of Discovery' from Birmingham to Beijing, was one of the most epic and ambitious modern-day overland journeys ever undertaken and celebrated the production of the one-millionth Land Rover Discovery - the world's most capable and versatile SUV.

One year on from Land Rover's 'Journey of Discovery', huge progress has been made in turning that hard cash into a life-changing and life-saving initiative.


LAND ROVER
WWW.LANDROVER.COM
JOURNEY OF DISCOVERY

TECHNOLOGY & INNOVATION

Larger than life: up close with technology at Gaydon's Virtual Innovation Centre.

WORLD LEADERS IN LIGHTWEIGHT CONSTRUCTION

Advanced aluminium manufacturing and research into other innovative technologies.

420kg

The reduction in weight of the new Range Rover compared to the outgoing model.

JAGUAR LAND ROVER continues to invest in and showcase world-class technology and innovation in lightweight materials and structures. Jaguar Land Rover is already the global leader in the field of weight reduction, currently making four vehicles – the Jaguar XJ and XK, and the all-new Range Rover and Range Rover Sport – using revolutionary all-aluminium bodies which greatly reduce the cars' weight and thus improve fuel economy. The company's competency in aluminium construction will be deployed across more of the model range in the future.

The company's Solihull and Castle Bromwich production facilities are among the most advanced aluminium construction plants in the world and the models that are produced there deliver all the benefits of this aerospace-inspired construction method. The all-new Range Rover, for example, benefits from the latest aluminium body technologies and in becoming the world's first all-aluminium SUV enjoys a 420kg reduction in weight compared to the outgoing model.

The company recognises the requirement to drive further significant weight reduction in the future. To this end, Jaguar Land Rover is leading a range of advanced research projects, leading to innovations in powertrains and the use of lightweight materials. To further develop capability and capacity for increased innovation in lightweight construction, Jaguar Land Rover is the major OEM partner in the High Value Manufacturing 'Catapult' at Warwick Manufacturing Group (WMG).

As a company led by advanced design, engineering and technology, Jaguar Land Rover recognises that customers seek brands that reflect their aspirations for a more sustainable world. It is working towards a low-carbon future by implementing a business-wide roadmap to support its aspiration to become carbon-neutral by 2020.


RANGE ROVER
TCB 732

THE NEXT STEPS TOWARDS HYBRID TECHNOLOGY

Jaguar Land Rover continues to invest in state-of-the-art powertrains including the latest in hybrid vehicles.

REDUCTION IN VEHICLE weight creates the opportunity to downsize engines for the same or greater levels of performance. As a result Jaguar Land Rover is also investing heavily in the research and development of powertrain technologies that will ensure we possess world-class engines and electrification technology in the medium and long term. Much of this investment is directed towards the development of our own range of next-generation 4-cylinder diesel and petrol engines which will be built in a new state-of-the-art manufacturing facility under construction near Wolverhampton.

Land Rover has also announced its first hybrid products – the new Range Rover and Range Rover Sport. This technology has been specifically developed to achieve the efficiency improvements of hybridisation but with no compromise in all-terrain capability.

89g

The incredibly low CO_2 output per kilometre of the 220mph C-X75 hybrid supercar.

Looking toward the medium and long-term, Jaguar Land Rover has developed a number of technology prototypes through collaborative R&D programmes with a range of world-class partners. The Range_e plug-in hybrid demonstrator achieved 89g CO_2/km and won the 2011 SMMT Award For Automotive Innovation.

The C-X75 hybrid supercar prototype was developed in partnership with Williams Advanced Engineering and demonstrates Jaguar Land Rover's ability to create what is arguably the most technically advanced car ever conceived. Its 1.6-litre engine generates an incredible 502bhp and is matched with 390bhp electric motors that give the C-X75 a 220mph top speed but also an all-electric range of 60 kilometres and emissions below 89g/km.

In addition to these vehicle level projects, Jaguar Land Rover has a number of collaborative R&D projects in systems such as electric motors, power electronics and energy storage. JLR is also the lead OEM partner in the UK Energy Storage Centre, developing capability in next-generation battery technology and alternative mobile energy storage.

TECHNOLOGY AND INNOVATION ROUND-UP

2012 was a year of prestigious awards for innovation in design and engineering.

FROM DESIGN CONCEPT TO AWARD-WINNING PRODUCTS

Jaguar, Land Rover and Range Rover products are world-renowned for iconic design. The realisation of the designer's original creative intent against a background of functional, legislative, cost and manufacturing requirements is a constant driver for technical innovation across our brands.

In 2012 Jaguar Land Rover's capability in this area was recognised by the Royal Academy of Engineering when the company won the prestigious MacRobert Award for the many technical innovations that enabled the Range Rover Evoque to combine concept car design with full Range Rover functionality and refinement. The company's investment in innovation in this area will intensify in the coming years as new technology and materials allow our designers to express themselves in ever more creative ways.

A CONNECTED WORLD

Jaguar Land Rover's latest models are some of the most sophisticated mass-produced products in the world. They can park themselves, brake automatically in emergencies, safely follow a queue of traffic, warn the driver of unseen threats and much more. Jaguar Land Rover will continue to invest in technology and innovation to bring ever greater levels of brand and customer-relevant intelligence to our products.

It is clear, though, that there is almost unlimited potential for innovation as these sophisticated products become part of the wider 'Internet of Things' – the concept whereby products (and even people) would be permanently connected via the internet. We recognise the potential of connectivity for our products and are investing in the technology, infrastructure, partnerships and internal capability to exploit this potential for the benefit of our customers and company.

£92m

Jaguar Land Rover's investment in an automotive innovation campus at Warwick Manufacturing Group.

LOOKING TO THE FUTURE

Whilst Jaguar Land Rover has demonstrated world-class levels of technology and innovation through its new product launches in 2012/13, it is a growing company with growing ambitions. Recognising this, Jaguar Land Rover together with Tata Motors European Technical Centre and the UK Government has announced a £92m investment in a National Automotive Innovation Campus at Warwick Manufacturing Group (WMG) at the University of Warwick.

This new facility will create a state-of-the-art Technology, Innovation and Education centre for Jaguar Land Rover and its key innovation partners to drive forward on all of the above technology themes and exciting new ones as they emerge. The centre is scheduled for completion in 2016.


Royal College of Art

FOCUS ON QUALITY PAYS DIVIDENDS

Jaguar ranks as UK's top automotive brand, and Land Rover enters top ten for the first time.

THANKS TO JAGUAR Land Rover's greatly improved focus on quality engineering and design, both brands performed extremely well in the 2013 Vehicle Ownership Satisfaction Survey (VOSS).

Jaguar was, for the second year running, named the number one automotive brand in the UK, a title it originally received in June 2012. Land Rover, in sixth place, is one of the most improved brands, having entered the top ten list of manufacturers for the first time.

Data from the VOSS survey was analysed by J.D Power and Associates, in partnership with UK car buying guide *What Car?*, who together identified Jaguar as Best Brand in the UK for the second successive year and named Land Rover as their 2013 'Star Brand'.

Land Rover has shown consistent steady improvement in the survey, climbing to 6th place from 12th place in 2012 and 14th place in 2011.

Jaguar has also claimed top spot for the XF model in the J.D. Power and Associates/ *What Car?* survey Executive Car category. The XF – Jaguar's highest-selling product and the recipient of more than 100 international awards since its launch – has received five-star ratings for performance, service and running costs. Jaguar UK dealers received commendation in the study, and were reported to be helpful and accommodating as well as providing servicing and repair work at reasonable costs.

The Land Rover Discovery has been the best performing nameplate for Land Rover, climbing 29 places and coming top of its class for reliability. The Land Rover Freelander has also shown improvement, scoring particularly well in terms of ownership experience.

1st

Place was awarded to Jaguar for the second year running in the 'Best Brand' sector of the J.D. Power and Associates/ *What Car?* 2013 UK owners survey.

SUSTAINABILITY STRATEGY

Future perfect:
Jaguar's C-X75 supercar prototype is a test-bed for innovative technology.

A 360-DEGREE APPROACH TO SUSTAINABILITY

Our impact on the environment is at the forefront of our thinking from the moment we develop a concept for a new car.

OUR COMMITMENT TO sustainability ensures that we grow our business responsibly while responding to global trends and stakeholder needs. Our Sustainable Development Policy will help us to ensure that sustainability is embedded at every stage of the life cycle of our products and at all levels of our business and our 2020 Sustainability Roadmap sets out the path we need to follow.

To achieve our sustainability vision, we take a 360-degree approach to sustainability across the lifecycle of our products and operations; from design to daily use and end of life. Our strategy for 2020 comprises of six key themes (*see facing page*).

WHOLE-OF-LIFE PLANNING

From the moment we develop the concept for a new car, we consider sustainability. We are reducing the environmental and social impacts of our vehicles at every stage of the life cycle, from product design to the end of the vehicle's life.

The greatest opportunity for us to influence the life cycle impact of a vehicle comes at the design stage, and here we concentrate our efforts on finding ways to reduce future potential impacts. We focus on reducing tailpipe CO_2 emissions generated during use by our customers, as well as reducing CO_2 emissions from manufacturing.

We design cars that use resources efficiently and can be disposed of and recycled at the end of their life. We are using powertrain efficiencies, aerodynamics and lightweight materials to improve the tailpipe emissions across our existing fleet. We are also exploring hybrid and electric vehicle technologies that could dramatically reduce vehicles emissions in the future.

Brands & Customers
Engaging our customers and leveraging sustainability through our brands.

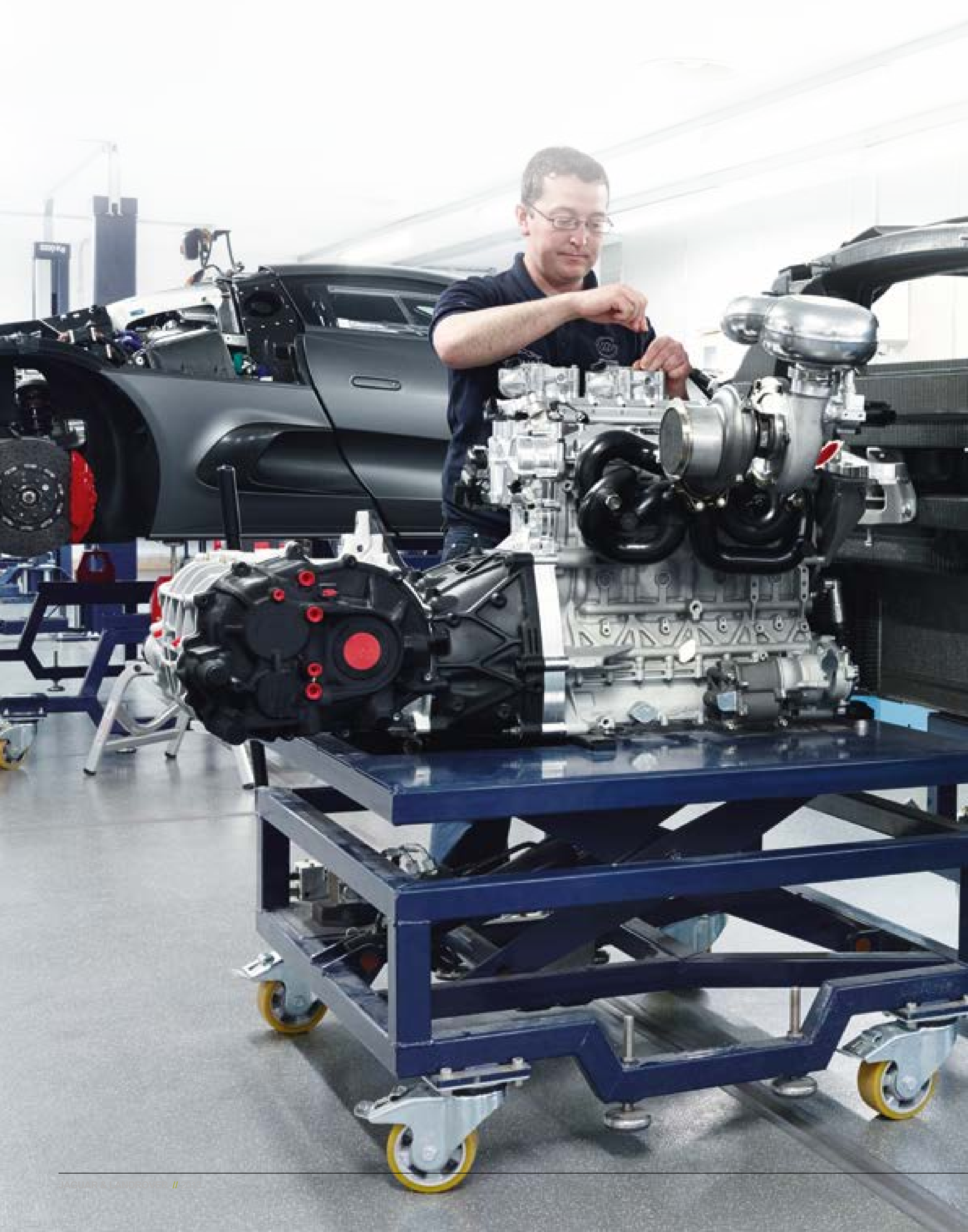
Our People
Valuing our employees and embedding sustainability into our decision making.

Products
Sustainable products: Innovating to reduce environmental impacts, including CO_2 emissions, over the product lifecycle.

Business Operations
Demonstrating leadership in sustainable business practices in all our activities across the world.

Advancing Knowledge
Through education and partnering to develop the skills and technologies for a sustainable future.

Improving Lives
Improving lives of millions of people through our community and CSR programmes.



We use Life Cycle Assessment (LCA) to quantify the environmental impact of raw material use, production and manufacturing, the customer's vehicle use, and its disposal at end of life. Once calculated the impact is stated in terms of carbon dioxide equivalent (CO_2e), so that the different impacts can be easily compared and analysed.

We have in-house capacity to complete full LCAs for all new vehicles. We follow the international standards ISO 14040, 14044 and 14062 and we gain third-party certification from the Vehicle Certification Agency for full vehicle LCAs. We have completed life cycle assessments for six vehicles including the Jaguar XJ, Range Rover Evoque and the all-new Range Rover.

We are also raising our customers' and other stakeholders' understanding of life cycle assessment using an interactive tool that shows the results of the Range Rover Evoque LCA on the 'Our Planet' section of the Land Rover website. Our aim is to educate our customers' in the impact of cars throughout their life cycle. This will become increasingly important as the significance of each life cycle stage changes with the introduction of hybrid and electric vehicle technologies.

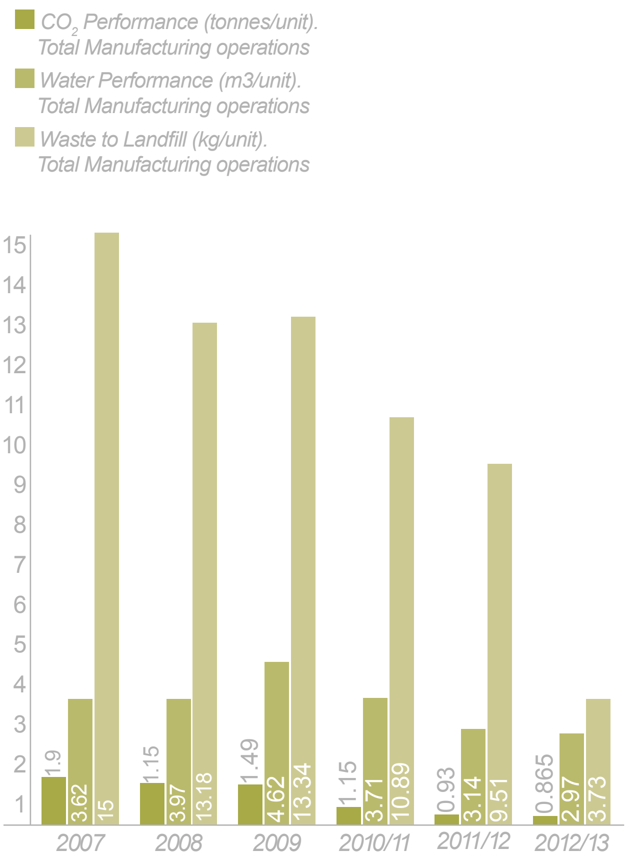
OPERATIONAL REDUCTIONS (ENERGY, WASTE & WATER)

Our operations form an important part of our products' life cycle and minimising the impact from our operations is a key element of our Environmental Innovation strategy (Ei). This is especially important as we increase manufacturing capacity globally to meet growing demand for our vehicles.

Our strategy outlines an ambitious goal, set in 2009, to reduce the environmental footprint from our manufacturing operations, focusing on reducing CO_2 emissions, waste to landfill and water use by March 2013.

Over the last five years we have made significant achievements against our goals driven though a number of initiatives including investment in renewable technologies, continued lean manufacturing solutions and employee engagement. Against the Ei baseline year of 2007, a 21% reduction in operational CO_2 has been achieved despite significant project work to expand our facilities. Water use was reduced by 17% per unit and waste to landfill by 75% per unit versus the 2007 baseline.

Five-year reduction in emissions, water use and waste to landfill



Going forward we have established our 2020 Sustainability Roadmap, building on the work achieved with the five-year Ei plan and also taking into consideration future global trends and stakeholder requirements. The 2020 Sustainability Roadmap is built around six key strategic areas and focuses on driving carbon neutrality, zero waste and sustainable mobility.

As an example, our advanced new engine manufacturing facility in Wolverhampton is being designed with sustainability embedded throughout, and we have set ourselves the goal of achieving an 'excellent' rating from the BREEAM assessment for sustainable buildings. The building has been designed to minimise energy demand through the use of insulated cladding, to maximise daylight through the roof design, and to harness natural ventilation through the use of automatic louvres. This will reduce the energy needed for lighting and cooling.

CARBON OFFSET PROGRAMME

As part of our carbon management strategy, 100% of all manufacturing assembly CO_2 emissions and approximately 45% of Land Rover global sales (for emissions up to 45,000miles/72,000km) are included in our carbon offset programme. Jaguar customers can also choose to offset vehicle emissions by investing in selected projects through ClimateCare.

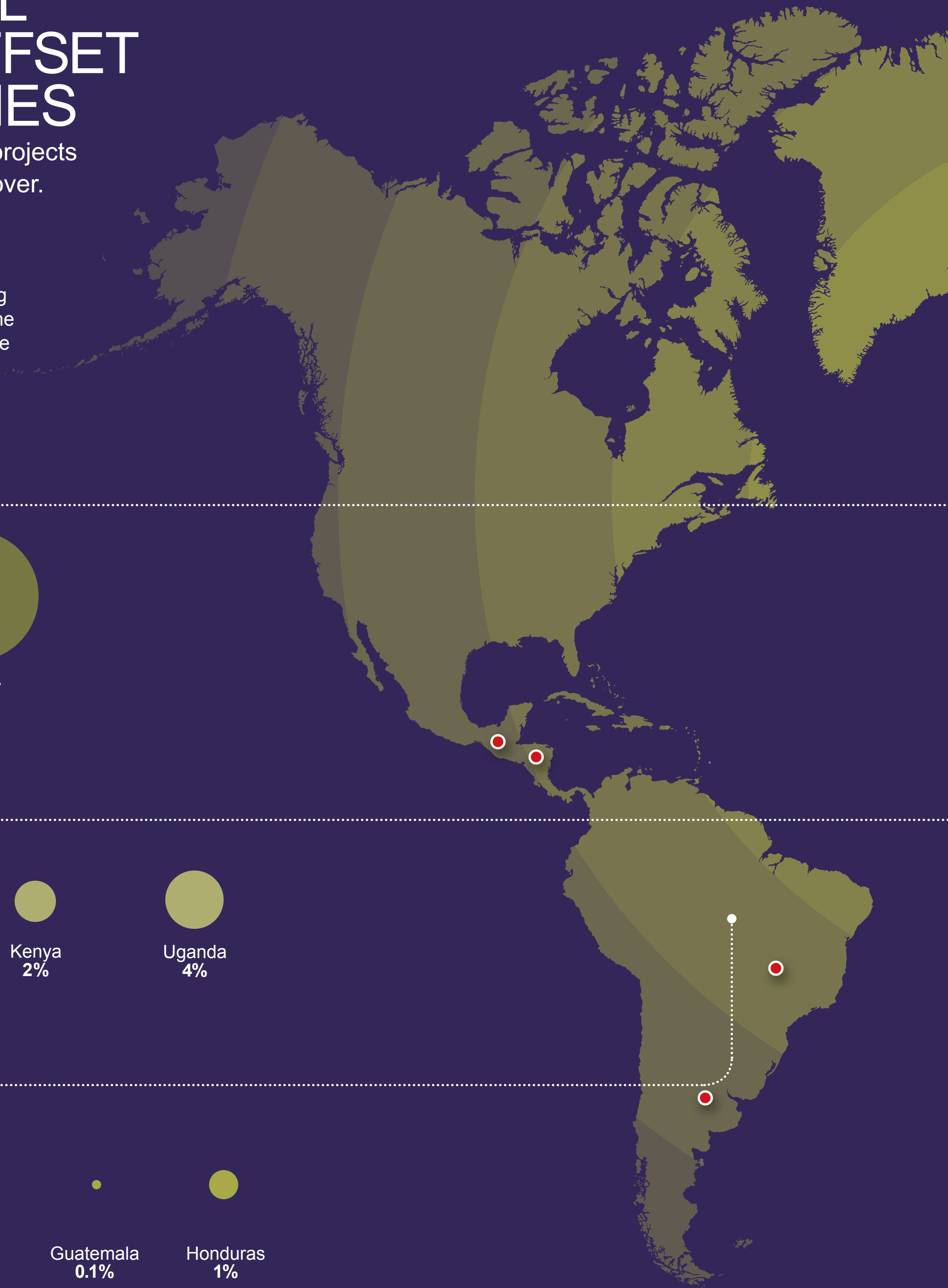
Since 2007 we have offset 6.5m tonnes of CO_2 by funding carbon reduction projects in 18 countries. As part of our 2020 strategy, vehicle specific offsetting will cease at 14MY sales with funding redirected to a new, global Corporate Social Responsibility programme designed to improve the lives of 10 million people by 2020.


www.landrover.com/ourplanet

OUR GLOBAL CARBON OFFSET PROGRAMMES

Geographic spread of offset projects supported by Jaguar Land Rover.

Over 6.5m tonnes of CO_2 have been offset by Jaguar Land Rover's funding of carbon reduction projects across the world. This map depicts the size of the offset by country.



Europe

Russia
3.8%

Turkey
20%

Africa

Egypt
0.4%

Ghana
0.3%

Kenya
2%

Uganda
4%

Latin America

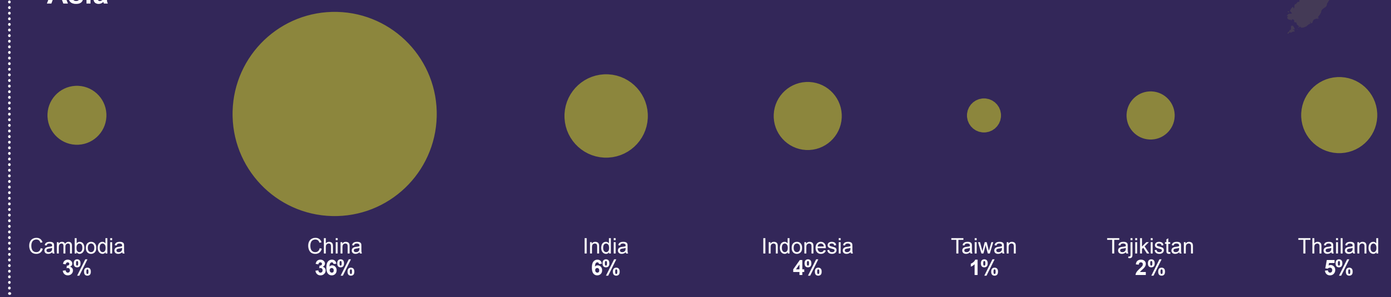
Argentina
0.4%

Brazil
11%

Guatemala
0.1%

Honduras
1%

Asia


Cambodia
3%
China
36%
India
6%
Indonesia
4%
Taiwan
1%
Tajikistan
2%
Thailand
5%

CORPORATE SOCIAL RESPONSIBILITY

Finishing touch: Journey of Discovery expedition arrives in Beijing, China.


DISCOVERY

COMMUNITY RELATIONS INITIATIVES INTEGRAL TO OUR REPUTATION

Jaguar Land Rover makes a positive impact on society by building excellent community relations and supporting local initiatives.

JAGUAR LAND ROVER believes that sustainability is fundamental to preserving the strong reputation of our brands, securing our licence to operate, delivering profitable growth, and retaining the trust of our stakeholders. It is integral to the way we work across the business.

Jaguar Land Rover strives to create and maintain excellent relations with local and regional communities where the company designs and manufactures. Employee involvement is the cornerstone of business commitment to the social and economic regeneration of communities and Jaguar Land Rover is dedicated to this principle, from board member to shopfloor employee.

Jaguar Land Rover aims to enhance its reputation as a socially responsible company by acting as a good corporate citizen. Making a positive impact on the community takes real commitment and Jaguar Land Rover invests considerable resources in delivering a range of activities to address key issues which affect Jaguar Land Rover and the wider community.

A POSITIVE IMPACT ON SOCIETY

Jaguar Land Rover's 2020 vision is to drive excellence in sustainability through environmental advances and making a positive impact on society. Jaguar Land Rover has two ambitious global goals to achieve by 2020: to improve the lives of ten million people, and to advance the knowledge of two million young people.

We will be expanding our environmental, humanitarian and education activities to key markets across the world based on the successful programmes we have developed in the UK. These activities will improve people’s skills or personal effectiveness, make positive changes to their behaviours or attitudes and improve people’s quality of life or wellbeing.

With our CSR team, we will ‘improve lives’ by working in partnership with community organisations and carry out employee volunteering projects from building sensory gardens at local schools to creating allotments for local communities. We will ‘advance knowledge’ by engaging young people from across the globe in our ‘Inspiring Tomorrow’s Engineers’ national school STEM programme.

A chance to win the first new Jaguar XJ helped raise £1m for the NSPCC.

EMPLOYEE VOLUNTEERING

Jaguar Land Rover encourages its employees to engage with the local community. The company works with local authorities and community groups, including Business in the Community's 'Cares', programme to identify initiatives which need support.

Jaguar Land Rover employees volunteer for projects close to its sites in the West Midlands and Merseyside. The company aims to involve at least 6% of the workforce in individual and team volunteering activities. This year we will focus on regeneration, education, young people, charity work and the environment. Each employee spends up to 16 hours of work time on approved team or individual community volunteering projects per year.

As well as helping the local community and strengthening Jaguar Land Rover's reputation as a responsible business, group projects offer personal development opportunities including the development of leadership and project management skills.

Employees often nominate organisations that they work with in their own time which fosters strong engagement and team building and can lead to longer term personal involvement with community groups. Many team projects involve physical improvements of local community facilities, such as redecoration of community centres, creating sensory gardens or allotments.

Individual volunteering includes civic duties such as school governors and Justices of the Peace, while others are Jaguar Land Rover STEM Ambassadors and act as personal mentors to children or adults. Employees also volunteer to support each site's Education Business Partnership Centre by helping develop curriculum work or delivering presentations to groups or undertaking work experience placements. Many employees volunteer to assist students with reading, maths, business and engineering related subjects.

Our employees also provide local support to schools specifically delivering engineering activities. Jaguar Land Rover employees work with Lyndon School, located one mile from the Solihull plant, Sidney Stringer Academy, located close to Jaguar Land Rover’s Advanced Engineering Centre in Coventry and Greenwood Academy opposite the Castle Bromwich plant in Birmigham and have helped with a number of student engagement projects.

17,000
hours donated by employees towards volunteer projects.

AN ENDURING AND LIFE-SAVING PARTNERSHIP

Global partnership with the Red Cross has benefited 680,000 vulnerable people since 2007.

£6.4m

The sum donated by Land Rover to Red Cross and Red Crescent programmes around the world since 2007.

LAND ROVER HAS HAD CLOSE links with the International Federation of Red Cross and Red Crescent Societies (IFRC) since 1954, and its vehicles are used by the IFRC to reach vulnerable people in communities around the world.

In 2010 Land Rover and the IFRC launched a three-year joint global initiative called 'Reaching Vulnerable People Around the World'. This builds upon Land Rover's commitment to the IFRC, which has seen the company pledge over £6.4 million in support reaching over 680,000 beneficiaries since 2007.The relationship helps to sustain the IFRC's life-saving work reaching vulnerable people in communities around the world. It runs across 15 countries, assisting national Red Cross societies and supporting some of the world's most vulnerable people.

Centrally Land Rover has focussed on two priority humanitarian programmes. In Sierra Leone, a country with one of the highest child mortality rates in the world, Land Rover's support helped the Red Cross reach remote communities, improve healthcare and access safe water, and promote community cohesion

In China, Land Rover's support enabled the Red Cross Society of China to reach those people and communities most at risk from HIV.

The company has also donated a variety of equipment to the Red Cross in the UK – including defibrillators for response vehicles and bicycles for first-aid response units.

HELPING GEOGRAPHERS PUSH THE LIMITS

The Land Rover Bursary helps fund expeditions for those who aim to take a journey beyond their limits.

2007
Launch of the Land Rover bursary for the Royal Geographical Society (with IBG).

THE ROYAL GEOGRAPHICAL Society (with the Institute of British Geographers) is one of Land Rover's brand partners. Formed in 1830, its Royal Charter of 1859 is for 'the advancement of geographical science'. Today, it delivers this objective by developing and promoting geographical research through scientific expeditions and fieldwork, education, and public engagement, while also providing geographical input to policy.

The Land Rover Bursary helps the Society to develop new knowledge and advance geographical science by providing funding for geographical research and scientific expeditions. The Land Rover Bursary was first awarded in 2007 and is aimed at those who want to take a journey beyond their limits, for which a Land Rover is an integral part of the expedition. For 2012, the Bursary funding also awarded £30,000 for the first time.

Land Rover's 2013 Bursary, including the loan of a Land Rover Defender, was awarded to 'Pole of Cold Expedition', a team that will chase the onset of winter across northern Europe, from London to Siberia's Pole of Cold, the coldest place in the northern hemisphere, to understand how different and remote communities deal with the onset of winter.

Land Rover in partnership with RGS/IBG announced the 2013 bursary winners, Pole of Cold Expedition.

Born Free's rescued tiger, Roque, at their sanctuary in Bannerghatta, India

WILDLIFE REMAINS BORN FREE

Supporting world-renowned conservation charities.

SINCE 2002, BORN FREE Foundation's partnership with Land Rover has formed part of an integrated sustainability strategy called Our Planet.

Together Land Rover and Born Free are working to conserve wild animals and their habitats with projects throughout the world. The partnership includes vehicle support in the UK, Kenya, Ethiopia, South Africa and Sri Lanka, as well as dealer promotions, staff incentives and merchandise opportunities.

The Born Free Foundation is an international wildlife charity, devoted to compassionate conservation and animal welfare.

In March 2013 Land Rover also announced plans to support the world's largest event to highlight the plight of the tiger. Tiger Tracks was a programme organised by Save Wild Tigers to raise funds for vital conservation work and build public awareness about the threats that could render the tiger extinct in just 10 years.

The event concluded with a high-profile charity dinner and auction to help bring in valuable funds for the Save Wild Tigers' project and the work of the Born Free Foundation and Environmental Investigation Agency (EIA), with Land Rover donating a year's use of a new Range Rover Evoque. The event raised £75,000 for the Tiger Tracks programme.

EDUCATING THE ENGINEERS OF TOMORROW

Our world-class training extends from our employees to the youngest school pupils.

AT JAGUAR LAND ROVER WE actively encourage future generations to seek a career in the automotive industry. In 2012 we hired 312 graduates and 189 apprentices who were granted the opportunity to take their first step on the ladder to a career with the company.

Our existing staff are also encouraged to undertake groundbreaking education and training schemes. In 2012 we announced the expansion of a pioneering new education programme aimed at boosting the skills of engineers working within the automotive supply chain and other hi-tech industries.

The ASAS education scheme, based on a programme developed by JLR in partnership with leading English Universities, offers engineers the chance to develop the future engineering skills which will be needed to create world-leading new products and technologies over the next decades.

Our commitment to education and training extends outside our own walls, as we are actively engaged in promoting and supporting programmes such as Inspiring Tomorrow's Engineers, which works with schools and colleges and presents teachers and pupils with a variety of educational schemes.

Part of the programme involves five dedicated Education Business Partnership Centres (EBPCs), located close to our key manufacturing plants and engineering centres. These long-term collaborations have allowed over 200,000 students to visit our facilities to learn about any aspect of the automotive industry, with tailor-made courses for different age groups.

King's School Worcester, winners of the 2013 Land Rover 4x4 in Schools Challenge.

ENGAGING WITH WOMEN AND YOUNG PUPILS

Working in education for all ages to demonstrate the careers available in the automotive manufacturing industry.

1,000

The number of UK schools that entered Jaguar Land Rover's education programmes.

JAGUAR LAND ROVER is offering female students interested in engineering, technology and manufacturing careers a unique insight into the world of work at the UK's largest luxury automotive manufacturer.

The 'Inspiring Tomorrow's Engineers: Young Women in the Know' course has been developed in partnership with Birmingham Metropolitan College to change outdated perceptions of engineering to encourage more young women to consider engineering and manufacturing careers.

Female students aged 16-18 participate in a week-long programme of events at Jaguar Land Rover's manufacturing, design and engineering sites where they meet female apprentices, graduates, engineers and managers to find out about their education and career histories.

Younger pupils across the UK are invited to enter Jaguar Land Rover's leading education programmes 'Maths in Motion', the Jaguar primary school challenge and the Land Rover '4x4 in Schools Challenge', which are designed to apply science, technology, engineering and maths to practical, complex projects which reflect the type of challenge our engineers encounter on a daily basis.

Maths in Motion was established in 2000 and this year attracted entries from 200,000 pupils from 1,000 schools making it the largest maths challenge of its kind in the UK.

The 'Young Women in the Know' student programme in action.

OUR EMPLOYEES

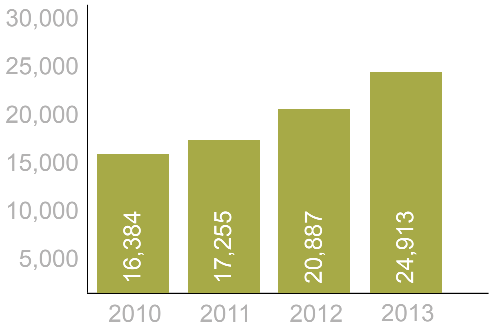
Labour of love…
The C-X75 concept
takes shape in clay.

A GROWING, THRIVING ORGANISATION

An expanding workforce and higher revenue and income per employee means a strong and productive company.

JAGUAR LAND ROVER'S worldwide workforce grew to an average of 24,913 in 2013 (a 19% increase since 2012, when the average headcount was 20,887). The growth supported product programme development and increased volumes. Through training and induction programmes across the business, new employees were able to add value as soon as possible.

Average staff numbers



PEOPLE PRIORITIES FOR 2013/14

- Develop the HR vision and strategy to support business goals through to 2020.
- Continue our focus on leadership development, with an emphasis on breakthrough performance delivery.
- A revised performance management process to support delivery of business goals through individual and team achievement of critical stretch objectives.
- An enhanced talent management process to deliver leadership and functional capability, which drives individual development, succession planning and talent pipeline strategy.
- Further strengthening of core relationships that support the delivery of business goals.


PILOT
BUILD

SAFEGUARDING OUR GREATEST ASSETS

Through accreditation and promotions, Jaguar Land Rover puts employee well-being above all else.

JAGUAR LAND ROVER'S 'Safety Commitment' states: 'Our greatest asset is our people, nothing is more important than their safety and wellbeing. Our co-workers and families rely on this commitment. There can be no compromise'.

Jaguar Land Rover holds external accreditation to OHSAS18001 and health and safety measures are competitive with UK benchmarks.

Health promotion activities take place at all Jaguar Land Rover locations, supported by on-site Occupational Health facilities, including the introduction of 'Wellness Kiosks' during 2012/13 which encourage preventative health improvement.

A COMMITTED AND LOYAL WORKFORCE

High levels of employee engagement, low staff turnover and long service reflect a culture of being valued.

JAGUAR LAND ROVER'S employees are proud to work for the company and are passionate about its products. There are many long-serving employees and staff turnover is low (1.9% in 2012). Overall levels of employee engagement in 2012/13 were 78% favourable, which is above UK and global high-performance norm.

This emotional attachment to the company is nurtured and reinforced through regular communication and a commitment to working in partnership with employees and their representatives to deal with challenges.

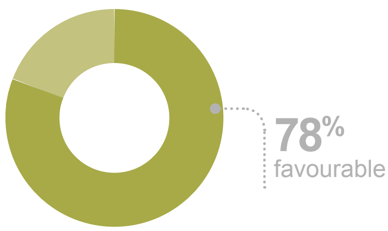
During 2012/13, Jaguar Land Rover agreed a two-year pay and conditions deal with employees covered by collective agreements, and launched a new 'Team Talk Online' portal for production workers, which provides them with business updates alongside information on employee benefits, training and development.

Jaguar Land Rover offers employees a unique value proposition – the opportunity to work for premium iconic brands in one of the most successful companies in the UK – alongside competitive pay and industry-leading benefits.

1.9%

Staff turnover in 2012 reflects employee loyalty

Employee engagement levels




Fire alarm
call point
Fire
extinguisher

SHAPING THE LEADERS OF THE FUTURE

Ensuring good management through major investments in employee development programmes at all levels.

THIS YEAR HAS SEEN an increase in Jaguar Land Rover's investment for the development of its employees, ensuring they are equipped with the necessary learning and skills to support their performance in role. Total investment in learning and development for 2012/13 was £20.1 million.

Leadership is key to success. The company have continued to grow its leaders by delivering company-wide leadership programmes to nearly 2,500 leaders to accelerate their development and strengthen its overall leadership capability

Embedded in these programmes is a focus on building a high-performance culture, and achieving sustainable and global growth. The company also focused on building rounded core management experience by opening up management skills programmes to over 500 managerial staff.

To enhance its skills base Jaguar Land Rover has partnered with a number of universities, colleges and specialist trainers to create industry leading programmes, designed to help deliver technical and academic skills among the engineering staff. The Technical Accreditation Scheme is one such example, as well as Jaguar Land Rover's engineering degrees and Maintenance Technician development pathways.

Jaguar Land Rover significantly increased its focus on its Emerging Talent programmes in 2012. The company launched a new Higher Apprenticeship Programme offering 55 places last year in key pathways, in addition to the current intermediate and advanced apprenticeship portfolio, which currently has over 1,500 apprentices on programmes in 2012. Jaguar Land Rover also maintained its focus on hiring significant numbers of graduates, seeing another injection of more than 300 new entrants, bringing the total on the two-year programme to over 600 in 2012.

Significant progress has been made on improving both the efficiency and effectiveness of the education and training offered to employees, inclusive of broadening the international scope. Group-wide Academies are being implemented, providing a clear learning standard and a clear way for employees to plan their careers. These will allow the company to integrate online with classroom-based learning and provide more accessibility and diversity in learning techniques than ever before.

2,500

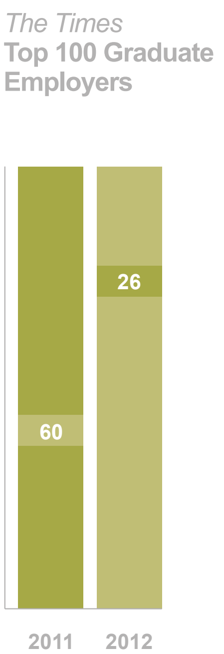
members of staff have received leadership training

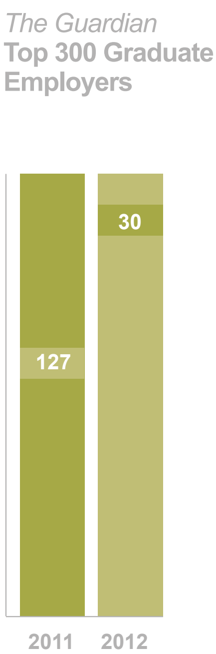
THE PERFECT START FOR NEW GRADUATES

The company is an ever more attractive destination for graduates, borne out by the leading national surveys.

JAGUAR LAND ROVER HAS excelled in its rating by *The Times* Top 100 Graduate Employers, moving from a 60th place ranking in 2011 to 26th in 2012. This was followed by a big leap in *The Guardian* Top 300 Graduate Employers from a position of 127th in 2011 to 30th in 2012.

CLIMBING THE GRADUATE LEAGUE TABLES





CARING FOR A DIVERSE WORKFORCE

An inclusive approach that respects and welcomes all employees.

THE COMPANY IS committed to treating its employees with respect and promoting equal opportunities. Jaguar Land Rover's Dignity at Work policy promotes a safe, pleasant and welcoming workplace for all, with zero tolerance of any form of discrimination.

Diversity Councils span the organisation, made up of management, employee and trade union representatives. These Councils ensure that policies come to life by organising local actions and events. Best practice is recognised in the company's annual Diversity + Inclusion Awards event (now in its eighth year).

The company supports employees with disabilities through occupational health departments and accessibility measures at all its sites. In 2012, Jaguar Land Rover was awarded the 'Two Ticks' symbol by the UK Government's Jobcentre Plus organisation, which recognises employers that have made commitments to employ, keep and develop the abilities of disabled staff.

Improving gender balance is a priority as the automotive industry has traditionally attracted more men than women and women represent just 9% of the company's workforce. Jaguar Land Rover is a member of Opportunity Now, an organisation driving the focus on gender equality in the workplace. Although the proportion of women at all levels of the business remained static in 2012, Jaguar Land Rover aims to attract more women into engineering roles with women making up around 18% of the graduate intake, 8% of apprentices and 18% of undergraduate placements in 2012. The company also offers a personal development programme specifically for women, with 200 women participating since its launch in 2009.

This year saw the 12th event of the Engineering Network for Women, which connects women who work for Jaguar Land Rover with female engineering students interested in pursuing a career in the automotive sector

Jaguar Land Rover's Women in Engineering Sponsorship Scheme gives financial and practical support to female undergraduates interested in engineering careers, as well as work experience with the company through three, six or 15-month placements. Jaguar Land Rover has increased its target of 10 initial placements to 17 places in 2013, with each participant assigned a mentor and given a bursary of £1,500.

Gender	2010	2011	2012	2013
% women in workforce	8	8	9	9
% women in management (approx. top 1,800 employees)	11	12	12	13
% women in senior management (approx. top 125 employees)	3	5	5	7

Ethnic diversity	2010	2011	2012	2013
% ethnic minorities in workforce	8	8	8	8
% ethnic minorities in management (approx. top 1,800 employees)	5	5	6	5
% ethnic minorities in senior management (approx. top 125 employees)	3	1	3	2

FINANCIAL DISCUSSION

Land Rover's Solihull manufacturing facility produced the one millionth Discovery.

CFO'S STATEMENT

JAGUAR LAND ROVER has had another record year for the fiscal year ending 31 March 2013 with revenues of almost £15.8 billion (up 17%) on retail sales of almost 375,000 units (up 22%), EBITDA of £2.4 billion (up 19%), and profit before tax of £1.675 billion (up 11%).

The growth in Jaguar Land Rover retail sales has been supported by new products. Land Rover has grown by 26%, primarily driven by a full year of the Range Rover Evoque, growth in Freelander sales and the introduction of the all new aluminium Range Rover. Jaguar is up 8% following the introduction of the XF Sportbrake, all-wheel drive versions of the XF and XJ and smaller engine variants introduced into China and the US.

Jaguar Land Rover has continued to perform strongly in all markets, especially in the faster growing economies, with growth in China volumes of 48% in the year. The North American industry is growing overall and group sales were up 9%, although market conditions are very competitive. The UK economy has been static but the automotive industry has been growing and Jaguar Land Rover sales were up 20%. The overall European economy has been more challenging but a full year of Range Rover Evoque sales and other new Land Rover and Jaguar products have enabled volumes to increase by 18%.

The EBITDA of £2.4 billion is up £375 million, reflecting the higher volumes with a richer model and market mix as described above, as well as a favourable operating exchange environment.

The profit before tax of £1.675 billion is up £168 million, reflecting the higher EBITDA partially offset by increased depreciation and amortisation relating to new model launches (£156 million) and unfavourable balance sheet and hedge contract mark to market (£109 million) net of lower finance expense (£72 million) primarily relating to valuation of bond call options.

Profit after tax was £1.2 billion, down 18% following the recognition of a deferred tax asset in FY12. The effective tax rate for FY13 was 27%, which reflects the tax rates in the countries in which we operate.

We continue to invest in new technologies, new architectures and new products in order to drive future growth. In the current year we have invested over £2 billion in new products, increased production capacity and new fuel-efficient technology. We also invested an initial £70 million in our new joint venture manufacturing plant in China with Chery Automobile Company Ltd.

Free cash flow, after the £2.1 billion of investment spending (up £461 million of FY12), was £595 million (down £363 million on FY12), reflecting strong operating cash generation and good working capital management.

At 31 March 2013, Jaguar Land Rover had £2.8 billion in cash, as well as £865 million of undrawn committed borrowing facilities, giving total liquidity of £3.7 billion. Total debt was £2.2 billion, giving net cash of £680 million.

The company repaid all borrowing from its parent, Tata Motors, by redeeming the final £156m of preference shares.

The company also raised additional finance in the year, launching a $500 million new Bond. This, alongside the notes raised in the previous year, provides Jaguar Land Rover with a secure financing platform, helping secure its long-term future.

During the year, Jaguar Land Rover paid its first dividend to Tata Motors of £150 million.

KDM Gregor

Ken Gregor
Chief Financial Officer
Jaguar Land Rover

"We continue to invest in new technologies, new architectures and new products in order to drive future growth. In the current year we have invested over £2 billion in new products, increased capacity and fuel-efficient technology."

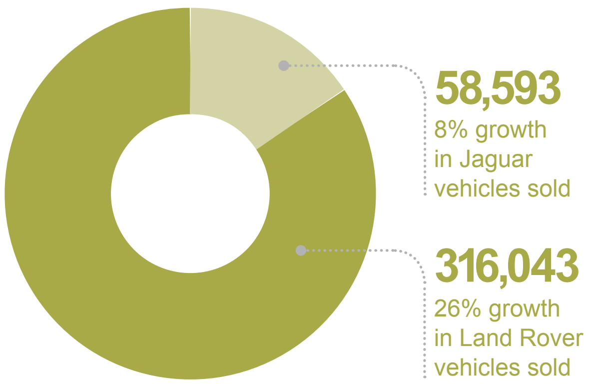
DIRECTORS' REPORT

THE DIRECTORS OF JAGUAR LAND ROVER Automotive plc present the annual report and audited consolidated financial statements of Jaguar Land Rover Automotive plc and its subsidiary companies (the 'company' or 'group'), for the year ended 31 March 2013 ('FY13').

The company is a wholly-owned subsidiary of Tata Motors, a part of the Tata Group, an Indian business conglomerate with operations in more than 80 countries across six continents.

Tata Motors is India's leading automobile company and ranks as the fourth largest bus and truck manufacturer in the world by volume.

Proportion of retail sales by brand in FY13



GENERAL TRENDS IN PERFORMANCE

RESULTS AND PERFORMANCE

Strong volume growth

The company has had a successful year of continued growth in all markets, including 48% year on year growth in China retail sales. The company has also significantly improved sales in more mature economies, where, despite uncertain trading conditions, the company has increased volumes in all major markets.

The volume growth has been product led with a full year of Range Rover Evoque sales, the all new Range Rover introduced at the end of 2012, higher Land Rover Freelander sales and new Jaguar product derivatives including the XF Sportbrake and all wheel drive and smaller engine options in the XF and XJ.

All market regions have grown, led by China where retail sales of 77,075 were up 48% from a year ago. Retail volumes in Europe were 80,994, a 18% increase on the prior year. UK retail volumes were 72,270 units, a 20% increase on the prior period, whilst the North American retail volumes were 62,959, an increase of 9%. Retail sales for the Asia Pacific region were 17,849, up 27%, and for the rest of the world were 63,489, up 19%.

Wholesale volumes for FY13 were 372,062 units, an increase of 18% on the prior reporting period. At a brand level, wholesale volumes were 57,812 units for Jaguar and 314,250 units for Land Rover, growth of 7% and 21% respectively.

Consolidated revenues for FY13 were a record £15,784 million, an increase of 17% compared to FY12.

EBITDA growth

Consolidated EBITDA for FY13 was a record £2,402 million, an increase of 19% compared to FY12, a significant improvement mainly driven by increased revenue with new products and a favourable market mix as well as a favourable exchange rate environment.

The improvement in operational results, particularly in EBITDA, cash and the liquidity position, were mainly attributable to an increase in wholesale volumes. The introduction of the new Range Rover, a full year of the Range Rover Evoque and the new variants of the Jaguar XF as well as the continued strength of the Range Rover Sport were key contributors to the overall success.

Growth in China in particular contributed to a favourable market mix. The company's performance was also supported by the positive impact of the continuing strength of the US Dollar against the Pound Sterling and the Euro, improving the company's revenues relative to its largely pound sterling and euro cost base. The improvement in the company's results of operations in FY13 was also partially attributable to further cost efficiency improvements in material costs and manufacturing costs, supported by increased production volume levels.

Material cost of sales for FY13 were £9,904 million, an increase of £1,171 million (13%) compared to FY12 and, as a percentage of revenue, was 63%, a decrease of 2% compared to FY12. The main drivers of this increase in overall costs were the increase in volume, partially offset by product and market mix and year over year decreases in raw material prices. Employee costs for FY13 were £1,333 million, an increase of £322 million (32%) compared to FY12. This reflects a significant increase in permanent and agency headcount, both in product development to support our increased product development strategy and manufacturing to support our increased volumes, mainly as a result of new product actions and increased demand for our products.

Other expense for FY13 was £3,005 million, an increase of £513 million (21%) compared to FY12. These costs include manufacturing and launch costs, freight and distribution costs, warranty costs, product development expense, selling and fixed marketing. Some of these costs were attributable to launch spend on the all-new aluminium Range Rover that went on sale during September 2012 as well as the Jaguar all-wheel drive and smaller engine variants as well as 2013 model year launches of other vehicles.

Total development costs of £1,058 million represent an increase of £158 million (18%). This reflected the increased spend on future model development for both brands. Of the total spending, £860 million was capitalised.

Net income

Profit before tax (PBT) for FY13 was £1,675 million, an increase of £168 million (11%) compared to FY12, reflecting the higher EBITDA, offset partially by higher depreciation and amortisation, foreign exchange losses net of lower finance expense.

Depreciation and amortisation costs were £622 million, an increase of £156 million (34%) compared to FY12, reflecting the growing product development and facilities investment. Foreign exchange losses were £109 million (compared to a £14 million gain in FY12) primarily reflecting the mark to market of hedging instruments and revaluation of loans and other balance sheet items. Net financing income was £3 million, compared to net financing expense of
£69 million in FY12. The change reflects higher finance income on higher cash balances, higher capitalized interest resulting from higher investment spending and the mark to market on bond call options.

Net income was £1,215 million reflecting PBT after a 27% effective tax rate. Net income is down from £1,481 million in 2012 which included a one time change to recognize deferred tax assets of £217 million in 2012.

11% increase in profit before tax vs FY12

19% increase in EBITDA vs FY12

22% increase in overall retail volumes vs FY12

PERFORMANCE IN KEY GEOGRAPHICAL MARKETS

United Kingdom

In FY13, the UK economy has been broadly flat, although recent economic data has been more encouraging and the automotive market, particularly smaller cars, has grown overall in the period.

In the UK, the premium car segment fell 2% and the premium SUV segment decreased by 16% in FY13 compared to FY12.

UK retail volumes for FY13 for the combined brands were 72,270 units. Jaguar retail volumes for FY13 increased by 10% compared to FY12, increasing market share. Land Rover retail volumes for FY13 increased by 24% compared to FY12, increasing market share.

China

The Chinese economy has continued to grow strongly throughout FY13. General expectations are for slower GDP growth, but still remain above 7%.

The China premium car segment volumes (for imports) increased by 12% in FY13 compared to FY12. The China premium SUV segment volumes (for imports) increased by 8% in FY13 as compared to FY12.

The China retail volumes for FY13 for the combined brands were 77,075 units. Jaguar retail volume for FY13 increased by 28% compared to FY12, improving market share. Land Rover retail volume for FY13 increased by 51% compared to FY12, again improving market share.

United States

The US economy is recovering, with GDP growth and falling unemployment.

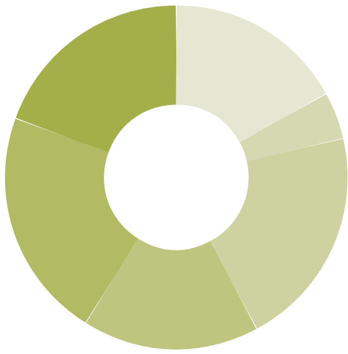
United States premium car segment volumes increased by 11% compared to FY12, whilst premium SUV segment volumes were up 3%.

United States retail volumes for FY13 for the combined brands were 62,959 units. Jaguar retail volumes for FY13 fell by 6% compared to FY12, reflecting strong competitive conditions, but sales were up 10% in Q4 following the introduction of new smaller engine and all wheel drive options at the end of 2012. Land Rover retail volumes for FY13 increased by 13% compared to FY12, market share increasing slightly.

51%
Land Rover's retail growth in China vs FY12

19%
Growth in sales in emerging markets such as Russia and South America

Jaguar Land Rover sales: China overtakes UK as largest single market



Europe (excluding Russia)

The European economy continues to be challenging with low or negative growth in a number of countries.

The German premium car segment volume increased by 5%, and the premium SUV segment volume fell by 9% compared to FY12.

European retail volumes for FY13 for the combined Jaguar Land Rover brands were 80,994 units, representing a 18% increase compared to FY12. Jaguar retail volume for FY13 grew by 5%, and Land Rover retail volume for FY13 increased by 21% compared to FY12.

Asia Pacific

The Asia Pacific region (main markets Japan, Australia and New Zealand) were less affected by the economic crisis compared to western economies and are generally performing more favourably, generally benefitting from increased trade with China and other growth economies.

The Asia Pacific retail volumes for FY13 for the combined brands were 17,849 units. Jaguar retail volume for FY13 increased by 27% compared to FY12. Land Rover retail volume for FY13 increased by 34% compared to FY12.

Rest of the world

The major markets in the rest of the world including Russia, South Africa and Brazil, as well as countries in the Middle East, Africa and South America, generally were not as badly affected by the economic crisis as the western economies and have seen continued GDP growth, often reflecting increased commodity and oil prices.

The rest of the world retail volumes for FY13 for the combined brands were 63,489 units, up by 19%. Jaguar retail volume for FY13 was 6,402, up 17% whilst Land Rover retail volumes were 57,087, an increase of 19% on FY12.

CASH FLOW

Net cash from operating activities was £2,429 million in FY13, reflecting profits and working capital changes, offset partially by tax payments. This compares to £2,500 million in FY12, with the change more than explained by lower working capital changes and higher tax payments.

Net cash used in investing activities increased significantly to £2,609 million in FY13, compared with £1,542 million in the equivalent period in FY12, primarily reflecting increased investment in product development and capacity as part of the company's growth strategy. Purchase of property, plant and equipment and expenditure on intangible assets (product development projects) was £1,850 million in FY13 against £1,410 million in FY12. The company's capital expenditure relates mostly to capacity expansion of its production facilities and investment in new and future products, including the costs associated with the development of the all new Range Rover, the Jaguar F-TYPE and Range Rover Sport.

Net cash used in financing activities was £178 million in FY13 compared to net cash generated in financing activities of £444 million in FY12. Cash used in financing activities in FY13 includes a maiden dividend paid of £150 million repayment of the last £157 million of preference shares to Tata Motors and £93 million of other short term debt totaling £250 million, and interest and fees of £179 million, offset partially by the £317 million equivalent of proceeds from a 10 year unsecured bond issued in January 2013 and other items.

CAPITAL STRUCTURE

Background

Liquidity and capital resources

As at 31 March 2013, on a consolidated level, the company had cash and cash equivalents of £2,072 million and short term deposits of between 3-12 months duration of £775 million as well as undrawn committed facilities of £865 million. The company generally pools cash from its subsidiaries to Jaguar Land Rover Limited, the primary operating company in the group, in the UK. At 31 March 2013, the company had £694 million in subsidiaries of Jaguar Land Rover outside the United Kingdom. A significant portion of this amount is subject to restrictions or impediments on the ability of the company's subsidiaries in certain countries to transfer cash across the group, primarily in Jaguar Land Rover China which generally is restricted to paying an annual dividend.

The company finances its capital requirements through cash generated from operations and external debt, including long term debt, revolving credit factoring and working capital facilities. At 31 March 2013, the company had £2,167 million of debt, primarily consisting of £1,869 million equivalent of long-term unsecured debt with maturities in 2018, 2020, 2021 and 2023. These and other primarily working capital debt facilities are detailed below. In the ordinary course of business, the company also enters into, and maintains, letters of credit, cash pooling and cash management facilities, performance bonds and guarantees and other similar facilities.

Preference shares

In FY13, the preference shares were redeemed in full at par with accrued interest. At 31 March 2013, no preference shares remain in issue.

BORROWINGS AND DESCRIPTION OF INDEBTEDNESS

The table below shows details of the company's financing arrangements as at 31 March 2013.

£1.0 billion equivalent unsecured Sterling and US Dollar notes due 2018 and 2021, £500 million unsecured notes due 2020 and $500 million unsecured notes due 2023.

In May 2011, the company issued the senior unsecured notes, comprising £500 million 8.125% notes due 2018, $410 million 7.750% notes due 2018 and $410 million 8.125% notes due 2021, in an offering that was not subject to the registration requirements of the US Securities Act.

Further in March 2012, the company issued £500 million senior unsecured notes due 2020 in an offering that was not subject to the registration requirements of the US Securities Act. Further in January 2013, the company issued $500 million senior unsecured notes due 2023 in an offering that was not subject to the registration requirements of the US Securities Act. The notes are governed by an indenture entered into by the company, as issuer, Citibank, N.A., London Branch, as trustee for the holders, and Land Rover, Jaguar Land Rover Limited (formerly Jaguar Cars Limited), Jaguar Land Rover Exports Limited, Land Rover Exports Limited and Jaguar Land Rover North America, LLC, as Guarantors on a senior unsecured basis. The notes have semi-annual interest payments and are subject to certain customary covenants and events of default.

£795 million revolving 3 and 5-year credit facilities

The company as borrower entered into a committed revolving credit facility for 3 and 5 years under a facility agreement dated 1 December 2011 with a syndicate of banks. Land Rover, Jaguar Land Rover Limited (formerly Jaguar Cars Limited), Land Rover Exports Limited, Jaguar Land Rover Exports Limited and Jaguar Land Rover North America, LLC, are the guarantors. The facility is unsecured. As at 31 March 2013 the facility is undrawn. The facility has two tranches, a three year tranche of £615 million (maturing in 2014) and a five year tranche of £180 million (maturing in 2016). Jaguar Land Rover is subject to certain customary financial and other covenants under this facility.

£116 million 5-year single currency secured syndicated borrowing – base revolving loan facility

The outstanding amount of £50 million under this facility was repaid in March 2013 and the facility was cancelled in full.

BORROWINGS AND DESCRIPTION OF INDEBTEDNESS

Facility	Facility Amount	Maturity	Outstanding as at 31 March 2013	Undrawn as at 31 March 2013
	£ in millions		£ in millions	£ in millions
Committed				
£500m Senior Notes 8.125% 2018	500.0	2018	500.0	-
£500m Senior Notes 8.25% 2020	500.0	2020	500.0	-
$410m Senior Notes 7.75% 2018	269.9	2018	269.9	-
$410m Senior Notes 8.125% 2021	269.9	2021	269.9	-
$500m Senior Notes 5.625% 2023	329.2	2023	329.2	-
Revolving 3 & 5 year credit facilities	795.0	2014-16	-	795.0
Other financing loans	86.0	2013-14	86.0	-
Receivables factoring facilities	290.4	2014-15	220.0	70.4
Subtotal	**3,040.4**		**2,175.0**	**865.4**
Uncommitted				
Receivables factoring facilities	131.7	2014	-	131.7
Other facilities	21.8	-	21.8	-
Subtotal	**153.5**		**21.8**	**131.7**
Capitalised costs	-	-	(30.0)	-
Total	**3,193.9**		**2,166.8**	**997.1**

Various Sterling bilateral term loan facilities supported by CNY deposits

Jaguar Land Rover Limited has borrowed under various Sterling-denominated short-term (i.e. with maturities between six months and two years) loan facilities with certain banks with the company's wholly owned Chinese subsidiary providing restricted cash on deposit in China as security. Each facility is guaranteed by Land Rover. Total amount of loans outstanding under these facilities is £86 million as at 31 March 2013.

Receivables factoring facilities

Jaguar Land Rover Exports Limited and Land Rover Exports Limited have maintained invoice discounting facilities with one or more banks. Following the transfer of the assets and liabilities of Land Rover Exports Limited into Jaguar Cars Exports Limited and the subsequent change of name of Jaguar Cars Exports Limited to Jaguar Land Rover Exports Limited, as at 31 March 2013 Jaguar Land Rover Exports Limited is the sole seller under these facilities. The facility was renewed in March 2013 for a period of two years. The new facility is guaranteed by Land Rover and Jaguar Land Rover Limited. Of the total facilities of £422.1 million, £290.4 million is on a committed basis. Receivables are generated from sales of finished goods and Land Rover spare parts and accessories. At 31 March 2013, £220 million was drawn under these facilities. On 1 April 2013 the assets and liabilities of Jaguar Land Rover Exports Limited were transferred into Jaguar Land Rover Limited. From 1 April 2013 Jaguar Land Rover Limited was the sole seller under the faciltity and Land Rover the sole guarantor.

BUSINESS REVIEW

Business background

The company designs, develops, manufactures and sells Jaguar premium sports saloons and sports cars and Land Rover premium all-terrain vehicles, as well as related parts and accessories. The company has a long tradition as a manufacturer of premium passenger vehicles with internationally recognised brands, an exclusive product portfolio of award-winning vehicles, a global distribution network and strong research and development (R&D) capabilities.

The company operates three major production facilities and two advanced design and engineering facilities all in the United Kingdom. At 31 March 2013, the company employed 26,140 employees globally (including agency staff of 6,629).

The company operates a global sales and distribution network designed to support worldwide sales and facilitate growth in key markets.

Legal structure

The group has been managed on an integrated basis for some time, but as an historical legacy has operated separate brand legal entities for manufacturing and export in the UK and for selling in overseas markets. Since 2008, the group has been re-organising the overseas sales entities as combined brand legal entities.

On 1 January 2013, the company name was changed to Jaguar Land Rover Automotive PLC.

On 1 April 2012, the trade and assets of Land Rover Exports Limited were transferred to Jaguar Land Rover Exports Limited

On 1 January 2013, the trade and assets of Land Rover (with the exception of shares in Jaguar Land Rover China and Chery Jaguar Land Rover Automotive Company Limited) were transferred to Jaguar Cars Limited, which was re-named Jaguar Land Rover Limited.

On 1 April 2013, the trade and assets of Jaguar Land Rover Exports Limited were transferred to Jaguar Land Rover Limited

As a result, Jaguar Land Rover Limited is now the primary operating company in the UK for the design, manufacture and sale of all our products. Jaguar Land Rover Limited is now owned by Land Rover which in turn is owned by Jaguar Land Rover Limited. It is planned to change the name of Land Rover to Jaguar Land Rover Holdings Limited at which time Land Rover will become a limited company.

These internal reorganisations have no impact on the assets or liabilities owned by the consolidated group.

Product design, development and technology

The company's vehicles are designed and developed by award-winning design teams, and the company is committed to a programme of regular enhancements in product design. The company's two design and development centres are equipped with computer-aided design, manufacturing and engineering tools, and are configured for competitive product development cycle time and efficient data management. In recent years, the company has refreshed the entire Jaguar range under a unified concept and design language and continued to enhance the design of Land Rover's range of all-terrain vehicles.

The company's R&D operations look for synergies through sharing premium technologies, powertrain designs and vehicle architecture. All of the company's products are designed and engineered primarily in the United Kingdom. The company endeavours to implement the best technologies into its product range to meet the requirements of a globally competitive market. The company is currently developing vehicles which will run on alternative fuels and hybrids and is also investing in other programmes for the development of technologies to improve the environmental performance of its vehicles including the reduction of CO_2 emissions.

Facilities

The company operates three automotive manufacturing facilities in the United Kingdom. At Solihull, the company produces the Land Rover Defender, Discovery 4, Range Rover and Range Rover Sport models. At Castle Bromwich, the company produces the Jaguar XK, XJ, XF and new F-TYPE models. At Halewood, the company produces the Freelander and the Range Rover Evoque. The company believes that its three existing automotive manufacturing facilities at Solihull, Castle Bromwich and Halewood provide a flexible manufacturing footprint to support its product plans. The company also has two product development, design and engineering facilities at Gaydon and Whitley in the United Kingdom. The company's global headquarters is also located at the Whitley site.

The company has started to invest more than £500 million in an engine plant at a new site in Wolverhampton in the West Midlands. This plant is close to the Solihull and Castle Bromwich plants and has good motorway links to supply to Halewood and to receive deliveries from suppliers.

The company announced in March 2012 the signing of a 50:50 joint venture agreement with Chery Automotive to build a factory in China to manufacture cars for the Chinese market. Chinese regulatory approval was received in October 2012 for a total investment of 10.9 billion RMB with 3.5 billion RMB equity each from Jaguar Land Rover and Chery and the balance of the investment to be funded by debt in the name of the joint venture without recourse to or guarantees from Jaguar Land Rover or Chery. This development is underway and Jaguar Land Rover invested an initial £70 million in the joint venturew in the year.

Sales and distribution

The company markets products in 178 countries, through a global network of 17 national sales companies (NSCs), 85 importers, 62 export partners and 2,485 franchise sales dealers, of which 689 are joint Jaguar and Land Rover dealers.

The company has established robust business processes and systems to ensure that its production plans meet anticipated retail sales demand and to enable the active management of its inventory of finished vehicles and dealer inventory throughout its network.

The company has entered into arrangements with independent partners to provide financing to its customers, including FGA Capital, a joint venture between Fiat Auto and Credit Agricole, for the United Kingdom and European markets, Chase Auto Finance for the US market, and local providers in a number of other key markets. Lloyds Black Horse is expected to become Jaguar Land Rover's financing partner in the UK starting in 2014. The company's financing partners offer its customers a full range of consumer financing options.

2,485
franchise sales dealers worldwide

£500m
Investment in new Wolverhampton engine plant

OBJECTIVES AND STRATEGIES

The company has a multifaceted strategy to position itself as a leading manufacturer of premium vehicles offering high-quality products tailored to specific markets. The company's success is tied to its investment in product development which drives the strategic focus on capital expenditure, R&D and product design.

Grow the business through new products and market expansion

The company offers products in the premium performance car and all-terrain vehicle segments, and the company intends to grow the business by diversifying the product range within these segments with both new products as well as greater product derivatives. The new Range Rover Evoque has helped expansion into a market segment that is attracted by a smaller, lighter and more 'urban' off-road vehicle than the market segment in which the company's Range Rover models traditionally compete, while new Jaguar derivatives including the XF Sportbrake and all-wheel drive and smaller engine options cater for a much wider group of potential customers, particularly company car drivers.

In addition, the company has a strategy of expanding regional coverage into geographic locations where it has identified an opportunity to grow within its core segments. As a producer of distinctive, premium products, the company believes it is well positioned to increase revenues in emerging countries with growing sales potential. There are two specific aspects to the company's strategy of geographic expansion:

- The company aims to increase its marketing and dealer network in emerging markets. In China, the company has established an NSC to expand its presence in this key market and plans to increase the network of sales dealerships across the country. At 31 March 2013, the company had increased to 135 Land Rover dealers and 134 Jaguar dealers in China. Similarly, the company plans to continue to grow its presence in the Indian market by opening additional dealerships across the country.
- The company aims to establish new manufacturing facilities, assembly points and suppliers in selected markets. The planned joint venture with China is an example of this, whilst in India, the company has already established a CKD assembly operation and some product development activities. The company has also signed a memorandum of understanding with the Saudi Arabian authorities to study the feasibility of setting up a manufacturing operation in Saudi Arabia. We have also started a feasibility study to review opportunities available for a potential future assembly facility in Brazil. In addition, the company will continue to look for opportunities to source materials and components in a cost-efficient manner and, in pursuit of that objective, the company has already opened purchasing offices in China and India.

Growth strategy and capital investment

Jaguar Land Rover's strategy continues to be to profitably grow its strong globally recognised brands and invest substantially to develop new products in new and existing segments with new powertrains and technologies to meet customer aspirations and regulatory requirements as well as invest in manufacturing capacity to meet customer demand.

The company continues to have a longer term capital spending target of 10-12% of revenue which it believes is in line with other premium competitors, but in the near and medium term it expects spending to be a greater percentage of revenue in order to realise the present opportunities it sees for growth.

Given the significant growth in sales and profitability of the company with a strong cash and liquidity position, Jaguar Land Rover plans to continue to increase and accelerate capital spending to develop exciting new products in new and existing segments, invest in new powertrains and technologies to meet customer and regulatory requirements, grow the company's manufacturing footprint in China and explore manufacturing opportunities in other markets. As a result, total capital spending (including capitalised and expensed R&D) is expected to increase to in the region of £2.75 billion in FY2014.

We continue to target funding most of our capital spending out of operating cash flow. Our strong balance sheet and liquidity as well as proven access to funding from capital markets and banks would also support our investment plans as required.

Invest in R&D and technology

The company considers technological leadership to be a significant factor in its continued success, and therefore continues to devote significant resources to upgrading its technological capabilities. Jaguar Land Rover's strategy involves maintaining and improving its competitive position by developing technologically advanced vehicles. Over the years, the company has enhanced its technological strengths through extensive in-house R&D activities, particularly through its advanced engineering and design centres. The company is involved in a number of advanced research consortia that bring together leading manufacturers, suppliers and academic specialists in the United Kingdom, supported by funding from the government's Technology Strategy Board.

An example of the company's development capabilities is Jaguar's aluminium body architecture, which has also been utilised in the all new Range Rover and Range Rover Sport. The company expects this will be a significant contributor to further efficiencies in manufacturing and engineering, as well as the reduction of CO2 emissions. The company aims to develop vehicles running on alternative fuels and hybrids as well as invest in programmes for the development of technologies that aim to improve the environmental performance of its vehicles.

Transform the business structure to deliver sustainable returns

The company undertakes a variety of internal and external benchmarking exercises, market testing and internal comparative analysis across its own vehicles, which help it to identify cost improvement opportunities for components, systems and sub-systems. The company also explores opportunities to source materials from low-cost countries as well as sharing components across platforms in order to gain economies of scale and reduce engineering costs. The company believes its strategy to enhance global sourcing will enable it to take advantage of low-cost bases in countries such as India and China. The company has also been doing some engineering in India In addition, the company continuess to review and manage its cost structure through a number of measures.

Continuing quality improvement

The company is pursuing various quality improvement programmes, both internally and at its suppliers' operations, in an effort to enhance customer satisfaction and reduce future warranty costs. The company has also established a procedure for ensuring quality control of outsourced components, and products purchased from approved sources undergo a supplier quality improvement process. Reliability and other quality targets are built into a new product introduction process.

Assurance of quality is further driven by the design team, which interacts with downstream functions like process-planning, manufacturing and supplier management to ensure quality in design processes and manufacturing. The company believes its extensive sales and service network has also enabled it to provide quality and timely customer service. Through close coordination supported by IT systems, the company monitors quality performance in the field and implements corrections on an on-going basis to improve the performance of its products.

The company aims to coordinate with Tata Motors to achieve synergies where it makes sense, including in the areas of research and product development, supply sourcing, manufacturing and assembly, including the development of a family of small efficient diesel and petrol engines.

BUSINESS RISKS AND MITIGATING FACTORS

Global economic environment

The company is focused on the premium end of the automotive industry, and can be heavily influenced by general economic conditions around the world. The demand for its vehicles is influenced by a variety of factors, including, among other things, the growth rate of the global economy, availability of credit, disposable income of consumers, interest rates, environmental policies, tax policies, safety regulations, freight rates and fuel prices.

The global economic climate has improved since 2009, and whilst some key markets, such as the UK and US are growing more slowly than expected and risks remain within the Euro zone, the company's global reach and recognised brand names have enabled it to benefit from significant growth in Chinese and other developing markets.

The company continues to monitor economic indicators within key markets as well as retail volume trends in order to manage production and vehicle distribution. The company's product development programme is aimed at ensuring the company has the right vehicles available for the right markets at the right price, reflecting different priorities and uses across the globe.

Government regulations

The company is subject throughout the world to comprehensive and constantly changing laws, regulations and policies. The company expects the number and extent of legal and regulatory requirements and the related costs of changes to the company's product line-up to increase significantly in the future. In Europe and the United States, for example, governmental regulation is primarily driven by concerns about the environment (including greenhouse gas emissions), vehicle safety, fuel economy and energy security. The European Union passed legislation in April 2009 to begin regulating vehicle carbon dioxide emissions in 2012. The legislation sets a target of a fleet average of 130 grams per kilometre by 2012 and an ambitious target of 95 grams per kilometre by 2020, with the specific requirements for each manufacturer based on the average weight of the vehicles it sells.

The company has received a permitted derogation from this emissions requirement available to small volume and niche manufacturers. As such, the company is permitted to reduce the company's emissions by 25% from 2007 levels rather than meeting a specific CO_2 emissions target. We now have an overall 2015 target of 178.9 grams of CO_2 per kilometre. Jaguar Land Rover and Tata Motors are monitored as a single pooled entity.

Moreover, in 2007 the European Parliament adopted the latest in a series of more stringent standards for emissions of other air pollutants from passenger vehicles, to be phased in from September 2009 (Euro 5) and September 2014 (Euro 6). At the national level, an increasing number of EU Member States have adopted some form of fuel consumption or CO_2 based vehicle taxation system.

Additional measures have been proposed or adopted in the European Union to regulate safety features, tyre-rolling resistance, vehicle air conditioners, tyre-pressure monitors and gear shift indicators.

In the United States, the Corporate Average Fuel Economy ("CAFE"), standards for passenger cars will require manufacturers of passenger vehicles and light trucks to meet an estimated combined average fuel economy level of at least 6.75L / 100km by 2020. Moreover, under new US federal greenhouse gas regulations, passenger cars and light trucks for model years 2012 through 2016 must meet an estimated combined average emissions level of 250 grams of CO_2 per mile. This extends to model years 2017 to 2025, with targets of 243 grams of CO_2 per mile in 2017 to 163 grams of CO_2 per mile in 2025.

To comply with current and future environmental norms, the company may have to incur additional capital expenditure and R&D expenditure to upgrade products and manufacturing facilities, which would have an impact on the company's cost of production and the results of operations and may be difficult to pass through to the company's customers. If the company is unable to develop commercially viable technologies within the time frames set by the new standards, the company could face significant civil penalties or be forced to restrict product offerings drastically to remain in compliance.

Brazil has recently increased import duty for foreign build vehicles which put pressure on margins. The company is considering a number of options to counter this issue, including discussions with the Brazilian government to exempt a number of imported vehicles from the increased tariff.

Changes in corporate and other taxation policies, import or tariff policies, which are beyond the company's control and unpredictable could adversely affect the company's results of operations.

The company's product development plan is structured to allow it to develop vehicles which comply with current and expected future environmental regulations particularly in the European Union, the United States covered by the CAFE and in other countries such as China.

Interest rate, currency and exchange rate fluctuations

The company has both interest bearing assets (including cash balances) and interest bearing liabilities, some of which bear interest at variable rates. The company is therefore exposed to changes in interest rates. While the directors revisit the appropriateness of these arrangements in light of changes to the size or nature its operations, the company may be adversely affected by the effect of changes in interest rates.

Jaguar Land Rover's consolidated financial statements, which are presented in sterling, are affected by foreign currency exchange rate fluctuations through both transaction risk and translation risk. Jaguar Land Rover is exposed to fluctuations in the value of the US dollar, Chinese yuan and the euro and, to a lesser extent, the Australian dollar, South African rand, Russian rouble and others.

Transaction risk is the risk that the currency mix of Jaguar Land Rover's cost base does not match the currency mix of its revenue. Transaction risk primarily relates to revenue earned on sales outside of Europe against costs incurred in the British Pound and the euro. JLR hedges a portion of this transaction risk.

Translation risk is the risk that certain financial assets and liabilities held on JLR's consolidated balance sheet will be affected by variations in exchange rates between reporting dates. Translation-related fluctuations can significantly impact reported results in any period but such translation effects do not reflect Jaguar Land Rover's underlying results of operations. Jaguar Land Rover presently does not hedge translation risk although translation exposures in some currencies, such as US dollar-denominated debt, are to some extent naturally hedged economically by future revenue earned in these currencies.

Supply chain

The company relies on third parties for sourcing raw materials, parts and components used in the manufacture of the company's products. The company's ability to procure supplies in a cost effective and timely manner or at all is subject to various factors, some of which are not within the company's control. While the company manages its supply chain as part of the its supplier management process, any significant problems with suppliers or shortages of essential raw materials in the future could have an impact on the company's operations.

Risks of disruption due to man-made or natural disasters, could impact the supply chain. A natural disaster could cause suppliers to halt, delay or reduce production, which could reduce or disrupt the supply of such raw materials, pre-products and vehicle parts and / or an increase in their cost. Any significant interruption in the supply of key inputs could adversely affect the company's ability to maintain its current and expected levels of production and therefore negatively affect its revenues.

The tragic earthquake and tsunami in Japan in March 2011 shows the vulnerability of the automotive supply chain to external shocks. Several suppliers to the automotive industry, including those to the company, were severely impacted by the earthquake and tsunami and its after-effects. The company, however, managed to avoid any production disruption by working with its overall supply base to temporarily resource components and help Japanese suppliers to restart production.

In managing a complex supply chain the company has developed close relationships with both direct and indirect suppliers. The company continues to develop long-term strategic relationships with suppliers to support the development of parts, technology and production facilities.

Seasonality and cyclicality

The sales volumes and prices for the company's vehicles are influenced by the cyclicality and seasonality of demand for these products. The company is affected by the biannual change in age-related registration plates of vehicles in the United Kingdom, when new age-related plates take effect in March and September, which in turn has an impact on the resale value of vehicles. Most other markets, such as the United States, are driven by the introduction of new model year vehicles, which typically occurs in the autumn of each year. Furthermore, Western European markets tend to be impacted by the summer and winter holidays. The resulting sales profile influences operating results on a quarter-to-quarter basis. Sales in the automotive industry have been cyclical in the past and the company expects this cyclicality to continue.

With the lessons learned during the recent global crisis and downturn that followed, the company keeps a close watch on inventory, including pipeline and dealer stock, with a view to quickly respond to any such signals from the market.

Product development

Over the past few years, the global market for automobiles, particularly in established markets, has been characterised by increasing demand for more environmentally friendly vehicles and technologies. In addition, the climate debate and promotion of new technologies are increasingly resulting in the automotive industry's customers no longer looking for products only on the basis of the current standard factors, such as price, design, performance, brand image or comfort / features, but also on the basis of the technology used in the vehicle or the manufacturer or provider of this technology. This could lead to shifts in demand and the value added parameters in the automotive industry.

The company endeavours to take account of climate protection and the ever more stringent laws and regulations that have been and are likely to be adopted. The company is focusing on researching, developing and producing new drive technologies, such as hybrid engines and electric cars. The company is also investing in development programmes to reduce fuel consumption through the use of lightweight materials, reducing parasitic losses through the driveline and improvements in aerodynamics.

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The company considers technological leadership to be a significant factor in its continued success, and therefore continues to devote significant resources to upgrading its technological capabilities. Its strategy involves maintaining and improving its competitive position by developing technologically advanced vehicles. Over the years, Jaguar Land Rover has enhanced its technological strengths through extensive in-house R&D activities, particularly through its advanced engineering and design centres. The company is involved in a number of advanced research consortia that bring together leading manufacturers, suppliers and academic specialists in the United Kingdom, supported by funding from the government's Technology Strategy Board.

An example of the company's development capabilities is Jaguar's aluminium body architecture, which has also been utilised in the all new Range Rover and Range Rover Sport. The company expects this will be a significant contributor to further efficiencies in manufacturing and engineering, as well as the reduction of CO_2 emissions. The company aim to develop vehicles running on alternative fuels and hybrids and also invest in other programmes for the development of technologies aiming to improve the environmental performance of the company's vehicles.

Patent protection and intellectual property

Although the company does not regard any of its businesses as being dependent upon any single patent or related group of patents, its inability to protect this intellectual property generally, or the illegal breach of some or a large group of the company's intellectual property rights, would have a materially adverse effect on the company's operations, business and / or financial condition.

The company owns or otherwise has rights in respect of a number of patents and trademarks relating to the products that it manufactures, which have been obtained over a period of years. In connection with the design and engineering of new vehicles and the enhancement of existing models, the company seeks to regularly develop new technical designs for use in its vehicles. The company also uses technical designs which are the intellectual property of third parties with such third parties' consent. These patents and trademarks have been of value in the growth of the company's business and may continue to be of value in the future.

The company may be affected by restrictions on the use of intellectual property rights held by third parties and the company may be held legally liable for the infringement of the intellectual property rights of others in the company's products.

Dealer performance

The company's products are sold and serviced through a network of authorised dealers and service centres across the company's domestic market, and a network of distributors and local dealers in international markets. The company monitors the performance of the company's dealers and distributors and provides them with support to assist them to perform to its expectations.

Manufacturing and engineering

The company has three manufacturing facilities and two design and engineering centres, all of which are located in the United Kingdom. The Solihull site currently manufactures Land Rover and Range Rover products, except the Freelander and Range Rover Evoque which are produced in Halewood. The Castle Bromwich site, is used to produce all the company's Jaguar models. It is expected that these sites will become more cross-branded. The company has signed a joint venture agreement to establish a manufacturing base in China and invested £70 million in the current financial year. The company benefits from third-party facilities overseas which build a number of its vehicles from CKD kits. In India, Freelander and XF vehicle kits are assembled by Tata Motors in its Pune facility.

The company's design and engineering centres, in Whitley and Gaydon, are being reorganised to maximise efficiency in design and development.

The company is investing in a new engine plant in Wolverhampton in order to develop and build our own range of energy efficient advanced engines.

The company has entered into a 50:50 JV agreement with Chery Automobile Company Limited to manufacture vehicles in China for sale in that market starting in 2015 and is exploring opportunities to manufacture in other international locations, including Brazil and Saudi Arabia.

The company could experience disruption to its manufacturing, design and engineering capabilities for a variety of reasons, including, among others, extreme weather, fire, theft, system failures, natural calamities, mechanical or equipment failures and similar risks. Any significant disruptions could adversely affect the company's ability to design, manufacture and sell the company's products and, if any of those events were to occur, the company cannot be certain that the company would be able to shift its design, engineering and manufacturing operations to alternative sites in a timely manner or at all. Any such disruption could therefore materially affect the company's business, financial condition or results of operations.

Regulation of production facilities

The company's production facilities are subject to a wide range of environmental, health and safety requirements. These requirements address, among other things, air emissions, wastewater discharges, accidental releases into the environment, human exposure to hazardous materials, the storage, treatment, transportation and disposal of wastes and hazardous materials, the investigation and clean up of contamination, process safety and the maintenance of safe conditions in the workplace. Many of the company's operations require permits and controls to monitor or prevent pollution. The company has incurred, and will continue to incur, substantial on-going capital and operating expenditures to ensure compliance with current and future environmental, health and safety laws and regulations or their more stringent enforcement. Other environmental, health and safety laws and regulations could impose restrictions or onerous conditions on the availability or the use of raw materials the company need for the company's manufacturing process.

The company's manufacturing process results in the emission of greenhouse gases such as carbon dioxide. The EU Emissions Trading Scheme, an EU-wide system in which allowances to emit greenhouse gases are issued and traded, is anticipated to cover more industrial facilities and become progressively more stringent over time, including by reducing the number of allowances that will be allocated free of cost to manufacturing facilities. In addition, a number of further legislative and regulatory measures to address greenhouse gas emissions, including national laws and the Kyoto Protocol, are in various phases of discussion or implementation. These measures could result in increased costs to: (i) operate and maintain the company's production facilities; (ii) install new emissions controls; (iii) purchase or otherwise obtain allowances to emit greenhouse gases; and (iv) administer and manage the company's greenhouse gas emissions programme.

Many of the company's sites have an extended history of industrial activity. The company may be required to investigate and remediate contamination at those sites, as well as properties the company formerly operated, regardless of whether the company caused the contamination or the activity causing the contamination was legal at the time it occurred. In connection with contaminated properties, as well as the company's operations generally, the company also could be subject to claims by government authorities, individuals and other third parties seeking damages for alleged personal injury or property damage resulting from hazardous substance contamination or exposure caused by the company's operations, facilities or products. The company could be required to establish or substantially increase financial reserves for such obligations or liabilities and, if the company fails to accurately predict the amount or timing of such costs, the related impact on the company's business, financial condition or results of operations could be material.

The company has a reasonably good health and safety record. The company maintains its plant and facilities well with a view to meeting these regulatory requirements and has also in place a compliance reporting and monitoring process which should help to mitigate risk.

Input prices

Prices of commodities used in manufacturing automobiles, including steel, aluminium, copper, zinc, rubber, platinum, palladium and rhodium, can be volatile. Further, with the global economy coming out of recession and increasing consumption in the emerging markets, prices of these commodities are likely to remain high and may rise significantly.

In addition, an increased price and supply risk could arise from the supply of rare and frequently sought raw materials for which demand is high, especially those used in vehicle electronics such as rare earths, which are predominantly found in China. In the past, China limited the export of rare earths from time to time. If the company is unable to find substitutes for such raw materials or pass price increases on to customers by raising prices, or to safeguard the supply of scarce raw materials, the company's vehicle production, business and results from operations could be affected.

The company continues to pursue cost reduction, value engineering and such other initiatives to mitigate the risk of increasing input costs and supplements these efforts through the use of fixed price supply contracts with tenors of up to 12 months for energy and commodities wherever possible.

The company uses derivative contracts to hedge some commodity costs.

Product liability, warranties and recalls

The company is subject to risks and costs associated with product liability, warranties and recalls in connection with performance, compliance or safety related issues affecting its products. In addition, product recalls can cause the company's consumers to question the safety or reliability of the company's vehicles and harm the company's reputation. Any harm to the reputation of any one of the company's models can result in a substantial loss of customers.

Furthermore, the company may also be subject to class actions or other large scale product liability or other lawsuits in various jurisdictions in which the company have a significant presence. The use of shared components in vehicle production increases this risk because individual components are deployed in a number of different models across the company's brands. Any costs incurred or lost sales caused by product liability, warranties and recalls could materially adversely affect the company's business.

The company monitors its warranty performance very closely as this is a significant potential cost to the business and to customers' expectations of its brands.

The company expends resources in connection with product recalls and these resources typically include the cost of the part being replaced and the labour required to remove and replace the defective part to ensure that consumers do not question the safety or reliability of its vehicles and harm its reputation.

The company constantly monitor vehicles in service through regular data feeds from dealerships globally in order to identify trends and customer satisfaction. This helps the company to put in place appropriate actions to manage recalls and minimise warranty claims. The company also develops dealer technical updates to provide awareness of known vehicle faults, which is in line with general industry practices.

Information Technology

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes, among other things, losses that are caused by a lack of controls within internal procedures, violation of internal policies by employees, disruption or malfunction of IT systems, computer networks and telecommunications systems, mechanical or equipment failures, human error, natural disasters or malicious acts by third parties. Like any other business with complex manufacturing, research, procurement, sales and marketing and financing operations, the company is exposed to a variety of operational risks and, if the protection measures put in place prove insufficient, the company's results of operations and financial conditions can be materially affected.

As part of the long-term development strategy under Tata, the company is reviewing its IT resources to ensure that they provide it with a "best in class" framework for running and managing its business. The company has a number of IT controls to help prevent significant issues in the case of IT failure. These include back-up systems and a comprehensive disaster recovery plan. These controls are monitored by the company's internal audit function and are Sarbanes Oxley (S-Ox) compliant.

The company has an IT usage policy which is communicated to all staff when they join the company and there are regular reminders provided by the IT department. This policy is designed to prevent unauthorised software being used in breach of licensing rules and potentially introducing malicious software onto the system. The policy also aims to support the company's diversity policy by preventing the use of offensive, sexist or racist language through IT communications.

Industry competition

The global automotive industry, including the premium passenger car segment, is highly competitive and competition is likely to further intensify in view of the continuing globalisation and consolidation in the worldwide automotive industry. There is a strong trend among market participants in the premium automotive industry towards intensifying efforts to retain their competitive position in established markets while also developing a presence in more profitable and fast growing emerging markets, such as China, India, Russia, Brazil and other parts of Asia. A range of factors affect the competitive environment, including, among other things, quality and features of vehicles, innovation, development time, ability to control costs, pricing, reliability, safety, fuel economy, environmental impact and perception thereof, customer service and financing terms. The company places emphasis on monitoring markets and competitors in order to develop the appropriate strategies to remain competitive.

Customer demands

Customer preferences, especially in many of the more mature markets, show an overall trend towards smaller and more fuel efficient and environmentally friendly vehicles. In many markets, these preferences are driven by customers' environmental concerns, increasing fuel prices and government regulations, such as regulations regarding the level of CO_2 emissions, speed limits and higher taxes on sports utility vehicles or premium automobiles.

Such a general shift in consumer preference towards smaller and more environmentally friendly vehicles could materially affect the company's ability to sell premium passenger cars and large or medium sized all-terrain vehicles at current or targeted volume levels. In addition, there is a risk that the company's quality standards can only be maintained by incurring substantial costs for monitoring and quality assurance. For the company's customers, one of the determining factors in purchasing the company's vehicles is the high quality of the products. A decrease in the quality of the company's vehicles (or if the public were to have the impression that such a decrease in quality had occurred) could damage the company's image and reputation as a premium automobile manufacturer and in turn materially affect the company's business, results of operations and financial condition.

The company operates in the premium performance car and all-terrain vehicle segments, which are very specific segments of the premium passenger car market. Accordingly, the company's performance is linked to market conditions and consumer demand in those two market segments. Other premium performance car manufacturers operate in a broader spectrum of market segments, which makes them comparatively less vulnerable to reduced demand for any specific segment. Any downturn or reduced demand for premium passenger cars and all-terrain vehicles in the geographic markets in which the company operate could have a more pronounced effect on the company's performance and earnings than would have been the case if the company had operated in a larger number of different market segments.

Customers also demand continued improvement in quality. As a premium manufacturer, the company recognises this and has in place a higher level of focus on the key levers that affect quality. In particular, the company's product design and development process has been reorganised to proactively address any potential risks to achieving a high quality product, but also manufacturing plants all the way to dealerships globally and their interaction with the customer.

Consumer finance and used car valuations

During the global financial crisis, several providers of customer finance reduced their supply of consumer financing for the purchase of new vehicles. Any reduction in the supply of available consumer finance in the future would make it more difficult for some of the company's customers to purchase the company's vehicles and could put it under commercial pressure to offer new (or expand existing) retail or dealer incentives to maintain demand for the company's vehicles.

Further, the company offers residual value guarantees on the purchase of certain leases in some markets. The value of these guarantees is dependent on used car valuations in those markets at the end of the lease, which is subject to change. Consequently, the company may be adversely affected by movements in used car valuations in these markets.

The company has arrangements in place with FGA Capital, a joint venture between Fiat Auto and Credit Agricole (FGAC) for UK and European consumer finance, Chase Auto Finance in North America, and has similar arrangements with local providers in a number of other key markets. In 2014, Lloyds Black Horse is planned to become the financial service provider for the UK. The company works closely with its commercial finance providers to minimize the risk around residual values which in turn reduces the level of lease subvention.

Key markets

The company has a significant presence in the United Kingdom, Chinese, North American and continental European markets from which the company derives approximately three-quarters of the company's revenues. The global economic downturn significantly impacted the automotive industry in these markets in 2009. Although demand in these markets has recovered strongly, a decline in demand for the company's vehicles in these major markets may in the future significantly impair the company's business, financial position and results of operations. The company's strategy, which includes new product launches and expansion into growing markets, such as China, India, Russia and Brazil is designed to mitigate a decrease in demand for the company's products in mature markets in the future.

The company's growth strategy has a level of dependency on the expansion of the company's operations in other parts of the world, including China, India, Russia, Brazil and other parts of Asia, which feature higher growth potential than many of the more mature automotive markets. If the company is unable to manage risks related to the company's expansion and growth in other parts of the world and therefore fail to establish a strong presence in those higher growth markets, the company's business, results of operations and financial condition could be adversely affected or the company's investments could be lost.

Credit and liquidity risks

The company's main sources of liquidity are cash generated from operations and external debt, including term debt, revolving credit factoring and working capital facilities. During the economic downturn in 2009 the company also received financial support in the form of loans and preference shares from the company's parent company TML. Adverse changes in the global economic and financial environment may result in lower consumer demand for vehicles, and prevailing conditions in credit markets may adversely affect both consumer demand and the cost and availability of finance for the company's business and operations. If the global economy goes back into recession and consumer demand for the company's vehicles drops, as a result of higher oil prices, excessive public debt or for any other reasons, and the supply of external financing becomes limited, the company may again face significant liquidity risks.

As at 31 March 2013, on a consolidated level, the company had cash and cash equivalents of £2,072 million and short term deposits of between 3-12 months duration of £775 million as well as and undrawn committed facilities of £865 million. The company generally pools cash from its subsidiaries to Jaguar Land Rover Limited, the primary operating company in the group, in the UK. At 31 March 2013, the company had £696 million of cash and cash equivalents in subsidiaries of Jaguar Land Rover outside the United Kingdom. A significant portion of this amount is subject to restrictions or impediments on the ability of the company's subsidiaries in certain countries to transfer cash across the group, primarily in JLR China which generally is restricted to paying an annual dividend.

Labour relations

In general, the company considers its labour relations with all of its employees, a substantial portion belong to unions, to be good. However, in the future the company may face labour unrest, at the company's own facilities or those of the company's suppliers, which may delay or disrupt the company's operations in the affected regions, including the sourcing of raw materials and parts, the manufacture, sales and distribution of vehicles and the provision of services. If work stoppages or lock-outs at the company's facilities or at the facilities of the company's major suppliers occur or continue for a long period of time, the company's business, financial condition and results of operations may be materially affected. The company manages union relations with proactive consultation.

Key personnel

The company believes that the company's growth and future success depend in large part on the skills of the company's workforce, including executives and officers, as well as the designers and engineers. The loss of the services of one or more of these employees could impair the company's ability to continue to implement its business strategy. The company's success also depends, in part, on the company's continued ability to attract and retain experienced and qualified employees, particularly qualified engineers with expertise in automotive design and production. The competition for such employees is intense, and the company's inability to continue to attract, retain and motivate employees could adversely affect its business and plans to invest in the development of new designs and products.

Pension obligations

The company provides post-retirement and pension benefits to the company's employees, some of which are defined benefit plans. The company's pension liabilities are generally funded and the pension plan assets are particularly significant. As part of the company's Strategic Business Review process, the company closed the Jaguar Land Rover defined benefit pension plans to new joiners as at 19 April 2010. All new employees since that date have joined a new defined contribution pension plan.

Under the arrangements with the trustees of the defined benefit pension schemes, an actuarial valuation of the assets and liabilities of the schemes is undertaken every three years. The most recent valuation, as at April 2012 and completed in 2013, indicated a shortfall in the assets of the schemes as at April 2012, versus the actuarially determined liabilities as at April 2012, of £702 million.

As part of the valuation process the company agreed a schedule of contributions, together with the expected investment performance of the assets of the schemes, expected to eliminate the deficit by 2022 including an incremental deficit contribution of £100 million made in March 2013. The company also reached agreement with the trustees to cancel security arrangements in favour of the pension fund trustees agreed in prior valuation as of April 2009. This security was released in March 2013.

The next actuarial valuation will be as at April 2015 and would be expected to be completed by 2016.

Lower return on pension fund assets, changes in market conditions, changes in interest rates, changes in inflation rates and adverse changes in other critical actuarial assumptions, may impact the company's pension liabilities or assets and consequently increase funding requirements, which in future could adversely affect the company's financial condition and results of operations.

Insurance coverage

While the company believes that the insurance coverage that the company it maintains is reasonably adequate to cover all normal risks associated with the operation of the company's business, there can be no assurance that any claim under the company's insurance policies will be honoured fully or timely, the company's insurance coverage will be sufficient in any respect or the company's insurance premiums will not increase substantially. Accordingly, to the extent that the company suffers loss or damage that is not covered by insurance or which exceeds the company's insurance coverage or the company has to pay higher insurance premiums, the company's financial condition may be affected.

Corporate governance and public disclosure

The company is affected by the corporate governance and disclosure requirements of the company's own listing, on the Euro MTF market and also its parent, Tata Motors, which is listed on the Bombay Stock Exchange, the National Stock Exchange of India and the New York Stock Exchange (the "NYSE"). Changing laws, regulations and standards relating to accounting, corporate governance and public disclosure, including the Sarbanes Oxley Act of 2002 and SEC regulations, Securities and Exchange Board of India (the "SEBI") regulations, the NYSE listing rules and Indian stock market listing regulations, have increased the compliance complexity for the company's parent company and, indirectly, for the company. These new or changed laws, regulations and standards may lack specificity and are subject to varying interpretations. Their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. The company is committed to maintaining high standards of corporate governance and public disclosure. However, the company's efforts to comply with evolving laws, regulations and standards in this regard have resulted in, and are likely to continue to result in, increased general and administrative expenses. In addition, there can be no guarantee that the company will always succeed in complying with all applicable laws, regulations and standards.

Impact of political instability, wars, terrorism, multinational conflicts, natural disasters, fuel shortages/prices, epidemics, labour strikes and other risks

The company's products are exported to a number of geographical markets and the company plan to expand the company's international operations further in the future. Consequently, the company is subject to various risks associated with conducting the company's business both within and outside the company's domestic market and the company's operations may be subject to political instability, wars, terrorism, regional and / or multinational conflicts, natural disasters, fuel shortages, epidemics and labour strikes. In addition, conducting business internationally, especially in emerging markets, exposes it to additional risks, including adverse changes in economic and government policies, unpredictable shifts in regulation, inconsistent application of existing laws and regulations, unclear regulatory and taxation systems and divergent commercial and employment practices and procedures. Any significant or prolonged disruptions or delays in the company's operations related to these risks could adversely impact the company's results of operations.

Charitable donations

The company and those that work for it are involved in many charitable activities across the globe. It is the company's strong belief that it should play an active role in the communities, both local and worldwide. Given the number of charities and the need to assess the impact of any donations and potential tax consequences, the company can only make contributions to a limited number of charitable causes which have been formally approved. As a result, no one is authorised to make any charitable contributions on behalf of the company without the necessary approval.

Political involvement and contributions

The company encourages employees to participate as individual citizens in political and government affairs. The company respects an employee's right to use their own time and resources to support the political activities of their choice. The company itself operates under legal limitations on its ability to engage in political activities, and even where there are no legal restrictions, the company does not typically make contributions to political candidates or political parties or permit campaigning on its property by political candidates (including those who work for Jaguar Land Rover) or persons working on their behalf. There have not been any political donations in any of the periods covered by these financial statements.

RELATED PARTY TRANSACTIONS

The group's related parties principally consist of Tata Sons Ltd., subsidiaries of Tata Sons Ltd, associates and joint ventures of the company. The group routinely enters into transactions with these related parties in the ordinary course of business. The group enters into transactions for sale and purchase of products with its associates and joint ventures. Transactions and balances with its own subsidiaries are eliminated on consolidation. Further details of related party transaction are set out in Note 36 to the Consolidated Financial Statements.

ACQUISITIONS AND DISPOSALS

The company made no material acquisitions or disposals in the period covered by these accounts.

OFF-BALANCE SHEET ARRANGEMENTS

The company has no off-balance sheet financial arrangements.

CONTINGENCIES

In the normal course of business, the company faces claims and assertions by various parties. The company assesses such claims and assertions and monitors the legal environment on an on-going basis, with the assistance of external legal counsel wherever necessary. The company records a liability for any claims where a potential loss is probable and capable of being estimated and discloses such matters in the company's financial statements, if material. Where potential losses are considered possible, but not probable, the company provides disclosure in the company's financial statements, if material, but the company does not record a liability in the company's accounts unless the loss becomes probable.

There are various claims against the company, the majority of which pertain to motor accident claims and consumer complaints. Some of the cases also relate to replacement of parts of vehicles and/or compensation for deficiency in the services by the company or its dealers. The company believes that none of these contingencies, either individually or in aggregate, would have a material adverse effect on the company's financial condition, results of operations or cash flow.

COMMITMENTS

The company has entered into various contracts with suppliers and contractors for the acquisition of plant and machinery, equipment and various civil contracts of a capital nature aggregating £288 million at 31 March 2013. The company has entered into various contracts with suppliers and contractors which include obligations aggregating £887 million at 31 March 2013, to purchase minimum or fixed quantities of material.

BOARD OF DIRECTORS

Jaguar Land Rover Automotive plc is a public limited company incorporated under the laws of England and Wales. The business address of the directors and senior management of Jaguar Land Rover is Abbey Road, Whitley, Coventry CV3 4L, United Kingdom.

The table below provides information with respect to members of the Board of Directors of Jaguar Land Rover.

Board practices

The Board consists of one executive director and four non-executive directors of whom two are independent non-executive directors.

The roles of the Chairman and the Chief Executive Officer are distinct and separate with appropriate powers being delegated to the Chief Executive Officer to perform the day to day activities of the company.

The Board, along with its committees, provides leadership and guidance to the company's management, particularly with respect to corporate governance, business strategies and growth plans, the consideration of risks and their mitigation strategies, entry into new businesses, product launches, demand fulfilment and capital expenditure requirements, and the review of the company's plans and targets.

The Board has delegated powers to the committees of the Board through written / stated terms of reference and oversees the functioning operations of the Committees through various circulars and minutes. The Board also undertakes the company's subsidiaries' oversight functions through review of their performance against their set targets, advises them on growth plans and, where necessary, gives strategic guidelines.

CORPORATE GOVERNANCE

The Board has delegated powers to the committees of the Board through written / stated terms of reference and oversees the functioning operations of the committees through various circulars and minutes. The Board also undertakes the company's subsidiaries' oversight functions through review of their performance against their set targets, advises them on growth plans and, where necessary, gives strategic guidelines.

Audit Committee

The Audit Committee independently reviews the adequacy and effectiveness of risk management across the company together with the integrity of the financial statements, including a review of the significant financial reporting judgments contained in them. It is comprised of Nasser Munjee and Andrew Robb, who have recent and relevant financial experience.

The scope of the Audit Committee includes:

- Reviewing the annual and all interim financial statements prior to submission to the Board and the shareholder, with particular reference to.
- Critical accounting policies and practices and any changes to them, off-balance sheet structures, related party transactions and contingent liabilities.
- Audit, legal and tax and accounting updates.
- Unusual or exceptional transactions.
- Major accounting entries involving estimates based on the exercise of judgment, including provisions for impairment and other major items.
- The auditors' report and any qualifications or emphases therein, taking particular note of any audit differences or adjustments arising from the audit.

BOARD OF DIRECTORS

Name	Position	Year appointed as Director
Cyrus P Mistry	Chairman and Director	2012
Ratan N. Tata	Chairman and Director *(resigned 2012)*	2008
Ravi Kant	Director *(resigned 2012)*	2008
Andrew M. Robb	Director	2009
Dr. Ralf D. Speth	Chief Executive Officer and Director	2010
Chandrasekaren Ramakrishnan	Director	2012
Nasser Mukhtar Munjee	Director	2012

- Reviewing the effectiveness of financial reporting, internal control over financial reporting and risk management procedures within the company's group, with particular regard to compliance with the provisions of Section 404 of the Sarbanes Oxley Act and other relevant regulations and to disclosures from the Chief Executive Officer or Chief Financial Officer, with particular reference to any material weaknesses or significant deficiencies in the design or operation of the company's internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process and report financial data and to receive reports from the external and internal auditors with respect to these matters.
- Assessing the reliability and integrity of the company's accounting policies and financial reporting and disclosure practices and processes.

In relation to internal audits, the Audit Committee has responsibility to:

- review on a regular basis the adequacy of internal audit functions, including the internal audit charter, the structure of the internal audit department, approval of the audit plan and its execution, staffing and seniority of the official heading the department, reporting structure, budget, coverage and the frequency of internal audit;
- review the regular internal reports to management prepared by the internal audit department as well as management's response thereto;
- review the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board;
- discuss with internal auditors any significant findings and follow-up thereon; and
- review internal audit reports relating to internal control weaknesses.

In relation to external auditors, the Audit Committee has responsibility to:

- oversee the appointment of the external auditors, to approve their terms of engagement, including fees, and the nature and scope of their work;
- review their performance every year and to pre-approve any provision of non-audit services by the external auditors;
- establish a clear hiring policy in respect of employees or former employees of the external auditors and monitor the implementation of that policy; and
- evaluate the external auditors by reviewing annually the firm's independence, its internal quality control procedures, any material issues raised by the most recent quality control or peer review of the firm, and the findings of any enquiry or investigation carried out by government or professional bodies with respect to one or more independent audits carried out by the firm within the last five years.

In relation to subsidiary company oversight, the Audit Committee has responsibility to review:

- To oversee the operation and maintenance of procedures for receiving, processing and recording complaints regarding accounting, internal controls or auditing matters and for the confidential submission by employees of concerns regarding allegedly questionable or illegal practices. The Audit Committee shall ensure that these arrangements allow independent investigation of such matters and appropriate follow up action.
- To oversee controls designed to prevent fraud and to review all reports of instances of fraud.
- To satisfy itself that group policy on ethics is followed and to review any issues of conflict of interest, ethical conduct or compliance with law, including competition law, brought to its attention.
- To oversee legal compliance in the company's group.
- To conduct and supervise such investigations or enquiries as the Board may require.

Remuneration Committee

The Remuneration Committee is comprised of Cyrus Mistry and Andrew Robb. The Remuneration Committee may, at the company's expense, obtain outside legal or other independent professional advice and secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

The scope of the Remuneration Committee is to:

- review and approve any proposals regarding the remuneration (including base salary, bonus, long term incentives, retention awards and pension arrangements) of directors;
- review and approve all bonus plans and long term incentive plans at leadership level 5 and above (including the structure of the plans, and whether, and at what level, the plans should pay out);
- review and approve changes to any pension plans; and
- regularly review independent data regarding the competitive position of salaries and benefits and make recommendations, as appropriate.

Executive Committee

The Executive Committee is comprised of the Chief Executive Officer and his direct reports.

The objective of the Executive Committee is to provide strategic management, to achieve business results and to ensure compliance and control using various assurance tools and functions such as an independent internal audit function, a risk and assurance committee and a legal compliance office.

The Executive Committee is responsible for the executive management of the business and the strategic direction of the company. It is also responsible for risk management across the company, the communication of policy requirements and the review and approval of the risk management policy and framework. The Executive Committee identifies strategic risk, debates strategies and commits the allocation of key resources to manage key and emerging risk factors. Within this role, the Executive Committee defines, sponsors, supports, debates and challenges risk management activity across the group.

Risk and Assurance Committee

The Risk and Assurance Committee is responsible for the on-going development and co-ordination of the system of risk management as well as the consolidation, challenge and reporting of all risk management information. It provides support and guidance on the application of risk management across the company.

AUDIT

During the period, Deloitte LLP were re-appointed as auditors to the company and certain subsidiary companies.

Statement of disclosure of information to auditors

In the case of each of the persons who are directors at the time when the report is approved under section 414 of the Companies Act, 2006 the following applies:

- so far as the directors are aware, there is no relevant audit information of which the group's auditors are unaware; and
- the directors have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group's auditors are aware of that information.

ACKNOWLEDGEMENT

The Directors wish to convey their appreciation to all of the employees for their continued commitment, effort and contribution in supporting the delivery of the company's record performance. The Directors would also like to extend thanks to all other key stakeholders for the continued support to the company and their confidence in its management.

By order of the board

Whitley, Warwickshire
2013

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). The financial statements are required by law to be properly prepared in accordance with IFRSs as adopted by the European Union and the Companies Act 2006.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'.

In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

We confirm to the best of our knowledge the financial statements, prepared in accordance with International Financial Reporting Standards as approved by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole.

These financial statements were approved by the board of directors on 23 July 2013.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF JAGUAR LAND ROVER AUTOMOTIVE PLC

We have audited the financial statements of Jaguar Land Rover Automotive PLC for the year ended 31 March 2013 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statements of Changes in Equity and the related notes 1 to 53. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2013 and of the group's profit for the period then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards to the group financial statements, Article 4 of IAS Regulation.

Opinion in relation to IFRSs as issued by the IASB

As explained in Note 2 to the group financial statements, the group in addition to complying with it's legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the group financial statements comply with IFRSs as issued by the IASB.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Richard Knights
Senior statutory auditor
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, United Kingdom


JAGUAR LAND ROVER
Headquarters

ACCOUNTS INFORMATION

A fine line: Jaguar XF body panels at Castle Bromwich manufacturing facility

JAGUAR LAND ROVER CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

Year ended 31 March (£ millions)	Note	2013	2012	2011
Revenue	**4**	**15,783.7**	**13,511.7**	**9,870.7**
Material and other cost of sales	6	(9,904.4)	(8,732.7)	(6,178.1)
Employee cost	7	(1,333.2)	(1,011.3)	(789.0)
Other expenses	6	(3,074.9)	(2,529.3)	(1,969.4)
Development costs capitalised	3	860.1	750.7	531.1
Other income		70.7	37.8	36.4
Depreciation and amortisation		(621.5)	(465.5)	(396.3)
Foreign exchange (loss) /gain		(108.7)	14.3	32.9
Finance income	10	33.7	16.2	9.7
Finance expense (net)	10	(18.1)	(85.2)	(33.1)
Share of loss from joint venture		(12.4)	-	-
Net income before tax	**5**	**1,675.0**	**1,506.7**	**1,114.9**
Income tax expense	18	(460.0)	(25.6)	(79.0)
Net income attributable to shareholders		**1,215.0**	**1,481.1**	**1,035.9**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March (£ millions)	Note	2013	2012	2011
Net income		**1,215.0**	**1,481.1**	**1,035.9**
Other comprehensive (loss) /income:				
Currency translation differences		-	-	123.4
(Loss) /gain on effective cash flow hedges		(287.7)	(35.6)	42.7
Cash flow hedges recognised in foreign exchange in the consolidated income statement		58.7	(19.7)	(13.2)
Actuarial losses	30	(346.6)	(149.9)	(321.1)
Total comprehensive income before tax impact		**639.4**	**1,275.9**	**867.7**
Tax impact		125.3	172.9	-
Total comprehensive income attributable to shareholders		**764.7**	**1,448.8**	**867.7**

CONSOLIDATED BALANCE SHEET

As at 31 March (£ millions)	Note	2013	2012	2011
Non-current assets				
Equity accounted investees	13	59.5	1.4	0.3
Other financial assets	17	194.8	106.9	68.5
Property, plant and equipment	19	2,335.1	1,585.9	1,230.8
Pension asset	30	0.4	1.9	0.9
Intangible assets	20	3,522.2	2,801.0	2,144.6
Other assets	16	7.5	11.5	-
Deferred income taxes	23	508.2	473.8	112.2
Total non-current assets		**6,627.7**	**4,982.4**	**3,557.3**
Current assets				
Cash and cash equivalents	11	2,072.2	2,430.4	1,028.3
Short term deposits		775.0	-	-
Trade receivables		927.1	662.2	567.2
Other financial assets	14	176.0	182.8	61.5
Inventories	15	1,794.7	1,496.8	1,155.6
Other current assets	16	434.5	457.0	293.2
Current income tax assets		29.7	5.5	12.5
Total current assets		**6,209.2**	**5,234.7**	**3,118.3**
Total assets		**12,836.9**	**10,217.1**	**6,675.6**
Current liabilities				
Accounts payable	25	4,226.9	3,284.7	2,384.8
Short term borrowings and current portion of long term debt	26	327.8	489.7	863.4
Other financial liabilities	21	433.3	312.7	132.9
Provisions	24	334.4	279.5	246.3
Other current liabilities	22	482.0	559.3	360.2
Current income tax liabilities		192.3	115.2	79.8
Total current liabilities		**5,996.7**	**5,041.1**	**4,067.4**
Non-current liabilities				
Long term debt	26	1,839.0	1,484.4	518.1
Other financial liabilities	21	227.2	72.5	20.4
Non-current income tax liabilities		-	18.3	-
Deferred tax	23	85.7	0.5	1.6
Other liabilities	22	24.0	4.8	-
Provisions	24	1,125.5	671.3	592.7
Total non-current liabilities		**3,301.4**	**2,251.8**	**1,132.8**
Total liabilities		**9,298.1**	**7,292.9**	**5,200.2**

CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 31 March (£ millions)	Note	2013	2012	2011
Equity attributable to shareholders				
Ordinary shares	27	1,500.6	1,500.6	1,500.6
Capital redemption reserve	28	166.7	166.7	166.7
Reserves / (accumulated deficit)	28	1,871.5	1,256.9	(191.9)
Equity attributable to shareholders		**3,538.8**	**2,924.2**	**1,475.4**
Total liabilities and equity		**12,836.9**	**10,217.1**	**6,675.6**

These consolidated financial statements were approved by the board of directors on 23/07/13 and signed on its behalf by:

Dr Ralf Speth
Chief Executive Officer

Company Registered number
06477691

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(£ millions)	Ordinary shares	Capital redemption reserve	Reserves / (accumulated deficit)	Total equity
Balance at 31 March 2012	**1,500.6**	**166.7**	**1,256.9**	**2,924.2**
Income for the year	-	-	1,215.0	1,215.0
Other comprehensive loss for the year	-	-	(450.3)	(450.3)
Total comprehensive income	**-**	**-**	**764.7**	**764.7**
Dividend paid	-	-	(150.1)	(150.1)
Balance at 31 March 2013	**1,500.6**	**166.7**	**1,871.5**	**3,538.8**
Balance at 31 March 2011	1,500.6	166.7	(191.9)	1,475.4
Income for the year	-	-	1,481.1	1,481.1
Other comprehensive loss for the year	-	-	(32.3)	(32.3)
Total comprehensive income	**-**	**-**	**1,448.8**	**1,448.8**
Balance at 31 March 2012	**1,500.6**	**166.7**	**1,256.9**	**2,924.2**
Balance at 31 March 2010	**644.6**	**-**	**(1,107.4)**	**(462.8)**
Income for the year	-	-	1,035.9	1,035.9
Other comprehensive loss for the year	-	-	(168.2)	(168.2)
Total comprehensive income	-	-	**867.7**	**867.7**
Cancellation of preference shares	-	-	47.8	47.8
Issue of ordinary shares	856.0	166.7	-	1,022.7
Balance at 31 March 2011	**1,500.6**	**166.7**	**(191.9)**	**1,475.4**

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 March (£ millions)	2013	2012	2011
Cash flows from operating activities			
Net income attributable to shareholders	**1,215.0**	**1,481.1**	**1,035.9**
Adjustments for:			
Depreciation and amortisation	621.5	465.5	396.3
Loss on sale of property, plant, equipment and software	1.7	8.5	5.8
Foreign exchange loss /(gain) on loans	36.5	10.8	(17.1)
Income tax expense	460.0	25.6	79.0
Gain on embedded derivative	(47.0)	-	-
Finance expense (net of capitalised interest)	18.1	85.2	33.1
Finance income	(33.7)	(16.2)	(9.7)
Foreign exchange loss on derivatives	11.1	58.8	0.5
Loss / (income) received from associates	12.4	(0.3)	(2.0)
Cash flows from operating activities before changes in assets and liabilities	**2,295.6**	**2,119.0**	**1,521.8**
Cash paid on option premia	-	-	(16.2)
Trade receivables	(264.9)	(95.0)	102.2
Finance receivables	0.6	-	-
Other financial assets	(243.2)	9.8	16.9
Other current assets	22.5	(159.3)	(67.7)
Inventories	(283.5)	(341.2)	(160.2)
Other non-current assets	1.4	(3.4)	(0.5)
Accounts payable	797.3	893.6	421.4
Other current liabilities	(77.3)	199.2	65.1
Other financial liabilities	245.3	54.7	(18.2)
Other non-current liabilities	14.4	4.8	(132.3)
Provisions	168.7	(31.2)	5.8
Cash generated from operations	**2,676.9**	**2651.0**	**1,738.1**
Income tax paid	(247.9)	(150.9)	(92.9)
Net cash from operating activities	**2,429.0**	**2,500.1**	**1,645.2**

Cash flows used in investing activities			
Investment in associate	(70.5)	(0.8)	-
Movements in other restricted deposits	53.7	(147.4)	(3.1)
Investment in short term deposits	(775.0)	-	-
Purchases of property, plant and equipment	(890.9)	(595.8)	(207.7)
Proceeds from sale of property, plant and equipment	3.2	-	3.7
Cash paid for intangible assets	(958.6)	(813.9)	(573.4)
Finance income received	29.1	16.1	9.1
Dividends received from associates	-	-	2.0
Net cash used in investing activities	**(2,609.0)**	**(1,541.8)**	**(769.4)**

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

Year ended 31 March (£ millions)	2013	2012	2011
Cash flows from financing activities			
Finance expenses and fees paid	(178.9)	(128.2)	(74.2)
Proceeds from issuance of short term debt	87.8	104.6	9.2
Repayment of short term debt	(249.8)	(655.0)	(477.7)
Payments of lease liabilities	(4.5)	(4.1)	(4.1)
Proceeds from issuance of long term debt	317.3	1,500.0	20.4
Repayment of long term debt	-	(373.5)	(1.0)
Dividends paid	(150.1)	-	-
Net cash (used in) /from financing activities	**(178.2)**	**443.8**	**(527.4)**
Net change in cash and cash equivalents	(358.2)	1,402.1	348.4
Cash and cash equivalents at beginning of year	2,430.4	1,028.3	679.9
Cash and cash equivalents at end of year	**2,072.2**	**2,430.4**	**1,028.3**

NOTES

Forming part of the financial statements

1. BACKGROUND AND OPERATIONS

Jaguar Land Rover Automotive PLC and its subsidiaries (collectively referred to "the group" or "JLR"), designs, manufactures and sells a wide range of automotive vehicles. In December 2012 the company name was changed from Jaguar Land Rover PLC to Jaguar Land Rover Automotive PLC.

The company is a public limited company incorporated and domiciled in the UK and has its registered office at Whitley, Coventry, England.

The company is a subsidiary of Tata Motors Limited, India ("TATA Motors") and acts as an intermediate holding company for the Jaguar Land Rover business. The principal activity during the year was the design, development, manufacture and marketing of high performance luxury saloons, specialist sports cars and four wheel drive off-road vehicles.

Balance sheet numbers for 2011 have been disclosed solely for the information of the users.

2. ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (referred to as "IFRS") as approved by the EU. There is no difference between these accounts and the accounts for the group prepared under IFRS as adopted by the International Accounting Standards Board ("IASB").

The company has taken advantage of s.408 of the Companies Act 2006 and therefore the accounts do not include the income statement of the company on a stand-alone basis.

BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value.

GOING CONCERN

The directors have considered the financial position of the group at 31 March 2013 (net assets of £3,538.8 million (2012: £2,924.2 million, 2011: £1,475.4 million)) and the projected cash flows and financial performance of the group for at least 12 months from the date of approval of these financial statements as well as planned cost and cash improvement actions, and believe that the plan for sustained profitability remains on course.

The directors have taken actions to ensure that appropriate long term cash resources are in place at the date of signing the accounts to fund group operations. The directors have reviewed the financial covenants linked to the borrowings in place and believe these will not be breached at any point and that all debt repayments will be met.

Therefore the directors consider, after making

(2. ACCOUNTING POLICIES)

appropriate enquiries and taking into consideration the risks and uncertainties facing the group, that the group has adequate resources to continue in operation as a going concern for the foreseeable future and is able to meet its financial covenants linked to the borrowings in place. Accordingly they continue to adopt the going concern basis in preparing these financial statements.

BASIS OF CONSOLIDATION

SUBSIDIARIES

The consolidated financial statements include Jaguar Land Rover Automotive PLC and its subsidiaries. Subsidiaries are entities controlled by the company. Control exists when the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The results of subsidiaries acquired or disposed of during the year are included in the consolidated financial statements from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Inter-company transactions and balances including unrealised profits are eliminated in full on consolidation.

ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (EQUITY ACCOUNTED INVESTEES)

Associates are those entities in which the company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the company holds between 20 and 50 per cent of the voting power of another entity. Jointly controlled entities are those entities over whose activities the company has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Equity accounted investees are accounted for using the equity method and are recognised initially at cost. The company's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the company's share of the income and expenses and equity movements of equity accounted investees, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the company has an obligation or has made payments on behalf of the investee.

When the company transacts with an associate or jointly controlled entity of the company, profits and losses are eliminated to the extent of the company's interest in its associate or jointly controlled entity.

BUSINESS COMBINATION

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. Acquisition related costs are recognised in net income / (loss) as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition are recognised at their fair value at the acquisition date, except certain assets and liabilities required to be measured as per the applicable standard.

Purchase consideration in excess of the company's interest in the acquiree's net fair value of identifiable assets, liabilities and contingent liabilities is recognised as goodwill. Excess of the company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the purchase consideration is recognised, after reassessment of fair value of net assets acquired, in the consolidated income statement.

USE OF ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions, that affect the application of accounting policies and the reported amounts of assets, liabilities, income, expenses and disclosures of contingent assets and liabilities at the date of these financial statements and the reported amounts of revenues and expenses for the years presented. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are included in the following notes:

(i) Note 19 – Property, plant and equipment – the group applies judgement in determining the estimate useful life of assets.

(ii) Note 20 – Intangible assets – management applies significant judgement in establishing the applicable criteria for capitalisation of appropriate product development costs and impairment of indefinite life intangible assets.

(iii) Note 23 – Deferred tax – management applies judgement in establishing the timing of the recognition of deferred tax assets relating to historic losses.

(iv) Note 24 – Provision for product warranty - it is necessary for group to assess the provision for anticipated lifetime warranty and campaign costs. The valuation of warranty and campaign provisions requires a significant amount of judgement and the requirement to form appropriate assumptions around expected future costs.

(v) Note 30 – Assets and obligations relating to employee benefits – it is necessary for actuarial assumptions to be made, including discount and mortality rates and the long-term rate of return upon scheme assets. The group engages a qualified actuary to assist with determining the assumptions to be made when evaluating these liabilities.

(vi) Note 33 – Financial Instruments – the group enters into complex financial instruments and therefore appropriate accounting for these requires judgement around the valuations. Embedded derivatives relating to pre-payment options on senior notes are not considered closely related and are separately accounted for unless the exercise price of these options is approximately equal, on each exercise date, to the amortised cost of the senior notes.

REVENUE RECOGNITION

Revenue is measured at fair value of consideration received or receivable.

Sale of products

The group recognises revenues on the sale of products, net of discounts, sales incentives, customer bonuses and rebates granted, when products are delivered to dealers or when delivered to a carrier for export sales, which is when title and risks and rewards of ownership pass to the customer. Sale of products is presented net of excise duty where applicable and other indirect taxes.

Revenues are recognised when collectability of the resulting receivable is reasonably assured.

COST RECOGNITION

Costs and expenses are recognised when incurred and are classified according to their nature.

Expenditure capitalised represents employee costs, stores and other manufacturing supplies, and other expenses incurred for construction of product development undertaken by the group.

PROVISIONS

A provision is recognised if, as a result of a past event, the group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Product warranty expenses

The estimated liability for product warranties is recorded when products are sold. These estimates are established using historical information on the nature, frequency and average cost of warranty claims and management estimates regarding possible future incidences based on actions on product failures. The timing of outflows will vary as and when a warranty claim will arise, being typically up to five years.

Residual risk

In certain markets, the group is responsible for the residual risk arising on vehicles sold by dealers under leasing arrangements. The provision is based on the latest available market expectations of future residual value trends. The timing of the outflows will be at the end of the lease arrangements, being typically up to three years.

FOREIGN CURRENCY

At 31 March 2013, 31 March 2012 and 31 March 2011, the parent company, Jaguar Land Rover Automotive PLC, has a functional currency of GBP. The presentation currency of the group consolidated accounts is GBP as that is the primary economic environment of the group's key manufacturing and selling operations.

Prior to the capital reorganisation in Jaguar Land Rover PLC on 31 March 2011, the parent company had a functional currency of USD.

The functional currency of the non-UK selling operations is GBP based on management control being in the UK and this is the currency that primarily influences sales prices and the main currency for the retention of operating income.

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of transaction. Foreign currency denominated monetary assets and liabilities are remeasured into the functional currency at the exchange rate prevailing on the balance sheet date. Exchange differences are recognised in the consolidated income statement.

INCOME TAXES

Income tax expense comprises current and deferred taxes. Income tax expense is recognised in the consolidated income statement except, when they relate to items that are recognised outside net income / (loss) (whether in other comprehensive income or directly in equity), in which case tax is also recognised outside net income, or where they arise from the initial accounting for a business combination. In the case of a business combination the tax effect is included in the accounting for the business combination.

Current income taxes are determined based on respective taxable income of each taxable entity and tax rules applicable for respective tax jurisdictions.

Deferred tax assets and liabilities are recognised for the future tax consequences of temporary differences between the carrying values of assets and liabilities and their respective tax bases, and unutilised business loss and depreciation carry-forwards and tax credits. Such deferred tax assets and liabilities are computed separately for each taxable entity and for each taxable jurisdiction. Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the deductible temporary differences, unused tax losses, depreciation carry-forwards and unused tax credits could be utilised.

(2. ACCOUNTING POLICIES)

Deferred tax assets and liabilities are measured based on the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

INVENTORIES

Inventories are valued at the lower of cost and net realisable value. Cost of raw materials and consumables are ascertained on a first in first out basis. Costs, including fixed and variable production overheads, are allocated to work-in-progress and finished goods determined on a full absorption cost basis. Net realisable value is the estimated selling price in the ordinary course of business less estimated cost of completion and selling expenses.

Inventories include vehicles sold subject to repurchase arrangements. These vehicles are carried at cost to the group and are amortised in changes in stocks and work in progress to their residual values (i.e. estimated second hand sale value) over the term of the arrangement.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost of acquisition or construction less accumulated depreciation less accumulated impairment, if any.

Freehold land is measured at cost and is not depreciated.

Cost includes purchase price, non-recoverable taxes and duties, labour cost and direct overheads for self-constructed assets and other direct costs incurred up to the date the asset is ready for its intended use.

Interest cost incurred for constructed assets is capitalised up to the date the asset is ready for its intended use, based on borrowings incurred specifically for financing the asset or the weighted average rate of all other borrowings, if no specific borrowings have been incurred for the asset.

Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Estimated useful lives of the assets are as follows:

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Estimated useful life (years)	
Buildings	20 to 40
Plant and equipment	3 to 30
Computers	3 to 6
Vehicles	3 to 10
Furniture and fixtures	3 to 20

Depreciation is not recorded on capital work-in-progress until construction and installation is complete and the asset is ready for its intended use. Capital-work-in-progress includes capital prepayments.

INTANGIBLE ASSETS

Intangible assets purchased including those acquired in business combination, are measured at cost or fair value as of the date of acquisition, where applicable, less accumulated amortisation and accumulated impairment, if any. Intangible assets with indefinite lives are reviewed annually to determine whether indefinite-life assessment continues to be supportable. If not, the change in the useful-life assessment from indefinite to finite is made on a prospective basis.

Amortisation is provided on a straight-line basis over the estimated useful lives of the intangible assets as per details below:

The amortisation for intangible assets with finite useful lives is reviewed at least at each year-end.

Estimated amortisation period (years)	
Patents and technological know-how	2 to 12
Customer related – Dealer network	20
Product development	2 to 10
Intellectual property rights and other	Indefinite life
Software	2 to 8

Changes in expected useful lives are treated as changes in accounting estimates.

Capital-work-in-progress includes capital advances.

Customer related intangibles consist of order backlog and dealer network.

INTERNALLY GENERATED INTANGIBLE ASSETS

Research costs are charged to the consolidated income statement in the year in which they are incurred.

Product development costs incurred on new vehicle platform, engines, transmission and new products are recognised as intangible assets, when feasibility has been established, the group has committed technical, financial and other resources to complete the development and it is probable that asset will generate probable future economic benefits.

The costs capitalised include the cost of materials, direct labour and directly attributable overhead expenditure incurred up to the date the asset is available for use.

Interest cost incurred is capitalised up to the date the asset is ready for its intended use, based on borrowings incurred specifically for financing the asset or the weighted average rate of all other borrowings if no specific borrowings have been incurred for the asset.

Product development cost is amortised over a period of between 24 months and 120 months.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment loss.

LEASES

At the inception of a lease, the lease arrangement is classified as either a finance lease or an operating lease, based on the substance of the lease arrangement.

Assets taken on finance lease
A finance lease is recognised as an asset and a liability at the commencement of the lease, at the lower of the fair value of the asset and the present value of the minimum lease payments. Initial direct costs, if any, are also capitalised and, subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets taken on operating lease
Leases other than finance leases are operating leases, and the leased assets are not recognised on the group's balance sheet. Payments made under operating leases are recognised in the consolidated income statement on a straight-line basis over the term of the lease.

IMPAIRMENT

Property, plant and equipment and other intangible assets
At each balance sheet date, the group assesses whether there is any indication that any property, plant and equipment and intangible assets with finite lives may be impaired. If any such impairment indicator exists the recoverable amount of an asset is estimated to determine the extent of impairment, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, or earlier, if there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated income statement.

GOVERNMENT GRANTS

Government grants are recognised when there is reasonable assurance that the entity will comply with the relevant conditions and the grant will be received.

Grants are recognised in profit or loss on a systematic basis when the entity recognises, as expenses, the related costs that the grants are intended to compensate.

Government grants related to assets are deducted from the cost of the asset and amortised over the useful life of the asset.

Government grants related to income are either presented as an offset against the related expenditure or included in other income. This choice of presentation is applied consistently to all government grant income.

EMPLOYEE BENEFITS

Pension plans
The group operates several defined benefit pension plans, which are contracted out of the second state pension scheme. The assets of the plans are held in separate trustee administered funds. The plans provide for monthly pension after retirement as per salary drawn and service year as set out in the rules of each fund.

Contributions to the plans by the group take into consideration the results of actuarial valuations. The plans with a surplus position at the year end have been limited to the maximum economic benefit available from unconditional rights to refund from the scheme or reduction in future contributions. Where the subsidiary group is considered to have a contractual obligation to fund the pension plan above the accounting value of the liabilities, an onerous obligation is recognised.

The UK defined benefit schemes were closed to new joiners in April 2010.

A separate defined contribution plan is available to new employees of JLR. Costs in respect of this plan are charged to the income statement as incurred.

Post-retirement Medicare scheme
Under this unfunded scheme, employees of some subsidiaries receive medical benefits subject to certain limits of amount, periods after retirement and types of benefits, depending on their grade and location at the time of retirement. Employees separated from the group as part of an Early Separation Scheme, on medical grounds or due to

(2. ACCOUNTING POLICIES)

permanent disablement are also covered under the scheme. Such subsidiaries account for the liability for post-retirement medical scheme based on an actuarial valuation.

Actuarial gains and losses
Actuarial gains and losses relating to retirement benefit plans are recognised in other comprehensive income in the year in which they arise. Actuarial gains and losses relating to long-term employee benefits are recognised in the consolidated income statement in the year in which they arise.

Measurement date
The measurement date of retirement plans is 31 March.

FINANCIAL INSTRUMENTS

Classification, initial recognition and measurement
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets are classified into categories: financial assets at fair value through net income, held-to-maturity investments, loans and receivables and available-for-sale financial assets. Financial liabilities are classified into financial liabilities at fair value through net income and other financial liabilities.

Financial instruments are recognised on the balance sheet when the group becomes a party to the contractual provisions of the instrument.

Initially, a financial instrument is recognised at its fair value. Transaction costs directly attributable to the acquisition or issue of financial instruments are recognised in determining the carrying amount, if it is not classified as at fair value through net income. Subsequently, financial instruments are measured according to the category in which they are classified.

Financial assets and financial liabilities at fair value through net income
Derivatives, including embedded derivatives separated from the host contract, unless they are designated as hedging instruments, for which hedge accounting is applied, are classified into this category. Financial assets and liabilities are measured at fair value with changes in fair value recognised in the consolidated income statement.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as financial assets at fair value through net income or financial assets available-for-sale. Subsequently, these are measured at amortised cost using the effective interest method less any impairment losses. These include cash and cash equivalents, trade receivables, finance receivables and other financial assets.

Available-for-sale financial assets: Available-for-sale financial assets are those non-derivative financial assets that are either designated as such upon initial recognition or are not classified in any of the other financial assets categories. Subsequently, these are measured at fair value and changes therein, other than impairment losses which are recognised directly in other comprehensive income, net of applicable deferred income taxes.

Equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost.

When the financial asset is derecognised, the cumulative gain or loss in equity is transferred to the consolidated income statement.

Equity instruments
An equity instrument in any contract that evidences residual interests in the assets of the group after deducting all of its liabilities. Equity instruments issued by the group are recorded at the proceeds received, net of direct issue costs.

Other financial liabilities
These are measured at amortised cost using the effective interest method.

Determination of fair value
The fair value of a financial instrument on initial recognition is normally the transaction price (fair value of the consideration given or received). Subsequent to initial recognition, the group determines the fair value of financial instruments that are quoted in active markets using the quoted bid prices (financial assets held) or quoted ask prices (financial liabilities held) and using valuation techniques for other instruments. Valuation techniques include discounted cash flow method and other valuation models.

Derecognition of financial assets and financial liabilities
The group derecognises a financial asset only when the contractual rights to the cash flows from the asset expires or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the group retains substantially all the risks and rewards of ownership of a transferred financial asset, the group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities are derecognised when these are extinguished, that is when the obligation is discharged, cancelled or has expired.

Impairment of financial assets
The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Loans and receivables
Objective evidence of impairment includes default in payments with respect to amounts receivable from customers.

Impairment loss in respect of loans and receivables is calculated as the difference between their carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Such impairment loss is recognised in the consolidated income statement. If the amount of an impairment loss decreases in a subsequent year, and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The reversal is recognised in the income statement.

Equity investments
Impairment loss on equity investments carried at cost is not reversed.

Hedge accounting
The group uses foreign currency forward contracts and options to hedge its risks associated with foreign currency fluctuations relating to highly probable forecast transactions. The group designates these forward contracts and options in a cash flow hedging relationship by applying the hedge accounting principles.

These forward contracts and options are stated at fair value at each reporting date. Changes in the fair value of these forward contracts and options that are designated and effective as hedges of future cash flows are recognised in other comprehensive income (net of tax), and the ineffective portion is recognised immediately in the consolidated income statement. Amounts accumulated in other comprehensive income are reclassified to the consolidated income statement in the periods in which the forecasted transactions occurs.

For options, the time value is not considered part of the hedge, and this is treated as an ineffective hedge portion and recognised immediately in the consolidated income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. For forecast transactions, any cumulative gain or loss on the hedging instrument recognised in equity is retained there until the forecast transaction occurs.

If the forecast transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is immediately transferred to the consolidated income statement for the year.

NEW ACCOUNTING PRONOUNCEMENTS

The company adopted/early adopted following standards/amendments to standards and interpretations:

IFRS 7 was amended in October 2010, as part of Improvements to IFRSs 2010. The effect of the amendment was to help users of financial statements to evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position. The amendment is effective for annual periods beginning on or after July 1, 2011.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards to; Replace references to a fixed date of '1 January 2004' with 'the date of transition to IFRSs', thus eliminating the need for companies adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRS; and provide guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. The standard is effective for annual periods beginning on or after July 1, 2011.

Amendment to IAS 12 Income Taxes was issued by the IASB in December 2010 to clarify that recognition of deferred tax should have regard to the expected manner of recovery or settlement of the asset or liability. The amendment and consequential withdrawal of SIC 21 Deferred Tax: Recovery of Underlying Assets is effective for annual periods beginning on or after January 01, 2012.

None of these have impacted on the group results in any period.

The following pronouncements, issued by the IASB, are not yet effective and have not yet been adopted by the company. The company is evaluating the impact of these pronouncements on the consolidated financial statements:

An Amendment to IAS 27 Separate Financial Statements (2011) was issued during the year. This now only deals with the requirements for separate financial statements, which have been carried over largely unchanged from IAS 27 Consolidated and Separate Financial Statements. Requirements for consolidated financial statements are now contained in IFRS 10 Consolidated Financial Statements. The Standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with IFRS 9 Financial Instruments. The Standard also deals with the recognition of dividends, certain group reorganisations and includes a number of disclosure requirements. The standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

IAS 28 Investments in Associates and Joint Ventures (2011) was issued in 2011. This Standard

(2. ACCOUNTING POLICIES)

supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The Standard defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment. The standard will be effective for annual periods beginning on or after January 1, 2013, with early application permitted.

Amendments to IAS 1 Financial Statement Presentation. This amendment revises the way other comprehensive income is presented. Effective for annual periods beginning on or after July 1, 2012 with early adoption permitted.

IFRS 7 Financial Instruments disclosure requirements were amended. Disclosures to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 Financial Instruments: Presentation. The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. The amendments are effective for annual periods beginning on or after January 1, 2013. Early application is permitted.

IAS 32 Financial Instruments: Presentation amended to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas: the meaning of 'currently has a legally enforceable right of set-off'; the application of simultaneous realisation and settlement; the offsetting of collateral amounts; the unit of account for applying the offsetting requirements. The amendments are effective for annual periods beginning on or after January 1, 2014. Early application is permitted.

IFRS 10 Consolidated Financial Statements establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The standard requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities. The standard is effective for annual periods beginning on or after 1 January 2013, with early application permitted.

IFRS 11 Joint Arrangements classifies joint arrangements as either joint operations (combining the existing concepts of jointly controlled assets and jointly controlled operations) or joint ventures (equivalent to the existing concept of a jointly controlled entity). Joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. Joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. IFRS 11 requires the use of the equity method of accounting for interests in joint ventures thereby eliminating the proportionate consolidation method. The standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted

IFRS 12 Disclosure of Interests in Other Entities applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. The IFRS requires an entity to disclose information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities; and the effects of those interests on its financial position, financial performance and cash flows. The standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

IFRS 13 Fair Value Measurement defines 'fair value' and sets out in a single standard a framework for measuring fair value and requires disclosures about fair value measurements. It seeks to increase consistency and comparability in fair value measurements and related disclosures through a fair value hierarchy. IFRS 13 is applicable prospectively from the beginning of the annual period in which the standard is adopted. The standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

IFRS 9 Financial Instruments was issued by IASB in November 2009 as part of its project for revision of the accounting guidance for financial instruments. The new standard provides guidance with respect to classification and measurement of financial assets. The standard will be effective for annual periods beginning on or after January 1, 2015, with early application permitted.

IFRS 9 Financial Instruments (2010) was issued by IASB in 2010 as part of its project for revision of the accounting guidance for financial instruments. A revised version of IFRS 9 incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing derecognition requirements from IAS 39 Financial Instruments: Recognition and Measurement. The revised financial liability provisions maintain the existing amortised cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.

IAS 19 Employee Benefits (2011). An amended version of IAS 19 Employee Benefits with revised requirements for pensions and other post-retirement benefits, termination benefits and other changes. The key amendments include; requiring the recognition of changes in the net defined benefit liability (asset) including immediate recognition of defined benefit cost, disaggregation of defined benefit cost into components, recognition of remeasurements in other comprehensive income, plan amendments, curtailments and settlements (eliminating the ‘corridor approach’ permitted by the existing IAS 19); Introducing enhanced disclosures about defined benefit plans; Modifying accounting for termination benefits, including distinguishing benefits provided in exchange for service and benefits provided in exchange for the termination of employment and affect the recognition and measurement of termination benefits; Clarifying various miscellaneous issues, including the classification of employee benefits, current estimates of mortality rates, tax and administration costs and risk-sharing and conditional indexation features; Incorporating other matters submitted to the IFRS Interpretations Committee. The standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

IFRIC Interpretation IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine clarifies the requirements for accounting for stripping costs associated with waste removal in surface mining, including when production stripping costs should be recognised as an asset, how the asset is initially recognised, and subsequent measurement. The standard will be effective for annual periods beginning on or after January 1, 2013.

Amendments to IFRS 1 relating to Government Loans. Amends IFRS 1 First-time Adoption of International Financial Reporting Standards to address how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRSs. The standard will be effective for annual periods beginning on or after January 1, 2013.

The following new IFRSs were issued during the year and these standards have not yet been endorsed by the EU:

Amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities to provide additional transition relief in by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Also, amendments to IFRS 11 and IFRS 12 eliminate the requirement to provide comparative information for periods prior to the immediately preceding period. The standard will be effective for annual periods beginning on or after January 1, 2013.

Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements to; Provide ‘investment entities’ (as defined) an exemption from the consolidation of particular subsidiaries and instead require that an investment entity measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 Financial Instruments or IAS 39 Financial Instruments Recognition and Measurement; Require additional disclosure about why the entity is considered an investment entity, details of the entity’s unconsolidated subsidiaries, and the nature of relationship and certain transactions between the investment entity and its subsidiaries; Require an investment entity to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements (or to only provide separate financial statements if all subsidiaries are unconsolidated). These are effective for periods beginning on or after 1 January 2014.

Improvements to IFRSs. This is a collection of amendments to certain International Financial Reporting Standards – as part of its program of annual improvements to its standards, which is intended to make necessary, This amends five pronouncements (plus consequential amendments to various others) in this cycle of annual improvements.

Key amendments include; IFRS 1 - Permit the repeated application of IFRS 1, borrowing costs on certain qualifying assets; IAS 1 — Clarification of the requirements for comparative information; IAS 16 — Classification of servicing equipment; IAS 32 — Clarify that tax effect of a distribution to holders of equity instruments should be accounted for in accordance with IAS 12 Income Taxes; IAS 34 — Clarify interim reporting of segment information for total assets in order to enhance consistency with the requirements in IFRS 8 Operating Segments. These are effective for periods beginning on or after 1 January 2013.

3. RESEARCH AND DEVELOPMENT

Year ended 31 March (£ millions)	2013	2012	2011
Total R&D costs	1,057.7	900.0	650.5
R&D expensed	(197.6)	(149.3)	(119.4)
Development costs capitalised	**860.1**	**750.7**	**531.1**
Interest capitalised	109.7	74.0	50.8
Total Research and Development additions	**969.8**	**824.7**	**581.9**

4. REVENUE

Year ended 31 March (£ millions)	2013	2012	2011
Sale of goods	15,783.7	13,511.7	9,870.7
Total revenues	**15,783.7**	**13,511.7**	**9,870.7**

5. NET INCOME

Expense / (income) included in net income for the year are the following:

Year ended 31 March (£ millions)	2013	2012	2011
Net foreign exchange	108.7	(14.3)	(32.9)
Derivative at fair value through income statement	21.4	58.6	1.1
Depreciation of property, plant and equipment	274.4	234.1	242.8
Amortisation of intangible assets (excluding internally generated development costs)	50.6	48.1	53.5
Amortisation of internally generated development costs	296.5	183.3	105.4
Research and development expense	197.6	149.3	119.4
Operating lease rentals in respect of plant, property and equipment	26.4	19.1	16.4
Loss on disposal of fixed assets	1.7	8.5	5.8
Government grants	(44.0)	-	-
Auditor remuneration – audit services (see below)	3.3	3.6	2.4

Total government grants of £62.4 million were accounted for in the year.
A grant of £26.4 million was awarded for investment in manufacturing facility equipment (£8.8 million) and a commitment to provide sustainable employment for an agreed duration (£17.6 million). A grant of £36.0 million was awarded for supporting regional development and a commitment to maintain the company's role as general distributor, retaining regional business and sustain its current business scale in the respective market.

Year ended 31 March (£ millions)	2013	2012	2011
Fees payable to the company's auditors for the audit of the company's annual accounts	0.1	0.1	0.1
Fees payable to the company's auditors & their associates for other services to the group			
- audit of the company's subsidiaries	2.7	2.4	2.0
Total audit fees	**2.8**	**2.5**	**2.1**
Audit related assurance services	0.2	0.3	0.3
Other assurance services	0.3	0.8	-
Total audit and related fees	**3.3**	**3.6**	**2.4**

Fees payable to Deloitte LLP and their associates for non-audit services to the company are not required to be disclosed separately as these fees are disclosed on a consolidated basis.

6. MATERIAL COST OF SALES AND OTHER EXPENSES

Year ended 31 March (£ millions)	2013	2012	2011
Included in material cost of sales:			
Changes in inventories of finished goods and work in progress	308.6	317.4	171.6
Purchase of products for sale	(838.6)	(791.7)	(714.3)
Raw materials and consumables	(9,374.4)	(8,258.4)	(5,635.4)
Included in other expenses:			
Stores, spare parts and tools	81.2	57.6	76.7
Freight cost	436.7	342.6	216.6
Works, operations and other costs	1,303.4	1,075.0	784.2
Repairs	11.6	10.7	20.8
Power and fuel	56.6	49.1	41.7
Rent, rates and other taxes	33.5	27.2	20.7
Insurance	15.6	18.8	11.2
Warranty	461.6	371.5	332.4
Publicity	674.7	576.8	465.1

7. STAFF NUMBERS AND COSTS

Year ended 31 March (£ millions)	2013	2012	2011
Wages and salaries	1,020.1	776.5	617.4
Social security costs and benefits	152.0	107.3	82.6
Pension costs	161.1	127.5	89.0
Total staff costs	**1,333.2**	**1,011.3**	**789.0**

Average staff numbers year ended 31 March 2013	Non Agency	Agency	Total
Manufacturing	9,801	4,310	14,111
Research and development	3,940	1,665	5,605
Other	4,091	1,106	5,197
Total staff numbers	**17,832**	**7,081**	**24,913**

Average staff numbers year ended 31 March 2012	Non Agency	Agency	Total
Manufacturing	8,702	2,899	11,601
Research and development	3,548	1,231	4,779
Other	3,596	911	4,507
Total staff numbers	**15,846**	**5,041**	**20,887**

Average staff numbers year ended 31 March 2011	Non Agency	Agency	Total
Manufacturing	8,534	703	9,237
Research and development	3,384	941	4,325
Other	3,157	536	3,693
Total staff numbers	**15,075**	**2,180**	**17,255**

8. DIRECTORS' EMOLUMENTS

Year ended 31 March (£)	2013	2012	2011
Directors' emoluments	2,097,405	7,875,898	2,114,209
	2,097,405	**7,875,898**	**2,114,209**

The aggregate of emoluments and amounts receivable under the long term incentive plan (LTIP) of the highest paid director was £1,905,298 (2012: £2,739,517, 2011: £1,345,291). During the year, the highest paid director did not receive any LTIP awards.

9. LONG TERM INCENTIVE PLAN (LTIP)

The group operates an LTIP arrangement for certain employees. The scheme provides a cash payment to the employee based on a specific number of phantom shares at grant and the share price of Tata Motors Limited at the vesting date. The cash payment is dependent on the achievement of internal profitability targets over the 3 year vesting period and continued employment at the end of the vesting period.

Year ended 31 March (number)	2013	2012	2011
Outstanding at the beginning of the year	2,934,435	351,392	-
Granted during the year	1,935,130	327,318	351,392
Vested in the year	(491,029)	(91,823)	-
Forfeited in the year	(160,735)	-	-
Outstanding at the end of the year	**4,217,801**	**586,887**	**351,392**
Outstanding at March 2012 post 5:1 share split	**-**	**2,934,435**	**-**

During the prior year, following the granting and exercising of the options in the table above, Tata Motors Limited performed a 5:1 share split. The actual amount of share options outstanding at the end of March 2012 was therefore 2,934,435.
The weighted average share price of the 491,029 phantom stock awards vesting in the year was £4.18 (2012: £12.75, 2011: Nil).
At the balance sheet date, the exercise price of the outstanding options was nil. The weighted average remaining contractual life of the outstanding awards is 1.5 years.

The amount charged in the year in relation to the long term incentive plan was £5.4 million (2012: £4.3 million, 2011: £2.8 million).
The fair value of the options was calculated using a Black Scholes model at the grant date. The fair value is updated at each reporting date as the options are accounted for as cash settled under IFRS 2. The inputs into the model are based on the Tata Motors Limited historic data and the risk-free rate is calculated on government bond rates. The inputs used are:

As at 31 March	2013	2012	2011
Risk-Free rate (%)	0.26	0.49	1.55
Dividend yield (%)	1.57	1.44	1.17
Weighted average fair value per phantom share	£3.74	£4.08	£18.31

10. FINANCE INCOME AND EXPENSE

Recognised in net income

Year ended 31 March (£ millions)	2013	2012	2011
Finance income	33.7	16.2	9.7
Total finance income	**33.7**	**16.2**	**9.7**
Total interest expense on financial liabilities measured at amortised cost	(176.2)	(166.1)	(83.8)
Unwind of discount on provisions	1.4	6.9	(0.1)
Interest capitalised	109.7	74.0	50.8
Total finance expense	**(65.1)**	**(85.2)**	**(33.1)**
Embedded derivative value	47.0	-	-
Total finance income / (expense)	**15.6**	**(69.0)**	**(23.4)**

The capitalisation rate used to calculate borrowing costs eligible for capitalisation was 8.0% (2012: 7.9%, 2011: 7.1%)

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

As at 31 March (£ millions)	2013	2012	2011
Cash and cash equivalents	2,072.2	2,430.4	1,028.3
	2,072.2	**2,430.4**	**1,028.3**

The group holds £2,072.2 million (2012: £2,430.4 million, 2011: £1,028.3 million) cash and cash equivalents of which £524.4 million (2012: £453.5 million, 2011: £220.6 million) is in China. With exception of cash balances held in China (see below), all cash held in the group can be utilized across all the group's manufacturing and sales operations.

Due to Chinese foreign exchange controls, there are restrictions on taking cash out of the country. These controls limit the group's ability to utilise the cash held in China in all markets. At 31 March 2013, it is considered that all (2012: £372.9 million, 2011: all) of this cash can be utilised against current liabilities in China and therefore the restrictions on movement do not curtail the group's liquidity position.

12. ALLOWANCES FOR TRADE AND OTHER RECEIVABLES

Changes in the allowances for trade and other receivables are as follows:

Year ended 31 March (£ millions)	2013	2012	2011
At beginning of year	13.2	10.1	16.3
Allowance made during the year	(1.1)	4.6	1.5
Written off	(1.8)	(1.5)	(7.7)
At end of year	**10.3**	**13.2**	**10.1**

13. INVESTMENTS

Investments consist of the following:

As at 31 March (£ millions)	2013	2012	2011
Equity accounted investees	59.5	1.4	0.3
	59.5	**1.4**	**0.3**

During the year, the company acquired a 50% stake in Suzhou Chery Jaguar Land Rover Trading Co. Limited for £1.0 million and a 50% stake in Chery Jaguar Land Rover Automotive Co. Limited for £69.5 million. The company's share of net assets at acquisition of Suzhou Chery Jaguar Land Rover Trading Co. Limited were £1.0 million and the company's share of net assets at acquisition of Chery Jaguar Land Rover Automotive Co. Limited were £69.5 million. No dividend was received in the year from Suzhou Chery Jaguar Land Rover Trading Co. Limited or Chery Jaguar Land Rover Automotive Co. Limited.

(13. INVESTMENTS)

The group has the following investments:

Jaguar Land Rover Schweiz AG	10.0% interest in the ordinary share capital
Jaguar Cars Finance Limited	49.9% interest in the ordinary share capital
Spark 44 Limited	50.0% interest in the ordinary share capital
Suzhou Chery Jaguar Land Rover Trading Co. Ltd	50.0% interest in the ordinary share capital
Chery Jaguar Land Rover Automotive Co. Ltd	50.0% interest in the ordinary share capital

The principal activity of Jaguar Land Rover Schweiz AG is the sale of automotive vehicle and parts. The principal activity of Jaguar Cars Finance Limited was the provision of credit finance. The principle activity of Spark 44 is the provision of advertising services. The principle activity of Suzhou Chery Jaguar Land Rover Trading Co. Limited is the assembly of motor vehicles. The principle activity of Chery Jaguar Land Rover Automotive Co. Limited is the assembly of motor vehicles.

JAGUAR CARS FINANCE LIMITED (49.9%)

The total assets, liabilities and profit of Jaguar Cars Finance Limited at the balance sheet date of 30 September 2012 are below.

(£ thousands)	2013	2012	2011
Current assets	89	606	2,946
Current liabilities	(1)	(370)	(719)
Net assets	**88**	**236**	**2,227**
Income	2	6	2,561
Expenses	-	(2)	(717)

SPARK 44 LIMITED (50%)

Spark 44 Limited is equity accounted as a joint venture.

(£ thousands)	2013	2012
Long-term assets	341	414
Current assets	2,053	2,157
Current liabilities	(1,070)	(1,902)
Long-term liabilities	(66)	(25)
Net assets	**1,258**	**644**
Income	6,986	4,653
Expenses	(6,375)	(4,382)

SUZHOU CHERY JAGUAR LAND ROVER TRADING CO.LIMITED (50%)

Suzhou Chery Jaguar Land Rover Trading Co. Limited was established in April 2012.
The company is equity accounted as a joint venture.

(£ thousands)	2013
Long-term assets	94
Current assets	14,972
Current liabilities	(17,206)
Long-term liabilities	(7)
Net assets	(2,147)
Income	-
Expenses	(3,050)

CHERY JAGUAR LAND ROVER AUTOMOTIVE CO.LTD (50%)

Chery Jaguar Land Rover Automotive Co. Limited was established in January 2013.
The company is equity accounted as a joint venture.

(£ thousands)	2013
Long-term assets	9,558
Current assets	68,185
Current liabilities	(13,644)
Long-term liabilities	-
Net assets	64,099
Income	67
Expenses	(10,024)

14. OTHER FINANCIAL ASSETS – CURRENT

As at 31 March (£ millions)	2013	2012	2011
Advances and other receivables recoverable in cash	24.6	0.1	8.1
Derivative financial instruments	31.0	48.4	49.7
Restricted cash	109.7	131.4	-
Other	10.7	2.9	3.7
	176.0	**182.8**	**61.5**

£109.7 million (2012: £131.4 million, 2011: £Nil) of the restricted cash is held as security in relation to bank loans.
The amount is pledged until the loans reach their respective conclusion.

15. INVENTORIES

As at 31 March (£ millions)	2013	2012	2011
Raw materials and consumables	51.3	62.3	38.5
Work in progress	197.1	169.4	87.1
Finished goods	1,546.3	1,265.1	1,030.0
	1,794.7	**1,496.8**	**1,155.6**

Inventories of finished goods include £171.2 million (2012: £133.9 million, 2011: £117.1 million), relating to vehicles sold to rental car companies, fleet customers and others with guaranteed repurchase arrangements.
Cost of inventories (including cost of purchased products) recognised as expense during the year amounted to £11,150.8 million (2012: £9,674.2 million, 2011: £7,011.7 million).
During the year, the group recorded inventory write-down expense of £33.0 million (2012: £11.1 million, 2011: £12.2 million). The write- down is included in cost of sales. No previous write-downs have been reversed in any period. Inventories with a net book value of £Nil (2012: £68.6 million, 2011: £66.7 million) are pledged as security in respect of certain bank loans.

16. OTHER ASSETS

As at 31 March (£ millions)	2013	2012	2011
Current			
Recoverable VAT	378.0	408.8	258.2
Prepaid expenses	56.5	48.2	35.0
	434.5	**457.0**	**293.2**

As at 31 March (£ millions)	2013	2012	2011
Non-current			
Prepaid expenses	4.7	9.0	-
Other	2.8	2.5	-
	7.5	**11.5**	**-**

17. OTHER FINANCIAL ASSETS (NON CURRENT)

As at 31 March (£ millions)	2013	2012	2011
Restricted cash	48.7	80.7	64.6
Derivative financial instruments	122.4	23.3	-
Others	23.7	2.9	3.9
	194.8	**106.9**	**68.5**

£47.0 million (2012: £77.1 million, 2011: £49.1 million) of the restricted cash is held as security in relation to vehicles ultimately sold on lease. The amount is pledged until the leases reach their respective conclusion.

18. TAXATION

Recognised in the income statement

Year ended 31 March (£ millions)	2013	2012	2011
Current tax expense			
Current year	305.7	206.4	113.5
Adjustments for prior years	(20.0)	9.0	32.3
Current income tax expense	**285.7**	**215.4**	**145.8**
Deferred tax expense / (income)			
Origination and reversal of temporary differences	137.9	(178.9)	(34.7)
Adjustments for prior years	28.5	(10.9)	(32.1)
Rate change	7.9	-	-
Deferred tax expense/(income)	**174.3**	**(189.8)**	**(66.8)**
Total income tax expense	**460.0**	**25.6**	**79.0**

Prior year adjustments relate to differences between prior year estimates of tax position and current revised estimates or submission of tax computations.

Reconciliation of effective tax rate

Year ended 31 March (£ millions)	2013	2012	2011
Net income attributable to shareholders for the period/year	1,215.0	1,481.1	1,035.9
Total income tax expense	460.0	25.6	79.0
Net income excluding taxation	**1,675.0**	**1,506.7**	**1,114.9**
Income tax expense using the tax rates applicable to individual entities of 2013: 24.2% (2012: 26.4%, 2011:27.4%)	405.5	398.1	305.6
Enhanced deductions for research and development	(33.0)	(38.5)	(27.0)
Non-deductible expenses	11.4	6.4	6.2
Recognition of deferred tax on property, plant and equipment that was not previously recognised	-	-	(132.2)
Losses on which deferred tax was not previously recognised	-	(382.1)	(106.6)
Other timing differences	-	-	(3.3)
Deferred tax on employee benefits not previously recognised	-	-	13.7
Changes in tax rate	7.9	-	-
Overseas unremitted earnings	56.8	43.6	22.4
Share of profits in joint ventures	2.9	-	-
Under / (over) provided in prior years	8.5	(1.9)	0.2
Total income tax expense	**460.0**	**25.6**	**79.0**

The UK Finance Act 2012 was enacted during the period and included provisions for a reduction in the UK corporation tax rate to 23% with effect from 1 April 2013. Accordingly, UK deferred tax has been provided at 23% (2012: 24%; 2011: 26%).

Further UK tax rate reductions to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015 have been proposed by the UK Government. These further tax rate reductions had not been substantively enacted by the balance sheet date and therefore have not been reflected in these financial statements.

19. PROPERTY, PLANT AND EQUIPMENT

(£ millions)	Land and Buildings	Plant and Equipment	Vehicles	Computers	Fixtures & Fittings	Leased Assets	Under Construction	Total
Cost								
Balance at 1 April 2010	334.6	1,142.9	1.5	11.8	17.4	35.1	28.7	1,572.0
Additions	6.2	166.6	10.0	2.2	5.5	-	54.3	244.8
Disposals	(3.8)	(45.0)	(0.9)	(2.6)	(6.0)	-	-	(58.3)
Balance at 31 March 2011	**337.0**	**1,264.5**	**10.6**	**11.4**	**16.9**	**35.1**	**83.0**	**1,758.5**
Balance at 1 April 2011	337.0	1,264.5	10.6	11.4	16.9	35.1	83.0	1,758.5
Additions	30.1	491.2	13.9	3.2	5.9		53.4	597.7
Disposals	(1.7)	(14.6)	(4.8)	(0.1)	(1.1)	-	-	(22.3)
Balance at 31 March 2012	**365.4**	**1,741.1**	**19.7**	**14.5**	**21.7**	**35.1**	**136.4**	**2,333.9**
Balance at 1 April 2012	365.4	1,741.1	19.7	14.5	21.7	35.1	136.4	2,333.9
Additions	30.9	808.0	3.7	1.0	11.7	8.1	179.4	1,042.8
Disposals	(13.8)	(50.1)	(19.5)	(0.9)	(4.1)	-	-	(88.4)
Balance at 31 March 2013	**382.5**	**2,499.0**	**3.9**	**14.6**	**29.3**	**43.2**	**315.8**	**3,288.3**
Depreciation and impairment								
Balance at 1 April 2010	41.2	270.4	0.9	3.9	12.3	7.1	-	335.8
Depreciation charge for the period	11.0	220.2	2.0	1.0	4.5	4.1	-	242.8
Disposals	(3.6)	(39.7)	(0.4)	(2.6)	(4.6)	-	-	(50.9)
Balance at 31 March 2011	**48.6**	**450.9**	**2.5**	**2.3**	**12.2**	**11.2**	**-**	**527.7**
Balance at 1 April 2011	48.6	450.9	2.5	2.3	12.2	11.2	-	527.7
Depreciation charge for the period	9.5	212.3	3.6	1.1	3.6	4.0	-	234.1
Disposals	-	(10.9)	(1.8)	(0.1)	(1.0)	-	-	(13.8)
Balance at 31 March 2012	**58.1**	**652.3**	**4.3**	**3.3**	**14.8**	**15.2**	**-**	**748.0**
Balance at 1 April 2012	58.1	652.3	4.3	3.3	14.8	15.2	-	748.0
Depreciation charge for the period	11.3	252.9	2.1	1.6	1.9	4.6	-	274.4
Disposals	(13.1)	(46.3)	(5.4)	(0.4)	(4.0)	-	-	(69.2)
Balance at 31 March 2013	**56.3**	**858.9**	**1.0**	**4.5**	**12.7**	**19.8**	**-**	**953.2**
Net book value								
At 31 March 2011	288.4	813.6	8.1	9.1	4.7	23.9	83.0	1,230.8
At 31 March 2012	307.3	1,088.8	15.4	11.2	6.9	19.9	136.4	1,585.9
At 31 March 2013	**326.2**	**1,640.1**	**2.9**	**10.1**	**16.6**	**23.4**	**315.8**	**2,335.1**

20. INTANGIBLE ASSETS

(£ millions)	Software	Patents and technological know-how	Customer related	Intellectual property rights & other intangibles	Product development in progress	Capitalised product development	Total
Cost							
Balance at 1 April 2010	82.9	147.0	88.7	618.3	489.6	374.9	1,801.4
Other additions – externally purchased	42.3	-	-	-	-	-	42.3
Other additions – internally developed	-	-	-	-	581.9	-	581.9
Capitalised product development - internally developed	-	-	-	-	(124.2)	124.2	-
Disposals	(4.7)	-	-	-	-	-	(4.7)
Balance at 31 March 2011	**120.5**	**147.0**	**88.7**	**618.3**	**947.3**	**499.1**	**2,420.9**
Balance at 1 April 2011	120.5	147.0	88.7	618.3	947.3	499.1	2,420.9
Other additions – externally purchased	63.1	-	-	-	-	-	63.1
Other additions – internally developed	-	-	-	-	824.7	-	824.7
Capitalised product development - internally developed	-	-	-	-	(479.9)	479.9	-
Disposals	(1.0)	-	-	-	-	-	(1.0)
Balance at 31 March 2012	**182.6**	**147.0**	**88.7**	**618.3**	**1,292.1**	**979.0**	**3,307.7**
Balance at 1 April 2012	182.6	147.0	88.7	618.3	1,292.1	979.0	3,307.7
Other additions – externally purchased	98.5	-	-	-	-	-	98.5
Other additions – internally developed	-	-	-	-	969.8	-	969.8
Capitalised product development - internally developed	-	-	-	-	(999.2)	999.2	-
Disposals	(34.1)	-	-	-	-	-	(34.1)
Balance at 31 March 2013	**247.0**	**147.0**	**88.7**	**618.3**	**1,262.7**	**1,978.2**	**4,341.9**

(20. INTANGIBLE ASSETS)

(£ millions)	Software	Patents and technological know-how	Customer related	Intellectual property rights and other intangibles	Product development in progress	Capitalised product development	Total
Amortisation and impairment							
Balance at 1 April 2010	7.6	29.4	33.4	-	-	55.0	125.4
Amortisation for the year	38.2	12.3	3.0	-	-	100.0	153.5
Disposals	(2.6)	-	-	-	-	-	(2.6)
Balance at 31 March 2011	**43.2**	**41.7**	**36.4**	**-**	**-**	**155.0**	**276.3**
Balance at 1 April 2011	43.2	41.7	36.4	-	-	155.0	276.3
Amortisation for the year	32.8	12.3	3.0	-	-	183.3	231.4
Disposals	(1.0)	-	-	-	-	-	(1.0)
Balance at 31 March 2012	**75.0**	**54.0**	**39.4**	**-**	**-**	**338.3**	**506.7**
Balance at 1 April 2012	75.0	54.0	39.4	-	-	338.3	506.7
Amortisation for the year	31.6	16.0	3.0	-	-	296.5	347.1
Disposals	(34.1)	-	-	-	-	-	(34.1)
Balance at 31 March 2013	**72.5**	**70.0**	**42.4**	**-**	**-**	**634.8**	**819.7**
Net book value							
At 31 March 2011	77.3	105.3	52.3	618.3	947.3	344.1	2,144.6
At 31 March 2012	107.6	93.0	49.3	618.3	1,292.1	640.7	2,801.0
At 31 March 2013	**174.5**	**77.0**	**46.3**	**618.3**	**1,262.7**	**1,343.4**	**3,522.2**

IMPAIRMENT TESTING

The directors are of the view that there is a single cash generating unit. The intellectual property rights are deemed to have an indefinite useful life on the basis of the expected longevity of the brand names.
The recoverable amount of the cash generating unit has been calculated with reference to its value in use. The key features of this calculation are shown below:

As at 31 March	2013	2012	2011
Period on which management approved forecasts are based	5 years	4 years	5 years
Growth rate applied beyond approved forecast period	0%	0%	0%
Pre-tax discount rate	10.2%	10.8%	12.4%

The growth rates used in the value in use calculation reflect those inherent within the Business Plan which is primarily a function of the company's cycle plan assumptions, approved by the Board through to 2017/8. The cash flows are then extrapolated into perpetuity assuming a zero growth rate.
No reasonable change in any of the key assumptions would cause the recoverable amount calculated above to be less than the carrying value of the assets of the cash generating unit.

21. OTHER FINANCIAL LIABILITIES

As at 31 March (£ millions)	2013	2012	2011
Current			
Finance lease obligations	5.1	4.7	5.2
Interest accrued	38.9	46.5	1.1
Financial instruments	206.4	107.8	5.2
Liability for vehicles sold under a repurchase arrangement	182.9	153.7	121.4
	433.3	**312.7**	**132.9**
Non-Current			
Finance lease obligations	18.3	15.1	18.7
Other payables	0.6	24.1	1.7
Long term derivatives	208.3	33.3	-
	227.2	**72.5**	**20.4**

22. OTHER LIABILITIES

As at 31 March (£ millions)	2013	2012	2011
Current			
Liabilities for advances received	185.1	191.2	162.8
VAT	260.9	346.1	178.6
Others	36.0	22.0	18.8
	482.0	**559.3**	**360.2**
Non-current			
Deferred revenue	13.3	4.8	-
Others	10.7	-	-
	24.0	**4.8**	**-**

23. DEFERRED TAX ASSETS AND LIABILITIES

Significant components of deferred tax asset and liability for the year ended 31 March 2013:

(£ millions)	Opening balance	Recognised in net income	Recognised in other comprehensive income	Foreign Exchange	Closing balance)
Deferred tax assets					
Property, plant & equipment	145.0	0.3	-	-	145.3
Expenses deductible in future years:					
Provisions, allowances for doubtful receivables	136.1	49.1	-	(1.8)	183.4
Derivative financial instruments	18.3	(7.9)	50.0	-	60.4
Retirement benefits	100.0	(9.2)	72.9	-	163.7
Unrealised profit in inventory	77.2	(1.6)	-	-	75.6
Tax loss	614.0	(57.6)	-	-	556.4
Other	-	1.9	-	-	1.9
Total deferred tax asset	**1,090.6**	**(25.0)**	**122.9**	**(1.8)**	**1,186.7**
Deferred tax liabilities					
Property, plant & equipment	4.6	(1.9)	-	-	2.7
Intangible assets	544.4	131.5	-	-	675.9
Derivative financial instruments	3.0	(0.6)	(2.4)	-	-
Overseas unremitted earnings	65.3	20.3*	-	-	85.6
Total deferred tax liability	**617.3**	**149.3**	**(2.4)**	-	**764.2**
Held as deferred tax asset	**473.8**	**(89.1)**	**125.3**	**(1.8)**	**508.2**
Held as deferred tax liability	**(0.5)**	**(85.2)**	**-**	-	**(85.7)**

*Included within £20.3 million is a reversal of £38.9 million relating to withholding tax incurred on intercompany dividends paid in the year.
In FY13 the group has continued to fully recognise the UK deferred tax asset in view of the continued profitability of the UK companies and of the business merger taking place on 1 January 2013

Significant components of deferred tax asset and liability for the year ended 31 March 2012:

(£ millions)	Opening balance	Recognised in net income	Recognised in other comprehensive income	Foreign Exchange	Closing balance
Deferred tax assets					
Property, plant & equipment	223.8	(78.8)	-	-	145.0
Expenses deductible in future years:					
Provisions, allowances for doubtful receivables	104.9	31.2	-	-	136.1
Derivative financial instruments	-	9.7	8.6	-	18.3
Retirement benefits	48.8	(107.8)	159.0	-	100.0
Unrealised profit in inventory	43.4	33.8	-	-	77.2
Tax loss	0.2	613.8	-	-	614.0
Total deferred tax asset	**421.1**	**501.9**	**167.6**	**-**	**1,090.6**
Deferred tax liabilities					
Property, plant & equipment	1.5	3.1	-	-	4.6
Intangible assets	275.1	269.3	-	-	544.4
Derivative financial instruments	11.6	(3.3)	(5.3)	-	3.0
Overseas unremitted earnings	22.3	43.0	-	-	65.3
Total deferred tax liability	**310.5**	**312.1**	**(5.3)**	**-**	**617.3**
Held as deferred tax asset	**112.2**	**188.7**	**172.9**	**-**	**473.8**
Held as deferred tax liability	**(1.6)**	**1.1**	**-**	**-**	**(0.5)**

In FY12, the company recognised all previously unrecognised unused tax losses and other temporary differences in the JLR business in the UK (£505.3 million) in light of the planned consolidation of the UK manufacturing business in FY13 and business forecasts showing continuing profitability. Accordingly, £149.5 million of previously unrecognised deductible temporary differences has been utilised to reduce current tax expense and previously unrecognized deferred tax benefit of £232.6 million and £123.2 million has been recognized in the statements of income and other comprehensive income respectively in FY12.

Significant components of deferred tax asset and liability for the year ended March 2011:

(£ millions)	Opening balance	Recognised in net income	Recognised in other comprehensive income	Foreign Exchange	Closing balance
Deferred tax assets					
Property, plant & equipment	179.1	44.7	-	-	223.8
Expenses deductible in future years:					
Provisions, allowances for doubtful receivables	39.9	65.0	-	-	104.9
Retirement benefits	46.9	(5.8)	7.7	-	48.8
Unrealised profit in inventory	8.6	34.8	-	-	43.4
Others	23.1	(22.9)	-	-	0.2
Total deferred tax asset	**297.6**	**115.8**	**7.7**	**-**	**421.1**
Deferred tax liabilities					
Property, plant & equipment	-	1.5	-	-	1.5
Intangible assets	253.8	21.3	-	-	275.1
Derivative financial instruments	-	3.9	7.7	-	11.6
Overseas unremitted earnings	-	22.3	-	-	22.3
Total deferred tax liability	**253.8**	**49.0**	**7.7**	**-**	**310.5**
Held as deferred tax asset	**45.4**	**66.8**	**-**	**-**	**112.2**
Held as deferred tax liability	**(1.6)**	**-**	**-**	**-**	**(1.6)**

24. PROVISIONS

As at 31 March (£ millions)	2013	2012	2011
Current			
Product warranty	316.5	261.1	226.3
Product liability	15.8	16.2	19.1
Provisions for residual risk	1.7	2.2	0.9
Other employee benefits obligations	0.4	-	-
Total current	**334.4**	**279.5**	**246.3**
Non current			
Defined benefit obligations	657.8	326.9	290.5
Other employee benefits obligations	7.2	2.2	1.0
Product warranty	425.8	308.1	276.8
Provision for residual risk	12.9	13.9	6.1
Provision for environmental liability	21.8	20.2	18.3
Total non-current	**1,125.5**	**671.3**	**592.7**

(24. PROVISIONS)

Year ended 31 March (£ millions)	2013	2012	2011
Product warranty			
Opening balance	569.2	503.1	476.4
Provision made during the year	461.7	371.5	332.4
Provision used during the year	(287.2)	(298.5)	(305.8)
Impact of discounting	(1.4)	(6.9)	0.1
Closing balance	**742.3**	**569.2**	**503.1**
Product liability			
Opening balance	16.2	19.1	30.6
Provision made during the year	5.8	17.2	6.8
Provision used during the year	(6.2)	(20.1)	(18.3)
Closing balance	**15.8**	**16.2**	**19.1**
Residual risk			
Opening balance	16.1	7.0	15.8
Provision made during the year	-	9.1	22.5
Provision used during the year	(0.9)	-	(31.3)
Unused amounts released in the year	(0.6)	-	-
Closing balance	**14.6**	**16.1**	**7.0**
Environmental liability			
Opening balance	20.2	18.3	18.8
Provision made during the year	3.0	2.6	-
Provision used during the year	(1.4)	(0.7)	(0.5)
Closing balance	**21.8**	**20.2**	**18.3**

WARRANTY PROVISION

The group offers warranty cover in respect of manufacturing defects, which become apparent within a year of up to five years after purchase, dependent on the market in which the purchase occurred. The discount on the warranty provision is calculated using a risk-free discount rate as the risks specific to the liability, such as inflation, are included in the base calculation. The warranty provision was previously presented with the impact of inflation included in the discounting rate.A change in accounting estimate increased warranty provisions in the year by nil (2012: nil, 2011:£9.2 million)

PRODUCT LIABILITY PROVISION

A product liability provision is maintained in respect of known litigation which the group is party to. In the main these claims pertain to motor accident claims and consumer complaints.

RESIDUAL RISK PROVISION

In certain markets, the group is responsible for the residual risk arising on vehicles sold by dealers on a leasing arrangement. The provision is based on the latest available market expectations of future residual value trends. The timing of the outflows will be at the end of the lease arrangements – being typically up to three years.

ENVIRONMENTAL RISK PROVISION

This provision relates to various environmental remediation costs such as asbestos removal and land clean up. The timing of when these costs will be incurred is not known with certainty.

25. ACCOUNTS PAYABLE

As at 31 March (£ millions)	2013	2012	2011
Trade payables	2,627.9	2,272.0	1,627.4
Liabilities to employees	106.2	87.4	75.5
Liabilities for expenses	1,276.8	856.3	615.0
Capital creditors	216.0	69.0	66.9
	4,226.9	**3,284.7**	**2,384.8**

26. INTEREST BEARING LOANS AND BORROWINGS

As at 31 March (£ millions)	2013	2012	2011
EURO MTF listed bond	1,839.0	1,484.4	-
Loans from banks	327.8	332.6	789.5
Redeemable preference shares classified as debt	-	157.1	157.1
Other loans	-	-	434.9
Finance lease liabilities	23.4	19.8	23.9
	2,190.2	**1,993.9**	**1,405.4**
Less:			
Current bank loan	(327.8)	(332.4)	(428.5)
Current other loans	-	(157.3)	(434.9)
Short term borrowings	**(327.8)**	**(489.7)**	**(863.4)**
Current portion of finance lease liabilities	(5.1)	(4.7)	(5.2)
Long term debt	**1,857.3**	**1,499.5**	**536.8**
Held as long term debt	1,839.0	1,484.4	518.1
Held as long term finance leases	18.3	15.1	18.7
Short term borrowings:			
Bank loan	327.8	332.6	428.5
Redeemable preference shares classified as debt	-	157.1	-
Loans from parent	-	-	434.9
Short term borrowings	**327.8**	**489.7**	**863.4**
Long term borrowings:			
Bank loan	-	-	361.0
Redeemable preference shares classified as debt	-	-	157.1
Other loans	-	-	-
EURO MTF listed debt	1,839.0	1,484.4	-
Long term debt	**1,839.0**	**1,484.4**	**518.1**

Certain loans from banks availed by some of the subsidiary companies carry covenants placing certain restrictions on repayment of intra group loans and payments of dividends.

EURO MTF LISTED DEBT

The bonds are listed on the Euro MTF market, which is a listed market regulated by the Luxembourg Stock Exchange.

Details of the tranches of the bonds are as follows:

- £500 million Senior Notes due 2018 at a coupon of 8.125% per annum - Issued May 2011
- $410 million Senior Notes due 2018 at a coupon of 7.75% per annum - Issued May 2011.
- $410 million Senior Notes due 2021 at a coupon of 8.125% per annum - Issued May 2011.
- £500 million Senior Notes due 2020 at a coupon of 8.25% per annum - Issued March 2012.

(26. INTEREST BEARING LOANS AND BORROWINGS)

- $500 million Senior Notes due 2023 at a coupon of 5.625% per annum - Issued January 2013.

The bond funds raised were used to repay both long and short term debt and provide additional cash facilities for the group. Further information relating to the bond may be found in the borrowings and description of indebtedness section within the management discussion and analysis to the front of these financial statements.

PREFERENCE SHARES CLASSIFIED AS DEBT

The holders of the preference shares are entitled to be paid out of the profits available for distribution of the company in each financial year a fixed non-cumulative preferential dividend of 7.25% per annum. The preference share dividend is payable in priority to any payment to the holders of other classes of capital stock.

On a return of capital on liquidation or otherwise, the assets of the company available for distribution shall be applied first to holders of preference shares the sum of £1 per share together with a sum equal to any arrears and accruals of preference dividend.

The company may redeem the preference shares at any time, but must do so, not later than ten years after the date of issue. The holders may demand repayment with one month's notice at any time. On redemption, the company shall pay £1 per preference share and a sum equal to any arrears or accruals of preference dividend.

Preference shares contain no right to vote upon any resolution at any general meeting of the company.

In June 2012, £157.1 million of preference shares were repaid and no preference shares remain outstanding.

The contractual cash flows of interest bearing debt and borrowings as of 31 March 2013 are set out below, including estimated interest payments and excluding the effect of netting agreements and assumes the debt will be repaid at the maturity date.

As at 31 March (£ millions)	2013	2012	2011
Due in			
1 year or less	482.5	474.1	898.7
2nd and 3rd years	296.1	267.8	213.8
4th and 5th years	288.3	267.8	149.0
More than 5 years	2,151.7	2,022.8	298.3
	3,218.6	**3,032.5**	**1,559.8**

27. CAPITAL AND RESERVES

As at 31 March (£ millions)	2013	2012	2011
Allotted, called up and fully paid			
1,500,642,163 Ordinary shares of £1 each	1,500.6	1,500.6	1,500.6
Nil (Mar 2012 and 2011: 157,052,620) 7.25% Preference shares of £1 each	-	157.1	157.1
	1,500.6	**1,657.7**	**1,657.7**
Presented as equity	1,500.6	1,500.6	1,500.6
Presented as debt	-	157.1	157.1

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

Preference shares contain no right to vote upon any resolution at any general meeting of the company.

MOVEMENTS IN SHARE CAPITAL OF THE COMPANY

In May 2010, £47.8 million of USD preference shares were cancelled.

In November 2010, $298 million of preference shares were converted to short term debt.

In March 2011, the USD ordinary shares and the USD preference shares were converted to GBP ordinary shares and preference shares. The total share capital was reduced and a capital redemption reserve of £166.7 million was created. £250 million of the new preference shares were converted into short-term debt.

In June 2012, £157.1 million of preference shares were repaid.

28. OTHER RESERVES

The movement of other reserves is as follows:

(£ millions)	Translation reserve	Hedging reserve	Pension reserve	Profit & loss reserve	Total reserves / accumulated deficit
Balance at 1 April 2012	(383.3)	(19.6)	(526.1)	2,185.9	1,256.9
Net profit for the year	-	-	-	1,215.0	1,215.0
Movements in employee benefit plan	-	-	(346.6)	-	(346.6)
Cash flow hedges booked in equity	-	(287.7)	-	-	(287.7)
Cash flow hedges moved from equity and recognised in the income statement	-	58.7	-	-	58.7
Tax booked through other comprehensive income	-	65.8	72.9	-	138.7
Tax impact of items reclassified from other comprehensive income	-	(13.4)	-	-	(13.4)
Dividend paid	-	-	-	(150.1)	(150.1)
Balance at 31 March 2013	**(383.3)**	**(196.2)**	**(799.8)**	**3,250.8**	**1,871.5**
Balance at 1 April 2011	(383.3)	21.8	(535.2)	704.8	(191.9)
Net profit for the year	-	-	-	1,481.1	1,481.1
Movements in employee benefit plan	-	-	(149.9)	-	(149.9)
Cash flow hedges booked in equity	-	(35.6)	-	-	(35.6)
Cash flow hedges moved from equity and recognised in the income statement	-	(19.7)	-	-	(19.7)
Tax booked through other comprehensive income	-	8.5	159.0	-	167.5
Tax impact of items reclassified from other comprehensive income	-	5.4	-	-	5.4
Balance at 31 March 2012	**(383.3)**	**(19.6)**	**(526.1)**	**2,185.9**	**1,256.9**
Balance at 1 April 2010	(506.7)	-	(221.8)	(378.9)	(1,107.4)
Net profit for the year	-	-	-	1,035.9	1,035.9
Foreign currency translation	123.4	-	-	-	123.4
Movements in employee benefit plan	-	-	(321.1)	-	(321.1)
Cash flow hedges	-	29.5	-	-	29.5
Cancellation of preference shares	-	-	-	47.8	47.8
Tax booked through other comprehensive income	-	(7.7)	7.7	-	-
Balance at 31 March 2011	**(383.3)**	**21.8**	**(535.2)**	**704.8**	**(191.9)**

The movement in capital redemption reserve is as follows:

Year ended 31 March (£ millions)	2013	2012	2011
Balance at beginning of year	166.7	166.7	-
Created in the year on cancellation of share capital	-	-	166.7
Balance at end of year	**166.7**	**166.7**	**166.7**

29. DIVIDENDS

During the year ended 31 March 2013 an ordinary share dividend of £150.1 million was paid (2012 and 2011: Nil). Preference shares of £157.1 million were repaid in the year ended 31 March 2013, along with preference share dividends of £14.0 million (2012: accrued £11.4 million, 2011: £Nil). A dividend of £150 million was proposed for the year ended 31 March 2013. This was paid in full in June 2013.

30.EMPLOYEE BENEFITS

Jaguar Cars Ltd and Land Rover UK, have pension arrangements providing employees with defined benefits related to pay and service as set out in the rules of each fund. The following table sets out the disclosurepertaining to employee benefits of Jaguar Cars Limited and Land Rover, UK.

Change in defined benefit obligation

Year ended 31 March (£ millions)	2013	2012	2011
Defined benefit obligation, beginning of the year	4,915.9	4,300.1	3,871.3
Service cost	117.4	102.3	106.4
Interest cost	253.3	239.8	216.1
Actuarial loss	850.6	366.5	226.3
Benefits paid	(129.4)	(113.5)	(128.6)
Member contributions	7.0	6.8	6.6
Prior service costs	5.7	14.8	5.0
Other adjustments	(0.5)	(0.2)	(1.4)
Foreign currency translation	1.6	(0.7)	(1.6)
Defined benefit obligation, at end of year	**6,021.6**	**4,915.9**	**4,300.1**

Change in plan assets

Year ended 31 March (£ millions)	2013	2012	2011
Fair value of plan assets at beginning of the year	4,706.9	4,172.0	3,806.5
Expected return on plan assets	223.0	240.2	241.6
Actuarial gain being actual return on assets differing from expected return on assets	388.8	171.2	30.5
Employer's contributions	168.1	230.6	218.3
Members contributions	7.0	6.8	6.6
Benefits paid	(129.4)	(113.5)	(128.6)
Plan combinations	-	-	(1.4)
Foreign currency translation	1.0	(0.3)	(1.5)
Other adjustment	(0.4)	(0.1)	-
Fair value of plan assets at end of year	**5,365.0**	**4,706.9**	**4,172.0**

The actual return on plan assets for the year was £611.8 million (2012: £411.4 million, 2011: £272.1 million)

Amounts recognised in the balance sheet consist of

As at 31 March (£ millions)	2013	2012	2011
Present value of unfunded defined benefit obligations	(1.2)	(1.3)	(1.1)
Present value of funded defined benefit obligations	(6,020.4)	(4,914.6)	(4,299.0)
Fair value of plan assets	5,365.0	4,706.9	4,172.0
Restriction of pension asset (as per IFRIC 14)	(0.8)	(28.0)	(33.7)
Onerous obligation	-	(88.0)	(127.8)
Net liability	**(675.4)**	**(325.0)**	**(289.6)**
Non-current assets	0.4	1.9	0.9
Non-current liabilities	(657.8)	(326.9)	(290.5)
Total net liability	**(657.4)**	**(325.0)**	**(289.6)**

(30. EMPLOYEE BENEFITS)

Experience adjustments

Year ended 31 March (£ millions)	2013	2012	2011	2010	2009
Present value of defined benefit obligation	(6,021.4)	(4,915.9)	(4,300.1)	(3,871.3)	(3,045.1)
Fair value of plan assets	5,365.0	4,706.9	4,172.0	3,806.5	3,109.0
(Deficit) / surplus	(656.6)	(209.0)	(128.1)	(64.8)	63.9
Experience adjustments on plan liabilities (as a percentage of plan liabilities)	6.6 / 0.1%	74.9 / 1.6%	97.5 / 2.0%	(170.5) / (4.0%)	33.2 / (1.1%)
Experience adjustments on plan assets (as a percentage of plan assets)	388.8 / 7.2%	170.8 / 3.6%	30.5 / 0.7%	562.2 / 14.8%	673.1 / (21.6%)

Amount recognised in other comprehensive income

Year ended 31 March (£ millions)	2013	2012	2011
Actuarial loss	(461.8)	(195.3)	(195.8)
Change in restriction of pension asset (as per IFRIC 14)	27.2	5.6	(30.8)
Change in onerous obligation	88.0	39.8	(94.5)
	(346.6)	**(149.9)**	**(321.1)**

Net pension and post retirement cost consists of the following components

Year ended 31 March (£ millions)	2013	2012	2011
Current service cost	117.4	102.3	106.4
Prior service cost	5.7	14.8	5.0
Interest cost	253.3	239.8	216.1
Expected return on plan assets	(223.0)	(240.2)	(241.6)
Net periodic pension cost	**153.4**	**116.7**	**85.9**

The assumptions used in accounting for the pension plans are set out below:

Year ended 31 March (%)	2013	2012	2011
Discount rate	4.4	5.1	5.5
Rate of increase in compensation level of covered employees	3.9	3.8	3.9
Inflation increase	3.4	3.3	3.4
Expected rate of return on plan assets	4.7	4.8	6.2

For the valuation at 31 March 2013, the mortality assumptions used are the SAPS base table, in particular S1NxA tables and the Light table for members of the Jaguar Executive Pension Plan. A scaling factor of 115% has been used for the Jaguar Pension Plan, 110% for the Land Rover Pension Scheme, and 90% for males and 115% for females for Jaguar Executive Pension Plan. There is an allowance for future improvements in line with the CMI (2012) projections and an allowance for long term improvements of 1.25% per annum.
For the valuation at 31 March 2012 and 2011, the mortality assumptions used are the SAPS base table, in particular S1PMA for males, S1PFA for females and the Light table for members of the Jaguar Executive Pension Plan, with a scaling factor of 90% for males and 115% for females for all members. There is an allowance for future improvements in line with the CMI (2011) projections and an allowance for long term improvements of 1.25% (2011: 1.00%) per annum
Changes in the mortality assumptions used in FY13 compared to FY12 have decreased the liability by £145.0 million (2012: increase of £47.0 million, 2011: increase of £283.7 million).

(30. EMPLOYEE BENEFITS)

Pension plans asset allocation by category:

Year ended 31 March (%)	2013	2012	2011
Asset category			
Debt	64	64	62
Equities	19	22	29
Others	17	14	9

The expected return on assets assumptions are derived by considering the expected long-term rates of return on plan investments. The overall rate of return is a weighted average of the expected returns of the individual investments made in the group plans. The long-term rates of return on equities are derived from considering current risk free rates of return with the addition of an appropriate future risk premium from an analysis of historic returns in various countries. The long-term rates of return on bonds are set in line with market yields currently available at the statement of financial position date.
Significant actuarial assumptions used for the determination of the defined benefit obligation and service cost are discount rate and inflation rate. The sensitivity analysis below has been determined based on reasonable possible changes of the assumptions occurring at the end of the reporting period assuming that all other assumptions are held constant.

Assumption	Change in assumption	Impact on scheme liabilities	Impact on service cost
Discount rate	Increase/decrease by 0.25%	Decrease/increase by £340.8 million	Decrease/increase by £6.9 million
Inflation rate	Increase/decrease by 0.25%	Increase/decrease by £289.7 million	Increase/decrease by £7.0 million

The expected net periodic pension cost for FY13 is £245.0 million. The group expects to contribute £213.3 million to its plans in FY13.

DEFINED CONTRIBUTION PLAN

The group's contribution to defined contribution plans aggregated £11.7 million (2012: £10.8 million, 2011: £3.4 million).

31. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the group faces claims and assertions by various parties. The group assesses such claims and assertions and monitors the legal environment on an on-going basis, with the assistance of external legal counsel wherever necessary. The group records a liability for any claims where a potential loss is probable and capable of being estimated and discloses such matters in its financial statements, if material. For potential losses that are considered possible, but not probable, the group provides disclosure in the financial statements but does not record a liability in its accounts unless the loss becomes probable.
The following is a description of claims and assertions where a potential loss is possible, but not probable. Management believes that none of the contingencies described below, either individually or in aggregate, would have a material adverse effect on the group's financial condition,results of operations or cash flows.

LITIGATION

The group is involved in legal proceedings, both as plaintiff and as defendant and there are claims of £15.9 million (2012: £9.9 million, 2011: £10.8 million) against the company which management have not recognised as they are not considered probable. The majority of these claims pertain to motor accident claims and consumer complaints. Some of the cases also relate to replacement of parts of vehicles and/or compensation for deficiency in the services by the group or its dealers.

OTHER CLAIMS

The Group has not made any provisions for £Nil (2012: £1.9 million, 2011: £1.3 million) of tax matters in dispute as it is not considered probable that these will be settled in an adverse position for the Group.

(31. COMMITMENTS AND CONTINGENCIES)

COMMITMENTS

The group has entered into various contracts with vendors and contractors for the acquisition of plant and machinery, equipment and various civil contracts of capital nature aggregating £287.5 million (2012: £545.2 million, 2011: £451.5 million) and £Nil (2012: £Nil, 2011: £3.5 million) relating to the acquisition of intangible assets.

The group has entered into various contracts with vendors and contractors which include obligations aggregating £886.8 million (2012: £865.8 million, 2011: £689.0 million) to purchase minimum or fixed quantities of material.

For commitments related to leases, see note 34.

Inventory of £Nil million (2012: £68.6 million, 2011: £66.7 million) and trade receivables with a carrying amount of £241.5 million (2012: £142.9 million, 2011: £268.9 million) and property, plant and equipment with a carrying amount of £Nil (2012: £Nil, 2011: £463.4 million) and restricted cash with a carrying amount of £109.7 million (2012: £131.4 million, 2011: £Nil) are pledged as collateral/security against the borrowings and commitments.

There are guarantees provided in the ordinary course of business of £0.1 million.

32. CAPITAL MANAGEMENT

The group's objectives for managing capital are to create value for shareholders, to safeguard business continuity and support the growth of the group.

The group determines the amount of capital required on the basis of annual operating plans and long-term product and other strategic investment plans. The funding requirements are met through a mixture of equity, convertible or non-convertible debt securities and other long-term/short-term borrowings. The group's policy is aimed at combination of short-term and long-term borrowings.

The group monitors the capital structure on basis of total debt to equity ratio and maturity profile of the overall debt portfolio of the group.

Total debt includes all long and short-term debtsand finance lease payables. Equity comprises all components.

The following table summarises the capital of the group:

As at 31 March (£ millions)	2013	2012	2011
Equity	3,538.8	2,924.2	1,475.4
Short term debt	332.9	494.4	868.6
Long term debt	1,857.3	1,499.5	536.8
Total debt	**2,190.2**	**1,993.9**	**1,405.4**
Total capital (debt and equity)	**5,729.0**	**4,918.1**	**2,880.8**

33. FINANCIAL INSTRUMENTS

This section gives an overview of the significance of financial instruments for the group and provides additional information on balance sheet items that contain financial instruments.

The details of significant accounting policies, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

33A. FINANCIAL ASSETS AND LIABILITIES

The following table shows the carrying amounts and fair value of each category of financial assets and liabilities as at 31 March 2013:

Financial assets

(£ millions)	Cash, loans and receivables	Derivatives in cash flow hedging relationship	Fair value through profit and loss	Total carrying value	Total fair value
Cash and cash equivalents	2,072.2	-	-	2,072.2	2,072.2
Short term deposits	775.0	-	-	775.0	775.0
Trade receivables	927.1	-	-	927.1	927.1
Other financial assets - current	145.0	29.6	1.4	176.0	176.0
Other financial assets - non-current	72.4	51.3	71.1	194.8	194.8
	3,991.7	**80.9**	**72.5**	**4,145.1**	**4,145.1**

(33. FINANCIAL INSTRUMENTS)

Financial liabilities

(£ millions)	Other financial liabilities	Derivatives in cash flow hedging relationship	Fair value through profit and loss	Total carrying value	Total fair value
Accounts payable	4,226.9	-	-	4,226.9	4,226.9
Short-term debt	327.8	-	-	327.8	327.8
Long-term debt	1,839.0	-	-	1,839.0	2,058.1
Other financial liabilities - current	226.9	179.1	27.3	433.3	433.3
Other financial liabilities - non-current	18.9	156.5	51.8	227.2	227.2
	6,639.5	**335.6**	**79.1**	**7,054.2**	**7,273.3**

The following table shows the carrying amounts and fair value of each category of financial assets and liabilities as at 31 March 2012:

Financial assets

(£ millions)	Cash, loans and receivables	Derivatives in cash flow hedging relationship	Fair value through profit and loss	Total carrying value	Total fair value
Cash and cash equivalents	2,430.4	-	-	2,430.4	2,430.4
Trade receivables	662.2	-	-	662.2	662.2
Other financial assets - current	134.4	47.6	0.8	182.8	182.8
Other financial assets - non-current	83.6	23.1	0.2	106.9	106.9
	3,310.6	**70.7**	**1.0**	**3,382.3**	**3,382.3**

Financial liabilities

(£ millions)	Other financial liabilities	Derivatives in cashflow hedging relationship	Fair value through profit and loss	Total carrying value	Total fair value
Accounts payable	3,284.7	-	-	3,284.7	3,284.7
Short-term debt	489.7	-	-	489.7	489.7
Long-term debt	1,484.4	-	-	1,484.4	1,534.0
Other financial liabilities – current	204.9	85.0	22.8	312.7	312.7
Other financial liabilities - non-current	39.2	11.4	21.9	72.5	72.5
	5,502.9	**96.4**	**44.7**	**5,644.0**	**5,693.6**

The following table shows the carrying amounts and fair value of each category of financial assets and liabilities as at 31 March 2011:

Financial assets

(£ millions)	Cash, loans and receivables	Derivatives in cashflow hedging relationship	Fair value through profit and loss	Total carrying value	Total fair value
Cash and cash equivalents	1,028.3	-	-	1,028.3	1,028.3
Trade receivables	567.2	-	-	567.2	567.2
Other financial assets - current	11.9	34.7	14.9	61.5	61.5
Other financial assets - non-current	68.5	-	-	68.5	68.5
	1,675.9	**34.7**	**14.9**	**1,725.5**	**1,725.5**

Financial liabilities

(£ millions)	Other financial liabilities	Derivatives in cash flow hedging relationship	Total carrying value	Total fair value
Accounts payable	2,384.8	-	2,384.8	2,384.8
Short-term debt	863.4	-	863.4	863.4
Long-term debt	518.1	-	518.1	520.3
Other financial liabilities – current	127.7	5.2	132.9	132.9
Other financial liabilities - non-current	20.4	-	20.4	20.4
	3,914.4	**5.2**	**3,919.6**	**3,921.8**

Fair value hierarchy

Financial instruments carried at fair value are required to be measured by reference to the following levels.

Quoted prices in an active market (Level 1): This level of hierarchy includes financial assets that are measured by reference to quoted prices (unadjusted) in active markets for identical assets or liabilities. This category mainly includes quoted equity shares, quoted corporate debt instruments and mutual fund investments.

Valuation techniques with observable inputs (Level 2): This level of hierarchy includes financial assets and liabilities measured using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Valuation techniques with significant unobservable inputs (Level 3): This level of hierarchy includes financial assets and liabilities measured using inputs that are not based on observable market data (unobservable inputs). Fair values are determined in whole or in part using a valuation model based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data.

All financial instruments held at fair value are valued using Level 2 valuation techniques.

Fair value of derivative financial instruments other than the embedded derivative are generally based on quotations obtained from inter-bank market participants.

The short term financial assets and liabilities, except for derivative instruments, are stated at amortised cost which is approximately equal to their fair value.

The fair value prepayment options of £47.0 million relate to the GBP 500 million and USD 410 million senior notes which have been bifurcated. The fair value represents the difference in the traded market price of the bonds and the expected price the bonds would trade at if they did not contain any pre-payment features. The expected price is based on market inputs including credit spread and interest rates. The fair value of the long term debt is calculated using the 31 March 2013 closing price on the Euro MTF market for the unsecured listed bonds

Management uses its best judgment in estimating the fair value of its financial instruments. However, there are inherent limitations in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented above are not necessarily indicative of all the amounts that the group could have realised in a sales transaction as of respective dates. The estimated fair value amounts as of 31 March 2013, 31 March 2012 and 31 March 2011 have been measured as of the respective dates. As such, the fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

33B. CASH FLOW HEDGING

As of 31 March 2013, the group has taken out a number of cash flow hedging instruments. The group uses USD/GBP forward and option contracts, USD/Euro forward contracts and other currency options to hedge future cash flows from sales and purchases. Cash flow hedges are expected to be recognised in profit or loss during the years ending 31 March 2014 to 2017.

The group also has a number of USD/Euro options which are entered into as an economic hedge of the financial risks of the group. These contracts do not meet the hedge accounting criteria of IAS 39, so the change in fair value is recognised immediately in the income statement.

The time value of options is considered ineffective in the hedge relationship and the change in fair value is recognised immediately in the income statement.

As per its risk management policy, the group uses foreign currency contracts to hedge its risk associated with foreign currency fluctuations relating to highly probable forecast transactions. The fair value of such contracts as of 31 March 2013 was a liability of £254.7 million (2012: liability of £25.6 million, 2011: asset of £29.5 million).

Changes in fair value of foreign exchange contracts to the extent determined to be an effective hedge is recognised in the statement of other comprehensive income and the ineffective portion of the fair value change is recognised in income statement. Accordingly, the fair value change of net loss of £287.8 million (2012: loss of £35.6 million, 2011: gain of £42.7 million) was recognised in other comprehensive income.

33C. FINANCIAL RISK MANAGEMENT

In the course of its business, the group is exposed primarily to fluctuations in foreign currency exchange rates, interest rates, liquidity and credit risk, which may adversely impact the fair value of its financial instruments.

The group has a risk management policy which not only covers the foreign exchange risks but also the risks associated with the financial assets and liabilities like interest rate risks and credit risks. The risk management policy is approved by the board of directors. The risk management framework aims to:

Create a stable business planning environment – by reducing the impact of currency and interest rate fluctuations to the group's business plan.

Achieve greater predictability to earnings – by determining the financial value of the expected earnings in advance.

33D. MARKET RISK

Market risk is the risk of any loss in future earnings in realisable fair values or in future cash flows that may result from a change in the price of a financial instrument. The value of a financial instrument may change as a result of changes in the interest rates, foreign currency exchange rate, equity price fluctuations, liquidity and other market changes. Future specific market movements cannot be normally predicted with reasonable accuracy.

33E. FOREIGN CURRENCY EXCHANGE RATE RISK

The fluctuation in foreign currency exchange rates may have potential impact on the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated cash flow statement and the consolidated statement of changes in equity, where any transaction references more than one currency or where assets/liabilities are denominated in a currency other than the functional currency of the respective consolidated entities.

Considering the countries and economic environment in which the group operates, its operations are subject to risks arising from fluctuations in exchange rates in those countries. The risks primarily relate to fluctuations in US dollar, Chinese yuan, Japanese yen and euro against the functional currency of the group.

The group, as per its risk management policy, uses derivative instruments primarily to hedge foreign exchange exposure. Any weakening of the functional currency may impact the group's cost of imports and cost of borrowings.

The group evaluates the impact of foreign exchange rate fluctuations by assessing its exposure to exchange rate risks. It hedges a part of these risks by using derivative financial instruments in line with its risk management policies.

The following table set forth information relating to foreign currency exposure as of 31 March 2013:

(£ millions)	US Dollar	Chinese Yuan	Euro	JPY	*Others	Total
Financial assets	331.7	667.6	259.2	35.0	357.9	1,651.4
Financial liabilities	(1,266.0)	(659.4)	(1,112.5)	(89.4)	(239.0)	(3,366.3)
Net exposure (liability) / asset	**(934.3)**	**8.2**	**(853.3)**	**(54.4)**	**118.9**	**(1,714.9)**

* Others include Russian Rouble, Singapore dollars, Swiss Franc, Australian dollars, South African Rand, Thai baht, Korean won etc.

10% appreciation/ depreciation of the Euro, USD, Yen and Chinese Yuan would result in an increase/ decrease in the group's net profit before tax and net assets by approximately £85.3 million, £93.4 million, £5.4 million and £0.8 million respectively for the year ended 31 March 2013.

The following table set forth information relating to foreign currency exposure as of 31 March 2012:

(£ millions)	US Dollar	Chinese Yuan	Euro	JPY	*Others	Total
Financial assets	263.2	584.8	231.1	31.8	227.9	1,333.6
Financial liabilities	(862.3)	(370.0)	(923.0)	(105.8)	(198.0)	(2,453.9)
Net exposure (liability) / asset	**(599.1)**	**214.8**	**(691.9)**	**(74.0)**	**29.9**	**(1,120.3)**

* Others include Russian Rouble, Singapore dollars, Swiss Franc, Australian dollars, South African Rand, Thai baht, Korean won etc.
10% appreciation/ depreciation of the Euro, USD, Yen and Chinese Yuan would result in an increase/ decrease in the group's net profit before tax and net assets by approximately £69.2 million, £59.9 million, £7.4 million and £21.5 million respectively for FY12.

The following table set forth information relating to foreign currency exposure as of 31 March 2011:

(£ millions)	US Dollar	Chinese Yuan	Euro	JPY	*Others	Total
Financial assets	206.3	279.3	209.7	40.3	364.9	1,100.5
Financial liabilities	(256.7)	(281.9)	(321.8)	(16.5)	(328.7)	(1,205.6)
Net exposure (liability) / asset	**(50.4)**	**(2.6)**	**(112.1)**	**23.8**	**36.2**	**(105.1)**

* Others include Russian Rouble, Singapore dollars, Swiss Franc, Australian dollars, South African Rand, Thai baht, Korean won etc.
10% appreciation/ depreciation of the Euro, USD, Yen and Chinese Yuan would result in an increase/ decrease in the group's net profit before tax and net assets by approximately £10.2 million, £4.6 million, £2.2 million and £0.2 million respectively for FY11.

33F. INTEREST RATE RISK

At March 31st 2013, the majority of the group's interest rate risk relates to short term financing arrangements.

Interest rate risk is measured by using the cash flow sensitivity for changes in variable interest rates. Any movement in the reference rates could have an impact on the cash flows as well as costs.

The group is subject to variable interest rates on some of its interest bearing liabilities. The group's interest rate exposure is mainly related to debt obligations. The group also uses a mix of interest rate sensitive financial instruments to manage the liquidity and fund requirements for its day to day operations like non-convertible bonds and short term loans.

The model assumes that interest rate changes are instantaneous parallel shifts in the yield curve. Although some assets and liabilities may have similar maturities or periods to re-pricing, these may not react correspondingly to changes in market interest rates. Also, the interest rates on some types of assets and liabilities may fluctuate with changes in market interest rates, while interest rates on other types of assets may change with a lag.

The risk estimates provided assume a parallel shift of 100 basis points interest rate across all yield curves. This calculation also assumes that the change occurs at the balance sheet date and has been calculated based on risk exposures outstanding as at that date. The year end balances are not necessarily representative of the average debt outstanding during the year.

This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

As of 31 March 2013, net financial liabilities of £220.0 million (2012: £335.9 million, 2011: £451.3 million) were subject to the variable interest rate. Increase/decrease of 100 basis points in interest rates at the balance sheet date would result in an impact of £2.2 million (2012: £3.4 million, 2011: £4.5 million) in the consolidated income statement.

The group is also exposed to interest rate risk with regard to the reported fair value of the repayment options. At 31 March 2013, had interest rates been 25 basis points higher/lower with all other variables constant, consolidated net income would be £9.4 million higher/£9.3 million lower (2012: Nil/Nil, 2011: Nil/Nil) mainly as a result of lower/higher finance expense.

(33. FINANCIAL INSTRUMENTS)

33G. LIQUIDITY RISK

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due.

The group's policy on liquidity risk is to ensure that sufficient borrowing facilities are available to fund on-going operations without the need to carry significant net debt over the medium term. The quantum of committed borrowing facilities available to the group is reviewed regularly and is designed to exceed forecast peak gross debt levels.

The following are the undiscounted contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

31 March 2013

(£ millions)	Carrying amount	Contractual cash flows	1 year or less	1 to <2 years	2 to <5 years	5 years and over
Financial liabilities						
Long term debt and preference shares	1,839.0	2,867.9	143.3	143.2	429.7	2,151.7
Short-term borrowings	327.8	330.4	330.4	-	-	-
Finance lease liabilities	23.4	28.1	6.3	6.5	13.4	1.9
Other financial liabilities	222.4	242.7	230.6	7.8	4.3	-
Accounts payable	4,226.9	4,226.9	4,226.9	-	-	-
Derivative instruments	414.7	414.7	206.4	118.9	89.4	-
	7,054.2	**8,110.7**	**5,143.9**	**276.4**	**536.8**	**2,153.6**

31 March 2012

(£ millions)	Carrying amount	Contractual cash flows	1 year or less	1 to <2 years	2 to <5 years	5 years and over
Financial liabilities						
Long term debt and preference shares	1,641.5	2,692.3	133.9	133.9	401.7	2,022.8
Short-term borrowings	332.6	340.1	340.1	-	-	-
Finance lease liabilities	19.8	22.6	5.4	5.4	11.8	-
Other financial liabilities	224.3	224.3	200.2	24.1	-	-
Accounts payable	3,284.7	3,284.7	3,284.7	-	-	-
Derivative instruments	141.1	141.1	107.8	24.5	8.8	-
	5,644.0	**6,705.1**	**4,072.1**	**187.9**	**422.3**	**2,022.8**

31 March 2011

(£ millions)	Carrying amount	Contractual cash flows	1 year or less	1 to <2 years	2 to <5 years	5 years and over
Financial liabilities						
Long term debt and preference shares	518.1	686.5	25.4	213.8	149.0	298.3
Short-term borrowings	863.4	873.4	873.4	-	-	-
Finance lease liabilities	23.9	27.6	5.2	5.3	13.6	3.5
Other financial liabilities	124.2	124.2	122.5	1.7	-	-
Accounts payable	2,384.8	2,384.8	2,384.8	-	-	-
Derivative instruments	5.2	5.2	5.2	-	-	-
	3,919.6	**4,101.7**	**3,416.5**	**220.8**	**162.6**	**301.8**

33H. CREDIT RISK

At March 31 2013, the majority of the group's credit risk exposure pertains to the risk of financial loss the risk of financial loss arising from counterparty failure to repay or service debt according to the contractual terms or obligations. Credit risk encompasses both the direct risk of default and the risk of deterioration of creditworthiness as well as concentration risks.

In addition to counterparty credit risk, the group is exposed to the impact of volatility with its own credit risk with regard to the fair value of prepayment options. At 31 March 2013, had credit spreads been 25 basis points higher/lower with all other variables constant, consolidated net income would be £9.2 million higher/£2.4 million lower (2012: Nil/Nil, 2011: Nil/Nil) mainly as a result of lower/higher finance expense.

Financial instruments that are subject to concentrations of credit risk principally consist of investments classified as loans and receivables and trade receivables. None of the financial instruments of the group result in material concentrations of credit risks. For trade receivables, the company considers counterparty creditworthiness by means of an internal rating process and its country risk. In this context the historic financial performance and other relevant information on the counterparty such as payment history are used and assessed.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk was £3,991.7 million (2012: £3,310.6 million, 2011: £1,675.9 million), being the total of the carrying amount of financial assets excluding unquoted equity investments.

Financial assets

None of the group's cash equivalents, including time deposits with banks, are past due or impaired. Regarding trade receivables and other receivables, and other loans or receivables that are neither impaired nor past due, there were no indications as at 31 March 2013, that defaults in payment obligations will occur.

As at 31 March (£ millions)	2013 Gross	2013 Impairment
Not yet due	836.9	0.4
Overdue < 3 months	94.9	0.7
Overdue >3<6 months	19.3	2.0
Overdue >6 months	11.0	7.3
	962.1	**10.4**

Included within trade receivables is £241.5 million of receivables which are part of a debt factoring arrangement. These assets do not qualify for derecognition due to the recourse arrangements in place. The related liability of £241.5 million is in short term borrowings. Both asset and associated liability are stated at fair value.

None of the group's cash equivalents, including time deposits with banks, are past due or impaired. Regarding trade receivables and other receivables, and other loans or receivables that are neither impaired nor past due, there were no indications as at 31 March 2012, that defaults in payment obligations will occur.

As at 31 March (£ millions)	2012 Gross	2012 Impairment
Not yet due	612.2	-
Overdue < 3 months	47.5	-
Overdue >3<6 months	5.4	2.9
Overdue >6 months	10.3	10.3
	675.4	**13.2**

Included within trade receivables is £142.9 million of receivables which are part of a debt factoring arrangement. These assets do not qualify for derecognition due to the recourse arrangements in place. The related liability of £142.9 million is in short term borrowings. Both asset and associated liability are stated at fair value.

None of the group's cash equivalents, including time deposits with banks, are past due or impaired. Regarding trade receivables and other receivables, and other loans or receivables that are neither impaired nor past due there were no indications as at 31 March 2011, that defaults in payment may occur.

(33. FINANCIAL INSTRUMENTS)

As at 31 March (£ millions)	2011 Gross	2011 Impairment
Not yet due	531.9	-
Overdue < 3 months	34.5	-
Overdue >3<6 months	-	-
Overdue >6 months	10.9	10.1
	577.3	**10.1**

Included within trade receivables is £268.9 million of receivables which are part of a debt factoring arrangement. These assets do not qualify for derecognition due to the recourse arrangements in place. The related liability of £268.9 million is in short term borrowings. Both asset and associated liability are stated at fair value.

Derivative financial instruments and risk management

The group risk management policy allows the use of currency and interest derivative instruments to manage its exposure to fluctuations in foreign exchange and interest rates. To the extent possible under IAS 39, these instruments are hedge accounted under that Standard. The loss on hedged derivative contracts recognised in equity was £287.8 million (2012: loss of £35.6 million, 2011: gain of £42.7 million). The loss on derivative contracts not eligible for hedging and recognised in the consolidated income statement was £21.4 million (2012: £58.6 million, 2011: £1.1 million).

A 10% depreciation/appreciation of the foreign currency underlying such contracts would have resulted in an approximate additional gain/loss of £28.8 million (2012: £5.5 million, 2011: £3.0 million) in equity and a loss/gain of £8.2 million (2012: £2.4 million, 2011: £0.1 million) in the consolidated income statement.

34. LEASES

Non-cancellable operating lease rentals are payable as follows:

As at 31 March (£ millions)	2013	2012	2011
Less than one year	7.9	9.1	10.5
Between one and five years	15.7	24.1	18.9
More than five years	10.5	5.9	-
	34.1	**39.1**	**29.4**

The group leases a number of properties and plant and machinery under operating leases.

LEASES AS LESSOR

The future minimum lease payments under non-cancellable leases are as follows:

As at 31 March (£ millions)	2013	2012	2011
Less than one year	4.1	3.1	2.3
Between one and five years	0.1	0.1	0.3
More than five years	-	-	-
	4.2	**3.2**	**2.6**

The above leases relate to amounts payable in respect of land and buildings and fleet car sales.
The average lease life is less than one year.

Non-cancellable finance lease rentals are payable as follows:

As at 31 March (£ millions)	2013	2012	2011
Less than one year	5.1	4.7	5.2
Between one and five years	16.5	15.1	15.9
More than five years	1.8	-	2.8
	23.4	**19.8**	**23.9**

The above lease relates to amounts payable on plant and machinery in line with IFRIC 4. The group leased certain of its manufacturing equipment under finance lease. The average lease term is 8 years. The group has options to purchase certain surplus equipment for a nominal amount at the end of lease term.

35. SEGMENT REPORTING

Operating segments are defined as components of the company about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance.

The JLR group operates in the automotive segment. The automotive segment includes all activites relating to development, design, manufacture, assembly and sale of vehicles including financing thereof, as well as sale of related parts and accessories. The group has only one operating segment, so no separate segmental report is given.

The geographic spread of sales and assets is as disclosed below

(£ millions)	UK	US	China	Rest of Europe	Rest of World
31 March 2013					
Revenue	2,605.6	2,136.8	5,160.7	2,514.0	3,366.6
Non current assets	5,813.8	13.7	4.4	9.8	15.6
31 March 2012					
Revenue	2,259.1	1,995.9	3,889.3	2,419.5	2,947.9
Non current assets	4,330.4	13.9	18.8	8.6	15.2
31 March 2011					
Revenue	1,923.8	2,005.3	1,642.7	2,042.8	2,256.1
Non current assets	3,336.3	15.6	9.3	4.0	10.2

36. RELATED PARTY TRANSACTIONS

The group's related parties principally consist of Tata Sons Ltd., subsidiaries of Tata Sons Ltd, associates and joint ventures of Tata Sons Ltd. Tata Sons Ltd routinely enters into transactions with these related parties in the ordinary course of business. The group enters into transactions for sale and purchase of products with its associates and joint ventures.

Transactions and balances with its own subsidiaries are eliminated on consolidation.
The following table summarises related party transactions and balances not eliminated in the consolidated financial statements for the year ended 31 March 2013.

(£ millions)	With associates and joint ventures	With immediate or ultimate parent
Sale of products	-	51.5
Services received	90.1	15.5
Services rendered	8.7	-
Trade and other receivables	7.7	-
Accounts payable	27.2	2.0
Loans given	8.2	-
Interest received	0.3	-

(36. RELATED PARTY TRANSACTIONS)

The following table summarises related party transactions and balances not eliminated in the consolidated financial statements for the year ended 31 March 2012.

(£ millions)	With associates and joint ventures	With immediate or ultimate parent
Sale of products	-	69.4
Services received	54.1	9.0
Trade and other receivables	-	3.1
Accounts payable	12.8	-
Accrued preference share dividend	-	11.3
Loans repaid	-	434.9

The following table summarises related party transactions and balances not eliminated in the consolidated financial statements for the year ended 31 March 2011.

(£ millions)	With associates and joint ventures	With immediate or ultimate parent
Sale of products	-	38.7
Services received	34.0	-
Trade and other receivables	-	5.5
Accounts payable	10.5	-
Loans given	-	434.9

The following table summarises related party transactions and balances included in the consolidated financial statements:

Compensation of key management personnel

Year ended 31 March (£ millions)	2013	2012	2011
Short term benefits	11.6	16.3	7.4
Post-employment benefits	0.1	2.0	0.3
Compensation for loss of office	0.2	1.8	-
	11.9	**20.1**	**7.7**

Refer to note 30 for information on transactions with post employment benefit plans

37. ULTIMATE PARENT COMPANY AND PARENT COMPANY OF LARGER GROUP

The immediate parent undertaking is TML Singapore Pte Limited and ultimate parent undertaking and controlling party is Tata Motors Limited, India which is the parent of the smallest and largest group to consolidate these financial statements.

Copies of the Tata Motors Limited, India consolidated financial statements can be obtained from the Group Secretary, Tata Motors Limited, Bombay House, 24, Homi Mody Street, Mumbai – 400001, India.

38. SUBSEQUENT EVENTS

In June 2013, the company proposed an ordinary dividend of £150 million to its immediate parent TML Singapore Pte Limited. This amount was paid in full in June 2013.

PARENT COMPANY BALANCE SHEET

As at 31 March (£ millions)	Note	2013	2012	2011
Non-current assets				
Investments	40	1,654.8	1,654.8	1,874.8
Other financial assets	41	1,953.7	-	-
Other non-current assets	44	4.7	9.0	-
Total non-current assets		**3,613.2**	**1,663.8**	**1,874.8**
Current assets				
Cash and cash equivalents	39	1.4	1.1	3.7
Other financial assets	41	72.7	1,709.7	404.6
Other current assets	44	4.8	4.5	-
Total current assets		**78.9**	**1,715.3**	**408.3**
Total assets		**3,692.1**	**3,379.1**	**2,283.1**
Current liabilities				
Deferred finance income		4.8	-	-
Short term borrowings and current portion of long term debt	45	-	157.1	434.8
Other financial liabilities	42	39.1	48.0	-
Current income tax liabilities		11.6	-	-
Total current liabilities		**55.5**	**205.1**	**434.8**
Non-current liabilities				
Long term debt	45	1,839.0	1,484.4	157.1
Other non-current financial liabilities		47.0	-	-
Non current deferred finance income		34.9	-	-
Total non-current liabilities		**1,920.8**	**1,484.4**	**157.1**
Total liabilities		**1,976.3**	**1,689.5**	**591.9**
Equity attributable to equity holders of the parent				
Ordinary shares	46	1,500.6	1,500.6	1,500.6
Capital redemption reserve		166.7	166.7	166.7
Foreign currency on change to presentational currency		-	-	-
Accumulated reserves / (deficit)		48.5	22.3	23.9
Equity attributable to equity holders of the parent		**1,715.8**	**1,689.6**	**1,691.2**
Total liabilities and equity		**3,692.1**	**3,379.1**	**2,283.1**

These financial statements were approved by the board of directors on 23/07/13 and signed on its behalf by:

Dr Ralf Speth
Chief Executive Officer

Company Registered number
06477691

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

(£ millions)	Ordinary share capital	Capital redemption reserve	Foreign currency on change to presentational currency	Reserves / (accumulated deficit)	Total Equity
Balance at 31 March 2012	1,500.6	166.7	-	22.3	1,689.6
Income for the year	-	-	-	176.3	176.3
Dividend paid	-	-		(150.1)	(150.1)
Balance at 31 March 2013	**1,500.6**	**166.7**	-	**48.5**	**1,715.8**
Balance at 31 March 2011	1,500.6	166.7	-	23.9	1,691.2
Loss for the year	-	-	-	(1.6)	(1.6)
Balance at 31 March 2012	**1,500.6**	**166.7**		**22.3**	**1,689.6**
Balance at 31 March 2010	644.6		(371.2)	(51.7)	221.7
Income for the year	-	-	-	21.9	21.9
Foreign currency on change to presentational currency			371.2		371.2
Cancellation of redeemable preference shares	-	-	-	48.8	48.8
Issue of ordinary shares	856.0	166.7	-	4.9	1,027.6
Balance at 31 March 2011	**1,500.6**	**166.7**	**-**	**23.9**	**1,691.2**

PARENT COMPANY CASH FLOW STATEMENT

Year ended 31 March (£ millions)	2013	2012	2011
Cash flows from operating activities			
Net income / (loss)	26.2	(1.6)	21.9
Adjustments for:			
Income tax expense	11.6	-	-
Finance income	(135.0)	(80.6)	(21.9)
Finance expense	135.2	87.7	-
Foreign exchange losses on loans	(7.8)	9.9	-
Gain on embedded derivatives	(47.0)	-	-
Cash flows (used in) / from operating activities	**(16.8)**	**15.4**	**-**
Other financial assets	195.5	(1,077.9)	-
Other current liabilities	(1.4)	4.4	-
Net cash used in / (from) operating activities	**177.3**	**(1,058.1)**	**-**
Cash flows from investing activities			
Finance income received	121.1	73.4	2.8
Dividends received	150.1	-	-
Net cash from investing activities	**271.2**	**73.4**	**2.8**
Cash flows (used in) / from financing activities			
Finance expenses and fees paid	(141.0)	(85.3)	-
Repayment of short term debt	(157.1)	(432.6)	-
Proceeds from issuance of long term debt	-	1,500.0	-
Dividends paid	(150.1)	-	-
Net cash (used in) / from financing activities	**(448.2)**	**982.1**	**-**
Net change in cash and cash equivalents	0.3	(2.6)	2.8
Cash and cash equivalents at beginning of year	1.1	3.7	0.9
Cash and cash equivalents at end of year	**1.4**	**1.1**	**3.7**

39. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

As at 31 March (£ millions)	2013	2012	2011
Balances with banks	**1.4**	**1.1**	**3.7**

40. INVESTMENTS

Investments consist of the following:

As at 31 March (£ millions)	2013	2012	2011
Unquoted equity investments, at cost at beginning of the year	1,654.8	1,874.8	1,874.8
Preference share investments converted to financial asset	-	(220.0)	-
Unquoted equity investments, at cost at end of the year	**1,654.8**	**1,654.8**	**1,874.8**

In March 2012, Land Rover and Jaguar Land Rover Limited (formerly Jaguar Cars Limited) converted preference shares owed to Jaguar Land Rover Automotive PLC into debt.
The company has not made any additional investments or disposals of investments in the year.

Subsidiary Undertaking	Interest	Class of shares	Country of Incorporation & Registration	Principal activity
Land Rover	100%	Ordinary shares	England and Wales	Manufacture and sale of motor vehicles

The shareholdings above are recorded at acquisition values in the company's accounts. Details of the indirect subsidiary undertakings are as follows:

Name of Company	Interest	Class of shares	Country of incorporation & operation	Principal activity
Jaguar Land Rover Limited	100%	Ordinary shares	England and Wales	Manufacture and sale of motor vehicles
Jaguar Land Rover Exports Limited	100%	Ordinary shares	England and Wales	Export sales
Land Rover Exports Limited	100%	Ordinary shares	England and Wales	Non trading
Jaguar Belux N.V.	100%	Ordinary shares	Belgium	Distribution and sales
Jaguar Land Rover Deutschland GmbH	100%	Ordinary shares	Germany	Distribution and sales
Jaguar Hispania SL	100%	Ordinary shares	Spain	Distribution and sales
Jaguar Land Rover Austria GmbH	100%	Ordinary shares	Austria	Distribution and sales
Jaguar Land Rover North America LLC	100%	Ordinary shares	USA	Distribution and sales
Jaguar Cars (South Africa) (Pty) Ltd	100%	Ordinary shares	South Africa	Dormant
Jaguar Land Rover (South Africa) Holdings Ltd	100%	Ordinary shares	England and Wales	Holding company
Jaguar Cars Limited	100%	Ordinary shares	England and Wales	Dormant
The Jaguar Collection Limited	100%	Ordinary shares	England and Wales	Dormant
The Daimler Motor Company Limited	100%	Ordinary shares	England and Wales	Dormant
Daimler Transport Vehicles Limited	100%	Ordinary shares	England and Wales	Dormant
The Lanchester Motor Company	100%	Ordinary shares	England and Wales	Dormant
SS Cars Limited	100%	Ordinary shares	England and Wales	Dormant
Jaguar Land Rover Japan Limited	100%	Ordinary shares	Japan	Distribution and sales
Jaguar Land Rover Korea Company Limited	100%	Ordinary shares	Korea	Distribution and sales
Land Rover Group Limited	100%	Ordinary shares	England and Wales	Holding company
Jaguar Landrover Portugal-Veiculos e Pecas, Lda	100%	Ordinary shares	Portugal	Distribution and sales
Land Rover Espana SL	100%	Ordinary shares	Spain	Distribution and sales
Land Rover Nederland BV	100%	Ordinary shares	Holland	Distribution and sales
Jaguar Land Rover Automotive Trading (Shanghai) Ltd	100%	Ordinary shares	China	Distribution and sales

(40. INVESTMENTS)

Name of Company	Interest	Class of shares	Country of incorporation & operation	Principal activity
Jaguar Land Rover Australia Pty Limited	100%	Ordinary shares	Australia	Distribution and sales
Land Rover Belux SA/NV	100%	Ordinary shares	Belgium	Distribution and sales
Land Rover Ireland Limited	100%	Ordinary shares	Ireland	Non trading
Jaguar Land Rover Italia SpA	100%	Ordinary shares	Italy	Distribution and sales
Jaguar Land Rover Canada ULC	100%	Ordinary Shares	Canada	Distribution and sales
Jaguar Land Rover (South Africa) (Pty) Ltd	100%	Ordinary Shares	South Africa	Distribution and sales
Jaguar Land Rover France SAS	100%	Ordinary Shares	France	Distribution and sales
Jaguar e Land Rover Brazil Comercio e Importacao de Veiculos Ltda	100%	Ordinary Shares	Brazil	Distribution and sales
Jaguar Land Rover Limited Liability Company (Russia)	100%	Ordinary Shares	Russia	Distribution and sales
Land Rover Parts Limited	100%	Ordinary Shares	England and Wales	Non trading
Jaguar Land Rover India Limited	100%	Ordinary Shares	India	Distribution and sales

In addition, the company has the following investments:

Jaguar Land Rover Schweiz AG	10.0% interest in the ordinary share capital
Jaguar Cars Finance Limited	49.9% interest in the ordinary share capital
Spark 44 Limited	50.0% interest in the ordinary share capital
Suzhou Chery Jaguar Land Rover Trading Co. Limited	50.0% interest in the ordinary share capital
Chery Jaguar Land Rover Automotive Co.Limited	50.0% interest in the ordinary share capital

The principal activity of Jaguar Land Rover Schweiz AG is the sale of automotive vehicle and parts. The principal activity of Jaguar Cars Finance Limited was the provision of credit finance. The principle activity of Spark 44 is the provision of advertising services. The principle activity of Suzhou Chery Jaguar Land Rover Trading Co. Limited is the assembly of motor vehicles. The principle activity of Chery Jaguar Land Rover Automotive Co. Limited is the assembly of motor vehicles.

41. OTHER FINANCIAL ASSETS

As at 31 March (£ millions)	2013	2012	2011
Non-Current			
Receivables from subsidiaries	1,953.7	-	-
Current			
Other financial assets	72.7	1,709.7	404.6

42. OTHER FINANCIAL LIABILITIES

As at 31 March (£ millions)	2013	2012	2011
Interest payable	36.2	43.7	-
Other	2.9	4.3	-
	39.1	**48.0**	**-**

43. DEFERRED TAX ASSETS AND LIABILITIES

The company has no deferred tax assets or liabilities either recognised or unrecognised.

44. OTHER ASSETS

As at 31 March (£ millions)	2013	2012	2011
Non-current			
Prepaid expenses	4.7	9.0	-
Current			
Prepaid expenses	4.8	4.5	-

45. INTEREST BEARING LOANS AND BORROWINGS

As at 31 March (£ millions)	2013	2012	2011
Others:			
Euro MTF listed bonds	1,839.0	1,484.4	-
Redeemable preference shares classed as debt	-	157.1	157.1
Loans from parent	-	-	434.8
	1,839.0	**1,641.5**	**591.9**
Less:			
Short-term preference shares	-	(157.1)	-
Current portion of parent loan		-	(434.8)
Long term debt	**1,839.0**	**1,484.4**	**157.1**

EURO MTF LISTED DEBT

The bonds are listed on the Euro MTF market, which is a listed market regulated by the Luxembourg Stock Exchange.

Details of the tranches of the bonds are as follows:

- £500 million Senior Notes due 2018 at a coupon of 8.125% per annum - Issued May 2011
- $410 million Senior Notes due 2018 at a coupon of 7.75% per annum - Issued May 2011.
- $410 million Senior Notes due 2021 at a coupon of 8.125% per annum - Issued May 2011.
- £500 million Senior Notes due 2020 at a coupon of 8.25% per annum - Issued March 2012.
- $500 million Senior Notes due 2023 at a coupon of 5.625% per annum - Issued January 2013.The bond funds raised were used to repay both long and short term debt and provide additional cash facilities for the group. Further information relating to the bond may be found in the borrowings and description of indebtedness section within the management discussion and analysis to the front of these financial statements.

PREFERENCE SHARES CLASSIFIED AS DEBT

The holders of the preference shares are entitled to be paid out of the profits available for distribution of the company in each financial year a fixed non-cumulative preferential dividend of 7.25% per annum. The preference share dividend is payable in priority to any payment to the holders of other classes of capital stock.

On a return of capital on liquidation or otherwise, the assets of the company available for distribution shall be applied first to holders of preference shares the sum of £1 per share together with a sum equal to any arrears and accruals of preference dividend.

The company may redeem the preference shares at any time, but must do so, not later than ten years after the date of issue. The holders may demand repayment with one month's notice at any time. On redemption, the company shall pay £1 per preference share and a sum equal to any arrears or accruals of preference dividend.

Preference shares contain no right to vote upon any resolution at any general meeting of the company.

In June 2012, £157.1 million of preference shares were repaid and no preference shares remain outstanding.

The contractual cash flows of interest bearing debt and borrowings as of 31 March 2013 are set out below, including estimated interest payments and excluding the effect of netting agreements and assumes the debt will be repaid at the maturity date.

(45. INTEREST BEARING LOANS AND BORROWINGS)

As at 31 March (£ millions)	2013	2012	2011
Due in			
1 year or less	143.2	133.9	434.8
2nd and 3rd years	286.5	133.9	-
4th and 5th years	286.5	401.7	-
More than 5 years	2,151.6	2,022.8	157.1
	2,867.8	**2,692.3**	**591.9**

46. CAPITAL AND RESERVES

Year ended 31 March (£ millions)	2013	2012	2011
Allotted, called up and fully paid			
1,500,600,000 ordinary shares of £1 each	1,500.6	1,500.6	1,500.6
Nil (Mar 2012 and 2011: 157,100,000) 7.25% preference shares of £1 each	-	157.1	157.1
Nil Ordinary shares of USD $1 each	-	-	-
Nil 7.25% non-cumulative preference shares of USD $100	-	-	-
	1,500.6	**1,657.7**	**1,657.7**
Presented as equity	1,500.6	1,500.6	1,500.6
Presented as debt	-	157.1	157.1

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. Preference shares contain no right to vote upon any resolution at any general meeting of the company.

MOVEMENTS IN SHARE CAPITAL OF THE COMPANY

In May 2010, 792,000 USD $100 preference shares were cancelled.
In November 2010, 2,890,000 USD $100 were cancelled and converted into short term debt.
In March 2011, the remaining USD preference shares and USD ordinary shares were converted into the GBP ordinary shares and preference shares. A capital contribution reserve was set up as a result of this reorganisation.
Due to the conversion of the share capital of the company, the functional currency changed from USD to GBP.
In June 2012, 157,100,000 GBP £1 preference shares were repaid.

47. DIVIDENDS

During the year ended 31 March 2013 an ordinary share dividend of £150.1 million was paid (2012 and 2011: Nil).

Preference shares of £157.1 million were repaid in the year ended 31 March 2013, along with preference share dividends of £14.0 million (2012: accrued £11.4 million, 2011: £Nil).

48. COMMITMENTS & CONTINGENCIES

The company does not have any commitments or contingencies.

49. CAPITAL MANAGEMENT

The company's objectives for managing capital are to create value for shareholders, to safeguard business continuity and support the growth of the company. The company determines the amount of capital required on the basis of annual operating plans and long-term product and other strategic investment plans. The funding requirements are met through a mixture of equity, convertible or non-convertible debt securities and other long-term/short-term borrowings.

The company's policy is aimed at combination of short-term and long-term borrowings.
The company monitors the capital structure on basis of total debt to equity ratio and maturity profile of the overall debt portfolio of the company.
Total debt includes all long and short-term debts and finance lease payables. Equity comprises all components excluding loss on cash flow hedges and foreign currency translation reserve.

The following table summarises the capital of the company:

As at 31 March (£ millions)	2013	2012	2011
Equity	1,715.8	1,689.6	1,691.2
Short term debt	-	157.1	434.8
Long term debt	1,839.0	1,484.4	157.1
Total debt	**1,839.0**	**1,641.5**	**591.9**
Total capital (debt and equity)	**3,554.8**	**3,331.1**	**2,283.1**

50. FINANCIAL INSTRUMENTS

This section gives an overview of the significance of financial instruments for the company and provides additional information on balance sheet items that contain financial instruments.The details of significant accounting policies, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

50A. FINANCIAL ASSETS AND LIABILITIES

The following table presents the carrying amounts and fair value of each category of financial assets and liabilities as of 31 March 2013:

FINANCIAL ASSETS

(£ millions)	Cash, loans and receivables	Fair value through profit and loss	Total carrying value	Total fair value
Cash and cash equivalents	1.4	-	1.4	1.4
Other financial assets - current	72.7	-	72.7	72.7
Other financial assets - non current	1,906.7	47.0	1,953.7	1,953.7
	1,980.8	**47.0**	**2,027.8**	**2,027.8**

FINANCIAL LIABILITIES

(£ millions)	Other financial liabilities	Fair value through profit and loss	Total carrying value	Total fair value (£m)
Preference shares	-	-	-	-
Other financial liabilities - current	39.1	-	39.1	39.1
Other financial liabilities - non current	-	47.0	47.0	47.0
Long term debt	1,839.0	-	1,839.0	2,058.1
	1,878.1	**47.0**	**1,925.1**	**2,144.2**

The following table presents the carrying amounts and fair value of each category of financial assets and liabilities as of 31 March 2012:

FINANCIAL ASSETS

(£ millions)	Cash, loans and receivables	Total carrying value	Total fair value
Cash and cash equivalents	1.1	1.1	1.1
Other financial assets - current	1,709.7	1,709.7	1,709.7
	1,710.8	**1,710.8**	**1,710.8**

FINANCIAL LIABILITIES

(£ millions)	Other financial liabilities	Total carrying value	Total fair value
Preference shares	157.1	157.1	157.1
Other financial liabilities	48.0	48.0	48.0
Long term debt	1,484.4	1,484.4	1,534.0
	1,689.5	**1,689.5**	**1,739.1**

The following table presents the carrying amounts and fair value of each category of financial assets and liabilities as of 31 March 2011:

FINANCIAL ASSETS

(£ millions)	Cash, loans and receivables	Total carrying value	Total fair value
Cash and cash equivalents	3.7	3.7	3.7
Other financial assets - current	404.6	404.6	404.6
	408.3	**408.3**	**408.3**

FINANCIAL LIABILITIES

(£ millions)	Other financial liabilities	Total carrying value	Total fair value
Short term debt	434.8	434.8	434.8
Long term debt	157.1	157.1	157.1
	591.9	**591.9**	**591.9**

Fair value hierarchy

Financial instruments carried at fair value are required to be measured by reference to the following levels.

Quoted prices in an active market (Level 1): This level of hierarchy includes financial assets that are measured by reference to quoted prices (unadjusted) in active markets for identical assets or liabilities. This category mainly includes quoted equity shares, quoted corporate debt instruments and mutual fund investments.

Valuation techniques with observable inputs (Level 2): This level of hierarchy includes financial assets and liabilities measured using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Valuation techniques with significant unobservable inputs (Level 3): This level of hierarchy includes financial assets and liabilities measured using inputs that are not based on observable market data (unobservable inputs). Fair values are determined in whole or in part using a valuation model based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data.

All financial instruments held at fair value are valued using Level 2 valuation techniques.

The short term financial assets and liabilities, except for derivative instruments, are stated at amortised cost which is approximately equal to their fair value.

The fair value prepayment options of £47.0 million relate to the GDP 500 million and USD 410 million senior notes which have been bifucated. The fair value represents the difference the in the traded market price of the bonds and the expected price the bonds would trade at if they did not contain any prepayment features. The expected price is

(50. FINANCIAL INSTRUMENTS)

based on market inputs including credit spread and interest rates. The fair value of the long term debt is calculated using the 31 March 2013 closing price on the Euro MTF market for the unsecured listed bonds

Management uses its best judgment in estimating the fair value of its financial instruments. However, there are inherent limitations in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented above are not necessarily indicative of all the amounts that the group could have realised in a sales transaction as of respective dates. The estimated fair value amounts as of 31 March 2013, 31 March 2012 and 31 March 2011 have been measured as of the respective dates. As such, the fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

50B. CASH FLOW HEDGING

As at 31 March 2013, 31 March 2012 and 31 March 2011, there are no designated cash flow hedges.

50C. FINANCIAL RISK MANAGEMENT

In the course of its business, the company is exposed primarily to fluctuations in foreign currency exchange rates, interest rates, equity price, liquidity and credit risk, which may adversely impact the fair value of its financial instruments.

The company has a risk management policy which not only covers the foreign exchange risks but also the risks associated with the financial assets and liabilities like interest rate risks and credit risks. The risk management policy is approved by the board of directors. The risk management framework aims to:

Create a stable business planning environment – by reducing the impact of currency and interest rate fluctuations to the company's business plan.
Achieve greater predictability to earnings – by determining the financial value of the expected earnings in advance.

50D. MARKET RISK

Market risk is the risk of any loss in future earnings in realisable fair values or in future cash flows that may result from a change in the price of a financial instrument. The value of a financial instrument may change as a result of changes in the interest rates, foreign currency exchange rate, equity price fluctuations, liquidity and other market changes. Future specific market movements cannot be normally predicted with reasonable accuracy.

50E. FOREIGN CURRENCY EXCHANGE RATE RISK

The fluctuation in foreign currency exchange rates may have potential impact on the income statement, equity, where any transaction references more than one currency or where assets/liabilities are denominated in a currency other than the functional currency of the company.
The company's operations are subject to risks arising from fluctuations in exchange rates. The risks primarily relate to fluctuations in the GBP:US Dollar rate as the company has USD assets and liabilities and a GBP functional currency.
The following analysis has been worked out based on the gross exposure as of the Balance Sheet date which could affect the income statement.

(£ millions)	US Dollar
Financial assets	891.2
Financial liabilities	(888.2)
Net exposure asset	**3.0**

10% appreciation/ depreciation of the USD would result in an increase/ decrease in the company's net profit before tax and net assets by approximately £0.3 million.
The following table set forth information relating to foreign currency exposure as at 31 March 2012:

(£ millions)	US Dollar
Financial assets	533.2
Financial liabilities	(527.8)
Net exposure asset	**5.4**

10% appreciation/ depreciation of the USD would result in an increase/ decrease in the company's net profit before tax and net assets by approximately £0.5 million

The following table set forth information relating to foreign currency exposure as at 31 March 2011:

(£ millions)	US Dollar
Financial assets	434.8
Financial liabilities	(156.6)
Net exposure asset	**280.2**

10% appreciation/ depreciation of the USD would result in an increase/ decrease in the company's net profit before tax and net assets by approximately £25.5 million

50F. INTEREST RATE RISK

Interest rate risk is measured by using the cash flow sensitivity for changes in variable interest rates. Any movement in the reference rates could have an impact on the cash flows as well as costs.
The company is subject to variable interest rates on some of its interest bearing liabilities. The company's interest rate exposure is mainly related to debt obligations. The company also uses a mix of interest rate sensitive financial instruments to manage the liquidity and fund requirements for its day to day operations like preference shares and short term loans.
As of 31 March 2013 net financial liabilities of £17.9 million (2012: £18.4 million, 2011: £411.1 million) were subject to the variable interest rate. Increase/ decrease of 100 basis points in interest rates at the balance sheet date would result in an impact of £0.2 million (2012: £0.2 million, 2011: £4.1 million).
The model assumes that interest rate changes are instantaneous parallel shifts in the yield curve. Although some assets and liabilities may have similar maturities or periods to re-pricing, these may not react correspondingly to changes in market interest rates. Also, the interest rates on some types of assets and liabilities may fluctuate with changes in market interest rates, while interest rates on other types of assets may change with a lag.
The risk estimates provided assume a parallel shift of 100 basis points interest rate across all yield curves. This calculation also assumes that the change occurs at the balance sheet date and has been calculated based on risk exposures outstanding as at that date. The year end balances are not necessarily representative of the average debt outstanding during the year.
This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

50G. CREDIT RISK

Credit risk is the risk of financial loss arising from counterparty failure to repay or service debt according to the contractual terms or obligations. Credit risk encompasses of both, the direct risk of default and the risk of deterioration of creditworthiness as well as concentration risks.
Financial instruments that are subject to concentrations of credit risk consist of loans to subsidiaries.

Exposure to credit risk
The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk was £1,980.8 million (2012: £1,710.8 million, 2011: £408.3 million), being the total of the carrying amount of cash balance with banks and other finance receivables.

Financial assets that are neither past due nor impaired
None of the company's cash equivalents or other financial receivables, including time deposits with banks, are past due or impaired.

51. RELATED PARTY TRANSACTIONS

The company's related parties principally consist of Tata Sons Ltd., subsidiaries of Tata Sons Ltd, associates and joint ventures of Tata Sons Limited. The company routinely enters into transactions with these related parties in the ordinary course of business.

The following table summarises related party transactions and balances not eliminated in the consolidated financial statements.

As at 31 March (£ millions)	With subsidiaries 2013	With immediate parent 2013
Loans from Parent	-	-
Loans to subsidiaries	2,026.4	-

As at 31 March (£ millions)	With subsidiaries 2012	With immediate parent 2012
Loans from Parent	-	157.2
Loans to subsidiaries	1,709.7	-

As at 31 March (£ millions)	With subsidiaries 2011	With immediate parent 2011
Loans from Parent	-	591.9
Loans to subsidiaries	404.6	-

There was no compensation paid by the company to the directors or to key management personnel.
Apart from the directors, the company did not have any employees and had no employee costs.

52. ULTIMATE PARENT COMPANY AND PARENT COMPANY OF LARGER GROUP

The immediate parent undertaking is TML Singapore Pte Limited and ultimate parent undertaking and controlling party is Tata Motors Limited, India which is the parent of the smallest and largest group to consolidate these financial statements.

Copies of the Tata Motors Limited, India consolidated financial statements can be obtained from the Group Secretary, Tata Motors Limited, Bombay House, 24, Homi Mody Street, Mumbai – 400001, India.

53. SUBSEQUENT EVENTS

In June 2013, the company proposed an ordinary dividend of £150 million to its immediate parent TML Singapore Pte Limited. This amount was paid in full in June 2013.

ACCOUNTS INFORMATION
NOTES

ACCOUNTS INFORMATION
NOTES

Designed and produced by FP Creative
www.fpcreative.com

Jaguar Land Rover
Whitley
Warwickshire
CV3 4HL
United Kingdom

Annual Report 2012

Year ended March 31, 2012

mazda

CORPORATE VISION

VISION

To create new value, excite and delight our customers through the best automotive products and services.

MISSION

With passion, pride and speed, we actively communicate with our customers to deliver insightful automotive products and services that exceed their expectations.

VALUE

We value integrity, customer focus, creativity, and efficient and nimble actions and respect highly motivated people and team spirit. We positively support environmental matters, safety and society. Guided by these values, we provide superior rewards to all people associated with Mazda.

Contents

Forward-Looking Statements

Statements made in this Annual Report with respect to Mazda's plans, strategies, and future performance are forward-looking statements based on management's assumptions and beliefs in the light of information currently available, and involve risks and uncertainties. Potential risks and uncertainties include, but are not limited to, sudden changes in general economic conditions in Mazda's markets and operating environment; exchange rates, particularly the yen against the U.S. dollar and the euro; the ability of Mazda and its subsidiaries to develop and introduce products that incorporate new technology in a timely manner and to manufacture them in a cost effective way; and fluctuations in stock markets. Accordingly, actual results could differ materially from those contained in any forward-looking statements.

MAZDA'S KEYWORDS

ZOOM-ZOOM

Since launching the first Mazda6 in 2002, Mazda has used the term Zoom-Zoom (emotional sensation of movement experienced as a child) as a global message to clearly express the Mazda brand DNA.

SUSTAINABLE ZOOM-ZOOM

Mazda announced its long-term vision for technological development in March 2007. Mazda plans to improve the average fuel economy of all Mazda vehicles sold worldwide 30% by 2015, compared with the 2008 levels.

BUILDING BLOCK STRATEGY

Mazda is pursuing a Building Block Strategy, which involves first prioritizing improvements in the "base technologies" for a car's basic performance, followed by the introduction in stages of electric devices like regenerative braking systems and hybrid systems. Rather than to rely significantly on a limited number of environmentally friendly vehicles, Mazda's approach is to effectively reduce overall CO_2 emissions by providing all customers with driving pleasure and outstanding environmental and safety performance.

SKYACTIV TECHNOLOGY

Mazda's proprietary, next-generation technology, being developed in line with its Building Block Strategy, is in a class of its own. SKYACTIV is our general term for revolutionary, next-generation technologies that present new dimensions in driving pleasure and outstanding environmental and safety performance.

KODO (SOUL OF MOTION) DESIGN THEME

KODO refers to the strength and beauty shown by living things at the instant between motionlessness and action, and is what Mazda seeks in its new design theme. The new Mazda CX-5 is the first model to fully incorporate this concept.

Consolidated Financial Highlights

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31

HIGHLIGHTS

- Net sales declined 13%, to ¥2,033.1 billion, with a ¥62.6 billion decrease in operating income, to a ¥38.7 billion operating loss, reflecting the yen's appreciation combined with lower production and sales volumes.
- A net loss of ¥107.7 billion was recorded as a result of impairment losses, loss on disaster from the Great East Japan Earthquake, restructuring expenses, and a write-off of deferred tax assets.
- After hitting bottom in the third quarter, a profit was achieved at all levels due to higher unit sales and the effects of cost improvements.
- Despite strong sales in North America and the ASEAN region, economic uncertainty in Europe, the impact from the Great East Japan Earthquake, and declines in exports from the flooding in Thailand resulted in a 2% decline in global sales volume, to 1,247,000 units.
- The Group took steps to secure the funds needed for growth and strengthen its financial position through a public offering of shares and a subordinated loan.

			Millions of yen			Thousands of U.S. dollars*1
For the year	2008	2009	2010	2011*7	**2012**	**2012**
Net sales	¥3,475,789	¥2,535,902	¥2,163,949	¥2,325,689	**¥2,033,058**	**$24,793,390**
Operating income (loss)	162,147	(28,381)	9,458	23,835	**(38,718)**	**(472,171)**
Income (loss) before income taxes	143,117	(51,339)	(7,265)	16,081	**(55,262)**	**(673,927)**
Net income (loss)	91,835	(71,489)	(6,478)	(60,042)	**(107,733)**	**(1,313,817)**
Capital expenditures	75,518	81,838	29,837	44,722	**78,040**	**951,707**
Depreciation and amortization	74,217	84,043	76,428	71,576	**68,791**	**838,915**
Research and development costs	114,400	95,967	85,206	90,961	**91,716**	**1,118,488**
Free cash flow*2	10,209	(129,244)	67,394	1,627	**(79,415)**	**(968,475)**
At the year-end						
Total assets	¥1,985,566	¥1,800,981	¥1,947,769	¥1,771,767	**¥1,915,943**	**$23,365,159**
Equity	554,154	414,731	509,815	430,539	**474,429**	**5,785,720**
Financial debt	504,979	753,355	722,128	693,000	**778,085**	**9,488,841**
Net financial debt	281,085	532,631	375,825	370,151	**300,778**	**3,668,024**
Cash and cash equivalents	223,894	220,724	346,303	322,849	**477,307**	**5,820,817**
Amounts per share of common stock			Yen			U.S. dollars*1
Net income (loss)*3	¥ 65.21	¥ (52.13)	¥ (4.26)	¥ (33.92)	**¥ (57.80)**	**$(0.70)**
Cash dividends applicable to the year*4	6.00	3.00	3.00	—	**—**	**—**
Equity*5	391.82	314.98	286.92	242.24	**156.85**	**1.91**
Management indexes			%			
Return on assets (ROA)	4.7	(3.8)	(0.3)	(3.2)	**(5.8)**	
Return on equity (ROE)*6	17.9	(14.8)	(1.4)	(12.8)	**(24.0)**	
Equity ratio*6	27.8	22.9	26.1	24.2	**26.3*8**	
Net debt-to-equity ratio*6	50.9	128.9	74.0	86.3	**52.7*8**	

( ) indicates minus

Notes: *1. The translation of the Japanese yen amounts into U.S. dollars is presented solely for the convenience of readers, using the prevailing exchange rate on March 31, 2012, of ¥82 to US$1.

*2. Free cash flow represents the sum of net cash flows from operating activities and from investing activities.

*3. The computations of net income (loss) per share of common stock are based on the weighted-average number of shares outstanding during each fiscal year.

*4. Cash dividends per share represent actual amounts applicable to the respective year.

*5. The amounts of equity used in the calculation of equity per share exclude minority interests and stock acquisition rights.

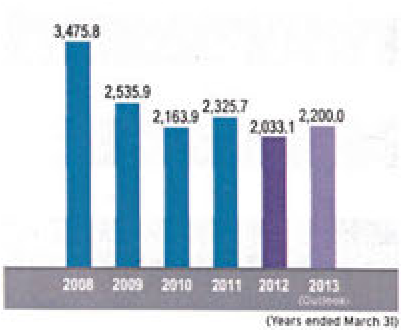
*6. The amounts of equity exclude minority interests and stock acquisition rights.

*7. Results information for the fiscal year March 2011 includes 15-month results for certain overseas subsidiaries that changed their fiscal year-end.

*8. Ratio after taking into account the capital nature of the subordinated loan. This subordinated loan is recognized by Rating and Investment Information, Inc., as having a 50% capital equivalence. Not including the equity capital attributes of the subordinated loan, the shareholders' equity ratio was 24.5% and the ratio of net interest bearing debt to shareholders' equity was 64.2%.

Net Sales

Billions of yen



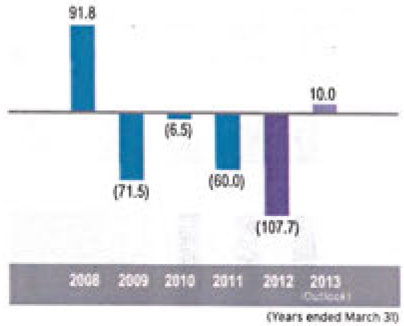
Operating Income/ Operating Income Margin

Billions of yen/%

Operating income
Operating income margin

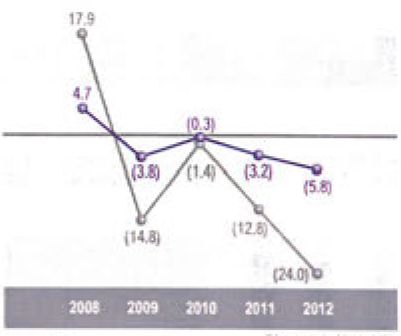
Net Income

Billions of yen



ROE/ROA

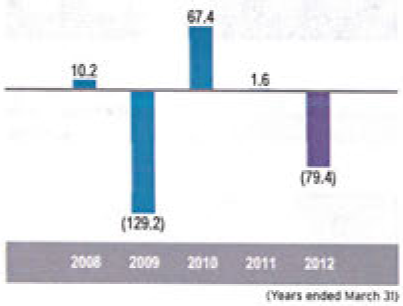
%



ROE
ROA

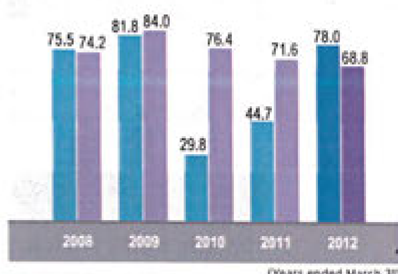
Free Cash Flow

Billions of yen



Capital Expenditures/ Depreciation and Amortization

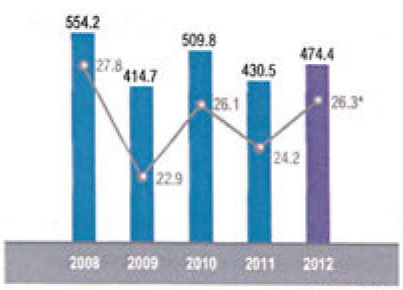
Billions of yen



Capital expenditures
Depreciation and amortization

Equity/Equity Ratio

Billions of yen/%



Equity
Equity ratio

* Ratios after the recognition of equity capital attributes of the subordinated loan.

Net Financial Debt/ Net Debt-to-equity Ratio

Billions of yen/%

Net financial debt
Net debt-to-equity ratio

* Ratios after the recognition of equity capital attributes of the subordinated loan.

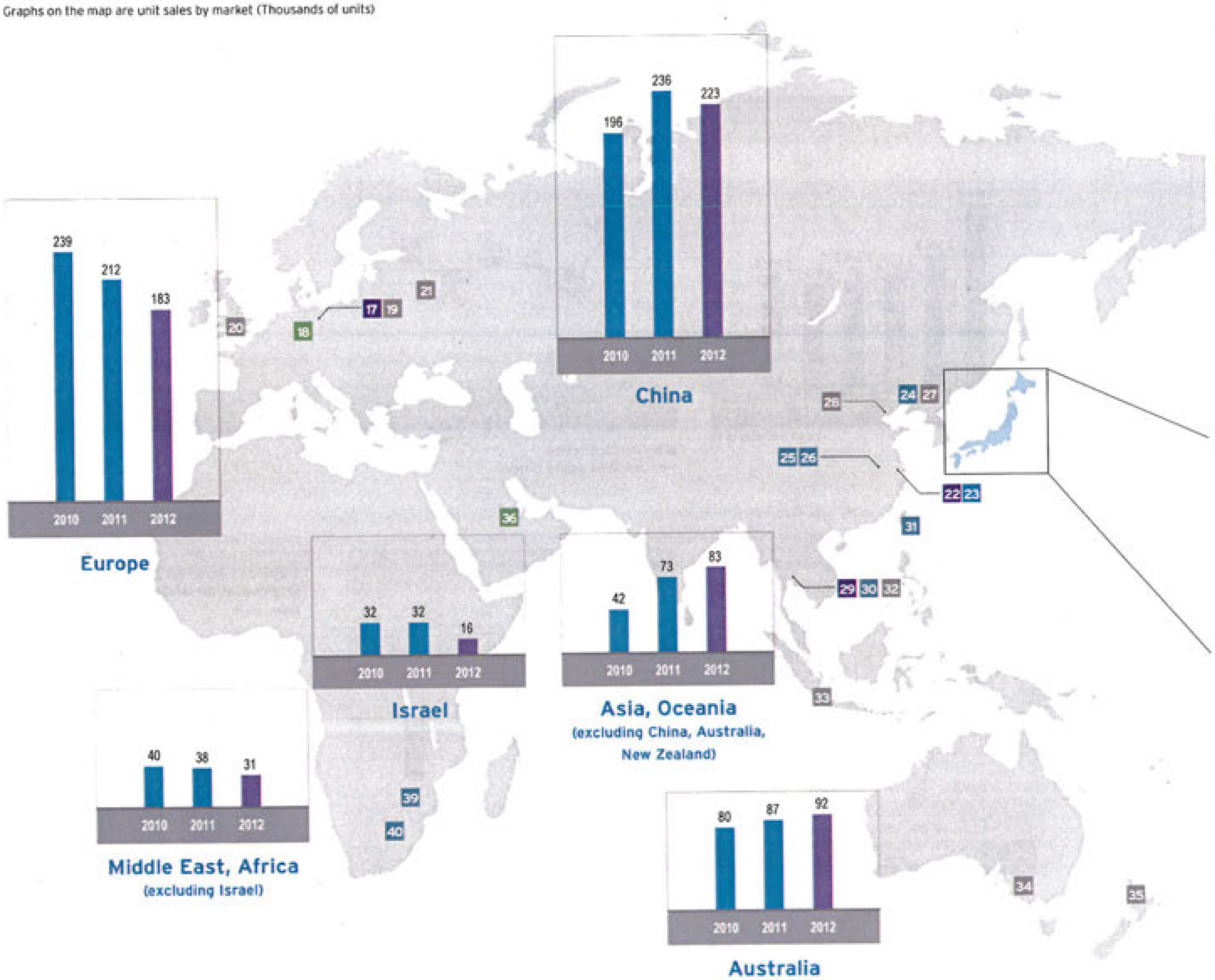
Research and Development Costs/ Share of Net Sales

Billions of yen/%

Research and development costs
Share of net sales

Global Network

Years ended March 31
Graphs on the map are unit sales by market (Thousands of units)



Major Facilities

Japan

(Number of dealerships: 1,080)

Headquarters	1 Headquarters
R&D	2 Headquarters R&D Divisions
	3 Mazda R&D Center (Yokohama)
	4 Miyoshi Proving Ground
	5 Mine Proving Ground
	6 Hokkaido Kenbuchi Proving Ground
	7 Hokkaido Nakasatsunai Proving Ground
Production facilities	8 Hiroshima Plant
	9 Hofu Plant
	10 Miyoshi Plant
	11 Press Kogyo Onomichi Plant*

North America

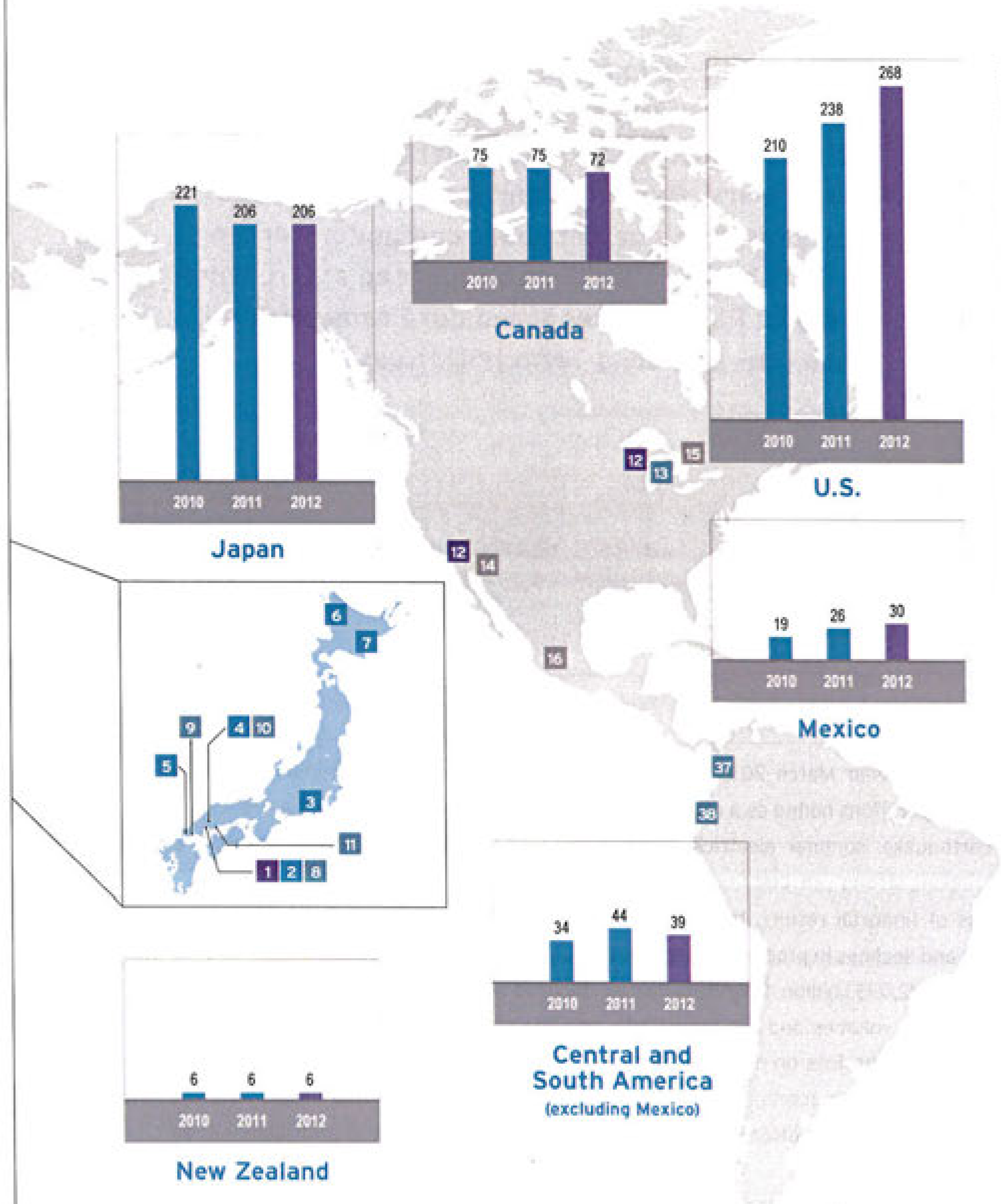
(Number of dealerships: 832)

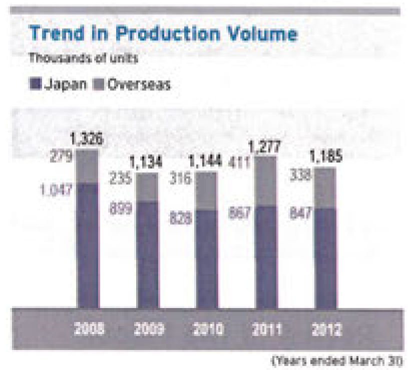
Regional headquarters /R&D	12 Mazda North American Operations
Production facilities	13 AutoAlliance International
Distributors	14 Mazda Motor of America
	15 Mazda Canada
	16 Mazda Motor de Mexico

Europe

(Number of dealerships: 2,192)

Regional headquarters /R&D	17 Mazda Motor Europe / European R&D Centre
Logistics/Sales	18 Mazda Motor Logistics Europe
Distributors	19 Mazda Motors (Deutschland)
	20 Mazda Motors UK
	21 Mazda Motor Russia
	19 others in major markets





China

(Number of dealerships: 365)

Regional headquarters	22 Mazda Motor (China) (MCO)
R&D	23 MCO China Engineering Support Center
Production facilities	24 FAW Car*
	25 Changan Ford Mazda Automobile (Nanjing Company)
	26 Changan Ford Mazda Engine
Distributors	27 FAW Mazda Motor Sales
	28 Changan Ford Mazda Automobile Sales

Asia, Oceania

(Number of dealerships: 479)

Regional headquarters	29 Mazda South East Asia
Production facilities	30 AutoAlliance (Thailand)
	31 Ford Lio Ho Motor*
Distributors	32 Mazda Sales (Thailand)
	33 PT. Mazda Motor Indonesia
	34 Mazda Australia
	35 Mazda Motors of New Zealand

Central and South America, Middle East, Africa

(Number of dealerships: 646)

Sales and service for dealers	36 Mazda Representative Office (Middle East)
Production facilities/ Distributors	37 Compania Colombiana Automotriz
Production facilities	38 Manufacturas, Armadurias y Repuestos Equatorianos*
	39 Willowvale Mazda Motor Industries
	40 Ford Motor Company of Southern Africa*

(As of December 31, 2011)

* Consignment production facilities

To Shareholders and Investors

I would like to express my gratitude to shareholders and other investors, and all of the Mazda Group's stakeholders, including customers, suppliers, and local communities for your continued support and understanding.

In February 2012, we announced a Structural Reform Plan to strengthen our Framework for Medium- and Long-Term Initiatives.

Takashi Yamanouchi
Representative Director, Chairman of the Board, President and CEO

Review of the Fiscal Year March 2012

Although we recorded a loss, due primarily to an adverse external environment exacerbated by the yen's appreciation to a record-breaking high level, results bottomed out in the third quarter and we achieved profitability at all levels in the fourth quarter

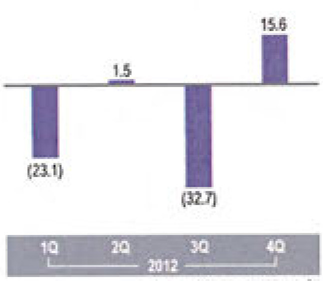
During the fiscal year March 2012, we experienced a succession of once-in-a-generation events, with operations halted as a result of the unprecedented damage from the Great East Japan Earthquake, summer electrical power shortages, the European financial crisis, a record-breaking strong yen, and flooding in Thailand.

In terms of financial results, the combination of the yen's appreciation against major currencies and declines in production and sales volumes led to a ¥292.6 billion (13%) decline in net sales, to ¥2,033.1 billion. Operating income declined ¥62.6 billion, to a ¥38.7 billion loss, from changes in volumes and the model mix, and the strong yen. In addition, with asset impairment expenses, loss on disaster from the earthquake, restructuring expenses, and a write-off of deferred tax assets, the net loss widened ¥47.7 billion, to ¥107.7 billion. In terms of quarterly profits, after bottoming out in the third quarter, we achieved profitability at all levels in the fourth quarter.

Despite this adverse operating environment, we implemented a variety of measures that yielded significant results in the year.

On the product side, the new Mazda Demio (overseas name: Mazda2) and Mazda Axela (overseas name: Mazda3) with SKYACTIV technology were well received for their overall craftsmanship and SKYACTIV features. SKYACTIV technology is highly valued and has already won 29 awards and continues to do so. For example, the new Demio won the Car of the Year Japan Special Award and the 2011 Nikkei Superior Products and Services Awards for Excellence. SKYACTIV engine was named the 2012 Automotive Researchers' and Journalists' Conference of Japan (RJC) Technology of the Year. The new Mazda CX-5 crossover SUV was named a Top Safety Pick for 2012, the highest possible safety rating, by the U.S. Insurance Institute for Highway Safety (IIHS). The new Mazda CX-5 has been highly evaluated in the media. For example, the CX-5 was named the Crossover of the Year by Autobytel, and was rated No. 1 for drive by *Auto Bild*, a leading German automotive magazine. We have also had a lot of success in raising brand value, including a Mazda car being recognized for having the Highest Residual Value for the third consecutive year in the United States.

Operating Income (Loss)
Billions of yen



(Year ended March 31)

In terms of sales, global sales volume was lower than in the previous year because of the cooling of the European market and the earthquake in Japan, but we gained record market shares in the United States, Mexico, Australia, Thailand, Indonesia, and Malaysia.

Our plans to increase overseas production capacity are also proceeding on track. We have begun construction of a new plant in Mexico and commenced local assembly in the ASEAN market. Our Medium- and Long-Term Initiatives based on Monotsukuri Innovation and Tsunagari Innovation are also showing steady progress.

During the fiscal year March 2012, in implementing the Structural Reform Plan, we simultaneously carried out a capital increase by means of a public offering and a subordinated loan from our main financial institutions so that we may realize a future of steady growth and profitability even in an environment with a strong yen. By performing these, we were able to strengthen our financial base to secure the funds for growth, including the future strategic investment in the establishment of global production systems and next-generation environmental and safety technologies and to cope with changes in the business environment. We aim to achieve medium- and long-term growth through the implementation of Structural Reform Plan to strengthen the "Framework for Medium- and Long-Term Initiatives," and through the establishment of a solid financial foundation.

Forecast for the Fiscal Year March 2013

We will swiftly and steadily implement the Structural Reform Plan to achieve profitability at all levels

The adverse operating environment appears set to continue in the fiscal year March 2013, but we are responding with swift and steady action. Specifically, based on the Structural Reform Plan to strengthen the Framework for Medium- and Long-Term Initiatives, we are accelerating initiatives in various areas and leveraging SKYACTIV technology for a complete "business transformation" throughout the entire value chain, from development and procurement to manufacturing, sales, and service.

With the protracted problems of the yen's appreciation and the European sovereign debt crisis, the outlook for economic trends in emerging markets and the overall operating environment remains unclear. Nevertheless, we are aiming for profitability at all levels through the steady implementation of the Structural Reform Plan.

For the fiscal year March 2013, we are forecasting a 7% increase in global sales volume, to 1.34 million units. By market, this breaks down as a 9% increase to 225,000 units in Japan, a 5% increase to 390,000 units in North America, a 1% increase to 185,000 units in Europe, a 15% increase to 255,000 units in China, and an 8% increase to 285,000 units in other markets. Our exchange rate assumptions are ¥80/US$ and ¥105/euro. In terms of full-year consolidated earnings, we are forecasting an 8% increase in net sales to ¥2,200 billion, with operating income of ¥30 billion and net income of ¥10 billion.

Structural Reform Plan

We will continue to move forward by pursuing four principal measures

Next, I would like to explain the Structural Reform Plan, focusing on the plan's four principal measures.

The first is "Business Innovation through SKYACTIV TECHNOLOGY." The new CX-5 is our first product fully equipped with SKYACTIV technology, and is further enhancing Mazda's brand value. Leveraging this favorable reception, we are aiming to achieve sales without discounting and to strengthen our service structure. Our plan for the fiscal year March 2013 is to have 30% of our cars equipped with SKYACTIV technology, and we aim to raise this to at least 80% over the four years to the fiscal year March 2016 by introducing eight models that are fully equipped with SKYACTIV technology. In the fiscal year March 2013, we will introduce a new Mazda Atenza (overseas name: Mazda6) equipped with the "i-ELOOP" regenerative braking system that improves fuel economy in real-world driving conditions. We also plan to launch a SKYACTIV-equipped hybrid vehicle in the fiscal year March 2014.

The second measure is to "Accelerate further cost improvement through Monotsukuri Innovation." Our group of next-generation products, beginning with the new CX-5, is expected to achieve initial cost targets, but in light of subsequent changes in the operating environment, we are aiming for additional cost reductions by raising our target for improvement in the area of vehicle costs from 20% to 30%. In addition, we will look beyond vehicle costs alone and endeavor to reduce fixed costs. We have already begun work to make investment in development and production more efficient, improve administrative operations efficiency, reduce staffing levels while developing staff capabilities, strategically shift domestic indirect employees to overseas and front line, and make operations in Europe and North America more efficient.

The third measure is to "Reinforce business in emerging countries and establish global production footprints." Reviewing our production structure and bringing the percentage of overseas production to 50% of total production are important components of the Structural Reform Plan. We have identified China, Russia, ASEAN, and Central and South America as the main markets for these activities. We already have a production structure in place in China, and are expanding our sales network and product lineup, and strengthening customer satisfaction, with a view to annual sales of 400,000 units. In Russia, we have concluded an agreement with Sollers to establish a joint-venture manufacturing company, and we plan to begin production from the fall of 2012. We intend to expand our sales network throughout the ASEAN region, along with increasing our truck production capacity in Thailand. In Central and South America, plans for production in Mexico are proceeding on track. In addition to strong sales in Mexico and Chile, we are considering entering the remaining three-million-unit-market, Brazil.

One of our assumptions in increasing overseas production is that this will simultaneously reduce costs and promote additional sales. At the same time, we plan to maintain domestic production at the 850,000 unit level, but this assumes that we will step up our efforts to create a cost structure that can generate profit in all of the more than 100 countries to which we export from Japan, even at current exchange rate levels, as we were able to achieve with the new CX-5.

The fourth measure is to "Promote Global Alliances." We have alliances in place with companies in Japan, the United States, Europe, and China, and going forward we will continue to pursue business and technological alliances to further strengthen the Mazda brand. Since the announcement of the Structural Reform Plan, we have already concluded agreements for alliances with two companies, Sollers and Fiat. We are also proactively tendering technologies and products including SKYACTIV powertrains.

By steadily pursuing these measures under the Structural Reform Plan, we aim to achieve operating income of ¥150 billion with an operating income margin of at least 6%, and global sales volume of 1.7 million units over the four years starting from fiscal year March 2013.

Capital Increase by Means of a Public Offering

Mazda has been pursuing a variety of measures to strengthen its management and operations, but at the end of the third quarter our financial position temporarily deteriorated as a result of sudden changes in the business environment. This timing also marked a major turning point for future growth, with the global launch of the new CX-5, fully equipped with SKYACTIV technology.

While implementing the Structural Reform Plan, we were able to secure capital for the future and strengthen our equity capital to respond to environmental changes, through a capital increase by means of a public offering of shares and the procurement of a subordinated loan from our main financial institutions. This led to a significant dilution of Mazda's shares and imposed a burden on existing shareholders, but we intend to quickly meet the expectations of shareholders and raise shareholder value through the swift and steady implementation of the measures contained in the Structural Reform Plan.

Public Offering and Subordinated Loan

Overview

Amount procured	Capital increase via public offering: ¥144.2 billion Subordinated loan: ¥70.0 billion
Issue price	¥124/share
Amount paid	¥118.88/share
No. of shares issued	1,219 million shares
No. of shares issued after capital increase	2,999 million shares

Financial indicators after capital increase

	As of the end of December 2011		As of March 31, 2012	
Equity ratio	19%	→	24%	26%*
Net debt-to-equity ratio	155%	→	64%	53%*
Book value per share	¥183	→	¥157	

* After the recognition of equity capital attributes of the subordinated loan

Returns to Shareholders

Mazda's policy is to determine the amount of dividend payments each fiscal year, taking into account financial results and the operating environment. With the recording of a net loss and a retained loss, we have decided to forgo the payment of a year-end dividend for the fiscal year March 2012. In addition, we are expecting to record a retained loss again in the fiscal year March 2013, and therefore payment of dividends is to be suspended for the fiscal year March 2013. Going forward, we aim to restore the dividend by the fiscal year March 2016 through the swift and steady implementation of the Structural Reform Plan. We regret the necessity of this decision and ask for shareholders' understanding.

In Conclusion

Building a "Mazda that earns the absolute satisfaction and trust of customers" through highly competitive products

Going forward, I intend to consolidate the Group's strength so that we can work as "One Mazda" to achieve a resilient management structure that will not be significantly impacted by exchange rate movements, and to raise shareholder value. Beginning with refining our base technologies, Mazda is taking a unique approach toward creating next-generation automobiles, as demonstrated to date in our proprietary Building Block Strategy. The development and introduction of i-stop was the first step in this process. The i-ELOOP regenerative braking technology being introduced in the fiscal year March 2013 is the second step, and as a third step, we intend to introduce engine drive technologies in the near future.

From 2012, we have begun the full-scale introduction of next-generation products fully equipped with SKYACTIV technology, and the market will begin to experience the value and quality of these products. The first product, the new CX-5, is off to a spectacular start and has exceeded our expectations. We will continue to deliver competitive products and quality that promises safety and peace of mind, focusing on the customers who support us around the world, as we develop a strong brand as a "Mazda that earns the absolute satisfaction and trust of customers." I would like to thank our shareholders and investors, and all other stakeholders, for your continued support and cooperation.

Takashi Yamanouchi

Representative Director, Chairman of the Board, President and CEO

Mazda is using product strength that is second to none, excellent design, and unmatched driving performance and fuel economy to build a global earnings base.

Kiyoshi Ozaki
Representative Director, Executive Vice President and CFO

Q What were the main factors behind the changes in Mazda's earnings for the fiscal year March 2012 compared with the previous year, and what are your forecasts for the fiscal year March 2013?

A This was a very difficult year, and we recorded an operating loss of ¥38.7 billion and a net loss of ¥107.7 billion. Despite some offset from comprehensive efforts in conjuction with suppliers to reduce costs, a ¥36.3 billion negative impact from changes in the mix of models sold and a ¥37.6 billion deterioration from foreign exchange factors led to a ¥62.6 billion decline in operating income.

Although the impact from the yen's appreciation was unavoidable, the weakening in the product mix is a problem. The main reasons for this reduction in earnings, in addition to the damage from the Great East Japan Earthquake and flooding in Thailand, were the recession in Europe, triggered by the sovereign debt crisis, and a delayed response to intensified competition for sales in China. With regard to China, I believe this delayed response is a reflection of Mazda's distinctive strategy of maintaining the brand by not getting caught up in competition through offering incentives. Nevertheless, we were able to maintain profitability at all levels in the fourth quarter, and earnings are showing a rapid improvement. In terms of net income, however, it is important to note that we recorded a write-off of deferred tax assets and brought forward expenses related to structual reform for the future.

We will achieve sales growth in all major markets in the fiscal year March 2013, on a full-year contribution from the new Mazda CX-5 crossover SUV, fully equipped with SKYACTIV technology, and the launch of the new Mazda6 (Japanese name: Mazda Atenza). In addition, we will continue to work with suppliers to reduce costs, and I am confident that we will achieve profitability at all levels.

Q You said that signs of improvement were seen at all profit levels in the fourth quarter. What were the factors behind this?

A This was because of a large increase from the third quarter in wholesales. Compared with the third quarter, fourth-quarter wholesales rose roughly 84,000 units. Of this, the new CX-5 made a large contribution, with a net increase of approximately 30,000 units. The new CX-5 is receiving high praise on a global level, and we see this superior brand strength leading to increased sales going forward. In addition, we were able to realize the benefits of cost improvements made through joint efforts with suppliers. As a result, although we recorded an operating loss of more than ¥30 billion in the third quarter, the fourth quarter showed a roughly ¥48 billion improvement, to a ¥15.6 billion profit.

Consolidated Wholesales

	Year ended March 31, 2011	Year ended March 31, 2012				
	Full-year	1Q	2Q	3Q	4Q	Full-year
Japan	206	43	66	46	71	226
North America	367	59	93	92	118	362
Europe	208	27	47	37	60	171
China	20	3	5	1	1	10
Others	299*	54	73	55	65	247
Total	1,100	186	284	231	315	1,016

* Includes 16,000 units resulting from the effect of a 15-month fiscal period stemming from a change in the fiscal year-end of an overseas subsidiary.

Q SKYACTIV-equipped models have received high praise globally. What will be the key points for utilizing this reputation to increase sales volume?

A There are two main points. The first is to boost production capacity. Our initial production plan for the new CX-5 was for 160,000 units annually, but current orders are running at close to double that level, so unfortunately production capacity is holding back sales. Bringing this situation back into an appropriate balance is an urgent issue. We will therefore increase annual production capacity to the 200,000 unit level from this summer and to the 240,000 unit level in March 2013.

The other point is to enhance the quality of sales. In general, we have put in place a structure by which the launch of a model fully equipped with SKYACTIV technology significantly enhances the model's competitiveness, leading to further sales growth. We have also learned from talking with customers at dealerships that many of the customers visiting our showrooms had not previously considered purchasing a Mazda vehicle. These are mainly customers who have previously purchased premium brand automobiles and customers who show a strong interest in fuel efficiency. They hear positive things about the new CX-5's fuel economy and drive, for example, and then decide to visit a showroom. We must further raise the quality of our sales and service to fully capture these opportunities, and are working with sales companies to accelerate these activities at showrooms.

In this way, we intend to further increase sales volumes by simultaneously enhancing the "hardware" element of production and the "software" element of sales and service.

Q What is your outlook for the respective operating environments in developed countries and emerging countries for the fiscal year March 2013?

A With regard to developed countries, Europe is the region of most concern. Given the financial crisis there, we expect economic stagnation to continue, especially in southern Europe. However we believe the impact on Mazda's earnings will be negligible. In addition to economic stagnation, we recognize that last year was an off year in terms of model replacements, and the fact that we were not able to launch new products was a large part of the reason for the decline in sales volume.

On the other hand, in North America, where we have introduced SKYACTIV-equipped models, sales momentum has picked up and sales volume grew. We recently launched the new CX-5 in Europe as well, and orders in Germany, Austria, and the Netherlands were more than double the amount we anticipated. This shows that, as in North America, there is a very good opportunity for a turnaround to an offensive position. The economy remains sluggish, however, but for an automaker of Mazda's size, I believe that we will be able to turn around the situation by introducing attractive products.

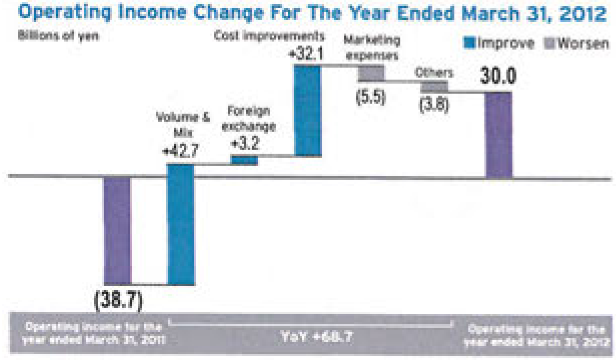
Demand has been recovering in the North American market, where sales are driven by the new Mazda3 (Japanese name: Mazda Axela) fully equipped with SKYACTIV technology, and we see solid sales continuing going forward.

In terms of emerging countries, we see strong demand continuing in the ASEAN region, which is a priority region for Mazda. Growth in China's demand is slowing as well, but we expect the market to continue to grow. We launched the new Mazda3 in China in 2011, so this will make a full-year contribution in the fiscal year March 2013. Going forward, we plan to make a comeback with the launch of a new CX-5.

Q What do you consider to be the key point for achieving ¥30 billion in operating income?

A New product launches will be key. The new CX-5 is the first car to incorporate throughout the entire vehicle, the Monotsukuri Innovation that we have been implementing for several years, and we have achieved a high degree of cost competitiveness through the common use of platforms and parts through integrated planning. By adding the appeal of the KODO design concept, we were able to curtail incentives and improve the profit per vehicle by roughly ¥150,000 compared with the CX-7 in the next-higher segment. This improvement is expected to make a significant contribution toward achieving ¥30 billion in operating income.

Operating Income Change For The Year Ended March 31, 2012



Next, we will launch a new Mazda6 as a second round to follow the new CX-5. If we are able to achieve our sales plans for these new models with outstanding product strength and cost competitiveness, Mazda's profit margin will improve as a result, and I believe we will be fully able to achieve our target of ¥30 billion in operating income.

Q The strong yen continues to be a concern. How do you plan to address this going forward?

A One of the issues we are dealing with is the mismatch between markets for sales and production centers. To address this, our Structural Reform Plan aims to bring the percentage of overseas production to 50%, and to achieve this, we plan to build a plant in Mexico, move to local production in Russia, raise our production capacity in China, and increase production in the ASEAN region. Nevertheless, reaching this target will require some time. Therefore, over the near term we intend to bolster our resistance to exchange rate fluctuations and minimize their impact on earnings by further improving our cost structure, and through optimal procurement on a global level and increased foreign currency-denominated fund procurement.

Q Mazda recently announced an agreement with Italy's Fiat to jointly develop and produce a two-seat sports car. What is Mazda's fundamental policy regarding alliances with other companies?

A We do not intend to conclude a comprehensive tie-up with any particular company. Nevertheless, we do consider it very important to determine whether we can build win-win relationships based on certain products or geographic regions. For example, Mazda has an excellent product with the MX-5 (Japanese name: Mazda Roadster), which holds a Guinness record for sales. Going forward, however, it would be difficult to independently develop a new model in this segment because the market is contracting, but we believe efficient development and production will be possible through Co-operation Program with Fiat.

Q What measures are you implementing to strengthen Mazda's financial base?

A In March 2012, we procured funds through a public offering and a subordinated loan. These funds will be used to achieve further rapid progress in establishing a global production structure and in expanding SKYACTIV products. I also consider the subordinated loan to be important for the message it sends internally and externally, showing that even though Mazda is facing a variety of issues, the measures we are taking are supported by our main financial institutions. This procurement led to a significant increase in our equity ratio, to 24% from 19% at the end of the December 2011, and taking into account the equity capital nature of the subordinated loan brings the ratio to 26%.

This also brought the net debt-to-equity ratio to 64%, from 155% at the previous fiscal year-end, and including the subordinated loan further lowers the ratio to 53%, well below the 100% level and significantly improving our financial position. I still do not consider this sufficient, however. Our basic policy is to increase equity capital by generating solid cash flow and building up profit. I would like to see the equity ratio brought to the 30% range as quickly as possible.

The SKYACTIV technology that we have been focusing on is finally beginning to show its effectiveness. Orders for the new CX-5 are more than double the original plan, and this has made us even more convinced of the strength of SKYACTIV technology. As a second round, we will launch a new Mazda6 during the second half of the fiscal year March 2013. I am confident that the new Mazda6 will follow the path of the new CX-5 and be very well received around the world.

Mazda is building a global earnings base using product strength that is second to none, excellent design, and unrivaled driving performance and fuel economy. Even if there continues to be a pronounced effect from the strong yen, I am determined to carry this out. We have decided on what needs to be done and we will steadily carry out these measures and strive to meet the expectations of our shareholders and other stakeholders. I ask for your continued support.

Building for the Future

Mazda's Structural Reform Plan

Mazda has been facing a difficult operating environment, including the yen's continued unprecedented appreciation and an economic recession caused by the European financial crisis. Despite this adversity, however, we have reinforced our Framework for Medium- and Long-Term Initiatives, formulated in 2010, to proactively respond to changes in the operating environment and ensure future growth. Using SKYACTIV technology, we are innovating our business. This Special Feature provides an overview of the initiatives contained in the Structural Reform Plan and the progress being made.

What is Mazda's Vision for Growth?

In the Framework for Medium- and Long-Term Initiatives, formulated in 2010, Mazda forecast operating income of ¥170 billion, with an operating income margin of at least 5%, and global sales volume of 1.7 million units for the fiscal year March 2016.

Since that time, however, our operating environment has undergone a number of drastic changes, including the yen's unprecedented appreciation with no end in sight, weakness in major economies triggered by the European financial crisis, and changes in global automotive demand. We therefore revised our Medium- and Long-Term Outlook along with the announcement of third-quarter results. With a view toward achieving our revised March 2016 forecasts of ¥150 billion in operating income, with an operating income margin of at least 6%, and global sales volume of 1.7 million units, we embarked on business innovation, leveraging SKYACTIV technology as a game changer, to strengthen our Framework for Medium- and Long-Term Initiatives.

The Structural Reform Plan is organized around the following four initiatives, which are explained in detail below.

Four Initiatives

1. **Business innovation through SKYACTIV TECHNOLOGY**
2. **Accelerate further cost improvement through Monotsukuri Innovation**
3. **Reinforce business in emerging countries and establish global production footprints**
4. **Promote global alliances**

Business Innovation Driven by SKYACTIV

Medium- and Long-Term Outlook (Fiscal year March 2016)

We have revised our Medium- and Long-Term Outlook to strengthen the Framework for Medium- and Long-Term Initiatives while simultaneously responding to changes in the external environment.

	Previous		New
Operating income	¥170.0 billion	→	**¥150.0 billion**
Operating income margin	At least 5%	→	**At least 6%**
Global sales volume	1.7 million	→	**1.7 million**
Foreign exchange rate	¥90/$ ¥125/Euro	→	**¥77/$ ¥100/Euro**

1 Business Innovation through SKYACTIV TECHNOLOGY

Using SKYACTIV, we will advance product strength, the brand, and design, while building a cost structure that can respond to a strong yen environment. This will also drive our business innovation.

Further Enhance Brand Value

SKYACTIV technology delivers both a Zoom-Zoom drive and superior environmental features and has been well-received in major markets since its launch, having already received 29 awards around the world (as of June 2012).

Japan	16 awards, including • Japan Automotive Hall of Fame's Car Technology of the Year • RJC Technology of the Year
North America	7 awards, including • Ward's 10 Best Engines for 2012
Europe	6 awards, including • Fleet World Honours 2011 – the Innovation Award
Total	29 awards (as of June 2012)

Utilize High Brand Value for Sales without Discounting

Our new Sales Method Innovation marketing strategy begins with SKYACTIV-equipped products. The response to SKYACTIV technology has been overwhelming, from dealerships and the media as well as from customers. Utilizing this high brand value, we are improving earnings for dealers as well as for Mazda by selling cars without discounting.

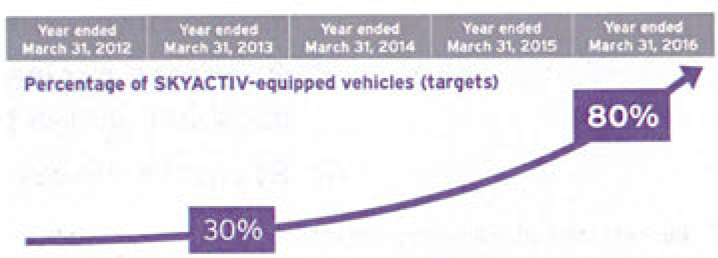
5 Main Points of Sales Method Innovation

Test drive experience	• Global promotion of manufacturer-sponsored test-drive events in major markets • First-hand SKYACTIV experience for customers around the world
Advertising and sales promotion	• Use of digital and social media to convey information and promote growth
Inside-out strategy	• Making distributors and dealers "influencers" by instilling confidence through test drives and seminars
Pricing strategy	• Selling without discounting to reduce difference between displayed price and purchase price • Maintain high residual value
Grade, features strategy	• Simple grade structure • Strategic inclusion of differentiated features for each brand

SKYACTIV Sales Strategy

With the global launch of the new Mazda CX-5 from February 2012 as an opening round, we plan to globally release eight new models fully equipped with SKYACTIV technology over the next five years. On the heels of strong sales of the new CX-5 following its launch, we will release a new Mazda6 (Japanese name: Mazda Atenza) during the second half of 2012. We also plan to introduce a SKYACTIVE-equipped hybrid in the fiscal year March 2014.

We estimate that the number of SKYACTIV-equipped vehicles as a percentage of total sales volume will be 30% for the fiscal year March 2013, and we plan to increase this to 80% by the fiscal year March 2016, the final year under our Medium- and Long-Term Outlook.



Planned launches

June: Demio launch (Japan) September: Axela (Mazda3) launch (Japan, North America, Australia)	February: New CX-5 global launch Second half of 2012: New Mazda6 with i-ELOOP regenerative braking system global launch start	• Planning to introduce eight models over five years (including CX-5 and new Mazda6) • Fiscal year March 2014: Sales of SKYACTIV-equipped hybrid vehicle

2

Accelerate Further Cost Improvement through Monotsukuri Innovation

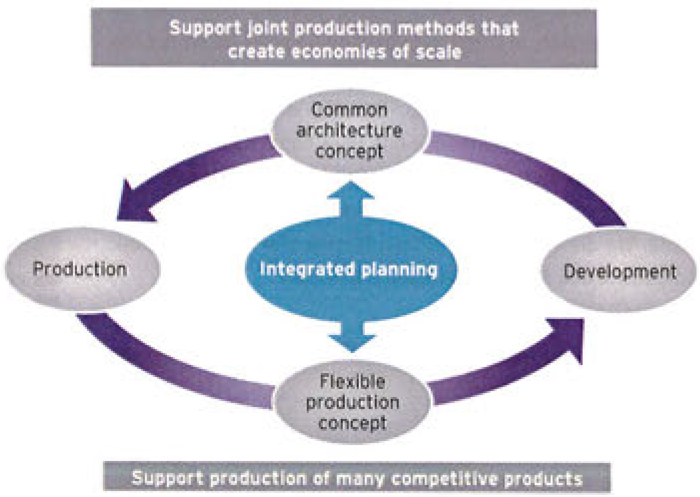
The new CX-5 is the first of our next-generation products, for which we have raised our target for vehicle cost improvement through Monotsukuri Innovation to 30% from 20%. We also expect major improvements in a number of other areas.

Cost Improvement through Monotsukuri Innovation

Mazda has been engaged in Monotsukuri Innovation for several years, using integrated planning spanning existing model lines and segments to efficiently develop and produce numerous products through common development methods and manufacturing processes. By making product development and investment in manufacturing equipment more efficient, our next generation of products beginning with the new CX-5, and SKYACTIV technology, are leading to major improvements in development and production costs, as well as in drive and fuel efficiency.

We will accelerate these efforts to reduce costs going forward, and have raised our target for vehicle cost improvements in our next-generation products to 30% from 20%. We have set targets that we expect to achieve in other areas as well.

Structure of Monotsukuri Innovation



		Performance	Improve Cost/Efficiency
R&D Efficiency			30% or more
Investment in Production Facilities	SKYACTIV-G/D		70% or more
	Vehicle		20% or more
Cost Improvement	Vehicle (excluding additional equipment)	100kg or more weight reduction (equivalent to 5% fuel economy improvement)	20% or more → 30% (target)
	SKYACTIV-D	20% better fuel economy / Euro6 compliance	Better than current engine
	SKYACTIV-G	15% better fuel economy and torque. Possible to comply with Euro6.	Better than current direct-injection engine
	SKYACTIV-DRIVE	4-7% better fuel economy. Direct feeling improvement.	Same as current transmission

CX-5's Cost Competitiveness

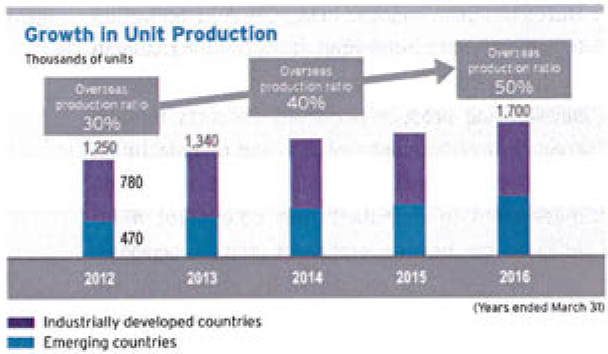
The new CX-5 is Mazda's first product to be developed from scratch using Monotsukuri Innovation. With cost competitiveness that can generate a profit at exchange rate levels of ¥77/US$ and ¥100/euro, the new CX-5 achieves profit improvements of roughly ¥150,000 compared with the one segment higher Mazda CX-7.

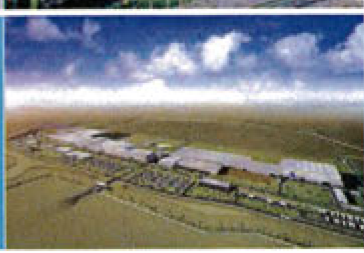
3 Reinforce Business in Emerging Countries and Establish Global Production Footprints

We are strengthening our business and building a global production footprints through measures to capture the robust economic growth of emerging countries.

Initiatives to Reinforce Emerging Market Business

Mazda has introduced various measures to increase sales volumes in emerging markets, where demand continues to show solid growth. In addition to expanding sales networks, we are accelerating establishment of local production footprints to expand our product lineup. Building a local production structure will not only enhance our sales capacity in emerging markets, it will also lead to the establishment of an overseas production structure, which has become a pressing issue for Mazda. We are focusing on China, Russia, the ASEAN region, and Central and South America in particular.



Area		Initiatives
China		■ Increase number of showrooms to 600 by the end of 2015 ■ Increase number of locally produced models to ten from current six ■ Begin local production of SKYACTIV-equipped vehicles ■ Launch new CX-5 as Chinese market's first car fully equipped with SKYACTIV technology
Russia		■ Conclude agreement to establish a joint venture manufacturing company in Russia with Sollers ■ Produce new CX-5, new Mazda6, and Sollers brand vehicles for Russian market
ASEAN		■ Increase production capacity at AutoAlliance (Thailand) ■ Increase number of locally produced models to six from current three ■ Increase number of showrooms to 330 by the end of 2015 ■ Begin discussions with Bermaz regarding the establishment of a joint venture production and sales company in Malaysia
Central and South America		■ Build vehicle assembly and engine assembly plants in Mexico (scheduled to commence operations in 4th quarter of fiscal year March 2014) ■ Plan to produce Mazda2 and Mazda3 for export to North America, and Central and South America ■ Conduct training in Japan for new plant employees ■ Consider entering Brazil

Progress Toward Building a Global Production Structure

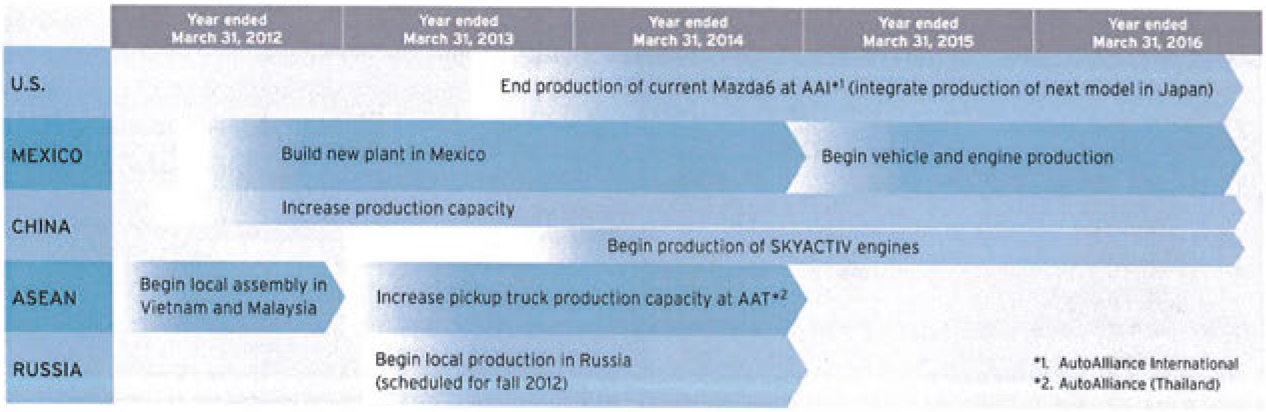
[Building a global production structure]

- Increase portion of overseas production to 50% in fiscal year March 2016 from 30% in fiscal year March 2012
- Already increased production capacity in China in 2011
- End production of current Mazda6 being manufactured by AAI in the United States, integrate production of next model in Japan
- Plan to begin local production in Russia and Mexico
- Plan to increase capacity in ASEAN and other emerging markets
- Begin discussions for establishment of joint venture production and sales company in Malaysia

[Procurement strategy to achieve cost structure that is unaffected by exchange rate movements]

- Increase domestic plants' portion of overseas procurement and transactions settled in foreign currencies to at least 30% in fiscal year March 2014 from 20% in fiscal year March 2012

Overseas Production Strategy



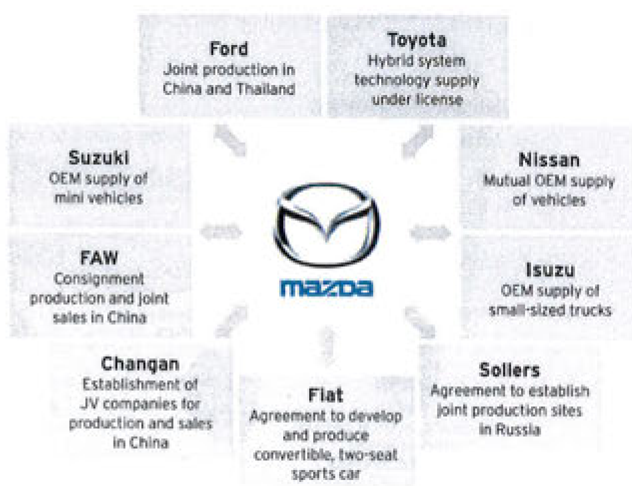
4 Promote Global Alliances

Mazda is currently pursuing numerous alliances in specific businesses, including the licensing of hybrid system technology from Toyota and an agreement to establish a joint production facility with Sollers. We will continue to emphasize business and technological alliances going forward, to further strengthen the Mazda brand.

Initiatives

Mazda is proactively pursuing an alliance strategy to build appropriate, complimentary relationships in individual products, technologies, and regions. We are also considering tendering our products and technologies, including SKYACTIV powertrains, to other companies.

As part of this process, we concluded an agreement in May 2012 with Fiat Group Automobiles to jointly develop and produce a two-seat convertible for Alfa Romeo based on the next Mazda MX-5 (Japanese name: Mazda Roadster) rear-wheel-drive architecture. We plan to produce both companies' models at Mazda's main Hiroshima Plant. We have also agreed to continue further discussions on the possibility of working together in other projects in Europe.



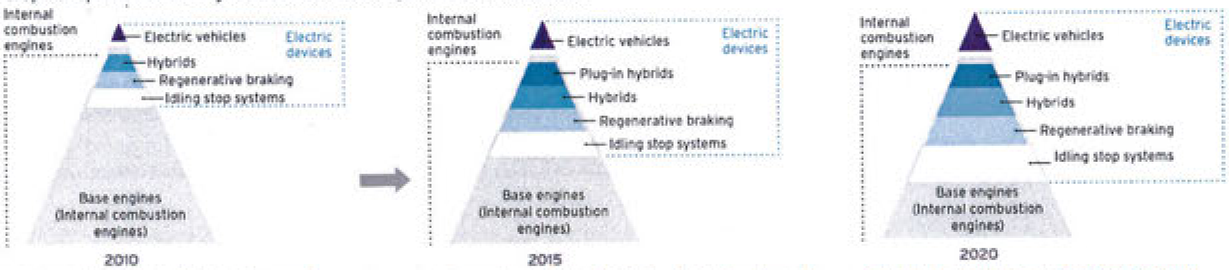
SKYACTIV TECHNOLOGY

Improving the Fuel Economy of Mazda Vehicles 30% by 2015

Even in 2020, Mazda expects that the world's key energy sources will continue to be mainly petroleum-based, and that the majority of vehicles will still be powered by internal combustion engines. With this outlook, Mazda is working on the development of its Building Block Strategy in order to meet its goal of raising the average fuel economy of Mazda vehicles sold worldwide by 30% by 2015 compared with 2008 levels.

Anticipated Expansion in Adoption of Environmental Technologies (Through 2020)

Graphic representation of global market share of powertrain technologies



- **Introduction of hybrid technology and idling stop technology**

- **Expand use of electric device technologies and increased introduction of electric vehicles**

- **Stricter fuel efficiency standards globally**
- **Need for big boost in energy efficiency**
- **Expanded adoption of electric device technologies**

Building Block Strategy

Rather than rely significantly on a limited number of environmentally friendly vehicles, Mazda has taken an approach of effectively reducing overall CO_2 emissions by providing all customers with driving pleasure and outstanding environmental and safety performance. Through rapid advances in base technologies for basic functions, including in engines, transmissions, bodies, and chassis, we are successively introducing electric devices like regenerative braking technology and hybrid systems. We refer to this as our Building Block Strategy.

Technical Superiority of SKYACTIV

Improvement in fuel consumption due to engine	
New-generation gasoline engine	SKYACTIV-G
New-generation diesel engine	SKYACTIV-D
Improvement in fuel consumption due to transmission	
New-generation automatic transmission	SKYACTIV-DRIVE
Improvement in fuel consumption due to reduced weight	
More than 100kg lighter than previous models	
Reduction in aerodynamic drag and other rolling resistance	
Improvement in fuel consumption due to electrical devices	
Idling stop system	i-stop
Regenerative braking system	i-ELOOP

Improvement in fuel consumption about 30% (-2015)

Mazda's Building Block Strategy

Providing all customers with driving pleasure and outstanding environmental and safety performance

Weight reduction (100kg or more for the whole vehicle)

Successively Implementing Electric Device Technologies

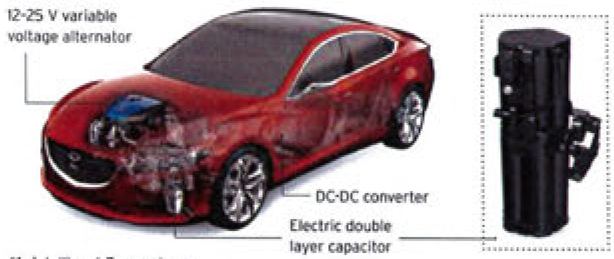
STEP-1 Battery Management Technology (Idling Stop System "i-stop")

The i-stop system automatically shuts the engine off when the vehicle makes a temporary stop, to reduce unnecessary fuel consumption. This alone can improve fuel efficiency by 7% to 10% (as measured in Japanese models). Mazda installed i-stop in the Mazda3 (Japanese name: Mazda Axela) in 2009 and has been steadily rolling out this feature in other models.

STEP-2 Regenerative Braking Technology (Regenerative Braking System "i-ELOOP*1")

For the second step in our Building Block Strategy, we have developed the "i-ELOOP" regenerative braking system for cars that do not have electric motors. This is the first use anywhere in the world*2 of a capacitor*3 to store electricity in a regenerative braking system, and can be expected to increase fuel efficiency in actual driving conditions. Capacitors can store large volumes of electricity with quick charging and discharging, and can be used repeatedly without losing capacity. Mazda has been rolling out this technology in cars without electric motors from 2012.

Regenerative Braking System "i-ELOOP"



*1. Intelligent Energy Loop
*2. As of November 2011, based on Mazda's research
*3. A storage cell that is able to store and release electricity as electricity, unlike in lead and lithium-ion batteries where the energy undergoes a chemical reaction

STEP-3 Motor Drive Technology (Hybrid Systems)

This type of system improves overall energy efficiency using an electric motor to assist gasoline engines at times when energy efficiency is low, such as when a vehicle is running at low engine speeds or during low-load operation. The combination of this hybrid system with the systems mentioned in steps 1 and 2 can produce a substantial boost in overall efficiency.

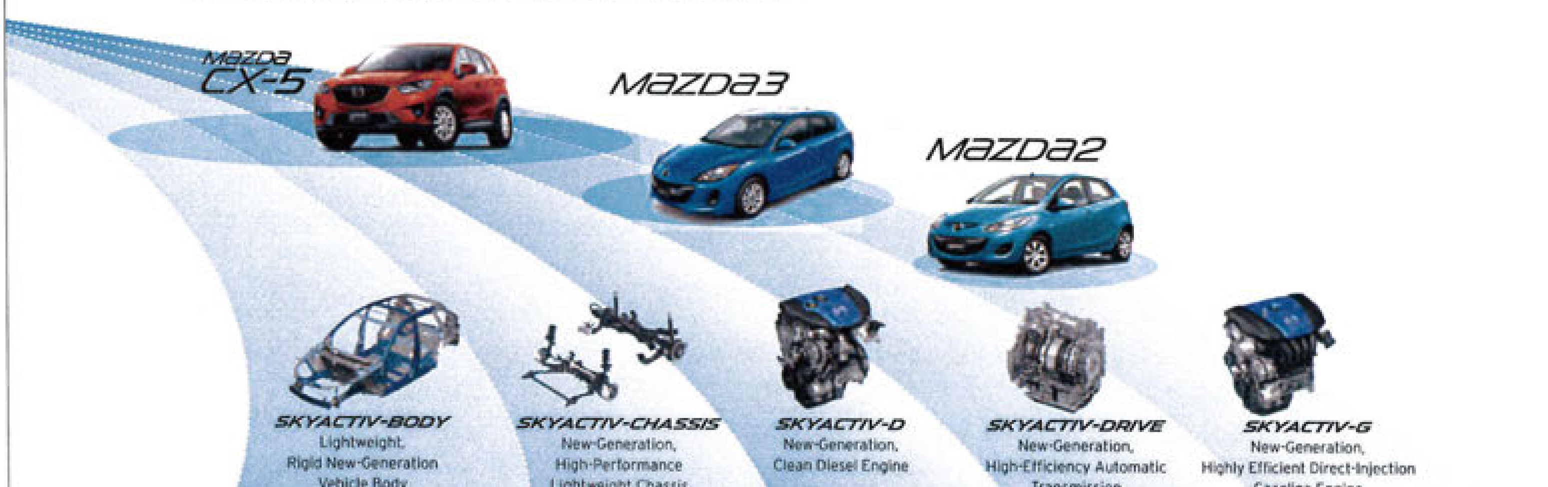
Mazda has obtained a license for hybrid systems from Toyota Motor, with the aim of beginning to sell hybrid vehicles in Japan in the fiscal year March 2014.

Development of Products Using SKYACTIV Technology

The new Mazda Demio (overseas name: Mazda2), released in Japan in 2011, was our first product equipped with SKYACTIV-G, followed by the new Mazda3 (Japanese name: Mazda Axela), equipped with SKYACTIV-G and SKYACTIV-DRIVE.

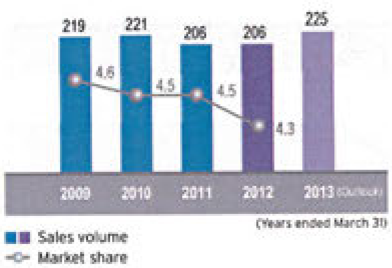
The new Mazda CX-5, fully equipped with SKYACTIV technology in the body and chassis in addition to the engine and transmission, was released in 2012 and is receiving high praise around the world.

We will gradually launch the new Mazda6 (Japanese name: Mazda Atenza), globally starting in the second half of 2012, as our second vehicle fully equipped with SKYACTIV technology.



Japan

Sales Volume
Thousands of units / %



Total demand in the Japanese market grew 3%, to 4.75 million units. Despite the effect of the Great East Japan Earthquake in the first half of the year, and limited production from the flooding in Thailand, and global economic stagnation in the second half, demand rose on the effects of tax reductions and subsidies that ran through the end of the fiscal year. Although sales were weak during the first half as a result of the Great East Japan Earthquake, Mazda introduced new, SKYACTIV-equipped models of the Mazda Demio and Mazda Axela, and our sales volume was roughly flat with the previous year at 206,000 units. As a result, our market share declined 0.2 percentage point, to 4.3%.

Sales of the SKYACTIV-equipped Demio, launched in July 2011, reached roughly 56,000 units by the fiscal year-end (for a monthly average of approximately 6,200 units), surpassing our sales plan of 6,000 units per month. Sales of the SKYACTIV-equipped Axela were strong as well, totaling roughly 12,000 units from October 2011 to the end of the fiscal year (approximately 2,000 units per month). Orders for the new CX-5, released in February 2012, reached approximately 16,000 units in the two months following the release, surpassing our full-year sales plan of 12,000 units. In addition, diesel engine vehicles accounted for roughly 80% of orders, far exceeding our initial target of 50%.

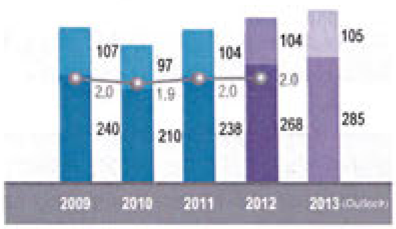
Our plan for sales volume in the fiscal year March 2013 is for a 9% increase to 225,000 units. In addition to strong sales of the new CX-5, we see this coming from the release of the new Mazda Atenza within 2012 and stepped up sales promotion activities.

In terms of sales, we will strengthen our cooperation with sales companies and put even greater effort into sales activities from a customer perspective. We intend to increase sales of strong products equipped with SKYACTIV technology by further raising the quality of dealer service and enhancing brand value.

North America

Sales Volume

Thousands of units/%



(Years ended March 31)

Sales volume in U.S.
Sales volume in Canada and others
Market share in U.S.

Total demand grew 9%, to 13.20 million units in the United States, and rose 3%, to 1.61 million units, in Canada. Mazda's North American sales volume increased 9%, to 372,000 units. We recorded large growth in the United States, with a 12% increase to 268,000 units, on a full-year contribution from the Mazda2 and the launches of the new, SKYACTIV-equipped Mazda3 and CX-5 in the second half. Our market share was roughly flat from the previous year at 2.0%. In Canada, our sales volume declined 4%, to 72,000 units, and our market share decreased 0.4 percentage point, to 4.4%, as a result of intensive competition through incentives. Since entering the market, our sales volume and market share in Mexico have shown steady increases, and for the year, our sales volume rose 14%, to 30,000 units, and our market share grew 0.2 percentage point, to 3.3%.

Orders for the new CX-5, released in North America in February 2012, have been trending ahead of plan. Strong customer interest is also demonstrated by the fact that showroom traffic and Internet searches are surpassing our expectations.

For the fiscal year March 2013, we are planning for a 6% increase in sales volume in the United States, to 285,000 units, with market share remaining flat at 2.0%, on full-year contributions from the new, SKYACTIV-equipped Mazda3 and CX-5. Our plan for Canada is for a 7% increase in sales volume, to 77,000 units, driven by the new, SKYACTIV-equipped Mazda3 and CX-5.

We intend to utilize the product strength of SKYACTIV-equipped cars to sell without discounting, while at the same time improving residual value. Our policy going forward of further enhancing brand value by curtailing incentives and reducing fleet sales is unchanged.

Europe

Sales Volume

Thousands of units/%

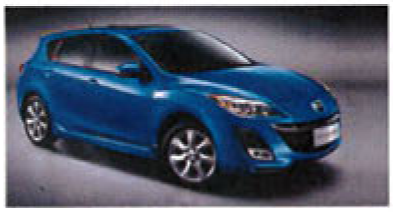
(Years ended March 31)

Sales volume
Market share

Despite lower demand in southern Europe, strong economies in areas including Russia and Germany led to a 1% increase in total European demand, to 18.50 million units. Mazda's sales volume declined 14%, to 183,000 units, and our market share contracted 0.2 percentage point, to 1.0%, as supplies were restricted by the Great East Japan Earthquake. There was also an impact from the fact that our models sold in Europe have been on the market for some time, which combined with the yen's appreciation weakened our competitiveness. In Germany, however, sales in February and March 2012 were higher year-on-year as a result of stepped up sales promotions since the beginning of 2012 and the launch of the new CX-5. The new CX-5, which we launched in Europe during the fourth quarter, is off to a solid start, with roughly 7,000 units sold in major countries like Russia and Germany within the fiscal year.

We see sales volume bottoming out in the fiscal year March 2013, primarily from the new CX-5, Europe's first SKYACTIV-equipped model, and new model launches going forward, and our plan is for a 1% increase, to 185,000 units. We began our campaign for the new CX-5 with test drives for local staff and journalists one year prior to the launch, as a way of deepening their understanding of SKYACTIV technology. This enabled us to fully present the appeal of SKYACTIV technology to customers, and orders are outpacing our plan by a wide margin. We intend to commence full-scale sales in southern Europe going forward, with the aim of further increasing sales.

China



Sales Volume

Thousands of units/%

(Years ended March 31)

Sales volume
Market share

Total demand in China was 18.50 million units, reflecting accelerated purchasing ahead of tax breaks that ended in December 2010, restrictions on the total number of automobiles in Beijing, and weaker consumer sentiment as a result of monetary tightening. Mazda's sales volume declined 6%, to 223,000 units. With the major slowdown in the growth of overall demand, we faced intense competition from new model launches and large price reductions by other automakers. Although we reinforced our sales promotion activities from the fourth quarter, we were not able to bring about a recovery, and sales volume declined year-on-year. Our number of showrooms increased by 59, to 371, at the end of the previous fiscal year. Going forward, we intend to aggressively open showrooms in inland and coastal regions where our sales network is spread thin.

Our sales volume plan for the fiscal year March 2013 is for 15% growth, to 255,000 units. We are forecasting growth in total demand, and with sales growth from the new CX-5, sales activities to promote locally produced models, and the further expansion of our sales network, we intend to regain the sales volume lost in the previous year and turn around to a trend of growth. We expect to increase the number of showrooms to 420 by the end of December 2012. We also plan to open large suburban service centers to address the increase in the number of Mazda customers in China.

Other Markets

Sales Volume

Thousands of units

(Years ended March 31)

Sales volume

Affected by the flooding in Thailand, our sales volume in other markets declined 5%, to 263,000 units. We will work to squarely capture sales opportunities in the fiscal year March 2013, focusing on the ASEAN region where demand is expected to grow, and are planning for an 8% increase in sales volume, to 285,000 units. Our results and forecasts for major other markets follow below.

Australia

Total demand contracted 1%, to 1.02 million units. Mazda's sales volume grew 6%, to a record 92,000 units, on strong sales of major models. We are planning for 5% growth, to 97,000 units, on a net increase in sales volume for the new CX-5.

ASEAN

Mazda's sales volume in the ASEAN market rose 20%, to 66,000 units, despite the supply shortage resulting from the earthquake in Japan and flooding in Thailand. We posted record sales volumes in major countries, with a 21% increase, to 46,000 units, in Thailand, a 39% increase, to 9,000 units, in Indonesia, and a 15% increase, to 6,000 units, in Malaysia. This reflected favorable sales of existing models, such as the Mazda2, the successful launch of the new BT-50 produced by AutoAlliance (Thailand), and the expansion of our product lineup in Indonesia with the addition of the MX-5 and Mazda8. We are planning for a 38% increase in ASEAN sales volume in the fiscal year March 2013, to 91,000 units, on a full-year contribution from the new BT-50, new model launches including the CX-5, and the expansion of our sales network.

Major Product Lineup

Mazda2
(Japanese name: Demio)

SKYACTIV TECHNOLOGY

Global sales volume 223,000
Sales markets ■ ■ ■ ■ ■

Mazda3
(Japanese name: Axela)

SKYACTIV TECHNOLOGY

Global sales volume 401,000
Sales markets ■ ■ ■ ■ ■

Mazda6
(Japanese name: Atenza)

Global sales volume 227,000
Sales markets ■ ■ ■ ■ ■

Mazda5
(Japanese name: Premacy)

i-stop

Global sales volume 73,000
Sales markets ■ ■ ■ ■ ■

Biante

i-stop

Global sales volume 10,000
Sales markets ■

Mazda8
(Japanese name: MPV)

Global sales volume 12,000
Sales markets ■ ■ ■

MX-5
(Japanese name: Roadster)

Global sales volume 17,000
Sales markets ■ ■ ■ ■ ■

CX-5

SKYACTIV TECHNOLOGY

Global sales volume 20,000
Sales markets ■ ■ ■ ■

CX-7

Global sales volume 90,000
Sales markets ■ ■ ■ ■ ■

CX-9

Global sales volume 44,000
Sales markets ■ ■ ■

BT-50

Global sales volume 51,000
Sales markets ■ ■

Sales markets: ■ Japan ■ North America ■ Europe ■ China ■ Other markets

*1. Global sales volume is for the fiscal year March 2012, sales markets are as of March 31, 2012.
*2. Vehicle specifications differ by market.

Business Management System

For more information about corporate governance and CSR, please refer to "Mazda Sustainability Report 2012."
http://www.mazda.com/csr/download/

Corporate Governance

Mazda views the enhancement of corporate governance as one of its most important management issues, and along with statutory bodies including the General Meeting of Shareholders, Board of Directors, and Board of Corporate Auditors, the Company has introduced an executive officer system to separate execution and management functions.

This is intended to expedite decision-making by increasing the effectiveness of the Board of Directors as a supervisory body, by enhancing the deliberations of the Board of Directors, and by delegating authority to executive officers.

As of June 30, 2012, Mazda's Board of Directors is composed of 10 members, two of whom are outside corporate directors with a high degree of independence.

Inauguration of an Outside Corporate Director System

At the shareholders' meeting held on June 24, 2011, Mazda appointed two outside corporate directors, inaugurating the Outside Corporate Director System with the objective of further increasing management soundness and transparency. The outside corporate directors are expected to help strengthen the auditing functions of the Board of Directors and further boost the transparency of management by offering advice on Mazda's management activities based on their knowledge, experience, and insights, and by taking part in the decision-making process.

Management Auditing

Mazda's Board of Corporate Auditors has five members, including three outside corporate auditors who have no business relationship or other interests with Mazda, and audits the directors in the performance of their duties as per an annual audit plan formulated by the Board of Corporate Auditors. Aside from statutory attendance at the Board of Directors meetings, the corporate auditors also attend management meetings, etc. KPMG AZSA LLC is retained under contract as Mazda's independent auditor.

Cooperation among Parties Responsible for Auditing

■ A "Three-Way Audit Meeting" of the full-time corporate auditors, the auditing company, and the Global Auditing Department is held four times every year, primarily to discuss the status of progress with regard to auditing under the Japanese Sarbanes-Oxley Act (J-SOX)*[1] and issues related to the auditing of business operations and accounting.

■ Regular meetings of the full-time corporate auditors and the Global Auditing Department are held monthly to exchange opinions in further detail regarding issues identified in audits.

*1 The Japanese version of the Sarbanes-Oxley Act (original Sarbanes-Oxley Act is a U.S. federal law)

Internal Controls

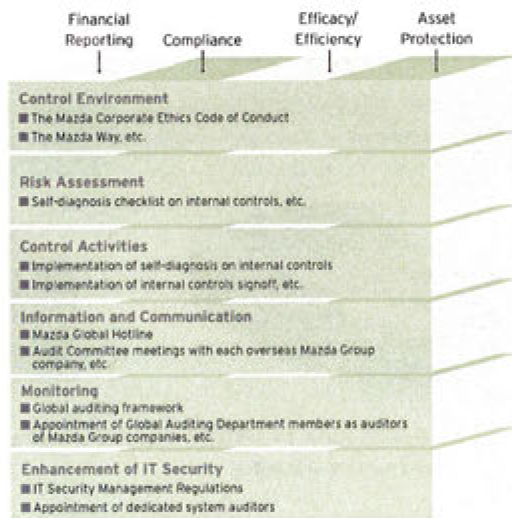
Mazda initiated a system of self-diagnosis of internal controls in 1998, and this is currently carried out at all consolidated Mazda Group companies in Japan and around the world.

Departments primarily responsible for internal controls cooperate with other related departments to provide training and support, working to promote internal controls to ensure that operations proceed smoothly in all departments and consolidated Mazda Group companies.

Mazda also has in place its own framework of internal controls conforming to the COSO Report*[2], a global framework for internal controls, and the implementation standards of J-SOX. This framework helps to ensure the validity of financial reports, the promotion of compliance, the improvement of operational efficiency, and the maintenance of corporate assets.

*2 Report outlining a comprehensive framework for internal controls, released by the U.S. organization, Committee of Sponsoring Organizations of the Treadway Commission (COSO)

Internal Controls



Corporate Governance Framework

Board of Directors, Auditors, and Executive Officers (As of June 27, 2012)

Directors

Takashi Yamanouchi
Representative Director and Chairman of the Board

Kiyoshi Ozaki
Representative Director

Seita Kanai
Representative Director

Yuji Harada
Director

Akira Marumoto
Director

Masamichi Kogai
Director

Hirotaka Kanazawa
Director

Yuji Nakamine
Director

Ichiro Sakai
Director

Taizo Muta
Director

Corporate Auditors

Junichi Yamamoto (Full time)
Kazuyuki Mitate (Full time)
Isao Akaoka
Masahide Hirasawa
Takao Hotta

Executive Officers

President and CEO*

Takashi Yamanouchi

Executive Vice President and CFO*

Kiyoshi Ozaki
Assistant to President; Oversight of Corporate Planning Domain; In charge of Financial Services and Global Auditing

Executive Vice President*

Seita Kanai
Assistant to President; Oversight of Technical Domain and Quality; In charge of promoting Monotsukuri Innovation and R&D Liaison Office

Senior Managing Executive Officers*

Yuji Harada
In charge of CSR, Environment and Corporate Communications; Assistant to the CFO; Assistant in charge of Fleet Sales

Akira Marumoto
In charge of Corporate Planning, Profit Control, Product Strategy, Corporate Brand Enhancement and Cost Innovation

Masamichi Kogai
Oversight of Production and Purchasing; In charge of Business Logistics and IT Solution; Assistant to the Officer in charge of promoting Monotsukuri Innovation

Hirotaka Kanazawa
In charge of R&D; Assistant to the Officer in charge of promoting Monotsukuri Innovation; President, Mazda Engineering & Technology Co., Ltd.

Yuji Nakamine
Oversight of Global Marketing, Sales and Customer Service; In charge of Customer Tsunagari Innovation and Overseas Sales; President, Mazda South East Asia Ltd.

Managing Executive Officers

James J. O'Sullivan
President and CEO, Mazda Motor of America, Inc. (Mazda North American Operations)

Keishi Egawa
In charge of New Emerging Market Operation; General Manager, Latin American Operation Preparation Office

Nobuhide Inamoto
In charge of Domestic Business and Fleet Sales

Koji Kurosawa
In charge of Secretariat, Human Resources, Corporate Services, Compliance, Risk Management and Mazda Hospital

Jeffrey H. Guyton
President and CEO, Mazda Motor Europe GmbH

Noriaki Yamada
In charge of China Business; Chairman and CEO, Mazda Motor (China) Co., Ltd.

Kazuki Imai
In charge of Purchasing

Executive Officers

Toshinori Kusuhashi
President, AutoAlliance (Thailand) Co. Ltd.

Minoru Mitsuda
Assistant to the Officer in charge of Corporate Planning; In charge of Corporate Liaison, Oversight of Tokyo Office (Resident in Tokyo)

Masafumi Nakano
General Manager, Hiroshima Plant

Kiyotaka Shobuda
In charge of Production; General Manager, Production Engineering Div.; Assistant to the Officer in charge of Cost Innovation

Kiyoshi Fujiwara
In charge of Product Planning, Program Management and Design; Assistant to the Officer in charge of Cost Innovation

Masahiro Moro
Assistant to the Officer with Oversight of Global Sales Domain and in charge of promoting Customer Tsunagari Innovation; In charge of Global Marketing

Akira Koga
Executive Vice President, Mazda Motor of America, Inc. (Mazda North American Operations)

Takashi Furutama
General Manager, Corporate Planning Div. and Profit Control Div.; Assistant to the Officer in charge of Cost Innovation

Philip J. Waring
COO, Sales & Marketing, Mazda Motor Europe GmbH

Nariaki Uchida
General Manager, Hofu Plant

Mitsuo Hitomi
General Manager, Powertrain Development Div.; Assistant to the Officer in charge of Cost Innovation

Takahisa Sori
General Manager, Vehicle Development Div.; Assistant to the Officer in charge of Cost Innovation

Masatoshi Maruyama
General Manager, Quality Div.

Takeshi Fujiga
General Manager, Human Resources Div.

Kazuhisa Fujikawa
General Manager, Purchasing Div.; Assistant to the Officer in charge of Cost Innovation

Kazuyuki Fukuhara
General Manager, Domestic Business Div.

* denotes the executive officers who also hold the post of director.

Risk Management

In ordinary circumstances, Mazda follows the Basic Policy on Risk Management, Risk Management Regulations, and other related internal regulations, and individual business risks are managed by the department in charge of that business area while companywide risks are appropriately handled by departments that carry out business on a companywide basis.

During emergencies, such as situations that bring forth serious managerial consequences or natural disasters, Mazda takes appropriate measures in reference with its internal regulations, including the establishment of an emergency response taskforce when necessary.

Moreover, risk management is further enhanced through the establishment of key agendas in the Risk Compliance Committee and confirmation/evaluation of the risk management status in each department.

Risk Management Structure in Normal Times

Emergency Risk Management Structure

In the event of incidents that fall outside the scope of existing risk management organizations and require a coordinated interdepartmental response, the director in charge of risk management will consult with the president, establish an emergency response taskforce, and appoint a general manager of this taskforce.

Information Security

Personal information and other important information are appropriately managed and protected based on the established information management policies and internal regulations, so as to ensure information security. To raise employees' awareness about information security, Mazda requires its employees to undergo training on the management of confidential information, protection of personal information, and IT security.

For companies in the Mazda Group, Mazda provides guidelines and educational tools regarding information security, realizing a group-wide effort to ensure information security.

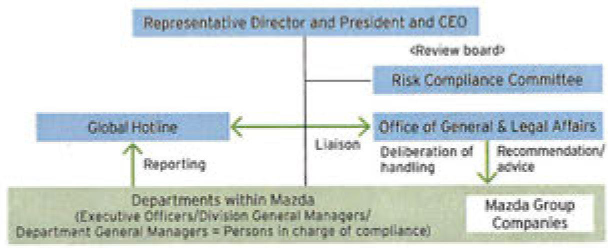
The IT security policy based on the BS 7799 (ISO 17799)* framework has been established as IT security management rules, which determine which security control mechanisms should be incorporated into the IT system. The implementation of such mechanisms is confirmed on a regular or random basis. For particularly important information, security measures include managing access according individual IDs and keeping access logs.

* Standards on information security management established by the British Standards Institution (BSI).

Compliance

At Mazda the concept of compliance applies not only to laws and regulations, but also includes adherence to other rules such as internal guidelines and societal norms and expectations. Business operations are conducted in accordance with the Mazda Corporate Ethics Code of Conduct to ensure fair and honest practice. This also applies overseas; Mazda not only complies with international regulations and the laws of each country and region, but also respects local history, culture, and customs.

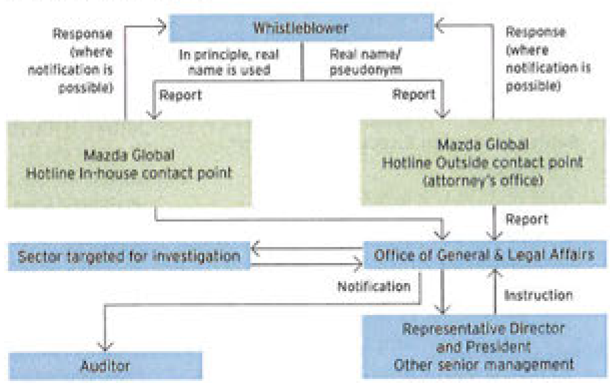
Compliance Promotion System



Mazda Global Hotline

In 1999, Mazda established the Ethics Advisory Office to handle employee inquiries about compliance and conduct investigations on ethical matters. In September 2007, the scope of the office was expanded to include domestic and overseas Mazda Group companies, and it was renamed the Mazda Global Hotline as a contact point for receiving information. To ensure that all employees are aware of this hotline, Mazda has distributed the compliance card with the contact information to all employees at Mazda Motor Corporation, and ensures awareness of this hotline at every opportunity through compliance education. Mazda has also introduced the hotline to Mazda Group companies in Japan and overseas via the Company Intranet.

Mazda Global Hotline



Financial Section

Contents

Note: Financial information for the fiscal year ended March 31 2011, includes the 15-month fiscal period of an overseas subsidiary that changed its fiscal year-end. This had the effect of increasing net sales by ¥27,747 million, operating income by ¥1,323 million, pre-tax income by ¥1,414 million, net income by ¥1,046 million, and consolidated shipments by 16,000 units.

Eleven-Year Summary of Consolidated Financial Statements

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31

	Millions of yen				
	2012	2011	2010	2009	2008
For the year[*2]:					
Net sales	**¥2,033,058**	¥2,325,689	¥2,163,949	¥2,535,902	¥3,475,789
Domestic	**560,216**	541,490	574,982	620,336	880,132
Overseas	**1,472,842**	1,784,199	1,588,967	1,915,566	2,595,657
North America	**575,633**	631,327	574,640	697,600	1,015,315
Europe	**347,346**	427,398	477,337	653,382	888,555
Other areas	**549,863**	725,474	536,990	564,584	691,787
Cost of sales	**1,662,592**	1,863,678	1,710,699	2,021,851	2,485,905
Selling, general and administrative expenses	**409,184**	438,176	443,792	542,432	827,737
Operating income/(loss)	**(38,718)**	23,835	9,458	(28,381)	162,147
Income/(loss) before income taxes	**(55,262)**	16,081	(7,265)	(51,339)	143,117
Net income/(loss)	**(107,733)**	(60,042)	(6,478)	(71,489)	91,835
Capital expenditures[*3]	**78,040**	44,722	29,837	81,838	75,518
Depreciation and amortization[*4]	**68,791**	71,576	76,428	84,043	74,217
Research and development costs	**91,716**	90,961	85,206	95,967	114,400
Free cash flow[*5]	**(79,415)**	1,627	67,394	(129,244)	10,209
At the year-end:					
Total assets	**¥1,915,943**	¥1,771,767	¥1,947,769	¥1,800,981	¥1,985,566
Equity[*6]	**474,429**	430,539	509,815	414,731	554,154
Financial debt	**778,085**	693,000	722,128	753,355	504,979
Net financial debt	**300,778**	370,151	375,825	532,631	281,085
Average number of shares outstanding (in thousands)	**1,863,949**	1,770,198	1,519,652	1,371,456	1,408,368
Number of employees	**37,617**	38,117	38,987	39,852	39,364
	Yen				
Amounts per share of common stock:					
Net income/(loss)[*7]	**¥ (57.80)**	¥ (33.92)	¥ (4.26)	¥ (52.13)	¥ 65.21
Cash dividends applicable to the year[*8]	**—**	—	3.00	3.00	6.00
Equity[*9]	**156.85**	242.24	286.92	314.98	391.82
	%				
Operating income ratio	**(1.9)%**	1.0 %	0.4 %	(1.1)%	4.7%
Return on equity (ROE)[*10]	**(24.0)**	(12.8)	(1.4)	(14.8)	17.9
Equity ratio[*10]	**24.5[*11]**	24.2	26.1	22.9	27.8

Notes: 1. The translation of the Japanese yen amounts into U.S. dollars is presented solely for the convenience of readers, using the prevailing exchange rate on March 31, 2012, of ¥82 to US$1.
2. Results information for the March 2004 and 2011 fiscal years include 15-month results for certain overseas subsidiaries that changed their fiscal year-end.
3. Capital expenditures are calculated on an accrual basis.
4. Amortization expenses are not included for the March 2007 fiscal year and preceding fiscal years.
5. Free cash flow represents the sum of net cash flows from operating activities and from investing activities.
6. Prior-year amounts have been reclassified to conform to figures for the March 2007 fiscal year and subsequent fiscal years presentation to include minority interests.
7. The computations of net income/(loss) per share of common stock are based on the average number of shares outstanding during each fiscal year.
8. Cash dividends per share represent actual amounts applicable to the respective years.
9. The amounts of equity used in the calculation of equity per share exclude minority interests (and, from the March 2007 fiscal year, stock acquisition rights).
10. The amounts of equity exclude minority interests (and, from the March 2007 fiscal year, stock acquisition rights).
11. Percentage after consideration of the equity credit attributes of the subordinated loan is 26.3%.

Millions of yen						Thousands of U.S. dollars*1
2007	2006	2005	2004	2003	2002	**2012**
¥3,247,485	¥2,919,823	¥2,695,564	¥2,916,130	¥2,364,512	¥2,094,914	**$24,793,390**
887,327	887,662	845,620	846,231	818,271	811,050	**6,831,902**
2,360,158	2,032,161	1,849,944	2,069,899	1,546,241	1,283,864	**17,961,488**
1,017,874	843,988	761,684	936,718	845,241	776,889	**7,019,915**
789,135	668,941	634,233	659,813	368,045	228,120	**4,235,927**
553,149	519,232	454,027	473,368	332,955	278,855	**6,705,646**
2,322,644	2,110,934	1,972,574	2,165,160	1,725,058	1,551,410	**20,275,512**
766,309	685,454	640,043	680,796	588,798	514,951	**4,990,049**
158,532	123,435	82,947	70,174	50,656	28,553	**(472,171)**
118,450	117,468	73,847	54,072	28,134	15,508	**(673,927)**
73,744	66,711	45,772	33,901	24,134	8,830	**(1,313,817)**
79,641	72,070	67,881	45,644	44,080	56,641	**951,707**
47,045	45,805	40,036	37,900	36,989	44,890	**838,915**
107,553	95,730	90,841	87,807	87,800	94,964	**1,118,488**
20,995	33,611	35,900	49,128	47,054	30,623	**(968,475)**
¥1,907,752	¥1,788,659	¥1,767,846	¥1,795,573	¥1,754,017	¥1,734,895	**$23,365,159**
479,882	407,208	275,841	230,937	200,546	180,892	**5,785,720**
474,684	455,409	528,145	630,360	678,205	686,318	**9,488,841**
232,179	246,751	313,506	358,129	403,483	456,874	**3,668,024**
1,402,315	1,294,533	1,216,245	1,217,692	1,219,050	1,221,750	
38,004	36,626	35,680	35,627	36,184	37,824	
Yen						U.S. dollars*1
¥ 52.59	¥ 51.53	¥ 37.63	¥ 27.84	¥ 19.80	¥ 7.23	**$(0.70)**
6.00	5.00	3.00	2.00	2.00	2.00	**—**
336.45	284.28	220.22	182.91	159.22	141.52	**1.91**
%						
4.9%	4.2%	3.1%	2.4%	2.1%	1.4%	
16.9	20.0	18.7	16.3	13.2	5.3	
24.8	22.3	15.1	12.4	11.1	10.0	

Review of Operations

(Operating Environment)

In the fiscal year March 2012, the Mazda Group's operating environment presented challenging conditions. Overseas, the U.S. economy followed a trend of gradual recovery, but a number of factors contributed to instability, including the financial crises in European countries, the floods in Thailand, and the slowdown of economic growth in China. Overall, the recovery in overseas markets was weak. In Japan, economic conditions remained difficult. Reconstruction demand following the Great East Japan Earthquake supported a certain degree of improvement in business conditions, but adverse factors included the continued strength of the yen and a downturn in exports due to uncertainty about overseas economies. In this environment, the Mazda Group successively introduced models with SKYACTIV technology in key markets. The Group is also implementing its "Structural Reform Plan" using SKYACTIV as the linchpin. Accordingly, the Group took steps to secure the funds needed for growth and strengthen its financial position through a capital increase by public offering and a subordinated loan.

(Global Sales Volume)

By market, Mazda's domestic sales were basically unchanged year on year, at 206,000 units. Strong sales of the Mazda2 and the introduction of the new Mazda CX-5 offset the effect of the Great East Japan Earthquake. Overseas, North American sales increased 9%, to 372,000 units, due mainly to the introduction of the new CX-5 as well as to strong sales of the Mazda2 and the Mazda3. Sales in Russia increased, but overall European sales were down 14%, to 183,000 units, due in part to concerns about the unstable credit situation in Europe. In China, sales of the mainstay Mazda3 models were strong, but sales decreased 6%, to 223,000 units, as a result of intensified competition and lower demand for compact cars. In other markets, strong sales were recorded in Australia and ASEAN countries, but exports declined as a result of the floods in Thailand, and overall sales were down 5%, to 263,000 units.

As a result, the global sales volume was 1,247,000 units, down 2% from the previous year. Consolidated wholesales for the year declined 8%, to 1.016 million units.

(Net Sales)

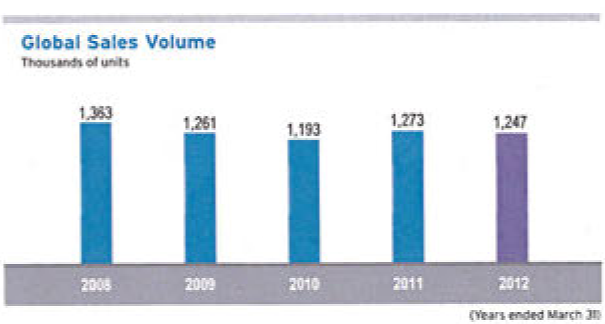
Net sales amounted to ¥2,033.1 billion, a decline of ¥292.6 billion (13%), due principally to the continued strength of the yen against other major currencies and to decreased production and sales volumes. Consolidated net sales broke down as ¥1,472.9 billion overseas, a ¥311.4 billion (17%) decrease, and ¥560.2 billion in Japan, an ¥18.7 billion (3%) increase.

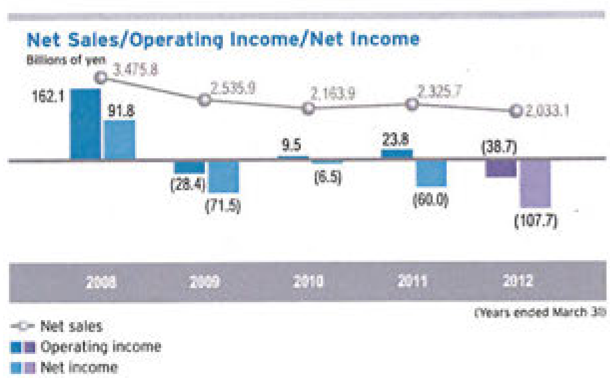
By product, vehicles sales were down ¥196.5 billion (12%), to ¥1,510.8 billion, due to the strength of the yen against other major currencies and to sluggish wholesales. Sales of knockdown parts for overseas production declined ¥48.8 billion (34%), to ¥93.1 billion. Sales of parts were down ¥17.1 billion (8%), to ¥200.1 billion, and other sales decreased ¥30.3 billion (12%), to ¥229.0 billion.

(Operating Income)

Operating results worsened by ¥62.6 billion, resulting in an operating loss of ¥38.7 billion, due to lower sales volume, a worsening of the product mix, and the strong yen. Sales volume and the product mix worsened by ¥36.3 billion, and the influence of the strong yen worsened by ¥37.6 billion.

Selling, general and administrative expenses were reduced by ¥29.0 billion (7%), to ¥409.2 billion. This achievement resulted from the successful implementation of cost improvement activities in all areas.





(Net Income)

Net other expenses were ¥16.5 billion. This included loss on impairment of fixed assets, loss on disaster from the Great East Japan Earthquake, and business restructuring costs. Consequently, loss before income taxes was ¥55.3 billion, representing a year-on-year decline of ¥71.3 billion in net results.

A write-off of deferred tax assets was implemented, and net loss was ¥107.7 billion, compared with ¥60.0 billion in the previous year. The net loss per share of common stock was ¥57.80, compared with the previous year's ¥33.92 net loss per share.

Financial Position

Total assets as of March 31, 2012, stood at ¥1,915.9 billion. This represented a ¥144.2 billion increase from the end of the previous fiscal year, reflecting increases in cash and time deposits as well as certificates of deposit due to the capital increase. Cash and cash equivalents increased ¥154.5 billion, to ¥477.3 billion. Inventories were up ¥19.2 billion, to ¥216.2 billion, while net property, plant and equipment decreased ¥2.0 billion, to ¥784.2 billion.

Total short- and long-term interest-bearing debt increased ¥85.1 billion, to ¥778.1 billion. This total included the syndicated loan of ¥70.0 billion. Net interest-bearing debt—interest-bearing debt minus the ¥477.3 billion of cash and cash equivalents—decreased ¥69.4 billion, to ¥300.8 billion, and the net debt-to-equity ratio stood at 64.2%. (52.7% after recognition of the equity credit attributes of the subordinated loan). Total liabilities at the fiscal year-end stood at ¥1,441.5 billion, which was ¥100.3 billion more than at the end of the previous fiscal year, due principally to an increase in interest-bearing debt.

Equity increased ¥43.9 billion, to ¥474.4 billion as of the fiscal year-end. Although the net loss reduced retained earnings, the increase in equity was attributable to gains in common stock and capital surplus due to the issuance of new shares. Equity used for the calculation of the equity ratio—equity less minority interests and stock acquisition rights—increased ¥40.0 billion, to ¥468.9 billion, for a 0.3 percentage point increase in the equity ratio, to 24.5% (26.3% after recognition of the equity credit attributes of the subordinated loan).

Cash Flows

(Cash Flow from Operating Activities)

Net cash used in operating activities was ¥9.1 billion. Loss before income taxes was ¥55.3 billion, while working capital declined, due primarily to an increase in inventories.

(Cash Flow from Investing Activities)

Net cash used in investing activities was ¥70.3 billion. This mainly reflected ¥61.7 billion in capital expenditures.

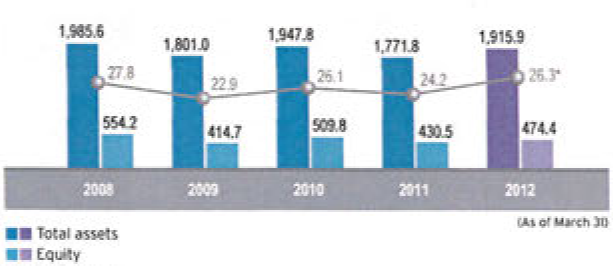
(Cash Flow from Financing Activities)

Net cash provided by financing activities amounted to ¥236.5 billion. This primarily reflected the issuance of new shares and an increase in long-term loans.

Free cash flow—the sum of operating cash flow and investing cash flow—was negative in the amount of ¥79.4 billion.

Total Assets/Equity/Equity Ratio

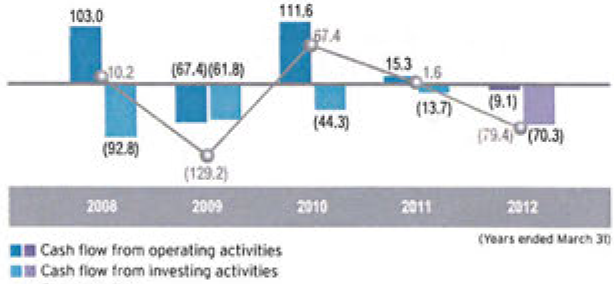
Billions of yen



* Ratios after the recognition of equity capital attributes of the subordinated loan.

Cash Flows

Billions of yen



Consolidated Balance Sheets

Mazda Motor Corporation and Consolidated Subsidiaries
March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2012	2011	2012
Current assets:			
Cash and cash equivalents	¥ 477,307	¥ 322,849	$ 5,820,817
Trade notes and accounts receivable (Note 4)	166,008	154,498	2,024,488
Inventories (Note 6 and 9)	216,190	197,011	2,636,463
Deferred taxes (Note 14)	45,997	58,307	560,939
Other current assets	85,652	89,490	1,044,537
Allowance for doubtful receivables	(1,457)	(1,726)	(17,768)
Total current assets	989,697	820,429	12,069,476
Property, plant and equipment:			
Land (Note 7)	426,700	430,367	5,203,659
Buildings and structures	439,751	430,790	5,362,817
Machinery and equipment	795,872	782,219	9,705,756
Tools, furniture, fixtures and other	181,883	181,347	2,218,085
Leased property	27,407	38,328	334,232
Construction in progress	31,319	32,115	381,939
	1,902,932	1,895,166	23,206,488
Accumulated depreciation	(1,118,696)	(1,108,945)	(13,642,634)
Net property, plant and equipment (Note 8 and 9)	784,236	786,221	9,563,854
Intangible assets	20,736	20,104	252,878
Investments and other assets:			
Investment securities:			
Affiliated companies	85,050	81,177	1,037,195
Other (Note 4)	8,308	8,965	101,317
Long-term loans receivable (Note 4)	5,411	5,255	65,988
Deferred taxes (Note 14)	6,035	32,558	73,598
Other investments and other assets	20,781	21,886	253,427
Allowance for doubtful receivables	(3,787)	(3,809)	(46,183)
Investment valuation allowance	(524)	(1,019)	(6,391)
Total investments and other assets	121,274	145,013	1,478,951
Total assets	¥ 1,915,943	¥ 1,771,767	$ 23,365,159

See accompanying notes.

LIABILITIES AND EQUITY	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars (Note 1) 2012
Current liabilities:			
Short-term debt (Note 4 and 9)	¥ 65,842	¥ 79,447	$ 802,951
Long-term debt due within one year (Note 4 and 9)	94,241	125,804	1,149,280
Trade notes and accounts payable (Note 4)	244,405	208,111	2,980,549
Accrued income taxes	8,684	9,026	105,902
Accrued expenses (Note 4)	142,386	146,621	1,736,415
Reserve for warranty expenses	33,178	42,556	404,610
Other current liabilities (Note 14)	34,063	30,752	415,403
Total current liabilities	622,799	642,317	7,595,110
Long-term liabilities:			
Long-term debt due after one year (Note 4 and 9)	618,002	487,749	7,536,610
Deferred tax liability related to land revaluation (Note 7)	79,774	93,431	972,854
Employees' severance and retirement benefits (Note 10)	76,150	78,284	928,659
Reserve for loss from business of affiliates	7,671	9,998	93,549
Reserve for environmental measures	1,494	1,474	18,220
Other long-term liabilities (Note 14)	35,624	27,975	434,437
Total long-term liabilities	818,715	698,911	9,984,329
Equity:			
Capital and retained earnings:			
Common stock (Note 12)	258,957	186,500	3,158,012
Authorized: 3,000,000,000 shares			
Issued: 2,999,377,399 shares in 2012 and 1,780,377,399 shares in 2011			
Capital surplus (Note 12)	242,649	170,192	2,959,134
Retained earnings	(88,715)	15,082	(1,081,890)
Treasury stock (10,201,538 shares in 2012 and 10,194,637 shares in 2011)	(2,190)	(2,189)	(26,707)
Total capital and retained earnings	410,701	369,585	5,008,549
Accumulated other comprehensive income:			
Net unrealized gain/(loss) on available-for-sale securities	(160)	(167)	(1,951)
Deferred gains/(losses) on hedges	(3,529)	(2,841)	(43,037)
Land revaluation (Note 7)	143,108	135,794	1,745,220
Foreign currency translation adjustments	(76,833)	(71,233)	(936,988)
Pension adjustments recognized by foreign consolidated subsidiaries	(4,433)	(2,326)	(54,061)
Total accumulated other comprehensive income	58,153	59,227	709,183
Stock acquisition rights	259	460	3,159
Equity attributable to shareholders of Mazda Motor Corporation	469,113	429,272	5,720,891
Minority interests in consolidated subsidiaries	5,316	1,267	64,829
Total equity	474,429	430,539	5,785,720
Total liabilities and equity	¥1,915,943	¥1,771,767	$23,365,159

Consolidated Statements of Operations and Comprehensive Income

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	**2012**
Net sales	**¥2,033,058**	¥2,325,689	**$24,793,390**
Cost and expenses:			
Cost of sales	**1,662,592**	1,863,678	**20,275,512**
Selling, general and administrative expenses	**409,184**	438,176	**4,990,049**
	2,071,776	2,301,854	**25,265,561**
Operating income/(loss)	**(38,718)**	23,835	**(472,171)**
Other income/(expenses):			
Interest and dividend income	**2,528**	2,071	**30,829**
Interest expense	**(11,451)**	(11,840)	**(139,646)**
Equity in net income of affiliated companies	**9,552**	14,216	**116,488**
Other, net (Note 13)	**(17,173)**	(12,201)	**(209,427)**
	(16,544)	(7,754)	**(201,756)**
Income/(loss) before income taxes	**(55,262)**	16,081	**(673,927)**
Income taxes (Note 14):			
Current	**15,755**	16,664	**192,134**
Prior year	**(2,158)**	—	**(26,317)**
Deferred	**38,759**	59,181	**472,671**
	52,356	75,845	**638,488**
Loss before minority interests	**(107,618)**	(59,764)	**(1,312,415)**
Minority interests in consolidated subsidiaries	**115**	278	**1,402**
Net loss	**¥ (107,733)**	¥ (60,042)	**$ (1,313,817)**
Minority interests in consolidated subsidiaries	**115**	278	**1,402**
Loss before minority interests	**(107,618)**	(59,764)	**(1,312,415)**
Other comprehensive income:			
Net unrealized gain/(loss) on available-for-sale securities	**8**	(300)	**98**
Net loss on derivative instruments	**(719)**	(1,398)	**(8,768)**
Land revaluation	**11,250**	—	**137,195**
Foreign currency translation adjustments	**(1,494)**	(4,378)	**(18,220)**
Pension adjustments recognized by foreign consolidated subsidiaries	**(2,106)**	(2,247)	**(25,683)**
Share of other comprehensive income of affiliates accounted for using equity method	**(3,832)**	(5,225)	**(46,732)**
Total other comprehensive income	**3,107**	(13,548)	**37,890**
Comprehensive income	**¥ (104,511)**	¥ (73,312)	**$ (1,274,525)**
Comprehensive income attributable to:			
Owners of Mazda Motor Corporation	**(104,871)**	(73,580)	**(1,278,915)**
Minority interests	**360**	268	**4,390**

	Yen		U.S. dollars (Note 1)
Amounts per share of common stock:			
Net loss (Note 2):			
Basic	**¥(57.80)**	¥(33.92)	**$(0.70)**
Cash dividends applicable to the year	—	—	—

See accompanying notes.

Consolidated Statements of Equity

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen								
	Equity attributable to shareholders of Mazda Motor Corporation								
	Capital and retained earnings								
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total	Accumulated other comprehensive income	Stock acquisition rights	Minority interests in consolidated subsidiaries	Total equity
April 1, 2010	¥186,500	¥170,192	¥ 80,268	¥(2,182)	¥ 434,778	¥73,131	¥ 445	¥1,461	¥ 509,815
Effect of changes in accounting policies applied to foreign equity-method affiliates on the beginning balance of retained earnings	—	—	(309)	—	(309)	—	—	—	(309)
Cash dividends paid	—	—	(5,311)	—	(5,311)	—	—	—	(5,311)
Net loss	—	—	(60,042)	—	(60,042)	—	—	—	(60,042)
Increase/(decrease)									
Treasury stock	—	—	—	(7)	(7)	—	—	—	(7)
Land revaluation	—	—	366	—	366	(366)	—	—	—
Change of consolidation scope	—	—	110	—	110	—	—	—	110
Net unrealized loss on available-for-sale securities	—	—	—	—	—	(298)	—	—	(298)
Net loss on derivative instruments	—	—	—	—	—	(1,343)	—	—	(1,343)
Foreign currency translation adjustments	—	—	—	—	—	(9,650)	—	—	(9,650)
Pension adjustments recognized by foreign subsidiaries	—	—	—	—	—	(2,247)	—	—	(2,247)
Stock acquisition rights from granting of share-based payment	—	—	—	—	—	—	15	—	15
Minority interests in consolidated subsidiaries	—	—	—	—	—	—	—	(194)	(194)
April 1, 2011	¥186,500	¥170,192	¥ 15,082	¥(2,189)	¥ 369,585	¥59,227	¥ 460	¥1,267	¥ 430,539
Issuance of new common stock	**72,457**	**72,457**	—	—	**144,914**	—	—	—	**144,914**
Net loss	—	—	**(107,733)**	—	**(107,733)**	—	—	—	**(107,733)**
Increase/(decrease)									
Treasury stock	—	—	—	**(1)**	**(1)**	—	—	—	**(1)**
Land revaluation	—	—	**3,936**	—	**3,936**	**7,314**	—	—	**11,250**
Net unrealized gain on available-for-sale securities	—	—	—	—	—	**7**	—	—	**7**
Net loss on derivative instruments	—	—	—	—	—	**(688)**	—	—	**(688)**
Foreign currency translation adjustments	—	—	—	—	—	**(5,600)**	—	—	**(5,600)**
Pension adjustments recognized by foreign subsidiaries	—	—	—	—	—	**(2,107)**	—	—	**(2,107)**
Stock acquisition rights from granting of share-based payment	—	—	—	—	—	—	**(201)**	—	**(201)**
Minority interests in consolidated subsidiaries	—	—	—	—	—	—	—	**4,049**	**4,049**
March 31, 2012	**¥258,957**	**¥242,649**	**¥ (88,715)**	**¥(2,190)**	**¥ 410,701**	**¥58,153**	**¥ 259**	**¥5,316**	**¥ 474,429**

	Thousands of U.S. dollars (Note 1)								
	Equity attributable to shareholders of Mazda Motor Corporation								
	Capital and retained earnings								
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total	Accumulated other comprehensive income	Stock acquisition rights	Minority interests in consolidated subsidiaries	Total equity
April 1, 2011	$2,274,390	$2,075,512	$ 183,927	$(26,695)	$ 4,507,134	$722,281	$5,610	$15,451	$ 5,250,476
Issuance of new common stock	**883,622**	**883,622**	—	—	**1,767,244**	—	—	—	**1,767,244**
Net loss	—	—	**(1,313,817)**	—	**(1,313,817)**	—	—	—	**(1,313,817)**
Increase/(decrease)									
Treasury stock	—	—	—	**(12)**	**(12)**	—	—	—	**(12)**
Land revaluation	—	—	**48,000**	—	**48,000**	**89,195**	—	—	**137,195**
Net unrealized gain on available-for-sale securities	—	—	—	—	—	**85**	—	—	**85**
Net loss on derivative instruments	—	—	—	—	—	**(8,390)**	—	—	**(8,390)**
Foreign currency translation adjustments	—	—	—	—	—	**(68,293)**	—	—	**(68,293)**
Pension adjustments recognized by foreign subsidiaries	—	—	—	—	—	**(25,695)**	—	—	**(25,695)**
Stock acquisition rights from granting of share-based payment	—	—	—	—	—	—	**(2,451)**	—	**(2,451)**
Minority interests in consolidated subsidiaries	—	—	—	—	—	—	—	**49,378**	**49,378**
March 31, 2012	**$3,158,012**	**$2,959,134**	**$(1,081,890)**	**$(26,707)**	**$ 5,008,549**	**$709,183**	**$3,159**	**$64,829**	**$ 5,785,720**

See accompanying notes.

Consolidated Statements of Cash Flows

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Cash flows from operating activities:			
Income/(loss) before income taxes	¥ (55,262)	¥ 16,081	$ (673,927)
Adjustments to reconcile income/(loss) before income taxes to net cash provided by/(used in) operating activities:			
Depreciation and amortization	68,791	71,576	838,915
Loss on impairment of fixed assets	7,171	3,416	87,451
Adoption of accounting standards for asset retirement obligations	—	2,684	—
Allowance for doubtful receivables	(245)	(469)	(2,988)
Investment valuation allowance	(495)	(262)	(6,037)
Reserve for warranty expenses	(9,378)	5,627	(114,366)
Employees' severance and retirement benefits	(2,134)	(6,074)	(26,024)
Reserve for loss from business of affiliates	(2,327)	4,136	(28,378)
Reserve for environmental measures	19	10	232
Interest and dividend income	(2,528)	(2,071)	(30,829)
Interest expense	11,451	11,840	139,646
Equity in net loss/(income) of affiliated companies	(9,552)	(14,216)	(116,488)
Loss on sale/disposition of property, plant and equipment, net	3,270	1,908	39,878
Gain on sale of investment securities, net	36	(11)	439
Gain on sale of investments in affiliates	—	(702)	—
Decrease/(increase) in trade notes and accounts receivable	(15,709)	20,679	(191,573)
Decrease/(increase) in inventories	(28,185)	4,763	(343,720)
Increase/(decrease) in trade notes and accounts payable	37,551	(61,124)	457,939
Increase/(decrease) in other current liabilities	2,142	(10,262)	26,122
Other	7,581	(8,947)	92,452
Subtotal	12,197	38,582	148,744
Interest and dividends received	3,112	5,351	37,951
Interest paid	(11,267)	(11,986)	(137,402)
Income taxes paid	(13,140)	(16,603)	(160,244)
Net cash provided by/(used in) operating activities	(9,098)	15,344	(110,951)
Cash flows from investing activities:			
Payments into time deposits	(1,000)	(10,001)	(12,195)
Proceeds from withdrawal of time deposits	—	10,013	—
Proceeds from sales and redemption of securities	—	20,000	—
Purchase of investment securities	(12)	(1,229)	(146)
Proceeds from sales and redemption of investment securities	600	191	7,317
Acquisition of property, plant and equipment	(61,724)	(32,249)	(752,732)
Proceeds from sale of property, plant and equipment	1,412	2,758	17,220
Acquisition of intangible assets	(8,160)	(4,946)	(99,512)
Decrease/(increase) in short-term loans receivable	(1,321)	4	(16,110)
Long-term loans receivable made	(319)	(330)	(3,890)
Collections of long-term loans receivable	219	406	2,671
Sale of investments in subsidiaries affecting scope of consolidation	—	1,691	—
Other	(12)	(25)	(147)
Net cash provided by/(used in) investing activities	(70,317)	(13,717)	(857,524)
Cash flows from financing activities:			
Increase/(decrease) in short-term debt	(9,983)	1,605	(121,744)
Proceeds from long-term debt	227,550	114,169	2,775,000
Repayment of long-term debt	(129,450)	(123,826)	(1,578,659)
Proceeds from issuance of common stock	144,656	—	1,764,098
Cash dividends paid	—	(5,311)	—
Proceeds from stock issuance to minority shareholders	3,691	—	45,012
Cash dividends paid to the minority shareholders of consolidated subsidiaries	(1)	(458)	(12)
Treasury stock transactions	(1)	(7)	(12)
Other	—	(532)	—
Net cash provided by/(used in) financing activities	236,462	(14,360)	2,883,683
Effect of exchange rate fluctuations on cash and cash equivalents	(2,589)	(10,721)	(31,574)
Net increase/(decrease) in cash and cash equivalents	154,458	(23,454)	1,883,634
Cash and cash equivalents at beginning of the year	322,849	346,303	3,937,183
Cash and cash equivalents at end of the year	¥ 477,307	¥322,849	$ 5,820,817

See accompanying notes.

1 BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Mazda Motor Corporation (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law of Japan and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards ("IFRS").

For the convenience of readers outside Japan, the accompanying consolidated financial statements have been reformatted and translated into English (with some expanded descriptions) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law of Japan. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2012, which was ¥82 to U.S. $1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2 SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The accompanying consolidated financial statements include the Company and significant companies, over which the Company has power of control through majority voting rights or existence of certain conditions evidencing control by the Company. Investments in affiliates, over which the Company has the ability to exercise significant influence over operating and financial policies of the investees, are accounted for by the equity method.

The consolidated financial statements include the Company and 56 subsidiaries (51 in the year ended March 31, 2011). In addition, 13 affiliates (14 in the year ended March 31, 2011) are accounted for by the equity method.

The consolidated year-end balance sheet date is March 31. Among the consolidated subsidiaries, three companies (two at March 31, 2011) have a year-end balance sheet date of December 31, which is different from the consolidated balance sheet date. Adjustments necessary in consolidation are made for material transactions that have occurred between the balance sheet date of these subsidiaries and the consolidated year-end balance sheet date.

Results of consolidated statements for the year ended March 31, 2011 include 15 months' operations of four consolidated subsidiaries that have changed their balance sheets date from December 31 to March 31.

The difference between acquisition cost and net assets acquired is shown as consolidation goodwill and amortized on a straight-line basis over a period (primarily 5 years) during which each investment is expected to generate benefits.

Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rate at the fiscal year-end; gains and losses in foreign currency translation are included in the income of the current period.

Balance sheets of consolidated foreign subsidiaries are translated into Japanese yen at the rates on the subsidiaries' balance sheet dates except for equity accounts, which are translated at historical rates. Income statements of consolidated foreign subsidiaries are translated at average rates during the subsidiaries' accounting periods, with the translation differences prorated and included in the equity as foreign currency translation adjustments and minority interests in consolidated subsidiaries.

Cash and cash equivalents

The Company and its consolidated subsidiaries consider all highly liquid investments with maturities of three months or less at the time of acquisition to be cash equivalents.

Securities

Securities are classified as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

The Company and its consolidated subsidiaries do not have trading securities or held-to-maturity debt securities. Equity securities issued by subsidiaries and affiliated companies which, based on the applicable materiality provisions of Japanese GAAP, are not consolidated or accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of accumulated other comprehensive income within equity. Realized gains and losses on the sale of such securities are computed using moving-average cost. Available-for-sale securities without available fair market values are stated mainly at moving average cost.

If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies and available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as a loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method and available-for-sale securities is not readily available, such securities should be written down to net asset value with a corresponding charge to income in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

Inventories

Inventories are stated at the lower of cost (determined principally by the average method), or net realizable value.

Property, plant and equipment (except for leased property)

Property, plant and equipment are stated mainly at cost. Depreciation is computed principally using the straight-line method over the estimated useful lives, net of the estimated residual values of the assets.

For the Company and its consolidated domestic subsidiaries (together the "Domestic Companies"), useful lives and residual values are estimated by a method equivalent to the provisions of the Corporate Tax Code of Japan.

Intangible assets (except for leased property)

Intangible assets are amortized principally on the straight-line method over the estimated useful lives of the assets.

For the Domestic Companies, useful lives are estimated by a method equivalent to the provisions of the Corporate Tax Code of Japan. Software for internal use is amortized on a straight-line basis over the period of internal use, i.e., 5 years.

Leased property

Finance leases are capitalized in the balance sheet. Depreciation or amortization expense is recognized on a straight-line basis over the lease period.

For leases with a guaranteed minimum residual value, the contracted residual value is considered to be the residual value for financial accounting purposes. For other leases, the residual value is zero.

Allowance for doubtful receivables

Allowance for doubtful receivables provides for the losses from bad debt. The amount estimated to be uncollectible is recognized. For receivables of ordinary risk, the amount is estimated based on the past default ratio.

For receivables of high risk and receivables from debtors under bankruptcy proceedings, the amount is estimated based on the financial standing of the debtor.

Investment valuation allowance

Investment valuation allowance provides for losses from investments. The amount is estimated in light of the financial standings of the investee companies.

Reserve for warranty expenses

In order to match the recognition of after-sales expenses to product (vehicle) sales revenues, an amount estimated based on product warranty provisions and actual costs incurred in the past, taking future prospects into consideration, is recognized.

Employees' severance and retirement benefits

The Domestic Companies provide various types of post-employment benefit plans, including lump-sum plans, defined benefit pension plans, and defined contribution pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service, and certain other factors. Also, consolidated foreign subsidiaries provide defined benefit and/or contribution plans.

The liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

Employees' severance and retirement benefits are provided based on the estimated amounts of projected benefit obligation and the fair value of the plan assets. Prior service costs are recognized in expenses in equal amounts mainly over 12 years, which is within the average of the estimated remaining service periods of employees, and actuarial gains and losses are recognized in expenses using the straight-line basis mainly over 13 years, which is within the average of the estimated remaining service periods, commencing with the following period.

(Additional Information)

Effective from October 2011, some consolidated domestic subsidiaries changed their post-employment benefit plans and such changes were accounted for in accordance with the Accounting Standards Board of Japan ("ASBJ") Guidance No.1 "Guidance on Accounting Standard for Transfer between Retirement Benefit Plans" and the Practical Issue Task Force ("PITF") No.2 "Practical Solution on Accounting for Transfer between Retirement Benefit Plans". As a result, transition losses of ¥1,044 million ($12,732 thousand) were posted in "Other, net" item in Other income/(expenses) in the consolidated statements of operations for the year ended March 31, 2012.

Reserve for loss from business of affiliates

Reserve for loss from business of affiliates provides for losses from affiliates' businesses. The amount of loss estimated to be incurred by the Company is recognized.

Reserve for environmental measures

Reserve for environmental measures provides for expenditure aimed at environmental measures. The amount of future expenditure estimated as of the end of the current fiscal year is recognized.

Income taxes

Income taxes are comprised of corporation, enterprise, and inhabitants taxes. Deferred tax assets and liabilities are recognized to reflect the estimated tax effects attributable to temporary differences and carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates that will be in effect when the temporary differences are expected to reverse. The measurement of deferred tax assets is reduced by a valuation allowance, if necessary, by the amount of any tax benefits that are not expected to be realized.

Research and development costs

Research and development costs are charged to income when incurred. For the years ended March 31, 2012 and 2011, research and development costs were ¥91,716 million ($1,118,488 thousand) and ¥90,961 million, respectively.

Derivatives and hedge accounting

Derivative financial instruments are mainly stated at fair value, and changes in the fair value are recognized as gains or losses unless derivative financial instruments are used for hedging purposes and meet criteria for hedge accounting.

If derivative financial instruments are used as hedges and meet certain hedging criteria, recognition of gains or losses resulting from changes in the fair value of derivative financial instruments is deferred until the related losses or gains on the hedged items are recognized.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

Amounts per share of common stock

The computations of net income or loss per share of common stock are based on the average number of shares outstanding during each fiscal year. Diluted net income per share of common stock is computed based on the average number of shares outstanding during each fiscal year after giving effect to the diluting potential of common stock to be issued upon the exercise of stock acquisition rights and stock options.

For the years ended March 31, 2012 and 2011, only information on net loss per share of common stock is provided without information on diluted net loss per share of common stock to reflect the diluting effect in accordance with the applicable provisions of Japanese GAAP.

Cash dividends per share represent amounts applicable for the respective years on an accrual basis.

Reclassifications

Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to this year's presentation.

3 ADOPTION OF NEW ACCOUNTING STANDARDS AND ACCOUNTING CHANGES

None.

Additional Information

(Adoption of Accounting Standards for Accounting Changes and Error Corrections)

The Company and its consolidated domestic subsidiaries adopted "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No.24 issued on December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No.24, issued on December 4, 2009) for accounting changes and corrections of prior period errors which are made from the fiscal year beginning on April 1, 2011.

4 FINANCIAL INSTRUMENTS

Qualitative information on financial instruments

Policies for using financial instruments

The Company and its consolidated subsidiaries finance cash mainly through bank loans and the issuance of bonds, in light of planned capital investment. Temporary surplus funds are managed through investments in low-risk assets. Short-term operating funds are financed mainly through bank loans and commercial paper. Our policies on derivative instruments are to use them to hedge risks, as discussed below, and not to conduct speculative transactions.

Details of financial instruments and the exposures to risk

Trade notes and accounts receivable, while mostly due within one year, are subject to customers' credit risks. Accounts receivable denominated in foreign currencies are subject to the risk of fluctuations in foreign currency exchange rates; such risk is hedged, in principle, by netting the foreign-currency-denominated accounts receivable against accounts payable, and applying foreign exchange forward contracts on the resulting net position.

Short-term investments consist mainly of certificates of deposit and other highly-liquid short-term investments. Investment securities consist mainly of stocks of our business partner companies and are subject to the risk of market price fluctuations and other factors. Long-term loans are provided mainly to our business partner companies.

Trade notes and accounts payable, as well as other accounts payable, are due within one year. Of these payables, those denominated in foreign currencies are subject to the risk of fluctuations in foreign exchange rates. However, the balance of such payables denominated in major currencies is constantly less than that of the accounts receivable denominated in the same foreign currency. For minor currencies where this does not apply, such payables are hedged, as necessary, through foreign exchange forward contracts, considering the transaction amounts and the degree of risk of foreign exchange rate fluctuation.

Loans payable, bonds payable, and finance lease obligations are mainly intended for financing cash required for capital investment. The longest time to maturity of these liabilities is 60 years and 4 months. Of these liabilities, those of the variable-interest-rate type are subject to the risk of interest rate fluctuations; part of them is hedged through derivative transactions (interest rate swaps).

Derivative instruments consist of foreign exchange forward contracts and interest rate swaps. For details on derivative instruments, refer to "Derivatives and hedge accounting" under Note 2, "Significant Accounting Policies," and Note 15, "Derivative Financial Instruments and Hedging Transactions".

Policies and processes for managing the risk

Management of credit risks (i.e., risks associated to the default of counterparties)

The Company and its consolidated subsidiaries manage credit risks, in compliance with internal control rules and procedures.

The due dates and the balances of trade notes, accounts receivable, and loans receivable from major counterparties are monitored and managed, in order to detect early and mitigate the risk of doubtful receivables.

Short-term investments are limited mainly to time deposits and certificates of deposit of banks approved by the Chief Finance Officer. As such, the credit risks of these short-term investments are considered to be minimal.

Derivative transactions are executed only with banks with high credit ratings, in order to mitigate counterparty risk.

For both short-term investments and derivatives, the credit risks of counterparty financial institutions are reviewed on a quarterly basis.

Management of market risks (i.e., risks associated to fluctuations in foreign exchange rates and interest rates)
The Company and some of its consolidated subsidiaries hedge the risk of foreign exchange rate fluctuation on foreign-currency-denominated receivables and payables, using foreign exchange forward contracts, on a monthly and individual currency basis. Foreign exchange forward contracts are executed as necessary, up to six months ahead at longest, on foreign-currency-denominated receivables and payables that are expected to arise with certainty as a result of forecasted export and import transactions.

The Company and some of its consolidated subsidiaries use interest rate swaps in order to reduce the risk of interest rate fluctuation on loans payable.

For details on management of derivative transactions, refer to Note 15, "Derivative Financial Instruments and Hedging Transactions".

As regards short-term investments and investment securities, their fair values as well as the financial standing of their issuing entities are monitored on a regular basis. Ownership of available-for-sale securities are reviewed on a continuous basis.

Management of liquidity risks related to financing (i.e., risks of non-performance of payments on their due dates)
The liquidity risks of the Company and its consolidated subsidiaries are managed mainly through the preparation and update of the cash schedule by the Treasury Department.

Fair values of financial instruments

As of March 31, 2012, the carrying values on the consolidated balance sheet, the fair values, and the differences between these amounts, respectively, of financial instruments were as follows. Financial instruments which fair value is deemed highly difficult to measure are excluded from the following table.

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2012	Carrying values	Fair values	Difference	Carrying values	Fair values	Difference
Assets:						
1) Trade notes and accounts receivable	¥ 166,008	¥ —	¥ —	$ 2,024,488	$ —	$ —
Allowance for doubtful receivables (*1)	(254)	—	—	(3,098)	—	—
Trade notes and accounts receivable, net	165,754	165,750	(4)	2,021,390	2,021,341	(49)
2) Investment securities						
Available-for-sale securities	5,466	5,466	—	66,659	66,659	—
3) Long-term loans receivable (*2)	5,481	—	—	66,841	—	—
Allowance for doubtful receivables (*3)	(2,367)	—	—	(28,866)	—	—
Long-term loans receivable, net	3,114	3,114	—	37,975	37,975	—
Total	¥ 174,334	¥ 174,330	¥ (4)	$ 2,126,024	$ 2,125,975	$ (49)
Liabilities:						
1) Trade notes and accounts payable	¥ 244,405	¥ 244,405	¥ —	$ 2,980,549	$ 2,980,549	$ —
2) Other accounts payable	23,040	23,040	—	280,976	280,976	—
3) Short-term loans payable	65,842	65,842	—	802,951	802,951	—
4) Long-term debt	712,243	707,239	(5,004)	8,685,890	8,624,866	(61,024)
Total	¥1,045,530	¥1,040,526	¥(5,004)	$12,750,366	$12,689,342	$(61,024)
Derivative instruments: (*4)						
1) Hedge accounting not applied	¥ (2,510)	¥ (2,510)	¥ —	$ (30,610)	$ (30,610)	$ —
2) Hedge accounting applied	(5,717)	(5,717)	—	(69,720)	(69,720)	—
Total	¥ (8,227)	¥ (8,227)	¥ —	$ (100,330)	$ (100,330)	$ —

As of March 31, 2011	Millions of yen Carrying values	Fair values	Difference
Assets:			
1) Trade notes and accounts receivable	¥154,498	¥ —	¥ —
Allowance for doubtful receivables (*1)	(756)	—	—
Trade notes and accounts receivable, net	153,742	153,724	(18)
2) Investment securities			
Available-for-sale securities	5,714	5,714	—
3) Long-term loans receivable (*2)	5,405	—	—
Allowance for doubtful receivables (*3)	(2,343)	—	—
Long-term loans receivable, net	3,062	3,062	—
Total	¥162,518	¥162,500	¥ (18)
Liabilities:			
1) Trade notes and accounts payable	¥208,111	¥208,111	¥ —
2) Other accounts payable	22,738	22,738	—
3) Short-term loans payable	79,447	79,447	—
4) Long-term debt	613,553	627,075	13,522
Total	¥923,849	¥937,371	¥13,522
Derivative instruments: (*4)			
1) Hedge accounting not applied	¥ (362)	¥ (362)	¥ —
2) Hedge accounting applied	(4,746)	(4,746)	—
Total	¥ (5,108)	¥ (5,108)	¥ —

(*1) Allowance for doubtful receivables, which is recognized on the basis of each individual accounts receivable, is deducted.
(*2) Long-term loans receivable include those due within one year, which are included in "other current assets" on the consolidated balance sheet.
(*3) Allowance for doubtful receivables, which is recognized on the basis of each individual long-term loans receivable, is deducted.
(*4) Receivables and payables resulting from derivative transactions are offset against each other and presented on a net basis; when a net liability results, the net amount is shown in ().

The financial instruments in the following table are excluded from "Assets 2) Investment securities" in the above tables because measuring the fair value of these instruments is deemed highly difficult: market prices of these instruments are not available and future cash flows from these instruments are not contracted.

	Millions of yen		Thousands of U.S. dollars
	Carrying values		Carrying values
As of March 31	**2012**	2011	**2012**
Available-for-sale securities:			
Non-listed equity securities	**¥ 2,842**	¥ 3,251	**$ 34,658**
Investment in securities of affiliated companies	**85,050**	81,177	**1,037,195**
Total	**¥87,892**	¥84,428	**$1,071,853**

Basis of measuring fair value of financial instruments

The fair values of some financial instruments are based on market prices. When market prices are unavailable, the fair values are based on reasonably estimated values. The estimated values may vary depending on the assumptions and variables used in the estimation.

Assets

1) Trade notes and accounts receivable

The fair values of these receivables are calculated by grouping the receivables according to their time to maturity, and then by discounting the amount of those receivables by group to present values. The discount rates used in computing the present values reflect the time to maturity as well as credit risk.

2) Investment securities

As for listed stocks included in investment securities, their quoted prices on the stock exchange are used as their fair values.

For notes on securities by classification, refer to "Securities" under Note 2, "Significant Accounting Policies", and Note 5, "Securities".

3) Long-term loans receivable

Long-term loans receivable consist of variable interest loans. As such, the interest rates on these loans reflect the market rates of interest within short periods of time. Also, the credit standings of borrowers of these loans have not changed significantly since the execution of these loans. Accordingly, the carrying values are used as the fair values of these loans receivable.

For loans receivable at a high risk, the fair value is calculated mainly based on amounts estimated to be collectible through collateral and guarantees.

Liabilities

1) Trade notes and accounts payable, 2) Other accounts payable, and 3) Short-term loans payable

These payables are settled within short periods of time. Hence, their carrying values approximate their fair values. Accordingly, carrying values are used as the fair values of these payables.

4) Long-term debt

a) Bonds payable

The fair value of bonds issued by the Company and its consolidated subsidiaries is based on the market price where such a price is available. Otherwise, the sum of the present value of principal and interest payments is used as the fair value of bonds payable. The discount rates used in computing the present value reflect the time to maturity of the bonds as well as credit risk.

b) Long-term loans payable and c) Lease obligations

The fair value of these liabilities is calculated by the sum of the principal and interest payments discounted to present value, using the imputed interest rate that would be required to newly execute a similar borrowing or lease transaction.

For some long-term loans payable with variable interest rates, interest rate swaps are used as a hedge against interest rate fluctuations. When such interest rate swaps meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the long-term loans payable. In such cases, the resulting net interest on the long-term loans payable is used in calculating the present value.

Derivative instruments

Refer to Note 15, "Derivative Financial Instruments and Hedging Transactions".

Scheduled amounts of receivables were as follows:

	Millions of yen				Thousands of U.S. dollars			
As of March 31, 2012	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
Trade notes and accounts receivable	¥165,662	¥ 346	¥ —	¥ —	$2,020,268	$ 4,220	$ —	$ —
Long-term loans receivable	70	4,338	605	468	854	52,902	7,378	5,707
Total	¥165,732	¥4,684	¥605	¥468	$2,021,122	$57,122	$7,378	$5,707

	Millions of yen			
As of March 31, 2011	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
Trade notes and accounts receivable	¥153,521	¥ 977	¥ —	¥ —
Long-term loans receivable	150	4,336	569	350
Total	¥153,671	¥5,313	¥569	¥350

For the schedule of repayment of long-term debt after the consolidated balance sheet date, refer to Note 9, "Short-Term Debt and Long-Term Debt."

5 SECURITIES

The Company and its consolidated subsidiaries had no trading or held-to-maturity debt securities at March 31, 2012 and 2011.

Available-for-sale securities with market values as of March 31, 2012 and 2011 were as follows:

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2012	Acquisition costs	Carrying values	Difference	Acquisition costs	Fair values	Difference
Stocks	**¥ 4,520**	**¥ 4,328**	**¥(192)**	**$ 55,122**	**$ 52,780**	**$(2,342)**
Other	**251,003**	**251,012**	**9**	**3,061,012**	**3,061,122**	**110**
Total	**¥255,523**	**¥255,340**	**¥(183)**	**$3,116,134**	**$3,113,902**	**$(2,232)**

	Millions of yen		
As of March 31, 2011	Acquisition costs	Carrying values	Difference
Stocks	¥ 4,523	¥ 4,269	¥(254)
Other	154,075	154,075	—
Total	¥158,598	¥158,344	¥(254)

6 INVENTORIES

Inventories as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	**2012**	2011	**2012**
Finished products	**¥156,720**	¥141,959	**$1,911,219**
Work in process	**48,232**	42,842	**588,195**
Raw materials and supplies	**11,238**	12,210	**137,049**
Total	**¥216,190**	¥197,011	**$2,636,463**

7 LAND REVALUATION

As of March 31, 2001, in accordance with the Law to Partially Revise the Land Revaluation Law (Law No.19, enacted on March 31, 2001), land owned by the Company for business use was revalued. The unrealized gains on the revaluation are included in equity as "Land revaluation", net of deferred taxes. The deferred taxes on the unrealized gains are included in liabilities as "Deferred tax liability related to land revaluation".

The fair value of land was determined based on official notice prices that are assessed and published by the Commissioner of the National Tax Administration, as stipulated in Article 2-4 of the Ordinance Implementing the Law Concerning Land Revaluation (Article 119 of 1998 Cabinet Order, promulgated on March 31, 1998). Reasonable adjustments, including those for the timing of assessment, are made to the official notice prices.

The amounts of decrease in the aggregate fair value of the revalued land as of March 31, 2012 and 2011 from that at the time of revaluation, as stipulated in Article 10 of the Land Revaluation Law, were ¥93,531 million ($1,140,622 thousand) and ¥95,099 million, respectively.

8 IMPAIRMENT OF LONG-LIVED ASSETS

For the purpose of reviewing for impairment, assets are generally grouped by company; however, idle assets, assets for rent and assets for selling are individually reviewed for impairment.

For the years ended March 31, 2012 and 2011, the Domestic Companies recognized an impairment loss of ¥763 million ($9,305 thousand) and ¥2,387 million, respectively, on idle assets.

In addition, for the year ended March 31, 2011, a consolidated foreign subsidiary in the United States reduced the carrying value of its leased property held for use in production, resulting in an impairment loss of ¥1,029 million.

Furthermore, for the year ended March 31, 2012, the Company and a consolidated foreign subsidiary in the United States reduced the value of its land and buildings for selling by ¥6,408 million ($78,146 thousand).

As a result, the total impairment loss that was recognized in the consolidated statement of operations for the years ended March 31, 2012 and 2011 amounted to ¥7,171 million ($87,451 thousand) and ¥3,416 million, respectively.

9 SHORT-TERM DEBT AND LONG-TERM DEBT

Short-term debt as of March 31, 2012 and 2011 consisted of loans, principally from banks with interest averaging 0.94% and 1.42% for the respective years.

Long-term debt as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2012	2011	2012
Domestic unsecured bonds due serially 2012 through 2016 at rate of 0.56% to 1.87% per annum	¥ 95,750(*)	¥ 115,850	$ 1,167,683
Loans principally from banks, maturing through 2072:			
Secured loans	103,495	63,146	1,262,134
Unsecured loans	500,987	410,278	6,109,597
Lease obligations, maturing through 2019	12,011	24,279	146,476
Sub total	712,243	613,553	8,685,890
Amount due within one year	(94,241)	(125,804)	(1,149,280)
Total	¥618,002	¥ 487,749	$ 7,536,610

(*) As of March 31, 2012, certain of these unsecured bonds amounting to ¥750 million ($9,146 thousand) are bank-guaranteed under the condition that assets are pledged to the bank as collateral by the issuer of the bonds.

The annual interest rates applicable to long-term loans and lease obligations outstanding averaged 1.52% and 3.22%, respectively, for obligations due within one year and 1.86% and 2.31%, respectively, for obligations due after one year at March 31, 2012.

The annual interest rates applicable to long-term loans and lease obligations outstanding averaged 1.42% and 3.23%, respectively, for obligations due within one year and 1.55% and 3.30%, respectively, for obligations due after one year at March 31, 2011.

As is customary in Japan, general agreements with banks include provisions that security and guarantees will be provided if requested by banks. Banks have the right to offset cash deposited with them against any debt or obligation that becomes due and, in the case of default or certain other specified events, against all debts payable to banks.

The annual maturities of long-term debt at March 31, 2012 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2013	¥ 94,241	$1,149,280
2014	103,691	1,264,524
2015	107,644	1,312,732
2016	83,740	1,021,220
2017	124,121	1,513,671
Thereafter	198,806	2,424,463
Total	¥712,243	$8,685,890

The assets pledged as collateral for short-term debt of ¥37,103 million ($452,476 thousand) and ¥35,809 million, and long-term debt of ¥104,245 million ($1,271,280 thousand) and ¥63,996 million at March 31, 2012 and 2011, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2012	2011	2012
Property, plant and equipment, at net book value	¥409,461	¥411,384	$4,993,427
Inventories	37,264	—	454,439
Other	28,926	3	352,756
Total	¥475,651	¥411,387	$5,800,622

10 EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

The liabilities for severance and retirement benefits as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2012	2011	2012
Projected benefit obligation	¥ 287,761	¥ 277,155	$ 3,509,280
Unrecognized prior service costs	11,935	14,954	145,549
Unrecognized actuarial differences	(43,324)	(42,864)	(528,341)
Less fair value of pension assets	(182,870)	(176,076)	(2,230,122)
Prepaid pension cost	2,648	5,115	32,293
Liability for severance and retirement benefits	¥ 76,150	¥ 78,284	$ 928,659

Severance and retirement benefit expenses for the years ended March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	2012	2011	2012
Service costs—benefits earned during the year	¥10,475	¥10,773	$127,744
Interest cost on projected benefit obligation	6,147	6,381	74,963
Expected return on plan assets	(3,372)	(3,379)	(41,122)
Amortization of prior service costs	(1,664)	(2,244)	(20,293)
Amortization of actuarial differences	8,057	8,287	98,256
Severance and retirement benefit expenses	¥19,643	¥19,818	$239,548

For the years ended March 31, 2012 and 2011, the discount rates were primarily 1.8% and 2.1%, respectively.

For both the years ended March 31, 2012 and 2011, the rates of expected return on plan assets were primarily 1.5%.

For both the years ended March 31, 2012 and 2011, the estimated amount of all retirement benefits to be paid at the future retirement dates is allocated equally to each service year using the estimated number of total service years.

For the years ended March 31, 2012 and 2011, accrued pension costs related to defined contribution plans were charged to income as ¥2,315 million ($28,232 thousand) and ¥2,249 million, respectively.

11 CONTINGENT LIABILITIES

Contingent liabilities as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2012	2011	2012
Factoring of receivables with recourse	¥ —	¥ 170	$ —
Guarantees of loans and similar agreements	19,175	17,795	233,841

12 EQUITY

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Corporate Law ("the Law"), in cases where dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve, must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets. Legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit or could be capitalized by a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, all additional paid-in capital and legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law. Cash dividends charged to retained earnings during the fiscal year were year-end cash dividends for the preceding fiscal year and interim cash dividends for the current fiscal year.

The appropriations are not accrued in the consolidated financial statements for the corresponding period, but are recorded in the subsequent accounting period after shareholders' approval has been obtained. For the year ended March 31, 2012, no year-end dividends were appropriated.

In conjunction with a public stock offering with the stock payment date of March 12, 2012 and a new share allocation to third parties with the stock payment date of March 27, 2012, the total number of shares outstanding increased by 1,219,000,000 shares, and common stock and capital surplus increased by ¥72,457 million ($883,622 thousand).

Also, by approval of the shareholders' meeting held on June 27, 2012, the number of shares authorized to be issued have increased by 3,000,000,000 shares to 6,000,000,000 shares.

13 OTHER INCOME/(EXPENSES)

The components of "Other, net" in Other income/(expenses) in the consolidated statements of operations for the years ended March 31, 2012 and 2011 were comprised as follows:

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	2012	2011	2012
Gain on sale of investment securities, net	¥ —	¥ 15	$ —
Gain on sale of investment in affiliates, net	—	702	—
Reversal of investment valuation allowance	495	285	6,037
Loss on retirement and sale of property, plant and equipment, net	(3,270)	(1,908)	(39,878)
Rental income	1,885	2,023	22,988
Loss on sale of receivables	(983)	(1,234)	(11,988)
Loss on impairment of long-lived assets	(7,171)	(3,416)	(87,451)
Foreign exchange gain	2,929	9,230	35,720
Compensation received for the exercise of eminent domain	257	2	3,134
Gain on reversal of subscription rights to shares	201	8	2,451
Reserve for loss from business of affiliates	—	(8,533)	—
Reserve for environment measures	(19)	(11)	(232)
Adoption of accounting standards for asset retirement obligations	—	(2,684)	—
Loss on disaster(*1)	(3,731)	(5,211)	(45,500)
Loss on abolishment of retirement benefit plan(*2)	(1,044)	—	(12,732)
Business restructuring costs(*3)	(4,079)	—	(49,744)
Other	(2,643)	(1,469)	(32,232)
Total	¥(17,173)	¥(12,201)	$(209,427)

(*1) The effect of the Great East Japan Earthquake.

(*2) Refer to "Employees' severance and retirement benefits" under Note 2, "Significant Accounting Policies".

(*3) Retirement benefits in some foreign consolidated subsidiaries and compensation payments to some dealers to implement structural reforms.

14 INCOME TAXES

For the year ended March 31, 2012, since loss before income taxes was reported, the information on the reconciliation from statutory tax rate to effective tax rate is not provided in accordance with the applicable provisions of Japanese GAAP.

The effective tax rate reflected in the consolidated statement of operations for the year ended March 31, 2011 differs from the statutory tax rate for the following reasons.

For the year ended March 31	2011
Statutory tax rate	40.4%
Equity in net income of affiliated companies	(31.8)
Valuation allowance	453.8
Dividend received from foreign subsidiaries eliminated in consolidation	9.1
Other	0.1
Effective tax rate	471.6%

Deferred tax assets and liabilities reflect the estimated tax effects of loss carryforwards and accumulated temporary differences between assets and liabilities for financial accounting purposes and those for tax purposes. The significant components of deferred tax assets and liabilities as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2012	2011	2012
Deferred tax assets:			
Allowance for doubtful receivables	¥ 1,619	¥ 1,981	$ 19,744
Employees' severance and retirement benefits	25,390	30,723	309,634
Loss on impairment of long-lived assets	8,740	9,866	106,585
Accrued bonuses and other reserves	19,855	27,797	242,134
Inventory valuation	7,075	7,111	86,280
Valuation loss on investment securities, etc.	1,589	1,182	19,378
Net operating loss carryforwards	128,920	92,015	1,572,195
Other	40,894	55,409	498,708
Total gross deferred tax assets	234,082	226,084	2,854,658
Less valuation allowance	(178,423)	(123,598)	(2,175,890)
Total deferred tax assets	55,659	102,486	678,768
Deferred tax liabilities:			
Reserves under Special Taxation Measures Law	(315)	(5,906)	(3,841)
Other	(7,267)	(6,607)	(88,622)
Total deferred tax liabilities	(7,582)	(12,513)	(92,463)
Net deferred tax assets	¥ 48,077	¥ 89,973	$ 586,305

The net deferred tax assets are included in the following accounts in the consolidated balance sheet:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2012	2011	2012
Current assets—Deferred taxes	¥45,997	¥58,307	$560,939
Investments and other assets—Deferred taxes	6,035	32,558	73,597
Current liabilities—Other current liabilities	(69)	(54)	(841)
Long-term liabilities—Other long-term liabilities	(3,886)	(838)	(47,390)
Net deferred tax assets	¥48,077	¥89,973	$586,305

(Additional Information)
On December 2, 2011, amendments to the Japanese tax regulations were enacted into law. As a result of these amendments, the statutory income tax rate for the Company will be reduced to 37.76% for years beginning on or after April 1, 2012 and 35.38% for years beginning on or after April 1, 2015. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2012 to March 31, 2015 and on or after April 1, 2015 are 37.76% and 35.38%, respectively, as of March 31, 2012. Due to these changes in statutory income tax rates, net deferred tax assets decreased by ¥2,242 million ($27,341 thousand) as of March 31, 2012 and deferred income tax expense recognized for the year ended March 31, 2012 increased by the same amount. Furthermore, deferred tax liability related to land revaluation decreased by ¥11,087 million ($135,207 thousand) as of March 31, 2012 and land revaluation in accumulated other comprehensive income increased by the same amount.

15 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

The Company and its consolidated subsidiaries use forward foreign exchange contracts as derivative financial instruments only for the purpose of mitigating future risks of fluctuations in foreign currency exchange rates. Also, only for the purpose of mitigating future risks of fluctuations in interest rates with respect to borrowings, the Company and its consolidated subsidiaries use interest rate swap contracts.

Forward foreign exchange contracts are subject to risks of foreign exchange rate changes. Also, interest rate swap contracts are subject to risks of interest rate changes.

Use of derivatives to manage these risks could result in the risk of a counterparty defaulting on a derivative contract. However, the Company believes that the risk of a counterparty defaulting is minimum since the Company and its consolidated subsidiaries use only highly credible financial institutions as counterparties.

Derivative transactions are conducted in compliance with internal control rules and procedures that prescribe transaction authority. The policies for derivative transactions of the Company and its consolidated subsidiaries are approved by the Company's President or Chief Financial Officer. Transactions are approved in advance by either the Company's Financial Services Division General Manager or Treasury Department General Manager. Based on these approvals, the Treasury Department conducts and books the transactions as well as confirms the balance between the counterparty of the derivatives contract. The operation of the transaction is segregated from its clerical administration, in order to maintain internal check within the Treasury Department, and is audited periodically by the Global Auditing Department. Derivative transactions are reported, upon execution, to the Company's Chief Financial Officer, Financial Services Division General Manager, and Treasury Department General Manager. The consolidated subsidiaries also follow internal control rules and procedures pursuant to those of the Company, obtain approval of the Company, and conduct and manage the transactions according to the approval.

The following summarizes hedging derivative financial instruments used by the Company and its consolidated subsidiaries and items hedged:

Hedging instruments:	Hedged items:
Forward foreign exchange contracts	Foreign currency-denominated transactions planned in the future
Interest rate swap contracts	Interest on borrowings

The following tables summarize fair value information as of March 31, 2012 and 2011 of derivative transactions for which hedge accounting has not been applied:

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2012	Contract amount	Estimated fair value	Unrealized gain/(loss)	Contract amount	Estimated fair value	Unrealized gain/(loss)
Forward foreign exchange contracts:						
Sell:						
U.S. dollar	¥26,100	¥(1,597)	¥(1,597)	$ 318,293	$(19,475)	$(19,475)
Euro	6,043	64	64	73,695	780	780
Canadian dollar	7,728	(346)	(346)	94,244	(4,220)	(4,220)
Australian dollar	20,364	(820)	(820)	248,341	(10,000)	(10,000)
Sterling pound	3,739	(328)	(328)	45,598	(4,000)	(4,000)
Swiss franc	—	12	12	—	146	146
Russian ruble	8,910	(32)	(32)	108,659	(390)	(390)
Buy:						
U.S. dollar	4,512	(53)	(53)	55,024	(646)	(646)
Australian dollar	2,332	(40)	(40)	28,439	(488)	(488)
Thai baht	9,806	791	791	119,585	9,646	9,646
Japanese yen	4,454	(161)	(161)	54,317	(1,963)	(1,963)
Total	¥93,988	¥(2,510)	¥(2,510)	$1,146,195	$(30,610)	$(30,610)

	Millions of yen		
As of March 31, 2011	Contract amount	Estimated fair value	Unrealized gain/(loss)
Forward foreign exchange contracts:			
Sell:			
U.S. dollar	¥20,925	¥ 142	¥ 142
Euro	6,801	(246)	(246)
Canadian dollar	8,394	(311)	(311)
Australian dollar	—	(46)	(46)
Sterling pound	1,991	(17)	(17)
Swiss franc	443	(10)	(10)
Buy:			
U.S. dollar	8,855	(67)	(67)
Australian dollar	2,668	114	114
Thai baht	4,588	82	82
Japanese yen	3,760	(3)	(3)
Total	¥58,425	¥(362)	¥(362)

For forward foreign exchange contracts, fair values at year-end are estimated based on prevailing forward exchange rates at that date.

The following tables summarize fair value information as of March 31, 2012 and 2011 of derivative transactions for which hedge accounting has been applied:

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2012	Contract amount	Thereof due after 1 year	Estimated fair value	Contract amount	Thereof due after 1 year	Estimated fair value
Interest rate swaps:						
On long-term loans payable:						
Where certain hedging criteria are met (*1)	**¥ 40,900**	**¥37,200**	**¥ —**	**$ 498,780**	**$453,659**	**$ —**
Forward foreign exchange contracts:						
Sell:						
U.S. dollar	**94,710**	**—**	**(3,747)**	**1,155,000**	**—**	**(45,696)**
Euro	**32,202**	**—**	**(144)**	**392,707**	**—**	**(1,756)**
Canadian dollar	**31,449**	**—**	**(750)**	**383,524**	**—**	**(9,146)**
Australian dollar	**57,013**	**—**	**(1,144)**	**695,280**	**—**	**(13,951)**
Sterling pound	**3,860**	**—**	**(70)**	**47,073**	**—**	**(854)**
Swiss franc	**184**	**—**	**2**	**2,244**	**—**	**24**
Buy:						
U.S. dollar	**5,788**	**—**	**(83)**	**70,585**	**—**	**(1,012)**
Thai baht	**4,528**	**—**	**219**	**55,220**	**—**	**2,671**
Total	**¥270,634**	**¥37,200**	**¥(5,717)**	**$3,300,413**	**$453,659**	**$(69,720)**

	Millions of yen		
As of March 31, 2011	Contract amount	Thereof due after 1 year	Estimated fair value
Interest rate swaps:			
On long-term loans payable:			
Where certain hedging criteria are met (*1)	¥ 41,400	¥38,900	¥ —
Forward foreign exchange contracts:			
Sell:			
U.S. dollar	46,424	—	53
Euro	44,107	—	(1,580)
Canadian dollar	16,812	—	(627)
Australian dollar	45,763	—	(2,760)
Sterling pound	12,807	—	(151)
Swiss franc	1,688	—	(33)
Buy:			
U.S. dollar	3,114	—	(49)
Thai baht	20,138	—	401
Total	¥232,253	¥38,900	¥(4,746)

(*1) The fair value of these interest rate swaps are, in effect, included in and presented with that of the hedged item long-term loans payable. For details, refer to Note 4, "Financial Instruments."

16 LEASES

The amount of future minimum lease payments under non-cancellable operating leases as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2012	2011	2012
Current portion	¥ 4,920	¥ 3,618	$ 60,000
Non-current portion	13,873	12,551	169,183
Total	¥18,793	¥16,169	$229,183

17 SEGMENT INFORMATION

Overview of Reportable Segments

The reportable segments of the Company consist of business components for which separate financial statements are available. The reportable segments are the subject of periodical review by board of directors' meetings for the purpose of making decisions on the distribution of corporate resources and evaluating business performance.

The Company is primarily engaged in the manufacture and sale of passenger and commercial vehicles. Businesses in the Japan, North America and Europe regions are managed by the Company, Mazda Motor of America, Inc. and Mazda Motor Europe GmbH, respectively. Areas other than Japan, North America, and Europe are defined as Other areas. Business deployment in countries in Other areas are managed in an integrated manner by the Company. Accordingly, the Company consists of regional segments based on a system of managing production and sale. As such, Japan, North America, Europe, and Other areas are designated as four reportable segments.

Net sales, income or loss, and assets by reportable segments for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen						
	Reportable segments						
For the year ended March 31, 2012	Japan	North America	Europe	Other areas	Total	Adjustment (*1)	Consolidated (*2)
Net sales:							
Outside customers	¥ 824,383	¥568,340	¥347,299	¥293,036	¥2,033,058	¥ —	¥2,033,058
Inter-segment	920,594	3,305	13,142	1,190	938,231	(938,231)	—
Total	1,744,977	571,645	360,441	294,226	2,971,289	(938,231)	2,033,058
Segment income/(loss)	(18,417)	(40,277)	5,627	10,072	(42,995)	4,277	(38,718)
Segment assets	¥1,750,262	¥162,676	¥161,487	¥126,532	¥2,200,957	¥(285,014)	¥1,915,943

	Thousands of U.S. dollars						
	Reportable segments						
For the year ended March 31, 2012	Japan	North America	Europe	Other areas	Total	Adjustment (*1)	Consolidated (*2)
Net sales:							
Outside customers	$10,053,451	$6,930,976	$4,235,354	$3,573,609	$24,793,390	$ —	$24,793,390
Inter-segment	11,226,756	40,305	160,268	14,512	11,441,841	(11,441,841)	—
Total	21,280,207	6,971,281	4,395,622	3,588,121	36,235,231	(11,441,841)	24,793,390
Segment income/(loss)	(224,598)	(491,183)	68,622	122,829	(524,330)	52,159	(472,171)
Segment assets	$21,344,659	$1,983,854	$1,969,354	$1,543,073	$26,840,940	$ (3,475,781)	$23,365,159

For the year ended March 31, 2011	Millions of yen						
	Reportable segments						
	Japan	North America	Europe	Other areas	Total	Adjustment (*1)	Consolidated (*2)
Net sales:							
Outside customers	¥ 965,203	¥623,990	¥427,721	¥308,775	¥2,325,689	¥ —	¥2,325,689
Inter-segment	1,034,278	7,054	10,471	1,620	1,053,423	(1,053,423)	—
Total	1,999,481	631,044	438,192	310,395	3,379,112	(1,053,423)	2,325,689
Segment income/(loss)	32,555	(31,731)	7,901	12,820	21,545	2,290	23,835
Segment assets	¥1,566,139	¥142,415	¥162,003	¥108,448	¥1,979,005	¥ (207,238)	¥1,771,767

(*1) Notes on adjustment:

(1) The adjustment on segment income/(loss) are eliminations of inter-segment transactions.

(2) The adjustment on segment assets are mainly eliminations of inter-segment receivables and payables.

(*2) Segment income/(loss) is reconciled with the operating income/(loss) in the consolidated statement of operations for the years ended March 31, 2012 and 2011. Segment assets are reconciled with the total assets in the consolidated balance sheets for the years ended March 31, 2012 and 2011.

Information by geographic areas

The sales information by geographic areas as of March 31, 2012 and 2011 were as follows:

For the years ended March 31	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars 2012
Japan	¥ 560,216	¥ 541,490	$ 6,831,902
North America	575,633	631,327	7,019,915
Europe	347,346	427,398	4,235,927
Other areas	549,863	725,474	6,705,646
Total	¥2,033,058	¥2,325,689	$24,793,390

Sales is categorized into the countries or regions based on the customers' locations.

18 RELATED PARTY TRANSACTIONS

There were no transactions with related parties to be disclosed under Japanese GAAP during the years ended March 31, 2012 and 2011.

19 NOTES TO MATERIAL SUBSEQUENT EVENT

On May 15, 2012, the Company had concluded a contract with Itochu Corporation (hereinafter "Itochu") regarding sales of its 70% shares in Toyo Advanced Technologies Co., Ltd. (hereinafter "Toyo Advanced Technologies"), its consolidated subsidiary, to Itochu by ¥21,000 million ($256,098 thousand), of which the transaction date was July 20, 2012. Toyo Advanced Technologies mainly manufactures and sells machine tools and automotive components. The Company aims to expand the overseas business of machine tools and enhance the corporate value of Toyo Advanced Technologies through utilization of Itochu's sales network in overseas markets. ¥9,575 million ($116,768 thousand) was recognized in gain on sales of shares.

Further, the Company had reached a basic agreement to sell some of its fixed assets (land) on June 29, 2012, by ¥13,939 million ($169,988 thousand) to Sumitomo Mitsui Finance & Leasing Co., Ltd. (hereinafter "Sumitomo Mitsui") to effectively utilize management resources. The fixed assets (land) are located in Ozu district (for gymnasium and others) and Fuchizaki district (for plant) in head office area, Nakanoseki district in Hofu-plant area (for temporary storage site) and Sue Distribution Center (for temporary storage site). The Company intends to continue using the fixed assets under some lease agreements with Sumitomo Mitsui. By selling these assets, income of ¥4,469 million ($54,500 thousand) would be recognized due to write-off of deferred tax liability related to land revaluation in the year ending on March 31, 2013.

Assurance by Key Management

August 6, 2012

To the best of our knowledge, after due inquiry, the financial statements and other financial information included in the company's annual report for the year ended March 31, 2012 are presented fairly, in all material respects, in conformity with the generally accepted accounting principles in Japan.

President and
Chief Executive Officer

Takashi Yamanouchi

Executive Vice President and
Chief Financial Officer

Kiyoshi Ozaki

KPMG

To the Board of Directors of Mazda Motor Corporation:

We have audited the accompanying consolidated financial statements of Mazda Motor Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2012 and 2011, and the consolidated statements of operations and comprehensive income, consolidated statements of equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Mazda Motor Corporation and its consolidated subsidiaries as at March 31, 2012 and 2011, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2012 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

June 27, 2012, except as to note 19, which is as of August 6, 2012
Hiroshima, Japan

Corporate Data

(As of March 31, 2012)

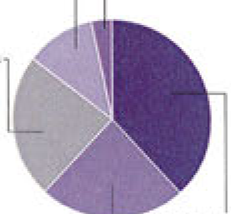
Name:	Mazda Motor Corporation
Founded:	January 1920
Capital:	¥259.0 billion
Number of employees:	37,617 (consolidated)
Head office:	3-1 Shinchi, Fuchu-cho, Aki-gun, Hirosima 730-8670, Japan Phone: +81 (82) 282-1111
Main business lines:	Manufacture and sales of passenger cars and commercial vehicles
Research and development sites:	Head Office, Mazda R&D Center (Yokohama), Mazda North American Operations (USA), Mazda Motor Europe (Germany), China Engineering Support Center (China)
Production sites:	Japan: Hiroshima Plant (Head Office, Ujina), Hofu Plant (Nishinoura, Nakanoseki), Miyoshi Plant Overseas: United States, China, Taiwan, Thailand, Zimbabwe, South Africa, Ecuador, Colombia
Sales companies:	Japan: 261, Overseas: 135 (As of December 31, 2011)
Principal products:	Four-wheeled vehicles, gasoline reciprocating engines, diesel engines, rotary engines, automatic and manual transmissions for vehicles

Stock Information

(As of March 31, 2012)

Authorized:	3,000,000,000 shares* * By approval of the shareholders' meeting held on June 27, 2012, the number of shares authorized to be issued have increased by 3,000,000,000 shares to 6,000,000,000 shares.
Issued:	2,999,377,399 shares
Number of shareholders:	116,475
Listing:	Tokyo Stock Exchange, First Section
Code:	7261
Fiscal year-end:	March 31
Transfer agent:	The Sumitomo Mitsui Trust Bank, Limited 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8233, Japan

BREAKDOWN OF SHAREHOLDERS



MAJOR SHAREHOLDERS

Shareholder	No. of shares owned (Thousands)	Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust)	117,799	3.9
Japan Trustee Services Bank, Ltd. (Trust)	113,576	3.8
Mitsui Sumitomo Banking Corp.	64,287	2.1
Ford Motor Company Account for Mazda Securities	62,313	2.1
The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account	61,120	2.0
ITOCHU Corporation	53,411	1.8
Sumitomo Corporation	53,409	1.8
Mitsui Sumitomo Insurance Co., Ltd.	40,683	1.4
JP Morgan Chase Bank 385167	37,616	1.3
State Street Bank and Trust Company 505225	34,527	1.2

FOR REQUESTS AND INQUIRIES

For inquiries concerning this Annual Report, please contact:

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Financial Services Division
Mazda Motor Corporation
3-1 Shinchi, Fuchu-cho, Aki-gun, Hiroshima 730-8670, Japan
Phone: +81 (82) 287-4114 Fax: +81 (82) 287-5234

Mazda Motor Corporation

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MITSUBISHI MOTORS CORPORATION

ANNUAL REPORT 2012
Year ended March 31, 2012

Delighting the World

Drive@earth

MITSUBISHI MOTORS

Mitsubishi Motors Corporate Philosophy

"We are committed to providing the utmost driving pleasure and safety for our valued customers and our community. On these commitments we will never compromise. This is the Mitsubishi Motors way."

Customer-centric approach

Mitsubishi Motors will give the highest priority to satisfying its customers, and by doing so, become a company that enjoys the trust and confidence of the community at large. To this end, Mitsubishi Motors will strive its utmost to tackle environmental issues, to raise the level of passenger and road safety and to address other issues of concern to car owners and the general public.

Going the extra mile

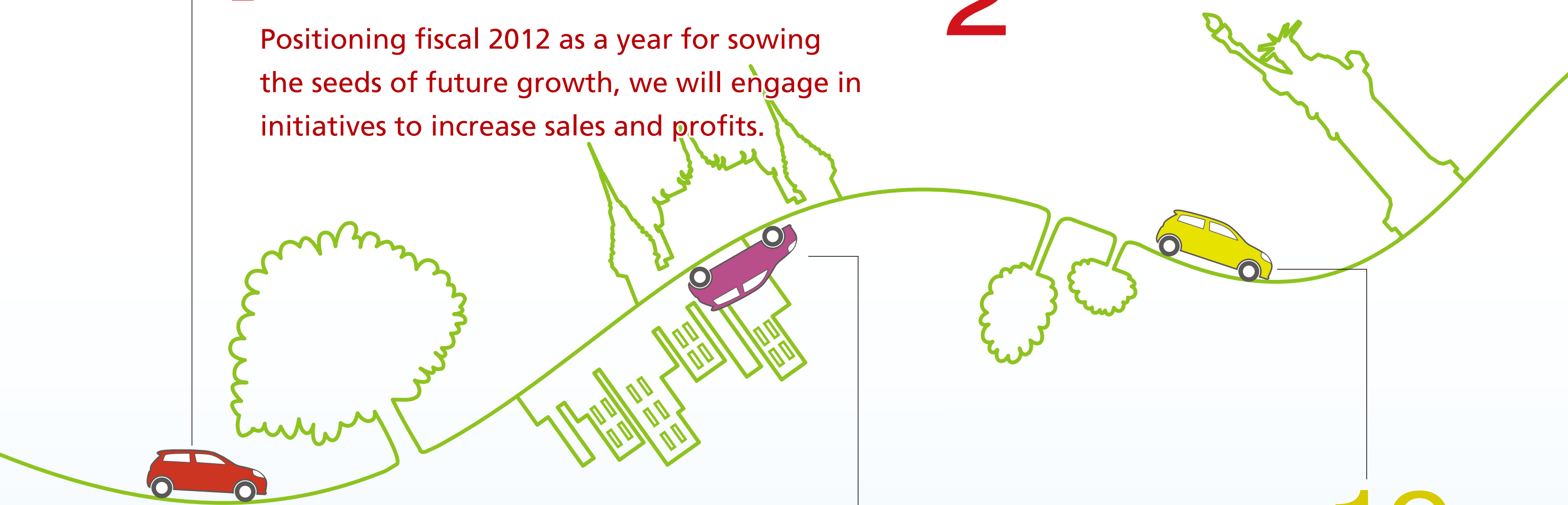
Mitsubishi Motors will pay close attention to even the smallest details in the belief that this approach will lead customers to discover new value in their cars, giving them a richer and more rewarding driving experience.

A clear direction for the development and manufacturing of Mitsubishi Motors vehicles

The cars that Mitsubishi Motors will manufacture will embody two major concepts: driving pleasure and safety. Mitsubishi Motors will manufacture cars that deliver superior driving performance and superior levels of safety and durability, and as such, those who use them will enjoy peace of mind.

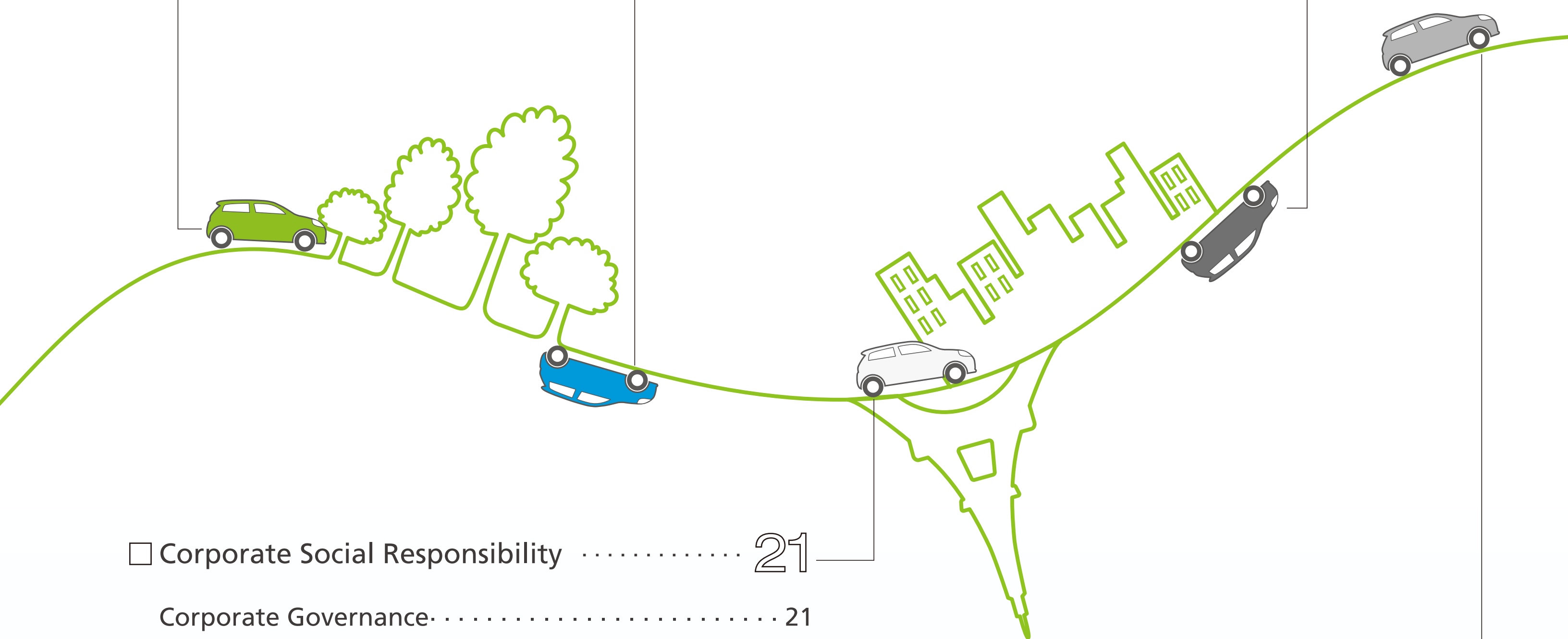
Importance of continuity

Mitsubishi Motors will continue to manufacture distinctive cars with the passion and conviction to overcome all challenges.



Forward-looking Statements

This annual report contains forward-looking statements about Mitsubishi Motors Corporation's plans, strategies, beliefs and performance. These forward-looking statements are based on current expectations, estimates, forecasts and projections about the industries in which Mitsubishi Motors Corporation operates, as well as management's beliefs and assumptions. These expectations, estimates, forecasts and projections are subject to a number of risks and uncertainties that may cause actual results to differ materially from those projected. Mitsubishi Motors Corporation, therefore, cautions readers not to place undue reliance on forward-looking statements. Furthermore, Mitsubishi Motors Corporation undertakes no obligation to update any forward-looking statements as a result of new information, future events or other developments.



Drive@earth

Drive@earth means that automobiles connect us to the world. Through trust, Mitsubishi vehicles forge a connection to customers, to communities and ultimately to the natural world around us. Drive@earth also means a new emphasis on environmental issues. It is the simple recognition that no enterprise makes sense without the context of a healthy planet, and that automakers have a special responsibility in this regard. MMC sets as its ideal the synergy between dynamic and environmental performance, and will continue to develop technologies that show as much care for the environment outside as for the occupants within its vehicles.

To Our Shareholders and Stakeholders

Positioning fiscal 2012 as a year for sowing the seeds of future growth, we will engage in initiatives to increase sales and profits.

Fiscal 2011 was an extremely difficult year for Mitsubishi Motors. In addition to a worsening business environment stemming from the European debt crisis and historically high levels of yen appreciation, our business was affected by such natural disasters as the Great East Japan Earthquake and flooding in Thailand, suspending production at factories in Japan and overseas.

Under these conditions, all employees pulled together on the production front, and thanks to their cooperation and valiant efforts by parts manufacturers and other parties, we were able to achieve a swift recovery. This result reconfirmed our faith in the strength and resilience of Japanese manufacturing.

Taking to heart the lessons learned through these calamities, they have also afforded us the opportunity to conduct a sweeping review of our operations.

We faced this host of difficulties in our operating environment in the first year of our three-year med-term business plan, "Jump 2013," which commenced in fiscal 2011. Nevertheless, we forged ahead in line with our basic policy of "Growth and Leap Forward," working resolutely toward the unchanged targets set in "Jump 2013." Specifically, we commenced production of the all-new *Mirage* at our plant in Thailand, and through the global rollout of electric vehicles pursued thorough measures to bolster profits by concentrating management resources on emerging market and environmental initiatives. As a result, we succeeded in boosting income and surpassing our initial profit targets.

In fiscal 2012, we will sow the seeds for future growth and further sales and profit increases. To reach the targets set in "Jump 2013," we will aggressively promote measures targeting emerging markets and environmental initiatives in the areas of product development, production and sales.

Our primary initiatives for fiscal 2012 are to roll out the *Mirage* on a global scale and introduce new models such as the next-generation *Outlander* and a plug-in hybrid electric vehicle (PHEV). We will expand local production in emerging markets, including Thailand, China and Russia, and we intend to make steady progress on expanding sales in line with "ASEAN Challenge 12" (See Feature 1 on pages 10–13).

Mitsubishi Motors wishes to sincerely thank all its stakeholders—including shareholders, customers, business partners and employees—and ask for their ongoing support and guidance in the years ahead.

September 2012

T. Nishioka

Takashi Nishioka
Chairman of the Board

O. Masuko

Osamu Masuko
President

To achieve our goal of "Growth and Leap Forward," we will reinforce measures to meet the needs of emerging markets and address environmental concerns.

In fiscal 2012, Mitsubishi Motors introduced the all-new *Mirage* and the next-generation *Outlander* as global strategic models designed to meet market needs. We also plan to launch PHEV models, on which we are pursuing development independently. Leveraging these models, we aim to expand our sales volume in each of the world's regions, build an optimal production structure and bolster production capacity in emerging markets.

Osamu Masuko
President

Looking Back on the First Fiscal Year of "Jump 2013," Our Mid-Term Business Plan

▶Despite a difficult operating environment, income increased, surpassing our profit targets.

In fiscal 2011, the first year for "Jump 2013," we sought vigorously to achieve "Growth and Leap Forward" by concentrating business resources in emerging markets and environmental initiatives, reforming the cost structure, pursuing business alliance opportunities for profit increases and reinforcing our business foundation.

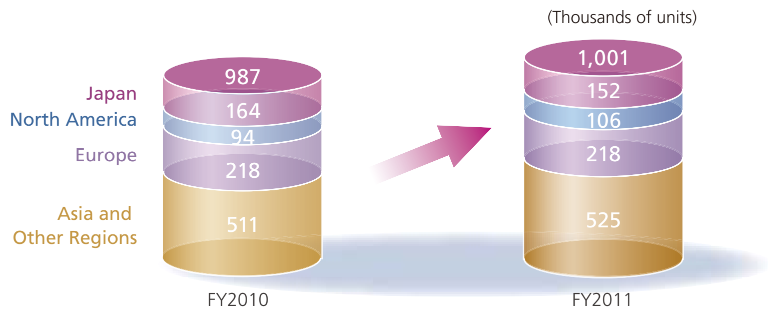
As a result of these efforts, we succeeded in exceeding our initial profit targets during the first year despite the numerous difficulties that beset the automobile industry: the impact of the Great East Japan Earthquake, flooding in Thailand, the European debt crisis, yen appreciation and sharply higher raw materials prices. Net sales decreased ¥21.2 billion year on year, to ¥1,807.3 billion, due to the impact of yen appreciation, but operating income grew ¥23.4 billion, to ¥63.7 billion, as we revised our product mix and strove to curtail raw materials costs, and net income expanded ¥8.3 billion, to ¥23.9 billion. On the operational front, sales volume (retail) rose 14,000 units year on year, to around 100,001,000 units, driven by sales in ASEAN and other overseas markets. We also racked up a steady string of successes in bolstering our strengths by preparing to commence production of the all-new *Mirage* in Thailand and making the decision to discontinue local production at a European production facility.

Fiscal 2011 Highlights

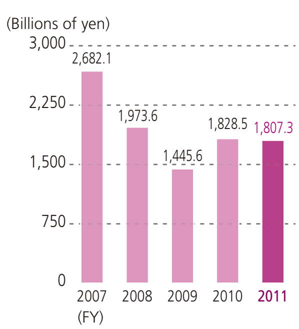
- Sales volume (retail) was 1,001,000 units, up 1% year on year, owing to increased sales in the ASEAN, North American, and Central and South American markets.
- Net sales slipped 1%, to ¥1,807.3 billion.
- Operating income surged 58%, to ¥63.7 billion.
- Net income rose 53%, to ¥23.9 billion.

Income increased as a result of a higher sales volume, improved product mix and the effect of cost reductions

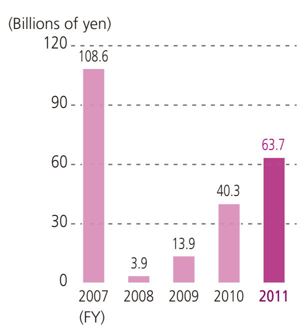
Sales Volume (Retail) by Region



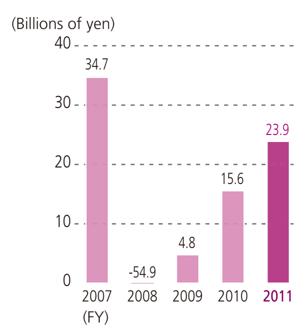
Net Sales



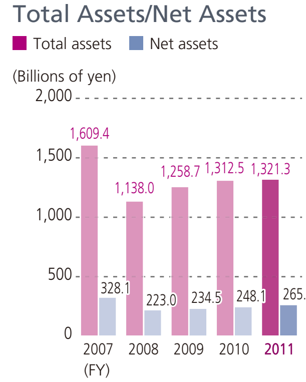
Operating Income



Net Income (Loss)



Total Assets/Net Assets



Initiatives in Fiscal 2012 to Achieve "Growth and Leap Forward"

Product Development Initiatives

▶We will introduce and roll out new models in response to demand in emerging markets and accelerate our environmental initiatives.

Mitsubishi Motors is proactively pursuing product development in line with its emerging market and environmental initiatives. One aspect of these efforts is the global rollout of the all-new *Mirage*, which launched in March 2012 in Thailand, where it is being well received. In July 2012, we also commenced sales in Russia of our new eco-SUV model, the next-generation *Outlander*, which tops its class in terms of fuel efficiency and low CO_2 emissions. We plan to roll out this model on a global basis going forward. Based on the *Outlander*, we also plan to introduce new electric vehicles with plug-in hybrid systems, as well as mini-trucks. Meanwhile, we have received from Nissan Motor under an OEM agreement the *Proudia*, a high-end sedan, and the *Dignity* luxury sedan. We began offering both models in Japan in July 2012.

■ The All-New *Mirage*

We are commencing the full-fledged rollout of this global strategic model.

The all-new *Mirage* is a global compact car developed to be highly fuel efficient, affordable and compact (easy to drive), the ideal characteristics sought in a compact, thereby meeting the needs both in emerging countries as an entry-level car and advanced markets as an "eco-car."

Full production of the model has commenced at the third factory in Thailand, which was completed in March 2012. Following rollouts in Thailand and other ASEAN countries and Japan, the *Mirage* will be successively introduced in Europe, Australia and other regions. The *Mirage* is the most fuel-efficient eco-car in Thailand; exceeding the requirements for the Thai government's eco-car classification. This achievement has been well received by the Thai people; over 36,000 orders had already been received for the *Mirage* in Thailand as of August 31, 2012.

In Japan, we are introducing the *Mirage* as having the highest fuel efficiency among registered gasoline cars, at 27.2km/L (measured via Japan's JC08 mode*).

Mirage

■ The Next-Generation *Outlander*

We are rolling out this next-generation eco-SUV globally.

The next-generation *Outlander*, which achieves best-in-class levels of fuel efficiency and low CO_2 emission levels, is characterized by its outstanding environmental performance and sophisticated safety features employing advanced safety technology.

The European-spec model is equipped with either our all-new MIVEC engine or a clean diesel engine that achieves a low 14.9 compression ratio. The model boasts best-in-class environmental performance, meanwhile, through the Auto Stop & Go idling stop system, reduced vehicle weight and improved aerodynamics. High-end safety features include the Forward Crash Mitigation System (FCM), Adaptive Cruise Control System (ACC) and Lane Departure Warning System (LDW).

We have begun our European rollout of the *Outlander* from Russia. Going forward, we plan to expand the launch globally into Japan, China, Australia, North America and other countries.

Outlander

* An official method of measuring vehicle fuel consumption introduced by the Japanese government.

▶We are creating a system to roll out models after selecting the electrical drive system that is best suited for each market.

As a leader in electric vehicles, Mitsubishi Motors has accumulated a host of electric vehicle technologies, which are applicable to PHEVs and hybrid vehicle systems. We plan to leverage these successes by introducing a PHEV in fiscal 2012. We are also developing hybrid vehicles, which we expect to complete by fiscal 2014. While carefully monitoring individual market trends, we plan to introduce these new models sequentially and select the electrical drive systems that are optimal for their launch markets.

In Europe and other mature markets, the European debt crisis and other factors have led to economic stagnation and redoubling an emphasis on affordability. Meanwhile, demand remains robust in the ASEAN region and other emerging markets, and an environmental orientation is growing more pronounced. In line with these trends, for the electrical vehicle models we launch from fiscal 2014 onwards we will select the best electrical drive system for each segment, taking into overall account such factors as cruising range, price receptivity and infrastructure.

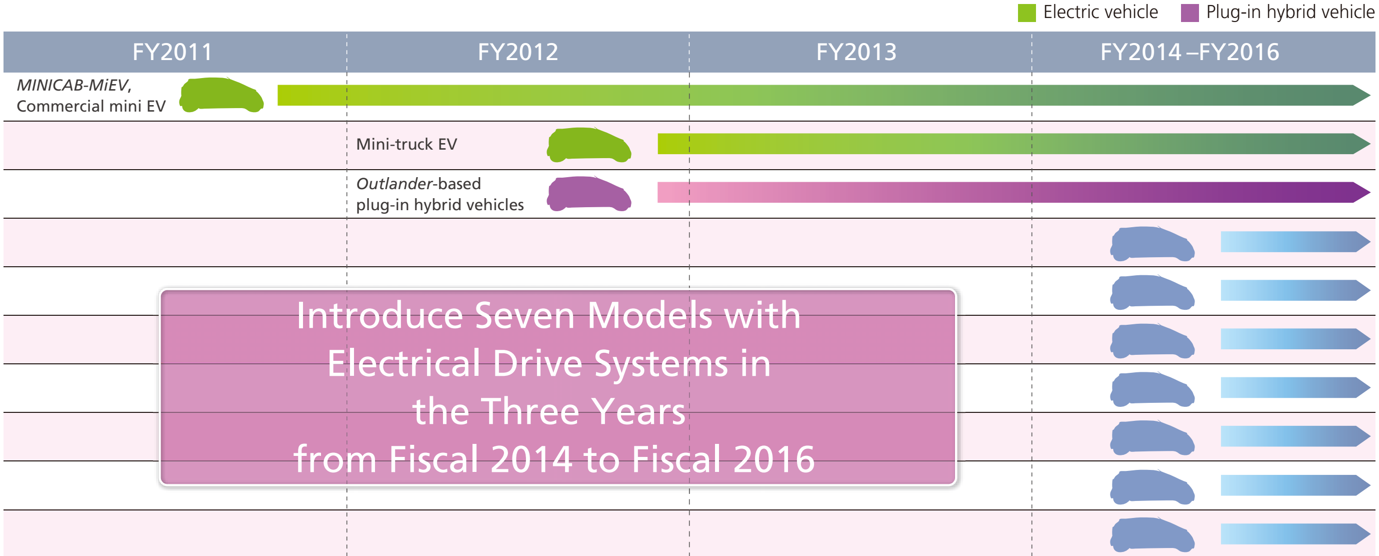
Our policy is to roll out zero-emission electric vehicles in the minicar and compact car categories, which are used to travel relatively short distances, are smaller and have a limited cruising range. In compact sedans, meanwhile, we plan to develop hybrid vehicles for emerging markets, where demand is expanding and environmental awareness is growing. In addition to being competitive pricewise, these models require no charging infrastructure. In the SUV category, where cruising range demands are high, we will offer plug-in or other hybrid vehicles. Our decision of whether to introduce PHEVs or hybrid vehicles will take into consideration such factors as the principal sales regions of individual models and price receptivity.

Mitsubishi Motors has developed a technology base spanning three types of electrical drive systems: electric vehicles, PHEVs and hybrid vehicles. We will create a structure that enables us to introduce different types of eco-cars to match the needs of individual markets.

MITSUBISHI Concept PX-MiEV II
Equipped with the Mitsubishi Plug-in Hybrid System

Mini-truck EV

Rollout Schedule for Vehicles Equipped with Electrical Drive Systems



Production Initiatives

▶We will aggressively boost production capacity in emerging markets.

On the production front, our mid-term business plan, "Jump 2013," calls for efforts at increasing production capacity in emerging markets and adjusting it to natural demand in mature markets.

With the aim of increasing production capacity in emerging markets, we are expanding in the robust ASEAN region based on a growth strategy that we formulated in September 2011, "ASEAN Challenge 12" (see Feature 1 on pages 10–13). Specifically, we are building a structure to supply the all-new *Mirage* throughout the world from our third factory in Thailand, which was completed in April 2014. We are also augmenting production capacity at the first and second factories for such models as the *Triton*, our mainstay pickup truck. We have already begun local production in Vietnam and Bangladesh for the *Pajero Sport*, a mid-sized SUV, and in Indonesia for the *Outlander Sport* (*RVR* in Japan), a compact SUV.

We are also aggressively boosting production capacity in emerging markets outside the ASEAN region. In November 2012, we will begin local production at our Kaluga plant for the next-generation *Outlander*, to be sold within that country. In China, we are in the process of setting up a new joint venture company with the Guangzhou Automobile Group. We expect to begin production of a new model in October 2012 at the joint venture. Furthermore, we are preparing to begin local production in India of the *Pajero Sport*, a mid-sized SUV.

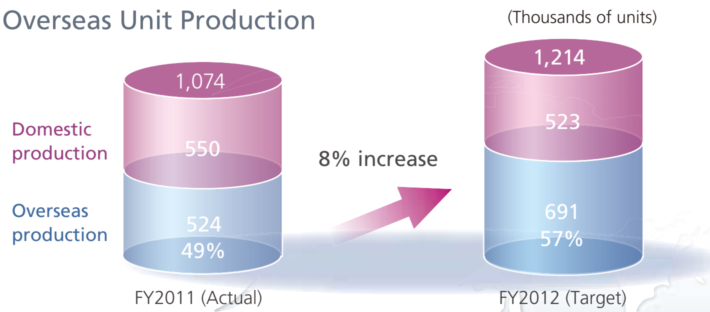
▶We are working to optimize production capacity in advanced markets

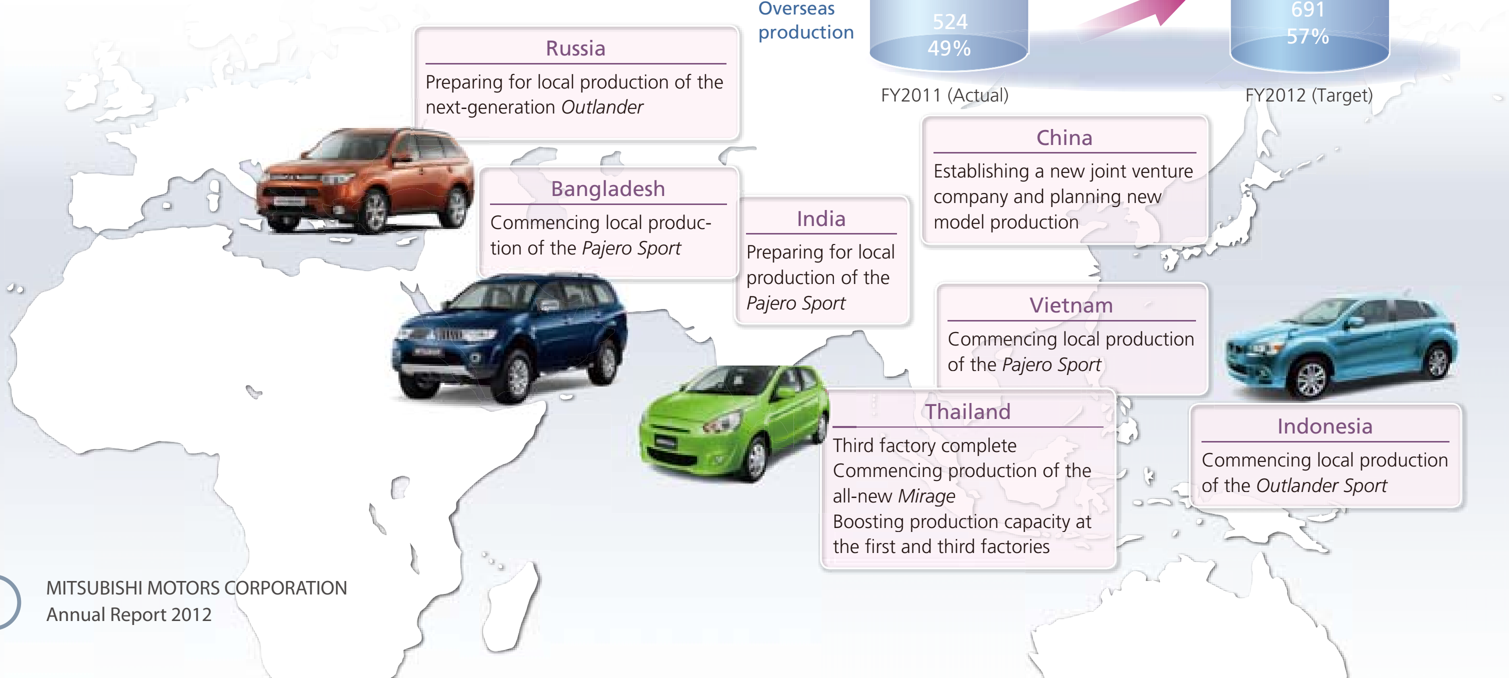
With the aim of adjusting production capacity to natural demand in mature markets, we commenced production of the *Outlander* at our Ozaki Plant in Japan in May 2012. We recognize that the export environment is problematic, however, due to high levels of ongoing yen appreciation.

Looking overseas, we began local production of the *Outlander Sport*, (*RVR* in Japan), a compact SUV, in the United States in July 2012, and we are raising the plant utilization ratio by expanding exports to Central and South America, Russia and other areas. Meanwhile, we have decided to cease vehicle production at our European facility at the end of 2012 and not to introduce new models after that point.

Due to the progress of these production reforms and our efforts to augment production volume, centering on emerging markets, in fiscal 2012 we expect overseas unit production to outpace domestic production for the first time. Our overseas production ratio for fiscal 2011 was 49%; we anticipate a rate of 57% in fiscal 2012. This change will make the Company more resistant to exchange rate fluctuations and enable us to reduce costs.

Raising the Overseas Production Ratio by Boosting Overseas Unit Production





Sales Initiatives

▶MMC is striving to expand sales in emerging markets, centered on the ASEAN region.

Mitsubishi Motors has identified China, Russia, the ASEAN region and Brazil as key markets, and is working to increase sales in these areas. Our business in the ASEAN region was affected by the 2011 flooding in Thailand, which caused us to suspend operations at our plants there for approximately one month and led to product shortages on the sales front. Despite this situation, in fiscal 2011 our sales volume in Thailand ultimately rose 55% year on year, to 74,000 units. Sales likewise increased by 24% in Indonesia, to 70,000 units, and rose 24%, to 200,000 units, for the entire ASEAN region. We are stepping up our initiatives for Thailand and Indonesia, where we aim to achieve sales of 100,000 vehicles in fiscal 2012 and fiscal 2013, respectively.

Performance Forecast

By fiscal 2013, the final year of our mid-term business plan, "Jump 2013," we aim to reach a sales volume of 1.37 million units. In the year prior to that, fiscal 2012, we expect to steadily boost sales in emerging markets, particularly the ASEAN region, which continue to grow. We plan to achieve this expansion through the global rollout of our new *Mirage* and *Outlander* models. For fiscal 2012, we anticipate a sales volume of 1.09 million units, up 89,000 units, or 9%, from fiscal 2011. However, we expect to incur upfront costs during the year, as we work to sow the seeds for future growth by aggressively promoting emerging market and environmental initiatives in the areas of product development, production and sales to achieve "Growth and Leap Forward." Consequently, for fiscal 2012 we forecast net sales of ¥1,980 billion, operating income of ¥80 billion and net income of ¥13 billion.

Finally, we consider our capital strategy to be of utmost importance for Mitsubishi Motors. Although we have not paid dividends on common stock for some time, during the term of "Jump 2013," our mid-term business plan ending in fiscal 2013, we aim to resume dividend payments. First, it is essential for us to push forward resolutely toward "Growth and Leap Forward" under "Jump 2013" and demonstrate improved profitability to our shareholders. With this in mind, we will move forward with unyielding resolve to make a comprehensive proposal to shareholders that includes dealing with preferred shares.

Operating Performance

(Billions of yen, thousands of units)

	FY2011 (Actual)	FY2012 (Forecast)	FY2013 (Target)
Sales Volume (Retail)	1,001	1,090	1,370
Net Sales	1,807.3	1,980.0	2,500.0
Operating Income	63.7	80.0	90.0
Operating Income Ratio	3.5%	4.0%	3.6%
Net Income	23.9	13.0	45.0
Net Income Ratio	1.3%	0.7%	1.8%

Feature 1: Undertaking the "ASEAN Challenge 12," Our Business Expansion Strategy in the ASEAN Market

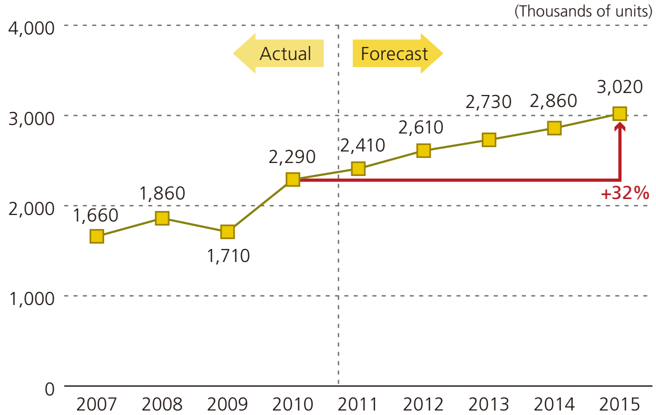
Mitsubishi Motors considers the ASEAN region a key market that will serve as an engine of growth over the long term. Accordingly, we are working to further increase sales in this market. In line with this policy, we have formulated "ASEAN Challenge 12," a business strategy that calls for us to boost local production in five major countries in the ASEAN region, and boost our market share in this region to 12% by 2015.

▶Mitsubishi Motors' state of development in the ongoing ASEAN growth market

The automobile market in the five main ASEAN countries (Thailand, Indonesia, the Philippines, Malaysia and Vietnam) is growing apace. According to the June 2011 edition of *IHS Automotive*, the market's sales volume had risen from 1.66 million vehicles in 2007 to 2.29 million in 2010. By 2013, sales are forecast to expand to 2.73 million units.

In recent years, Mitsubishi Motors' sales volume has risen substantially, in tandem with the ASEAN region's growth. Excluding Indonesia, where our sales have traditionally been strong, our market share doubled in each of these countries between fiscal 2009 and fiscal 2011. Mitsubishi Motors' share

Market Size (Sales Volume) in Five Main ASEAN Countries



Source: Total demand data is from the June 2011 edition of *IHS Automotive*.
Models include passenger cars and compact commercial vehicles (excluding trucks and buses).

of sales in the five main ASEAN countries reached 7.9% in fiscal 2011, up 1.4 percentage points from fiscal 2010. For these reasons, the ASEAN region constitutes an extremely important market for Mitsubishi Motors.

An early entrant to the ASEAN region, Mitsubishi Motors currently has production bases in four countries: Thailand, Indonesia, the Philippines and Vietnam.

In Thailand, we produce the *Triton*, a pickup truck; the *Pajero Sport*, a mid-sized SUV; and the *Lancer EX*, a sedan. *Triton* and *Pajero Sport* models produced in Thailand are exported throughout the world. In the Philippines, we manufacture the *Adventure*, an "Asian Utility Vehicle (AUV)" that we consider our Asian-strategy vehicle; the *L300* commercial vehicle; and the *Lancer EX*. We manufacture the *L300* and *T-120* commercial vehicles in Indonesia and the *Zinger* and *Pajero Sport* in Vietnam. The majority of these vehicles are sold in local markets. In Malaysia, we have licensed PROTON to produce the *Inspira*, a sister vehicle to the *Lancer*, and provide parts for knockdown production.


Pajero Sport


Triton


Lancer EX

▶New targets and growth strategy in the ASEAN region

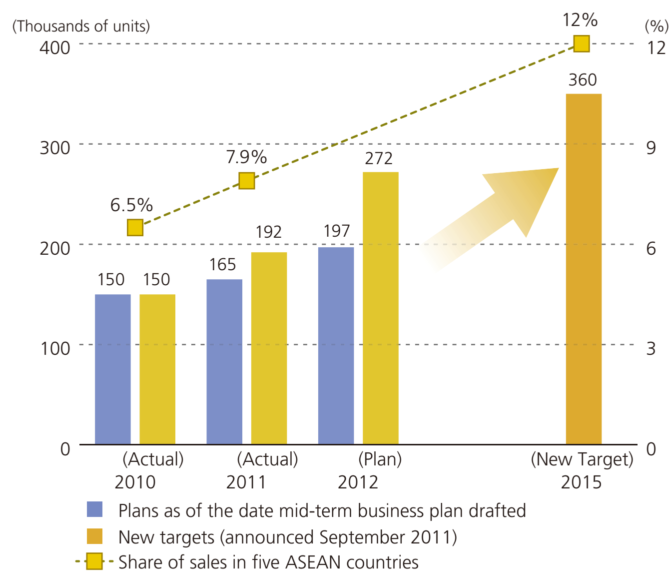
Mitsubishi Motors believes that the ASEAN region offers extremely high growth potential, for several reasons: expansion in this region is stable in comparison with other emerging markets, historically Mitsubishi Motors has a strong market share in the area, and internal demand is forecast to expand. Our mid-term business plan, "Jump 2013," set our target sales volume for the five main ASEAN countries at 165,000 units in fiscal 2011. We outpaced this figure substantially, achieving sales of 192,000 units.

Against this backdrop, we are now targeting a sales volume of 360,000 units in the five main ASEAN countries by fiscal 2015—a 12% market share. We are moving forward with specific strategies to turn this goal into reality.

Our first strategy is to successively launch the all-new *Mirage* throughout the ASEAN region. In Thailand, the *Mirage* is produced and sold by Mitsubishi Motors (Thailand), or MMTh. The company also exports the model throughout the world. In April 2012, MMTh completed construction on its third factory, rounding out our production structure in the country. We are also boosting production capacity at our first and second factories in the country.

Our second strategy is to gradually introduce local production models in ASEAN and Southwestern Asian countries in the next two years, centering on mid-sized and compact SUVs and compact passenger cars. We plan to expand local sales in line with this increase in local production.

Fiscal 2015 Targets for Five ASEAN Countries: Sales of 360,000 Units, 12% Market Share



Feature 1: Undertaking the "ASEAN Challenge 12," Our Business Expansion Strategy in the ASEAN Market

▶Bolstering local production in the ASEAN region

To reinforce local production in the ASEAN region, in Indonesia we have commenced local production and sales of the *Outlander Sport* (*RVR* in Japan), a compact SUV, in addition to the production of the *L300* and *T-120* commercial vehicles to date in response to demand for passenger cars.

Our partner in Malaysia, PROTON, produces the *Inspira* under license from Mitsubishi Motors, selling the model under the PROTON brand.

In Vietnam, Vina Star Motors produces and sells the *Zinger* AUV, and in August 2011 the company also began producing and selling the *Pajero Sport*, a mid-sized SUV. We plan to expand this business further in fiscal 2013 by introducing the *Mirage*.

We began local production in the Philippines in 1963, via Mitsubishi Motors Philippines. To date, production models have centered on commercial vehicles and AUVs, but the company is now endeavoring to boost its sales volume by offering 2L and 1.6L *Lancer EX* models, raising market share in the passenger car segment. We also plan to take advantage of capacity at transmission production and engine assembly plants in the Philippines, making the country a parts supply base for ASEAN countries.

In this manner, we are gradually increasing local production, commencing with the *Mirage* in Thailand and then moving to the *Outlander Sport* in Indonesia. Through these efforts, as well as by producing a new-generation transmission in the Philippines and commencing local production of the *Mirage* in Vietnam, we are further accelerating our business development in the ASEAN region.

L300

T-200

Outlander Sport

Zinger

Focusing Our Management Resources in Thailand, a Market with Strong Growth Potential and MMC's Most Important Global Production Hub

■ Robust ongoing growth in the Thai market

For Mitsubishi Motors, Thailand is an attractive market that offers robust growth. In fiscal 2011, our plants were fortunately unharmed by the flooding that hit the country in October, but many of our business partners sustained damage. Consequently, we were forced to suspend production for approximately one month, as the supply of certain parts was interrupted. Even so, favorable sales of the *Triton* and *Pajero Sport* led to a solid 55% year-on-year increase in sales volume, to 74,000 units.

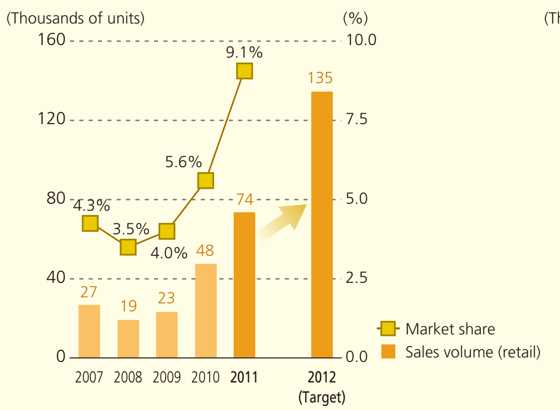
Having recovered from the flood damage, the resilient Thai economy is expected to continue growing. We expect our sales volume to rise steadily in line with this expansion. Sales are proving favorable for the *Mirage*, which launched there in March 2012. As of August 31, orders exceeded 36,000 vehicles—greatly outpacing our expectations—and we believe these conditions will continue into the future.

■ Reinforcing production activities

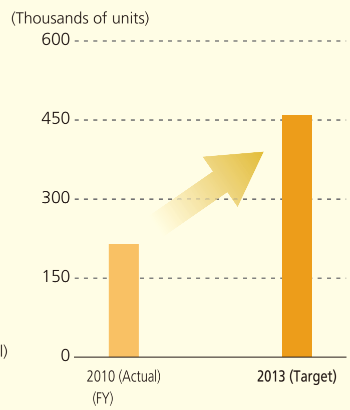
Even among the five main ASEAN countries, Thailand is noteworthy for being a vital production and export hub to the global marketplace. MMTh's production facilities in the Laem Chabang industrial complex southeast of Bangkok adjoin a port that can be used to export finished vehicles. In addition to the first and second plants, which span 1.06 million square meters and produce the *Triton*, *Pajero Sport* and *Lancer EX*, we completed a third factory in April 2012 to manufacture the *Mirage*. As well as exporting built-up vehicles, MMTh has a component factory for knockdown production.

In fiscal 2011, MMTh's total production capacity was 220,000 units, including vehicles for sale in Thailand and export production. Through efficient investment and by reinforcing our production base, we plan to increase this capacity by 240,000 units, to 460,000 built-up vehicles, enabling the company to meet growing demand for commissioned production and Mitsubishi Motors' increased sales volume.

Mitsubishi Motors' Sales in Thailand



Plans to Raise Production Capacity (Built-up Vehicles) at MMTh



MMTh's third factory

Feature 2: Further Enhancing Our Lineup as a Forerunner in Electric Vehicles

Mitsubishi Motors has pioneered the introduction of electric vehicles by offering the *i-MiEV* and *MINICAB-MiEV*. In fiscal 2012, we plan to enhance our lineup and accelerate our environmental initiatives by launching electric models of mini-trucks, as well as plug-in hybrid vehicles.

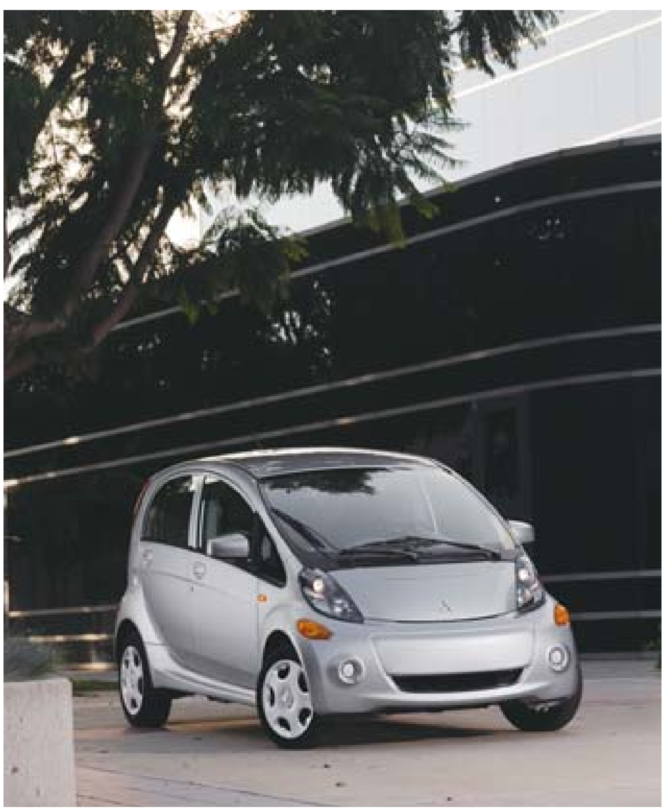
▶The *i-MiEV*, an electric vehicle with a growing global presence

In July 2009, we took the industry lead when we unveiled the *i-MiEV*, a new-generation electric vehicle designed as the ultimate eco-car. Since that time, this model has sold 7,200 units in Japan (as of August 31, 2012). We have also launched the model in overseas markets, including Europe, Hong Kong and Australia, and in November 2011 we commenced sales in North America. To bolster sales further, Mitsubishi Motors is cooperating with numerous governments, including Monaco, Iceland, Denmark, Singapore and Thailand, in their EV popularization initiatives. In October 2011, we began delivering the first of 507 vehicles to the government of Estonia. Supplied as partial payment under an emission rights purchase agreement between Mitsubishi Corporation and the government of Estonia, this arrangement will further extend the global reach of the *i-MiEV*.

▶A growing electric vehicle lineup

As our second phase of electric vehicle deployment, in December 2011 we launched the *MINICAB-MiEV*, a light commercial electric vehicle. With a maximum payload of 350kg, the model uses electric motors to generate top-end torque as soon as the vehicle starts to move, resulting in stress-free, powerful performance even when fully loaded. Furthermore, as the *MINICAB-MiEV* emits no CO_2 or other exhaust gases while moving, it is ideally suited to clean transportation of items such as food products and fresh flowers. Soon after its introduction, the *MINICAB-MiEV* found enthusiastic buyers among municipalities and other government agencies for use as a service vehicle. The model is also proving popular with carrier businesses and among other independent business owners, who give the *MINICAB-MiEV* high marks for its environmental and economic performance.

We also plan to introduce mini-truck electric vehicles in fiscal 2012, thereby expanding our lineup of electric vehicles as a forerunner in this segment.



North American *i* electric vehicle

MINICAB-MiEV

Mini-truck EV

Mitsubishi Concept PX-MiEV II
Equipped with the Mitsubishi Plug-in Hybrid System

▶Introducing plug-in hybrid vehicles

Extending the electric vehicle technologies that we cultivated during development of the *i-MiEV* and *MINICAB-MiEV*, we intend to introduce a plug-in hybrid EV system for the *Outlander*. We plan to aggressively roll out PHEVs that deliver the environmental performance and quietness inherent to an electric vehicle in an SUV package that provides more comfortable motoring and allows for higher utility.

The model will have a high-capacity battery, enabling it to travel more than 55km on battery power alone, so it can operate entirely as an electric vehicle for most everyday purposes. We have also designed a "battery charge mode," in which the engine generates electricity to top up the battery whether the vehicle is in motion or stopped. Using the electrical outlets provided, the vehicle's battery can also be used to power home electronics when outdoors or serve as an emergency power source.

By employing a twin-motor 4WD system with motors fore and aft, the vehicle delivers the excellent response typical of an electric motor to generate high starting torque with acceleration comparable to that of a V6 3.0L gasoline engine. Electronic controls carefully allocate motive force, and integrated braking control is used to control yaw, resulting in safe travel even on slick road surfaces. As a result, the model delivers excellent performance on both the environmental and driving fronts.

Target Performance

EV cruising range	more than 55km
Combined cruising range	more than 880km
Fuel efficiency*	more than 61km/L

* Representative fuel efficiency figure based on a combination of the vehicle's fuel efficiency when driven in all-electric mode, called the plug-in fuel efficiency, and when driven in hybrid mode, called the hybrid fuel efficiency.

By introducing new models in fiscal 2012, we aim to increase sales volume and net sales.

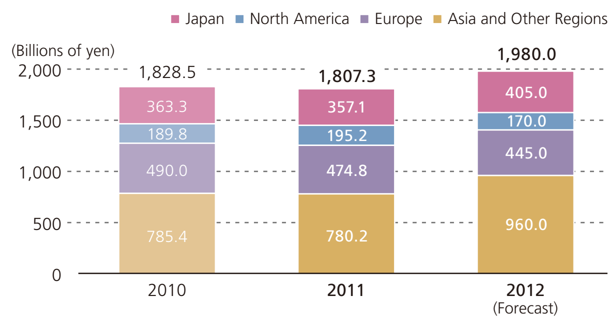
Spurred by sales in overseas markets, notably in the ASEAN region, the Company's sales volume (retail) in fiscal 2011 amounted to 1,001,000 units, up 14,000 vehicles, or 1%, from the preceding fiscal year. Conversely, wholesale volume declined 26,000 units, or 2% year on year, to 1,072,000 units, as shipments to Europe declined on the back of growing credit uncertainty. Owing to the decline in wholesale volume and the impact of yen appreciation, net sales slipped ¥21.2 billion, or 1%, to ¥1,807.3 billion.

In fiscal 2012, we expect unit sales to decline in North America, as a result of our decision to cease local production of D-segment vehicles. However, we expect unit sales to increase in Japan, Europe and Asia and other regions, owing to the global rollout of the all-new *Mirage* and the next-generation *Outlander*. Consequently, for fiscal 2012 we expect sales volume to rise 89,000 units, or 9%, from the fiscal 2011 level, to 1,090,000 vehicles. We anticipate net sales of ¥1,980 billion.

Net Sales

(Billions of yen)

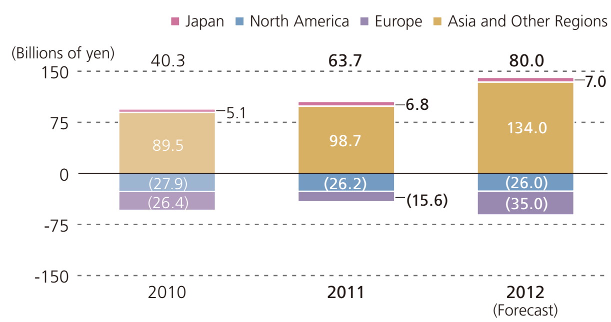
	FY2010	FY2011	FY2012 (Forecast)
Japan	363.3	357.1	405.0
North America	189.8	195.2	170.0
Europe	490.0	474.8	445.0
Asia and Other Regions	785.4	780.2	960.0
Total	1,828.5	1,807.3	1,980.0



Operating Income (Loss)

(Billions of yen)

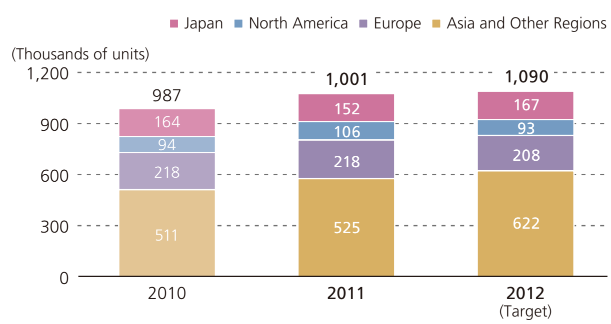
	FY2010	FY2011	FY2012 (Forecast)
Japan	5.1	6.8	7.0
North America	(27.9)	(26.2)	(26.0)
Europe	(26.4)	(15.6)	(35.0)
Asia and Other Regions	89.5	98.7	134.0
Total	40.3	63.7	80.0



Sales Volume (Retail)

(Thousands of units)

	FY2010	FY2011	FY2012 (Target)
Japan	164	152	167
North America	94	106	93
Europe	218	218	208
Asia and Other Regions	511	525	622
Total	987	1,001	1,090



Japan

We are working to augment sales by introducing new vehicles, such as the all-new *Mirage* and the next-generation *Outlander*.

Seiichi Ohta
Managing Director, Head Officer of the Headquarters, Domestic Sales Group Headquarters

Performance in fiscal 2011

During the first half of fiscal 2011, registered vehicle sales volume in Japan was down 21% year on year. Thanks to the re-introduction of eco-car incentives in the second half, however, sales volume was up for the fiscal year as a whole. Sales of minicars declined year on year, partly because few vehicles in this category are subject to eco-car subsidies. Accordingly, total sales volume for registered vehicles and minicars came to 152,000 units, down 12,000 units, or 7%.

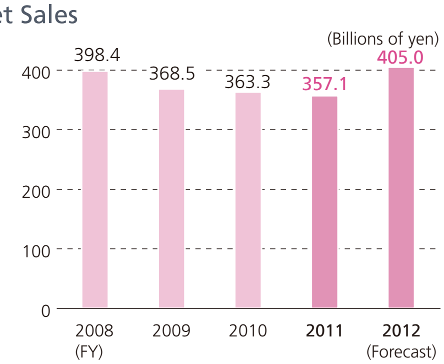
Net sales fell ¥6.2 billion year on year, or 2%, to ¥357.1 billion. Meanwhile, operating income rose ¥1.7 billion, to ¥6.8 billion, owing to ongoing cost-cutting efforts.

Outlook for fiscal 2012

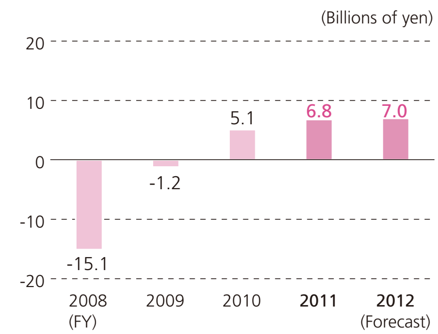
We introduced the all-new *Mirage* in Japan in August 2012, and plan to launch the next-generation *Outlander* in autumn. Furthermore, sales of the high-end *Proudia* sedan and the *Dignity* luxury sedan commenced in July. Other moves in fiscal 2012 will include initiatives to reinforce sales of electric vehicles, such as our new-generation electric vehicle, the *i-MiEV*, and the *MINICAB-MiEV*, a light commercial electric vehicle, further cultivating a brand image that equates Mitsubishi with electric vehicles.

Due to the introduction of new models, in fiscal 2012 we forecast a sales volume in Japan of 167,000 units, up 15,000 from fiscal 2011. We are targeting net sales of ¥405.0 billion, up ¥47.9 billion year on year, and operating income of ¥7.0 billion, an increase of ¥0.2 billion.

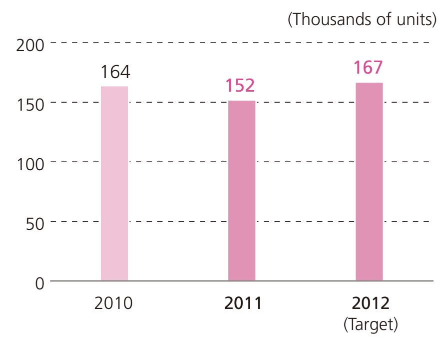
Net Sales



Operating Income (Loss)



Sales Volume (Retail)



Outlander

Mirage

North America

In addition to introducing the all-new *Mirage*, we plan to expand our operations by commencing local production of the *Outlander Sport*.

Fumio Kuwayama
Executive Officer, Head Officer of the Headquarters, Overseas Operations Group Headquarters B

Performance in fiscal 2011

Sales of our compact SUV, the *Outlander Sport* (*RVR* in Japan), were robust in the United States, rising 21% year on year. This performance lifted total sales volume for North America 12,000 units during fiscal 2011, or 13%, to 106,000 units. In November 2011, we augmented our *i-MiEV* lineup with a roomier, left-hand drive model for the North American market.

Led by the rise in sales volume, net sales in North America increased ¥5.4 billion, or 3% year on year, to ¥195.2 billion. The operating loss improved, owing to the increase in sales volume. However, the impact of yen appreciation limited this improvement to ¥1.7 billion, and the operating loss came to ¥26.2 billion.

Outlook for fiscal 2012

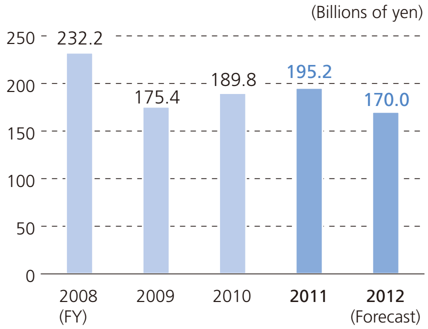
We began local production in North America of the *Outlander Sport* in July 2012, and intend to expand sales through exports to Central and South America and Russia. Furthermore, we plan to launch the all-new *Mirage* in this market in 2013.

Owing the cessation of local production of the *Eclipse*, *Endeavor* and *Galant*, in fiscal 2012 we expect sales volume in North America to fall 13,000 units, or 12% from fiscal 2011 levels, to 93,000 units. Because of this decrease, combined with the negative effects of yen appreciation, in fiscal 2012 we forecast a ¥25.2 billion, or 13%, decline in regional net sales, to ¥170.0 billion. We expect the operating loss to improve ¥0.2 billion, to ¥26.0 billion.

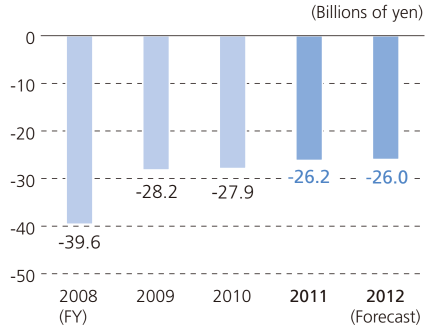
Outlander Sport

North American *i* electric vehicle

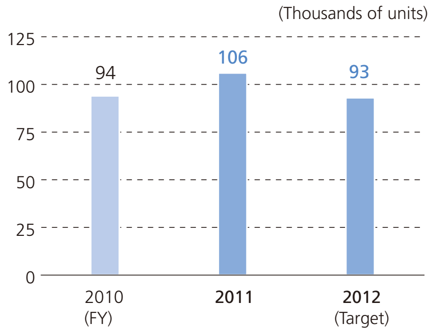
Net Sales



Operating Income (Loss)



Sales Volume (Retail)



Europe

Although market conditions remain opaque, we intend to bolster sales volume by introducing the all-new *Mirage* and the next-generation *Outlander*.

Hiroshi Harunari   Executive Vice President (Representative Director), Head Officer of the Headquarters, Overseas Operations Group Headquarters A, In Charge of Overseas Operations Group Headquarters B, In Charge of Global After Sales Group Headquarters

Performance in fiscal 2011

In Europe, increasingly severe credit uncertainty caused demand to decelerate during the year. This factor, coupled with ongoing yen appreciation, led to a 10% decline in sales volume in Western Europe and a 19% drop in Central Europe. In Russia, however, where market recovery continues, sales of the *Outlander* continued to expand, surging 17,000 units, or 31% year on year, to 73,000 units. As a result, sales volume for Europe as a whole remained essentially unchanged during the year, at 218,000 units.

We expect net sales in the region to fall ¥15.2 billion, or 3%, in fiscal 2012, to ¥474.8 billion. Boosted by higher sales volume in Russia, we forecast a ¥10.8 billion improvement in the operating loss, to ¥15.6 billion.

Outlook for fiscal 2012

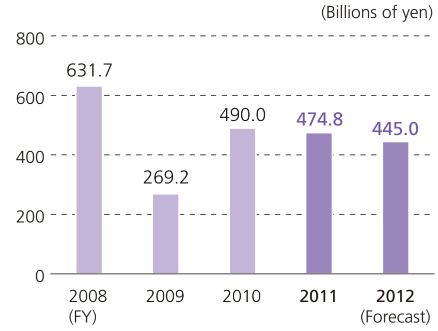
In August 2012, we introduced the next-generation *Outlander*, and within fiscal 2012 we also plan to launch sales of the all-new *Mirage* (name in Japan). Furthermore, we will continue efforts to keep expanding sales of existing models. Although market conditions are problematic, we will concentrate on promoting the *i-MiEV* and other models that have low CO_2 emissions and are thus well suited to Europe, where environmental awareness is high.

Owing to the protracted European debt crisis, we forecast a drop in total demand. Accordingly, we expect sales volume to decline 10,000 units, or 5% from fiscal 2011, to 208,000 units. Furthermore, we forecast that net sales in the region will drop ¥29.8 billion, or 6%, to ¥445.0 billion. As a result of the lower sales volume and the impact of yen appreciation, we expect the operating loss to worsen ¥19.4 billion, to ¥35.0 billion.

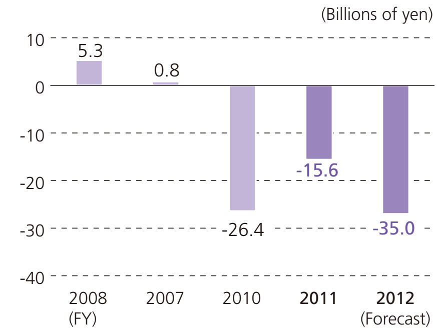
Outlander

Mirage

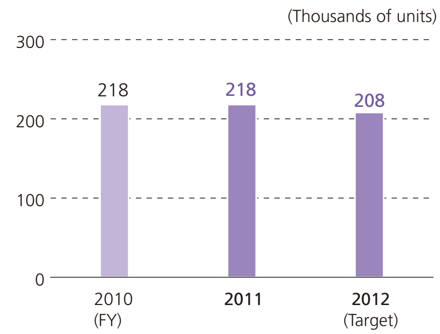
Net Sales



Operating Income (Loss)



Sales Volume (Retail)



Asia and Other Regions

By moving steadily forward with measures based on "ASEAN Challenge 12," we will work to expand our operations in the ASEAN market and turn it into a pillar of profits.

Fumio Kuwayama
Executive Officer,
Head Officer of the Headquarters, Overseas Operations Group Headquarters B

Hiroshi Harunari
Executive Vice President (Representative Director), Head Officer of the Headquarters, Overseas Operations Group Headquarters A,
In Charge of Overseas Operations Group Headquarters B,
In Charge of Global After Sales Group Headquarters

Performance in fiscal 2011

Sales volume in China decreased 4% during the year, to 63,000 units, owing to the impact of financial tightening and yen appreciation, prompting a 3% drop in sales volume in North Asia. Meanwhile, in Thailand sales volume surged 55%, to 74,000 units, buoyed by robust reception to our *Triton* pickup truck and the *Pajero Sport*, a mid-sized SUV. In Indonesia, sales volume rose 24%, to 73,000 units, boosting performance for the ASEAN region 24%. Sales volume fell 2% in Australia and New Zealand, due to a dip in total demand in Australia as well as to increasingly severe selling competition. Sales volume in Central and South America was up 10%, helped by a 21% rise in Brazil, the region's largest market. In the Middle East and Africa, however, sales volume dropped 30% year on year, owing to political unrest in some countries in the region and as demand for Japanese vehicles decreased due to yen appreciation. Owing to these factors, total sales volume in Asia and Other Regions was up 14,000 units year on year, or 3%, to 525,000 units, bolstered by performance in Thailand, Indonesia and other countries in the ASEAN region, as well as in Central and South America.

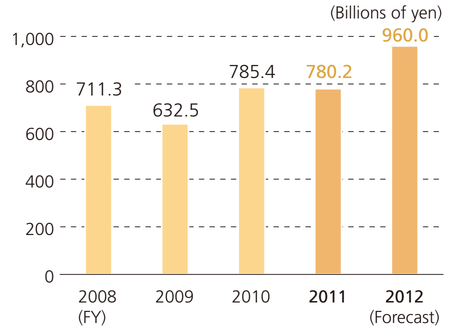
Net sales slipped ¥5.2 billion, or 1% year on year, to ¥780.2 billion, but operating income increased ¥9.2 billion, to ¥98.7 billion. This rise was a result of improvements in our product mix and ongoing efforts to reduce costs.

Outlook for fiscal 2012

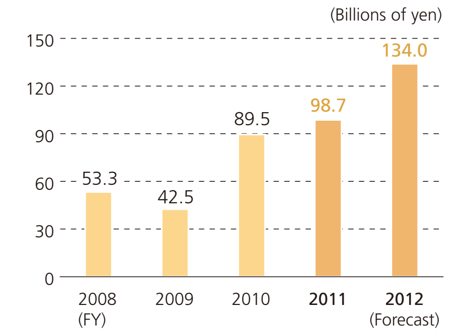
In fiscal 2012, we expect to benefit from the start of production of the all-new *Mirage* at our third factory in Thailand, and this model's global rollout, as well as heightened production capacity for the mainstay *Triton* at our first and second factories in the country. We will also commence local production of the *Outlander Sport*, a compact SUV, in Indonesia. Through the introduction of these measures in the ASEAN region, which are in line with "ASEAN Challenge 12," we intend to make steady progress on expanding our business in this area.

In sales volume, we expect the ASEAN region to continue delivering favorable results, and look forward to an uptick in Brazil. Therefore, we forecast an increase of 97,000 units, or 18%, to 622,000 units. In line with the higher sales volume, we forecast a rise in net sales of ¥179.8 billion, or 23%, to ¥960.0 billion. Although R&D and indirect labor expenditures and other expenses are likely to increase as we invest toward future growth, we believe operating income will rise ¥35.3 billion, or 36%, to ¥134.0 billion, as a result of higher sales volume and improvements in our product mix.

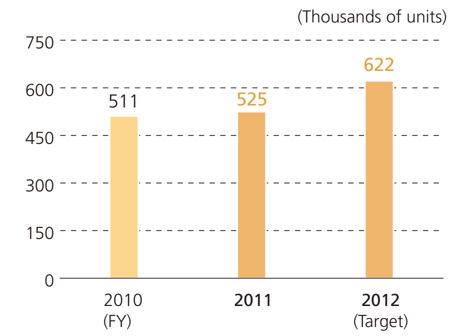
Net Sales



Operating Income



Sales Volume (Retail)



Corporate Governance

Corporate governance framework

MMC employs the Statutory Auditor System pursuant to the Companies Act of Japan. In addition to mandatory organizations and governance systems, MMC is further improving its corporate governance by adding an executive officer system and the Business Ethics Committee as a Board of Directors advisory committee.

MMC's Board of Directors is responsible for making decisions concerning important management issues and overseeing execution. In addition, the executive officer system clarifies the roles and responsibilities of directors and executive officers. Managing Directors' Meetings composed of directors, executive officers, and statutory auditors make speedy decisions in bi-weekly meetings.

Status of internal audits and statutory audits

The statutory auditors carry out statutory audits of the MMC Group by attending important Company meetings, such as Board of Directors meetings, and receiving reports on the status of business activities from directors and other corporate officers. Also, key internal documents and internal audit reports from internal audit divisions, subsidiaries and accounting auditors are reviewed.

In addition to the statutory auditors, within the CSR Promotion Office—which promotes corporate culture reform and thorough business ethics—MMC has established the Quality Audit Department and the Internal Audit Department. Both are independent from operating units and conduct internal audits from an objective perspective.

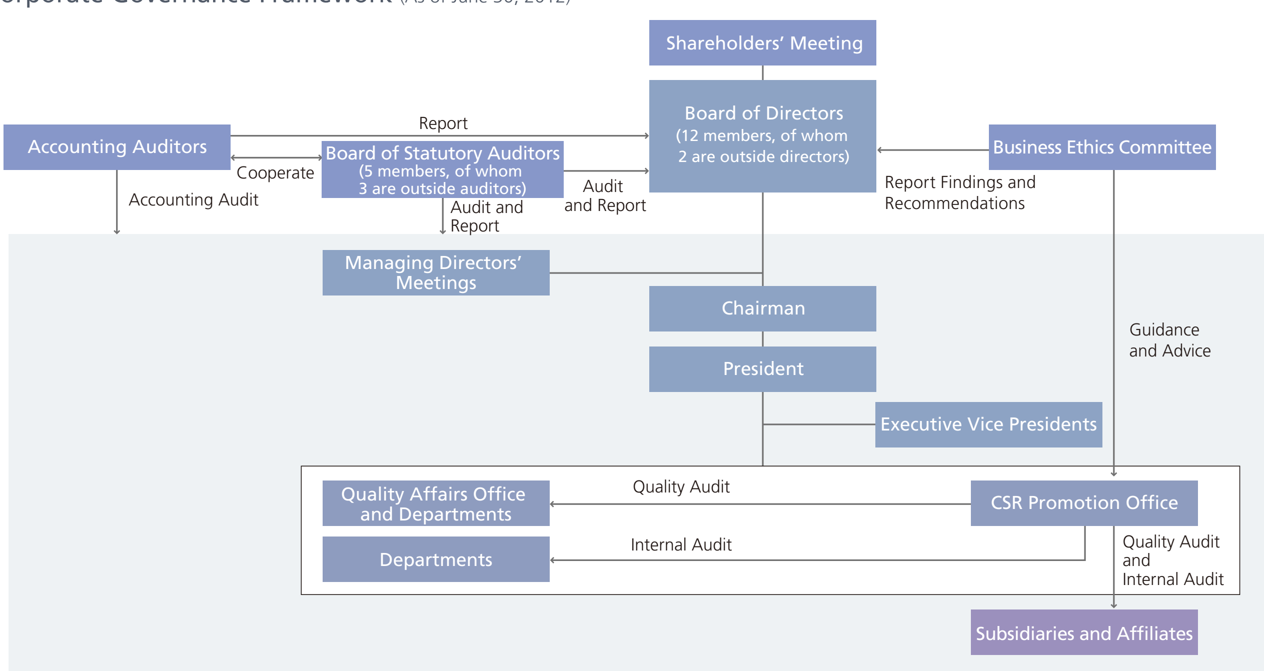
The Quality Audit Department monitors the appropriate functioning of quality assurance checks by the Quality Affairs Office and conducts individual audits to confirm that MMC's domestic and overseas affiliates are conducting quality-related activities appropriately. The department conducted a total of 95 audits in fiscal 2011. The audit results are successively reported to top management and to the Business Ethics Committee twice a year. This information is also shared among the statutory auditors, who work together to address any issues.

The Internal Audit Department, meanwhile, conducts planned internal audits to ensure appropriate operations management at MMC and at domestic and overseas affiliated companies. These audits include verifying the appropriateness and effectiveness of internal management systems, including compliance and risk management, and audit results are reported to management at MMC and affiliated companies. The department also proposes business improvements and monitors the status of their implementation. The department has created internal audit departments at key overseas subsidiaries and CSR departments at subsidiaries in Japan, and is working to enhance groupwide governance in Japan and overseas, and introducing proactive initiatives to reinforce internal controls.

Guidance from advisory committees

The Business Ethics Committee is an advisory body to the Board of Directors made up of six outside experts. The committee works to spread an awareness of compliance, and it provides MMC directors with guidance and advice from an objective perspective (See page 24).

Corporate Governance Framework (As of June 30, 2012)



Management (As of July 1, 2012)

Members of the Board

Takashi Nishioka*
Chairman of the Board

Osamu Masuko*
President

Hiizu Ichikawa*
Executive Vice President
Corporate Planning & Finance

Hiroshi Harunari*
Executive Vice President
Head Officer of the Headquarters
Overseas Operations Group
Headquarters A
In Charge of Overseas Operations
Group Headquarters B
In Charge of Global After Sales
Group Headquarters

Gayu Uesugi*
Executive Vice President
Head Officer of the Headquarters
Product Projects & Strategy Group
Headquarters
In Charge of Procurement

Tetsuro Aikawa
Managing Director
Head Officer of the Headquarters
Production Group Headquarters

Shuichi Aoto
Managing Director
Chief Business Ethics Officer
Head Officer of the Headquarters
CSR, Corporate Affairs, Controlling &
Accounting Group Headquarters

Seiichi Ohta
Managing Director
Head Officer of the Headquarters
Domestic Sales Group Headquarters

Ryugo Nakao
Director
Head Officer of the Headquarters
Development Group Headquarters

Takitaro Fukuda
Director
Head Officer of the Headquarters
Quality Affairs Group Headquarters

Mikio Sasaki
Director
(Non-Executive Director)

Hidetoshi Yajima
Director
(Non-Executive Director)

* Representative Director

Statutory Auditors

Shuzo Muramoto
Statutory Auditor (Full-time)

Hideo Kimura
Statutory Auditor (Full-time)

Shigemitsu Miki
Statutory Auditor
(Outside Statutory Auditor)

Yukio Okamoto
Statutory Auditor
(Outside Statutory Auditor)

Tatsuhiko Nojima
Statutory Auditor
(Outside Statutory Auditor)

Senior Executive Officers

Yoshihiro Kuroi
Senior Executive Officer
Corporate General Manager of Corporate Planning Office
General Manager of Group Logistics Optimization Office

Yutaka Tabata
Senior Executive Officer
Corporate General Manager of Finance Office
General Manager of Financial Planning Department

Masao Omichi
Senior Executive Officer
Chief Environmental Strategy Officer
Corporate General Manager of CSR Promotion Office
Assistant to President

Hiroshi Noda
Senior Executive Officer
Corporate General Manager of Controlling & Accounting Office

Yoshikazu Nakamura
Senior Executive Officer
Corporate General Manager of Domestic Sales Office

Toshihiko Hattori
Senior Executive Officer
Head Officer of the Headquarters
Global After Sales Group Headquarters

Shinichi Kurihara
Senior Executive Officer
COO-NMKV Co., Ltd.

Nobuyuki Murahashi
Senior Executive Officer
President-Mitsubishi Motors (Thailand) Co., Ltd.

Takeshi Ando
Senior Executive Officer
Vice President-Mitsubishi Motors (Thailand) Co., Ltd.

Executive Officers

Tomoharu Ikeda
Executive Officer
Corporate General Manager of Corporate Affairs Office

Ryuichi Hasuo
Executive Officer
Corporate General Manager of EV Business Office

Tetsuya Tamechika
Executive Officer
Corporate General Manager of Product Strategy Office

Takashi Sato
Executive Officer
Corporate General Manager of Global Small Project Office

Kanenori Okamoto
Executive Officer
Product Executive (C&D-Seg)

Jo Tsuji
Executive Officer
Head Officer of the Headquarters
Procurement Group Headquarters

Hideo Yokoi
Executive Officer
Plant General Manager of Mizushima Plant

Michiro Imai
Executive Officer
Corporate General Manager of North Asia Office

Daisuke Tatsumi
Executive Officer
North Asia Office
China Production Project Team Leader

Fumio Kuwayama
Executive Officer
Head Officer of the Headquarters
Overseas Operations Group Headquarters B

Akinori Nakanishi
Executive Officer
Corporate General Manager of North America Office

Masahiko Ueki
Executive Officer
Corporate General Manager of Asia & ASEAN Office
General Manager of Asia & ASEAN A Department

Yoichi Yokozawa
Executive Officer
President & CEO-Mitsubishi Motors North America Inc.

Tetsuro Miki
Executive Officer
Chairman of the Board & CEO-Netherlands Car B.V.

Internal Control Systems and Risk Management

By creating a companywide internal control system and risk management structure, and through employee education systems, we are working to ensure compliance with relevant laws and regulations, as well as appropriate and stable operations management.

Hiizu Ichikawa
Executive Vice President (Representative Director), Corporate Planning & Finance

Development of internal control systems

Based on the Basic Policy on the Establishment of Internal Control Systems as passed by resolution of the Board of Directors, MMC is continually working to ensure compliance with laws and regulations and to promote proper, effective business execution in line with changes in the domestic and overseas environments. In particular, to ensure the reliability of financial reporting pursuant to the Financial Instruments and Exchange Act MMC is implementing companywide measures under the leadership of the Internal Control Promotion Committee.

Data security management

The protection of data assets (information as well as information systems, machines, media and equipment used to handle that information) is vital to fulfilling MMC's social responsibility and earning the trust of stakeholders. MMC implements physical, technological, personnel and organizational measures to improve data security management based on its information security policy and internal rules that conform to ISO 27001.

Protection of personal information

Based on its Personal Information Protection Policy, MMC is building a management framework to establish internal rules regarding protection of personal information. MMC has also assigned a person to manage personal information management at each operational headquarters and department under the direction of the Personal Information Officer. MMC educates staff on the subject through ongoing e-learning seminars and other programs, and strives to safeguard personal information.

Security trade control

From the viewpoint of maintaining international peace and security, MMC sincerely believes in the importance of strict trade controls to prevent the proliferation of weapons of mass destruction and the excessive accumulation of conventional weapons. To ensure appropriate trade controls, MMC has established an Internal Security Trade Control Standard as a management regulation. In accordance with the standard and to ensure compliance with laws and regulations regarding security trade controls the Supervisory Committee for Security Trade Control was established under the direction of the president, who acts as Chief Security Trade Control Officer. The legality of export transactions is guaranteed by a management system centered on the committee.

Development of risk management framework

MMC is establishing infrastructure for companywide risk management systems. MMC has appointed risk management officers to each operational headquarters and office, and these risk management officers rigorously strengthen risk countermeasures by conducting repeated cycles of risk identification, evaluation, and devising and implementing countermeasures, and monitoring in each unit. These officers conduct risk management cycles at each unit every fiscal year. Centered on the Corporate Planning Office, the officers endeavor to strengthen the Company's introduction framework from a management perspective. Risk management officers identify risks that require a priority response, reinforcing the risk management framework by engaging with related departments to prevent these risks from materializing, and reporting them to senior management.

Disaster countermeasures and BCP initiatives

MMC's basic policy in times of disaster—defined as occurrences that have a major impact on operations, such as earthquake or other natural disaster or an outbreak of infectious disease—is to ensure the safety of employees and their families, as well as customers, and assist local communities. We are preparing disaster countermeasures and business continuity plans (BCPs) to this end. Our BCPs hypothesize an earthquake in the Tokai region, an earthquake directly below the Tokyo metropolitan area or an outbreak of a new type of influenza or other infectious disease, and outline responses in disaster countermeasures manuals that take into account specific scenarios for each region. In the event of disaster, the Corporate Affairs Office is in charge of initial response, while the Corporate Planning Office addresses issues related to business continuity. While making a division among the responsibilities of organizations in charge of disaster countermeasures, this arrangement encourages information sharing and promotes response.

Having learned from the experiences of the Great East Japan Earthquake and the flooding in Thailand, the Company conducts earthquake and other response simulations. We also conduct decision-making and communication drills that emulate emergency situations and raise awareness through briefing sessions and other measures. We reflect improvements identified through these drills into our disaster countermeasures and BCPs to reinforce our system for responding swiftly in times of disaster. Recognizing that the Mitsubishi Motors Group runs the risk of supply chain interruption caused by natural disasters in many parts of the world, we maintain close communications with our business partners as part of our efforts to ensure supply chain integrity.

Compliance

> To restore society's trust and be recognized as an enterprise with integrity, MMC believes it is essential to ensure that all staff members thoroughly comply with business ethics.
>
> Shuichi Aoto
>
> Managing Director, Chief Business Ethics Officer, Head Officer of the Headquarters, CSR Corporate Affairs, Controlling & Accounting Group Headquarters

Framework for the promotion of business ethics

In June 2004, MMC established the CSR Promotion Office to ensure thorough compliance and promote a new corporate culture, while restructuring the compliance framework (see chart below). MMC has strengthened the organization to ensure that awareness of compliance spreads to each and every employee by placing managers in charge of reinforcing compliance awareness at multiple levels. As the chart below shows, the chief business ethics officer (CBEO) directs compliance officers at the operating headquarters level, who then direct "code leaders" at the departmental level, who are charged with increasing compliance awareness directly to employees.

To create a highly transparent workplace environment that is not conducive to scandals and promotes their early detection as well as self-correction, MMC has established internal disclosure systems such as an internal Employee Counseling Office and an External Counseling Office, established with the help of outside attorneys.

Safety Pledge Days

To prevent past incidents such as the regrettable recall problems from being forgotten over time, January 10 and October 19 have been designated "Safety Pledge Days," since two fatal accidents occurred on those days involving large trucks manufactured by Mitsubishi Fuso, a former MMC subsidiary. All employees observe a moment of silence on these days, and company ethics discussion meetings, even at the lowest levels, are held around those times to identify corporate ethics issues and deliberate ways of resolving them.

Promoting business ethics

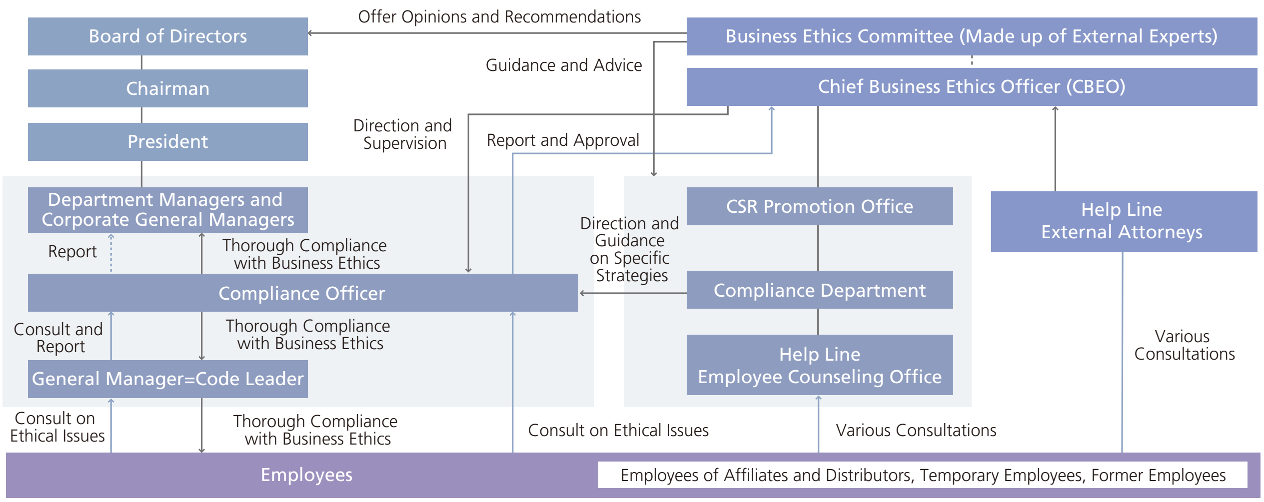
IIn fiscal 2011, MMC held compliance training sessions, involving outside instructors as part of a training program for directors and code leaders. The program also featured training sessions for MMC Group companies in Japan (including exclusive dealers) and included group sessions themed on case studies and response to new legislation, among others.

The Business Ethics Committee

The Mitsubishi Motors Business Ethics Committee was established in June 2004 as an advisory body to the Board of Directors of MMC. The aims of this committee, which is made up solely of external experts, are to conduct monitoring, guidance and consultation from the viewpoint of external oversight and common sense with respect to MMC's overall activities to restore trust, especially in terms of compliance. The scope of the committee's activity is not limited to business ethics, but also includes matters broadly related to quality problems and corporate culture.

The committee met 12 times during fiscal 2011 and conducted briefings on 22 issues, including the business ethics compliance promotion program and quality control activities. The committee's views, guidance and advice were sought on these issues.

Organizational Framework for Promoting Business Ethics



Responsibility to Society

As a good corporate citizen, Mitsubishi Motors aims to contribute to the development of a sound and sustainable society.

Masao Omichi

Senior Executive Officer, Chief Environmental Strategy Officer,
Corporate General Manager of CSR Promotion Office and Assistant to President

MMC is tackling four key themes with respect to corporate citizenship activities: support for the next generation, traffic safety, environmental preservation, and participation in local communities. These are being promoted as MMC's "STEP" corporate citizenship activities based on our corporate philosophy.

1. Support for the next generation	Supporting the education of the next generation to create a prosperous future.
2. Traffic safety	Contributing to traffic safety education and the promotion of safe driving to create a zero-accident society.
3. Environmental preservation	Contributing to preservation of our precious global environment.
4. Participation in local communities	Contributing to the revitalization and development of regional communities.

Main activities

1. Support for the Next Generation

● Automobile Information Service for Children

This service provides a toll-free phone number for elementary school students to use to ask questions about cars, and also answers children's questions using a special e-mail contact point. On our home page, we provide video footage that offers virtual tours of our plants, and we have a website specifically for children called Children's Car Museum that helps kids enjoy learning how electric vehicles are arranged.

● Hands-on Lesson Program

The Hands-on Lesson Program is based on the concept of enabling children to enjoy learning by experiencing the "real thing." MMC employees visit children mainly at elementary schools close to MMC places of operation to give hands-on lessons on topics such as the environment centered on test rides in the *i-MiEV* electric vehicle, and car design, with guidance from designers and modelers. In fiscal 2011, we conducted 62 classes for 4,554 children, bringing the cumulative number of participants to some 17,500.

● Company Learning Visits

MMC hosts visits by junior high school students during field trips or integrated study time to help them learn about the Company. In fiscal 2011, 50 students from five schools visited our headquarters in Tokyo. They discussed product planning, design, the environment, electric vehicles and other topics directly with MMC employees doing actual work in those areas.

2. Traffic Safety

● Car School

MMC has been running the Car School program as part of its safe driving educational activities. Participants overcome their anxieties and concerns and learn and enjoy driving together with instructors in the course of studying driving techniques, automobiles, safety and other topics.

3. Environmental Preservation

● The Pajero Forest

MMC has named an approximately three-hectare area of mountain forest in Hayakawa-cho, Yamanashi Prefecture as "Pajero Forest," and has been working to preserve and cultivate the forest. Employees and their families participate through volunteer activities, helping to cut away undergrowth and thin wooded regions. They also interacted with members of the local community through such activities as building birdhouses for wild birds and making soba noodles.

4. Participation in Local Communities

● Factory Tours

The Nagoya Plant, Powertrain Plant (Kyoto Plant, Shiga Plant), Mizushima Plant and Pajero Manufacturing Co., Ltd., have opened up their production lines and other facilities to local elementary schools and residents as a place for social study. In fiscal 2011, some 43,000 students visited these facilities.

5. Others

● Mitsubishi Motors STEP Donation Program

Employees of the Mitsubishi Motors Group can choose to donate a fixed amount to the fund from their monthly paycheck and bonuses. The money raised is used to support corporate citizenship activities on a continuous basis, including for reconstruction following the Great East Japan Earthquake.

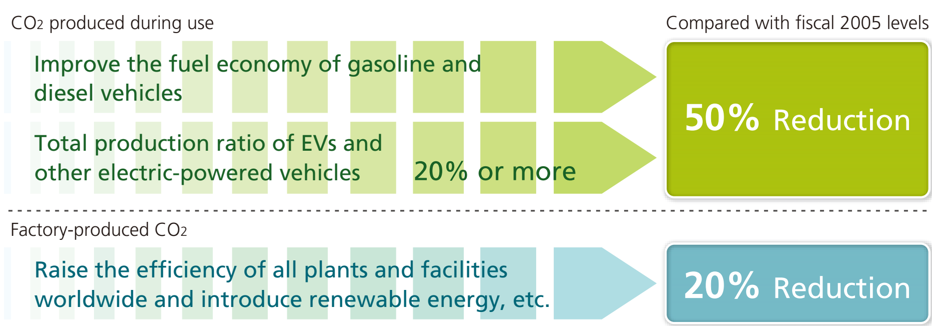
Leading the EV Era, Towards a Sustainable Future

Achieving the goals of the Mitsubishi Motors Group Environmental Vision 2020

MMC formulated the Mitsubishi Motors Group Environmental Vision 2020 in June 2009. MMC has encapsulated its vision for electric vehicles in its environmental policy of "Leading the EV Era, Towards a Sustainable Future." On this basis, MMC aims to work with its customers and communities to cultivate a clean and prosperous low-carbon society. Furthermore, by 2020 MMC aims to achieve a 20% or higher total production ratio of EVs. Through efforts such as these, MMC aims to reduce on-road CO_2 emissions of new vehicles on a global weighted average by 50% compared with fiscal 2005 levels. MMC also intends to reduce CO_2 emissions per vehicle by 20% or more, compared with fiscal 2005 levels.

As part its steady efforts toward these goals, MMC formulated the Mitsubishi Motors Environment Initiative Program 2015, which commences in fiscal 2011. As an interim goal to be achieved by 2015, this program targets a total production ratio of EVs of 5% or more, and as a result of this increase in EV production among other measures, MMC aims to achieve a 25% reduction in on-road CO_2 emissions in comparison with fiscal 2005 levels. In addition, MMC aims to reduce CO_2 emissions as a result of production on a per-vehicle basis by 15% compared to fiscal 2005 levels.

CO_2 Emissions Reduction Targets in the Mitsubishi Motors Group Environmental Vision 2020



Smart Grid Using Electric Vehicles "M-tech Labo" Demonstration System

Working together with Mitsubishi Corporation and Mitsubishi Electric Corporation, in April 2012 we completed construction on the "M-tech Labo" smart grid demonstration system at our Nagoya Plant–Okazaki and commenced operation. The system consists of a 20kW photovoltaic system, five electrically dischargeable electric vehicles and used 80kWh rechargeable batteries collected from electric vehicles.

Financial Section

Contents

Consolidated Financial Summary

				In millions of yen	In thousands of U.S. dollars
	FY2007	FY2008	FY2009	FY2010	FY2011	FY2011
For the year:						
Net sales	¥2,682,103	¥1,973,572	¥1,445,616	¥1,828,497	¥1,807,293	$21,989,214
Operating income	108,596	3,926	13,920	40,274	63,674	774,728
Income (loss) before income taxes and minority interests	48,151	(53,717)	11,591	30,422	41,618	506,369
Net income (loss)	34,710	(54,883)	4,758	15,621	23,928	291,137

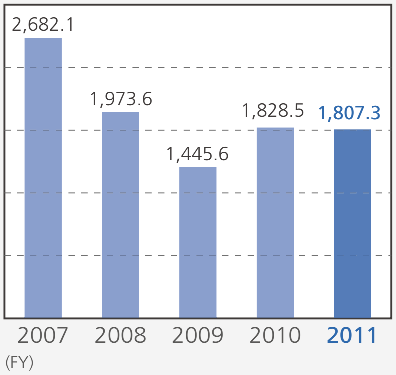
					In yen	In U.S. dollars
Per share data:						
Net income (loss) per share—basic	¥6.30	¥(9.91)	¥0.86	¥2.82	¥4.32	$0.05
Net income per share—diluted	3.81	—	0.51	1.66	2.40	0.03
Cash dividends	—	—	—	—	—	—

					In millions of yen	In thousands of U.S. dollars
At year-end:						
Total assets	¥1,609,408	¥1,138,009	¥1,258,669	¥1,312,511	¥1,321,306	$16,076,245
Total net assets	328,132	223,024	234,478	248,092	265,620	3,321,785

Note: U.S. dollar amounts in the accompanying consolidated financial statements are converted, solely for convenience, at a rate of ¥82.19 = U.S.$1.00, the exchange rate prevailing on March 31, 2012.

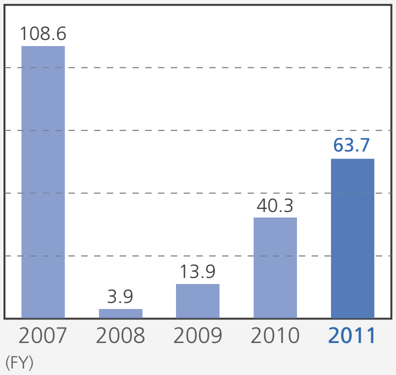
Net Sales

(Billions of yen)



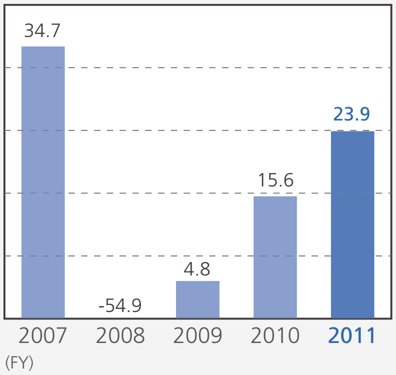
Operating Income

(Billions of yen)



Net Income (Loss)

(Billions of yen)



Financial Results and Discussion

Operational Review

During fiscal 2011, ended March 31, 2012, the business environment surrounding the automobile industry remained extremely problematic. Although we were able to restore our production momentum more quickly than initially expected after the sharp falloff following the Great East Japan Earthquake and nuclear accident, production activities were again disrupted by major flooding in Thailand. In addition, in Japan we faced historically high rates of ongoing yen appreciation, as well as electricity shortages. Overseas, the Greek debt crisis ballooned into a European crisis, affecting international financial markets and causing business confidence to deteriorate sharply.

Fiscal 2011 was the first year for “Jump 2013,” the Mitsubishi Motors Group’s mid-term business plan, but by the time of implementation the operating environment had worsened compared with conditions at the time the plan was formulated. Nevertheless, the Group strengthened its resolve to reach unchanged performance targets. Aiming to realize the objective of “Growth and Leap Forward,” the basic policy of “Jump 2013,” we worked earnestly on our emerging market and environmental initiatives and strove to raise profitability.

Results of Operations

During the year, sales volume (retail) rose 14,000 vehicles, or 1% year on year, to 1,001,000 units.

By geographic region, the sales volume in Japan amounted to 152,000 vehicles, down 12,000 units, or 7%. Although sales of registered vehicles was up, stimulated by the reintroduction of eco-car incentives, minicar sales fell. In North America, the sales volume rose 12,000 units, or 13%, to 106,000 units. This increase stemmed from higher sales in the United States, due to favorable response in North America to the *Outlander Sport* (*RVR* in Japan). Sales volume in Europe was essentially unchanged year on year, at 218,000 vehicles. Although sales were down in Western Europe due to decelerating demand, sales growth in Russia was robust, owing to the ongoing recovery of this market. In Asia and Other Regions, overall sales volume rose 14,000 vehicles, or 3%, to 525,000 units. These results reflected strong performance in Thailand, Indonesia and other countries in the ASEAN region, as well as in Central and South America, including Brazil.

Net Sales and Income

Net sales fell ¥21.2 billion, or 1% during the year, to ¥1,807.3 billion, as a consequence of lower wholesale volume and the impact of yen appreciation. Although yen appreciation also had a negative effect on operating income, improvements in the product mix and efforts to hold down raw materials and other costs led to an increase of ¥23.4 billion, or 58%, to ¥63.7 billion. Income before income taxes and minority interests grew ¥11.2 billion, or 37%, to ¥41.6 billion, and net income expanded ¥8.3 billion, or 53%, to ¥23.9 billion.

Business Segment Information

● Automobiles

Sales in the automotive business sector came to ¥1,797.0 billion, a decrease of ¥20.9 billion, or 1%. Segment income rose ¥22.5 billion, to ¥60.3 billion.

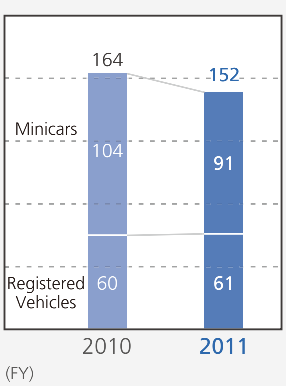
● Financial Services

Sales in the financial services sector amounted to ¥10.4 billion, down ¥0.4 billion, or 4%, year on year. Segment income, however, increased ¥0.8 billion, to ¥3.5 billion.

FY2011 Regional Sales Volume (Retail)

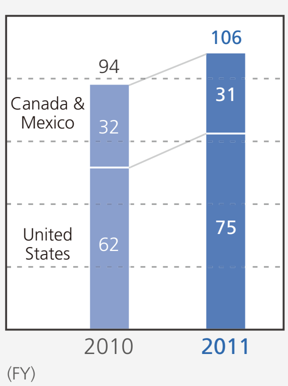
Japan

(Thousands of units)



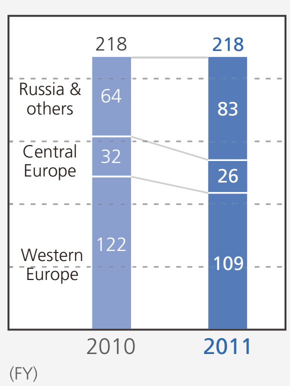
North America

(Thousands of units)



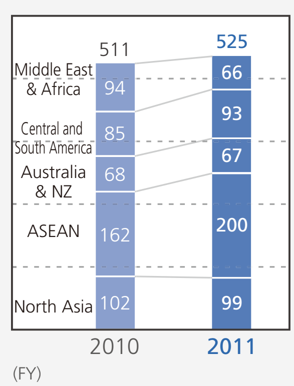
Europe

(Thousands of units)



Asia and Other Regions

(Thousands of units)



Geographical Segment Information

• Japan

In Japan, sales fell ¥42.1 billion, or 3%, to ¥1,515.2 billion, owing to a lower export volume and the impact of yen appreciation. Nevertheless, performance rebounded at the operating level, owing to improvements in the product mix and efforts to curtail raw materials and other costs. Consequently, operating income amounted to ¥25.8 billion, a ¥39.1 billion improvement from the operating loss posted in the preceding fiscal year.

• North America

Sales in North America expanded ¥6.7 billion, or 4%, year on year, to ¥188.7 billion, owing to an increase in the sales volume. At the operating level, performance improved ¥4.2 billion, rising from an operating loss in the preceding year to operating income of ¥1.2 billion.

• Europe

Due to a lower sales volume, sales in Europe fell ¥20.0 billion, or 9%, to ¥203.7 billion. Operating income declined ¥10.2 billion, to ¥8.4 billion.

• Asia and Other Regions

In Asia and Other Regions, sales increased ¥31.9 billion, or 5%, to ¥635.3 billion, helped by a higher sales volume and increased SUV sales. However, operating income declined ¥4.7 billion, to ¥37.7 billion, owing to the impact of flooding in Thailand.

Analysis of Financial Position

Analysis of Assets, Liabilities, Net Assets, and Cash Flows

As of March 31, 2012, total assets came to ¥1,321.3 billion, up ¥8.8 billion from one year earlier. Total liabilities were down ¥8.7 billion, to ¥1,055.7 billion, and net assets amounted to ¥265.6 billion, up ¥17.5 billion.

Net cash provided by operating activities was ¥119.4 billion, compared with ¥103.8 billion in the previous fiscal year, mainly due to an increase in working capital.

Net cash used in investing activities was ¥69.1 billion, up from ¥52.6 billion in the previous fiscal year. This expenditure was mainly attributable to capital expenditures.

Net cash used in financing activities was ¥52.6 billion, compared with ¥5.0 billion provided by these activities in fiscal 2010.

The year-end balance of cash and cash equivalents came to ¥311.0 billion, compared with ¥316.5 billion at the end of the previous fiscal year.

Cash Flow Indicators

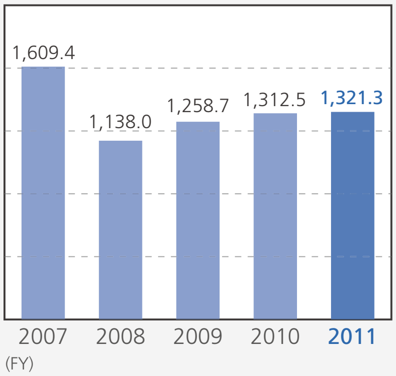
(FY)	2006	2007	2008	2009	2010	2011
Shareholders' equity ratio (%)	16.6	19.7	18.8	17.8	18.2	19.5
Shareholders' equity ratio (fair value basis)	56.8	56.4	60.8	55.9	43.0	39.4
Cash flows/Interest-bearing debt ratio	3.1	1.9	—	3.9	3.8	2.9
Interest coverage ratio	7.8	8.6	—	7.4	7.9	8.5

* The shareholders' equity ratio is shareholders' equity divided by total assets (Minority interests excluded from shareholders' equity from the year ended March 31, 2007).
The shareholders' equity ratio (fair value basis) is market capitalization divided by total assets.
The cash flows/interest-bearing debt ratio is interest-bearing debt divided by cash flow.
The interest coverage ratio is cash flow divided by interest paid.

Notes:
1. Each indicator is calculated from consolidated financial figures.
2. Market capitalization is calculated based on the number of issued shares excluding treasury stock.
3. Cash flow refers to operating cash flow.
4. Interest-bearing debt includes all liabilities recorded on the balance sheet for which interest is paid.

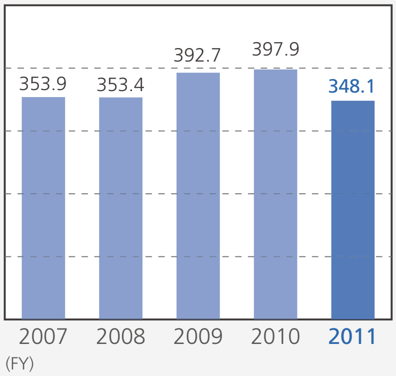
Total Assets

(Billions of yen)



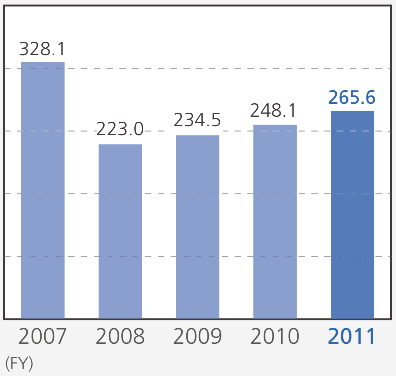
Interest-Bearing Debt

(Billions of yen)



Net Assets

(Billions of yen)



Business-Related Risks

Business-related risks for the MMC Group judged as being of material importance to investors are outlined below.

Natural and other disasters

The MMC Group maintains production and other facilities in many parts of the world. The occurrence of a major natural or other disaster, such as an earthquake or typhoon, accidental fire or the outbreak of contagious disease, may result in lengthy halts in operations or other damage. The Group has in place business continuity plans and disaster countermeasures that anticipate those risks considered the most likely to materialize. However, a disaster on a scale beyond that which is anticipated could have a negative effect on the Group's operating performance.

Issuance of common and preferred shares and effect on share price

In June and July 2004, March 2005, and January 2006 MMC issued several classes of convertible preferred shares. The conversion of all Class B shares, series 1–3 (issued July 2004), has already been completed, but the possible conversion of the remaining Class A & G shares to common shares in the future will dilute the value of existing common shares, and thus possibly influence the market price of common shares.

Effect of foreign exchange rate fluctuations

Overseas sales accounted for approximately 80% of the consolidated sales of MMC for the period. MMC endeavors to minimize the risk involved in foreign currency receivables and payables through foreign currency derivative contracts. However, fluctuations in the foreign exchange markets still may have an impact on MMC results.

Effect of socioeconomic situations

As overseas sales accounted for approximately 80% of consolidated net sales during the fiscal year under review, changes in the socioeconomic situation in Japan or any of the regions in which it operates could affect MMC Group results.

Effect of interest rate fluctuations

As of March 31, 2012, the MMC Group's balance of interest-bearing debt on a consolidated basis amounted to ¥348.1 billion. There is a possibility that fluctuations in interest rates on borrowings resulting from a change in financial market conditions in the future will impact MMC results.

Effect of fluctuations in materials prices

The MMC Group purchases materials and finished parts and components from many partners. Increased demand and other changes in market conditions may cause materials and components prices to increase, thus raising MMC's manufacturing costs and resulting in an impact on MMC results.

Leasing, financial services and sales incentives

Overcapacity in the auto industry, and fierce competition, especially price competition, has led to the necessity of sales incentives in sales promotion efforts. The sales incentives MMC uses in promotions reduce the selling price of new vehicles. It is possible that the use of incentives will lower resale values in the used car market and residual values evaluated for vehicles returned at the end of leases. If vehicle residual values decrease, there could be a negative impact on future business performance. The decline in residual values could also put downward pressure on car and lease assets held as collateral in the sales finance unit.

Changes in laws and regulations

MMC abides by laws and regulations regarding the environment, product safety, etc. in its various markets of operation. If any laws and regulations were to be changed, or new rules issued, costs associated with implementing these changes would have an impact on MMC results.

Alliances with other companies

As part of its efforts to develop its business the MMC Group forges alliances with Japanese and overseas automakers, as well as other companies. Accordingly, Group operating performance could be affected by situations specific to its alliance partners, and for reasons that the Group cannot control.

Impact of relying on designated suppliers

The MMC Group procures raw materials, parts and other inputs from a host of suppliers. To ensure high levels of product quality, technology and price competition, procurement orders tend to be focused on designated suppliers. Furthermore, specific technologies required to manufacture parts and other inputs tend to be concentrated among certain suppliers. Accordingly, if for some unforeseen reason the flow of suppliers from a supplier should cease, the Group's operating performance could be affected.

Effect of intellectual property rights violations

The MMC Group holds technical expertise, know-how and other intellectual property that differentiates its products from those of its competitors, and the Group works to prevent infringement on the intellectual property rights of third parties. If despite these protections a third party were to wrongfully infringe on the MMC Group's intellectual property by manufacturing or selling similar products or if legal protection of the Group's intellectual property in certain countries should be deemed limited, the Group's sales could decrease and the Group could incur litigation expenses. By the same token, the Group could be forced to halt production and sales in event that it inadvertently encroaches on the intellectual property rights of third parties, and could be liable for damages. Such situations could affect the Group's operating performance.

Impact of lawsuits (as of August 31, 2012)

In the course of business, the possibility exists that lawsuits will arise between the Group and its business partners or third parties. In the event the legal proceedings on issues in dispute are settled differently than the Company asserts or expects, the operating performance of the Group could be affected.

In February 2010, MASRIA Co., Ltd. (hereinafter, the "Plaintiff"), a company that formerly conducted sales for Mitsubishi Motors in Egypt, brought a suit claiming US$900 million in damages stemming from the cancellation of its sales contract with Mitsubishi Motors. Our stance was upheld and the Plaintiff's claim was dismissed at a court of first instance in October 2010 and a court of second instance in July 2012. The Plaintiff decided to appeal this decision, the Company will continue to assert the legitimacy of its stance.

Mitsubishi Motors maintains that its notice of contract cancellation was conducted lawfully, and that the Plaintiff's claim is irrational. Consequently, at present we believe that this suit will have no major impact on the Company's operating performance.

Consolidated Balance Sheets

Mitsubishi Motors Corporation and Consolidated Subsidiaries

As of March 31, 2012 and 2011

	In millions of yen		In thousands of U.S. dollars (Note 2)
	2012	2011	2012
Assets			
Current assets:			
Cash and cash equivalents (Notes 13 and 15)	¥ 310,993	¥ 316,464	$ 3,783,833
Notes and accounts receivable – trade (Notes 3 and 15)	146,182	114,432	1,778,595
Finance receivables (Notes 7 and 15)	26,713	25,495	325,017
Inventories (Note 7)	187,462	189,286	2,280,847
Short-term loans receivable	8,990	7,019	109,385
Deferred tax assets (Note 18)	1,963	3,218	23,889
Other (Note 7)	84,132	90,869	1,023,635
Allowance for doubtful accounts (Note 15)	(7,263)	(10,207)	(88,368)
Total current assets	759,175	736,579	9,236,836
Property, plant and equipment, net (Notes 4, 7 and 14)	376,736	383,564	4,583,731
Intangible assets	11,669	11,856	141,979
Investments and other assets:			
Investments (Notes 5, 7 and 15)	85,289	87,579	1,037,705
Long-term finance receivables (Notes 7 and 15)	53,924	53,485	656,100
Long-term loans receivable	4,855	5,669	59,082
Deferred tax assets (Note 18)	8,889	9,188	108,156
Other (Note 7)	31,226	35,816	379,934
Allowance for doubtful accounts (Note 15)	(10,461)	(11,226)	(127,282)
Total investments and other assets, net	173,724	180,512	2,113,696
Total assets	¥1,321,306	¥1,312,511	$16,076,245

	In millions of yen		In thousands of U.S. dollars (Note 2)
	2012	2011	2012
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable – trade (Notes 3 and 15)	¥ 317,355	¥ 278,595	$ 3,861,245
Short-term loans payable (Notes 7 and 15)	87,308	125,499	1,062,281
Current portion of long-term debt (Notes 7 and 15)	99,381	94,454	1,209,165
Lease obligations (Note 7)	4,220	5,265	51,351
Accounts payable – other and accrued expenses (Notes 6 and 15)	123,974	125,371	1,508,386
Income taxes payable (Note 18)	8,792	9,016	106,981
Other	62,423	62,380	759,503
Total current liabilities	703,457	700,584	8,558,915
Long-term debt (Notes 7 and 15)	161,390	177,995	1,963,622
Lease obligations (Note 7)	6,977	8,088	84,888
Deferred tax liabilities (Note 18)	26,973	27,650	328,185
Provision for retirement benefits (Note 17)	108,602	106,921	1,321,358
Other	48,285	43,178	587,489
Total liabilities	1,055,686	1,064,419	12,844,460
Net assets:			
Shareholders' equity (Notes 8 and 23):			
Preferred stock:			
Authorized: 3,312,000 shares			
Issued or converted: 437,593 shares in 2011			
437,593 shares in 2012	218,796	218,796	2,662,081
Common stock:			
Authorized: 9,958,285,000 shares			
Issued or converted: 5,537,956,840 shares in 2011			
5,537,956,840 shares in 2012	438,558	438,558	5,335,911
Capital surplus	432,666	432,666	5,264,222
Accumulated deficit	(726,028)	(750,200)	(8,833,540)
Treasury stock – 91,142 shares at March 31, 2011			
Treasury stock – 94,665 shares at March 31, 2012	(15)	(15)	(194)
Total shareholders' equity	363,976	339,805	4,428,480
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	11,327	10,464	137,818
Deferred gains or losses on hedges	2,232	3,055	27,159
Foreign currency translation adjustment	(120,542)	(114,551)	(1,466,626)
Total accumulated other comprehensive income	(106,982)	(101,030)	(1,301,648)
Minority interests	8,626	9,318	104,952
Total net assets	265,620	248,092	3,231,785
Contingent liabilities (Note 9)			
Total liabilities and net assets	¥1,321,306	¥1,312,511	$16,076,245

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

Mitsubishi Motors Corporation and Consolidated Subsidiaries

For the years ended March 31, 2012 and 2011

	In millions of yen		In thousands of U.S. dollars (Note 2)
	2012	2011	2012
Net sales	¥1,807,293	¥1,828,497	$21,989,214
Cost of sales	1,487,267	1,538,879	18,095,483
Gross profit	320,025	289,617	3,893,730
Selling, general and administrative expenses (Note 10)	256,350	249,343	3,119,002
Operating income	63,674	40,274	774,728
Interest and dividends income	4,501	2,414	54,768
Interest expenses	13,706	13,215	166,769
Other gain (loss), net (Notes 5 and 11)	(12,851)	948	(156,358)
Income (loss) before income taxes and minority interests	41,618	30,422	506,369
Income taxes (Note 18):			
Current	13,302	13,693	161,845
Deferred	1,937	(2,354)	23,572
	15,239	11,338	185,418
Income (loss) before minority interests	26,378	19,083	320,950
Minority interests in income	2,450	3,462	29,813
Net income (loss) (Note 23)	¥ 23,928	¥ 15,621	$ 291,137

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Mitsubishi Motors Corporation and Consolidated Subsidiaries
For the year ended March 31, 2012 and 2011

	In millions of yen		In thousands of U.S. dollars (Note 2)
	2012	2011	2012
Income (loss) before minority interests	¥26,378	¥19,083	$320,950
Other comprehensive income			
Valuation difference on available-for-sale securities	861	4,975	10,486
Deferred gains or losses on hedges	(823)	3,146	(10,018)
Foreign currency translation adjustment	(4,111)	(7,767)	(50,027)
Share of other comprehensive income of associates accounted for using equity method	(1,749)	(2,065)	(21,282)
Total other comprehensive income	(5,822)	(1,710)	(70,841)
Comprehensive income	¥20,556	¥17,372	$250,109
Comprehensive income attributable to:			
Owners of the parent	¥18,124	¥14,476	$220,518
Minority interests	¥ 2,432	¥ 2,896	$ 29,590

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Mitsubishi Motors Corporation and Consolidated Subsidiaries
For the years ended March 31, 2012 and 2011

	In millions of yen		In thousands of U.S. dollars (Note 2)
	2012	2011	2012
Shareholders' equity			
Preferred stock:			
Balance at beginning of year	¥ 218,796	¥ 218,796	$ 2,662,081
Preferred stock issued or converted	—	—	—
Balance at end of year	218,796	218,796	2,662,081
Common stock:			
Balance at beginning of year	438,558	438,558	5,335,911
Common stock issued or converted	—	—	—
Balance at end of year	438,558	438,558	5,335,911
Capital surplus:			
Balance at beginning of year	432,666	432,666	5,264,222
Issuance or conversion of common and preferred stock	—	—	—
Balance at end of year	432,666	432,666	5,264,222
Accumulated deficit:			
Balance at beginning of year	(750,200)	(765,988)	(9,127,640)
Net income (loss)	23,928	15,621	291,137
Change of scope of consolidation	—	(5)	—
Change of scope of equity method	—	172	—
Increase due to inclusion of consolidated subsidiary by equity method affiliate	243	—	2,962
Balance at end of year	(726,028)	(750,200)	(8,833,540)
Treasury stock:			
Balance at beginning of year	(15)	(15)	(190)
Net change	(0)	(0)	(4)
Balance at end of year	(15)	(15)	(194)
Total shareholders' equity	¥ 363,976	¥339,805	$ 4,428,480
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities:			
Balance at beginning of year	¥10,464	¥5,494	$ 127,324
Net change	862	4,970	10,494
Balance at end of year	11,327	10,464	137,818
Deferred gains or losses on hedges:			
Balance at beginning of year	3,055	(90)	37,180
Net change	(823)	3,146	(10,020)
Balance at end of year	2,232	3,055	27,159
Foreign currency translation adjustment:			
Balance at beginning of year	(114,551)	(105,236)	(1,393,736)
Net change	(5,990)	(9,314)	(72,890)
Balance at end of year	(120,542)	(114,551)	(1,466,626)
Total accumulated other comprehensive income	¥(106,982)	¥(101,030)	$(1,301,648)
Minority interests:			
Balance at beginning of year	¥ 9,318	¥10,293	$ 113,371
Net change	(691)	(975)	(8,419)
Balance at end of year	8,626	9,318	104,952
Total net assets	¥ 265,620	¥ 248,092	$ 3,231,785

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Mitsubishi Motors Corporation and Consolidated Subsidiaries
For the years ended March 31, 2012 and 2011

	In millions of yen		In thousands of U.S. dollars (Note 2)
	2012	2011	2012
Operating activities:			
Net income (loss)	¥ 23,928	¥ 15,621	$ 291,137
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	56,796	65,884	691,043
Impairment loss	16,336	2,977	198,764
Increase (decrease) in allowance for doubtful accounts	(2,775)	375	(33,771)
Increase (decrease) in provision for retirement benefits	1,713	732	20,842
Equity in (earnings) losses of affiliates	(5,932)	(5,914)	(72,185)
Income taxes – deferred	1,937	(2,354)	23,572
Minority interests in income	2,450	3,462	29,813
Loss (gain) on sales and retirement of property, plant and equipment, net	1,807	669	21,989
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	3,031	—
Early retirement expense	—	17	—
Decrease (increase) in notes and accounts receivable – trade	(36,490)	191	(443,974)
Decrease (increase) in inventories	(4,754)	(6,171)	(57,851)
Changes in finance receivables (Note 13)	(2,472)	(19,385)	(30,077)
Increase (decrease) in notes and accounts payable – trade	42,703	19,044	519,572
Other, net (Note 13)	24,138	25,629	293,689
Net cash provided by (used in) operating activities	119,386	103,811	1,452,565
Investing activities:			
Decrease (increase) in time deposits	(5)	494	(63)
Purchase of property, plant and equipment (Note 13)	(72,452)	(53,263)	(881,520)
Proceeds from sales of property, plant and equipment (Note 13)	8,403	9,870	102,246
Net decrease (increase) in investments in securities	19	(1)	241
Decrease (increase) in short-term loans receivable	(3,671)	(6,510)	(44,665)
Decrease (increase) in long-term loans receivable	265	320	3,227
Other, net	(1,629)	(3,500)	(19,829)
Net cash provided by (used in) investing activities	(69,069)	(52,590)	(840,362)
Financing activities:			
Increase (decrease) in short-term loans payable	(34,321)	2,580	(417,584)
Proceeds from issuance of long-term debt	83,776	206,691	1,019,299
Repayment or redemption of long-term debt	(94,680)	(194,443)	(1,151,975)
Cash dividends paid to minority shareholders	(3,014)	(3,029)	(36,673)
Other, net	(4,339)	(6,761)	(52,797)
Net cash provided by (used in) financing activities	(52,579)	5,037	(639,733)
Effect of exchange rate changes on cash and cash equivalents	(3,208)	(3,381)	(39,040)
Net change in cash and cash equivalents	(5,471)	52,875	(66,571)
Cash and cash equivalents at beginning of year	316,464	263,453	3,850,404
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	—	22	—
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	—	112	—
Cash and cash equivalents at end of year (Note 13)	¥310,993	¥ 316,464	$ 3,783,833

See accompanying notes to consolidated financial statements.

1. Significant Accounting Policies

(a) Basis of preparation

MMC and its domestic consolidated subsidiaries maintain their books of account in conformity with the generally accepted accounting principles in Japan. The financial statements of foreign subsidiaries are prepared for consolidation purposes in conformity with generally accepted accounting principles in the United States or International Financial Reporting Standards, subject to the adjustments required by generally accepted accounting principles in Japan.

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. These financial statements have been compiled from the consolidated financial statements filed with the Financial Services Agency as required by the Financial Instruments & Exchange Act of Japan.

In addition, the notes to the consolidated financial statements include information, which is not required under generally accepted accounting principles in Japan but which is presented herein as additional information.

Certain reclassifications have been made to the prior year's financial statements to conform to the current year's presentation.

As permitted, amounts of less than ¥1 million have been omitted. Consequently, the totals shown in the accompanying financial statements (both in Yen and U.S. dollars) may not necessarily agree with the sum of the individual amounts presented.

(b) Principles of consolidation

All significant companies over which MMC has effective control are consolidated. Significant companies over which MMC has the ability to exercise significant influence have been accounted for by the equity method.

All significant inter-company transactions have been eliminated in consolidation.

Any differences at the date of acquisition between acquisition cost and the fair value of the net assets acquired are expensed when incurred or are amortized over periods between 5 to 7 years depending on the period over which it is estimated to be beneficial for each investment.

(c) Cash and cash equivalents

All highly liquid and low risk investments with maturities of three months or less when purchased are considered to be cash equivalents.

(d) Inventories

Inventories of MMC and its domestic consolidated subsidiaries are principally stated at cost determined by the first in first out method or specific identification method (under either method, the balance sheet carrying value is reduced to recognize any deterioration of recoverability). Inventories of the overseas consolidated subsidiaries are principally stated at the lower of cost or market value. Cost is determined by the specific identification method.

(e) Investments

Investments in securities are classified either as held-to-maturity, as investments in unconsolidated subsidiaries and affiliates, or as other securities. Held-to-maturity securities are stated at their amortized cost. No investments classified as held-to-maturity were held during the years ended March 31, 2012 and 2011. Other securities with a readily determinable market value are stated at fair value and the cost of such securities sold is computed based on the moving average method. The difference between the acquisition cost and the carrying value of other securities, including unrealized gains and losses, is recognized in "Valuation difference on available-for-sale securities" in the accompanying consolidated balance sheets. Other securities without a readily determinable market value are stated at cost determined by the moving average method.

(f) Depreciation and amortization

Property, plant and equipment (excluding leased assets):

Depreciation of property, plant and equipment (excluding leased assets) is principally calculated using the declining balance method or the straight line method over the estimated useful life of the respective assets for MMC and domestic consolidated subsidiaries. Depreciation is principally calculated using the straight line method for the overseas consolidated subsidiaries.

The useful lives of the assets are based on the estimated lives of assets for MMC and are determined in accordance with the Corporation Tax Act for its domestic consolidated subsidiaries. The useful lives of the assets are determined based on the expected useful lives for the overseas consolidated subsidiaries.

Intangible fixed assets (excluding leased assets):

Intangible fixed assets (excluding leased assets) are amortized using the straight line method for MMC and its domestic consolidated subsidiaries and using the straight line method primarily over the period for which each asset is available for use for its overseas subsidiaries. Software intended for use by MMC and its domestic consolidated subsidiaries is amortized using the straight line method over a period of 5 years.

Leased assets:

Assets recognized under finance leases that do not involve transfer of ownership to the lessee are depreciated using the straight line method based on the contract term of the lease agreement. If a guaranteed residual value is determined in the lease agreement, the said guaranteed residual value is deemed as the residual value of such leased assets. If the residual value is not determined, it is deemed to be zero.

(g) Allowance for doubtful accounts

The allowance for doubtful accounts has been provided based on MMC and its consolidated subsidiaries' historical experience with respect to write-offs and an estimate of the amount of specific uncollectible accounts.

(h) Allowance for product warranties

The allowance for product warranty claims has been calculated based on MMC and its consolidated subsidiaries' historical experience and estimations with respect to future costs relating to claims.

(i) Provision for retirement benefits

Accrued retirement benefits for employees at March 31, 2012 and 2011 are calculated based on the retirement benefits obligation and the fair value of the pension plan assets estimated at year end.

Prior service cost is being amortized using the straight line method over periods of 1 to 15 years. These periods are within the estimated average remaining service years of the employees.

Actuarial gains and losses are being amortized using the straight line method over the periods of 5 to 15 years. These periods are within the estimated average remaining service years of the employees.

(Additional information)

In accordance with the Defined Contribution Pension Act, MMC and some of its domestic consolidated subsidiaries transferred a certain part of their retirement benefit plans (tax-qualified pension plans) to defined contribution pension plans and defined benefit corporate pension plans this year. Accordingly, "Accounting for Transfer between Retirement Benefit Plans" (ASBJ Implementation Guidance No.1) has been applied. The effect of this transfer is considered to be immaterial.

(j) Accrual for retirement benefits for directors and corporate auditors

Before the termination of the retirement benefits plan for directors and corporate auditors in the year ended March 2007, certain directors and corporate auditors of MMC and its domestic consolidated subsidiaries had been customarily entitled to lump-sum payments under their respective unfunded severance benefit plans, subject to shareholders' approval. Due to the termination of the plan and partial deduction of the provision, further provision is no longer needed and the outstanding balance of the provision at March 31, 2012 and 2011 represents benefits reserved before the plan's termination.

(k) Translation of foreign currency accounts

Receivables and payables denominated in foreign currencies are translated into Yen at the rates of exchange in effect at the balance sheet date, and differences arising from the translation are included in the statements of income.

The accounts of the consolidated foreign subsidiaries are translated into Yen as follows:

a. Asset and liability items are translated at the rate of exchange in effect on March 31;

b. Components of shareholders' equity are translated at their historical rates at acquisition or upon occurrence; and

c. Revenues, expenses and cash flow items are translated at the average rate for the financial period.

Translation adjustments are included in "Net assets".

(l) Amounts per share of common stock

The computation of basic net income per share of common stock is based on the weighted average number of shares of common stock outstanding during each year. Diluted net income per share of common stock is computed based on the weighted average number of shares of common stock outstanding each year after giving effect to the dilutive potential of common stock to be issued upon the conversion of preferred stock.

(m) Derivative financial instruments

MMC and its consolidated subsidiaries are exposed to risks arising from fluctuations in foreign currency exchange rates and interest rates. In order to manage those risks, MMC and its consolidated subsidiaries enter into various derivative agreements including forward foreign exchange contracts and interest rate swaps.

Forward foreign exchange contracts are utilized to manage risks arising from forecast exports of finished goods and related foreign currency receivables. Interest rate swaps are utilized to manage interest rate risk for loans. MMC and its consolidated subsidiaries do not utilize derivatives for speculation or trading purposes.

Derivative financial instruments are recorded at fair value, excluding certain instruments described below which are recorded in accordance with the special hedge provisions of the accounting standard.

Forward foreign exchange contracts related to forecast exports of finished goods are accounted for using deferral hedge accounting. Deferral hedge accounting requires unrealized gains or losses to be deferred as liabilities or assets.

MMC and its consolidated subsidiaries have also developed a hedging policy to control various aspects of the derivative transactions including authorization levels and transaction volumes. Based on this policy, within certain limits, MMC and its consolidated subsidiaries hedge the risks arising from the changes in foreign currency exchange rates and interest rates. Forward foreign exchange contracts are designated to hedge the exposure to variability in expected future cash flows.

For interest rate swaps accounted for as special hedges, instead of measuring hedge effectiveness, confirmation of the conditions for special hedge accounting is carried out.

(Additional information)

Accounting standard for accounting changes and error corrections

"Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No.24, issued on December 4, 2009) and *"Guidance on Accounting Standard for Accounting Changes and Error Corrections"* (ASBJ Guidance No.24, issued on December 4, 2009) is applied from this year to accounting changes and correction of past period errors made on or after the beginning of this year.

2. U.S. Dollar Amounts

The U.S. dollar amounts in the accompanying consolidated financial statements are included, solely for convenience, at ¥82.19= U.S.$1.00, the exchange rate prevailing on March 31, 2012. This translation should not be construed as a representation that the Yen amounts represent or have been, or could be, converted into U.S. dollars at that or any other rate.

3. Notes and Accounts Receivable – Trade

The outstanding balances of trade notes and accounts receivable sold to others which have been deducted from the respective accounts amounted to ¥7,000 million ($85,168 thousand) and ¥14,300 million as of March 31, 2012 and 2011, respectively.

As March 31, 2012 was a weekend date, some receivables and payables were not able to be settled by financial institutions on that date. Accordingly, notes and accounts receivable of ¥4,837 million ($58,863 thousand) and, notes and accounts payable of ¥33,971 million ($413,334 thousand), which were settled on the first following business day, were included in the balance at March 31, 2012.

4. Property, Plant and Equipment

Accumulated depreciation of property, plant and equipment at March 31, 2012 and 2011 was ¥1,068,361 million ($12,998,678 thousand) and ¥1,071,675 million, respectively.

Impairment losses were recognized in the following asset groups for the years ended March 31, 2012 and March 31, 2011:

			(In millions of yen)	(In thousands of U.S. dollars)
For the year ended March 31, 2012				
Location	Application	Assets	Impairment loss amount	
Gifu, Gifu and others (28 sites)	Assets used in sales operations	Buildings, land and others	¥ 678	$ 8,251
Kawasaki, Kanagawa and others (18 sites)	Idle assets	Machinery and equipment, vehicles and others	1,587	19,319
The Netherlands and others (6sites)	Production facilities	Buildings, tools, furniture and fixture and others	14,070	171,193
			¥16,336	$198,764

			(In millions of yen)
For the year ended March 31, 2011			
Location	Application	Assets	Impairment loss amount
Yokohama, Kanagawa and others (18 sites)	Assets used in sales operations	Land, buildings and others	¥ 76
Imabari, Ehime and others (8 sites)	Idle assets	Land, buildings and others	9
The Netherlands and others (5 sites)	Production facilities	Machinery and equipment, furniture and fixtures and others	2,891
			¥2,977

The groupings of assets are determined as follows:

Assets used in production are grouped either by manufacturing plants or by operational sites. Assets used in sales operations are generally grouped by operational sites. Assets leased to others and idle assets have their own asset groups.

As a result of the worsening market environment and other factors, the book value of some of the assets has been reduced to recoverable value.

The recoverable values of assets have been obtained by comparing and then taking the higher of: value in use, which is determined by estimating future cash flow with a 4% and 5% discount rate for the years ended March 31, 2012 and 2011, respectively; and net realizable value, which is based on an appraisal value obtained from a professional real estate appraiser or calculated on a reasonable basis by using the estate tax valuations through land assessments and similar methods.

Loss on impairment of fixed assets amounted to ¥16,336 million ($198,764 thousand) and consisted of ¥8,052 million ($97,973 thousand) from buildings and structures, ¥3,375 million ($41,074 thousand) from tools, furniture and fixtures, ¥1,250 million ($15,217 thousand) from land and ¥3,657 million ($44,498 thousand) from other assets for the year ended March 31, 2012. Loss on impairment of fixed assets amounted to ¥2,977 million and consisted of ¥2,875 million from machinery and equipment and ¥102 million from other assets for the year ended March 31, 2011.

5. Investments

Other securities at March 31, 2012 and 2011 were as follows:

	(In millions of yen)			
	March 31, 2012			
	Carrying amount	Acquisition cost	Unrealized gains	Unrealized (losses)
Other securities:				
Securities with market value	¥28,744	¥10,164	¥18,592	¥(11)
Total	¥28,744	¥10,164	¥18,592	¥(11)

	(In thousands of U.S. dollars)			
	March 31, 2012			
	Carrying amount	Acquisition cost	Unrealized gains	Unrealized (losses)
Other securities:				
Securities with market value	$349,736	$123,665	$226,210	$(139)
Total	$349,736	$123,665	$226,210	$(139)

	(In millions of yen)			
	March 31, 2011			
	Carrying amount	Acquisition cost	Unrealized gains	Unrealized (losses)
Other securities:				
Securities with market value	¥28,722	¥10,164	¥18,564	¥(6)
Total	¥28,722	¥10,164	¥18,564	¥(6)

Proceeds from sales of other securities and the corresponding gross gains and losses that are included in other gain (loss), net in the accompanying consolidated statements of income for the years ended March 31, 2012 and 2011 were as follows:

	(In millions of yen)		(In thousands of U.S. dollars)
	For the years ended March 31,		
	2012	2011	2012
Proceeds	¥20	¥1	$247
Gross gains	20	—	247
Gross losses	—	(2)	—

No notes are provided for losses recognized on the impairment of other securities with market value, as the amount is considered immaterial.

6. Accounts Payable – Other and Accrued Expenses

Accounts payable – other and accrued expenses at March 31, 2012 and 2011 were as follows:

	(In millions of yen)		(In thousands of U.S. dollars)
	March 31,		
	2012	2011	2012
Accrued expenses and accounts payable	¥ 99,220	¥ 97,159	$1,207,207
Allowance for product warranties	24,753	28,211	301,179
	¥123,974	¥125,371	$1,508,386

7. Short-Term Loans Payable, Long-Term Debt and Lease Obligations

Short-term loans payable at March 31, 2012 and 2011 consisted of the following:

	(In millions of yen)		(In thousands of U.S. dollars)
	March 31,		
	2012	2011	2012
Loans, principally from banks	¥87,308	¥125,499	$1,062,281

The weighted average interest rates on short-term loans payable at March 31, 2012 and 2011 were 2.7% and 3.0%, respectively.

Long-term debt at March 31, 2012 and 2011 consisted of the following:

	(In millions of yen)		(In thousands of U.S. dollars)
	March 31,		
	2012	2011	2012
Loans, principally from banks and insurance companies, due through 2023 at interest rates averaging 3.4% in 2012 and 3.6% in 2011:			
Secured	¥ 99,358	¥ 72,295	$ 1,208,885
Unsecured	161,413	200,154	1,963,902
	260,771	272,450	3,172,787
Less current portion	(99,381)	(94,454)	(1,209,165)
	¥161,390	¥177,995	$ 1,963,622

The maturities of long-term debt are as follows:

Years ending March 31,	(In millions of yen)	(In thousands of U.S. dollars)
2013	¥ 99,381	$1,209,165
2014	120,157	1,461,953
2015	23,972	291,669
2016	14,398	175,190
2017	2,654	32,294
Thereafter	206	2,513
Total	¥260,771	$3,172,787

Lease obligations at March 31, 2012 and 2011 consisted of the following:

	(In millions of yen)		(In thousands of U.S. dollars)
	March 31,		
	2012	2011	2012
Current	¥4,220	¥5,265	$51,351
Non-current	6,977	8,088	84,888

The weighted average interest rates on lease obligations due through 2027 at March 31, 2012 and 2011 were 4.5% and 4.3 %, respectively.

The maturities of lease obligations are as follows:

Years ending March 31,	(In millions of yen)	(In thousands of U.S. dollars)
2013	¥ 4,220	$ 51,351
2014	3,352	40,794
2015	1,875	22,823
2016	1,295	15,768
2017	343	4,181
Thereafter	108	1,322
Total	¥11,197	$136,240

Assets pledged as collateral for short-term loans payable, long-term debt and guarantees (excluding factory related groups of assets) at March 31, 2012 and 2011consisted of the following:

	(In millions of yen)		(In thousands of U.S. dollars)
	March 31,		
	2012	2011	2012
Finance receivables and Long-term finance receivables	¥ 73,785	¥ 51,513	$ 897,741
Inventories	7,687	10,225	93,531
Property, plant and equipment, net	38,936	38,262	473,742
Other (see (i) below)	7,693	9,439	93,607
	¥128,103	¥109,440	$1,558,621

(i) ¥1,024 million ($12,467 thousand) and ¥1,003 million of other current assets were pledged based on a liability in a term lease contract relating to a building with Murata Medical Services, Ltd. at March 31, 2012 and 2011, respectively. ¥46 million ($559 thousand) and ¥46 million of investments were pledged as collateral for debt of Mizushima Eco-Works Co., Ltd. at 2012 and 2011, respectively.

The following groups of assets of MMC, the Okazaki factory, were pledged as collateral at March 31, 2012 and 2011, respectively.

	(In millions of yen)		(In thousands of U.S. dollars)
	March 31,		
	2012	2011	2012
Buildings and structures	¥13,971	¥14,703	$169,991
Machinery and equipment	19,255	20,812	234,280
Tools, furniture and fixtures	301	301	3,668
Land	985	985	11,994
	¥34,514	¥36,803	$419,934

The following groups of assets of MMC, the Mizushima factory, were pledged as collateral at March 31, 2012 and 2011, respectively.

	(In millions of yen)		(In thousands of U.S. dollars)
	March 31,		
	2012	2011	2012
Buildings and structures	¥ 6,762	¥ 7,067	$ 82,274
Machinery and equipment	20,385	23,841	248,026
Tools, furniture and fixtures	963	1,107	11,725
Land	2,008	2,008	24,441
	¥30,120	¥34,025	$366,468

The following groups of assets of MMC, the Kyoto factory, were pledged as collateral at March 31, 2012 and 2011, respectively.

	(In millions of yen)		(In thousands of U.S. dollars)
	March 31,		
	2012	2011	2012
Buildings and structures	¥ 5,070	¥ 5,406	$ 61,689
Machinery and equipment	14,985	17,068	182,328
Tools, furniture and fixtures	612	722	7,451
Land	2,235	2,235	27,195
	¥22,903	¥25,432	$278,664

The following groups of assets of MMC, the Shiga factory, were pledged as collateral at March 31, 2012 and 2011, respectively.

	(In millions of yen)		(In thousands of U.S. dollars)
	March 31,		
	2012	2011	2012
Buildings and structures	¥ 2,370	¥ 2,559	$ 28,847
Machinery and equipment	8,683	9,975	105,653
Land	3,859	3,859	46,958
	¥14,914	¥16,393	$181,459

The following groups of assets of a consolidated subsidiary, Pajero Manufacturing Corporation, were pledged as collateral at March 31, 2012 and 2011, respectively.

	(In millions of yen)		(In thousands of U.S. dollars)
	March 31,		
	2012	2011	2012
Buildings and structures	¥2,377	¥2,477	$28,922
Machinery and equipment	2,407	2,702	29,292
Land	1,540	1,540	18,737
	¥6,324	¥6,720	$76,952

The following groups of assets of a consolidated subsidiary, Suiryo Plastics Co., Ltd., were pledged as collateral at March 31, 2012 and 2011, respectively.

	(In millions of yen)		(In thousands of U.S. dollars)
	March 31,		
	2012	2011	2012
Buildings and structures	¥ 889	¥ 841	$10,822
Machinery and equipment	882	1,028	10,732
Land	194	194	2,366
	¥1,966	¥2,064	$23,921

The obligations secured by such collateral at March 31, 2012 and 2011 consisted of the following:

	(In millions of yen)		(In thousands of U.S. dollars)
	March 31,		
	2012	2011	2012
Short-term loans payable	¥ 36,640	¥ 52,051	$ 445,801
Current portion of long-term debt	51,567	16,467	627,418
Long-term debt	47,790	55,827	581,466
	¥135,998	¥124,347	$1,654,686

8. Net Assets

The Companies Act provides that an amount equal to 10% of the amount to be disbursed as a distribution of earnings should be appropriated to the legal reserve until the sum of the legal reserve and capital surplus equals at least 25% of common stock. MMC and its domestic subsidiaries have provided these amounts in accordance with the Companies Act.

MMC is authorized to issue 3,312,000 shares of convertible preferred stock that are classified as Series A, B and G (3 to 4 times in each series), and has 437,593 shares outstanding at March 31, 2012.

The holders of each series of convertible preferred stock do not have voting rights, but the holders of Series A and G (except for Series B) are entitled to preferred stock dividends of ¥50,000 per share each year after April 2009.

In the event of a residual distribution, MMC would also be required to distribute residual claims to the holders of each series of convertible preferred stock by payment of one million yen per share of preferred stock held, in priority over residual claims of holders of the rights of ordinary shareholders. No further distribution would be made.

9. Contingent Liabilities

Loan guarantees given in the ordinary course of business amounted to ¥2,049 million ($24,932 thousand) and ¥2,862 million at March 31, 2012 and 2011, respectively. Agreements similar to guarantees given in the ordinary course of business amounted to ¥5,434 million ($66,116 thousand) and ¥9,198 million at March 31, 2012 and 2011, respectively.

10. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2012 and 2011 consisted of the following:

	(In millions of yen)		(In thousands of U.S. dollars)
	For the years ended March 31,		
	2012	2011	2012
Advertising and promotion expenses	¥ 62,314	¥ 63,794	$ 758,170
Freightage expense	44,213	42,918	537,938
Allowance for doubtful accounts	(1,620)	—	(19,720)
Directors' compensations, salaries and allowances	58,731	56,574	714,578
Pension expenses	3,943	4,600	47,985
Depreciation	8,864	10,395	107,848
Research and development expenses	34,996	27,664	425,798
Other	44,908	43,394	546,403
Total	¥256,350	¥249,343	$3,119,002

11. Other Gain (Loss), Net

Other gain (loss), net for the years ended March 31, 2012 and 2011 consisted of the following:

	(In millions of yen)		(In thousands of U.S. dollars)
	For the years ended March 31,		
	2012	2011	2012
Equity in earnings of affiliates	¥ 5,932	¥ 5,914	$ 72,185
Foreign exchange gains (losses)	2,418	8,800	29,425
Litigation expenses	(851)	(2,422)	(10,354)
Gain (loss) on sales and retirement of property, plant and equipment, net	(1,807)	(669)	(21,989)
Reversal of allowance for doubtful accounts	—	655	—
Gain on sales of subsidiaries and affiliates' stocks	400	—	4,869
Impairment loss	(16,336)	(2,977)	(198,764)
Early retirement expense	—	(17)	—
Environmental expenses	(10)	(6)	(129)
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	(3,031)	—
Loss on disaster	(1,525)	(2,365)	(18,565)
Other	(1,071)	(2,930)	(13,034)
Total	¥(12,851)	¥ 948	$(156,358)

12. Comprehensive Income

Reclassification adjustments to the Consolidated Statement of Income and tax effects related to other comprehensive income for the years ended March 31, 2012 consisted of the following:

	(In millions of yen)	(In thousands of U.S. dollars)
	For the years ended March 31,	
	2012	2012
Valuation difference on available-for-sale securities:		
Amount arising in the year	¥ (22)	$ (278)
Reclassification adjustments for gains and losses included in net income (loss)	0	8
Before tax effect	(22)	(270)
Tax effect	884	10,756
Valuation difference on available-for-sale securities	861	10,486
Deferred gains or losses on hedges:		
Amount arising in the year	2,323	28,274
Reclassification adjustments for gains and losses included in net income (loss)	(3,597)	(43,767)
Before tax effect	(1,273)	(15,492)
Tax effect	449	5,474
Deferred gains or losses on hedges	(823)	(10,018)
Foreign currency translation adjustment:		
Amount arising in the year	(3,899)	(47,448)
Reclassification adjustments for gains and losses included in net income (loss)	(211)	(2,578)
Before tax effect	(4,111)	(50,027)
Tax effect	—	—
Foreign currency translation adjustment	(4,111)	(50,027)
Share of other comprehensive income of associates accounted for using equity method:		
Amount arising in the year	(1,749)	(21,282)
Total other comprehensive income	¥(5,822)	$(70,841)

13. Cash Flow Information

Cash and cash equivalents at March 31, 2012 and 2011consisted of the following:

	(In millions of yen)		(In thousands of U.S. dollars)
	March 31,		
	2012	2011	2012
Cash and bank deposits	¥311,631	¥317,097	$3,791,597
Time deposits with maturities of more than three months	(638)	(632)	(7,764)
Cash and cash equivalents	¥310,993	¥316,464	$3,783,833

Interest paid less interest received and dividends received included in Other, net within operating activities in the consolidated statements of cash flows for the years ended March 31, 2012 and 2011 amounted to a net expense of ¥4,521 million ($55,007 thousand) and ¥8,242 million, respectively. Income taxes paid included in Other, net within operating activities in the consolidated statements of cash flows for the years ended March 31, 2012 and 2011 amounted to ¥13,532 million ($164,654 thousand) and ¥8,079 million, respectively.

Purchases of property, plant and equipment within investing activities in the consolidated statements of cash flows for the years ended March 31, 2012 and 2011 include payments for the acquisition of lease vehicles of ¥8,626 million ($104,956 thousand) and ¥9,882 million, respectively.

Proceeds from sales of property, plant and equipment within investing activities in the consolidated statements of cash flows for the years ended March 31, 2012 and 2011 include proceeds from the sale of lease vehicles of ¥6,192 million ($75,339 thousand) and ¥7,282 million, respectively.

Changes in finance receivables within operating activities in the consolidated statements of cash flows for the years ended March 31, 2012 and 2011 are primarily the net of payments amounting to ¥140,727 million ($1,712,220 thousand) and ¥130,750 million, respectively, and proceeds from collections amounting to ¥138,255 million ($1,682,142 thousand) and ¥111,365 million, respectively.

14. Leases

As lessee

(1) Finance lease transactions that do not involve transfer of ownership to the lessee

(a) Description of the leased assets:

Property, plant and equipment

Leased assets principally include, but are not limited to, production facilities for the automobile business ("Machinery and equipment (net)" and "Tool, furniture and fixtures (net)").

(b) Depreciation method of leased assets

Leased assets under finance leases that do not involve transfer of ownership to the lessee, are depreciated using the straight line method based on the contract term of the lease agreement. If the guaranteed residual value is determined in the lease agreement, the said guaranteed residual value is deemed as the residual value of such leased assets. If the residual value is not determined, it is deemed to be zero.

(2) Operating lease transactions

Future minimum lease payments required under non-cancellable operating lease transactions entered into by MMC and its consolidated subsidiaries at March 31, 2012 and 2011 were as follows:

	(In millions of yen)		(In thousands of U.S. dollars)
	March 31,		
	2012	2011	2012
Due within 1 year	¥1,231	¥1,349	$ 14,986
Due after 1 year	7,427	7,740	90,375
Total	¥8,659	¥9,090	$105,361

As lessor

FFuture minimum lease revenues from non-cancellable operating lease transactions entered into by MMC and its consolidated subsidiaries as lessor at March 31, 2012 and 2011 were as follows:

	(In millions of yen)		(In thousands of U.S. dollars)
	March 31,		
	2012	2011	2012
Due within 1 year	¥4,210	¥ 4,618	$ 51,228
Due after 1 year	5,668	6,034	68,965
Total	¥9,878	¥10,653	$120,194

15. Financial Instruments

For the years ended March 31, 2012 and 2011

Overview of financial instruments

(a) Our policy to manage financial instruments

The Group's capital management policy is to limit its investments to low-risk financial products and to obtain its required funds mainly through bank borrowings. We use derivative instruments to hedge interest rate, foreign currency and similar risks, and we do not enter into any speculative transactions.

(b) Nature and risks of financial instruments and our risk management structure

TTrade receivables, which include notes receivable and accounts receivable, are exposed to the credit risk of our customers. To manage this risk, in accordance with the Group's credit control rules, each group company monitors the financial condition of its major customers, as well as managing the maturity profiles and outstanding balances of the receivables on a customer by customer basis.

Trade receivables denominated in foreign currency are exposed to foreign currency risk. In principle, forward foreign exchange contracts are used to hedge the net position after offsetting foreign currency denominated payables.

Some of investment securities are exposed to the risk of market price fluctuation. However, such securities are composed of mainly the stocks of companies with which the Group has business relationships.

Trade payables, which include notes payable and accounts payable, are mostly expected to be settled within one year. While trade payables include certain payables denominated in foreign currencies, in principle these are managed by netting against foreign currency denominated receivables.

Floating rate bank borrowings are exposed to interest rate risk. For some of our long-term bank borrowings, derivative transactions (interest rate swaps) are used as hedging instruments on an individual loan contract basis to hedge the interest payable fluctuation risk. Such transactions meet the criteria of special accounting provisions for interest rate swaps, and therefore hedge effectiveness assessment is not required.

Certain intercompany loans are exposed to foreign currency risk, however derivative transactions are used as hedging instruments for some of these loans.

In order to mitigate counterparty risks, the Group enters into derivative transactions only with highly rated financial institutions.

Trade payables and bank borrowings are exposed to liquidity risk. Each Group company manages these risks, by preparing cash flow projections and other similar tools.

(c) Supplementary information about the fair value of financial instruments

The notional amount with respect to the derivative transactions presented in "Fair value of financial instruments" does not represent the amount of market risk associated with the relevant derivative transactions.

Fair value of financial instruments

The carrying amount, fair value, and the difference between the carrying amount and the fair value of the financial instruments at March 31, 2012 and 2011 were as follows. These financial instruments do not include any financial instrument for which it is extremely difficult to reasonably measure fair value. (Refer to Note 15.2)

	(In millions of yen)		
	March 31, 2012		
	Carrying amount	Fair value	Difference
Cash and bank deposits	¥311,631	¥311,631	¥ —
Notes and accounts receivable–trade	146,182	146,182	—
Finance receivables	80,638		
Allowance for doubtful accounts (*1)	(4,879)		
	75,758	72,270	(3,487)
Investment (*2)	28,744	28,744	—
Total assets	¥562,317	¥558,829	¥(3,487)
Notes and accounts payable–trade	¥317,355	¥317,355	¥ —
Short-term loans payable	87,308	87,308	—
Long-term loans payable	260,771	263,138	2,366
Accounts payable – other and accrued expenses (*3)	99,220	99,220	—
Total liabilities	¥764,656	¥767,023	¥2,366
Derivative transactions (*4)	9,237	9,237	—

	(In thousands of U.S. dollars)		
	March 31, 2012		
	Carrying amount	Fair value	Difference
Cash and bank deposits	$3,791,597	$3,791,597	$ —
Notes and accounts receivable–trade	1,778,595	1,778,595	—
Finance receivables	981,118		
Allowance for doubtful accounts (*1)	(59,369)		
	921,749	879,312	(42,436)
Investment (*2)	349,736	349,736	—
Total assets	$6,841,679	$6,799,242	$(42,436)
Notes and accounts payable–trade	$3,861,245	$3,861,245	$ —
Short-term loans payable	1,062,281	1,062,281	—
Long-term loans payable	3,172,787	3,201,585	28,797
Accounts payable – other and accrued expenses (*3)	1,207,207	1,207,207	—
Total liabilities	$9,303,522	$9,332,320	$28,797
Derivative transactions (*4)	112,394	112,394	—

(*1) Allowances for doubtful accounts recognized for individual financial receivable are deducted from the carrying amounts directly.

(*2) Investments presented in the balance sheets consist of: investment securities of ¥72,477 million ($881,824 thousand), which include securities with market value of ¥28,744 million ($349,736 thousand) and non-listed stocks and stocks of unconsolidated subsidiaries and affiliates of ¥43,732 million ($532,087 thousand) (refer to Note 15.2); and other investments in unconsolidated subsidiaries and affiliates of ¥12,811 million ($155,881 thousand) at March 31, 2012.

(*3) Accounts payable – other and accrued expenses presented in the balance sheets consist of accrued expenses and accounts payable of ¥99,220 million ($1,207,207 thousand) and allowance for product warranties of ¥24,753 million ($301,179 thousand) at March 31, 2012.

(*4) The amount of the receivable/payable derived from derivative transactions is presented on a net basis.

	(In millions of yen)		
	March 31, 2011		
	Carrying amount	Fair value	Difference
Cash and bank deposits	¥317,097	¥317,097	¥ —
Notes and accounts receivable–trade	114,432	114,432	—
Finance receivables	78,980		
Allowance for doubtful accounts (*1)	(5,928)		
	73,051	70,893	(2,158)
Investment (*2)	28,722	28,722	—
Total assets	¥533,304	¥531,146	¥(2,158)
Notes and accounts payable–trade	¥278,595	¥278,595	¥ —
Short-term loans payable	125,499	125,499	—
Long-term loans payable	272,450	272,942	492
Accounts payable – other and accrued expenses (*3)	97,159	97,159	—
Total liabilities	¥773,704	¥774,196	¥ 492
Derivative transactions (*4)	6,767	6,767	—

(*1) Allowances for doubtful accounts recognized for individual financial receivable are deducted from the carrying amounts directly.
(*2) Investments presented in the balance sheets consist of: investment securities of ¥73,031 million, which include securities with market value of ¥28,722 million and non-listed stocks and stocks of unconsolidated subsidiaries and affiliates of ¥44,309 million (refer to Note 15.2);and other investments in unconsolidated subsidiaries and affiliates of ¥14,547 million at March 31, 2011.
(*3) Accounts payable – other and accrued expenses presented in the balance sheets consist of accrued expenses and accounts payable of ¥97,159 million and allowance for product warranties of ¥28,211 million at March 31, 2011.
(*4) The amount of the receivable/payable derived from derivative transactions is presented on a net basis.

(Note)

1. Method for measuring the fair value of financial instruments, other securities, and derivative transactions

Assets

Cash and bank deposits

The carrying amounts are used as fair values as these items are settled within a short period of time and the fair values are nearly equal to the carrying amounts.

Notes and accounts receivable – trade

The carrying amounts are used as fair values as these items are generated in the normal course of business operations and principally settled within a short period of time and the fair values are nearly equal to the carrying amounts.

Finance receivables

Finance receivables are classified by certain terms to maturity, and their fair values are determined based on the present values of the respective future cash flows discounted using appropriate rates, such as the rates of government bonds after adding credit risk premiums based on the credit risk classes.

Investments

The fair values of investments are based on their respective market values. Refer to Note 5, "Investments", regarding the details of securities classified by purpose for holding.

Liabilities

Notes and accounts payable – trade, Short-term loans payable and Accrued expenses and accounts payable

The carrying amounts are used as fair values of these items as these items are settled within a short period of time and the fair values are nearly equal to such carrying amounts.

Long-term loans payable

Long-term loans payable are classified by certain terms to maturity, and their fair values are determined based on the respective present values of the total amount of principal and interest discounted using the prevailing interest rates that would be applied if similar loans were made at the valuation date.

Derivative transactions

Refer to Note 16, "Derivative Financial Instruments".

2. Financial instruments for which it is extremely difficult to reasonably measure fair value

	(In millions of yen)		(In thousands of U.S. dollars)
	March 31,		
	2012	2011	2012
Non-listed stocks and stocks of unconsolidated subsidiaries and affiliates	¥43,732	¥44,309	$532,087

These financial instruments do not have any quoted market price, and the future cash flow cannot be estimated and consequently are recognized as extremely difficult to reasonably measure fair value. Accordingly, such financial instruments are not included in Investments.

3. Maturity profile of the monetary receivables subsequent to March 31, 2012

	(In millions of yen)		
	March 31, 2012		
	Bank deposits	Notes and accounts receivable–trade	Finance receivables
2013	¥311,126	¥140,258	¥26,713
2014	—	2,815	3,594
2015	—	2,114	8,037
2016	—	295	15,158
2017	—	125	17,086
Thereafter	—	573	10,048
Total	¥311,126	¥146,182	¥80,638

	(In thousands of U.S. dollars)		
	March 31, 2012		
	Bank deposits	Notes and accounts receivable–trade	Finance receivables
2013	$3,785,459	$1,706,512	$325,017
2014	—	34,260	43,735
2015	—	25,732	97,791
2016	—	3,589	184,431
2017	—	1,520	207,884
Thereafter	—	6,980	122,258
Total	$3,785,459	$1,778,595	$981,118

4. Maturity profile of the long-term loans payable subsequent to March 31, 2012

Refer to Note 7"Short-term Loans payable, Long-term Debt and Lease Obligations".

16. Derivative Financial Instruments

Summarized below are the notional amounts and the estimated fair values (based on the prices provided by counterparty financial institutions) of the derivative positions at March 31, 2012 and 2011:

(a) Derivative transactions that are not subject to hedge accounting

Forward foreign exchange contracts and cross currency swaps

	(In millions of yen)			
	March 31, 2012			
	Notional amount	Due more than 1 year	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:				
Sell:				
US $	¥ 15,686	¥—	¥ 246	¥ 246
Euro	8,407	—	67	67
£ stg	2,393	—	25	25
Canadian $	6,402	—	89	89
Australian $	16,120	—	125	125
Japanese ¥	101,748	—	6,121	6,121
Other	6,626	—	100	100
Buy:				
Japanese ¥	511	—	5	5
Cross currency swaps:				
Sell:				
Japanese ¥	10,680	—	46	46
Total	¥ —	¥—	¥6,828	¥6,828

	(In thousands of U.S. dollars)			
	March 31, 2012			
	Notional amount	Due more than 1 year	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:				
Sell:				
US $	$ 190,858	¥—	$ 2,993	$ 2,993
Euro	102,298	—	820	820
£ stg	29,120	—	309	309
Canadian $	77,903	—	1,089	1,089
Australian $	196,140	—	1,531	1,531
Japanese ¥	1,237,972	—	74,475	74,475
Other	80,630	—	1,226	1,226
Buy:				
Japanese ¥	6,225	—	70	70
Cross currency swaps:				
Sell:				
Japanese ¥	129,942	—	568	568
Total	$ —	$—	$83,084	$83,084

	(In millions of yen)			
	March 31, 2011			
	Notional amount	Due more than 1 year	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:				
Sell:				
US $	¥ 1,243	¥—	¥ 1	¥ 1
Japanese ¥	103,993	—	1,417	1,417
Buy:				
Thai ฿	5,542	—	56	56
Japanese ¥	407	—	(6)	(6)
Cross currency swaps:				
Sell:				
Japanese ¥	17,847	—	891	891
Total	¥ —	¥—	¥2,361	¥2,361

Interest rate options

No items to be reported for the for the year ended March 31, 2012

	(In millions of yen)			
	March 31, 2011			
	Notional amount	Due more than 1 year	Fair value	Unrealized gain (loss)
Interest rate options:				
Buy:	¥12,852	¥12,852	¥10	¥10
Total	¥ —	¥ —	¥10	¥10

The method to determine fair values is based on quotations obtained from financial institutions.

(b) Derivative transactions that are subject to hedge accounting

Forward foreign exchange contracts

	(In millions of yen)			
	March 31, 2012			
	Hedged item	Notional amount	Due more than 1 year	Fair value
Forward foreign exchange contracts:				
Sell:				
Japanese ¥	Interest Income	¥105,510	¥—	¥2,470
Buy:				
Japanese ¥	Accounts payable	201	—	(1)
Total		¥ —	¥—	¥2,469

	(In thousands of U.S. dollars)			
	March 31, 2012			
	Hedged item	Notional amount	Due more than 1 year	Fair value
Forward foreign exchange contracts:				
Sell:				
Japanese ¥	Interest Income	$1,283,736	$—	$30,061
Buy:				
Japanese ¥	Accounts payable	2,448	—	(18)
Total		$ —	$—	$30,043

	(In millions of yen)			
	March 31, 2011			
	Hedged item	Notional amount	Due more than 1 year	Fair value
Forward foreign exchange contracts:				
Sell:				
Japanese ¥	Interest Income	¥88,529	¥—	¥4,387
Total		¥ —	¥—	¥4,387

The method to determine fair values is based on quotations obtained from financial institutions.

Interest rate swaps

	(In millions of yen)			
	March 31, 2012			
	Hedged item	Notional amount	Due more than 1 year	Fair value
Pay-fixed, receive-floating (recorded as fair value):	Long-term debt	¥15,808	¥15,808	¥(60)
Pay-fixed, receive-floating (special hedge provisions):	Long-term debt	750	500	(*)
Total		¥ —	¥ —	¥(60)

	(In thousands of U.S. dollars)			
	March 31, 2012			
	Hedged item	Notional amount	Due more than 1 year	Fair value
Pay-fixed, receive-floating (recorded as fair value):	Long-term debt	$192,339	$192,339	$(733)
Pay-fixed, receive-floating (special hedge provisions):	Long-term debt	9,125	6,083	(*)
Total		$ —	$ —	$(733)

		(In millions of yen)		
	March 31, 2011			
	Hedged item	Notional amount	Due more than 1 year	Fair value
Pay-fixed, receive-floating (recorded as fair value):	Long-term debt	¥9,724	¥9,724	¥8
Pay-fixed, receive-floating (special hedge provisions):	Long-term debt	4,000	750	(*)
Total		¥ —	¥ —	¥8

(*) As interest rate swaps under the special hedge provisions are accounted together with hedged item (long-term debt), their fair values are reflected in the fair value of long-term loans payable.

17. Retirement Benefits

MMC and its consolidated subsidiaries have defined benefit pension plans including contributory plans in accordance with the Welfare Pension Institute Law of Japan, defined benefit corporate pension plans and lump-sum payment plans, and defined contribution pension plans. Additional retirement benefits are paid in certain cases upon an employee's retirement and similar.

MMC and its certain domestic consolidated subsidiaries transferred part of their retirement benefit plans (tax-qualified pension plans) to the defined contribution pension plans and defined benefit pension plans this year.

Information of multi-employer pension plans included in the above plans for which the required contribution has been accounted for as pension expense was as follows at March 31, 2011 and 2010:

	(In millions of yen)	
	March 31,	
	2011	2010
Pension Plan assets	¥24,702	¥25,127
Benefit obligations under pension plan rules	25,165	24,630
Difference	¥ (463)	¥ 497

The ratio of MMC and its consolidated subsidiaries' payments to total contributions of the multi-employer plans as of March 31, 2011 and 2010 was 58.0%. This ratio is not equal to the ratio of the amount actually contributed by the MMC group.

Defined Benefit Plans

The discount rates used to determine the retirement benefit obligation were 1.5% ~ 2.0% for MMC and its domestic consolidated subsidiaries at March 31, 2012 and 2011, 3.5% ~ 6.2% and 4.6% ~ 8.0% for its foreign consolidated subsidiaries at March 31, 2012 and 2011, respectively. The rates of return on plan assets assumed were 0.7% ~ 4.0% for MMC and its domestic consolidated subsidiaries, 5.0% ~ 8.0% for its foreign consolidated subsidiaries at March 31, 2012 and 2011.

Prior service cost is amortized using the straight line method over periods of 1 to 15 years for the years ended March 31, 2012 and 2011. These periods are within the estimated average remaining service years of the employees.

The amortization period for actuarial gains and losses starts from the subsequent year and actuarial gains and losses are amortized by the straight line method over periods of 5 to 15 years ended March 31, 2012 and 2011. These periods are within the estimated average remaining service years of the employees.

Unrecognized net obligations and assets at the date of initial application are amortized within one year.

The retirement benefit obligation for MMC and its consolidated subsidiaries' employees' defined benefit plans at March 31, 2012 and 2011 are summarized as follows:

	(In millions of yen)		(In thousands of U.S. dollars)
	March 31,		
	2012	2011	2012
Retirement benefits obligation	¥(175,551)	¥(172,469)	$(2,135,918)
Pension plan assets at fair value	61,962	59,607	753,897
Unfunded status	(113,588)	(112,862)	(1,382,020)
Unrecognized actuarial losses	24,600	18,525	299,312
Unrecognized prior service costs	(10,724)	(4,957)	(130,487)
Net recognized retirement benefits obligation	(99,712)	(99,294)	(1,213,195)
Prepaid pension premiums	8,889	7,626	108,162
Provision for retirement benefits	¥(108,602)	¥(106,921)	$(1,321,358)

Some of the consolidated subsidiaries adopt the simplified method for the calculation of retirement benefits obligation.

Pension expenses for MMC and its consolidated subsidiaries' employees' retirement defined benefit plans for the years ended March 31, 2012 and 2011 consisted of the following:

	(In millions of yen)		(In thousands of U.S. dollars)
	For the years ended March 31,		
	2012	2011	2012
Service cost	¥ 7,818	¥ 8,206	$ 95,128
Interest cost	4,177	4,312	50,832
Expected return on plan assets	(3,302)	(3,240)	(40,186)
Amortization of actuarial losses	4,137	3,462	50,345
Amortization of prior service costs	(1,770)	(73)	(21,546)
Pension expenses	¥11,060	¥12,667	$134,573

In addition to the pension expenses above, additional retirement benefits of ¥17 million were paid and recorded as other gain (loss), net for the year ended March 31, 2011. Pension expenses of consolidated subsidiaries, which adopt the simplified method, are included in service cost.

18. Income Taxes

MMC and its domestic consolidated subsidiaries are subject to corporate, resident and enterprise taxes based on their taxable income. Income taxes of the foreign consolidated subsidiaries are generally calculated based on the tax rates applicable in their countries of incorporation. The consolidated tax payment system is applied at March 31, 2012 and 2011.

The effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2012 and 2011 differ from the statutory tax rate for the following reasons:

	(%)	
	For the years ended March 31,	
	2012	2011
Statutory income tax rate for MMC	Information is not presented as the difference between the statutory tax rate and the effective tax rate was less than 5/100 of the statutory tax rate.	40.2
Equity in earnings of affiliates		(7.8)
Dividends received deduction		(2.6)
Difference in tax rate of overseas subsidiaries and others		7.5
Income taxes as a percentage of income before income taxes and minority interests		37.3

The significant components of deferred tax assets and liabilities as of March 31, 2012 and 2011 consisted of the following:

	(In millions of yen)		(In thousands of U.S. dollars)
	March 31,		
	2012	2011	2012
Deferred tax assets:			
Net operating losses carried forward	¥ 153,845	¥ 235,755	$ 1,871,822
Accrued retirement benefits	40,054	44,743	487,342
Allowance for doubtful accounts	3,025	4,704	36,805
Allowance for product warranties	9,728	12,042	118,360
Accounts payable – warranties	3,953	4,460	48,101
Fixed assets (incl. impairment losses)	29,774	31,056	362,260
Others	55,294	52,772	672,770
Less valuation allowance	(269,565)	(355,892)	(3,279,789)
Total deferred tax assets	26,109	29,642	317,673
Deferred tax liabilities:			
Reserves under the Special Taxation Measures Law	(283)	(301)	(3,451)
Unrealized holding gain on securities	(6,115)	(6,994)	(74,406)
Fair value adjustments relating to land	(3,847)	(4,420)	(46,808)
Accelerated depreciation in overseas consolidated subsidiaries	(13,899)	(15,548)	(169,114)
Others	(18,323)	(17,632)	(222,938)
Total deferred tax liabilities	(42,469)	(44,896)	(516,719)
Net deferred tax liabilities	¥ (16,359)	¥ (15,253)	$ (199,046)

Deferred tax assets and liabilities at March 31, 2012 and 2011 are included in the accompanying consolidated balance sheets as follows:

	(In millions of yen)		(In thousands of U.S. dollars)
	March 31,		
	2011	2011	2011
Current assets	¥ 1,963	¥ 3,218	$ 23,889
Non-current assets	8,889	9,188	108,156
Current liabilities	(238)	(9)	(2,907)
Non-current liabilities	(26,973)	(27,650)	(328,185)
Net deferred tax liabilities	¥(16,359)	¥(15,253)	$(199,046)

The "Act for Partial Revision of the Income Tax Act etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures" (Act No. 114 of 2011) and the "Act for Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake" (Act No. 117 of 2011) were promulgated on December 2, 2011. The staged reduction of the national corporate tax rate and a special reconstruction corporate tax will apply to corporate taxes effective for the years beginning on or after April 1, 2012.

As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 40.2% to 37.6% for temporary differences expected to be realized or settled in the period from April 1, 2012 to March 31, 2015 and to 35.2% for temporary differences expected to be realized or settled from the years beginning April 1, 2015. The effect by the change in these tax rates is considered immaterial.

19. Asset Retirement Obligations

(a) Overview

MMC and its consolidated subsidiaries have obligations associated with the restoration and removal of tangible fixed assets at the end of lease term pertaining to certain property lease agreements, and have obligations associated with removal of hazardous substances.

(b) Method for measuring the amount of asset retirement obligations

The useful lives of assets from acquisition or construction date has been estimated ranging from 2 years to 59 years, and the amount of asset retirement obligations has been measured using the discount rates ranging from 0.2 % to 4.4%.

(c) MMC has changed its estimate during this year as it has become clear that the expected removal cost at the time of asset retirement would exceed the original estimate. This change in estimate resulted in an increase of ¥896 million ($10,913 thousand) to the carrying amount of asset retirement obligations. Changes in the amount of asset retirement obligations for the years ended March 31, 2012 and 2011 were as follows:

	(In millions of yen)		(In thousands of U.S. dollars)
	For the year ended March 31,		
	2012	2011	2012
Balance at beginning of year (*)	¥6,358	¥6,288	$77,363
Increase due to the acquisition of property, plant and equipment	24	3	299
Discount accretion expense	125	119	1,532
Decrease due to the settlement of asset retirement obligations	(4)	—	(56)
Increase due to change in estimate	896	—	10,913
Others	13	(53)	160
Balance at end of year	¥7,414	¥6,358	$90,212

(*) Effective April 1, 2010, *"Accounting Standard for Asset Retirement Obligations"* (ASBJ Statement No. 18 issued on March 31, 2008) and the *"Implementation Guidance on Accounting Standard for Asset Retirement Obligations"* (ASBJ Guidance No. 21 issued on March 31, 2008) were adopted. The balance at the beginning of year for the year ended March 31, 2011 was recorded adopting this new standard.

20. Investment and Rental Property

For the years ended March 31, 2012 and 2011, no notes are provided as the amount of the investment and rental property is considered immaterial.

21. Segment Information

(a) Overview of reportable segment

The reportable segments of the Group are components for which discrete financial information is available, and for which operating results are regularly reviewed by MMC's decision making bodies including the Board of Directors to make decisions about resource allocation to the segments and to assess their performance.

The main business of the Group is automobile business, involving development, design, manufacturing and sales of automobiles and component parts. In addition, as financial service business, we engage in sales finance and leasing services for Group products. Accordingly, based on the types of products and services offered, the Group determined "automobile business" and "financial service business" as two reportable segments.

(b) Basis of calculating net sales, income (loss), assets and other amounts of each reportable segment

The accounting policies of the segments are substantially the same as those described in Note 1.

(c) Net sales, income (loss), assets and others of reportable segments

	(In millions of yen)		(In thousands of U.S. dollars)
	For the year ended March 31,		
	2012	2011	2012
Net sales:			
Automobiles	¥1,797,039	¥1,817,949	$21,864,448
Financial services	10,398	10,754	126,523
Total	1,807,438	1,828,704	21,990,972
Adjustment	(144)	(206)	(1,757)
Grand total	¥1,807,293	¥1,828,497	$21,989,214
Segment income (loss):			
Automobiles	¥60,348	¥37,821	$734,251
Financial services	3,471	2,659	42,234
Total	63,819	40,481	776,486
Adjustment	(144)	(206)	(1,757)
Grand total	¥63,674	¥40,274	$774,728
Segment assets:			
Automobiles	¥1,196,328	¥1,234,787	$14,555,647
Financial services	115,396	100,143	1,404,026
Total	1,311,725	1,334,930	15,959,674
Adjustment	9,580	(22,418)	116,571
Grand total	¥1,321,306	¥1,312,511	$16,076,245
Depreciation:			
Automobiles	¥53,806	¥63,136	$654,655
Financial services	2,934	2,726	35,708
Grand total	¥56,741	¥65,862	$690,364
Investment accounted for using the equity method:			
Automobiles	¥42,807	¥45,089	$520,836
Financial services	6,014	5,371	73,177
Total	48,822	50,461	594,014
Adjustment	(625)	(480)	(7,605)
Grand total	¥48,196	¥49,980	$586,408
Capital expenditures:			
Automobiles	¥72,588	¥57,417	$883,182
Financial services	8,715	10,006	106,035
Grand total	¥81,303	¥67,424	$989,218

(Note)
(1) Adjustment represents the elimination of intersegment transactions.
(2) Segment income (loss) agrees to the amount of operating income (loss) presented in the consolidated financial statements.

(Related information)

(a) Information by products and services

The information is not shown here, as the classification is the same as the reportable segment.

(b) Information by geographic region

(1) Net sales

Net sales are classified by the geographical location of the customers.

	(In millions of yen)		(In thousands of U.S. dollars)
	For the year ended March 31,		
	2012	2011	2012
Japan	¥ 357,136	¥ 363,270	$ 4,345,254
North America	195,164	189,846	2,374,558
Europe	474,783	490,030	5,776,657
Asia	395,252	366,483	4,809,005
Oceania	162,027	163,591	1,971,381
Other	222,928	255,275	2,712,357
Total	¥1,807,293	¥1,828,497	$21,989,214

(Note)
Main countries and regions outside Japan are grouped as follows:
(1) North America .... The United States
(2) Europe .... The Netherlands, Italy, Germany, Russia, Ukraine
(3) Asia .... Thailand, Malaysia, Taiwan, China
(4) Oceania .... Australia, New Zealand
(5) Other .... U.A.E., Puerto Rico

(2) Property, plant and Equipment

	(In millions of yen)		(In thousands of U.S. dollars)
	March 31,		
	2012	2011	2012
Japan	¥282,100	¥300,902	$3,432,292
Other	94,636	82,661	1,151,439
Total	¥376,736	¥383,564	$4,583,731

(Supplementary information)

Net sales and operating income (loss) classified by the geographic location of MMC and its consolidated subsidiaries

	(In millions of yen)		(In thousands of U.S. dollars)
	For the year ended March 31,		
	2012	2011	2012
Net sales:			
Japan	¥1,515,165	¥1,557,329	$18,434,910
North America	188,705	182,013	2,295,966
Europe	203,692	223,740	2,478,306
Asia	448,171	410,001	5,452,874
Oceania	162,151	163,796	1,972,890
Other	24,981	29,609	303,948
Total	2,542,867	2,566,491	30,938,896
Adjustment	(735,574)	(737,993)	(8,949,682)
Grand total	¥1,807,293	¥1,828,497	$21,989,214
Operating income (loss):			
Japan	¥ 25,796	¥ (13,342)	$ 313,865
North America	1,249	(2,972)	15,207
Europe	8,442	18,629	102,717
Asia	35,296	35,284	429,447
Oceania	1,363	5,193	16,588
Other	1,090	1,902	13,267
Total	73,239	44,695	891,094
Adjustment	(9,564)	(4,421)	(116,366)
Grand total	¥ 63,674	¥ 40,274	$ 774,728

(Note)
Main countries and regions outside Japan are grouped as follows:
(1) North America .... The United States
(2) Europe .... The Netherlands, Germany, Russia,
(3) Asia .... Thailand, The Philippines
(4) Oceania .... Australia, New Zealand
(5) Other .... U.A.E., Puerto Rico

Information on major customers

	For the year ended March 31,	
	2012	2011
Customer:	Mitsubishi Corporation	Mitsubishi Corporation
Net sales:	¥296,529 million ($3,607,855 thousand)	¥303,109 million
Relevant segment	Automobiles	Automobiles

Information on impairment losses relating to property, plant equipment by reportable segments

	(In millions of yen)		(In thousands of U.S. dollars)
	For the year ended March 31,		
	2012	2011	2012
Impairment loss:			
Automobiles	¥16,336	¥2,977	$198,764
Financial services	—	—	—
Total	¥16,336	¥2,977	$198,764

Information on the amortization and balance of goodwill by reportable segments

No significant items to be reported for the years ended March 31, 2012 and 2011.

Information on gain on negative goodwill by reportable segments

Not applicable for the year ended March 31, 2012 and no significant items to be reported for the year ended March 31, 2011.

22. Related Party Transactions

MMC entered into the following transactions with related parties during the years ended March 31, 2012 and 2011:

Related Party Transactions

Transactions between MMC and the Related Parties

(a) Transaction with the parent or major shareholder (major corporate shareholder) of the reporting company (MMC)

	March 31, 2012
Party type:	Major shareholder
Party name:	Mitsubishi Corporation
Address:	Chiyoda-Ku, Tokyo, Japan
Capital:	¥204,447 million ($2,487,492 thousand)
Business:	Wholesale trading
% of voting stock held:	Direct 13.99 Indirect 0.00
Relationship with the Related Party:	Sales of products; import of materials for production; mutual directorships
Detail of transaction:	Sales of products
Transaction amount:	¥296,523 million ($3,607,785 thousand)
Account title:	Accounts receivable
Balance at year end:	¥19,626 million ($238,798 thousand)

	March 31, 2011
Party type:	Major shareholder
Party name:	Mitsubishi Corporation
Address:	Chiyoda-Ku, Tokyo, Japan
Capital:	¥203,598 million
Business:	Wholesale trading
% of voting stock held:	Direct 13.99 Indirect 0.00
Relationship with the Related Party:	Sales of products; import of materials for production; mutual directorships
Detail of transaction:	Sales of products
Transaction amount:	¥303,051 million ($3,644,632 thousand)
Account title:	Accounts receivable
Balance at year end:	¥12,095 million

(b) Transactions with unconsolidated subsidiaries and affiliates of the reporting company (MMC)

	March 31, 2012
Party type:	Affiliate
Party name:	JATCO Ltd.
Address:	Fuji, Shizuoka, Japan
Capital:	¥29,935 million ($364,220 thousand)
Business:	Development, manufacture and sale of transmissions and automobile components
% of voting stock held:	Direct 15.04
Relationship with the Related Party:	Purchase of automobile components; mutual directorships
Detail of transaction:	Purchase of automobile components
Transaction amount:	¥73,553 million ($894,923 thousand)
Account title:	Accounts payable
Balance at year end:	¥15,696 million ($190,980 thousand)

No significant items to be reported for the year ended March 31, 2011

(Note)
1. Consumption tax is excluded from transaction amount and included in the balance at year end.
2. Contract terms and the policy to determine the contract terms: Sales price of products is determined based on market price and overall cost. Purchase price of automobile components is determined based on estimated cost, current component price, and market prices of each component.

23. Income and Equity per Share

Net income and equity per share of common stock for the years ended March 31, 2012 and 2011 are summarized as follows:

	(In yen)		(In U.S. dollars)
	March 31,		
	2012	2011	2012
Net income (loss) per share of common stock			
Basic	¥4.32	¥2.82	$0.05
Diluted	2.40	1.66	0.03
Stockholders' equity per share of common stock	(32.61)	(35.90)	(0.40)

The computations of net income per share of common stock for the years ended March 31, 2012 and 2011 are as follows:

	(In millions of yen)		(In thousands of U.S. dollars)
	For the years ended March 31,		
	2012	2011	2012
Numerator for basic net income (loss) per share of common stock:			
Net income (loss)	¥23,928	¥15,621	$291,137
Income not available to common stockholders	—	—	—
Income available to common stockholders	¥23,928	¥15,621	$291,137
Denominator for net income (loss) per share of common stock:			
Weighted average number of shares (in thousands)	5,537,863	5,537,867	
Number of dilutive potential common shares (in thousands)	4,421,266	3,880,647	
(Preferred stock)	(4,421,266)	(3,880,647)	

24. Business Combinations

There were no significant business combinations during the years ended March 31, 2012 and 2011.

25. Subsequent Event

MMC sold its shares in GAC Changfeng Motor Co., Ltd to Guangzhou Automobile Group Co., Ltd. on May 25, 2012. MMC expects to record ¥11,401 million ($138,725 thousand) as Gain on sales of investment securities in Other gain (loss), net for the year ending March 31, 2013.

Report of Independent Auditors

Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011

Tel: +81 3 3503 1100
Fax: +81 3 3503 1197

Independent Auditor's Report

The Board of Directors
Mitsubishi Motors Corporation

We have audited the accompanying consolidated financial statements of Mitsubishi Motors Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2012, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mitsubishi Motors Corporation and consolidated subsidiaries as at March 31, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note 25. Subsequent Event to the consolidated financial statements, which describes that Mitsubishi Motors Corporation sold its shares in GAC Changfeng Motor Co., Ltd to Guangzhou Automobile Group Co., Ltd. on May 25, 2012. Our opinion is not qualified in respect of this matter.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

June 26, 2012 Ernst & Young ShinNihon LLC

Consolidated Subsidiaries and Affiliates As of March 31, 2012

	Company	Incorporated in
Consolidated subsidiaries		
	Hokkaido Mitsubishi Motors Sales Co., Ltd.	Japan
	Higashi Nihon Mitsubishi Motors Sales Co., Ltd.	Japan
	Kanto Mitsubishi Motors Sales Co., Ltd.	Japan
	Chubu Mitsubishi Motors Sales Co., Ltd.	Japan
	Nishi Nihon Mitsubishi Motors Sales Co., Ltd.	Japan
	Mitsubishi Motors Parts Sales Co., Ltd.	Japan
	Pajero Manufacturing Co., Ltd.	Japan
	Mitsubishi Automotive Accessories & Products Co., Ltd.	Japan
	Mitsubishi Automotive Logistics Technology Co., Ltd.	Japan
	Mitsubishi Automotive Engineering Co., Ltd.	Japan
	Suiryo Plastics Co., Ltd.	Japan
	Mitsubishi Motors North America, Inc. (MMNA)	U.S.A.
	Mitsubishi Motors R&D of America, Inc. (MRDA)	U.S.A.
	Mitsubishi Motor Sales of Canada, Inc. (MMSCAN)	Canada
	Mitsubishi Motors Credit of America, Inc. (MMCA)	U.S.A.
	Mits ubishi Motor Sales of Caribbean, Inc. (MMSC)	Puerto Rico
	Mitsubishi Motors Europe B.V. (MME)*2	Netherlands
	Mitsubishi Motor R&D Europe GmbH (MRDE)	Germany
	Mitsubishi Motor Sales Netherlands B.V.	Netherlands
	Mitsubishi Motors Deutschland GmbH	Germany
	MMC International Finance (Netherlands) B.V.	Netherlands
	Netherlands Car B.V. (NedCar)*2	Netherlands
	Mitsubishi Motors Australia, Ltd. (MMAL)*2	Australia
	Mitsubishi Motors New Zealand Ltd. (MMNZ)	New Zealand
	Mitsubishi Motors (Thailand) Co., Ltd. (MMTh)*2	Thailand
	MMTh Engine Co., Ltd.	Thailand
	Mitsubishi Motors Philippines Corp. (MMPC)	Philippines
	Asian Transmission Corp. (ATC)	Philippines
	Mitsubishi Motors Middle East and Africa FZE	U.A.E.
	Note: MMC has 25 other subsidiaries outside Japan in addition to the above.	
Equity method affiliates		
	Muroran Mitsubishi Motors Sales Co., Ltd.	Japan
	Tokachi Mitsubishi Motors Sales Co., Ltd.	Japan
	Ibaraki Mitsubishi Motors Sales Co., Ltd.	Japan
	Meihoku Mitsubishi Motors Sales Co., Ltd.	Japan
	Mie Mitsubishi Motors Sales Co., Ltd.	Japan
	Kagawa Mitsubishi Motors Sales Co., Ltd.	Japan
	Miyazaki Mitsubishi Motors Sales Co., Ltd.	Japan
	Higashi Kanto MMC Parts Sales Co., Ltd.	Japan
	NMKV Co., Ltd	Japan
	MMC Diamond Finance Corp.	Japan
	Mitsubishi Motors do Portugal S.A.	Portugal
	Vina Star Motors Corporation	Vietnam
	Note: MMC has 12 other affiliates outside Japan in addition to the above.	

Other associated company

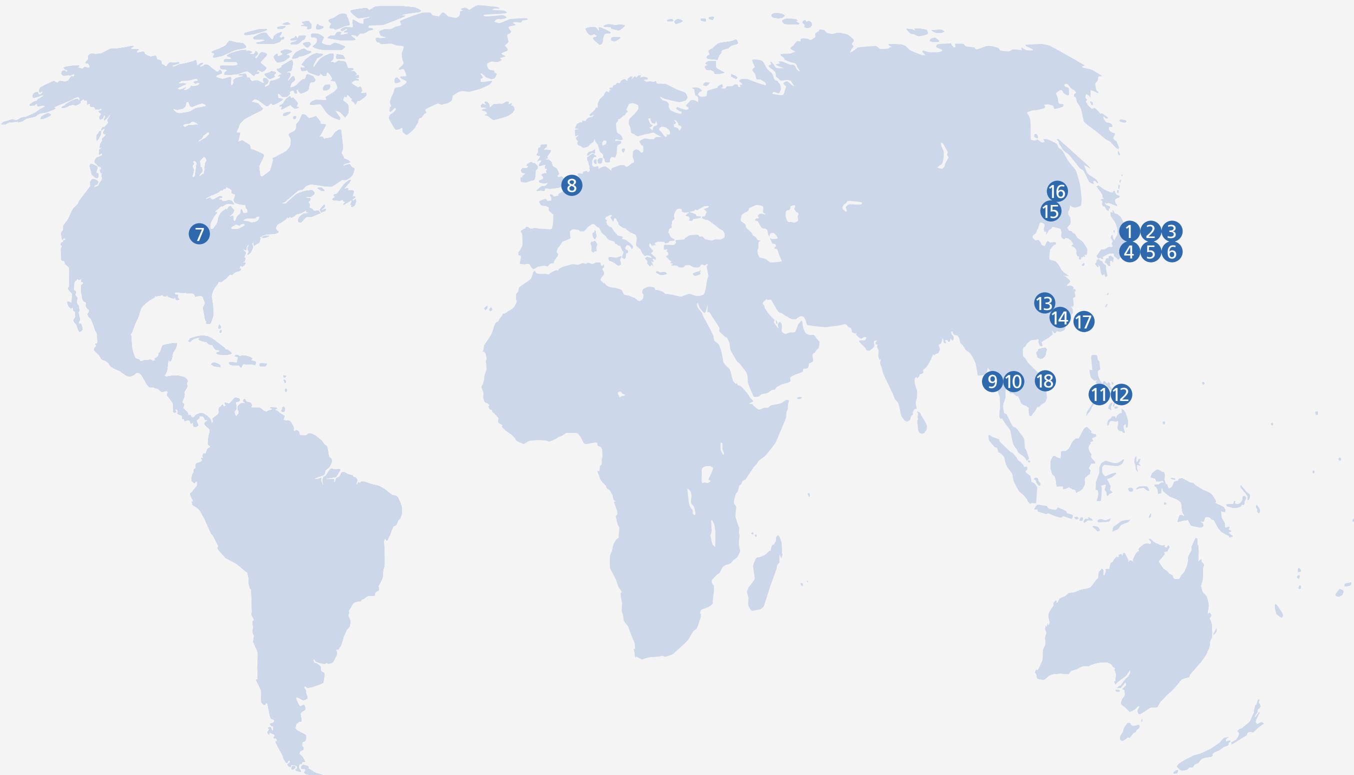
	Company	Incorporated in
	Mitsubishi Heavy Industries, Ltd. Japan	Japan

* 1. Figures in parentheses represent indirect shares.
2. Specified subsidiaries.

Capitalization (In millions)	Business Lines	MMC Share of Voting Rights (%)*[1]
JPY 100	Automobile sales	100.0
JPY 100	Automobile sales	100.0
JPY 100	Automobile sales	100.0
JPY 100	Automobile sales	100.0
JPY 100	Automobile sales	100.0
JPY 100	Automobile parts sales	100.0 (30.8)
JPY 610	Automobile and parts manufacture, sales	100.0
JPY 300	Sales of automobile accessories, air conditioners	100.0
JPY 436	Automobile inspection, maintenance, transport, storage and packaging	82.8
JPY 350	Design and testing of automobiles and parts	100.0
JPY 100	Manufacture, sales of automobile parts	100.0
USD 398.8	Automobile importing, manufacturing, sales	100.0
USD 2.0	Product development, design, testing, certification	100.0 (100.0)
USD 1.3	Automobile importing, sales	100.0 (100.0)
USD 260.0	Automobile financing, leasing	100.0 (100.0)
USD 47.5	Automobile importing, sales	100.0
EUR 1282.9	Importing, sales of parts	100.0
EUR 0.8	Product development, design, testing, certification	100.0 (100.0)
EUR 6.8	Automobile importing, sales	100.0 (100.0)
EUR 30.0	Automobile importing, sales	100.0 (100.0)
EUR 0.1	Procurement of funds, group company financing	100.0
EUR 250.0	Manufacturing, sales of automobiles and parts	100.0 (15.0)
AUD 1,789.9	Automobile importing, sales	100.0
NZD 48.0	Automobile importing, sales	100.0
THB 7,000.0	Automobile importing, assembly, sales	100.0
THB 20.0	Manufacturing of automobile engines and press parts	100.0 (100.0)
PHP 1,640.0	Automobile importing, assembly, sales	51.0
PHP 770.0	Manufacturing of automobile transmissions	94.7 (89.4)
UAD 10.0	Importing, sales of automobile parts	100.0
JPY 100	Automobile sales	29.0 (29.0)
JPY 60	Automobile sales	35.0
JPY 30	Automobile sales	40.0
JPY 70	Automobile sales	28.6
JPY 58	Automobile sales	24.8
JPY 50	Automobile sales	23.0
JPY 60	Automobile sales	38.8
JPY 100	Automobile parts sales	33.0 (10.0)
JPY 10	Automobile planning and engineering	50.0
JPY 3,000	Auto sales financing, leasing, rentals	47.0
EUR 16.5	Automobile importing, sales	50.0 (50.0)
USD 16.0	Manufacture and marketing of automobiles and parts	25.0

Capitalization (In millions)	Business Lines	MMC Share of Voting Rights (%)*[1]
JPY 265,608	Shipbuilding & ocean systems development, power systems, machinery & steel structures, aerospace, general machinery and special vehicles and others	15.7 (0.5)

Principal Production Facilities



Country/Region	Name	Major Products
Japan	1. Nagoya Plant–Okazaki	Outlander, ASX (RVR)
	2. Mizushima Plant	i-MiEV, Outlander, Lancer (Galant Fortis), i, Toppo, eK Wagon, Minicab, MINICAB-MiEV
	3. Pajero Manufacturing Co., Ltd.	Pajero (Montero), Delica D:5
	4. Powertrain Plant–Kyoto	Engines
	5. Powertrain Plant–Shiga	Engines
	6. Powertrain Plant–Mizushima	Engines, transmissions
U.S.A.	7. Mitsubishi Motors North America, Inc. (MMNA)	Outlander Sport (RVR)
Netherlands	8. Netherlands Car B.V. (NedCar)	Colt (European model), Outlander
Thailand	9. Mitsubishi Motors (Thailand) Co., Ltd. (MMTh)	Mirage, Triton, Pajero Sport, Lancer
	10. MMTh Engine Co., Ltd. (MEC)	Engines
Philippines	11. Mitsubishi Motors Philippines Corporation (MMPC)	Adventure, L300 (Delica), Lancer
	12. Asian Transmission Corporation (ATC)	Transmissions
China	13. GAC Changfeng Motor Co., Ltd. (GACCF)	Pajero
	14. South East (Fujian) Motor Co., Ltd. (SEM)	Galant, Lancer, Zinger
	15. Shenyang Aerospace Mitsubishi Motors Engine Manufacturing, Co., Ltd. (SAME)	Engines
	16. Harbin Dongan Automotive Engine Manufacturing, Co., Ltd. (DAE)	Engines, transmissions
Taiwan	17. China Motor Corporation (CMC)	Colt Plus, Lancer Fortis, Outlander, Zinger, Delica
Vietnam	18. Vina Star Motors Corporation (VSM)	Zinger, Pajero Sport

Investor Information As of March 31, 2012

Company Name	MITSUBISHI MOTORS CORPORATION
Head Office	5-33-8, Shiba, Minato-ku, Tokyo 108-8410, Japan Telephone: +81-3-3456-1111
Established	April 22, 1970
Capital	¥657,355,059,926
Number of Employees	Consolidated: 30,777 Non-consolidated: 12,720
Stock Listing	Tokyo Stock Exchange
Securities Code	7211
Share Trading Unit	1,000 common shares; 1 preferred share
Number of Shares Outstanding	5,538,394,433

Number of Shareholders

Type	Number of issued shares	Number of shareholders
COMMON SHARES	5,537,956,840	372,188
PREFERRED SHARES		
First Series Class A	73,000	4
Second Series Class A	25,000	7
Third Series Class A	1,000	1
First Series Class G	130,000	2
Second Series Class G	168,393	3
Third Series Class G	10,200	1
Fourth Series Class G	30,000	1

Major Shareholders (Common Shares)

Name	Number of shares held (thousands)	% of total
Mitsubishi Heavy Industries, Ltd.	839,966	15.16
Mitsubishi Corporation	774,835	13.99
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	269,024	4.85
Japan Trustee Services Bank, Ltd. (Trust account)	100,860	1.82
The Master Trust Bank of Japan, Ltd. (Trust account)	57,534	1.03
SSBT OD05 OMNIBUS ACCOUNT-TREATY CLIENTS (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited Tokyo branch)	46,131	0.83
MLPFS Custody Account (Standing proxy: Merrill Lynch Japan Securities Co., Ltd.)	38,699	0.69
Japan Trustee Services Bank, Ltd. (Trust account 1)	34,830	0.62
Japan Trustee Services Bank, Ltd. (Trust account 6)	33,632	0.60
STATE STREET BANK WEST CLIENT-TREATY (Standing proxy: Mizuho Corporate Bank, Ltd. Custody & Proxy Dept.)	32,408	0.58
Total	2,227,921	40.22

Transfer Agent and Register

Mitsubishi UFJ Trust and Banking Corporation
1-4-5, Marunouchi, Chiyoda-ku, Tokyo, Japan
(Contact)
Mitsubishi UFJ Trust and Banking Corporation Transfer Agent
7-10-11, Higashisuna, Koto-ku, Tokyo, Japan
Toll-free telephone (Japan only) 0120-232-711

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Printed in Japan

SUBARU

Annual Report 2012

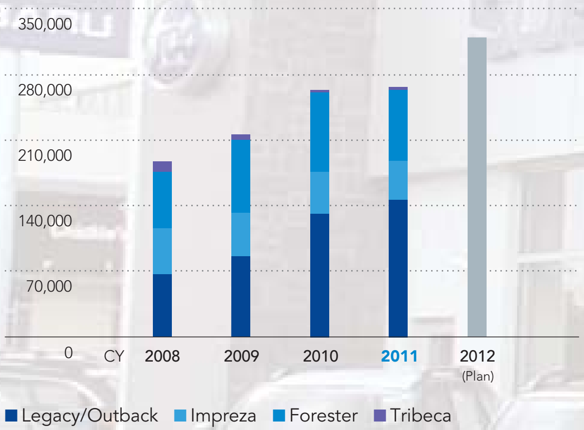
For the year ended March 31, 2012

What is Distinctive about Subaru?

Distinctive *Sales Record*

Subaru achieved record-high sales for the third year in a row and became the only automobile manufacturer to surpass year-on-year sales for the fourth consecutive year in the U.S. market. Subaru is taking on the challenge of selling 320 thousand vehicles in 2012 with the aim of growing even further.

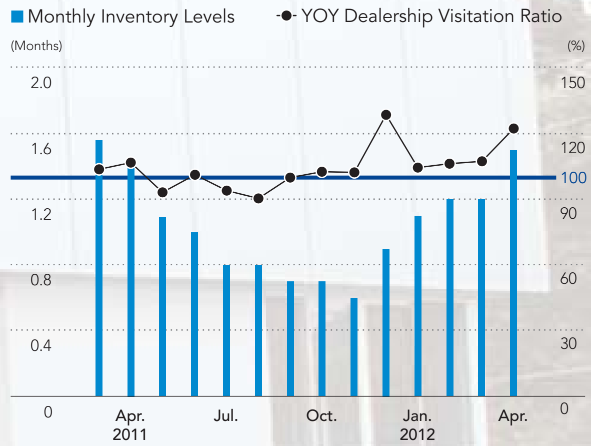
U.S. Retail Sales
(Units)



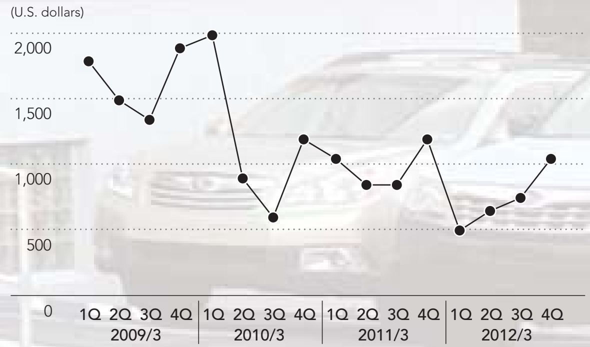
Distinctive *Marketing*

Subaru provides the values of "enjoyment and peace of mind" to customers. In line with our brand statement *Confidence in Motion*, we aim to increase the number of Subaru fans through marketing that showcases the appeal of our automobiles not in terms of price, but in the authentic values they offer.

U.S. Dealer Monthly Inventory Levels/Visits YOY



Incentives Per Vehicle



Distinctive Progress

Subaru focuses on the concepts of "trust" and "innovation." We meet customer expectations by evolving with the times. To this end, we place particular emphasis on maintaining Subaru's consistent philosophy "Engineering Excellence" as well as improving environmental friendliness through such innovations as the new horizontally-opposed engines and the new Lineartronic-CVT (Continuously Variable Transmission).

New Horizontally-Opposed Engine
+ New Lineartronic-CVT

Distinctive *Cooperation*

Subaru and Toyota Motor Corporation have jointly developed a new front-engine, rear-wheel drive compact sports car. This new automobile was created with the intention of both companies to introduce an even greater number of customers to the pleasure of driving. We will continue pursuing a win-win relationship with Toyota to boost the long-term competitiveness and development of both companies.

Horizontally-Opposed Engine + Front-Engine, Rear-Wheel Drive

Confidence in Motion

Confidence in Motion is a unified global brand statement that encapsulates the aim of the Subaru brand. *Confidence* reflects our approach towards reliable automobile manufacturing dating back to the Subaru 360 and the relationship of trust that we have built with customers by providing enjoyment and peace of mind. *In Motion* expresses Subaru's resolve to enhance customer trust by proactively staying abreast of changing trends.

Through *Confidence in Motion*, Subaru aims to meet customer expectations for the freedom and fulfillment enabled by Subaru's uniquely satisfying driving experience.

CONSOLIDATED FINANCIAL HIGHLIGHTS

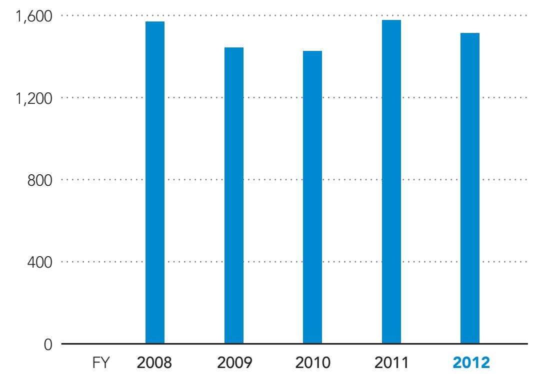
FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31

Billions of yen

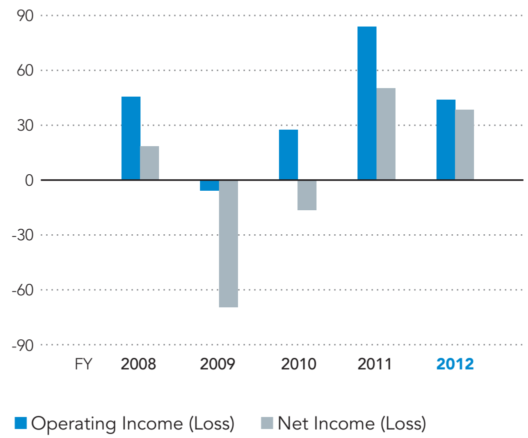
	2008	2009	2010	2011	2012
For the Year:					
Net sales	¥1,572.3	¥1,445.8	¥1,428.7	¥1,580.6	¥1,517.1
Operating income (loss)	45.7	(5.8)	27.4	84.1	44.0
Net income (loss)	18.5	(69.9)	(16.5)	50.3	38.5
Capital expenditures	56.3	58.0	56.1	43.1	54.3
Depreciation expenses	65.5	65.1	57.1	49.8	53.7
R&D expenses	52.0	42.8	37.2	42.9	48.1
Automobiles sales volume (thousand units)	597	555	563	657	640
Exchange rate (¥/$, non-consolidated)	116	102	93	86	79
At Year-End:					
Total assets	1,296.4	1,165.4	1,231.4	1,188.3	1,352.5
Net assets	494.4	394.7	381.9	414.0	451.6
Interest-bearing debt	304.5	381.7	367.6	330.6	341.0
Financial Ratios (%):					
ROE	3.7	—	—	12.7	8.9
ROA [1]	3.9	—	2.4	7.1	3.6

1. ROA was calculated as "(operating income + interest and dividend income)/(average of assets at the beginning and end of the term)"

Net Sales
(Billions of yen)



Operating Income (Loss) & Net Income (Loss)
(Billions of yen)



Contents

Disclaimer Regarding Forward-Looking Statements

Statements herein concerning plans and strategies, expectations or projections about the future, FHI's efforts with regard to various management issues, and other statements, except for historical facts, are forward-looking statements. These forward-looking statements are subject to uncertainties that could cause actual results to differ materially from those anticipated. These uncertainties include, but are not limited to, general economic conditions, demand for and prices of FHI's products, FHI's ability to continue to develop and market advanced products, raw material prices, and currency exchange rates. FHI disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events, or otherwise.

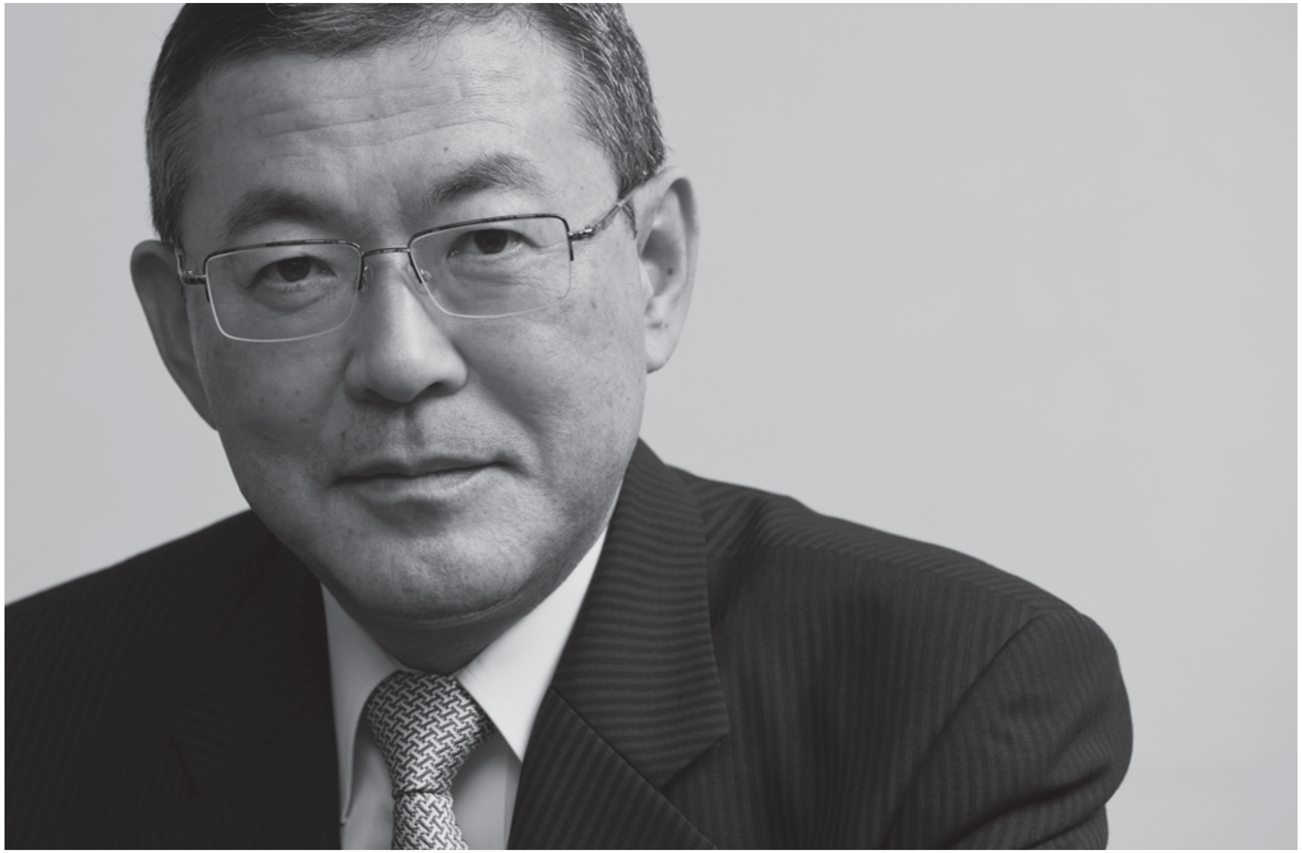
A MESSAGE TO OUR STAKEHOLDERS

YASUYUKI YOSHINAGA
Representative
Director of the Board,
President and CEO

Pursuing further growth with distinctive, high value-added Subaru products and stronger focus on core competencies in the ever changing business environment.

In July 2011, Subaru commenced the "Motion-V" mid-term management plan. In fiscal 2012, the first year of the plan, consolidated net sales totaled ¥1,517.1 billion (down 4.0% year on year), consolidated operating income amounted to ¥44.0 billion (down 47.8%) and consolidated net income was ¥38.5 billion (down 23.6%). Despite these decreases in revenue and earnings in the aftermath of the Great East Japan Earthquake, we achieved results that exceeded initial projections with team efforts among the manufacturer, dealers and suppliers to resume production and maintain sales.

Amid these major changes in the business environment, Subaru continues to provide unique, high-value-added automobiles to maintain favorable sales momentum while uniting Companywide to achieve "Motion-V" in line with the guiding principle, *Confidence in Motion*.



After much contemplation, I believe that a distinctive Subaru experience is characterized by a sense of individuality, high added value and a high degree of differentiation.

Having completed your first year as the president of FHI, please share with us your honest impression of the past year.

If I could summarize the past year in a single expression, it would be "thank you" to convey the strong sense of appreciation I have for the hard work of all of our employees and everyone else that put forth such effort. To begin, the Great East Japan Earthquake struck immediately after I become president. I had no idea when we could restore production. Some people went as far as saying that resuming operations by the end of the year would be impossible. Despite these circumstances, we were able to resume plant operations in an exceedingly short time period thanks to the extraordinary efforts of those employed at our manufacturing facilities as well as suppliers. I believe that these efforts showcased Japan's fundamental power, which values the concept of *monozukuri* ("manufacturing products"). In particular, this *monozukuri* power was seen in the support the entire automobile industry lent to components manufacturers. Subaru completely restored production in October 2011, commencing full-scale production soon after. By the end of fiscal 2012, we were able to reach operating income of ¥44.0 billion in spite of these severe conditions and this exceeded our initial target of ¥30.0 billion.

Looking back on the past year, sales momentum particularly in Japan and the United States remained steady. This is in fact quite meaningful. Once sales drop off, it takes a lot of effort to regain momentum. Nevertheless, we were able to sustain sales momentum despite production stoppages and the gradual depletion of inventory. Dealerships in the United States are owned independently, yet they mutually supported sales by flexibly accommodating each other's dwindling vehicle stocks. Consequently, Subaru surpassed year-on-year sales in the United States for four consecutive years in 2011 and was the only brand to maintain record-breaking sales for the past three years. With newspapers and other media sources reporting on this achievement, a greater number of people have been visiting Subaru dealerships and, in turn, creating a virtuous circle.

I honestly did not believe in late November that we would break sales records for four straight years. However, the representatives from three U.S. dealerships who visited the Tokyo Motors Show at the end of November all wore wristbands with "Plus 1" written on them. This signified their determination to sell more units than the previous year and their pledge not to give up on surpassing last year's performance, despite the need to mutually accommodate each other's dwindling stocks. In response to this resolve, we continued to produce and supply vehicles to the best of our ability. As a result, we achieved this sales record. We are currently seeing ongoing sales momentum in the United States, which is a testament to the considerable ability of the entire Subaru team. Once again, I would like to express my sincere gratitude to everyone whose hard work made this achievement possible.

Why do you think new Subaru models continue to be hits?

It is not easy to narrow down the popularity of Subaru vehicles to just one reason. Subaru's strength lies in its distinctive technological capabilities. Subaru employs engineers who love all aspects of cars and focus exclusively on automobile development. We have always built automobiles based on our own preferences and convictions. That said, a single-minded focus on technology is not healthy. By making every effort to listen to opinions gained from the market and dealerships, we are able to nurture the positive aspects of this technological focus. This is the reason why Subaru automobiles are hits.

In spite of changing times, Subaru strives to develop vehicles by being technologically oriented. In other words, we must pursue a distinctive Subaru experience. If we are guided solely by market feedback, our cars will be the same as everyone else's. As such, we are not too unique or individualistic, but we do avoid the trap of being overly commercial. The bottom line for a company the size of Subaru is to find ways to maintain a balance between the two extremes. Regarding vehicle development, we stay focused on the market by listening to the opinions of customers and dealers while searching for ways to realize a distinctive Subaru experience. I feel that we currently have the right balance.

Subaru got its start in the development and manufacture of aircraft. Indeed, Subaru's DNA extends from FHI's forerunner, Nakajima Aircraft Company. This has fostered a corporate culture based on the creation of automobiles that are not only reliable but safe. More succinctly, we have zero-tolerance for unsafe cars. Even though we are a company that makes automobiles, our background in aircraft production separates us from other automakers. "Safety and reliability" are among our most important strengths, underscored with numerous awards recognizing Subaru's advanced safety capabilities. Another strength centers on the concept of "enjoyment." Subaru has been highly evaluated (or rated) by customers for providing enjoyment in various forms: pleasure of owing Subaru vehicles; having an active lifestyle with Subaru vehicles; fun-to-drive experience; and an unsurpassed level of drivability.

Subaru has set the target of reaching an annual sales volume of one million vehicles within the next 10 years while pursuing a distinctive Subaru experience. What steps is Subaru taking to realize this aim?

In July 2011 when we announced our mid-term management plan "Motion-V," we set the following targets for fiscal 2016: global sales of 900 thousand units (revised to 850 thousand units in May 2012), operating income of ¥120 billion and an annual sales volume of one million units within the next 10 years. Employees throughout the Company reacted exactly as I predicted. Subaru's sales division has responded strongly to the one million unit figure. This sparked a debate over the necessity of making smaller cars to reach the one million vehicle target. Starting my career in sales, I very much understand that point

Our ongoing technological orientation makes Subaru unique.

MID-TERM MANAGEMENT PLAN "MOTION-V" (FY2012-2016)

Vision

Achieving an annual automotive sales volume more than one million units within the next 10 years

In the mid-term management plan

1 Phase to solidify the foundation of the strategic direction for growth

Establishing the global brand position

2 Favorable advancement

Make structural reform in the remained area and strengthen the successful points further

Major Points of Mid-Term Management Plan "Motion-V"

Business Targets

FY2016	FY2012-2016
Consolidated Operating Income **¥120 billion** **(¥80/$, ¥105/€)** Consolidated Operating Margin **6% or more**	Total Consolidated R&D Expense **¥250 billion** Total Consolidated Capital Expenditure **¥330 billion** Total Consolidated Depreciation **¥310 billion**

Overhaul of Cost Structure

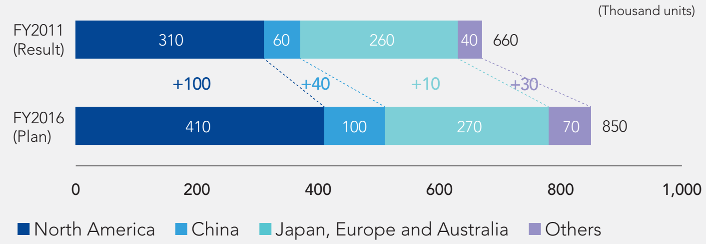
Measures

- Further cost reduction efforts in new vehicle development
- Additional cost reduction for production models
- Additional cost reduction for new engines and transmissions

Target: Additional ¥30 billion cost reduction by FY2016

Increase Sales Globally

Unit sales (non-consolidated basis, including OEM and CKD)



Product Portfolio Plan

	CY2011	CY2012	CY2013	CY2014	CY2015
Main Models	 Impreza	 FMC	 FMC	 FMC	 FMC
New Models	 Subaru XV	 SUBARU BRZ		 New concept	

Minicars: Terminate own production (CY2011) → All lineups on an OEM basis from Daihatsu (CY2012–CY2015)

Compact Cars: OEM (CY2011–CY2015)

Environmental Friendliness:
- New boxer engine + CVT equipped on all models (CY2011–CY2015)
- Turbo charged direct injection boxer engine (CY2012–CY2015)
- Hybrid introduce in Japan at first (CY2013–CY2015)

Active Driving Assist System: EyeSight equipped on all models in global markets with upgrade of performance (CY2011–CY2015) of view. Focusing solely on unit sales figures, the sales department places the highest priority on achieving this target. In response, however, I often say that "reaching the target of one million vehicles is not the highest priority."

My focus is inherently on Subaru's profitability. Rather than reaching one million vehicles sold annually yet failing to attain operating income targets, I would prefer to achieve operating income objectives but sell only 800 thousand units. In the case of the latter, if profit increases lead to higher added value, brand image and positive recognition, this situation is acceptable. The reverse is unforgiveable. In terms of our priorities, we give preference to individuality, distinctiveness and market presence. If one million customers rate us highly on those characteristics, we will reach our target of one million vehicles. If customers recognize Subaru's high-added value, I am not concerned if we fall short of our target and only sell 800 thousand units.

Some believe that we need to make smaller models to increase unit sales as well as compact cars in emerging markets to reach the annual sales volume of one million. Such actions will cause cost competition with other automakers and ultimately lead to price wars. Compared with automobile companies with an annual production capacity of six to seven million units, the cost of manufacturing in emerging countries has no competitive advantages for Subaru. I have carefully explained this point repeatedly in an effort to gain the full understanding of employees companywide.

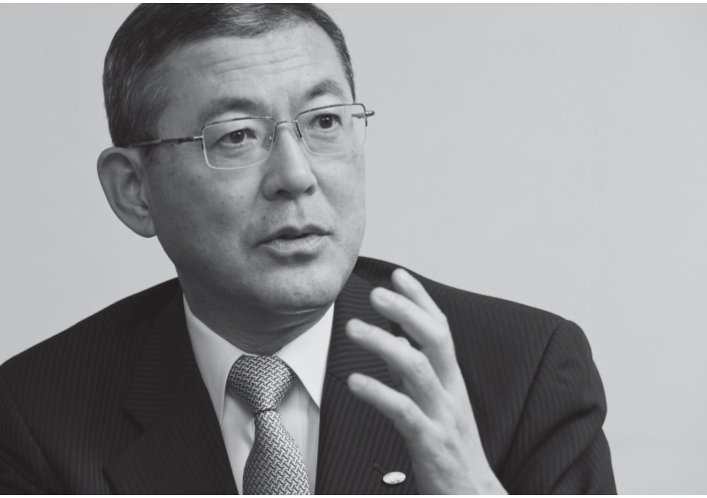
Targets for "Motion-V" were reset in May 2012. When did it become clear that Subaru's mid-term management plan needed revising?

"Motion-V" was announced on July 6, 2011, immediately after I became president on June 24. Typically, Subaru formulates mid-term management plans for a year following the inauguration of a new president. However, I felt it necessary to reveal a new policy as soon as possible. Between the announcement of "Motion-V" and the end of 2011, sales in the United States exceeded expectations. On the other hand, the assumption that the exchange rate would stay at ¥90 to the U.S. dollar is no longer correct. In addition, we have yet to receive a clear answer on the feasibility of engaging in local production in China. Typically, Subaru revises its five-year, mid-term management plans two to three years in. This time, however, it became necessary to reset targets earlier.

I want to emphasize that we have reaffirmed the major goals of "Motion-V," even though we reset some of the targets. The core of the plan, annual sales volume of one million units within 10 years, remains the same. To bolster our production system, we have decided to make the United States our priority market based on favorable sales there. Carefully monitoring the progress of our efforts to introduce local production in China, I do not project a significant amount of profit being generated in the near future as was initially forecasted. As such, higher unit production in the United States is compensating for decreases in China.

The operating income target of ¥120 billion has been maintained. In terms of revising this figure, we can no longer say that the circumstances underpinning this fundamental target are unchangeable. Despite the ¥10 appreciation in the exchange rate with the dollar, we will maintain the operating income target, and this announcement has been positively received by investors. As part of the most recent revision to the plan, we have added such goals as cost reductions of ¥30 billion, enabling us to take on the challenge of achieving the original ¥120 billion target, even at an exchange rate of ¥80 to the U.S. dollar.

Aim to achieve operating income of ¥120 billion, even at an exchange rate of ¥80 to the U.S. dollar.



Subaru's number one measure to counter yen appreciation is to continue producing relatively high-priced automobiles while minimizing incentives.

Are cost reductions the most promising measure to counter yen appreciation?

As a result of the combined efforts of the engineering and production divisions, we have been able to steadily reduce costs. I believe that this is very important. Given the Company's size, however, prevailing against the competition based solely on cost reductions is not a simple matter. Since every other automaker is desperately working to cut costs, attaining a comparative advantage is not easy.

To answer this question, the deciding factor in the case of Subaru was adding value. For example, in the United States, other companies offer per-vehicle incentives totaling around $2,000. In contrast, Subaru has kept this to less than half the cost at $800 to $900. This is important: Subaru's number one measure to counter yen appreciation is to continue producing relatively high-priced automobiles while minimizing incentives. Against this backdrop, Subaru has positioned itself as an automaker that offers differentiated, individual and value-added products. Accordingly, we are currently receiving high praise for this strategic approach both in the United States and Japan.

For instance, Subaru's "EyeSight" Active Driving Assist System has been rated very highly for furthering the concept of "collision-free cars." To be completely honest, other automakers cannot compete with Subaru as long as we are being very competitive in this area. We are introducing "EyeSight" to Subaru models sold in the United States. Although Subaru advertising does not focus on price, Legacy, Outback and Impreza have received very positive customer evaluations in the United States. Avoiding any mention of cash incentives, Subaru's value and the pleasure that is enabled from driving a Subaru have made it the No. 1 brand based on residual price. For customers, Subaru vehicles offer the highest resale value at trade-in following several years of driving enjoyment. For Subaru, the challenge lies in finding ways to maintain these areas of competitive advantage over the long term.

Some say the focus on maintaining strong sales poses risks for Subaru's production system. Please share with us your thoughts on enhancing Subaru's production system and what direction should be taken.

To be certain, insufficient vehicle inventory is a pressing issue. A point of contention remains over what form production enhancements will take and in what order of precedence. We have already announced production capacity increases at the Gunma Main Plant and Subaru of Indiana Automotive, Inc. (SIA). We are committed to capacity enhancements. Without a doubt the most pressing issue we face is how best to quickly realize them.

Nevertheless, although we are confronted with supply capacity-related problems, I would like to see supply remain tight, slightly below demand. The gap between supply and demand is currently too wide. Yet, despite favorable sales, we have no intention of overcompensating by greatly boosting capacity with a sudden, significant investment.

In light of the lack of progress of Subaru's initiatives to establish local production in China, what measures are you promoting in response to emerging markets?

At the present moment, establishing local production in China within the period of the current mid-term management plan seems difficult. As a result, we will extend the export of completed automobiles from Japan. I do not see this as a negative because the Subaru brand image is extremely high in China. When we will ultimately begin local

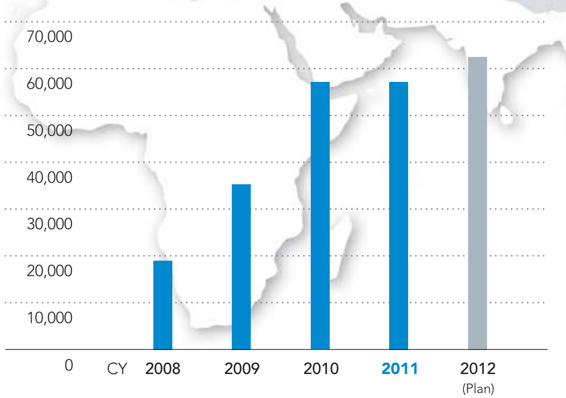
REINFORCING VALUE CHAIN AND ENHANCING SALES FORCE (CHINA)

Enhancement of Product Appeal	• Introducing and developing products for China market • Enhancing SUV lineup
Production Scheme	• Difficulty in establishing local production in China during the mid-term period
Sales Scheme	• Priority placed on car export scheme • Reinforcing value chain management

China

China Retail Sales

(Unit)

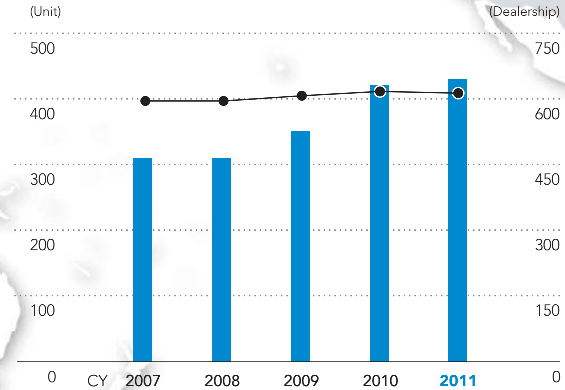


REINFORCING VALUE CHAIN AND ENHANCING SALES FORCE (U.S.A.)

Enhancement of Product Appeal	• Increasing passenger car sales • Enhancing SUV lineup
Production Scheme	• Increasing production capacity at SIA • Starting consideration of production expansion in North America for the future
Sales Scheme	• Upward revision of sales target corresponding to positive sales momentum • Increasing dealership quality

U.S.A.

Number of Dealerships in U.S./Unit Sales Per Dealership



PRODUCTION PLAN

- "Bridge manufacturing" of Impreza models at Gunma Main Plant will start from August 2012
- Local assembly production in Malaysia will start from January 2013

	FY2011	FY2016
Japan	460 thousand units	580 thousand units
Overseas	160 thousand units	210 thousand units
Total	620 thousand units	790 thousand units

PURSUIT OF ALLIANCE SYNERGY WITH TOYOTA MOTOR CORPORATION

Development	
Joint development	Introducing jointly developed model SUBARU BRZ/Toyota 86 and studying future improvement of the product
Technology development	Pursue synergies by participating in development work on next-generation environmental technologies
OEM	
Minicar	Supplied all lineups of minicars on an OEM basis by Daihatsu in the spring of 2012
Compact car	Supplied on an OEM basis by Toyota in Japan and Europe; Study ways to enhance its product competitiveness
Production	
North America	Consignment production of Camry in SIA
Japan	Manufacture of jointly developed model SUBARU BRZ/Toyota 86

production in China remains to be seen, but we are continuing our efforts to achieve this. Outside of the United States, potential locations for a company the size of Subaru to engage in full-scale local production are strictly limited and center on China. Therefore, we have no intention of removing China as an area for undertaking local production.

On the other hand, we are investigating the small-scale feasibility of undertaking local completely knocked down (CKD) production in Malaysia within the current fiscal year. Although we have been extremely cautious about such activities to date, we decided that pursuing CKD production was worth a try since there are no major risks associated with it. Despite the lack of significant profit potential due to the small scope of this investment, I feel that we need to experiment with this type of production. However, if this initiative spreads beyond Malaysia, the manufacturing division may be stretched in terms of personnel. As such, we will first give this venture in Malaysia a try, and when our local production efforts begin to take shape in China, we will redeploy employees to that country.

Please describe the future direction of Subaru's businesses.

On March 30, 2012, we announced our decision to transfer FHI's wind-power generation and sanitation truck businesses. This decision was the result of deliberations over what was best for both businesses as well as what needs to be done to expand them in the years ahead. The efforts made by the Company in both the wind-power generation and sanitation truck businesses are meaningful. In particular, wind-power generation offers technologies indispensable to the current environmental-oriented age. However, Subaru does not have the business resources to spare to expand investment to a level required to grow these businesses.

The same holds true not only for aircraft and industrial products, but automobiles as well. How to make automobiles more responsive to this environmentally conscious age has been called into question. Although it has been said that Subaru's strong point is technology, the Company does not have sufficient resources to develop fuel cells and hybrid vehicles from scratch. For this reason, we need to take full advantage of various business alliances. Jointly developing automobiles has merit for both Subaru and Toyota. As such, we intend to utilize joint development in such areas as environmental technologies. No matter what business we undertake, I believe that we must fully clarify the reasons for Subaru's involvement.

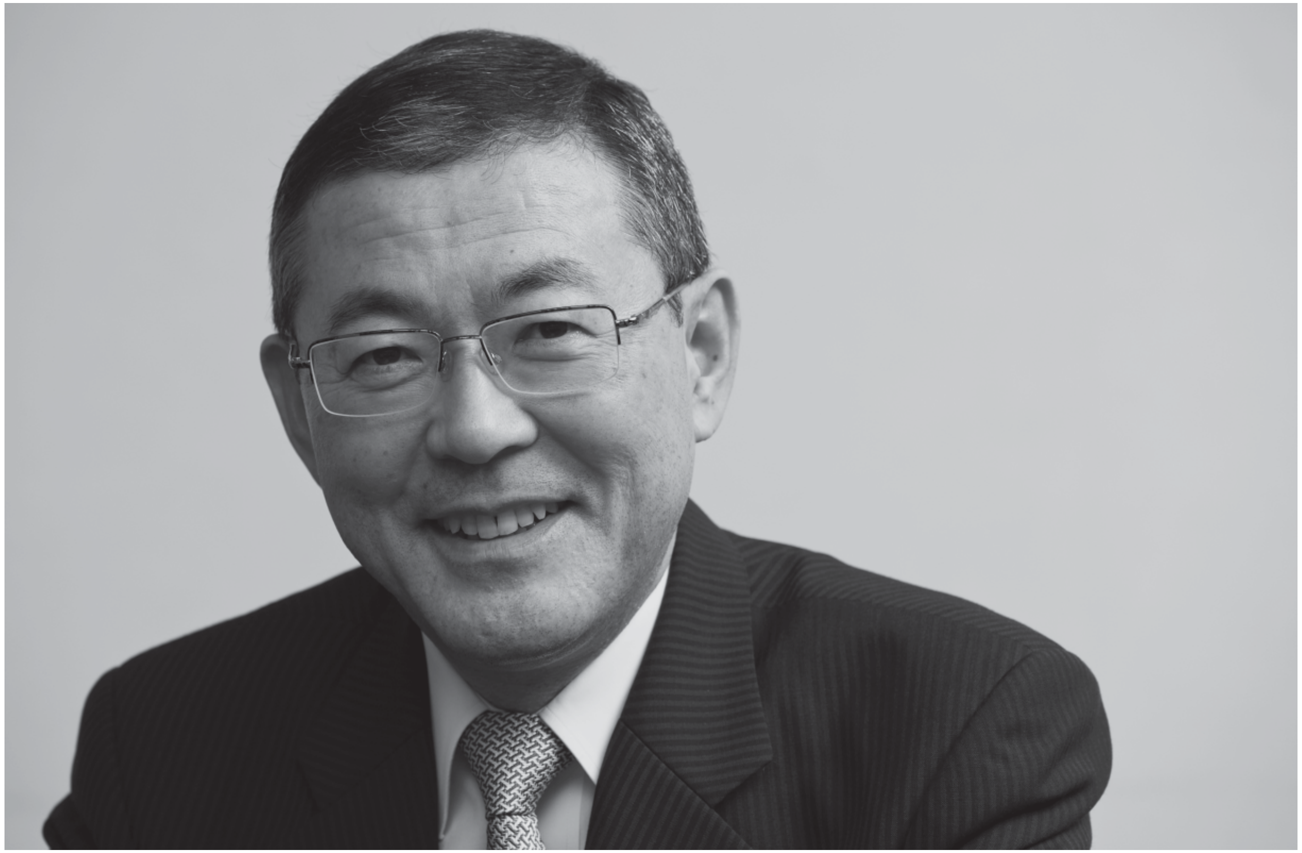
Please share your thoughts on what needs to be done to maintain favorable sales in the years ahead.

To begin, when it comes to considering what areas to specialize in, rather than try to be competent in all technological areas like large automakers, it is important for Subaru to concentrate on its own areas of technological expertise while looking for ways to hone and maintain its competitiveness. In other words, we work to determine which models will realize "enjoyment and peace of mind" values that Subaru offers customers through its brand statement, as well as how to continue offering this kind of value. We base this on the reliable drivability unique to Subaru, which is symbolized by the horizontally-opposed engine and Symmetrical All Wheel Drive (AWD). In addition, while advancing vehicle functionality, we are committed to creating and providing the customer with emotional values such as safety and peace of mind realized by "EyeSight"; and the new level of driving pleasure provided by the SUBARU BRZ. Providing such values will enable us to enjoy sustainable growth.

It is also important to develop a corporate organization that provides a foundation for favorable growth. With this in mind, I believe that a leader is someone who inspires others. Although a top-down approach to motivate people to improve is necessary, it is more important to continuously bring one's own abilities fully to bear to foster employee self-motivation. Accordingly, I have great expectations for Subaru's organizational development as well as its leaders. Fostering the ability to think for one's self will enable a level of individuality that will lead to great results. This, along with pooling our collective strengths, will allow Subaru to reach an even higher stage of growth. This is something I believe from the bottom of my heart. Creating an organization that aims for the same goals while possessing a variety of strengths is ideal.

In conclusion, what message would you like to give to shareholders and investors?

Subaru places the utmost priority on returning profits to shareholders and investors. With this in mind, we seriously engage in business management to create a level of success that provides investors with confidence that their investment in the Company was worthwhile. I look forward to your continued understanding and support in the years ahead.



Yasuyuki Yoshinaga
Representative Director of the Board,
President and CEO

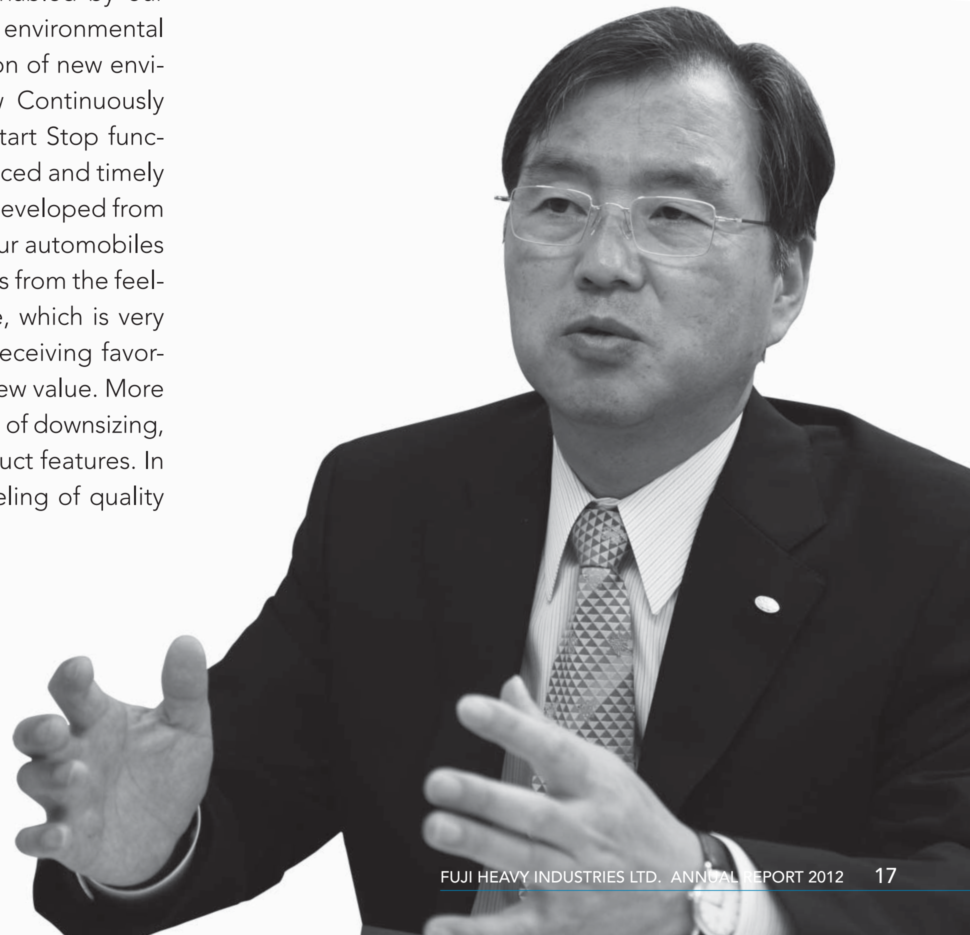
Why do you think such new models as the Impreza and the Subaru XV are enjoying strong sales?

This is thanks to our customers. The new Impreza continues to enjoy strong sales mainly on the back of orders received for 24,000 units in the four months since announcing its release in November 2011. This exceeds our sales target by 2.8 times. In the United States, Impreza has been breaking sales records every month since its release seven months ago (as of June 2012). The product concept of the fourth-generation Impreza is "Redefining value, Redefining class." The reason why Impreza perfectly fits today's global market is because of a distinctively Subaru styling and packaging that fully embody the "Redefining value, Redefining class" concept. This impressive sales record is also due to its enhanced product appeal, which reflects a level of quality that exceeds other vehicles in its class. These features are also rooted in Subaru's consistent philosophy of "Engineering Excellence."

Subaru is currently promoting its brand statement *Confidence in Motion*. In line with this, we aim to build relationships of trust with customers and thereby provide them with "enjoyment and peace of mind," value that resonates deeply with customers on an emotional level. We will realize this aim by offering distinctive Subaru products, which are created on the basis of our "Engineering Excellence" philosophy. "Enjoyment and peace of mind" can be seen in such tangible areas as Subaru's superior safety performance, vehicle stability, handling and packaging. "Enjoyment and peace of mind" is also expressed on an emotional level through the driving pleasure experienced in Subaru automobiles. I believe that owing a Subaru automobile enhances the enjoyment experienced in every aspect of one's life. To realize this type of value, we are ensuring that the product planning, R&D, manufacturing, sales and service divisions all share the same vision. Owing to our efforts to communicate with customers in a manner that is open, honest and reflects this shared vision, we have laid the foundation of favorable sales.

In Japan, although post-disaster reconstruction demand and eco-car tax rebates have driven sales, the key factor in Impreza's strong sales is its size and packaging, which is a perfect fit for the automobile market. In addition, sales benefitted from increased cyclic demand as customers replaced automobiles purchased between 2004 and 2005. Yet another factor is the realization of sporty and highly enjoyable drivability enabled by our new technologies along with superior environmental friendliness made possible by the adoption of new environmentally friendly Boxer engines, new Continuously Variable Transmissions (CVTs) and Auto Start Stop functions. Beyond this, I believe that the advanced and timely "EyeSight" Active Driving Assist System, developed from Subaru's unique technologies, has given our automobiles emotional appeal. This type of value comes from the feeling of safety Subaru automobiles provide, which is very appealing to customers. The Impreza is receiving favorable evaluations as a product that offers new value. More specifically, while being in the current trend of downsizing, the Impreza doesn't offer downsized product features. In other words, it continues to provide a feeling of quality that exceeds other vehicles in its class.

Illuminating Subaru's *Future Direction* by Creating *Products Desired by Customers.*



Toshio Masuda
Corporate Vice President
Chief General Manager
Subaru Product & Portfolio Planning Div.

In the United States, Impreza's refreshed styling has been highly appreciated. Moreover, Impreza has received the highest ratings in its class for safety performance, which is symbolic of Subaru's uniform automobile engineering. Impreza also received the highest possible evaluations in overall product categories by various consumer publications, contributing to higher sales. These evaluations are proof of the safety and reliability characteristic of all Subaru models, which are responsive to customer demands while being distinctively Subaru. In addition, all Subaru brand automobiles have gained wider recognition as reliable products. This is reflected in the high ratings received for used car resale value. This, in turn, has led to increased customer satisfaction. As a result, the increasing sales momentum has maintained a virtuous circle that is benefiting all Subaru models.

From a different perspective, the first- and second-generation Impreza display a sports-oriented concept that began with the development of Subaru's first pure sports sedan. Cultivating a high-performance image bolstered by successes in top categories of the World Rally Championship showcases yet another aspect of Subaru's brand value. At the same time, we have a strong desire as a manufacturer to expand customer categories for the new model Impreza and increase sales in global markets. As a result of our considerable research, we made a major decision to equip the new Impreza with a naturally-aspirated engine only. From a marketing perspective, we decided to move away from a strictly sport-oriented performance image featuring a turbo engine, for which we are known in the market. In terms of manufacturing, we chose not to incorporate turbo engines or other high-performance design concepts from the very earliest stages of development. Rather, we were able to utilize our resources as well as investment more efficiently and successfully develop the new Impreza by focusing on the naturally-aspirated engine as a key characteristic of this model. Without a doubt, nothing is more important at the development phase than determining customer needs. As such, we realize that providing environment-friendly automobiles best meets customer needs and has been an important factor in the strong sales we have enjoyed.

Subaru XV

The Subaru XV is a crossover model that was designed based on a passenger vehicle, an area in which Subaru excels. Staying abreast of the growing popularity of compact SUVs, especially in Europe, we emphasized a design that reflects the stylishness of SUVs from the earliest development stages. As a result, we created a vehicle that features a very stylish interior and exterior design. The Subaru XV has enjoyed strong sales precisely because it perfectly suits customer desires for smaller, more efficient vehicles that feature superior environmental friendliness.

In line with the phrase "fulfilling a diverse array of needs," Subaru is able to accurately anticipate changes in consumer preferences. How is Subaru able to accomplish this given the tendency of other companies to simply increase product lineups or produce vehicles that meet short term needs?

Subaru's corporate culture focuses on cultivating an extremely high level of technological excellence that is found nowhere else. At the same time, we are able to use limited business resources to stay ahead of the competition. As a result, we devote our energy to accurately understanding how to deliver quality to customers over the long term within a single package and design.

For example, we work to address changes in the automobile society, including trends towards smaller sizes, new power sources and environment friendly products. Rather than trying to change every feature, Subaru thinks deeply about what types of new automobiles and classes should be released to satisfy demand in particular markets. To this end, we work to accurately determine the direction of Subaru products in each market. Without a doubt, we will not be able to increase sales volume unless we offer products that meet customer needs. Accordingly, we prepare detailed, rational analysis to determine whether committing business resources to a particular new car model is worthwhile or not, as well as what type of return we can expect from our investment.

The key of our success as an automaker with a limited selection of vehicle models is by maximizing the merits found in being open to customers. Subaru is unique in that it emphasizes improvements to its products on a yearly basis. As such, we take advantage of numerous opportunities to communicate with customers. As a result, we gain a considerable amount of information by examining one model at a time. In addition to accurately conveying our engineering perspective to customers, we are constantly examining what changes are necessary as well as what is required to increase our market share based on a gradual understanding of market conditions gained from customers.

Product planning plays a role in precisely translating the direction Subaru must take into products that customers desire. We believe we have been closely communicating with customers in our consistent automobile engineering process. Accordingly, we are very careful to maintain the fundamental aspects of our production planning as we continue to increase product value. We continually and unreservedly ask "why," fully aware of the importance this question holds. With this in mind, we are always thinking about strategies to improve models throughout their lifespan. Therefore, we are constantly asking questions.... *What do customers appreciate? What is lacking? What do we need to add in future models?*

Communication with customers by conveying a strong message strengthens our relationship of trust with them and allows us to engage in precise product development. For instance, we have received top ratings for overall product quality, safety performance and residual value from the media and independent organizations in United States, a very important market for Subaru. This is supported by Subaru's culture of constantly improving products to maintain cutting-edge features and optimal quality by taking advantage of model year adjustments and periodically giving minor facelifts. By achieving successive improvements in standard models over each generation, we are able to come ever closer to meeting customer needs. As a result, we satisfy customers in areas including high residual value. This makes it possible to sell cars with minimal incentives and thereby create a virtuous circle in Subaru's business environment.

Most Subaru models undergo what we refer to as "big minor model changes" around the halfway point of their lifespan. It is important to stress that these "big minor model changes" are indispensable from the standpoint of accurately determining changes in the market and customer needs. We improve our automobiles to reflect the needs of each market as well as customers. In 2012, for example, Subaru equipped the Japanese-model Legacy with a first ever 2.0 liter direct-injection turbo engine. We adopted this engine design to meet customer expectations for higher performance as well as to fulfill our desire to introduce Subaru's unique technologies to rapidly address market trends favoring direct-injection engines and downsizing. This engine was developed by making full use of Subaru's direct-injection and turbo-engine technologies cultivated from the Boxer diesel engines. Teamed with the new CVT, we will further refine this new power unit that features Subaru's distinctive qualities and addresses current environmental needs.

Gunma Main Plant

In China, we are currently focusing on the SUV models, Outback and Forester. At the same time, we increased the height of the Legacy and changed partially its exterior design to meet localized demand for higher quality sedan models and boost the Legacy's presence in the highly competitive Chinese market.

These are some examples of how Subaru's product planning works to meet customer needs and respond to changing markets. On this premise, we take steps to effectively bolster communication with customers.

What are your thoughts on the SUBARU BRZ, which was developed jointly with Toyota Motor Corporation?

In light of the difficulties posed by joint development, we began developing the SUBARU BRZ based on the premise that it should distinctively offer Subaru uniqueness. As an experienced Subaru engineer, I believed the project would be achieved by utilizing Subaru's authentic engineering expertise that developed the Legacy and Impreza. Thanks to our efforts, we are very satisfied with SUBARU BRZ, which is the first two-door sporty model to be released since the "Subaru SVX" 20 years ago. Being in charge of development, I feel a great sense of accomplishment from the SUBARU BRZ, too. Developing the SUBARU BRZ helped to deepen our partnership with Toyota. Beyond this, the project had a great significance in furthering our business strategies since we were able to retool our main plant, which had been primarily used to produce minicars over the past 50 years. In addition to this shift to highly profitable passenger cars, the project was beneficial in terms of ensuring local employment and bolstering supplier business operations. In particular, we were able to achieve a complete switchover of manufacturing lines in just four days. This is proof positive of the manufacturing division's high degree of adaptability. After commencing production, we received far more orders than expected. As a result of our efforts, the pace of the factory floor has become very brisk, resulting in changes from one shift that produced minicars in the past to two shifts that accommodate both the SUBARU BRZ and Toyota 86.

Through joint development, we wanted to leverage this project to dramatically push forward our own abilities. As a manufacturer that specializes in Symmetrical All-Wheel Drive (AWD), we took on the challenge of extending our own technical standards during the development of the font-engine, rear-drive car. Throughout the development of SUBARU BRZ, we sometimes dropped our preconceptions. Consequently, the cooperative efforts of Subaru and Toyota to create a quality product were a major factor in the success of the project. As a Subaru engineer, I believe that these actions made it possible to overcome yet another obstacle in the development of a quality and enticing car.

Please share your thoughts on the future direction of product planning in terms of maintaining a "distinctive Subaru experience."

In our pursuit of rational and straightforward car engineering and manufacturing, we engage in product planning in which we offer best yet cutting-edge products in terms of performance, cost, quality, quantity, sales and service. Against this backdrop, a "distinctive Subaru experience" is created by making full use of Subaru's unique technologies and distinctive features such as the horizontally-opposed boxer engine, our car body engineering and other expertise. Specifically, we will develop technology-oriented products that feature unique engines and hybrid electric products that combine in an unique vehicle package. In addition to incorporating functions intrinsic to automobiles, our product planning focuses on creating features that strike a chord with customers. In other words, we develop "delightful" products that also offer emotional values such as safety and peace of mind.

The horizontally-opposed engine will remain a core expertise for Subaru. Its uniqueness enables a significant boost in power within a single engine design. For turbocharging technology, we have accumulated a level of technology and expertise that has made us a global trendsetter in this technology. In recent years, European automakers have also been promoting products that are responsive to the trend towards environment-friendly engines by developing smaller-size engines as well as the use of direct-injection technology. In line with this trend, Subaru is making vehicles that combine such features as smaller-displacement turbo engines and direct-injection engines with high-efficiency CVT. This design concept is being pursued with the aim of taking maximum advantage of Subaru's unique asset, the horizontally-opposed engine. Featuring an unparalleled design, this compact, low-vibration engine is being installed in our new car body platforms. Combined with the use of direct-injection technology, we are leveraging our technological capabilities to offer vehicles that are more attractive to customers.

Looking ahead, the key focus of product planning will be to expand sales by creating vehicles that meet the needs of major markets; offer lineups that are highly responsive in mature markets; determine how to develop high-volume vehicles; and improve the flexibility of product planning of those models in each market.

We expect the U.S. market will fully recover from the setbacks caused by the 2008 financial collapse as well as remarkable gains of South Korean automakers. Under these circumstances, we take the feedback we receive from this major market very seriously. By monitoring consumer trends in this market and maintaining sales momentum, we will identify key issues related to enhancing production capability and product lineups in line with the sales volume of our mainstay U.S. products from 2014 onward. In Japan, we will expand sales of strategic products in anticipation of increased post-disaster recovery demand and additional demand generated during eco car rebate periods.

In terms of specific future products, we will upgrade product appeals of performance models to enhance Subaru's brand image. At the same time, we will work to develop distinctive automobiles that showcase Subaru's unique advantages in the areas of "intelligent" safety and reliability. EyeSight is one example of this. Looking ahead, while taking steps to differentiate Subaru from the competition, we will enhance easy-to-understand functions to respond to the challenges posed by an aging society, create value that delights customers and optimize features on every Subaru model. We will also examine how to develop products in light of the increasing popularity of hybrid and electric vehicles. Looking beyond "Motion-V," I expect these measures to take shape in the next mid-term management plan.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

CSR Policy

As a corporate entity that carries out *monozukuri* (“manufacturing products”) to bring enjoyment to its customers, the FHI Group has revised its CSR policy. The purpose of the revision to the CSR Policy in 2009, which has received the approval of the CSR-related committees, was to clarify the requirements for approaches at the corporate organizational level: (1) CSR centered on upholding the Corporate Code of Conduct and respect of critical items, and (2) aggressive CSR centered on contributing to social issues through business activities as a good corporate citizen.

1. **Based on FHI’s Corporate Code of Conduct, we shall respect the law, human rights, international codes of conduct and stakeholder rights as well as uphold standards of moral behavior.**
2. **As a good corporate citizen, the FHI Group shall work toward rectifying the global social problems facing modern society.**

In addition to focusing on relationships with various stakeholders, our CSR activities emphasize the FHI Group’s mission, which is to contribute to society’s ongoing development through our global business activities.

CSR Activities

We have established eight categories to raise awareness of our CSR activities among all employees as well as help promote CSR in our business operations. In order to steadily meet social demands, we have defined in detail CSR activities undertaken in each category. This allows us to promote CSR with greater clarity.

The 8 CSR Categories of FHI

Customer/Product	Employee
Provide socially useful and safe products and services to earn customers’ satisfaction and confidence.	While respecting the diversity, individuality and personality of employees, realize comfort and affluence by securing a safe and pleasant working environment.
Environment	**Compliance**
Since the approach to environmental problems is an issue common to humanity, get ourselves proactively involved as an indispensable need for corporate existence and activities.	Observing laws and keeping morality, be fair, transparent and free in competition and conduct right deals. Also, honor confidentiality by strictly protecting and managing information, including data on individuals and customers.
Information Disclosure	**Social Contribution**
Communicate widely with stockholders and others and disclose positively and fairly corporate information.	Get positively involved in social action programs as a “good corporate citizen.”
Procurement	**Corporate Governance**
Conduct appropriate procurements and work on suppliers for CSR promotion.	The top management works to make CSR rooted deep company-wide and at the group companies, and take initiatives to solve issues in case of emergency.

ALL-AROUND SAFETY

As well as naturally striving to ensure that the driver and passengers in a Subaru vehicle enjoy a safe and comfortable ride from a variety of driving scenarios, Subaru aims to improve the overall safety of the mobility society from such perspectives as the surrounding environments and people’s safety.

Active Safety: Safe Driving Capabilities

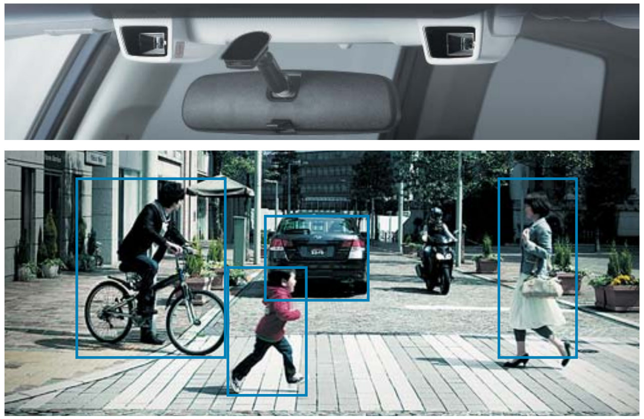
Subaru is improving the drive, turn and stop functions fundamental to automobiles, which in turn leads to the avoidance of hazards. Featuring superior weight balance by lowering the center of gravity of Subaru automobiles, Symmetrical AWD is the Company’s core technology that increases pleasurable drivability while enabling safe operation. Owing to the optimal handling it provides in various circumstances, Symmetrical AWD creates leeway that allows drivers to make composed decisions just in time. Such capabilities allow the driver to avoid hazards.

Passive Safety: Collision Safety Capabilities

In the event of a collision, Subaru is continuing to pursue next-generation collision safety performance that will reduce injuries not only to drivers and passengers in Subaru automobiles, but to those in other vehicles and pedestrians as well. Consequently, Subaru automobiles have achieved the world’s highest ratings in collision safety performance.

Pre-Crash Safety: Working to Realize a Society without Automobile Accidents

The “Eyesight” Active Driving Assist System was developed with the aim of providing the ultimate level of safety, referred to as “collision-free cars.” “Eyesight” (version 2) features such functions as pre-collision braking control that uses automatic brakes to avoid collisions; adaptive cruise control with all-speed-range tracking functions that helps to maintain a safe distance between vehicles; and a creep suspension and control system that guards against sudden acceleration due to driver error. Subaru’s “EyeSight” (version 2) has received high ratings and is



An image of EyeSight identifying obstacles in the street now featured on the Legacy, Impreza and Exiga in Japan and the Legacy and Outback in Australia. Subaru is scheduled to release models featuring "EyeSight" (version 2) in North America in the summer of 2012.

The Environment

Environmental Initiatives

FHI regards global environmental matters as one of its most pressing management issues. On that basis, FHI established in 1998 its "Environmental Policy" and formulated the "Operating Criteria for Environmental Conservation" as specific action guidelines. FHI is promoting activities in this area based on a detailed revision of the "Environmental Policy" in 2010.

Environmental Policy

In recognition of the close relationship between the global environment and business activities, we will deliver "Green Products" from "Clean Plants and Offices" through "Green Logistics" and "Clean Dealers" to customers for the sustainable development of society. Also, to say nothing of strictly observing laws and regulations, local agreements and industries' codes, we will get ourselves committed to contribution to society and local communities, voluntary ongoing improvements and prevention of pollution.

The 5th Voluntary Plan for the Environment

FHI has formulated its 5th Voluntary Plan for the Environment (fiscal 2013–fiscal 2017). The plan involves the following areas: (1) Undertake initiatives to counter global warming; (2) Conserve natural resources; (3) Prevent pollution and reduce the use of harmful chemicals; and (4) Engage in environmental management. Through this plan, we set environmental conservation goals that exceed normal standards in accordance with our environmental policy. In addition, the Company establishes targets to make contributions to society through its products. Accordingly, we offer customers greener products based on a system of environmentally clean plants, offices, logistics networks and dealers while engaging in appropriate environmental activities. Such activities include complying with laws, regulations and agreements along with cooperating with the automotive industry. Sharing the Plan as the guidelines of not only FHI, but also the other Group companies, we will positively address environmental issues for their continuous solution.

Main Initiatives

(1) Undertake initiatives to counter global warming	• Steadily meet fuel economy and greenhouse gas standards in every overseas region • Promote activities that reduce CO_2 emissions from overseas manufacturing plants • Improve fuel economy performance by 30%
(2) Conserve natural resources	• Continue efforts to ensure zero emissions from manufacturing plants • Take recyclability into account in new model designs
(3) Prevent pollution and reduce the use of harmful chemicals	• Comply with laws, regulations and agreements, including EU directives • Promote the development of low-noise technologies that offer both improved fuel economy and reduce emissions
(4) Engage in environmental management	• Develop and expand advanced safe driving systems • Expand the use of EyeSight (ver. 2) • Promote integrated ISO 14001 certification, including all affiliated companies • Encourage greening activities that consider biodiversity

Corporate Governance

Basic Approach to Corporate Governance

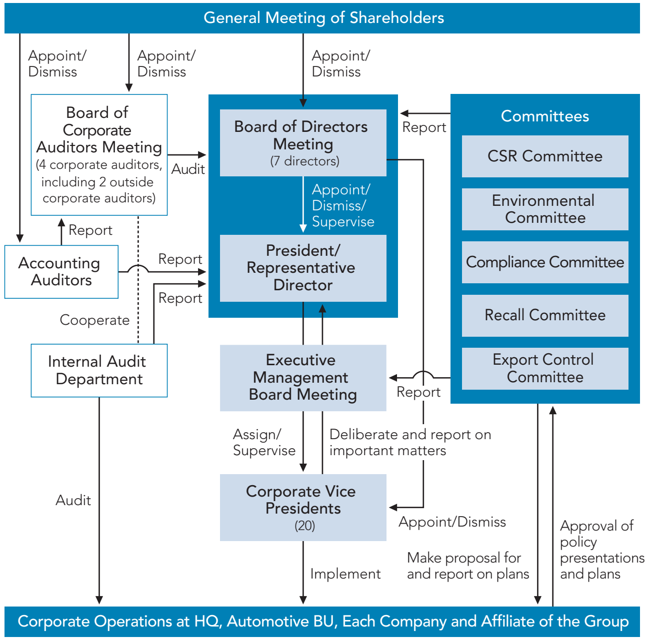
In line with its Corporate Philosophy, FHI views the strengthening of corporate governance as one of management's highest priorities, so that it can measure up to the trust and confidence placed in the Company by all of its shareholders, customers and other stakeholders. FHI is working to clarify the decision making, monitoring and execution functions of the Board of Directors to enhance decision-making speed and improve management efficiency. To that end, the Executive Management Board was established to undertake deliberations regarding Companywide strategies and matters important to business execution. The results of these deliberations are reported to the Board of Directors. In addition to adopting the executive officer system, the Company has positioned the Automobiles division as its core business and has introduced an internal company system—composed of the Aerospace, Industrial Products and Eco Technology divisions—to clarify management responsibilities and accelerate business execution. Management oversight is undertaken based on the monitoring functions of the Board of Directors and audits performed by corporate auditors and the Board of Corporate Auditors. In addition, the Company appoints an outside director and outside corporate auditors in an effort to maintain management objectivity and transparency.

Directors, Corporate Auditors and Outside Executive Officers

FHI has established the Board of Corporate Auditors. The Board of Directors' makes decisions and monitors matters related to important policies, strategies and business execution. Corporate auditors and the Board of Corporate Auditors conduct audits pertaining to how directors perform their duties. Currently, the Board of Directors is comprised of seven directors. This includes a highly independent outside director who has been appointed to further augment the Company's corporate governance. The Board of Corporate Auditors is comprised of four corporate auditors, including two outside corporate auditors, who participate in Board of Directors', Board of Corporate Auditors' and Executive Management Board meetings as well as attend other important company meetings. At the same time, corporate auditors provide appropriate advice and direction from a wide-ranging perspective while conducting audits through hearings held by business sites, subsidiaries and the Internal Audit Department.

The Company has appointed the outside director, Toshio Arima, who possesses considerable experience as an executive and has a high degree of expertise in the area of CSR. Mr. Arima offers sound advice to and ensures independent monitoring of the Board of Directors and other bodies. The Company has appointed the outside corporate auditor, Nobushige Imai, who is fully qualified for this position owing to his management experience and wealth of knowledge as an executive in the financial industry, and his credentials and abilities to undertake audits in an objective manner. In addition, FHI appointed outside corporate auditor, Takatoshi Yamamoto, who is fully qualified for this position owing to his wealth of knowledge of corporate activities as a securities analyst and his corporate management experience as an executive in the manufacturing industry. In light of their backgrounds and with no possibility of a conflict of interest arising with regular shareholders, Mr. Arima and Mr. Yamamoto have been appointed as independent directors under Tokyo Stock Exchange (TSE) regulations.

Corporate Governance System



Overview of Compensation for Directors and Corporate Auditors

Regarding executive compensation, the total amount of compensation paid to directors and corporate auditors in one year is limited to ¥600 million and ¥100 million, respectively. These amounts were approved at the Ordinary General Meeting of Shareholders in June 2006. Approved by the Board of Directors, this compensation, which is the basic amount paid to directors, is divided into a fixed amount (the specific amount is decided upon in consideration of the business environment and other factors based on position) and a performance-based amount (the specific amount decided upon in consideration of the business environment and other factors based on consolidated ordinary income for the fiscal year under review).

In fiscal 2012, compensation for directors and corporate auditors was as follows:

Millions of yen

Classification	Number	Basic compensation		Total
		Fixed amount	Performance-based amount	
Directors (Excluding outside directors)	8	255	73	328
Corporate auditors (Excluding outside corporate auditors)	2	51	—	51
Outside executive officers	3	42	—	42
Total	13	348	73	421

Note: This table includes directors who retired at the conclusion of the Ordinary General Meeting of Shareholders, held in June 2011. As of March 31, 2012, the Company maintains seven directors (including one outside director) and four corporate auditors (including two outside corporate auditors).

Risk Management

FHI takes steps to maintain business operations during emergencies by fully comprehending and taking optimal measures to deal with risk. Based on its compliance systems, FHI strengthens its risk management by formulating regulations and guidelines as well as through the coordination of each division and company.

FHI's headquarters cooperates with each FHI division and company to manage Companywide business risk. These actions are carried out under the supervision of the Management Planning Department, which is responsible for maintaining management functions across business operations.

Many types of risk can seriously affect FHI's management. In addition, such risks may lead to emergency situations that cannot be addressed through regular decision-making channels. Such risks are categorized into natural disasters, accidents, internal and external human factors, social factors, and compliance. The Company has prepared a manual for responding to these types of emergencies. FHI works to address risks through measures that include establishing optimal communication channels to provide information after risks are detected as well as an emergency response headquarters.

Moreover, the Company formulates a Business Continuity Plan (BCP) to maintain or restore business operations as rapidly and completely as possible. In emergency situations, FHI makes concerted efforts to minimize the negative impact on its services, market share and corporate value. In the event that business resources are affected during an emergency, the Company works to minimize disruptions to priority businesses by making maximum use of available resources in order to restore operations as quickly as possible.

Compliance

A Compliance Committee has been established in accordance with compliance regulations to promote corporate compliance Companywide. The Compliance Committee conducts deliberations and discussions, makes decisions and exchanges information regarding key compliance issues. In addition, each department devises a yearly compliance implementation plan to enhance corporate compliance while independently promoting continuous and systematic implementation activities. FHI takes steps to prevent illegal activity by implementing Groupwide compliance training and establishing a Compliance Hotline system.

MANAGEMENT (As of June 22, 2012)

Representative Director of the Board, President and CEO

1. YASUYUKI YOSHINAGA

Representative Director of the Board, Deputy President

2. JUN KONDO

Directors of the Board, Executive Vice Presidents

3. AKIRA MABUCHI

4. NAOTO MUTO

5. TOMOHIKO IKEDA

6. MITSURU TAKAHASHI (CFO)

Outside Director of the Board

7. TOSHIO ARIMA [1]

Executive Vice Presidents

SHUZO HAIMOTO

MITSURU TAKADA

HISASHI NAGANO

Senior Vice Presidents

TAMAKI KAMOGAWA

TAKESHI TACHIMORI

MASAHIRO KASAI

HIDETOSHI KOBAYASHI

YOSHIO HIRAKAWA

Vice Presidents

YASUO UENO

TATSUHIKO MUKAWA

YASUO KOSAKAI

TSUYOSHI NAKAI

YASUNOBU NOGAI

MASASHI TAKAHASHI

MASAMI IIDA

TOMOMI NAKAMURA

TOSHIO MASUDA

KAZUO HOSOYA

MASAKI OKAWARA

SATOSHI MAEDA

Standing Corporate Auditors

SHUNSUKE TAKAGI

HIROYUKI OIKAWA

NOBUSHIGE IMAI [2]

Corporate Auditor

TAKATOSHI YAMAMOTO [3]

1. Toshio Arima has been appointed as an outside director in accordance with Japanese Corporate Law (the "Law") and an independent director under Tokyo Stock Exchange (TSE) regulations.
2. Nobushige Imai has been appointed as an outside corporate auditor in accordance with the Law.
3. Takatoshi Yamamoto has been appointed as an outside corporate auditor in accordance with the Law and an independent director under TSE regulations.

CONSOLIDATED TEN-YEAR FINANCIAL SUMMARY

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31

	2003	2004	2005	2006	2007	2008	2009	2010	2011	Millions of yen 2012	Thousands of U.S. dollars[1] 2012
For the Year:											
Net sales	¥1,372,337	¥1,439,451	¥1,446,491	¥1,476,368	¥1,494,817	¥1,572,346	¥1,445,790	¥1,428,690	¥1,580,563	¥1,517,105	$18,469,747
Cost of sales	1,011,582	1,085,716	1,107,718	1,125,293	1,142,674	1,217,662	1,164,564	1,152,763	1,241,427	1,222,419	14,882,140
Gross profit	360,755	353,735	338,773	351,075	352,143	354,684	281,226	275,927	339,136	294,686	3,587,607
Selling, general and administrative expenses	293,234	303,411	296,756	292,736	304,237	309,004	287,029	248,577	255,001	250,727	3,052,435
Operating income (loss)	67,521	50,324	42,017	58,339	47,906	45,680	(5,803)	27,350	84,135	43,959	535,172
Income (loss) before income taxes and minority interests	46,970	56,266	21,066	28,674	45,589	31,906	(21,517)	(443)	63,214	52,879	643,767
Net income (loss)	33,484	38,649	18,238	15,611	31,899	18,481	(69,933)	(16,450)	50,326	38,453	468,140
Comprehensive income	—	—	—	—	—	—	—	(13,416)	34,900	44,474	541,441
At Year-End:											
Net assets[2]	¥ 414,614	¥ 457,027	¥ 474,616	¥ 467,786	¥ 495,703	¥ 494,423	¥ 394,719	¥ 381,893	¥ 413,963	¥ 451,607	$ 5,498,016
Shareholders' equity	411,252	453,708	471,149	465,522	494,004	493,397	393,946	380,587	412,661	450,302	5,482,128
Total assets	1,344,072	1,349,727	1,357,459	1,348,400	1,316,041	1,296,388	1,165,431	1,231,367	1,188,324	1,352,532	16,466,180
Ratio of shareholder's equity to total assets (%)	30.6%	33.6%	34.7%	34.5%	37.5%	38.1%	33.8%	30.9%	34.7%	33.3%	
Per Share (in yen and U.S. dollars):											
Net income or net loss:											
Basic	¥44.84	¥50.62	¥23.27	¥20.66	¥44.46	¥25.73	¥(91.97)	¥(21.11)	¥64.56	¥49.27	$0.60
Diluted	42.91	49.66	23.27	20.66	44.44	25.73	—	—	—	—	—
Net assets	553.90	582.60	604.51	649.41	687.81	687.02	505.59	488.58	528.88	576.97	7.02
Other Information:											
Depreciation/amortization expenses	¥ 67,896	¥ 71,112	¥ 71,010	¥ 80,073	¥ 81,454	¥ 87,164	¥ 74,036	¥ 65,785	¥ 56,062	¥ 58,611	$ 713,550
Capital expenditures (addition to fixed assets)	119,423	128,026	147,759	119,289	126,329	118,869	95,153	89,077	67,378	67,035	816,107
R&D expenses	60,110	57,541	52,962	46,893	50,709	52,020	42,831	37,175	42,907	48,115	585,768
Number of shares issued (thousands of shares)[3]	746,521	782,865	782,865	782,865	782,865	782,865	782,865	782,865	782,865	782,865	
Number of shareholders[3]	35,584	34,704	34,558	46,367	42,920	44,484	40,839	39,223	34,240	33,139	
Number of employees[3]:											
Parent only	13,064	12,928	12,703	11,998	11,752	11,909	12,137	12,483	12,429	12,359	
Consolidated	27,478	27,296	26,989	26,115	25,598	26,404	27,659	27,586	27,296	27,123	

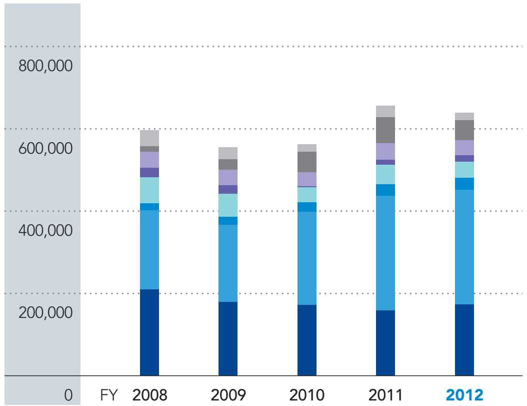
1. U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥82.14 to US$1.00, the approximate rate of exchange at March 31, 2012.
2. Prior year amounts have been reclassified to conform to the current year presentation.
3. As of March 31

FIVE-YEAR AUTOMOBILE SALES

Years ended March 31

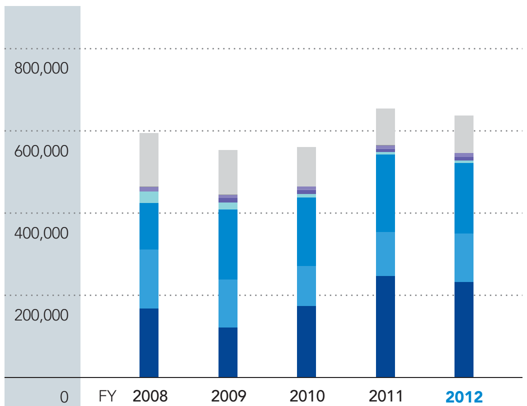
Consolidated Automobile Sales by Region

(Number of units)



Consolidated Automobile Sales by Model

(Number of units)



Consolidated Automobile Sales

Number of units

	2008	2009	2010	2011	2012
Domestic Units:					
Legacy	31,079	20,415	28,862	22,673	22,812
Impreza	29,678	19,733	21,721	20,184	29,122
Forester	16,863	16,424	11,879	12,685	13,803
Exiga	—	11,126	10,789	7,859	8,020
BRZ	—	—	—	—	249
OEM	—	2,034	1,523	4,430	5,844
Others	435	363	323	303	303
Subtotal	78,055	70,095	75,097	68,134	80,153
Minicars	130,635	108,694	96,175	89,971	92,189
Domestic Total	208,690	178,789	171,272	158,105	172,342
Overseas Units by Region:					
United States	192,760	188,240	227,028	278,959	280,356
Canada	17,587	18,873	22,828	28,059	28,239
Europe	63,373	56,764	37,340	48,244	39,075
Russia	22,622	20,711	1,563	11,320	15,860
Australia	40,210	36,716	34,992	41,150	36,928
China	12,621	26,184	48,938	62,412	48,323
Others	38,802	29,056	18,876	28,715	18,739
Subtotal	387,975	376,544	391,565	498,859	467,520
Overseas Units by Model:					
Legacy	137,829	102,106	146,099	225,388	210,194
Impreza	113,777	97,472	74,998	87,066	90,149
Forester	96,839	153,289	156,288	176,453	157,833
Tribeca	27,327	17,658	7,564	5,643	5,702
BRZ	—	—	—	—	38
OEM	11,624	5,580	5,994	3,865	3,372
Others	579	439	622	444	232
Subtotal	387,975	376,544	391,565	498,859	467,520
Total	596,665	555,333	562,837	656,964	639,862

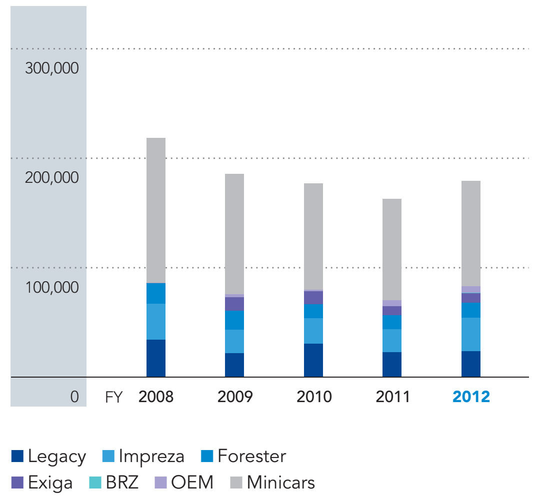
Non-Consolidated Automobile Sales

Number of units

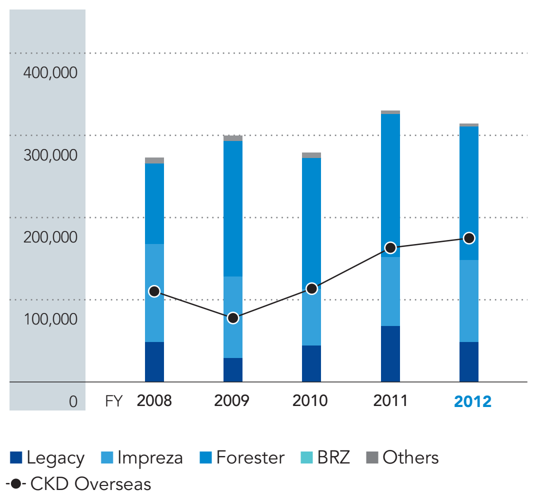
	2008	2009	2010	2011	2012
Domestic Units:					
Legacy	34,634	22,059	30,927	23,212	23,968
Impreza	32,873	21,935	23,316	20,859	30,566
Forester	18,740	16,954	12,542	13,160	13,990
Exiga	—	12,787	11,893	8,150	8,477
BRZ	—	—	—	—	585
OEM	—	2,651	1,575	5,313	5,993
Subtotal	86,247	76,386	80,253	70,694	83,579
Minicars	132,872	110,043	97,230	92,752	96,457
Domestic Total	219,119	186,429	177,483	163,446	180,036
Export Units:					
Legacy	48,568	28,787	43,937	67,926	48,304
Impreza	119,000	99,688	69,386	83,921	100,350
Forester	98,602	164,960	159,463	174,541	162,199
BRZ	—	—	—	—	211
Others	7,533	6,978	6,934	4,309	3,935
Export total	273,703	300,413	279,720	330,697	314,999
U.S. Retail Sales [1]:					
Legacy	78,428	66,878	86,330	131,873	146,806
Impreza	46,329	49,098	46,611	44,395	41,196
Forester	44,534	60,748	77,781	85,080	76,196
Tribeca	16,790	10,975	5,930	2,472	2,791
Baja	1,127	—	—	—	—
Total	187,208	187,699	216,652	263,820	266,989
CKD [2] Overseas	110,363	77,871	113,605	163,469	175,256
(SIA Portion)	110,363	77,871	113,605	163,469	175,256
SIA Production Units [3]					
Legacy	84,960	73,473	100,149	159,215	164,968
Tribeca	24,218	18,108	4,197	5,558	5,661

1. U.S. Retail Sales are the aggregate figures for the calendar year from January through December.
2. Completely Knocked Down
3. SIA Production Units are the aggregate figures for the calendar year from January through December until 2009.

Non-Consolidated Domestic Automobile Sales by Model
(Number of units)



Non-Consolidated Automobile Export Units by Model
(Number of units)



The Fuji Heavy Industries Ltd. Group

The Fuji Heavy Industries Ltd. ("FHI") Group is engaged in production and sales activities across a wide range of business sectors. These activities are conducted under four business divisions: Automobiles (the Group's core operating domain, which accounts for over 90% of consolidated net sales), Aerospace, Industrial Products and Other.

On a consolidated settlement of accounts basis, FHI and 70 subsidiaries (a year-on-year decrease of one) as well as 9 equity-method affiliated companies (no change year-on-year) were included in the scope of the FHI Group's consolidation as of March 31, 2012, the end of fiscal 2012 ("the fiscal year under review").

Overview

Business Environment

During the first half of fiscal 2012, the economic circumstances surrounding the FHI Group deteriorated due to the impact of the Great East Japan Earthquake and the persistently strong yen. However, corporate production activities rebounded in the second half thanks to the resolution of post-disaster electric power and parts supply shortages. In addition, such factors as an upswing in consumer spending led to a gradual economic recovery.

Under these conditions, the FHI Group established the target of selling over one million units per year within the next decade for the Group's core automobile division "Subaru." In addition, the Group announced its new five-year mid-term management plan "Motion-V (Five)" (fiscal 2012–fiscal 2016) in July 2011. Currently underway, "Motion-V" serves as the basis for achieving this sales target.

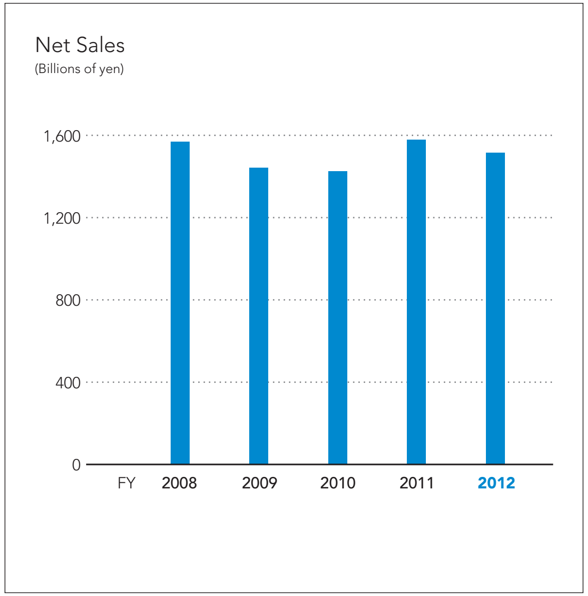
In fiscal 2012 (the first year of "Motion-V"), the Group launched the new model Impreza and the new model sports car SUBARU BRZ. The SUBARU BRZ was developed jointly with Toyota Motor Corporation. Both of these strategic brands have received extremely high customer ratings and reflect the Group's ability to produce results.

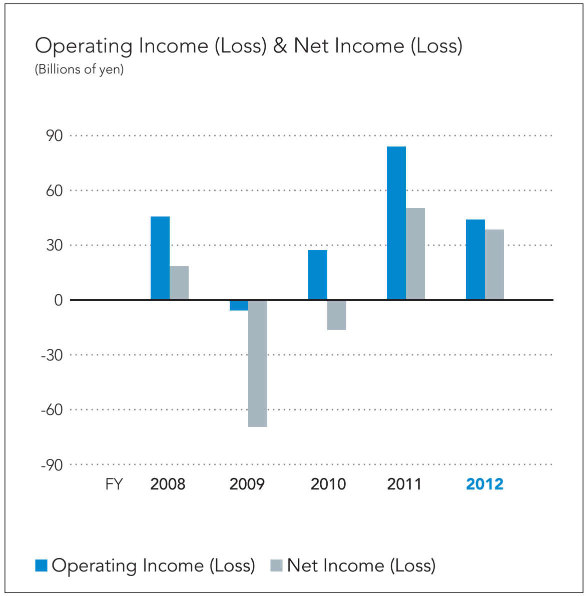
Moreover, despite a significant drop in unit production in the first half of fiscal 2012 due to post-disaster parts supply shortages, the Group made a unified effort to increase production in order to achieve higher sales after fully restoring automobile production in October 2011.

Performance Review

Turning to Group performance in fiscal 2012, in light of the above factors, the post-disaster decrease in production and continual yen appreciation during the first half led to lower year-on-year net sales and income. Nevertheless, the Group noticeably surpassed full-year targets set at the beginning of the period under review. This was due mainly to the restoration of production and higher sales volume in the second half as well as efforts to reduce SG&A and other expenses. Underpinned by the "Motion-V" mid-term management plan, these successes reflected concerted efforts to "provide distinctive Subaru experience," "accelerate sales expansion" and "solidify operational foundation." Consolidated performance during the fiscal year under review was as follows.

Net sales amounted to ¥1,517.1 billion, down ¥63.5 billion, or 4.0%, compared with the fiscal year ended March 31, 2011. This result was largely attributable to a major post-disaster decrease in sales in the Automobiles division during the first half of fiscal 2012 and the ongoing strength of the yen.





From a profit perspective, the FHI Group reported an operating income of ¥44.0 billion, representing a decline of ¥40.2 billion, or 47.8%, compared with the previous fiscal year. Despite the positive impact of lower SG&A and other expenses, this decrease mainly reflected higher yen rates and R&D expenses.

Net income totaled ¥38.5 billion, a decrease of ¥11.9 billion, or 23.6%, compared with the fiscal year ended March 31, 2011, despite gaining ¥26.1 billion in extraordinary income from the sale of FHI's head office building. This decline was due to the recording of a ¥7.3 billion loss on disaster following the Great East Japan Earthquake and ¥4.2 billion in losses from the transfer of certain business operations.

Cost of Sales, Expenses and Operating Income

Operating Income

Operating income, as mentioned above, fell ¥40.2 billion year on year to ¥44.0 billion in spite of such positive factors as sales volume and mix totaling ¥1.2 billion (mainly on the back of increased unit sales in Japan and North America) and an ¥8.0 billion reduction in SG&A and other expenses. This decrease was primarily due to a ¥42.0 billion loss from foreign currency exchange rate differences caused by the strong yen and a ¥5.2 billion yen increase in R&D expenses related to new model vehicle development and environment-friendly technologies. Consequently, the operating margin decreased from 5.3% year on year to 2.9%.

Income before Income Taxes and Minority Interests, and Net Income

Income before income taxes and minority interests declined ¥10.3 billion, or 16.3%, compared with the previous fiscal year to ¥52.9 billion, despite the above-mentioned extraordinary income recorded mainly from the sale of FHI's head office building. In addition to a fall in operating income, this decrease was largely caused by the recording of a loss on valuation of derivatives (reflecting the influence of currency exchange rates), loss on disaster (including fixed costs incurred when operations were suspended in the aftermath of the Great East Japan Earthquake) and provision for loss on transfer of business following the transfer of FHI's sanitation truck and wind-power generation businesses.

Net income for the fiscal period under review, amounted to ¥38.5 billion, a ¥11.9 billion, or 23.6%, decrease compared with the previous fiscal year.

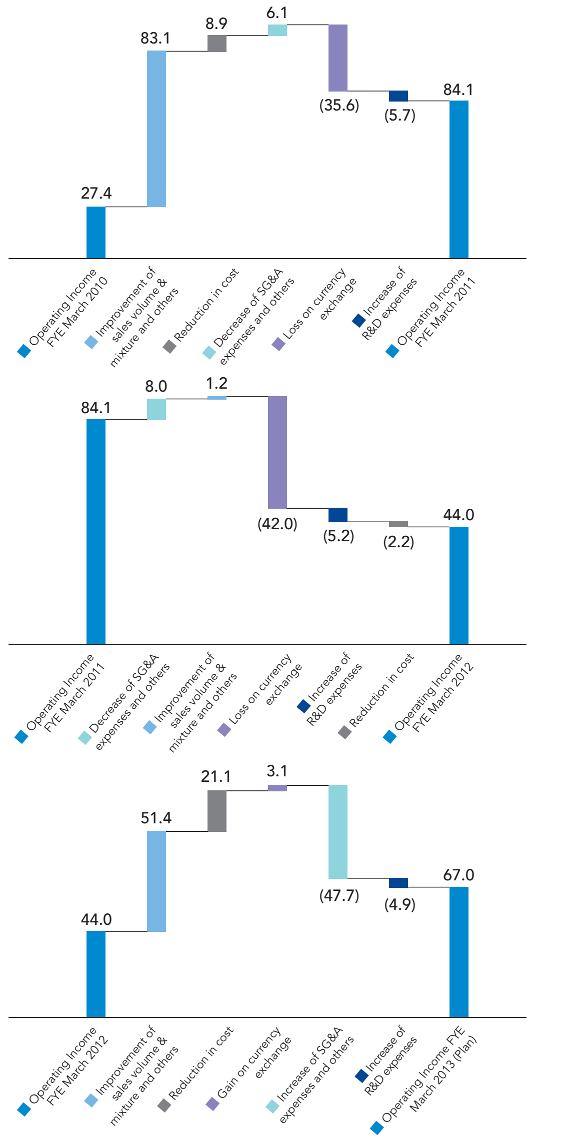
Segment Information

Automobiles Division

In the fiscal year under review, sales volume for completed vehicles stood at 640 thousand units, down 17 thousand units, or 2.6%, year on year due mainly to a drop in unit production following the Great East Japan Earthquake. This decrease occurred despite favorable sales of the new model Impreza following its release in Japan and North America.

In Japan, production and sales volume during the first half of fiscal 2012 fell drastically in the aftermath of last year's disaster. During the second half, however, FHI recorded favorable sales of the new model Impreza—

Analysis of Increases and Decreases in Operating Income
(Consolidated, Three-Year YoY Comparison)
(Billions of yen)



equipped with the New Generation Boxer Engine and a new Lineartronic-CVT (Continuously Variable Transmission)—exceeding sales from the previous fiscal year. We also recorded higher year-on-year sales of the Sambar, which were driven by last-minute demand ahead of the discontinuation of this model in February 2012. In addition to these positive factors, unit sales in the second half were buoyed by the government's eco-car subsidy program.

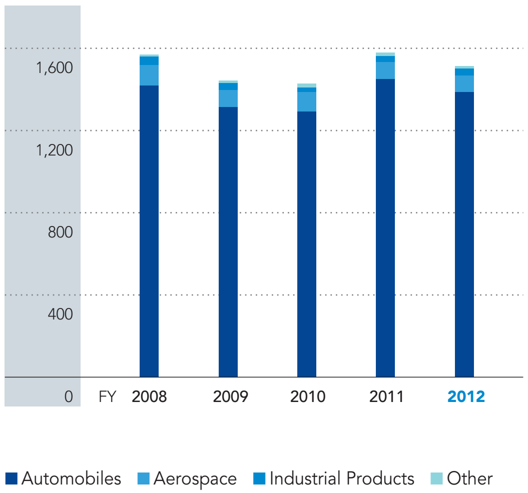
As a result, full-year sales volume for Subaru passenger cars in Japan rose 12 thousand units, or 17.6%, year on year to 80 thousand units, while minicar sales volume increased 2 thousand units, or 2.5%, to 92 thousand units. Accordingly, domestic sales volume improved 14 thousand units, or 9.0%, to 172 thousand units compared with the previous fiscal year.

Overseas, unit sales of the new model Impreza increased, particularly in North America, following a restoration of production in the second half of fiscal 2012. However, year-on-year sales volume fell in Europe, Australia and China due primarily to a major disaster-related decline in the number of automobiles produced in the first half. As a result, overseas sales volume decreased 31 thousand units, or 6.3%, to 468 thousand units compared with the previous fiscal year.

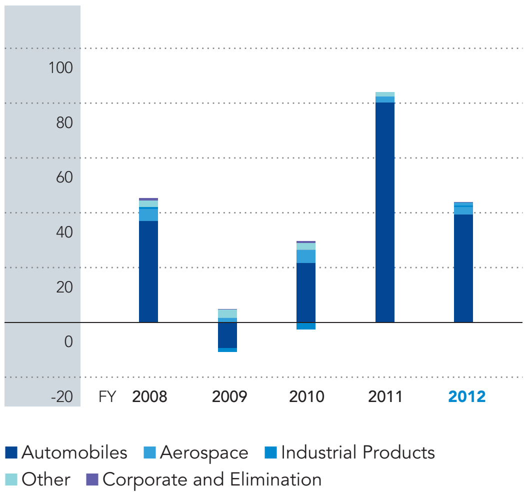
By region, units sold in North America increased 2 thousand units, or 0.5%, for a record high 309 thousand units. This is owing to continued strong sales of the new model Impreza as well as the Legacy and Outback. In China, sales volume fell 14 thousand units, or 22.6%, to 48 thousand units year on year due to a decline in the number of automobiles produced. In Europe and Russia, sales volume decreased 5 thousand units, or 7.8%, year on year to 55 thousand units. Year-on-year unit sales in Australia fell 4 thousand units, or 10.3%, to 37 thousand units, while sales volume in other regions were down 10 thousand units, or 34.7%, to 19 thousand units.

Consequently, net sales in the Automobiles division decreased ¥63.1 billion, or 4.3%, to ¥1,389.1 billion compared with the previous fiscal year, despite the positive impact of higher year-on-year sales in Japan and North America. This result is attributable to lower worldwide sales, reflecting the delayed restoration of production following the disaster and the yen's appreciation in foreign currency exchange markets. Segment income in the fiscal year ended March 31, 2012 declined ¥41.0 billion, or 51.0%, year on year to ¥39.4 billion primarily due to the strong yen.

Net Sales by Division (Excluding intersegment sales)
(Billions of yen)



Segment Income (Loss) by Division
(Billions of yen)



Net Sales by Division (Excluding intersegment sales) Billions of yen

	2008	2009	2010	2011	2012
Automobiles	¥1,421.2	¥1,316.3	¥1,294.5	¥1,452.2	¥1,389.1
Aerospace	99.7	80.9	93.2	82.8	80.3
Industrial Products	40.7	34.9	23.9	30.1	33.6
Other	10.8	13.7	17.1	15.5	14.2
Total	¥1,572.3	¥1,445.8	¥1,428.7	¥1,580.6	¥1,517.1

Aerospace Division

Net sales of products to the Ministry of Defense—centered on Unmanned Reconnaissance Systems, the multipurpose helicopter UH-1J, and the fighter plane F-2—declined compared with the previous fiscal year.

On the other hand, net sales in the commercial sector rose over the previous fiscal year thanks to an upswing in sales of the Boeing 777. This increase occurred despite higher year-on-year yen exchange rates.

Based on these factors, net sales in the Aerospace

Segment Income (Loss) by Division Billions of yen

	2008	2009	2010	2011	2012
Automobiles	¥37.1	¥(9.2)	¥21.7	¥80.4	¥39.4
Aerospace	4.4	1.6	4.8	2.3	2.9
Industrial Products	0.7	(1.6)	(2.4)	(0.1)	0.5
Other	2.5	3.1	2.6	1.5	1.0
Corporate and Elimination	0.9	0.3	0.7	0.1	0.2
Total	¥45.7	¥(5.8)	¥27.4	¥84.1	¥44.0

division decreased ¥2.6 billion, or 3.1%, compared with the previous fiscal year to ¥80.3 billion. In contrast, segment income increased ¥0.6 billion, or 27.7%, year on year to ¥2.9 billion.

Industrial Products Division

Despite stagnant engine sales in North America and the stronger yen, sales in Japan surged, particularly for power generators used in disaster-related reconstruction. In addition, engine sales in Southeast Asia were favorable.

As a result, net sales in the Industrial Products division increased ¥3.6 billion, or 11.8%, compared with the previous fiscal year to ¥33.6 billion. Segment income rose ¥0.6 billion year on year to ¥0.5 billion.

Other Division

A rise in unit sales of the sanitation truck Fuji Mighty was offset by a decline in deliveries of large-scale wind-power generation systems. As a result, net sales fell ¥1.3 billion, or 8.5%, compared with the previous fiscal year to ¥14.2 billion, and segment income decreased ¥0.4 billion, or 29.7%, year on year to ¥1.0 billion.

Liquidity and Financing

Financial Position

Total assets as of March 31, 2012 stood at ¥1,352.5 billion, an increase of ¥164.2 billion compared with the previous fiscal year-end.

Of this total, current assets stood at ¥762.5 billion, up ¥152.2 billion compared with March 31, 2011. This result was primarily due to a rise in cash and cash equivalents (reflecting assistance received from subsidiaries after the disaster and the sale of FHI's head office building) and increases in inventories and notes and accounts receivable—trade, both of which are consistent with higher unit production in the second half of fiscal 2012.

Total property, plant and equipment rose ¥12.0 billion year on year to ¥590.0 billion. This result was mainly attributable to an increase in investment securities and other items.

Total liabilities were up ¥126.6 billion year on year, to ¥900.9 billion, despite the partial redemption of corporate bonds. The main factors for this was a rise in notes and accounts payable—trade, consistent with the growth in unit production, and higher long term debt.

Interest-bearing debt amounted to ¥341.0 billion as of March 31, 2012, up ¥10.4 billion compared with the end of the previous fiscal year. This reflected an increase in loans that exceeded the amount of bonds redeemed during fiscal 2012. The debt/equity ratio improved 0.04 of a point since March 31, 2011 to 0.76 due primarily to a rise in shareholders' equity.

Net assets totaled ¥451.6 billion, up ¥37.6 billion compared with the end of the previous fiscal year. This was primarily due to an increase in retained earnings of ¥31.6 billion, reflecting the recording of net income in fiscal 2012. As a result, net assets per share as of the end of the fiscal year under review totaled ¥576.97, up ¥48.09 from ¥528.88 as of the year prior.

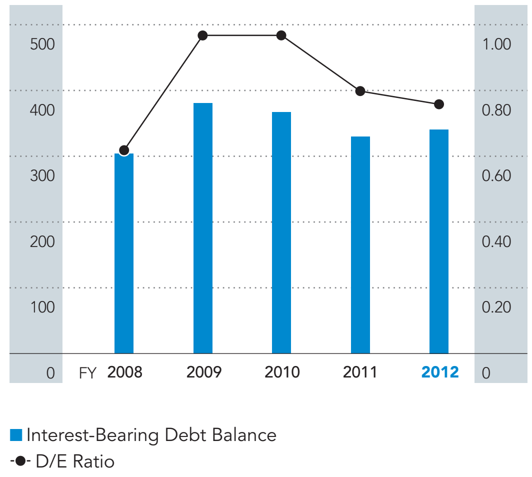
Cash Flows

In the fiscal year under review, net cash provided by operating activities was ¥54.9 billion compared with ¥138.2 billion in the previous fiscal year. This result was mainly due to rises in inventories and notes and accounts receivable—trade following a rebound in production and sales in the second half of fiscal 2012 coupled with a decrease in operating income level.

Net cash used in investing activities was ¥26.6 billion in fiscal 2012 compared with ¥51.1 billion used in the previous fiscal year. This decline was primarily due to the sale of the FHI's head office building.

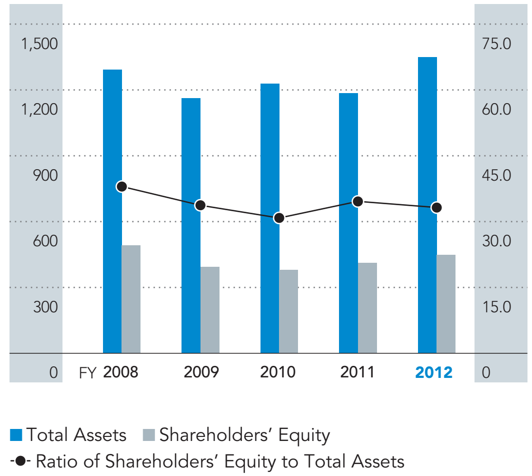
Interest-Bearing Debt Balance & D/E Ratio

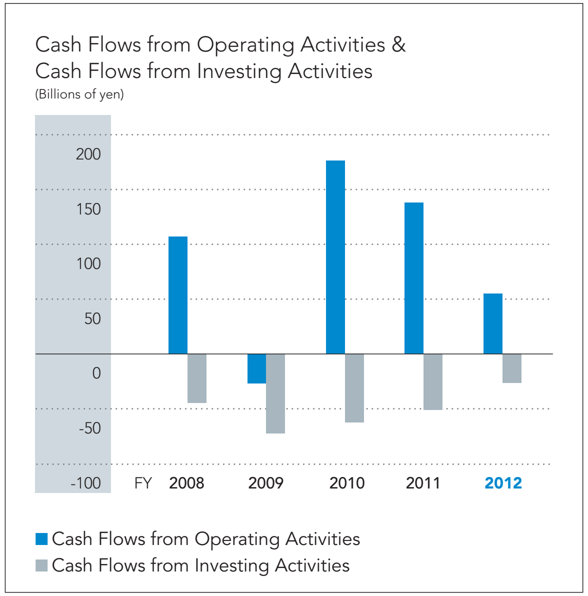
(Billions of yen)

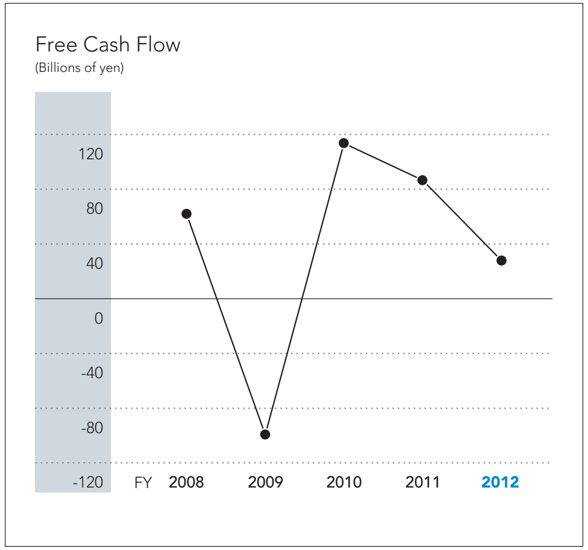


Total Assets, Shareholders' Equity & Ratio of Shareholders' Equity to Total Assets

(Billions of yen, %)







As a result, free cash flow amounted to ¥28.3 billion, a decrease of ¥58.8 billion from ¥87.1 billion provided in the previous fiscal year.

Net cash provided by financing activities totaled ¥2.6 billion in the fiscal year ended March 31, 2012, a turnaround from net cash used in financing activities of ¥39.4 billion in fiscal 2011. This result was largely attributable to an increase in long-term debt.

Accounting for the aforementioned activities and the effect of translation adjustments, cash and cash equivalents as of the end of the fiscal year under review stood at ¥258.1 billion, up ¥30.4 billion year on year.

Securing Liquidity

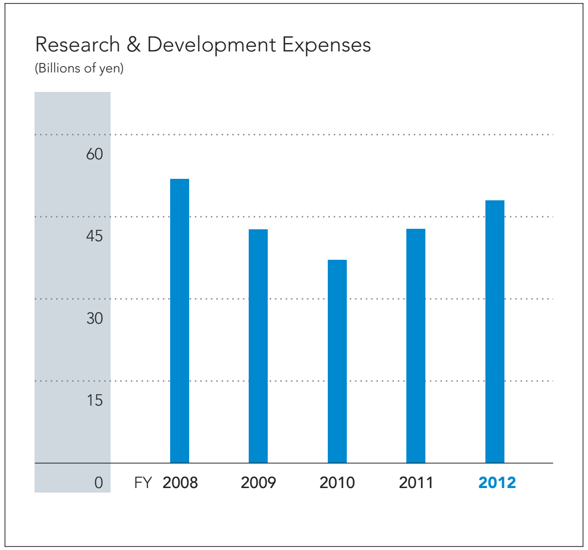
FHI believes that it has secured liquidity at a level sufficient to satisfy its current needs through the use of commitment lines contracted with major banks, combined with cash and cash equivalents.

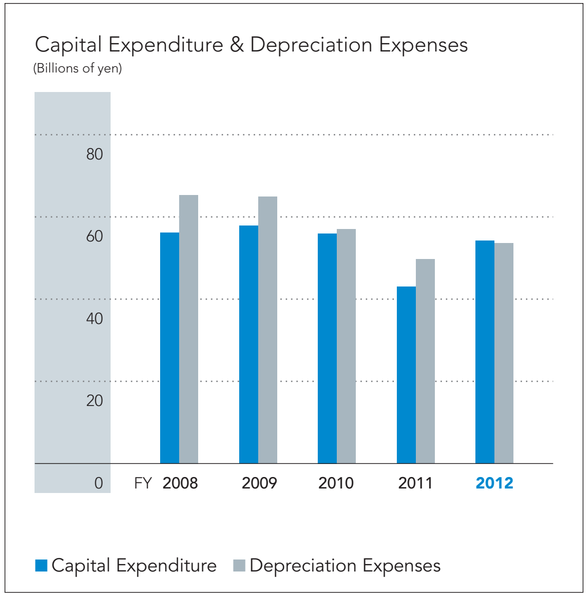
Research and Development Expenses

FHI invested in the development expenses toward the launch of such new car models as the Impreza and SUBARU BRZ as well as environment-friendly technologies, including the horizontally-opposed direct injection turbo engine. Mainly as a result of these factors, R&D expenses increased ¥5.2 billion, or 12.1%, year on year, to ¥48.1 billion.

Capital Expenditures and Depreciation

Capital expenditures increased ¥11.2 billion, or 26.1%, compared with the previous fiscal year, to ¥54.3 billion due to such factors as a rise in production capacity at the Oizumi Plant in response to the introduction of new engine models and a switch from minicar production lines to those that produce passenger cars at the Oizumi Plant. Depreciation increased ¥3.9 billion, or 7.7%, year on year, to ¥53.7 billion.





Billions of yen

	2008	2009	2010	2011	2012
R&D Expenses	¥ 52.0	¥ 42.8	¥ 37.2	¥ 42.9	¥ 48.1
Capital Expenditures	56.3	58.0	56.1	43.1	54.3
Depreciation Expenses	65.5	65.1	57.1	49.8	53.7

Basic Policy Regarding the Distribution of Profits

FHI views the return of profits to shareholders as a critical task for management. With a view to improving ROE and based on maintaining continual dividend payments, we apply a results-linked approach that takes into consideration such factors as earnings, investment plans, operating conditions and dividend payout ratio of each fiscal year.

Taking into account business results for the fiscal year under review as well as future business developments, operating environments and other factors, FHI distributed interim and year-end dividends of ¥4.50 per share, for an annual dividend of ¥9.00 per share. These per-share amounts were in line with initial projections.

For fiscal 2013, dividends are forecasted to be the same amounts as the fiscal year under review, for an annual dividend of ¥9.00 per share (comprised of an interim dividend and a year-end dividend of ¥4.50 each).

Outlook

Regarding consolidated results forecasts for the fiscal year ending March 2013, Subaru unit sales are anticipated to increase 81 thousand units, or 12.7%, to reach a record high of 721 thousand units thanks to growth in passenger car sales in such overseas markets as North America as well as Japan. These sales increases are expected in spite of concern over the strong yen and other factors.

As a result, consolidated net sales for fiscal 2013 are projected (as May 2012) to reach the unprecedented level of ¥1,860.0 billion, an upswing of ¥342.9 billion, or 22.6%, year on year. Turning to profits, operating income is expected to jump ¥23.0 billion, or 52.4%, year on year to ¥67.0 billion, while net income is forecasted to rise ¥9.5 billion, or 24.8%, to ¥48.0 billion. These income forecasts are based on improvements in sales volume mixture on the back of higher unit sales and cost reduction measures.

These forecasts are based on average annual exchange rates of ¥80 to U.S. $1 (previously ¥79 to U.S. $1) and ¥105 to €1 (previously ¥108 to €1).

Note: Performance forecasts and medium- to long-term management strategies are based on information available to management as of the date of this report. Accordingly, actual results may differ materially due to a variety of factors.

Forecast for Consolidated Results — Billions of yen

	2012 (Results)	2013	Change
Net sales	1,517.1	1,860.0	342.9
Japan	498.5	627.8	129.3
Overseas	1,018.6	1,232.2	213.6
Operating income	44.0	67.0	23.0
Income before income taxes and minority interest	52.9	60.0	7.1
Net income	38.5	48.0	9.5
Exchange rate (in yen)			
¥/$	79	80	1
¥/€	108	105	(3)

Forecast for Global Automobile Sales — Thousand units

	2012 (Results)	2013	Change
Japan:			
Passenger cars	80.2	94.9	14.7
Minicars	92.2	50.5	(41.6)
Subtotal	172.3	145.4	(26.9)
Overseas:			
United States	280.4	324.0	43.7
Canada	28.2	31.7	3.5
Europe	39.1	59.2	20.1
Russia	15.9	23.3	7.5
Australia	36.9	43.9	7.0
China	48.3	62.0	13.7
Other	18.7	31.2	12.5
Subtotal	467.5	575.4	107.9
Total	639.9	720.8	81.0

Business Risks

Operational and other risks that could significantly influence the decisions of investors and impact the Company's financial status are set out below. Based on information available to the FHI Group as of June 28, 2012, the enumerated risks include forward-looking statements, but do not encompass every possible risk posed to the FHI Group. As such, there are other risk factors which could influence investors and their decisions.

(1) Economic Trends

Economic trends in countries and regions that comprise important markets for the FHI Group could potentially impact the Group's business performance. In Japan and North America, key markets for the Group, economic recession, decreasing demand or increasing price competition could undermine the sales and profitability of the Group's products and services.

(2) Currency Exchange Rate Fluctuations

The FHI Group's ratio of overseas net sales stood at 67.1% in the fiscal year ended March 31, 2012. The Group's consolidated financial statements, which are presented in Japanese yen, are affected by translation of overseas net sales, operating income and assets from local currencies, particularly U.S. dollars, into yen. Accordingly, in the event that discrepancies arise between projected exchange rates in full-year forecasts and actual rates at the time of account settlement, the Group's business performance and financial position may be adversely affected when the yen appreciates or positively affected when the yen depreciates.

The Company uses forward exchange rate contracts and other risk hedges to minimize the Group's sensitivity to such currency exchange risks. However, the effect of severe fluctuations in currency exchange rates at the end of the fiscal year could result in a loss (gain) on valuation of derivatives and have a major impact on non-operating expenses.

(3) Dependence on Certain Businesses

The FHI Group is mainly comprised of the Automobiles, Aerospace and Industrial Products business segments. However, the Automobiles business segment accounts for the overwhelming majority of the Group's business operations. Accordingly, in the event that automobile-related demand, market conditions, price competition with other automakers, or other factors exceed projected levels, the entire Group's overall business performance and financial position could be significantly affected.

(4) Changes in Market Appraisal

The FHI Group develops, manufactures and releases new products based on appropriate timing and pricing in line with product planning that reflects market demand and customer needs. Such actions are the most important factors in maintaining stable increases in Group business performance. In the event that market appraisals of new model vehicles and other products do not meet sales plan expectations or that the obsolescence rate of current products exceeds forecasts, the Group's business performance and financial position could be significantly affected.

(5) Dependence on Suppliers for Raw Materials and Components

The FHI Group procures raw materials, components and other items from numerous suppliers. However, there are cases in which the Group relies on certain items and/or a limited number of suppliers. Due to tightening supply and demand or other factors, the inability to procure supplies in a manner that ensures stable costs, delivery dates and quality could seriously impact the Group's business performance and financial position.

(6) Protection of Intellectual Property

The FHI Group works to protect its intellectual property through the use of patents and trademarks in such areas as technologies and expertise that ensure product differentiation. However, the Group could experience a decrease in sales or an increase in litigation costs in cases where a third party makes unauthorized use of the Group's intellectual property to manufacture similar products, as well as in specific regions where intellectual property protection is limited. Such factors could impact the Group's profitability.

(7) Product Defects

The FHI Group places the highest priority on the safety of the products it develops, manufactures and sells. However, completely avoiding defects and recalls regarding all products and services is impossible. The substantial costs associated with a major recall could significantly affect the Group's business performance and financial position. In addition, although the Group purchases product liability insurance, the risk of incomplete coverage exists.

(8) Retirement Benefit Obligations

The FHI Group's employee retirement benefit costs and obligations are calculated based on the following assumptions: retirement benefit obligation discount rates and the expected rate of return on pension assets, both of which are established based on mathematical calculations. However, in the event that actual performance differs from the assumptions, the Group's business performance and financial position could be affected over the long term.

(9) Environmental and Other Legal Regulations

The FHI Group is subject to various domestic and overseas legal regulations in relation to such areas as exhaust emissions, energy conservation, noise, recycling, the level of pollutants emitted from manufacturing facilities and automobile safety. The Group's business performance and financial position could be affected by an increase in costs due to future regulatory changes.

(10) The Impact of Natural Disasters, War, Terror, Strikes and Other Events

The occurrence of major earthquakes, typhoons or other natural disasters, diseases, wars, terrorist attacks or other events could impede the FHI Group's business activities as well as delay or suspend raw material/component purchases, production, product sales/transport, and the provision of services. The Group's business performance and financial position could be affected in the event that such delays or suspensions are prolonged.

CORPORATE DATA (As of March 31, 2012)

Company Name
Fuji Heavy Industries Ltd.

Established
July 15, 1953

Paid-in Capital
¥153,795 million

Number of Employees
12,359 (consolidated: 27,123)

Website Address
http://www.fhi.co.jp/english/ir/

Head Office
Subaru Building, 7-2, Nishi-Shinjuku 1-chome,
Shinjuku-ku, Tokyo 160-8316, Japan
Phone: +81-3-3347-2111
Fax: +81-3-3347-2338

Investor Relations Office
Subaru Building, 7-2, Nishi-Shinjuku 1-chome,
Shinjuku-ku, Tokyo 160-8316, Japan
Phone: +81-3-3347-2655
Fax: +81-3-3347-2295

Domestic Manufacturing Divisions
Gunma Manufacturing Division (Automobiles Division)
Utsunomiya Manufacturing Division
(Aerospace Division and Eco Technologies Division)
Saitama Manufacturing Division
(Industrial Products Division)

Principal Consolidated Subsidiaries and Affiliates

Company Name	Percentage of Voting Rights	Main Business Activities
Japan		
Fuji Machinery Co., Ltd.	100.0%	Manufacture and sales of automobile parts and industrial product parts
Ichitan Co., Ltd.	100.0%	Manufacture and sales of forged automobile/industrial product parts
Kiryu Industrial Co., Ltd.	97.7%	Manufacture of Subaru specially equipped automobiles and distribution of Subaru automobile parts
Subaru Tecnica International Inc.	100.0%	Management of SUBARU Motorsport Activities, Development and manufacture of competition parts, tuning parts and accessories for SUBARU cars
Subaru Kohsan Co., Ltd.	100.0%	Leasing of real estate, shopping mall management and travel agency operations
Subaru Finance Co., Ltd.	100.0%	Lease & credit facilities provider for Subaru automobiles, financing for FHI subsidized companies, lease for various facility equipment, rolling stock & FHI made garbage trucks and sales of insurance
Yusoki Kogyo K.K.	100.0%	Manufacture and sales for aircraft parts
TOKYO SUBARU INC.	100.0%	Distribution, sales and services of Subaru automobiles (including 32 other dealerships)
Overseas		
Subaru of America, Inc.	100.0%	Distribution and sales of Subaru automobiles and parts
Fuji Heavy Industries U.S.A., Inc.	100.0%	Engineering research of Subaru automobiles in North America Market
Subaru Research & Development, Inc.		Research and development of automobiles
Subaru of Indiana Automotive, Inc.	100.0%	Manufacture of Subaru automobiles and contracted manufacture of Toyota automobiles
Subaru Canada, Inc.	100.0%	Distribution and sales of Subaru automobiles and parts
Subaru Europe N.V./S.A.	100.0%	Distribution, sales and marketing of Subaru automobiles and parts
Subaru of China, Ltd.	100.0%	Distribution, sales and marketing of Subaru automobiles and parts

INVESTOR INFORMATION (As of March 31, 2012)

Common Stock Authorized
1,500,000,000 shares

Common Stock Issued
782,865,873 shares

Number of Shareholders
42,782

Stock Exchange Listing
Tokyo Stock Exchange

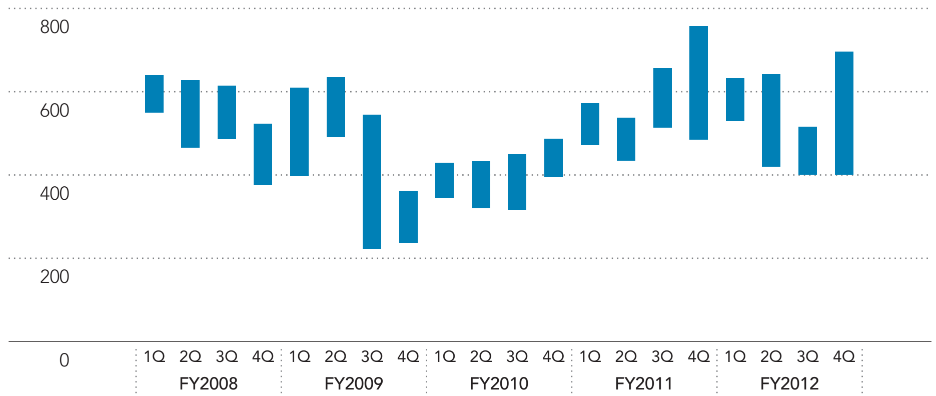
Transfer Agent
Mizuho Trust & Banking Co., Ltd.
2-1, Yaesu 1-chome, Chuo-ku, Tokyo
103-8670, Japan

Major Shareholders

Name	Number of Shares Held (in thousands)	Percentage of Total Shares
Toyota Motor Corporation	129,000	16.48
The Master Trust Bank of Japan, Ltd. (Trust account)	42,948	5.49
Japan Trustee Services Bank, Ltd. (Trust account)	33,176	4.24
Suzuki Motor Corporation	13,690	1.75
National Mutual Insurance Federation of Agricultural Cooperatives	13,534	1.73
FHI's Client Stock Ownership	12,866	1.64
Mizuho Corporate Bank, Ltd.	12,361	1.58
Mizuho Bank, Ltd.	12,017	1.54
BBH 493025 BlackRock Global Allocation Fund, Inc.	12,006	1.53
Sompo Japan Insurance Inc.	11,716	1.50

Quarterly Common Stock Price Range (Tokyo Stock Exchange)

(yen)



	FY2008	FY2009	FY2010	FY2011	FY2012
High	641	635	487	758	697
Low	376	223	317	435	402

SUBARU

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Consolidated Balance Sheets

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
As of March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2012**	2011	**2012**
Current assets:			
Cash and deposits (Note 4 and 5)	**¥237,614**	¥211,700	**$2,892,793**
Notes and accounts receivable-trade (Note 5 and 7)	**117,062**	76,810	**1,425,152**
Lease investment assets (Note 5 and 23)	**21,865**	23,050	**266,192**
Short-term investment securities (Notes 4, 5 and 6)	**31,635**	21,063	**385,135**
Merchandise and finished goods	**121,686**	72,871	**1,481,446**
Work in process	**56,143**	56,567	**683,504**
Raw materials and supplies	**33,715**	36,974	**410,458**
Deferred tax assets (Note 12)	**17,399**	13,754	**211,821**
Short-term loans receivable (Note 4 and 5)	**78,788**	59,986	**959,192**
Other current assets	**48,019**	39,396	**584,599**
Allowance for doubtful accounts	**(1,395)**	(1,851)	**(16,983)**
Total current assets	**762,531**	610,320	**9,283,309**
Property, plant and equipment (Notes 7, 9 and 16)	**1,225,559**	1,230,215	**14,920,368**
Accumulated depreciation	**(769,274)**	(765,211)	**(9,365,401)**
Accumulated impairment loss	**(30,194)**	(34,162)	**(367,592)**
Total property, plant and equipment	**426,091**	430,842	**5,187,375**
Investments and other assets:			
Intangible assets	**11,818**	12,040	**143,876**
Investment securities (Note 5 and 6)	**72,794**	62,595	**886,219**
Investments in non-consolidated subsidiaries and affiliated companies	**12,830**	12,894	**156,197**
Deferred tax assets (Note 12)	**1,873**	1,812	**22,803**
Other assets (Note 31)	**68,179**	61,832	**830,034**
Allowance for doubtful accounts	**(3,584)**	(4,011)	**(43,633)**
Total investments and other assets	**163,910**	147,162	**1,995,496**
Total assets	**¥1,352,532**	¥1,188,324	**$16,466,180**

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND NET ASSETS	**2012**	2011	**2012**
Current liabilities:			
Notes and accounts payable-trade (Note 5)	**¥251,043**	¥176,895	**$3,056,282**
Short-term loans payable (Note 5 and 7)	**71,040**	99,072	**864,865**
Current portion of long-term debts (Note 5 and 7)	**43,796**	40,912	**533,187**
Accrued expenses (Note 5)	**69,437**	60,876	**845,349**
Provision for bonuses	**16,478**	16,322	**200,609**
Provision for product warranties	**28,861**	27,172	**351,364**
Accrued income taxes (Note 5 and 12)	**4,600**	2,089	**56,002**
Other current liabilities (Note 5, 7 and 12)	**76,380**	57,365	**929,876**
Total current liabilities	**561,635**	480,703	**6,837,534**
Long-term liabilities:			
Long-term debts (Note 5 and 7)	**226,144**	190,642	**2,753,153**
Accrued pension and severance liability (Note 11)	**33,950**	33,707	**413,319**
Deferred tax liabilities (Note 12)	**22,740**	14,002	**276,844**
Other long-term liabilities (Note 7)	**56,456**	55,307	**687,314**
Total long-term liabilities	**339,290**	293,658	**4,130,630**
Contingent liabilities (Note 25)			
Net assets: (Note 13)			
Shareholders' equity:			
Capital stock			
Authorized– 1,500,000,000 shares			
Issued — 782,865,873 shares	**153,795**	153,795	**1,872,352**
Capital surplus	**160,071**	160,071	**1,948,758**
Retained earnings	**188,538**	156,948	**2,295,325**
Less－treasury stock, at cost,	**(1,259)**	(1,381)	**(15,327)**
2012— 2,406,736 shares			
2011— 2,605,141 shares			
Total shareholders' equity	**501,145**	469,433	**6,101,108**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	**18,966**	11,567	**230,898**
Foreign currency translation adjustment	**(69,809)**	(68,339)	**(849,878)**
Total accumulated other comprehensive income	**(50,843)**	(56,772)	**(618,980)**
Minority interests	**1,305**	1,302	**15,888**
Total net assets	**451,607**	413,963	**5,498,016**
Total liabilities and net assets	**¥1,352,532**	¥1,188,324	**$16,466,180**

The accompanying notes are an integral part of these balance sheets.

Consolidated Statements of Income

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	**2012**
Net sales (Note 2)	**¥1,517,105**	¥1,580,563	**$18,469,747**
Cost of sales (Note 14)	**1,222,419**	1,241,427	**14,882,140**
Gross profit	**294,686**	339,136	**3,587,607**
Selling, general and administrative expenses (Note 2 and 15)	**250,727**	255,001	**3,052,435**
Operating income (loss)	**43,959**	84,135	**535,172**
Other income (expenses):			
Interest and dividend income	**2,092**	1,945	**25,469**
Interest expenses	**(3,780)**	(4,522)	**(46,019)**
Equity in earnings of affiliates	**817**	2,619	**9,946**
Real estate rent	**530**	558	**6,452**
Foreign exchange gains (losses)	**2,290**	(1,010)	**27,879**
Gain (loss) on valuation of derivatives	**(5,116)**	573	**(62,284)**
Gain (loss) on sales and retirement of noncurrent assets (Note 19)	**26,807**	(662)	**326,357**
Gain (loss) on sales of investment securities (Note 6)	**687**	460	**8,364**
Loss on valuation of investment securities (Note 6)	**(403)**	(415)	**(4,906)**
Reversal of allowance for doubtful accounts	**-**	412	**-**
Depreciation	**(1,171)**	(1,162)	**(14,256)**
Impairment loss (Note 9, and 16)	**(63)**	(1,457)	**(767)**
Gain on sales of loans receivable	**-**	881	**-**
Loss on disaster (Note 17)	**(7,257)**	(7,352)	**(88,349)**
Loss on prior periods adjustment (Note 18)	**-**	(6,110)	**-**
Loss on adjustment for changes of accounting standard for asset retirement obligations (Note 2)	**-**	(372)	**-**
Provision for loss on transfer of business (Note 20)	**(4,177)**	-	**(50,852)**
Loss on reconstruction of office building (Note 19)	**-**	(657)	**-**
Other, net (Note 21)	**(2,336)**	(4,650)	**(28,439)**
	8,920	(20,921)	**108,595**
Income (loss) before income taxes and minority interests	**52,879**	63,214	**643,767**
Income taxes (Note 12):			
Current	**12,078**	8,735	**147,042**
Deferred	**2,251**	4,064	**27,404**
	14,329	12,799	**174,446**
Income (loss) before minority interests	**38,550**	50,415	**469,321**
Minority interests in income (loss)	**97**	89	**1,181**
Net income (loss)	**¥38,453**	¥50,326	**$468,140**

			U.S. dollars
Per share data (Note 2) :			
Net income (loss) —Basic	**¥49.27**	¥64.56	**$0.60**
—Diluted *	**-**	-	**-**
Net assets	**576.97**	528.88	**7.02**
Cash dividends (Note 13)	**9.00**	9.00	**0.11**

The accompanying notes are an integral part of these statements.

*For the year ended March 31, 2012 and 2011 diluted information is not presented because potentially dilutive securities do not exist.

Consolidated Statements of Comprehensive Income

82.14

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	**2011**	**2012**
Income (loss) before minority interests	**¥38,550**	¥50,415	**$469,321**
Other comprehensive income (Note 3)			
Valuation difference on available-for-sale securities	**7,399**	1,254	**90,078**
Foreign currency translation adjustment	**(1,464)**	(16,397)	**(17,823)**
Share of other comprehensive income of associates accounted for using equity method	**(11)**	(372)	**(134)**
Total other comprehensive income	**5,924**	(15,515)	**72,121**
Comprehensive income	**44,474**	34,900	**541,441**
(Comprehensive income attributable to)			
Comprehensive income attributable to owners of the parent	**44,382**	34,832	**540,321**
Comprehensive income attributable to minority interests	**¥92**	¥68	**$1,120**

Consolidated Statements of Changes in Net Assets

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	**2012**
Shareholders' equity			
Capital stock			
Balance at the beginning of current period	**¥153,795**	¥153,795	**$1,872,352**
Balance at the end of current period	**153,795**	153,795	**1,872,352**
Capital surplus			
Balance at the beginning of current period	**160,071**	160,071	**1,948,758**
Balance at the end of current period	**160,071**	160,071	**1,948,758**
Retained earnings			
Balance at the beginning of current period	**156,948**	110,172	**1,910,738**
Changes of items during the period			
Dividends from surplus	**(7,027)**	(3,510)	**(85,549)**
Net income (loss)	**38,453**	50,326	**468,140**
Disposal of treasury stock	**(4)**	(109)	**(49)**
Change of scope of consolidation	**171**	-	**2,082**
Other	**(3)**	69	**(37)**
Total changes of items during the period	**31,590**	46,776	**384,587**
Balance at the end of current period	**188,538**	156,948	**2,295,325**
Treasury stock			
Balance at the beginning of current period	**(1,381)**	(2,173)	**(16,813)**
Changes of items during the period			
Purchase of treasury stock	**(7)**	(30)	**(85)**
Disposal of treasury stock	**129**	822	**1,570**
Total changes of items during the period	**122**	792	**1,485**
Balance at the end of current period	**(1,259)**	(1,381)	**(15,328)**
Total shareholders' equity			
Balance at the beginning of current period	**469,433**	421,865	**5,715,035**
Changes of items during the period			
Dividends from surplus	**(7,027)**	(3,510)	**(85,549)**
Net income (loss)	**38,453**	50,326	**468,140**
Purchase of treasury stock	**(7)**	(30)	**(85)**
Disposal of treasury stock	**125**	713	**1,522**
Change of scope of consolidation	**171**	-	**2,082**
Other	**(3)**	69	**(37)**
Total changes of items during the period	**31,712**	47,568	**386,073**
Balance at the end of current period	**¥501,145**	¥469,433	**$6,101,108**

Consolidated Statements of Changes in Net Assets

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	**2012**
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities			
Balance at the beginning of current period	**¥11,567**	¥10,309	**$140,821**
Changes of items during the period			
Net changes of items other than shareholders' equity	**7,399**	1,258	**90,078**
Total changes of items during the period	**7,399**	1,258	**90,078**
Balance at the end of current period	**18,966**	11,567	**230,899**
Foreign currency translation adjustment			
Balance at the beginning of current period	**(68,339)**	(51,587)	**(831,982)**
Changes of items during the period			
Net changes of items other than shareholders' equity	**(1,470)**	(16,752)	**(17,896)**
Total changes of items during the period	**(1,470)**	(16,752)	**(17,896)**
Balance at the end of current period	**(69,809)**	(68,339)	**(849,878)**
Total accumulated other comprehensive income			
Balance at the beginning of current period	**(56,772)**	(41,278)	**(691,161)**
Changes of items during the period			
Net changes of items other than shareholders' equity	**5,929**	(15,494)	**72,181**
Total changes of items during the period	**5,929**	(15,494)	**72,181**
Balance at the end of current period	**(50,843)**	(56,772)	**(618,980)**
Minority interests			
Balance at the beginning of current period	**1,302**	1,306	**15,851**
Changes of items during the period			
Net changes of items other than shareholders' equity	**3**	(4)	**37**
Total changes of items during the period	**3**	(4)	**37**
Balance at the end of current period	**1,305**	1,302	**15,888**
Total net assets			
Balance at the beginning of current period	**413,963**	381,893	**5,039,725**
Changes of items during the period			
Dividends from surplus	**(7,027)**	(3,510)	**(85,549)**
Net income (loss)	**38,453**	50,326	**468,140**
Purchase of treasury stock	**(7)**	(30)	**(85)**
Disposal of treasury stock	**125**	713	**1,522**
Change of scope of consolidation	**171**	-	**2,082**

Consolidated Statements of Cash Flows

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	**2012**
Net cash provided by (used in) operating activities			
Income (loss) before income taxes and minority interests	**¥52,879**	¥63,214	**$643,767**
Depreciation and amortization	**58,611**	56,062	**713,550**
Impairment loss	**63**	1,457	**767**
Increase (decrease) in allowance for doubtful accounts	**(883)**	(972)	**(10,750)**
Increase (decrease) in provision for bonuses	**150**	974	**1,826**
Increase (decrease) in provision for product warranties	**1,658**	8,618	**20,185**
Increase (decrease) in provision for loss on construction contracts	**(1,840)**	3,282	**(22,401)**
Increase (decrease) in provision for retirement benefits	**147**	(1,284)	**1,790**
Interest and dividends income	**(2,092)**	(1,945)	**(25,469)**
Interest expenses	**3,780**	4,522	**46,019**
Loss (gain) on valuation of derivatives	**5,116**	(573)	**62,284**
Equity in (earnings) losses of affiliates	**(817)**	(2,619)	**(9,946)**
Loss (gain) on sales and retirement of noncurrent assets	**(26,807)**	662	**(326,357)**
Loss (gain) on sales and valuation of investment securities	**(284)**	(45)	**(3,458)**
Decrease (increase) in notes and accounts receivable-trade	**(40,602)**	25,208	**(494,302)**
Decrease (increase) in inventories	**(49,033)**	18,677	**(596,944)**
Increase (decrease) in notes and accounts payable-trade	**74,197**	(37,633)	**903,299**
Decrease (increase) in lease investment assets	**1,185**	4,447	**14,427**
Decrease (increase) in operating loans receivable	**(16,077)**	1,465	**(195,727)**
Decrease (increase) in vehicles and equipment on operating leases	**(1,842)**	2,750	**(22,425)**
Increase (decrease) in deposits received	**4,258**	(7,906)	**51,838**
Other	**5,685**	12,544	**69,211**
Sub total	**67,452**	150,905	**821,184**
Interest and dividends income received	**2,277**	1,967	**27,721**
Interest expenses paid	**(3,671)**	(4,592)	**(44,692)**
Income taxes paid	**(11,193)**	(10,072)	**(136,267)**
Net cash provided by (used in) operating activities	**54,865**	138,208	**667,946**
Net cash provided by (used in) investing activities			
Purchase of short-term investment securities	**(5,202)**	(4,237)	**(63,331)**
Proceeds from sales of short-term investment securities	**3,315**	4,460	**40,358**
Purchase of property, plant and equipment	**(49,059)**	(44,729)	**(597,261)**
Proceeds from sales of property, plant and equipment	**36,370**	1,880	**442,781**
Purchase of intangible assets	**(3,204)**	(3,078)	**(39,007)**
Purchase of investment securities	**(16,370)**	(20,719)	**(199,294)**
Proceeds from sales of investment securities	**13,854**	16,722	**168,663**
Payments of loans receivable	**(92,710)**	(84,517)	**(1,128,683)**
Collection of loans receivable	**88,361**	84,848	**1,075,737**
Other, net	**(1,957)**	(1,739)	**(23,825)**
Net cash provided by (used in) investing activities	**(26,602)**	(51,109)	**(323,862)**
Net cash provided by (used in) financing activities			
Net increase (decrease) in short-term loans payable	**(28,033)**	(43,034)	**(341,283)**
Proceeds from long-term loans payable	**79,585**	68,828	**968,895**
Repayment of long-term loans payable	**(21,268)**	(40,721)	**(258,924)**
Redemption of bonds	**(20,010)**	(20,010)	**(243,608)**
Cash dividends paid	**(7,027)**	(3,498)	**(85,549)**
Repayment of lease obligations	**(774)**	(1,302)	**(9,423)**
Other,net	**113**	329	**1,376**
Net cash provided by (used in) financing activities	**2,586**	(39,408)	**31,484**
Effect of exchange rate change on cash and cash equivalents	**(332)**	(11,453)	**(4,042)**
Net increase (decrease) in cash and cash equivalents	**30,517**	36,238	**371,524**
Cash and cash equivalents at beginning of period	**227,704**	191,466	**2,772,145**
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	**(137)**	-	**(1,668)**
Cash and cash equivalents at end of period (Note 4)	**¥258,084**	¥227,704	**$3,142,001**

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES

1. Basis of Presentation of the Financial Statements

The accompanying consolidated financial statements of Fuji Heavy Industries Ltd. (the "Company") have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of their domicile. The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance, as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese-language consolidated financial statements, but not considered necessary for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars in the accompanying consolidated financial statements are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2012, which was ¥82.14 to U.S.$1. The convenience translation should not be construed as a representation that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

[1] The Scope of Consolidation and Application of the Equity Method

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. The fiscal year-end of consolidated domestic subsidiaries and main foreign subsidiaries is the same as that of the parent company, while the fiscal year-end of the seven consolidated foreign subsidiaries is December 31. The operating results of those subsidiaries that have fiscal year-ends different from that of the parent company are consolidated by using the financial statements as of each subsidiary's respective fiscal year-end, the necessary adjustments being made in consolidation if there are any significant transactions between January 1 and March 31.

The consolidated financial statements include the accounts of the Company and 70 subsidiaries in fiscal 2012 (71 subsidiaries in fiscal 2011).

In addition, 8 non-consolidated subsidiaries and one affiliated company were accounted for by the equity method in fiscal 2012 and 2011.

Investments in insignificant non-consolidated subsidiaries and affiliated companies not accounted for by the equity method are carried at cost. The difference between the cost and the underlying net equity of investments in subsidiaries and affiliated companies is allocated to identifiable assets based on their fair value at the date of acquisition. The unallocated residual value of the excess of the cost over the fair value of the underlying net assets is recognized as goodwill and amortized over a period of five years on a straight-line basis.

All assets and liabilities of subsidiaries, which include not only the Company's interest in the subsidiaries but also the minority interest portion, are valued based on their fair value at the time the Company first consolidates the subsidiary in question.

(Fiscal Year Change of Consolidated Subsidiaries)
From the fiscal year 2012, the balance sheet dates of Subaru Canada Inc. and its subsidiary was changed from December 31 to March 31.
Because of this change, the fiscal term of Subaru Canada Inc. and its subsidiary was 15 months period from January 1, 2011 to March 31, 2012.

[2] Short-Term Investment Securities and Investment Securities

Under the Japanese accounting standards for financial instruments, available-for-sale securities for which fair values are available are stated at their fair value as of the balance sheet dates with unrealized holding gains and losses included as a separate component of net assets until realized, while securities for which fair values are not readily available are stated at cost, as determined by the moving-average method, after taking into consideration devaluation, if any, for permanent impairment. Held-to-maturity debt securities are stated using the amortized cost method.

[3] Inventories

Inventories for regular sales are stated at cost, determined mainly by the moving-average cost method. (Book value on the consolidated balance sheet is measured based on the lower of cost or market value.)

[4] Property, Plant and Equipment (Excluding Leased Assets)

Property, plant and equipment are stated at cost. Significant renewals and additions are capitalized; ordinary maintenance, ordinary repairs, minor renewals and minor improvements are charged to the consolidated statements of income as incurred.

Depreciation of the property, plant and equipment of the Company and its consolidated domestic subsidiaries is principally computed by the declining-balance method, except for those buildings (excluding building improvements) acquired on or after April 1, 1998, for which the straight-line method is applied.

Depreciation of the property, plant and equipment of consolidated foreign subsidiaries is computed by the straight-line method at rates based on the estimated useful lives of the assets according to their general class, type of construction, and use.

Estimated useful lives for depreciable assets are as follows:

Buildings and structures: 7–50 years
Machinery, equipment and vehicles: 2–12years

[5] Intangible Assets (Excluding Leased Assets)

Computer software used internally by the Company and its consolidated subsidiaries is amortized by the straight-line method over the relevant economic useful lives of three or five years.

[6] Leased Assets

For leased assets under finance lease transactions in which the ownership is transferred to the lessee:
The leased assets are depreciated by the same method as used for other property, plant and equipment.

For leased assets under finance lease transactions in which the ownership is not transferred to the lessee:
The leased assets are depreciated by the straight-line method over the leased period and the residual value is zero.

In addition, finance lease transactions in which the ownership is not transferred to the lessee on or before March 31, 2008 are recorded as regular rental transactions.

[7] Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided based on the amount calculated from the historical ratio of bad debt for ordinary receivables, and estimated amounts of uncollectible accounts for specific overdue receivables.

[8] Provision for Bonuses

Employee's bonuses are recognized as expenses for the period in which those are incurred.

[9] Provision for Product Warranties

The Company and its consolidated subsidiaries provide for accrued warranty claims on products sold based on their past experiences of warranty services and estimated future warranty costs, which are included in "Accrued expenses" in the accompanying consolidated balance sheets.

[10] Provision for Loss on Construction Contracts

The provision for losses on uncompleted construction of contracts in the Aerospace segment is made when substantial losses on the contracts are anticipated at the fiscal year-end for the next fiscal year and beyond and such losses can be reasonably estimated.

[11] Provision for Loss on Transfer of Business

The Company provides for losses on transfer of an important business and these losses are reasonably estimated at the end of the fiscal year.

[12] Accrued Pension and Severance Liability

Upon termination of employment, employees of the Company and its consolidated subsidiaries in Japan are entitled, under most circumstances, to lump-sum indemnities or pensions as described below, based on current rates of pay, length of service, and conditions under which the termination occurs. The minimum payment is an amount based on voluntary retirement. In addition to the minimum payment based on voluntary retirement, employees receive additional benefits for retirement due to age limit, death or other defined reasons.

Certain consolidated subsidiaries in Japan have contributory funded defined benefit employees' welfare pension funds, which are pursuant to the Japanese Welfare Pension Insurance Law. The contributory pension funds consist of a portion of the governmental welfare pension program, under which the contributions are made by the companies and their employees, and an additional portion representing the corporate noncontributory pension plans.

Under the Japanese accounting standards for pension and severance benefits, accrued pension and severance liability for employees is provided based on the estimated amounts of projected pension and severance obligation and the fair value of plan assets at the end of the fiscal year. Prior service cost is being amortized by the straight-line method over a period (11-18 years) that is shorter than the average remaining service period of the eligible employees. Actuarial gains and losses are amortized from the following fiscal year by the straight-line method over a period (primarily 16 years for fiscal years 2012 and 2011) that is shorter than the average remaining service period of the eligible employees.

Accrued pension contribution for defined benefit pension plans is included in accrued pension and severance liability.

Directors and statutory auditors of the Company and its consolidated domestic subsidiaries are entitled to receive a lump-sum payment at the time of severance or retirement, subject to shareholder approval. The liabilities for such benefits, which are determined based on the Company's and its consolidated subsidiaries' internal rules, are included in "Other long-term liabilities" in the accompanying consolidated balance sheets.

[13] Translation of Foreign Currency-Denominated Accounts
Under the Japanese accounting standards for foreign currency translation, monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at each balance sheet date with the resulting gain or loss included currently in the statement of income.
The assets and liabilities of foreign subsidiaries and affiliated companies are translated into Japanese yen at the exchange rates in effect at the balance sheet dates of the foreign subsidiaries and affiliated companies, except for common stock and capital surplus, which are translated at historical rates. Revenue and expense accounts are translated at the average exchange rates during the respective years. The resulting foreign currency translation adjustments are included in "Foreign currency translation adjustments" and "Minority interest" in the net assets section of the accompanying consolidated balance sheets.

[14] Revenue Recognition
The percentage-of-completion method of revenue from Aerospace division production is applied to construction contracts for which certain elements are determinable with certainty at the end of fiscal year. (The percentage of completion is estimated with the proportion-of-cost method). The completed-contract method is applied to other works.

[15] Accounting for Lease Transactions
A part of domestic consolidated subsidiaries recognizes revenue for financial lease transactions on the effective date of each lease contract.

[16] Derivative Financial Instruments and Hedge Accounting
The Japanese accounting standards for financial instruments require that the Company and its consolidated domestic subsidiaries state derivative financial instruments at their fair value and recognize changes in the fair value as a gain or loss, unless such derivative financial instruments are used for hedging purposes.

For interest rate swap contracts used as a hedge that meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract is executed.

Derivative financial instruments qualifying as a hedge, along with the underlying transactions, assets and liabilities are as follows:

Financial Instrument	Transactions, assets and liabilities
Interest swaps	Borrowings

The risk exposures to movements in interest rates are hedged according to the Company's and consolidated subsidiaries' risk management policy. An evaluation of hedge effectiveness is not considered necessary as the terms and notional amounts of these hedging instruments are the same as those of the underlying transactions, assets and liabilities, and therefore they are presumed to be highly effective in offsetting the effect of movements in interest rates at their inception as well as during their terms.

[17] Goodwill
Goodwill is principally amortized by the straight-line method over five years in accordance with accounting principles generally accepted in the countries where such goodwill is recorded.

[18] Cash and Cash Equivalents
Cash and cash equivalents include all highly liquid investments—generally with original maturities of three months or less—that are readily convertible to known amounts of cash and have negligible risk of changes in value due to their short maturities.

[19] Income Taxes

The provision for income taxes is computed based on the pretax income for financial reporting purposes. Deferred tax assets and liabilities are recognized for expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. A valuation allowance is recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

(Application of Consolidated Taxation System)

(Fiscal 2012)

From the fiscal year 2012, the Company and its wholly owned domestic subsidiaries applied Consolidated taxation system.

[20] Research and Development Expenses

Research and development costs are expensed as incurred and amounted to ¥48,115 million (US$ 585,768 thousand) and ¥42,907 million for fiscal years 2012 and 2011, respectively.

[21] Net Income per Share

Basic net income per share (EPS) is computed based on the average number of shares of common stock outstanding during each year. Diluted EPS assumes the potential dilution that occurs if all the convertible securities are converted or other contracts to issue common stock are exercised to the extent that they are not anti-dilutive.

[22] Reclassification and Restatement

Financial statements in fiscal 2011 have been reclassified to conform to the current year presentation. These reclassifications had no impact on previously reported results of operations or retained earnings.

[23] Other Changes in Accounting Policy

(Application of Accounting Standard for Accounting Changes and Error Corrections)

The Company and its consolidated domestic subsidiaries adopted "Accounting Standard for Accounting Changes and Error Corrections" (Accounting Standards Board of Japan ("ASBJ") Statement No.24 issued on December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, issued on December 4, 2009) for accounting changes and corrections of prior period errors which are made from the fiscal year beginning on April 1, 2011.

3. Reclassification adjustments and income tax in other comprehensive income

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income were as follows:

	Millions of yen	Thousands of U.S. dollars
	2012	**2012**
Valuation difference on available-for-sale securities		
Increase(decrease) during the year	**¥9,580**	**$116,630**
Reclassification adjustments	**321**	**3,908**
Sub-total, before tax	**9,901**	**120,538**
Tax (expense) or benefit	**(2,502)**	**(30,460)**
Sub-total, net of tax	**7,399**	**90,078**
Foreign currency translation adjustment		
Increase(decrease) during the year	**(1,381)**	**(16,813)**
Reclassification adjustments	**(83)**	**(1,010)**
Sub-total, before tax	**(1,464)**	**(17,823)**
Tax (expense) or benefit	**-**	**-**
Sub-total, net of tax	**(1,464)**	**(17,823)**
Share of other comprehensive income of associates accounted for using equity method		
Increase(decrease) during the year	**(11)**	**(134)**
Total other comprehensive income	**¥5,924**	**$72,121**

4. Additional Cash Flow Information

Cash and cash equivalents as of March 31, 2012 and 2011, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Cash and deposits	**¥237,614**	¥211,700	**$2,892,793**
Short-term investment securities	**31,635**	21,063	**385,135**
	269,249	232,763	**3,277,928**
Less maturity over three months	**(11,165)**	(5,059)	**(135,927)**
Cash and cash equivalents	**¥258,084**	¥227,704	**$3,142,001**

(Fiscal 2011)

Non Cash transaction

The Company carried out a share exchange (the "Share Exchange") on August 1, 2010, and Ichitan Co., Ltd. becomes a wholly owned subsidiary of the Company.

This share exchange resulted in recognition of "Goodwill" of ¥280 million, and a decrease in "treasury stock" of ¥450 million.

5. Financial Instruments

(1) Summary of Financial Instruments Status

[1] Action Policy with Regard to Financial Instruments

With regard to planned capital expenditure to support Fuji Heavy Industries Ltd., its consolidated subsidiaries and affiliated companies (the "FHI Group") in their main operations of automobile manufacturing and sales, the FHI Group finances mainly from bank loans and the issue of corporate bonds. Temporary surpluses are invested in highly secure financial assets, and bank loans and liquidation of accounts receivable provide short-term working capital. It is the FHI Group's policy to use derivatives as a way to avoid the below-stated risks and to not conduct speculative transactions.

[2] Details of Financial Instruments and Respective Risks

Operating receivables such as notes and accounts receivable-trade and lease investment assets are subject to customer credit risks. Moreover, because the FHI Group works to expand its business globally, operating receivables denominated in foreign currencies are subject to the risk of changes in foreign exchange rates. As a general rule, however, forward foreign exchange contracts are used to hedge the foreign exchange rate risk, considering the net amount of operating receivables denominated in foreign currencies that exceed foreign currency denominated operating liabilities. Available-for-sale securities and investment securities are mainly stocks associated with business and capital alliances with principal business partners, and are subject to risk of market price fluctuation.

Notes and accounts payable-trade that are included in operating liabilities usually have a payment date of within one year. Furthermore, a certain portion of such liabilities involves foreign currency denominated transactions associated with the import of raw materials and is thus subject to exchange rate fluctuation risk, although it is consistently less than accounts receivable balance of the same foreign currency. The FHI Group's liabilities associated with debt and bonds are set specifically for the acquisition of essential funds, mainly for capital expenditure, whose redemption dates come within 12 years after March 31, 2012 at the latest. A certain portion of said liabilities may have adjustable rates and are therefore subject to the risk of changes in interest rates, although in such cases derivative transactions (interest rate swap transactions) are used.

Derivative transactions are foreign exchange forward contracts to hedge against exchange rate fluctuations associated with accounts receivables and liabilities denominated in foreign currencies, and interest rate swap contracts with the objective of hedging against the risk of change in interest rates to be paid on loans. With regard to hedging instruments and hedged items, hedge policy, the method of evaluation of hedge effectiveness and other related items, please refer to "2-[16] Derivative Financial Instruments and Hedge Accounting".

[3] Risk Management System with Regard to Financial Instruments

(a) Management of Credit Risk (Risk Associated with Business Partner's Breach of Contract)

Credit control departments at each FHI division and its consolidated subsidiaries regularly monitor the financial status of key customers with regard to accounts receivables and lease investment assets. Together with keeping an eye on deadlines and balances of each customer, these departments identify and mitigate the risk of potential problem in collection due to deterioration in financial status or other factors.

(b) Management of Market Risk (Risk Associated with Fluctuations in Exchange or Interest Rates)

With regard to operating assets and liabilities denominated in foreign currencies, as a general rule, the Company uses foreign exchange forward contracts to hedge against risks of exchange rate fluctuation on a monthly basis by each currency. Depending on the status of exchange rates, foreign exchange forward contracts, that is no longer than six months, are used to hedge against the risk of exchange rate fluctuation to which net position of accounts receivable and accounts payable dominated in foreign currency is exposed. Moreover, the Company and certain consolidated subsidiaries use interest rate swap transactions to limit exposure to the risk of fluctuation in interest rates payable on loans or corporate bonds. The Company also regularly check the market values of securities and investment securities as well as the financial conditions of issuers (business partner companies), and constantly reviews its investment position taking into consideration its relationships with respective business partner companies. Basic policies with regard to derivative transactions are approved by the Executive Management Board. Derivative transactions are handled in line with regulations and are conducted by the Finance & Accounting Department. The results of these transactions are without exception reported to officers concerned.

(c) Management of Liquidity Risk (Risk of Becoming Unable to Make Payments by the Due Date) Associated with Funds Procurement

The Company secures liquidity at a level sufficient to satisfy its current needs through the use of commitment lines contracted with major banks in combination with cash and cash equivalents.

[4] Supplemental Explanation of Items with Regard to Fair Value of Financial Instruments

Fair value includes the fair market value of financial instruments and, in the event market-based prices are not available, prices that are calculated on a rational basis. Because the factors incorporated into the calculation of these prices are subject to change, differing assumptions may result in differing fair values. In addition, the values of contracts with regard to derivative transactions as stated in "(2) Items with Regard to Fair Value of Financial Instruments" do not by themselves indicate the market risk associated with the respective derivative transaction.

(2) Items with Regard to Fair Value of Financial Instruments

The consolidated balance sheet, the fair value and difference as of March 31, 2012 and 2011 were as follows:

The items whose fair values were extremely difficult to measure were not included in the table below (refer to Note 2).

As of March 31, 2012

	Millions of yen		
	Consolidated balance sheet amounts	Fair Value	Difference
Cash and deposits	**¥237,614**	**¥237,614**	**¥-**
Notes and accounts receivable-trade	**117,062**		
Allowance for doubtful accounts (*1)	**(417)**		
	116,645	**116,645**	**-**
Lease investment assets	**21,865**		
Allowance for doubtful accounts (*1)	**(34)**		
	21,831	**23,103**	**1,272**
Short-term loans receivable	**78,788**		
Allowance for doubtful accounts (*1)	**(733)**		
	78,055	**79,295**	**1,240**
Short-term investment securities, Investment securities and Other securities	**76,730**	**76,730**	**-**
Total Assets	**530,875**	**533,387**	**2,512**
Notes and accounts payable-trade	**251,043**	**251,043**	**-**
Short-term loans payable	**71,040**	**71,040**	**-**
Current portion of long-term loans payable	**23,786**	**24,043**	**(257)**
Current portion of bonds	**20,010**	**20,069**	**(59)**
Accrued income taxes	**4,600**	**4,600**	**-**
Accrued expenses	**69,437**	**69,437**	**-**
Bonds payable	**4,070**	**4,153**	**(83)**
Long-term loans payable	**222,074**	**223,009**	**(935)**
Total Liabilities	**666,060**	**667,394**	**(1,334)**
Derivative transactions (*2)			
hedge accounting is not applied	**(6,422)**	**(6,422)**	**-**
hedge accounting is applied	**¥-**	**¥-**	**¥-**

As of March 31, 2012

	Thousands of U.S. dollars		
	Consolidated balance sheet amounts	Fair Value	Difference
Cash and deposits	**$2,892,793**	**$2,892,793**	**$-**
Notes and accounts receivable-trade	**1,425,152**		
Allowance for doubtful accounts (*1)	**(5,077)**		
	1,420,075	**1,420,075**	**-**
Lease investment assets	**266,192**		
Allowance for doubtful accounts (*1)	**(414)**		
	265,778	**281,264**	**15,486**
Short-term loans receivable	**959,192**		
Allowance for doubtful accounts (*1)	**(8,924)**		
	950,268	**965,364**	**15,096**
Short-term investment securities, Investment securities and Other securities	**934,137**	**934,137**	**-**
Total Assets	**6,463,051**	**6,493,633**	**30,582**
Notes and accounts payable-trade	**3,056,282**	**3,056,282**	**-**
Short-term loans payable	**864,865**	**864,865**	**-**
Current portion of long-term loans payable	**289,579**	**292,708**	**(3,129)**
Current portion of bonds	**243,608**	**244,326**	**(718)**
Accrued income taxes	**56,002**	**56,002**	**-**
Accrued expenses	**845,349**	**845,349**	**-**
Bonds payable	**49,550**	**50,560**	**(1,010)**
Long-term loans payable	**2,703,603**	**2,714,987**	**(11,384)**
Total Liabilities	**8,108,838**	**8,125,079**	**(16,241)**
Derivative transactions (*2)			
hedge accounting is not applied	**(78,184)**	**(78,184)**	**-**
hedge accounting is applied	**$-**	**$-**	**$-**

*1. Allowance for doubtful accounts corresponding to Notes and accounts receivable-trade, Lease investment assets and Short-term loans receivable is deducted.

*2. Indicated are the net amounts of assets and liabilities results from derivative transactions, with the total net liabilities indicated in ( ).

As of March 31, 2011

	Millions of yen		
	Consolidated balance sheet amounts	Fair Value	Difference
Cash and deposits	¥211,700	¥211,700	¥-
Notes and accounts receivable-trade	76,810		
Allowance for doubtful accounts (*1)	(350)		
	76,460	76,460	-
Lease investment assets	23,050		
Allowance for doubtful accounts (*1)	(156)		
	22,894	24,560	1,666
Short-term loans receivable	59,986		
Allowance for doubtful accounts (*1)	(852)		
	59,134	60,123	989
Short-term investment securities, Investment securities and Other securities	62,713	62,713	-
Total Assets	432,901	435,556	2,655
Notes and accounts payable-trade	176,895	176,895	-
Short-term loans payable	99,072	99,072	-
Current portion of long-term loans payable	20,902	21,081	(179)
Current portion of bonds	20,010	20,060	(50)
Accrued income taxes	2,089	2,089	-
Accrued expenses	60,876	60,876	-
Bonds payable	24,080	24,502	(422)
Long-term loans payable	166,562	167,628	(1,066)
Total Liabilities	570,486	572,203	(1,717)
Derivative transactions (*2)			
hedge accounting is not applied	(1,306)	(1,306)	-
hedge accounting is applied	¥-	¥-	¥-

*1. Allowance for doubtful accounts corresponding to Notes and accounts receivable-trade, Lease investment assets and Short-term loans receivable is deducted.
*2. Indicated are the net amounts of assets and liabilities results from derivative transactions, with the total net liabilities indicated in ( ).

[1] The calculation methods of financial instrument fair value together with securities and derivative transactions

Assets

Cash and deposits and Notes and accounts receivable-trade

Because these are settled in the short-term, the fair value is mostly the same as the book value and as such the book value is deemed as fair value.

Lease investment assets and Short-term loans receivable

Fair value is the present value calculated by discounting relevant cash flows by each category of the assets and timing of cash flow, where discount rates were adopted taking into consideration the period until maturity and credit risks. In addition, the estimated residual value is included in the balance of Lease investment assets.

Short-term investment securities and investment securities

Fair value is determined by the stock exchange price, while bonds are determined by the stock exchange price or by quotations received from financial institutions. Please refer to the note entitled "5.Short-term investment securities and investment securities" regarding to respective objectives for holding securities.

Liabilities

Notes and accounts payable-trade, Short-term loans payable, Accrued income taxes and Accrued expenses

Because these are settled in the short-term, the fair value is mostly the same as the book value and as such the book value is deemed as fair value.

Current portion of long-term loans payable and Long-term loans payable

Fair value is measured based on the present value that is calculated as discounted cash flow of the total amount of principal and interest, where the interest would be set, if the Company concluded a brand new loan agreement with the same condition at the date of measurement.

Current portion of bonds and Bonds payable

The fair value of bonds issued by the Company is based on market prices if available. For bonds with no available market price, fair value is calculated using the present value that is calculated as discounted cash flow of the total amount of principal and interest by, where discount rates are adopted taking into consideration the remaining redemption period and credit risks.

Derivative transactions

Fair value of interest rate swap that meets certain hedging criteria is included in the fair value of long-term debt as a hedged item, because they are treated as a unit.

[2] Financial instruments which fair value is extremely difficult to measure

Consolidated balance sheet amount as of March 31, 2012 and 2011:

Other securities (available-for-sale securities)	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Money management fund	**¥23,940**	¥17,802	**$291,454**
Unlisted stocks (excluding over-the-counter stocks)	**¥3,759**	¥3,143	**$45,763**

These have no available market prices and are expected to entail excessive costs in the estimation of future cash flows. Consequently, estimating their fair value is recognized as extremely difficult and they are not included in "Short-term investment securities, Investment securities and Other securities".

[3] Scheduled redemption of monetary assets and securities with maturity

As of March 31, 2012:

	Millions of yen			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Cash and deposits	**¥237,614**	**¥-**	**¥-**	**¥-**
Notes and accounts receivable-trade	**115,797**	**1,265**	**-**	**-**
Lease investment assets	**6,524**	**15,287**	**54**	**-**
Short-term investment securities, Investment securities and Other securities				
Government and municipal bonds	**5,535**	**4,572**	**1,303**	**2,753**
Corporate bonds	**2,154**	**5,198**	**988**	**372**
Other	**253**	**25**	**187**	**2,456**
Short-term loans receivable	**¥29,984**	**¥47,557**	**¥1,247**	**¥-**

As of March 31, 2012:

	Thousands of U.S. dollars			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Cash and deposits	**$2,892,793**	**$-**	**$-**	**$-**
Notes and accounts receivable-trade	**1,409,752**	**15,400**	**-**	**-**
Lease investment assets	**79,425**	**186,109**	**658**	**-**
Short-term investment securities, Investment securities and Other securities				
Government and municipal bonds	**67,385**	**55,661**	**15,863**	**33,516**
Corporate bonds	**26,224**	**63,282**	**12,028**	**4,529**
Other	**3,080**	**304**	**2,277**	**29,900**
Short-term loans receivable	**$365,035**	**$578,975**	**$15,182**	**$-**

As of March 31, 2011:

	Millions of yen			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Cash and deposits	¥211,700	¥-	¥-	¥-
Notes and accounts receivable-trade	74,059	2,751	-	-
Lease investment assets	9,911	13,075	64	-
Short-term investment securities, Investment securities and Other securities				
Government and municipal bonds	1,152	2,854	1,106	2,069
Corporate bonds	2,109	6,365	1,269	430
Other	-	6	217	2,687
Short-term loans receivable	¥22,814	¥36,245	¥927	¥-

[4] Amount of repayment for long-term debt and other interest-bearing debt
As of March 31, 2012:

	Millions of yen			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Bonds payable	**¥20,010**	**¥4,070**	**¥-**	**¥-**
Long-term loans payable	**23,786**	**154,378**	**67,149**	**547**

As of March 31, 2012:

	Thousands of U.S. dollars			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Bonds payable	**$243,608**	**$49,550**	**$-**	**$-**
Long-term loans payable	**289,579**	**1,879,450**	**817,495**	**6,658**

As of March 31, 2011:

	Millions of yen			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Bonds payable	¥20,010	¥24,080	¥-	¥-
Long-term loans payable	20,902	145,574	20,137	851

6. Short-Term Investment Securities and Investment Securities

Information on the value of short-term investment securities and investment securities as of March 31, 2012 and 2011 was as follows:

(1) Other securities (available-for-sale securities):
As of March 31, 2012:

	Millions of yen		
	Book value	Acquisition cost	Difference
Book value exceeding acquisition cost:			
Equity securities	**¥47,315**	**¥18,181**	**¥29,134**
Debt securities			
Government and municipal bonds	**11,149**	**10,858**	**291**
Corporate bonds	**8,043**	**7,751**	**292**
Other	**2,602**	**2,519**	**83**
Sub-total	**69,109**	**39,309**	**29,800**
Book value not exceeding acquisition cost:			
Equity securities	**3,613**	**4,021**	**(408)**
Debt securities			
Government and municipal bonds	**3,014**	**3,031**	**(17)**
Corporate bonds	**669**	**674**	**(5)**
Other	**325**	**326**	**(1)**
Sub-total	**7,621**	**8,052**	**(431)**
Total	**¥76,730**	**¥47,361**	**¥29,369**

As of March 31, 2012:

	Thousands of U.S. dollars		
	Book value	Acquisition cost	Difference
Book value exceeding acquisition cost:			
Equity securities	**$576,029**	**$221,342**	**$354,687**
Debt securities			
Government and municipal bonds	**135,732**	**132,189**	**3,543**
Corporate bonds	**97,918**	**94,363**	**3,555**
Other	**31,678**	**30,667**	**1,011**
Sub-total	**841,357**	**478,561**	**362,796**
Book value not exceeding acquisition cost:			
Equity securities	**43,986**	**48,953**	**(4,967)**
Debt securities			
Government and municipal bonds	**36,693**	**36,900**	**(207)**
Corporate bonds	**8,145**	**8,206**	**(61)**
Other	**3,956**	**3,969**	**(13)**
Sub-total	**92,780**	**98,028**	**(5,248)**
Total	**$934,137**	**$576,589**	**$357,548**

As of March 31, 2011:

	Millions of yen		
	Book value	Acquisition cost	Difference
Book value exceeding acquisition cost:			
Equity securities	¥38,865	¥19,191	¥19,674
Debt securities			
Government and municipal bonds	4,654	4,553	101
Corporate bonds	8,846	8,580	266
Other	2,041	2,000	41
Sub-total	54,406	34,324	20,082
Book value not exceeding acquisition cost:			
Equity securities	3,583	4,233	(650)
Debt securities			
Government and municipal bonds	2,526	2,575	(49)
Corporate bonds	1,326	1,334	(8)
Other	872	888	(16)
Sub-total	8,307	9,030	(723)
Total	¥62,713	¥43,354	¥19,359

(2) Other securities (available-for-sale securities) sold during fiscal years 2012 and 2011:

For the year ended March 31, 2012:

			Millions of yen
	Sales amount	Total gains	Total losses
Equity securities	**¥3,686**	**¥591**	**¥180**
Debt securities			
Government and municipal bonds	**8,278**	**232**	**17**
Corporate bonds	**3,790**	**61**	**-**
Other	**1,416**	**11**	**11**
Other	**21,293**	**-**	**-**
Total	**¥38,463**	**¥895**	**¥208**

For the year ended March 31, 2012:

			Thousands of U.S. dollars
	Sales amount	Total gains	Total losses
Equity securities	**$44,875**	**$7,195**	**$2,191**
Debt securities			
Government and municipal bonds	**100,779**	**2,824**	**207**
Corporate bonds	**46,141**	**743**	**-**
Other	**17,239**	**134**	**134**
Other	**259,228**	**-**	**-**
Total	**$468,262**	**$10,896**	**$2,532**

For the year ended March 31, 2011:

			Millions of yen
	Sales amount	Total gains	Total losses
Equity securities	¥6,566	¥351	¥112
Debt securities			
Government and municipal bonds	11,077	223	53
Corporate bonds	2,697	76	2
Other	525	1	8
Other	39,862	-	16
Total	¥60,727	¥651	¥191

(3)The Company and its consolidated subsidiaries recognized ¥403 million (US$4,906 thousand) and ¥415 million in loss on devaluation of securities for fiscal years 2012 and 2011, respectively.

For the purpose of recording a loss on devaluation of securities, the Company and its consolidated subsidiaries consider all the securities whose fair market values have fallen below 50% of the acquisition cost to be permanently impaired, and record relevant losses on devaluation. For securities whose fair market values have declined by between 30% and 50% in relation to their acquisition costs, the Company and its consolidated subsidiaries specifically consider the probability of recovery of fair market values and record losses on devaluation to the amount deemed permanently impaired.

7. Short-Term Loans Payable and Long-Term Debts

Short-term loans payable as of March 31, 2012 and 2011, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Bank loans with average interest rate of 0.55 % and 0.66% per annum as of March 31, 2012 and 2011, respectively	**¥71,040**	¥99,072	**$864,865**

Long-term debts as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Loans principally from banks and insurance companies due through 2024 with average interest rate of 1.08% and 1.39% per annum as of March 31, 2012 and 2011, respectively	**¥245,860**	¥187,464	**$2,993,182**
Unsecured 1.31% bonds due April 28, 2011	**-**	20,000	**-**
Unsecured 0.93% bonds due March 30, 2012	**-**	10	**-**
Unsecured 2.01% bonds due May 31, 2012	**20,000**	20,000	**243,487**
Unsecured 0.93% bonds due March 29, 2013	**10**	10	**122**
Unsecured 0.93% bonds due March 31, 2014	**10**	10	**122**
Unsecured 1.62 % bonds due July 10, 2014	**4,000**	4,000	**48,697**
Unsecured 0.93% bonds due March 31, 2015	**60**	60	**730**
Subtotal	**269,940**	231,554	**3,286,340**
Less-Portion due within one year	**(43,796)**	(40,912)	**(533,187)**
Total	**¥226,144**	¥190,642	**$2,753,153**

Annual maturities of long-term debts as of March 31, 2012 were as follows:

	Millions of yen	Thousands of U.S. dollars
2013	¥43,796	$533,187
2014	43,610	530,923
2015	43,460	529,097
2016	42,199	513,745
2017	29,179	355,235
2018 and thereafter	67,696	824,153
Total	¥269,940	$3,286,340

Lease obligations as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Lease obligations due within one year as of March 31, 2012and 2011	**¥751**	¥674	**$9,143**
Lease obligations due after one year as of March 31, 2012and 2011	**962**	1,184	**11,712**
Total	**¥1,713**	¥1,858	**$20,855**

Annual maturities of lease obligations as of March 31, 2012 were as follows:

	Millions of yen	Thousands of U.S. dollars
2013	**¥751**	**$9,143**
2014	**507**	**6,172**
2015	**272**	**3,311**
2016	**133**	**1,619**
2017	**43**	**523**
2018and thereafter	**7**	**87**
Total	**¥1,713**	**$20,855**

The following assets as of March 31, 2012 and 2011 were pledged as collateral for certain loans:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Notes and accounts receivable-trade	**¥-**	¥110	**$-**
Property, plant and equipment	**60,025**	64,339	**730,765**
Total	**¥60,025**	¥64,449	**$730,765**

To raise working capital efficiently, the FHI Group has concluded the commitment-line contracts. The maximum amount that can be made available under these contracts is ¥101,121 million (US$1,231,081 thousand) as of March 31, 2012. At the end of the fiscal year under review, there were no borrowings under the commitment line.

8. Derivative transactions

In the normal course of business, the Company and its consolidated subsidiaries employ derivative financial instruments, including foreign exchange forward contracts, foreign currency options and interest rate swaps, to manage their exposures to fluctuations in foreign currency exchange rates and interest rates. The Company and its consolidated subsidiaries do not use derivatives for speculative or trading purposes.

The fair value information of derivative financial instruments as of March 31, 2012 and 2011 was as follows:

Derivative transactions to which hedge accounting is not applied

(1) Foreign currency contracts:

As of March 31, 2012

	Millions of yen			Thousands of U.S. dollars		
	Notional Amount	Fair value	Valuation gain (loss)	Notional Amount	Fair value	Valuation gain (loss)
Foreign exchange forward contracts:						
Sell-						
U.S. dollar	**¥146,534**	**(¥5,400)**	**(¥5,400)**	**$1,783,954**	**($65,741)**	**($65,741)**
Euro	**7,809**	**(382)**	**(382)**	**95,069**	**(4,651)**	**(4,651)**
Canadian dollar	**15,651**	**(640)**	**(640)**	**190,541**	**(7,792)**	**(7,792)**

As of March 31, 2011

	Millions of yen		
	Notional Amount	Fair value	Valuation gain (loss)
Foreign exchange forward contracts:			
Sell-			
U.S. dollar	¥83,265	(¥625)	(¥625)
Euro	8,913	(359)	(359)
Canadian dollar	11,921	(322)	(322)

Note: The method to determine the fair value is based on quotations obtained from financial institutions.

Derivative transactions to which hedge accounting is applied

(1) Interest rate contracts:

Accounting treatment: Exception processing of interest rate swap

Hedge item: Long-term loans payable

As of March 31, 2012

	Millions of yen			Thousands of U.S. dollars		
	Notional Amount	Over 1 year	Fair value	Notional Amount	Over 1 year	Fair value
Interest rate swap contracts:						
Receive floating rate pay fixed rate	**¥34,735**	**¥24,610**	**(*)**	**$422,876**	**$299,610**	**(*)**

As of March 31, 2011

	Millions of yen		
	Notional Amount	Over 1 year	Fair value
Interest rate swap contracts:			
Receive floating rate pay fixed rate			
	¥36,060	**¥34,735**	**(*)**

Note *Fair value of interest rate swap that meets certain hedging criteria is included in the fair value of long-term debt as a hedged item, because they are treated as a unit.

9. Property, Plant and Equipment

Property, plant and equipment as of March 31, 2012 and 2011 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Buildings and structures	**¥315,725**	¥317,448	**$3,843,742**
Machinery, equipment and vehicles	**468,702**	454,663	**5,706,136**
Vehicles and equipment on operating leases, net	**18,209**	18,783	**221,682**
Other	**226,624**	226,816	**2,758,998**
Subtotal	**1,029,260**	1,017,710	**12,530,558**
Accumulated depreciation	**(769,274)**	(765,211)	**(9,365,401)**
Accumulated impairment loss	**(30,194)**	(34,162)	**(367,592)**
Land	**184,276**	191,111	**2,243,438**
Construction in progress	**12,023**	21,394	**146,372**
Total	**¥426,091**	¥430,842	**$5,187,375**

10. Unexecuted Balance of Overdraft Facilities and Lending Commitments

The unexecuted balance of overdraft facilities and lending commitments at a consolidated subsidiary (Subaru Finance Co., Ltd.) as of March 31, 2012 and 2011 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Total overdraft facilities and lending commitments	**¥4,430**	¥4,800	**$53,932**
Less amounts currently executed	**512**	666	**6,233**
Unexecuted balance	**¥3,918**	¥4,134	**$47,699**

A portion of the overdraft facilities and lending commitments above is subject to credit considerations as documented in the customer contracts. Therefore, the total balance above is not always available.

11. Pension and Severance Plans

The Company and its consolidated domestic subsidiaries have lump-sum retirement payment plans, qualified retirement pension plans, contributory defined benefit employees' welfare pension funds, defined benefit pension plan, and certain domestic subsidiaries have defined contribution pension plans. In addition, in certain occasions, additional retirement payments are made to employees for their retirement. Consolidated foreign subsidiaries primarily have defined contribution plans.

As of March 31, 2012, the Company and 50 of its consolidated domestic subsidiaries, which add up to a total of 51 companies, have lump-sum retirement payment plans. Within the FHI Group, there are also 20 defined contribution plans, and five defined benefits pension plans. In addition, there are 11 single-employer employees' welfare pension funds subject to the provisions of Article 33 of "Practice Guidelines of Accounting for Retirement Benefits."

Certain insignificant consolidated subsidiaries calculated their pension liability using the simplified method. Under the simplified method, an accrued pension and severance liability is provided at the amount that would have been payable had all the employees voluntarily retired at the end of the fiscal year, less an amount to be covered from the plan assets, while the Company and significant subsidiaries provide an accrued pension and severance liability based on the estimated amount of pension and severance obligation (projected benefit obligations), less the fair value of plan assets at the end of the fiscal year under the actuarial method.

Certain information concerning the multi-employer pension plan, which requires contributions that are expensed as they become due as pension and severance costs, is as follows:

(1) Overall funded status of the multi-employer pension plan (mainly as of February 29, 2012)

	Millions of yen	Thousands of U.S. dollars
	2012	**2012**
Plan assets	**¥150,396**	**$1,830,972**
Projected benefit obligation	**173,101**	**2,107,390**
Funded status	**(¥22,705)**	**($276,418)**

(2) Contributions by the Company and its consolidated domestic subsidiaries as a percentage of total contributions to the multi-employer pension plan (mainly from April 1, 2011 to March 31, 2012): 14%

A reconciliation between the projected pension and severance obligation and accrued pension and severance liability as of March 31, 2012 and 2011, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
a. Projected pension and severance obligation	**¥102,523**	¥100,917	**$1,248,149**
b. Plan assets	**(57,166)**	(50,676)	**(695,958)**
c. Unfunded pension and severance obligations	**45,357**	50,241	**552,191**
d. Unamortized actuarial loss	**(23,213)**	(21,971)	**(282,602)**
e. Unamortized prior service cost	**(302)**	(345)	**(3,677)**
f. Net amount recorded in balance sheet	**21,842**	27,925	**265,912**
g. Prepaid pension cost	**(12,108)**	(5,782)	**(147,407)**
h. Accrued pension and severance liability	**¥33,950**	¥33,707	**$413,319**

Notes: 1. The above amounts include the substitutional portion of the government pension plan funded by social security taxes paid by employees and employers.

2. Certain insignificant consolidated subsidiaries calculated the liability using the simplified method.

Periodic pension and severance costs for the fiscal years 2012, and 2011, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
a. Service cost	**¥9,116**	¥8,599	**$110,981**
b. Interest cost	**1,577**	1,791	**19,199**
c. Expected return on plan assets	**(1,718)**	(1,609)	**(20,916)**
d. Amortization of actuarial gain/loss	**2,115**	1,941	**25,749**
e. Amortization of prior service cost	**60**	51	**730**
f. Pension and severance cost	**11,150**	10,773	**135,743**
g. Gain on transfer of the substitutional portion of the employee's pension fund	**(327)**	(236)	**(3,981)**
h. Total	**¥10,823**	¥10,537	**$131,762**

Notes:1. The above amounts do not include the welfare pension funds paid by employees.
2. The service cost of consolidated subsidiaries using the simplified method is included in the service cost above.
3. The service cost above includes required funding for the multi-employer pension plan amounting to ¥506 million (US$6,160 thousand) and ¥628 million for fiscal years 2012 and 2011, respectively, for which plan assets could not be allocated to each participating employer.
4. The service cost above includes contributions for the defined contribution plans of the Company and certain consolidated subsidiaries amounting to ¥2,604 million (US$31,702 thousand) and ¥2,473 million for fiscal years 2012 and 2011, respectively.
5. In addition to the pension and severance cost above, additional retirement payments amounting to ¥189 million (US$2,301 thousand) and ¥220 million were made for fiscal years 2012 and 2011, respectively. For fiscal years 2012 and 2011, the entire ¥189 million (US$2,301 thousand) of additional retirement payments and ¥220 million of additional retirement payments are included in cost of sales and selling, general and administrative expenses, respectively.

Actuarial assumptions used in computation of pension and severance liability were as follows:

	2012	2011
a. Attribution of expected benefit obligation	The straight-line method	The straight-line method
b. Discount rate	1.0%–1.8%	1.4%–2.0%
c. Expected rate of return on plan assets	1.4%–3.5%	1.4%–3.5%
d. Amortization of actuarial gain/loss	Primarily 16 years (amortized by the straight-line method starting from the following fiscal year, over a period shorter than the average remaining service periods of the eligible employees)	Primarily 16 years (amortized by the straight-line method starting from the following fiscal year, over a period shorter than the average remaining service periods of the eligible employees)
e. Amortization of prior service cost	11 to 18 years	11 to 18 years

12. Income Taxes

The Company and its consolidated subsidiaries were subject to a number of taxes based on income, which in the aggregate resulted in a normal statutory income tax rate of approximately 40.5% for fiscal years 2012 and 2011.

A reconciliation of the statutory income tax rates in Japan to the Company's effective income tax rates for the fiscal years 2012 and 2011 are as follows:

	2012	2011
Statutory income tax rate in Japan	**40.5%**	40.5%
Increase (reduction) in taxes resulting from:		
Changes in valuation allowance and tax benefits realized from loss carry forwards	**(11.0)**	(17.1)
Adjustment to past corporate income taxes payable and corporate income taxes refundable	**(0.2)**	(0.2)
Equity in earnings of affiliates	**(0.6)**	(1.7)
Difference of applicable tax rate in subsidiaries	**(1.1)**	(1.5)
Adjustment of deferred tax assets in the end of fiscal year 2012 by change of the tax amount	**(1.4)**	-
Other	**0.9**	0.2
Effective income tax rate	**27.1%**	20.2%

Significant components of the deferred tax assets and liabilities as of March 31, 2012 and 2011, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Deferred tax assets:			
Accrued expenses	**¥12,452**	¥11,687	**$151,595**
Accrued pension and severance liabilities	**11,942**	11,028	**145,386**
Depreciation and amortization expenses	**11,143**	13,568	**135,659**
Provision for product warranties	**10,341**	10,129	**125,895**
Provision for bonuses	**6,281**	6,561	**76,467**
Long-term accounts payable-other	**5,681**	4,472	**69,162**
Loss on valuation of inventories	**4,750**	9,148	**57,828**
Net operating loss carryforwards	**26,906**	33,663	**327,563**
Other	**10,919**	12,373	**132,931**
Total deferred tax assets	**100,415**	112,629	**1,222,486**
Valuation allowance	**(73,539)**	(89,542)	**(895,289)**
Total deferred tax assets, net of valuation allowance	**26,876**	23,087	**327,197**
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	**(10,472)**	(7,437)	**(127,490)**
Depreciation and amortization expenses	**(7,317)**	(7,266)	**(89,080)**
Reserve for reduction entry	**(2,396)**	(510)	**(29,170)**
Prepaid pension cost	**(4,260)**	-	**(51,863)**
Other	**(5,981)**	(6,436)	**(72,812)**
Total deferred tax liabilities	**(30,426)**	(21,649)	**(370,415)**
Net deferred tax assets	**(¥3,550)**	¥1,438	**($43,218)**

The net deferred tax assets are included in the following line items in the accompanying consolidated balance sheets.

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Current assets—Deferred tax assets	**¥17,399**	¥13,754	**$211,821**
Investments and other assets—Deferred tax assets	**1,873**	1,812	**22,803**
Current liabilities—Deferred tax liabilities			
(Other current liabilities)	**(82)**	(126)	**(998)**
Long-term liabilities—Deferred tax liabilities	**(22,740)**	(14,002)	**(276,844)**
Total net deferred tax assets	**(¥3,550)**	¥1,438	**($43,218)**

(Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates)

On December 2, 2011, amendments to the Japanese tax regulations were enacted into law, and the statutory income tax rate for years beginning on or after April 1, 2012 will be changed. As a result of these amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized has been changed as follows:

From April 1, 2012 to March 31, 2015	37.8%
on or after April 1, 2015	35.4%

Due to these changes in statutory income tax rates, net deferred tax assets increased by ¥2,160 million (US$26,297 thousand) as of March 31, 2012 and deferred income tax expense recognized for the year ended March 31, 2012 decreased by ¥720 million (US$8,766 thousand).

13. Net Assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of its Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the annual shareholders' meeting held on June 22, 2012, the shareholders approved cash dividends amounting to ¥3,514 million (US$42,781 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2011. Such appropriations are recognized in the period in which they are approved by the shareholders.

14. Ending Inventories

Book value of ending inventories is measured based on the lower of cost or market value.

¥459 million (US$5,588 thousand) and minus ¥627 million as "Loss on valuation of inventories" is included in "Cost of sales" for fiscal years 2012 and 2011, respectively. And minus ¥1,840 million (US$22,401 thousand) and ¥2,820 million as "Provision for loss on construction contracts" is included in "Cost of sales" for fiscal year 2012 and 2011, respectively.

15. Selling, General and Administrative Expenses

Selling, general and administrative expenses for fiscal years 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Freightage and packing expenses	**¥20,302**	¥21,034	**$247,163**
Advertising expenses	**36,452**	37,491	**443,779**
Sales incentives	**30,882**	35,345	**375,968**
Salaries and bonuses	**42,851**	42,627	**521,682**
Research and development expenses	**48,014**	42,778	**584,539**
Other	**72,226**	75,726	**879,304**
Total	**¥250,727**	¥255,001	**$3,052,435**

16. Impairment Loss on Property, Plant and Equipment

(Fiscal 2011)

In the fiscal year ended March 31, 2011, the Company recorded an impairment loss with regard to the following asset groups:

Use	Location	Category
Idle assets	Tokyo, Aichi Prefecture and 14 other locations	Buildings and structures, land and other

The idle assets are grouped on a property-by-property basis.

At the Company and its subsidiaries, assets were written down to their recoverable amounts due to a recent decline in the real estate market price and their decreased profitability.

As a result, the Company and its consolidated subsidiaries recognized a total of ¥1,457million in impairment loss.

The impairment loss by each category of property, plant and equipment was as follows:

	Millions of yen
	2011
Buildings and structures	¥215
Land	1,209
Other	33
Total	¥1,457

A net realizable value is determined based on the government-published land valuation index prices or values used for real estate tax purposes less disposal cost.

17. Loss on Disaster

The loss was caused by Great East Japan Earthquake.

(Fiscal 2012)

The main content was the fixed overhead costs corresponding to lower production.

(Fiscal 2011)

The main contents were as follows;

	Millions of yen
	2011
Fixed costs by temporary suspension of production, etc	¥4,669
Cost to restore damaged facilities	966
Loss on the damage on inventory and fixed assets	883
Loss on doubtful accounts for suppliers, etc.	313
Other	521
Total	¥7,352

18. Loss on Prior Periods Adjustment

(Fiscal 2011)

The main contents were as follows.

The adjustment of provision for product warranties in prior years was recognized as a result of review of product warranty cost.

	Millions of yen
	2011
The adjustment of provision for product warranties in prior years	**¥4,763**
The adjustment of cost of sales in prior years	**1,347**
Total	**¥6,110**

19. Loss on Reconstruction of Office Building

(Fiscal 2011)

In relation to the reconstruction of Ebisu Subaru Building, the following losses were recognized.

	Millions of yen
	2011
Estimation of demolition costs	**¥334**
Non-recurring depreciation	**323**
Total	**¥657**

20. Provision for Loss on Transfer of Business

(Fiscal 2012)

The Company is going to assign the businesses of Eco Technologies division and records the estimated amount of loss related to these assignments.

21. Other Income and Loss

(Fiscal 2012)

Other income includes ¥1,611 million (US$19,613 thousand) which is the forgiveness of debt relating to the development resulting from the dissolution of contract about a specific project in the Aerospace division.

Other loss includes ¥3,028 million (US$36,864 thousand) which consists of the provision of allowance for doubtful accounts about the receivables from a customer whose credit risk had increased, loss on valuation of work in process and others.

(Fiscal 2011)

The Company is going to terminate the production of minicar in fiscal year 2012. Other loss includes ¥2,422 million, the cost of retirement and demolition, etc of facilities related to the termination.

22. Stock Option Plans

(Fiscal 2012)

1. Descriptions, volume, and movement of stock options

(1) Descriptions of stock option plans

	Fiscal 2004 Stock option plan
Position and number of grantees	Directors, Executive Officers, Corporate Auditors and employees: 320
Class and number of stock (shares)	Common Stock 1,917,000
Date of grant	September 6, 2004
Vesting conditions	Directors, Executive Officers, Corporate Auditors and employees who are enrolled at the date the subscription rights are granted. Should an employee under 50 years of age retire by voluntary termination, the employee's right to exercise his/her claim will expire.
Required service period	From September 6, 2004, to July 31, 2006
Exercise period	From August 1, 2006, to July 31, 2011

Note: The number of stock options is converted to the equivalent number of common stock.

(2) Volume and movement of stock options

The stock options outstanding in the fiscal year 2012 are summarized as follows:

[1] The number of stock options (shown as the equivalent number of common stock)

	Fiscal 2004 Stock option plan
Nonexercisable stock options (shares):	
At the end of the fiscal year 2011	-
Stock options granted	-
Forfeitures	-
Conversion to exercisable stock options	-
Stock options outstanding	-
Exercisable stock options (shares):	
At the end of the fiscal year 2011	1,254,000
Conversion from nonexercisable stock options	-
Stock options exercised	205,000
Forfeitures	1,049,000
Stock options outstanding	-

[2] Price information of stock options

	Fiscal 2004 Stock option
Exercise price (Yen)	¥594,000
Average market price of the stock at the time of exercise (Yen)	620
Fair value (date of grant) (Yen)	-

(Fiscal 2011)

1. Descriptions, volume, and movement of stock options

(1) Descriptions of stock option plans

	Fiscal 2004 Stock option plan
Position and number of grantees	Directors, Executive Officers, Corporate Auditors and employees: 320
Class and number of stock (shares)	Common Stock 1,917,000
Date of grant	September 6, 2004
Vesting conditions	Directors, Executive Officers, Corporate Auditors and employees who are enrolled at the date the subscription rights are granted. Should an employee under 50 years of age retire by voluntary termination, the employee's right to exercise his/her claim will expire.
Required service period	From September 6, 2004, to July 31, 2006
Exercise period	From August 1, 2006, to July 31, 2011

Note: The number of stock options is converted to the equivalent number of common stock.

(2) Volume and movement of stock options

The stock options outstanding in the fiscal year 2011 are summarized as follows:

[1] The number of stock options (shown as the equivalent number of common stock)

	Fiscal 2004 Stock option plan
Nonexercisable stock options (shares):	
At the end of the fiscal year 2010	-
Stock options granted	-
Forfeitures	-
Conversion to exercisable stock options	-
Stock options outstanding	-
Exercisable stock options (shares):	
At the end of the fiscal year 2010	1,863,000
Conversion from nonexercisable stock options	-
Stock options exercised	609,000
Forfeitures	-
Stock options outstanding	1,254,000

[2] Price information of stock options

	Fiscal 2004 Stock option
Exercise price (Yen)	¥594,000
Average market price of the stock at the time of exercise (Yen)	675
Fair value (date of grant) (Yen)	-

23. Finance Leases

As allowed under the Japanese accounting standards, the Company and its consolidated subsidiaries in Japan account for finance leases.

Information as Lessee

(1) Transfer of title through finance lease transaction

[1] Leased assets

Mainly implements of production in the automotive business

[2] Depreciation method for leased assets

Leased assets are depreciated by the same method as used for other property, plant and equipment.

(2) Finance leases which do not transfer ownership title

[1] Leased assets

Mainly network equipment and terminal units (Other tangible assets) in the automotive business

[2] Depreciation method for leased assets

Leased assets are depreciated by the straight-line method over the leased period and the residual value is zero.

(3) Those finance lease transactions that had not had their ownership transferred on or before March 31, 2008, are recorded based on the same method as used for regular rental transactions.

[1] Pro forma information of such leases as of March 31, 2012 and 2011, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Machinery, equipment and vehicles	**¥231**	¥284	**$2,812**
Other tangible assets	**306**	760	**3,725**
Intangible assets	**9**	31	**110**
Total	**546**	1,075	**6,647**
Accumulated depreciation/amortization	**(443)**	(810)	**(5,393)**
Net	**¥103**	¥265	**$1,254**

[2] The future minimum lease/rent payments, excluding the portion of interest thereon, as of March 31, 2012 and 2011, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Finance leases:			
Due within one year	**¥74**	¥168	**$901**
Due after one year	**42**	114	**511**
Total	**¥116**	¥282	**$1,412**

[3] Pro forma information related to finance leases for fiscal years 2012 and 2011 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Lease payment	**¥171**	¥347	**$2,082**
Depreciation and amortization expenses	**159**	328	**1,936**
Interest expense portion	**¥4**	¥10	**$49**

Information as Lessor

(1) The details of lease investment assets as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Obligation of lease fee receivable	**¥26,374**	¥28,028	**$321,086**
Estimated residual value	**272**	280	**3,311**
Interest expense portion	**(4,781)**	(5,258)	**(58,205)**
Lease investment assets	**¥21,865**	¥23,050	**$266,192**

(2) Lease revenue related to lease investment assets

Amounts of collections on lease receivable after the fiscal year ended March 31, 2012 and 2011, were as follows;

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Within 1 year	**¥8,786**	¥9,120	**$106,964**
1 to 2 years	**7,004**	7,438	**85,269**
2 to 3 years	**5,226**	5,588	**63,623**
3 to 4 years	**3,267**	3,742	**39,774**
4 to 5 years	**2,013**	1,972	**24,507**
Over 5 years	**¥78**	¥168	**$949**

24. Operating Lease

Information as Lessee

The future minimum lease/rent payments, excluding the portion of interest thereon, as of March 31, 2012 and 2011, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Operating leases:			
Due within one year	**¥1,179**	¥1,135	**$14,354**
Due after one year	**4,813**	5,346	**58,595**
Total	**¥5,992**	¥6,481	**$72,949**

Information as Lessor

The future minimum lease/rent payments receivable, excluding the portion of interest thereon, as of March 31, 2012 and 2011, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Operating leases:			
Due within one year	**¥545**	¥1,122	**$6,635**
Due after one year	**206**	300	**2,508**
Total	**¥751**	¥1,422	**$9,143**

25. Contingent Liabilities

Contingent liabilities as of March 31, 2012 and 2011, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
As guarantor of third-party indebtedness from financial institutions	**¥38,600**	¥31,943	**$469,929**

26. The Amount of Discount of Export Bill

The amount of discount of export bill as of March 31, 2012 and 2011, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
The amount of discount of export bill	**¥905**	¥9,102	**$11,018**

27. Property for Transfer Balance to Special Purpose Company

Property for transfer balance to special purpose company as of March 31, 2012 and 2011, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Property for transfer balance to special purpose company (loan claims of Automobiles and account receivable-trade of Aerospace)	**¥23,416**	¥51,512	**$285,074**

28. Segment Information

(1)General information about reportable segments

The reportable segments the Company reports are the business units for which the Company is able to obtain respective financial information separately in order for the Board of Directors to conduct periodic investigation to determine distribution of management resources and evaluate their business result.

The Company has placed Automobile at the center of the whole businesses, and has implemented internal company system into Aerospace, Industrial Products and Eco technology divisions. This framework makes clearer the responsibility of each division and accelerates business execution. The Company manages the subsidiaries on the basis of this classification. Therefore the reportable segments consist of Automobile, Aerospace, Industrial products, Eco technology, and Other which does not belong to any division.

As for Eco technology division, the Company includes it into "Other" because it does not satisfy the quantitative criteria for the reportable segments. As a result, reportable segments are Automobile, Aerospace, and Industrial products.

Automobile segment manufactures and sells vehicles and related products. Aerospace segment manufactures aircrafts, parts of space-related devices. Industrial products segment manufactures and sells Robin engines and related products.

(2)Calculation method of sales, profit or loss, assets, liabilities and other items by reportable segments

Accounting method for reportable segments is almost the same as "2. Summary of Significant Accounting Policies".

The segment profit or loss are calculated based on operating income or loss.

Net sales - Inter-segment are calculated based on current market prices.

(3)Information on sales, profit or loss, assets and other items by reportable segments for the fiscal years ended March 31, 2012 and 2011 was summarized as follows

		Millions of yen	Thousands of U.S. dollars
Net Sales:	**2012**	2011	**2012**
Automobiles			
Outside customers	**¥1,389,070**	¥1,452,207	**$16,911,006**
Inter-segment	**2,947**	2,520	**35,877**
Sub-total	**1,392,017**	1,454,727	**16,946,883**
Aerospace			
Outside customers	**80,251**	82,817	**977,003**
Inter-segment	**-**	-	**-**
Sub-total	**80,251**	82,817	**977,003**
Industrial products			
Outside customers	**33,617**	30,061	**409,265**
Inter-segment	**111**	39	**1,351**
Sub-total	**33,728**	30,100	**410,616**
Other (*1)			
Outside customers	**14,167**	15,478	**172,474**
Inter-segment	**13,208**	13,207	**160,799**
Sub-total	**27,375**	28,685	**333,273**
Total	**1,533,371**	1,596,329	**18,667,775**
Adjustment (*2)	**(16,266)**	(15,766)	**(198,028)**
Consolidated total (*3)	**¥1,517,105**	¥1,580,563	**$18,469,747**

		Millions of yen	Thousands of U.S. dollars
Segment profit or Loss:	**2012**	2011	**2012**
Automobiles	**¥39,389**	¥80,387	**$479,535**
Aerospace	**2,882**	2,256	**35,086**
Industrial products	**503**	(52)	**6,124**
Other (*1)	**1,029**	1,463	**12,527**
Total	**43,803**	84,054	**533,272**
Adjustment (*2)	**156**	81	**1,900**
Consolidated total (*3)	**¥43,959**	¥84,135	**$535,172**

Segment assets:	2012	2011	2012
		Millions of yen	Thousands of U.S. dollars
Automobiles	**¥1,097,729**	¥944,046	**$13,364,122**
Aerospace	**153,960**	162,704	**1,874,361**
Industrial products	**53,863**	41,515	**655,746**
Other (*1)	**75,916**	71,562	**924,227**
Total	**1,381,468**	1,219,827	**16,818,456**
Adjustment (*2)	**(28,936)**	(31,503)	**(352,276)**
Consolidated total (*3)	**¥1,352,532**	¥1,188,324	**$16,466,180**

Other Items:	2012	2011	2012
		Millions of yen	Thousands of U.S. dollars
Depreciation and amortization:			
Automobiles	**¥53,043**	¥51,004	**$645,763**
Aerospace	**3,534**	2,380	**43,024**
Industrial products	**522**	660	**6,355**
Other (*1)	**1,512**	2,018	**18,408**
Total	**58,611**	56,062	**713,550**
Adjustment (*2)	**-**	-	**-**
Consolidated total (*3)	**¥58,611**	¥56,062	**$713,550**
Investment to equity-method affiliates:			
Automobiles	**¥5,285**	¥4,849	**$64,341**
Aerospace	**270**	230	**3,287**
Industrial products	**886**	890	**10,786**
Other (*1)	**266**	394	**3,239**
Total	**6,707**	6,363	**81,653**
Adjustment (*2)	**-**	-	**-**
Consolidated total (*3)	**¥6,707**	¥6,363	**$81,653**
Increase of property, plant and equipment and intangible fixed assets:			
Automobiles	**¥63,544**	¥64,591	**$773,606**
Aerospace	**2,772**	1,918	**33,747**
Industrial products	**262**	215	**3,190**
Other (*1)	**457**	654	**5,564**
Total	**67,035**	67,378	**816,107**
Adjustment (*2)	**-**	-	**-**
Consolidated total (*3)	**¥67,035**	¥67,378	**$816,107**

Note: *1. "Other" means the category which is not included into any reportable segments. It consists of garbage collection vehicles, specialized vehicles, real estate lease, etc.

*2. Adjustment of segment profit of loss refers to elimination of intersegment transaction.

*3 Segment profit or loss is adjusted on operating income on the consolidated statements of income.

Related Information

(1)Products and services information

Products and services information is not shown since the same information is in the segment information.

(2)Information about geographic areas

[1]Sales for the fiscal years ended March 31, 2012 and 2011 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Sales: (*1)			
Japan	**¥498,472**	¥467,323	**$6,068,566**
North America	**710,432**	725,775	**8,649,038**
[United States] (*2)	**[620,675]**	[654,402]	**[7,556,306]**
Europe	**112,826**	126,321	**1,373,582**
Asia	**96,729**	138,854	**1,177,611**
Other	**98,646**	122,290	**1,200,950**
Consolidated total	**¥1,517,105**	¥1,580,563	**$18,469,747**

Note: *1 Sales is categorized by country or area which is based on customer location.

*2 Sales of the United States is included in North America area.

[2]Property, plant and equipment for the fiscal years ended March 31, 2012 and 2011 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Property, plant and equipment: (*1)			
Japan	**¥376,569**	¥379,717	**$4,584,478**
North America	**49,417**	50,990	**601,619**
[United States] (*2)	**[48,732]**	[50,234]	**[593,280]**
Europe	**98**	135	**1,193**
Asia	**-**	-	**-**
Other	**7**	-	**85**
Consolidated total	**¥426,091**	¥430,842	**$5,181,503**

Note: *1 Property, plant and equipment is categorized by country or area according to geographic adjacent level.

*2 Property, plant and equipment of the United States is included in North America area.

[3]Major customers Information

Information about major customers is not shown because outside sales for major customers accounted for less 10% of operating revenue on the consolidated statements of income for the fiscal years ended March 31, 2012 and 2011.

Information on Impairment Loss in Fixed Assets by Reportable segments

Impairment loss in fixed assets by reportable segments for the fiscal years ended March 31, 2012 and 2011 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Impairment loss in fixed assets:			
Automobiles	**¥63**	¥1,431	**$767**
Aerospace	**-**	-	**-**
Industrial products	**-**	26	**-**
Other	**-**	-	**-**
Total	**63**	1,457	**767**
Adjustment	**-**	-	**-**
Total	**¥63**	¥1,457	**$767**

Information on Amortization of Goodwill and Unamortized Balance by Reportable segments

Information on amortization of goodwill and unamortized balance by reportable segments for the fiscal years ended March 31, 2012 and 2011 was summarized as follows:

(1)Goodwill

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Amount written off of current period:			
Automobiles	**¥318**	¥350	**$3,871**
Aerospace	**-**	-	**-**
Industrial products	**-**	-	**-**
Other (*1)	**1**	3	**12**
Total	**319**	353	**3,883**
Corporate and elimination	**-**	-	**-**
Total	**¥319**	¥353	**$3,883**
Balance at the end of current period:			
Automobiles	**¥2,420**	¥2,773	**$29,462**
Aerospace	**-**	-	**-**
Industrial products	**-**	-	**-**
Other (*1)	**-**	1	**-**
Total	**2,420**	2,774	**29,462**
Corporate and elimination	**-**	-	**-**
Total	**¥2,420**	¥2,774	**$29,462**

Note: *1 "Other" is related to Eco technology division.

(2)Negative Goodwill

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Amount written off of current period:			
Automobiles	**¥-**	¥206	**$-**
Aerospace	**-**	-	**-**
Industrial products	**-**	-	**-**
Other	**-**	-	**-**
Total	**-**	206	**-**
Corporate and elimination	**-**	-	**-**
Total	**¥-**	¥206	**$-**
Balance at the end of current period:			
Automobiles	**¥-**	¥-	**$-**
Aerospace	**-**	-	**-**
Industrial products	**-**	-	**-**
Other	**-**	-	**-**
Total	**-**	-	**-**
Corporate and elimination	**-**	-	**-**
Total	**¥-**	¥-	**$-**

Information on Negative Goodwill by Reportable segments

No items to be reported.

29. Fair Value of Investment and Rental Property

The Company and certain consolidated subsidiaries own rental office buildings and rental commercial facilities with the objective of generating rental income in Saitama prefecture and other locations. Certain domestic rental office buildings in Japan are classified as properties that include portions used as investment and rental property, because part of them are used by the Company and certain consolidated subsidiaries.

Investment and rental property consolidated balance sheet amounts, principal changes during fiscal 2012 and 2011, fair value at the end of fiscal 2012 and 2011 were as follows:

As of March 31, 2012

	Millions of yen			
	Consolidated balance sheet amounts			Fair value as the end of the fiscal year
	beginning balance	Increase(decrease) during the year	ending balance	
Investment and rental property	**¥34,148**	**(¥2,264)**	**¥31,884**	**¥40,854**
Properties that include portions used as investment and rental property	**¥14,711**	**(¥8,138)**	**¥6,573**	**¥9,555**

As of March 31, 2012

	Thousands of U.S. dollars			
	Consolidated balance sheet amounts			Fair value as the end of the fiscal year
	beginning balance	Increase(decrease) during the year	ending balance	
Investment and rental property	**$415,729**	**($27,563)**	**$388,166**	**$497,370**
Properties that include portions used as investment and rental property	**$179,097**	**($99,075)**	**$80,022**	**$116,326**

As of March 31, 2011

	Millions of yen			
	Consolidated balance sheet amounts			Fair value as the end of the fiscal year
	beginning balance	Increase(decrease) during the year	ending balance	
Investment and rental property	¥29,838	¥4,310	¥34,148	¥47,877
Properties that include portions used as investment and rental property	¥13,534	¥1,177	¥14,711	¥40,416

Note 1. The amounts of consolidated balance sheet excludes accumulated depreciation and accumulated impairment loss from acquisition costs.

2. Among changes in the amount of investment, rental property and properties that include portions used as investment and rental property during the fiscal 2012, principal increases were properties acquisitions etc, which amounted to ¥1,628 million (US$19,820 thousand), and principal decreases were loss on sales and retirement, which amounted to ¥8,968 million (US$109,179 thousand) .

Among changes in the amount of investment, rental property and properties that include portions used as investment and rental property during the fiscal 2011, principal increases were properties acquisitions etc, which amounted to ¥9,113 million, and principal decreases were depreciation and impairment loss, which amounted to ¥1,321 million and ¥846 million, respectively.

3. Fair value of a part of main investment and rental property is the amount estimated by based value of real-estate appraiser, and fair value of a part of other investment and rental property is the amount

estimated by the Company based principally on land assessment value. Also, fair value at the end of the fiscal year 2011 of Shinjuku Subaru building is the amount estimated by based on sale value.

Profit and loss in fiscal 2012 and 2011 concerning investment and rental property and properties that include portions used as investment and rental property were as follows:

As of March 31, 2012

	Millions of yen			
	Rental income	Rental expenses	Change	Other profit and loss
Investment and rental property	**¥3,309**	**¥2,062**	**¥1,247**	**¥111**
Properties that include portions used as investment and rental property	**¥1,144**	**¥537**	**¥607**	**¥26,134**

As of March 31, 2012

	Thousands of U.S. dollars			
	Rental income	Rental expenses	Change	Other profit and loss
Investment and rental property	**$40,285**	**$25,103**	**$15,182**	**$1,351**
Properties that include portions used as investment and rental property	**$13,927**	**$6,538**	**$7,389**	**$318,164**

As of March 31, 2011

	Millions of yen			
	Rental income	Rental expenses	Change	Other profit and loss
Investment and rental property	¥3,055	¥2,199	¥856	(¥338)
Properties that include portions used as investment and rental property	¥1,790	¥1,099	¥691	(¥669)

Note:1. Rental income (from the properties that include portions used as investment and rental property) does not include the portion that the Company or certain subsidiaries use as the provision of services and business administration purposes. Rental expenses, however, include all portions of the expenses (costs related to depreciation, repairs, insurance and taxes).

2. Other profit and loss include in gain on sale and impairment loss.

30.Subsequent Event

No items to be reported.

31.Other

On January 15, 2010, the Company filed a lawsuit with the Tokyo District Court against the Government of Japan for the payment [totaling ¥35,124 million (US$ 427,611 thousand)] of uncollected initial investment fees (amount paid for customization to the Japanese specifications) for the manufacture of the AH-64D combat helicopters for the Japan Ministry of Defense.

The payment [totaling ¥23,954 million (US$ 291,624 thousand)] of uncollected initial investment fees the Company paid was included in "Other assets" of "Investments and other assets".

In addition, the amount of lawsuit includes the uncollected initial investment fees, consumption tax and other paid by subcontractors.

Independent Auditor's Report

To the Board of Directors of FUJI HEAVY INDUSTRIES LTD.:

We have audited the accompanying consolidated financial statements of FUJI HEAVY INDUSTRIES LTD. and its consolidated subsidiaries, which comprise the consolidated balance sheets as of March 31, 2012 and 2011, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in net assets and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of FUJI HEAVY INDUSTRIES LTD. and its consolidated subsidiaries as of March 31, 2012 and 2011, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2012 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

June 25, 2012
Tokyo, Japan

VOLVO CAR GROUP

FINANCIAL REPORT 2012

RENEWED MODEL RANGE

SUCCESSFUL LAUNCHES

INVESTMENT STRATEGY CONTINUED

HIGH PACE IN TRANSFORMATION PROCESS

THIS IS VOLVO CAR GROUP

Volvo Car Group's history dates back to 1927 when the Swedish company Volvo Car Corporation was founded and the first Volvo car was launched. Volvo Car Group is headquartered in Gothenburg and has its major manufacturing plants in Torslanda, Sweden and in Ghent, Belgium. In 2012 our 2,238 dealers sold 421,951 cars in more than 100 countries around the world. In 2010, Zhejiang Geely Holding Group acquired Volvo Car Group from Ford Motor Company. Currently, Volvo Car Group employs around 22,500 people.

THE TRANSFORMATION OF THE VOLVO CAR GROUP

Volvo Car Group is going through a radical transformation.

The corporate strategy of Volvo Car Group, launched in 2011, is all about customer focus. Designed Around You is the foundation for the corporate culture and the strategy sets clear and ambitious objectives. Volvo Car Group will truly establish itself as a leading car manufacturer in the premium segment. With roots firmly based in its Swedish heritage, China is planned to become the second home market with extensive commercial and industrial presence. Additionally, new vehicle and engine technology in SPA and VEA will serve the global market and ensure a premium customer experience based on safety, modern Scandinavian design, environmental care and clever functionality.

VISION

To be the world's most progressive and desired premium car brand.

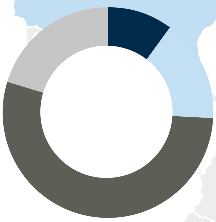
OBJECTIVES

- Provide cars people want
- Be a lean nimble company
- Have a top tier premium auto brand perception
- Be the employer of choice

WHICH WILL LEAD TO

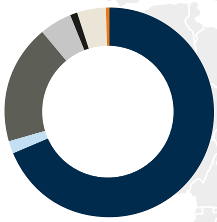
- Sales of over 800,000 vehicles globally
- Top car industry ROIC

SALES BY REGION (2012)



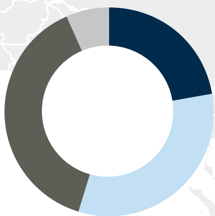
- China, 10.0%
- USA, 16.1%
- EU20, 53.8%
- Other, 20.1%

AVERAGE NUMBER OF EMPLOYEES BY REGION (2012)



- Sweden, 69.0%
- Nordic countries other than Sweden, 1.7%
- Belgium, 18.5%
- Europe other than the Nordic countries and Belgium, 4.7%
- North and South America, 1.1%
- Asia, 4.4%
- Other countries, 0.5%

MODELS BY RANGE (2012)

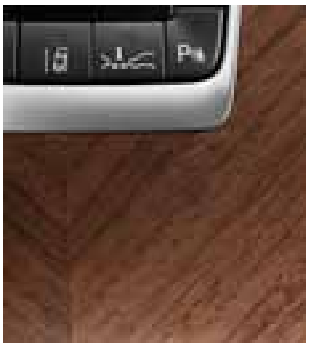


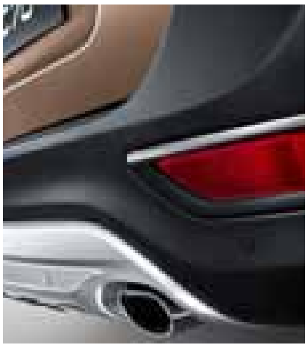
- S, 22.4%
- V, 32.5%
- XC, 38.6%
- C, 6.5%

HIGHLIGHTS 2012

ADAPTING TO A NEW MARKET SITUATION

In 2012, a new market situation affected by economic uncertainty in Europe significantly impacted sales and earnings. Volvo Car Group has during the second half of 2012 focused on re-balancing its cost base around the new sales environment, while still securing the long-term investments for the transformation of the Group. For the full year 2012, Volvo Car Group delivered a break-even result with an operating income of MSEK 18.





RENEWING THE MODEL RANGE

Volvo Car Group launched the all-new V40 and the V40 Cross Country during 2012. The car was positively received by customers around Europe, and 22,446 units were sold for the full year. The major upgrade of the Volvo S60, V60, XC60, V70, XC70, S80 and V60 Plug-in Hybrid, were revealed in February 2013. Overall, despite a challenging market situation, Volvo Car Group is well-positioned to capture positive sales trends and new customers, with almost a full renewal of its product range now completed.

INVESTMENTS CONTINUE AT A HIGH PACE

Presently, Volvo Car Group allocates around 6 per cent of its revenue to its Research & Development programmes. This is a vital part of creating a future as a strong independent car manufacturer in the premium segment. Despite the challenges of the current market situation, Volvo Car Group has been able to continue the transformation journey with full focus on delivering the new products to customers starting in early 2015. The first car model based on the new Scalable Product Architecture (SPA) is the next-generation Volvo XC90.

KEY FIGURES

	2012	2011
Retail sales, 000	422	449
China	42	47
USA	68	67
EU 20	227	252
Rest of World	85	83
Net Revenue, BSEK	125	126
Operating Income, MSEK	18	2,017
Operating & investing cash flow, MSEK	–4,929	2,502

CONTENTS

CEO COMMENT

ADJUSTED COST BASE SUPPORTS INVESTMENTS FOR FUTURE STRENGTH

The considerable uncertainty in the global economy and the European financial crisis had a major impact on the car industry in 2012. For Volvo Car Group this resulted in a sales slowdown, forcing the Group to trim its costs to match the new levels of demand.

Sales decreased in all by 6.1 per cent compared with the previous year. The operating income was 18 million SEK, affected by lower sales volumes, higher cost levels as well as a one-time effect relating to sale of technology that impacted the result positively by 590 million SEK.

In this challenging market, Volvo Car Group continued to pursue its transformation process in 2012 with the same level of intensity. The year started with the launch of the world-first V60 Plug-in Hybrid, a combination of an electric car, an economical hybrid and a powerful high-performance car that was developed in cooperation with Swedish energy supplier Vattenfall. We are immensely proud of this model: an example of the daring vision we have in developing unique solutions for the modern consumer. The first thousand V60 Plug-in Hybrids sold out even before the car was launched, and in 2013 about 4,000 to 6,000 cars will be built.

The all-new Volvo V40 was last year's most important new release. With the V40, Volvo Car Group has truly entered the competition in the premium compact-car segment and sales figures show that customers throughout Europe appreciate the car's design, driving pleasure and innovative content. At the same time the V40 confirms our world lead in the field of safety by receiving the highest overall score ever recorded by Euro NCAP. Last autumn the sister model was launched: the Volvo V40 Cross Country, an elegant crossover with 40 mm higher ground clearance.

In December 2012 ground was broken on the construction of a new bodyshop in Torslanda, Gothenburg, which will be completed in autumn 2013. This and other investments in plants such as Skövde and Olofström are part of our preparation for the new, in-house developed SPA architecture and the new VEA engine range consisting solely of four-cylinder engines.

In other words, the pace of our transformation process continues with full force. Volvo Car Group is delivering according to plan on the already established cornerstones of the transformation process.

RENEWAL OF MODEL RANGE COMPLETED

One of the most important projects in 2012 was the comprehensive upgrade of our model range, in which six of our large models – the S60 and S80, V60, V70 and V70 Cross Country as well as the XC60 – have now undergone a major update. Immediately after the acquisition by Geely in 2010, this was identified as one of the most strategic projects in the Group's recent history. This model year, launched in 2013, was destined to deliver a far more comprehensive upgrade than a conventional facelift, which is otherwise the more common path halfway through a model's lifecycle. More than 4,000 parts have been replaced, the design has been enhanced and modernised, and several properties and functions have been added. This autumn an entirely new engine range, VEA, will be launched.

This means that 8 of our total of 9 models are entirely new or significantly updated, creating the necessary prerequisites for tackling the tougher market situation we are facing.

2013 – BUILDING ON THE STRENGTH OF A GLOBAL BRAND

Volvo is a global brand with global sales. Our strategy for 2013 is to retain our market shares in the countries in which we operate by strengthening our presence in our chosen segments, but with even more precision than before. The highly competitive climate is likely to continue in 2013 with discounts and fighting over customers. We do not operate in the broadest high-volume segments. We compete in a different arena and that is something we should exploit by building on the strength of our relatively niche brand identity. We know our customers and our segments and they are unique.

Two markets, China and the USA, are expected to show growth in 2013. Successes in the USA, our largest market, have recently relied on two models, the XC60 and S60. Now we are adding the V60 to the model range – a model that we feel has considerable potential for winning customer approval in the USA thanks to our established heritage in the V-line segment and with the sporty properties offered by the V60.

In China we are in the establishment phase, which aims to support the long-term strategy where China will develop into a second home market for Volvo Car Group. Internal competence centres in all major functions have been built up. In 2012, the dealership network was reviewed and we have realigned our presence to encompass not just the biggest cities but also expanding smaller cities. The communication and market strategy has been sharpened and become more focused. Last but not least, we are establishing domestic production – the basis for sustainable growth in China.

In summer 2013 we will inaugurate our first Chinese manufacturing plant in Chengdu. The new plant follows the same principles and processes as our European car plants and an international team consisting of experienced Volvo Car Group employees from Torslanda and Ghent has been leading this project together with their new Chinese colleagues. We are proud to say that this giant project has followed the plan from both the quality and cost perspectives. The first cars will leave the plant at the end of 2013 and will do so with the very same precision as the cars produced in our other plants. Our engine plant in Zhangjiakou is also under construction and will supply the Chengdu facility.

Today the present and the future are intimately interwoven in what is perhaps the most intensive period ever in the history of Volvo Car Group. While 2012 brought an entirely new market situation which demanded lower production rates and lower costs, there is an absolute awareness that the investments for the future are the foundation for being a competitive and successful car company. We are often asked if we can handle the balancing between the two.

FINANCING FOR THE FUTURE

Our annual spending in research and development total about 6 per cent of our revenue. In 2012, most of this was allocated for the development of our new vehicle and engine technology in SPA and VEA. However, they also include investments in driveline electrification and the customer-friendly, interactive technology which is found in the newly upgraded models, among others.

Our financing structure is based on a mixture of own cash flow, external borrowing and shareholder support.

In times of lower sales, we balance lower cash flow with lower costs, but also as in 2012 by renegotiating and strengthening our external borrowing. Three important new loan agreements emerged in the period from December 2012 to February 2013. The first and most comprehensive was the complete refinancing of the Group's existing loans. This was made possible through an agreement with China Development Bank that totalled 922 million euro, running until 2020. The second was a 3-year credit facility totalling 240 million euro, signed with a group of European banks. Finally, a third loan agreement was signed with the Swedish Export Credit Corporation, a 3-year loan agreement for SEK 1 billion.

Volvo Car Group operates independently within the framework of Geely Holding Group. The owner provides financial support for our expansion plans in China, where our industrial structure is being built and established under the direct ownership of Shanghai Geely Zhaoyuan International Investment Co Ltd.

PRESENT AND FUTURE AS INTIMATELY INTERWOVEN DIMENSIONS

Our aim of realising the long-term strategic plan goes hand in hand with our determination to successfully tackle the short-term challenges. We see profitability in our operation as evidence of strength and a sign of good health. Many initiatives for simplifying control and minimising bureaucracy were implemented in 2011 and 2012. There is more to do in this respect. Volvo Car Group is relatively small in comparison with many of our competitors. Becoming more efficient, having shorter decision-making paths, building on our Swedish corporate culture which is characterised by participation and openness, are all important components for creating a competitive edge.

Our best competitive advantage comes from our employees. Time and again in the history of the Group they have stood shoulder to shoulder in times of crisis, showed immense innovation, loyalty and responsibility both to the brand and the Group. Our employees are dedicated to Volvo Car Group, our products and our future. We have a strong strategy with a clear human-centric approach, that is now being materialised, one step at a time. Impacted by macro trends we expect sales in 2013 to be on a par with last year. We have never had such an updated and new model range as we do right now, and we have excellent prerequisites for showing our customers a fresh new range of cars. 2013 is a year of intensive development during which we will continue to build tomorrow's Volvo Car Group.

Gothenburg, May 2013

Håkan Samuelsson
President & CEO
Volvo Car Group

> "The pace of our transformation process continues with full force."

MARKET OVERVIEW

WEAKER DEMAND PUTS PRESSURE ON INDUSTRY

CAR INDUSTRY DEVELOPMENT

The car market development globally was characterised by a mixed picture in 2012. In Europe, the economic uncertainties in the southern regions affected demand for new vehicles negatively, particularly in the second half of the year, and total industry sales volume for EU20 declined to 12,265,170 units (13,306,221). At the same time the market in the USA increased to 14,491,873 sold units (12,777,939), in a highly competitive environment with increased incentives and product offers. China continued to grow with total industry sales volume reaching 14,683,422 units (13,701,410), with in particular high growth in the premium segment, which increased by 34 per cent to 1,222,495 units (913,909).

VOLVO CAR GROUP RETAIL SALES

Full-year sales for Volvo Car Group amounted to 421,951 cars (449,255), a decline of 6.1 per cent compared to 2011. Sales decreased in the mature markets of Europe, but were partly offset by growth in overseas markets such as Russia and Japan. The phase-out of the Volvo C30, S40 and V50 models had a significant impact on sales as the all-new Volvo V40 reached markets fully only towards the end of the year. The Volvo XC60 was the best-selling model with 106,203 sold cars (97,183), followed by the Volvo S60 for which deliveries reached 64,746 cars (68,330) and the Volvo V60 with 53,037 cars (49,820).

EUROPE (EU20)

Retail sales in the Europe (EU20) amounted to 227,027 units, a decline of 10.0 per cent compared to 2011 (252,217), following declining car market volumes. In the Swedish home market, representing more than one fifth of Volvo Car Group's total European sales, Volvo remained the largest car brand with 18.9 per cent market share, although sales decreased by 11.3 per cent to 51,832 cars (58,463). The debt crisis in the eurozone affected primarily the car market in Southern Europe, and sales in Italy and Spain declined by 20.6 per cent and 25.4 per cent respectively. Sales in the core markets of Germany and the UK declined by 3.3 per cent and 3.1 per cent respectively. Overall, the Volvo Car Group share decreased moderately compared to 2011, from 1.90 per cent to 1.87 per cent.

UNITED STATES

The United States, Volvo Car Group's largest market, recorded sales of 68,079 units, an increase of 1.2 per cent versus 2011 (67,273). Sales in USA were mainly driven by strong demand for the Volvo S60 and XC60 models while the overall performance was affected by Volvo Car Group's strategy to keep incentives at moderate levels and the phase-out of Volvo products in the growing C-segment, the C30. Market share decreased from 0.53 to 0.46 per cent.

CHINA

In China, Volvo performed well with the XC60 and S60 models while the overall performance decreased by 10.9 per cent to 41,989 cars (47,140), partly explained by the phase-out of the S40 model and a highly competitive environment in the premium segment. The Volvo V60 was introduced during the year while the new V40 model is due for Chinese launch in 2013 to further strengthen the offer. Moreover, a re-organisation of the China team was executed to enhance the experience and competence within the sales field.

REST OF THE WORLD

In all other markets Volvo Car Group sold 84,856 units, an increase of 2.7 per cent compared to 2011 (82,625). Strong performance was achieved in markets like Russia and Japan, with growth of 6.0 per cent and 17.8 per cent respectively, with high demand for the Volvo XC products in Russia and the Volvo V60 in Japan.

2013 OUTLOOK

The car industry will continue to be highly competitive in 2013 as manufacturers will seek to capture volumes and market shares, putting pressure on both sales volumes and pricing. The Chinese and USA car market are expected to grow in 2013 following increased demand, whereas the European car market is expected to continue to be affected by economic uncertainty.

For Volvo Car Group, the cost base has been rebalanced for volume expectations in line with 2012. The European market is expected to continue to be challenging, while growth is expected in China as well as in the USA. Volvo Car Group continues its ongoing transformation programme and presented a major renewal of its product range in February 2013 to improve sales and brand positioning.

INDUSTRY DEVELOPMENT (TOTAL PASSENGER VEHICLES)

000'	2012	2011	Change, %
China[1]	14,683	13,701	7.17
USA	14,492	12,778	13.41
EU 20	12,265	13,306	–7.82
of which Sweden	280	305	–8.23
of which Germany	3,083	3,174	–2.87
of which UK	2,045	1,941	5.32
Rest of the World	17,613	15,843	11.17
of which Russia	2,736	2,464	11.04
of which Japan	4,572	3,518	29.97

RETAIL SALES

Number of cars sold	2012	2011	Change, %
China	41,989	47,140	–10.9
USA	68,079	67,273	1.2
EU 20	227,027	252,217	–10.0
of which Sweden	51,832	58,463	–11.3
of which Germany	32,070	33,167	–3.3
of which UK	31,743	32,770	–3.1
Rest of the World	84,856	82,625	2.7
of which Russia	20,364	19,209	6.0
of which Japan	13,848	11,754	17.8
TOTAL	**421,951**	**449,255**	**–6.1**

MARKET SHARE

%	2012	2011	Change, %
China[1]	0.26	0.29	–0.03
USA	0.46	0.53	–0.07
EU 20	1.87	1.90	–0.04
of which Sweden	18.86	19.30	–0.44
of which Germany	1.06	1.07	–0.01
of which UK	1.55	1.68	–0.13
Rest of the World	0.35	0.38	–0.03
of which Russia	0.74	0.78	–0.04
of which Japan	0.30	0.33	–0.03

[1] Preliminary data for China.
Source: Polk.

PRODUCTS

SUCCESSFUL START FOR RENEWED MODEL RANGE

The most significant product announcement of 2012 for Volvo Car Group was the launch of the new Volvo V40. The car is built in the Ghent plant in Belgium and is primarily aimed at European markets – 85 per cent of the total volume will go to European customers. The success of the new Volvo V40 was further established when it was included in the shortlist for the European Car of the Year award, where it achieved third place.

The Volvo V40 engine range spans between Volvo's compact diesel with CO_2 emissions of just 88 g/km, to the turbocharged T5 petrol engine with 254 hp and acceleration from 0 to 100 km/h in 6.1 seconds. It offers world-first safety systems – the innovative Pedestrian Detection system with Full Autobrake as well as the ground-breaking Pedestrian Airbag Technology which operates through sensors in the front bumper that registers imminent physical contact between the car and the pedestrian. In addition, Cyclist Detection will be available as of May 2013.

**VOLVO V40 CROSS COUNTRY –
CAPABLE RUGGEDNESS AND EXPRESSIVE ELEGANCE**

Volvo Car Group launched the V40 Cross Country, an elegant and refined premium crossover, in September 2012. Around 50 per cent of the total volume will go to European customers. This is a capable all-road version of the V40 with unique Cross Country details and a 40 mm higher ride than the regular V40 car.

VOLVO V60 PLUG-IN HYBRID – A WORLD FIRST

The V60 Plug-in Hybrid reached the first customers in the autumn of 2012 with the first 1,000 "Pure Limited" cars that sold out even before they reached the showrooms. Production will increase to 4,000–6,000 cars in 2013. The V60 Plug-in Hybrid is the world's first diesel-powered plug-in hybrid, giving owners an electric range of 50 km and fuel consumption as low as 1.8 l/100 km (48 g/km CO_2) in hybrid mode.

**THE NEW MODEL RANGE 2014
– UPGRADE WITH ATTENTION TO DETAIL**

In February 2013 the new Volvo S60, V60/V60 Plug-in Hybrid, XC60, V70, XC70, and S80 were launched, with significant interior and exterior upgrades. The new design focuses on quality and attention to details, a permanent high-beam is available and Sensus Connected Touch provides full internet connectivity as well as voice-controlled Spotify access. Cyclist Detection with full Autobrake has been added to all models. Further improvements in environmental performance demonstrate class-leading levels of emission and fuel consumption across the range, such as the S60 with 4.0 l/100km and CO_2 emissions of just 106 g/km.

FINANCIAL SUMMARY

INVESTMENT STRATEGY CONTINUES AT A HIGH PACE

FINANCIAL COMMENTARY

Revenue amounted to MSEK 124,547 (125,678), a decrease of 0.9 per cent, due to lower sales volumes, increased discounts and a negative market mix, but partly offset by positive exchange rate developments and a positive carline mix. Gross income decreased by 3.9 per cent to MSEK 19,947 (20,767). Expenses in Research & Development increased by 17.6 per cent to MSEK 6,289 (5,347) to support the new product strategy of Volvo Car Group. Administrative expenses increased by 11.5 per cent to MSEK 5,240 (4,699), mainly due to a higher number of employees. Selling expenses increased by 3.9 per cent to MSEK 8,642 (8,314) as a result of higher marketing spend. Improved vehicle quality resulted in reduced warranty expenses.

A capital gain relating mainly to the sale of technology from Volvo Car Corporation to Geely Group Ltd Co amounted to MSEK 590 and affected the operating income positively. The sale refers to platform technology developed prior to the ownership under Ford.

Operating income amounted to MSEK 18 (2,017), and net income for the year was MSEK −480 (1,024).

CASH FLOW

In 2012, cash flow from operating activities was positive in the amount of MSEK 2,749, compared to 8,067 in 2011, mainly affected by negative working capital development as well as lower operating income.

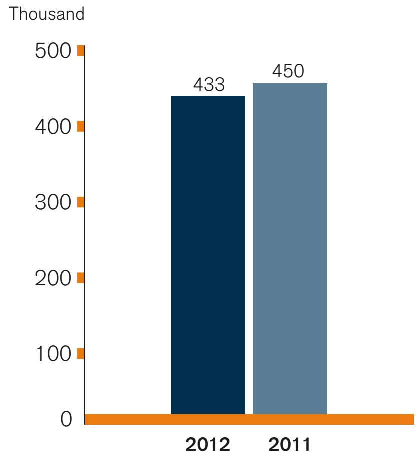
Investing activities increased to MSEK 7,678 compared to 5,565 in 2011, following increased investments in SPA and VEA. Cash flow from operating and investing activities amounted to −4,929 (2,502).

At the end of the year, cash and cash equivalents amounted to MSEK 9,607 compared to 14,634 at the end of 2011.

BALANCE SHEET

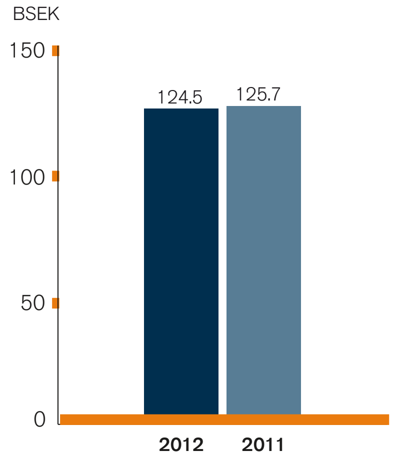
Significant progress has been achieved in securing committed long term financing partners. Three new loan agreements materialised in December 2012 to February 2013, a refinancing of all existing loans by CDB, totaling MEUR 922, a back-up facility of MEUR 240 with a European bank group, and a MSEK 1,000 facility with Swedish Export Credit Corporation.

WHOLESALES



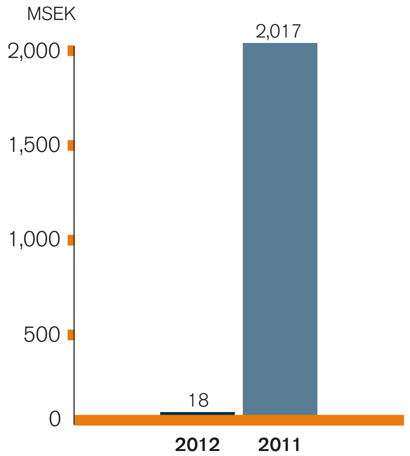
Sales were affected by a challenging market environment and fell by 6.1 per cent. Wholesales, sales to dealers, fell to 432, 950 units.

NET REVENUE



Revenue fell to BSEK 124.5 with lower sales volumes partly offset by positive exchange rate developments

OPERATING INCOME



Operating income decreased to MSEK 18 due to lower sales and increased costs due to expansion plans.

INCOME STATEMENTS

MSEK	2012	2011
Net revenue	124,547	125,678
Cost of sales	−104,600	−104,911
Gross income	**19,947**	**20,767**
Research and development expenses	−6,289	−5,347
Selling expenses	−8,642	−8,314
Administrative expenses	−5,240	−4,699
Other operating income	1,732	935
Other operating expenses	−1,514	−1,506
Share of income in associates	24	181
Operating income	**18**	**2,017**
Financial income	618	409
Financial expenses	−1,551	−1,216
Income before tax	**−915**	**1,210**
Income tax	435	−185
Net income	**−480**	**1,024**
Net income attributable to		
Owners of the parent company	−530	927
Non-controlling interests	50	97
	−480	**1,024**

OTHER COMPREHENSIVE INCOME

MSEK	2012	2011
Net income for the year	−480	1,024
Other comprehensive income, net of income tax		
Translation difference on foreign operations	−324	−17
Translation difference of hedge instruments of net investments in foreign operations	48	–
Change in cash flow hedge reserve	138	–
	−138	**−17**
Total comprehensive income for the year	**−618**	**1,007**
Total comprehensive income attributable to		
Owners of the parent company	−668	910
Non-controlling interests	50	97
	−618	**−1,007**

BALANCE SHEETS

MSEK	Dec 31, 2012	Dec 31, 2011
ASSETS		
Non-current assets		
Intangible assets	15,666	14,840
Property, plant and equipment	25,654	25,546
Assets held under operating leases	3,542	3,032
Investments in associates	550	340
Other long-term securities holdings	10	9
Deferred tax assets	1,701	1,636
Other non-current assets	734	815
Total non-current assets	**47,857**	**46,218**
Current assets		
Inventories	11,812	13,219
Accounts receivable	4,735	3,808
Current tax assets	87	42
Other current assets	2,587	2,540
Cash and cash equivalents	9,607	14,634
Total current assets	**28,829**	**34,242**
TOTAL ASSETS	**76,686**	**80,460**
EQUITY & LIABILITIES		
Equity		
Equity attributable to owners of the parent company	23,544	22,360
Non-controlling interests	–	288
Total equity	**23,544**	**22,648**
Non-current liabilities		
Provisions for post-employee benefits	2,948	2,846
Deferred tax liabilities	1,902	2,790
Other non-current provisions	5,911	5,748
Liabilities to credit institutions	7,057	4,950
Liabilities to parent company	–	3,186
Other long-term liabilities	1,495	1,549
Total non-current liabilities	**19,313**	**21,069**
Current liabilities		
Current provisions	7,182	8,208
Liabilities to credit institutions	310	564
Advance payments from customers	187	266
Trade payables	12,626	15,464
Current tax liabilities	365	630
Other current liabilities	13,160	11,611
Total current liabilities	**33,829**	**36,743**
TOTAL EQUITY & LIABILITIES	**76,686**	**80,460**

CASH FLOWS

MSEK	2012	2011
OPERATING ACTIVITIES		
Operating income	18	2,017
Depreciation and amortisation of non-current assets	8,016	8,113
Interest and similar items received	120	191
Interest and similar items paid	–423	–459
Other financial items	–85	–120
Income tax paid	–928	–584
Adjustments for items not affecting cash flow	–362	–687
	6,356	**8,471**
Movements in working capital		
Change in inventory	1,407	–2,909
Change in accounts receivable	–928	130
Change in accounts payable	–2,838	2,519
Change in items relating to repurchase commitments	–1,132	–1,137
Change in provisions	–858	1,728
Change in other working capital assets/liabilities	743	–735
Cash flow from movements in working capital	**–3,607**	**–404**
Cash flow from operating activities	**2,749**	**8,067**
INVESTING ACTIVITIES		
Investments in shares and participations	–258	–
Divestments in shares and participations	–	511
Investments in intangible assets	–3,061	–2,734
Investments in property, plant and equipment	–4,466	–3,400
Disposal of property, plant and equipment	93	58
Other	14	–
Cash flow from investing activities	**–7,678**	**–5,565**
Cash flow from operating and investing activities	**–4,929**	**2,502**
FINANCING ACTIVITIES		
Liabilities to credit institutions	8,063	2,187
Repayment of liabilities to credit institutions	–7,251	–850
Received shareholders contribution	–	1,076
Other	–356	–183
Cash flow from financing activities	**456**	**2,230**
Cash flow for the year	**–4,473**	**4,732**
Cash and cash equivalents at beginning of year	**14,634**	**9,443**
Exchange difference on cash and cash equivalents	–554	459
Cash and cash equivalents at end of year	**9,607**	**14,634**

INFORMATION AND CONTACT

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ABOUT THIS REPORT

The financials in this report refer to the consolidated business result of Volvo Car Group. This includes Volvo Car Corporation (Volvo Personvagnar AB), its parent company Geely Sweden AB, and all its subsidiaries.

Audited annual reports are filed in accordance with local statutory requirements for all legal entities within the group. In Sweden, audited annual reports for Geely Sweden Holdings AB, Geely Sweden Automotive AB, Geely Sweden AB and Volvo Car Corporation, are filed with the authorities on an annual basis. The consolidated financial statements of Geely Sweden AB represent the Volvo Car Group business performance.

The manufacturing plants under construction in China are owned by Chinese subsidiaries of the parent company, Shanghai Geely Zhaoyuan International Investment Co. Ltd., supporting Volvo Car Group business operations in China. Volvo Cars governs the operations to ensure the same processes and quality demands as in the European facilities.

ACCOUNTING PRINCIPLES

Volvo Car Group has transitioned into IFRS accounting principles, implemented in 2012. All financials for 2011 have been restated accordingly. A full reconciliation of the effects of the transition to IFRS is available in the Annual Report of Geely Sweden AB.

Please visit www.volvocars.com/financials to download material.

DEFINITIONS

Comparative figures:
The equivalent period is shown in brackets

Retail Sales:
Sales to end customers

Wholesales:
Sales to dealers

EU20:
Sweden
Norway
Denmark
Finland
The Netherlands
Belgium
Luxembourg
France
Spain
Italy
Greece
Portugal
The UK
Ireland
Germany
Switzerland
Austria
Poland
Hungary
The Czech Republic

ANNUAL REPORT 2012

BMW
GROUP

Rolls-Royce
Motor Cars Limited

Contents

A PORTRAIT OF THE COMPANY

Bayerische Motoren Werke G. m. b. H. came into being in 1917, having been founded in 1916 as Bayerische Flugzeugwerke AG (BFW); it became Bayerische Motoren Werke Aktiengesellschaft (BMW AG) in 1918.

The BMW Group – one of Germany's largest industrial companies – is one of the most successful car and motorcycle manufacturers in the world. With BMW, MINI and Rolls-Royce, the BMW Group owns three of the strongest premium brands in the automobile industry. The vehicles it manufactures set the highest standards in terms of aesthetics, dynamics, technology and quality, borne out by the Company's leading position in engineering and innovation. In addition to its strong position in the motorcycles market, the BMW Group also offers a successful range of financial services.

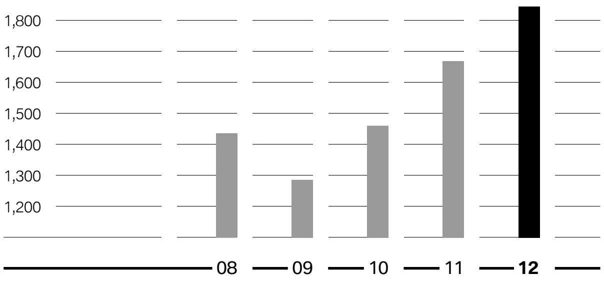
The course towards a successful future was set in 2007 with the adoption of Strategy Number ONE. The business was given a new strategic direction with an emphasis on profitability and long-term value growth. Our activities will remain firmly focused on the premium segments of the international car markets. Our mission statement up to the year 2020 is clearly defined: the BMW Group is the world's leading provider of premium products and premium services for individual mobility.

Long-term thinking and responsible action have long been the cornerstones of our success. Striving for ecological and social sustainability along the entire value-added chain, taking full responsibility for our products and giving an unequivocal commitment to preserving resources are prime objectives firmly embedded in our corporate strategy. For these reasons, the BMW Group has been the most sustainable company in the automotive industry for many years.

BMW Group in figures

Sales volume of automobiles*

in thousand units

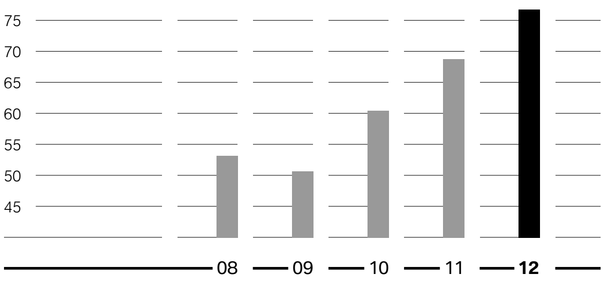


08	09	10	11	12
1,435.9	1,286.3	1,461.2	1,669.0	**1,845.2**

* Including automobiles from the joint venture BMW Brilliance.

Revenues

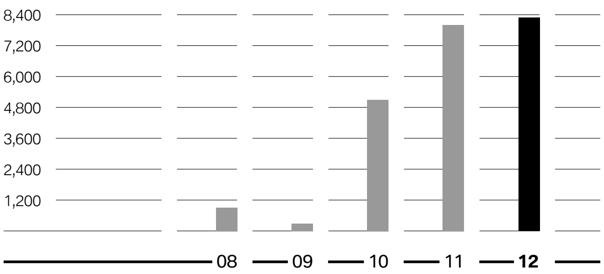
in € billion



08	09	10	11	12
53.2	50.7	60.5	68.8	**76.8**

Profit before financial result

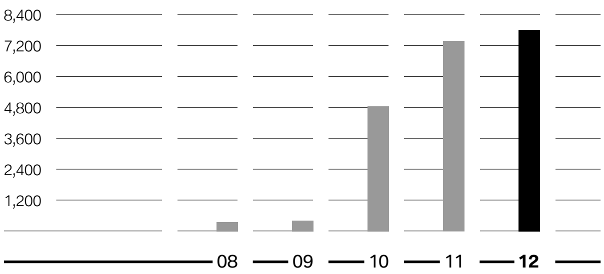
in € million



08	09	10	11	12
921	289	5,111	8,018	**8,300**

Profit before tax

in € million



08	09	10	11	12
351	413	4,853	7,383	**7,819**

BMW Group in figures

	2008	2009	2010	2011	**2012**	Change in %
Sales volume – Automobiles[1]						
BMW	1,202,239	1,068,770	1,224,280	1,380,384	**1,540,085**	11.6
MINI	232,425	216,538	234,175	285,060	**301,526**	5.8
Rolls-Royce	1,212	1,002	2,711	3,538	**3,575**	1.0
Total	**1,435,876**	**1,286,310**	**1,461,166**	**1,668,982**	**1,845,186**	**10.6**
Sales volume – Motorcycles						
BMW	101,685	87,306	98,047	104,286	**106,358**	2.0
Husqvarna	13,511	13,052	12,066	9,286	**10,751**	15.8
Total	**115,196**	**100,358**	**110,113**	**113,572**	**117,109**	**3.1**
Production – Automobiles[1]						
BMW	1,203,482	1,043,829	1,236,989	1,440,315	**1,547,057**	7.4
MINI	235,019	213,670	241,043	294,120	**311,490**	5.9
Rolls-Royce	1,417	918	3,221	3,725	**3,279**	–12.0
Total	**1,439,918**	**1,258,417**	**1,481,253**	**1,738,160**	**1,861,826**	**7.1**
Production – Motorcycles						
BMW	104,220	82,631	99,236	110,360	**113,811**	3.1
Husqvarna	14,232	10,612	13,035	8,505	**11,473**	34.9
Total	**118,452**	**93,243**	**112,271**	**118,865**	**125,284**	**5.4**
Workforce at end of year[2]						
BMW Group	100,041	96,230	95,453	100,306	**105,876**	5.6
Financial figures						
in € million						
Revenues	53,197	50,681	60,477	68,821	**76,848**	11.7
Capital expenditure	4,204	3,471	3,263	3,692	**5,240**	41.9
Depreciation and amortisation	3,670	3,600	3,682	3,646	**3,541**	–2.9
Operating cash flow[3]	4,471	4,921	8,149	8,110[4]	**9,167**	13.0
Profit before financial result	921	289	5,111	8,018	**8,300**	3.5
Profit before tax	351	413	4,853	7,383	**7,819**	5.9
Net profit	330	210	3,243	4,907	**5,122**	4.4

[1] Including automobiles from the joint venture BMW Brilliance.
[2] Figures exclude suspended contracts of employment, employees in the non-work phases of pre-retirement part-time arrangements and low income earners.
[3] Cash inflow from operating activities of the Automotive segment.
[4] Adjusted for reclassifications as described in note 42.

Joachim Milberg
Chairman of the Supervisory Board

Dear Shareholders and Shareholder Representatives,

Despite the persisting sovereign debt crisis in the eurozone and the volatile economic conditions prevailing in several of our major markets, the BMW Group finished yet another financial year with an outstanding overall result.

In our capacity as Supervisory Board, we closely monitored the performance of the BMW Group and developments on specific markets throughout the financial year 2012. We duly advised the Board of Management in matters of governance and continuously supervised its running of the business with great diligence. In this endeavour we laid great store on an open, trusting and constructive exchange of information and opinions.

Main emphases of the Supervisory Board's monitoring and advisory activities We deliberated regularly on the current performance and financial position of the BMW Group in a total of five meetings. Other areas reported on and discussed extensively during the year were corporate strategy and planning, risk provision and risk management, and corporate governance. We also made decisions with respect to the composition of the Board of Management and the allocation of duties to Board of Management members. The Board of Management informed us regularly and promptly of sales performance, workforce developments and other significant matters, both at scheduled meetings and at other times as the need arose. In addition, the Chairman of the Board of Management, Dr. Reithofer, informed me directly about major business transactions and projects. Dr. Kley, the Chairman of the Supervisory Board's Audit Committee, regularly exchanged information with Dr. Eichiner, the Board of Management member responsible for Finance and Financial Reporting.

In its regular reports on the financial condition of the Group, the Board of Management provided us with detailed descriptions of sales volume performance and market developments for each of the Automotive and Motorcycles segments as well as the performance of Financial Services, including new business volumes and the development of vehicle residual values on key markets. The Board of Management also regularly reported on the Group's business activities in China, in particular on the sales situation there, the further expansion of production capacities at the BMW Brilliance joint venture's manufacturing sites in Dadong and Tiexi, and on engine production at the Foresight engine plant opened in Shenyang in April 2012. Furthermore, the Board of Management reported to us regularly on current earnings, profitability and major changes in the workforce size. Its business status reports also dealt with major current activities and projects, such as ongoing developments in the BMW Peugeot Citroën Electrification joint venture, the status of cooperation negotiations and agreements with Toyota in the fields of fuel cells, lightweight-construction, development of sports cars as well as in the field of battery technology research. After presentation of reports by the Board of Management, the two boards also discussed current challenges such as current economic developments and the increasing degree of regulation on a number of markets.

We again gave careful consideration to matters concerning the performance, management and future prospects of the Financial Services segment. One of the main focuses of reporting and discussion was the segment's financing model. The Board of Management described the current status of projects and the various measures employed to ensure access to financial resources, including, for example, the use of asset-backed securities and the expansion of BMW Bank GmbH in Europe.

One of the 2012 Supervisory Board meetings was held at the BMW plant in Leipzig, where we took the opportunity to obtain information on the use of carbon-fibre-reinforced plastics (CFRP) in the BMW i family of electrically powered vehicles and enquire into the state of preparations for production start-up later this year. In the new pressing plant specially constructed for this work, we were treated to a practical demonstration of how CFRP mats are processed to form CFRP components.

In preparation for our deliberations on the Long-term Business Forecast, the Board of Management explained the principles applied for planning global added value within the Group in the period up to 2024 as well as the targets set for the configuration and production capacities of the Group's plants during this period. Additionally, a raft of measures was presented designed to help limit the scale of investment expenditure to be incurred in connection with the expansion of production capacities.

Again in 2012, in both the Personnel Committee and the full Supervisory Board, we examined the compensation of Board of Management members for appropriateness. In doing so, we also evaluated compensation studies for the DAX and sought the expertise of an external compensation advisor who was independent of both the BMW Group and the members of the Board of Management. Adopting a proposal of the Personnel Committee, no changes were made to the Board of Management compensation system in 2012. The rules governing the purchase of vehicles and other Group products and the use of vehicles by Board of Management members were brought into line with those already in place for top-level department heads. Detailed information on the compensation of Board of Management members can be found in the Compensation Report (page 170 et seq.).

In the second half of the year we again convened for a two-day meeting primarily devoted to corporate and product strategy on the one hand and to the Long-term Business Forecast on the other.

In the first part of the meeting we discussed with the Board of Management the findings of its annual review of the Group's Strategy Number ONE. In light of current developments, this review included a renewed examination and assessment of the impact that could potentially arise from various crisis scenarios of varying intensity in regions significant for sales performance.

In its report, the Board of Management also considered the strategic planning of worldwide production capacities. In addition to the expansion of production capacities at the Spartanburg and Leipzig plants, the Board of Management also presented its plans for future production facility and capacity expansion at other locations. The Supervisory Board fully supports the Board of Management in its endeavours to exploit growth opportunities in specific regions, whilst at the same time maintaining a well-balanced distribution of sales and value added across the world's markets.

In conjunction with our deliberations on product strategy, the Board of Management and the Head of Design for the BMW Group presented and elaborated on selected vehicle projects. Furthermore, in a discussion with the head of the i product line, we were informed of the Group's current activities and the needs of customers in the field of electromobility and given an insight into some of the solutions arrived at so far, such as for the charging of batteries at home and on the road. At our request, other related service concepts currently being developed by the BMW Group were explained to us.

We also took a close look at the latest advances being made in the field of emission reduction and avidly discussed, together with the Board of Management both the technical and the entrepreneurial challenges that need to be mastered, particularly those ensuing from regulatory provisions or customer expectations with regard to urban mobility.

The Supervisory Board remains firm in its conviction that the strategic direction set by the Board of Management for the BMW Group is robust and sustainable.

In conjunction with vehicle presentations, Supervisory Board members also had the opportunity to drive a number of BMW, MINI and Rolls-Royce vehicles, including some BMW models equipped with hybrid and electric drive systems.

After concluding the Annual Strategy Review, the second part of the meeting included an in-depth discussion of the Long-term Business Forecast drawn up by the Board of Management for the years from 2013 to 2018 and, after thorough examination, we gave the required approval. The Board of Management elucidated changes in sales and financing volumes compared with the previous year's forecast and also explained the potential impact of volume and earnings risks associated with specific scenarios. We encouraged the Board of Management in its strategy of maintaining flexibility in terms of cost planning.

We also thoroughly examined the Annual Budget presented by the Board of Management in November 2012 for the financial year 2013 and discussed the impact of potential economic developments.

We concurred with the decision of the Board of Management to raise the share capital of the Company in accordance with Article 4 no. 5 of the Articles of Incorporation (Authorised Capital 2009) by €422,845 and to issue a corresponding number of new non-voting bearer shares of preferred stock, each with a par value of €1, at favourable conditions to employees.

The Board of Management and Supervisory Board jointly examined corporate governance within the BMW Group and issued a new Declaration of Compliance, the wording of which is included in the Corporate Governance Report (page 153). The BMW Group currently complies with the recommendations of the Government Commission on the German Corporate Governance Code (code version dated 15 May 2012, "Code") published on 15 June 2012 with one exception, namely the revised recommendation on the structure of supervisory board compensation contained in section 5.4.6 paragraph 2 sentence 2 of the Code ("If members of the Supervisory Board are promised performance-related compensation, it shall be oriented toward sustainable growth of the enterprise"). In this context, and following preparatory work carried out by the Presiding Board, we examined various models with the Board of Management with respect to the future compensation of the Supervisory Board. A proposed change to the Articles of Incorporation will be put to the shareholders at the 2013 Annual General Meeting.

With regard to its own composition, based on a detailed composition profile, the Supervisory Board decided upon specific appointment goals in 2010, which are discussed in detail in the Corporate Governance Report (page 164 et seq.). In 2012, in line with section 5.4.1 paragraph 2 of the Code, we set what we consider to be an appropriate target for the number of independent members in the Supervisory Board (at least twelve of which at least six should represent the shareholders). On the basis of a self-assessment of the full Supervisory Board and its individual members, we were able to conclude that the composition of the Supervisory Board at 31 December 2012 meets that target. No conflicts of interest arose during the year under report on the part of members of either the Supervisory Board or the Board of Management. Significant transactions with Supervisory Board members and other related parties as defined by IAS 24, including close relatives and intermediary entities, are scrutinised on a quarterly basis.

In conjunction with the joint examination of corporate governance, the Board of Management informed us (both in the Personnel Committee and in the full Supervisory Board) of the progress made in implementing the BMW Group's diversity concept, with its focus on gender, cultural background and age/experience. In this context, we obtained information from the Board of Management with regard to the proportion of, and changes in, management positions held by women, in particular at senior management level and at executive level below the Board of Management. We concluded that the Code's requirements for the promotion of diversity are also being complied with in terms of management functions, and concur with the Board of Management that, in addition to the efforts to improve gender diversity, even more should be done to promote cultural diversity and the international character of the workforce.

We endeavour to assess and improve continuously on the effectiveness of the work performed in the Supervisory Board and its committees, not least in consideration of the broader range of tasks for which the Supervisory Board now finds itself responsible. The Chairman of the Audit Committee and myself are therefore always pleased to receive comments and suggestions for improvement from Supervisory Board members. The formal examination of the Supervisory Board's efficiency is also treated once each year as a separate agenda point which is prepared by means of a questionnaire required to be completed by all Supervisory Board members.

Each of the five Supervisory Board meetings in 2012 was attended on average by over 90 % of its members, a fact that can be tied in to the analysis of attendance fees for individual members disclosed in the Compensation Report. No member of the Supervisory Board missed more than two meetings in his/her period of office during the year. Presiding Board and committee meetings were fully attended in the vast majority of cases (page 163).

Description of Presiding Board activities and committee work In order to work more efficiently and prepare complex issues and decisions more thoroughly, the Supervisory Board has established a Presiding Board and several committees. A description of the duties, composition and work procedures of these committees is provided in the Corporate Governance Report (page 160 et seq.).

The relevant committee chairmen provided timely and comprehensive accounts of the work of the Presiding Board and other committees to the full Supervisory Board, as did the chairman of the Nomination Committee to the shareholder representatives on the full Supervisory Board.

In a total of four meetings, the Presiding Board focused mainly on the preparation of topics for the meetings of the full Supervisory Board unless this fell under the remit of one of the committees. Complex issues, such as the Long-term Business Forecast and the Annual Strategic Review, were dealt with on the basis of written and oral reports provided by Board of Management members and senior department heads. In the case of financial planning, for example, we arranged for the Board of Management member responsible for Finances to brief us in advance on detailed aspects of the Long-term Business Forecast. The Head of Group Strategy and Planning, Environment provided us with facts, assumptions and principles relevant for global value added within the Group in the period up to 2024, including the targets and distribution of production capacities built into the forecasts, and discussed analyses from the Annual Strategy Review with us. The Presiding Board selected further topics for Supervisory Board meetings and made suggestions to the Board of Management regarding items to be included in its reports to the full Supervisory Board.

Two telephone conference calls were also conducted by the Presiding Board in conjunction with current activities and projects. In one of those conference calls, the Board of Management and the Head of Product and Brand Strategy reported on the current status of cooperation arrangements, in particular the planned extension of collaboration with Toyota Motor Corporation. In another telephone conference call, the Board of Management explained the plans to sell Husqvarna Motorcycles.

The Audit Committee held three meetings and three telephone conference calls during 2012. In accordance with the recommendation of the German Corporate Governance Code, we discussed each of the interim financial reports with the Board of Management prior to publication. Representatives of the external auditors were present for part of the time during the telephone conference call held to present the Interim Financial Report for the six-month period to 30 June 2012. The report had been subjected to review by the external auditors.

One meeting of the Audit Committee was primarily dedicated to preparing the Supervisory Board's meeting in spring 2012 at which the financial statements were examined. In order to prepare its recommendation to the full Supervisory Board regarding the proposed election of external auditors at the Annual General Meeting 2012, the Audit Committee obtained a Declaration of Independence from the proposed external auditor. The Audit Committee also considered the scope and composition of non-audit services, including tax advisory services, provided by KPMG entities to the BMW Group. There were no indications of conflicts of interest or grounds for exclusion or lack of independence on the part of the auditor. The fee proposals for the audit of the year-end Company and Group Financial Statements 2012 and the review of the six-month Interim Financial Report were deemed appropriate by the Audit Committee. Subsequent to the Annual General Meeting 2012 the Audit Committee appointed the external auditor for the relevant engagements and, with due consideration to the suggestions made by the full Supervisory Board, specified audit focus areas. In relation to the audit of the Company Financial Statements, for example, this included the accounting treatment of commodity derivatives and in relation to the audit of the Group Financial Statements this included the measurement of interest rate derivatives.

The Head of Group Financial Reporting reported to the Audit Committee on risk management processes in place throughout the BMW Group, focusing on the internal control system (ICS) as the basis for financial reporting. We were also provided with a description of planned areas of action and further developments in this field.

The Audit Committee considered the set of measures undertaken by the Board of Management in 2012 to ensure that "compliance" as a concept is fully embedded in the principles of conduct valid for all Group employees. The Chairman of the BMW Group Compliance Committee reported to the Audit Committee on the current compliance situation, which, as in the previous year, was deemed satisfactory. The Audit Committee also enquired into the implementation of anti-corruption measures resolved in the previous year, the enlargement of the BMW Group Compliance Organisation – in particular within the Financial Services segment – and the results of sample testing carried out in Germany and abroad.

The Head of Group Internal Audit reported to us in the Audit Committee on the significant findings of audits conducted by Group Internal Audit and on the planned areas of focus on the industrial and financial services sides of the business.

The Personnel Committee convened four times during the financial year 2012. In preparation for a meeting of the full Supervisory Board, the Personnel Committee reviewed the compensation of Board of Management members (including pension benefits) for appropriateness in comparison with other DAX companies. Other specific issues relating to employment contracts were also addressed by the Personnel Committee. The Personnel Committee gave its approval in one case for a member of the Board of Management to accept a mandate for membership of the supervisory board of a non-BMW Group entity.

The Nomination Committee convened once during the financial year 2012, on which occasion it deliberated on proposals for candidates for the Supervisory Board elections at the 2013 Annual General Meeting, taking account of the composition objectives stipulated for the Supervisory Board.

The statutory Mediation Committee (§ 27 (3) of the Law on Worker Participation) was not required to convene during the financial year 2012.

Composition and organisation of the Board of Management We deliberated with the Board of Management on changes to the structure and allocation of portfolio responsibilities with the objective of making the best use of individual members' expertise and strengthening the overall responsibility of the Board of Management. In this context, it was decided to establish separate areas of responsibility for the BMW brand on the one hand and for the MINI brand, Rolls-Royce Motor Cars and motorcycles business on the other. The new structure and allocation of responsibilities resolved by the Board of Management in agreement with the Supervisory Board is depicted in detail in the Corporate Governance Report (page 154). In view of the fact that Mr. Krüger was set to take over responsibility for the newly created board portfolio comprising MINI, Motorcycles, Rolls-Royce and Aftersales BMW Group, we appointed Milagros Caiña Carreiro-Andree as member of the Board of Management and as successor to Mr. Krüger with responsibility for Human Resources and as Industrial Relations Director with effect from 1 July 2012. The composition of the Board of Management team was otherwise unchanged during the financial year 2012. No decisions needed to be made in 2012 with respect to the reappointment of Board of Management members.

Composition of the Supervisory Board, the Presiding Board and Supervisory Board committees The mandate of Franz Oberländer as employee representative on the Supervisory Board ended on 31 May 2012 when he entered into retirement. On 1 June 2012 the Munich District Court appointed Dr. Dominique Mohabeer, member of the Works Council of BMW AG at the Munich site, to the position of employee representative on the Supervisory Board for the remaining term of office. As a result, the proportion of women in the Supervisory Board increased to 20 %, in line with the composition objectives set by the Supervisory Board.

Anton Ruf, executive staff representative on the Supervisory Board, retired on 31 October 2012, at which date he also ceased to be a member of the Supervisory Board. He was succeeded on 1 November 2012 by Oliver Zipse, Head of Brand and Product Strategies, who took over the role of executive staff representative on the Supervisory Board for the remaining term of office as elected substitute member. In view of a new management position he will have within the BMW Group from 1 April 2013 onwards, Mr. Zipse has resigned his mandate on the Supervisory Board with effect from 31 March 2013.

On 29 November 2012 the shareholder representatives in the Supervisory Board elected Susanne Klatten as a further member of the Nomination Committee. The composition of the Presiding Board and other committees of the Supervisory Board remained unchanged during the financial year 2012. The Corporate Governance Report includes an overview of the composition of the Supervisory Board and its committees (page 155 et seq., page 163).

Examination of financial statements and the profit distribution proposal KPMG AG Wirtschaftsprüfungsgesellschaft conducted a review of the abridged Interim Group Financial Statements and Interim Group Management Report for the six-month period ended 30 June 2012. The results of the review were also reported orally to the Audit Committee. No issues were identified that might indicate that the abridged Interim Group Financial Statements and Interim Group Management Report had not been prepared, in all material respects, in accordance with the applicable provisions.

The Group and Company Financial Statements of Bayerische Motoren Werke Aktiengesellschaft for the year ended 31 December 2012 and the Combined Group and Company Management Report – as authorised for issue by the Board of Management on 19 February 2013 – were audited by KPMG AG Wirtschaftsprüfungsgesellschaft and given an unqualified audit opinion.

The Financial Statements and Combined Group and Company Management Report, the long-form audit reports of the external auditors and the Board of Management's profit distribution proposal were made available to all members of the Supervisory Board in good time. At the meeting held on 1 March 2013 these documents were examined and discussed in detail by the Audit Committee. The Supervisory Board subsequently examined these documents at its meeting on 14 March 2013, after hearing the committee chairman's report on the meeting of the Audit Committee. In both meetings, the Board of Management gave a detailed explanation of the financial reports it had prepared. Representatives from KPMG attended both meetings, reported on significant audit findings and answered any additional questions raised by the members of the Supervisory Board. The representatives of the external auditors confirmed that the risk management system established by the Board of Management is capable of identifying events or developments that might impair the going-concern status of the Company and that no material weaknesses in the internal control system and risk management system were found with regard to the financial reporting process. Similarly, the external auditors confirmed that they had not identified any facts in the course of their work that were inconsistent with the contents of the Declaration of Compliance issued jointly by the two boards. Based on own thorough examination by the Audit Committee and the full Supervisory Board, we concurred with the results of the external audit.

In accordance with the conclusion reached as a result of the examination by the Audit Committee and Supervisory Board, no objections were raised.

The Group and Company Financial Statements of Bayerische Motoren Werke Aktiengesellschaft for the financial year 2012 prepared by the Board of Management were approved at the Supervisory Board Meeting held on 14 March 2013. The separate financial statements have thus been adopted.

Both in the Audit Committee and in the full Supervisory Board, we examined the proposal of the Board of Management to use the unappropriated profit to pay a dividend of €2.50 per share of common stock and €2.52 per share of non-voting preferred stock. Taking account of the financial condition of the BMW Group, we consider the proposal appropriate and concur with it.

Expression of thanks by the Supervisory Board We would like to express our gratitude to the members of the Board of Management and all employees worldwide for their commitment and contribution to another set of excellent financial statements for the year ended 31 December 2012.

We also wish to extend a special word of thanks to Mr. Oberländer and Mr. Ruf, both of whom left the Supervisory Board in 2012 after many years of dedicated and constructive work in the Supervisory Board. In addition to achieving success in their chosen fields of activity, they spent most of their working lives diligently serving both the Company and the employees they represented.

Munich, 14 March 2013

On behalf of the Supervisory Board

Yours
Joachim Milberg

Joachim Milberg
Chairman of the Supervisory Board

Norbert Reithofer
Chairman of the Board of Management

Dear Shareholders,

Your Company has once again demonstrated a strong performance with new sales volumes, revenues and earnings highs for the 2012 financial year.

At the BMW Group, we look to the future and are prepared to go against the trend, if need be; we have the stamina to stick to our chosen path. For us, it is always the customer who comes first – that is why we offer innovative products and services and what makes us the world's top-selling premium car manufacturer. But we aim to do even better – which means continuing to grow at a profitable rate and acting in a responsible manner as a member of society.

Our actions are based on our tradition, our values and our Company's unique corporate culture and team spirit. At the BMW Group, we all share a passion for mobility. It is our common purpose to make individual mobility viable for the future, as the demands on cars continue to evolve. Our industry is in a period of transition – what we refer to as "iconic change". We are driving and shaping this technological shift towards sustainable mobility. It will require all our powers of innovation in the development of new products and attractive mobility services, as well as constant review of our structures and processes and how we work together.

2012 – the most successful year in the history of the Company. Our success is built on the desirability of our products. More than 1.84 million BMW, MINI and Rolls-Royce vehicles were delivered to customers in 2012, beating the previous year's record by more than 10 %. All three of our automobile brands set new records. In addition, more than 117,000 customers purchased a BMW or Husqvarna motorcycle. Our Financial Services business also continued to grow and contributed to the positive performance in sales figures.

Thanks to strong demand for our premium vehicles, revenues rose to more than €76.8 billion and profit before tax increased to around €7.8 billion in the 2012 financial year – both new highs for the Group. The net profit of more than €5.1 billion also represented a new record.

Our financial success allows us the necessary freedom to continue investing in our future. In 2012, our research and development expenses rose to more than €3.9 billion, mostly in connection with projects to secure our future growth.

Our figures for 2012 are the result of an outstanding collective performance. On behalf of the Board of Management, I would like to thank all of our employees for their efforts, determination and achievements in 2012. I would also like to thank our retail organisation, our suppliers and our business partners, who play such an important part in the Company's success.

Five years of Strategy Number ONE: interim targets for 2012 fulfilled. The success of the 2012 financial year is also the result of the long-term decisions we made as part of our Strategy Number ONE.

We presented our strategy to the public back in autumn 2007 – with a vision for the year 2020. The aim is to prepare the BMW Group for the future, as it faces a wide range of different challenges in a changing environment for individual mobility. Specific measures were implemented in the four strategic areas of "Growth", "Shaping the future", "Profitability" and "Access to technology and customers". We also set ourselves ambitious interim targets for 2012, including much greater efficiency and higher profitability. For the Automotive segment, we defined an EBIT margin target of between 8 % and 10 %.

What have we achieved during the first five years of Number ONE?
- We have become more profitable, and doubled our profit before tax between 2007 and 2012. At the end of 2012, our EBIT margin in the Automotive segment was above our 8 % and 10 % target range.
- The price of BMW common stock climbed more than 70 % from the end of 2007 to the end of 2012, while Germany's DAX fell by 5.6 % over the same period.
- We have leveraged much more than the €6 billion in efficiency potential originally targeted.
- In 2007, Efficient Dynamics was already the best technology on the market for lowering fuel consumption and CO_2 emissions. Back then, we had 27 BMW and MINI models with 140 grams of CO_2 per kilometre or less. By the end of 2012, the BMW Group fleet included 73 models at or below this level.
  Our core model series – the BMW 3 Series, the BMW 5 Series and the BMW 7 Series – are also available as full hybrids. Efficient Dynamics continues: we aim to reduce the CO_2 emissions of our vehicle fleet by at least another 25 % between 2008 and 2020.
- We have systematically expanded our global production network since 2007 – from 23 production facilities in twelve countries to 29 locations in 14 countries by the end of 2012. The most recent example is our new Tiexi plant in Shenyang, which we have been operating with our joint venture partner, Brilliance, since 2012. When we plan a site, we ensure that it sets new standards: Tiexi is the most sustainable vehicle plant in China today and one of the most advanced in the world.

Over the past five years, our strategy has proven robust, and shown the way forward under changing external conditions: during the global financial and economic crisis of 2008 and 2009, the BMW Group still showed a profit and paid a dividend. In 2010 and 2011, we steered our Company back on track for success – initially helped by an economic tailwind, but then maintaining our performance in a challenging and volatile environment in 2012.

This clearly shows that we have reached the first major milestone in our strategy. We have fulfilled all the interim targets of our Strategy Number ONE for the year 2012 – and, in some cases, exceeded them. We delivered on our promises. Today, the BMW Group is a stronger, more international and more future-oriented company than it was when we embarked on our Strategy Number ONE. Above all else, the BMW Group is an attractive investment – and I would like to thank you, our shareholders, for supporting us on this journey.

It is in all our interests that the BMW Group not only has a successful present, but, even more importantly, a promising future. For that reason, we are now working towards the next major milestone in our strategy.

Number ONE still our corporate compass – next milestone in 2016. In 2016, we will celebrate 100 years of BMW. By then, we aim to sell well over two million BMW, MINI and Rolls-Royce brand vehicles – with BMW Motorrad and Financial Services also continuing to contribute to our success. Profitability is, and will remain, the foundation upon which we build and shape our future.

In the 2013 financial year, we aim to continue on our successful course, targeting record sales at Group level. The main risks and uncertainties for our business stem from the volatility in our environment, the high level of public-sector debt and the uneven performance of the automobile markets.

We remain confident. In 2013, all three automobile brands and BMW Motorrad will bring new and revised models onto the market. In addition to that:

We are putting electromobility on the road. Late 2013 heralds a new era of premium mobility: we will launch the pure electric BMW i3, our solution for emissions-free driving in urban areas. At the same time, customers will be able to purchase their charging current from renewable energies.

Production of the BMW i family sets new standards for resource conservation and the use of innovative materials, such as carbon fibre, in automobile manufacturing. In 2012, the BMW Group was named industry leader in the Dow Jones Sustainability Index for the eighth consecutive year – and therefore remains the world's most sustainable car company.

At Bayerische Motoren Werke, we have a clear vision: to be a leader in the future development of individual mobility. We believe in the potential of electromobility – not least in order to meet ambitious CO_2 emissions reduction targets in the EU and worldwide. In this regard, we are collaborating with Toyota Motor Corporation in the field of sustainable mobility. In early 2013, we signed an agreement to establish cooperation on fuel cells, lightweight construction technologies and the development of a sports car.

Employees are our most important success factor. The most important requirement for a successful future is our motivated and dedicated employees – and, not least, our young talents. For this reason, we increased the number of apprentices in Germany by about 10 % last year. No fewer than 1,376 young people embarked on a career with the BMW Group at the start of the 2012 training year, and the total number of apprentices reached 4,266 at the end of 2012. Last year alone, we invested more than €280 million in vocational and professional training to provide our employees with the qualifications they need for technological change.

We are convinced that our investments in all areas today will enable your Company to be well positioned to face the future. We hope we can count on your continued trust and support as we move forward.

Yours

Norbert Reithofer
Chairman of the Board of Management

BMW Group finishes financial year with record figures

The BMW Group remained firmly on the road to success in 2012 with record figures. Despite an increasingly volatile market environment, sales of BMW, MINI and Rolls-Royce brand cars increased by 10.6 % to 1,845,186* units (2011: 1,668,982*), ensuring that the BMW Group retained pole position in the premium segment.

All three automobile brands performed exceedingly well, each contributing in their own measure towards this resounding success. Record sales volume figures were registered across the board with 1,540,085* BMW (2011: 1,380,384* units; + 11.6 %), 301,526 MINI (2011: 285,060 units; + 5.8 %) and 3,575 Rolls-Royce cars (2011: 3,538 units; + 1.0 %) sold during the 12-month period. The new BMW 3 Series, 5 Series, 6 Series and BMW X models were particularly successful within a portfolio of models brimming with attractive cars. The MINI Countryman, the MINI Coupé and the new MINI Roadster also played an important role in making 2012 another highly successful year for the BMW Group.

Although the majority of motorcycle markets contracted considerably during the reporting period, our Motorcycles segment also broke its previous sales volume record. We handed over 117,109 BMW and Husqvarna motorcycles to customers in various markets worldwide, 3.1 % more than in the previous year (2011: 113,572 units). The number of BMW brand motorcycles sold in 2012 climbed by 2.0 % to 106,358 units (2011: 104,286 units). Husqvarna recorded a sales volume of 10,751 units (2011: 9,286 units; + 15.8 %).

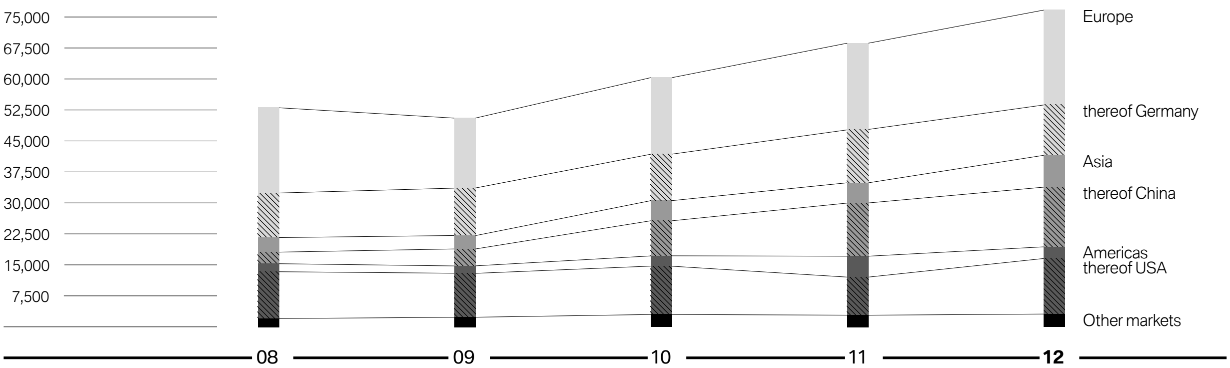
The Financial Services segment can also look back on a successful year. The number of new contracts signed with retail customers worldwide rose by 12.1 % to 1,341,296 for the 12-month period (2011: 1,196,610 contracts). The number of leasing and financing contracts in place with retail customers and dealerships totalled 3,846,364 units at the end of the reporting period (2011: 3,592,093 contracts; + 7.1 %).

Revenues and earnings attain new heights

The dynamic rise in new car sales in 2012 enabled the BMW Group to attain new heights in terms of both revenues and earnings. Group revenues grew dynamically, rising by 11.7 % to reach €76,848 million for the year (2011: €68,821 million). Despite greater investment in technologies of the future, increased intensity of competition and higher personnel costs, earnings also climbed to new heights in 2012. EBIT rose to €8,300 million (2011: €8,018 million; + 3.5 %) and earnings before tax improved by 5.9 % to €7,819 million (2011: €7,383 million). It should be noted that the previous year's figures include a positive exceptional factor of €524 million

BMW Group revenues by region

in € million



	08	09	10	11	12
Europe	31,432	28,425	29,788	33,815	**35,157**
— thereof Germany	10,739	11,436	11,207	12,859	**12,186**
Asia	6,320	7,364	13,384	17,768	**22,159**
— thereof China	2,763	4,039	8,444	11,591	**14,448**
Americas	13,294	12,433	14,168	14,287	**16,271**
— thereof USA	11,349	10,628	11,638	11,516	**13,447**
Other markets	2,151	2,459	3,137	2,951	**3,261**
Total	**53,197**	**50,681**	**60,477**	**68,821**	**76,848**

* Including automobiles from the joint venture BMW Brilliance.

arising on the reductions of provision for residual value and credit loss risks. Business with end-of-contract leasing vehicles gave rise to an exceptional gain of €124 million in 2012. Income tax expense for the year under report totalled €2,697 million (2011: €2,476 million; + 8.9 %), resulting in a slightly higher effective tax rate of 34.5 % (2011: 33.5 %). At €5,122 million, Group net profit marked a new record, surpassing the high level reached the previous year by 4.4 % (2011: €4,907 million).

Automotive business also achieved new record figures in terms of both revenues and earnings. At €70,208 million, revenues were 11.0 % up on the previous year (2011: €63,229 million). EBIT rose to €7,624 million (2011: €7,477 million; + 2.0 %), while segment profit before tax totalled €7,195 million (2011: €6,823 million; + 5.5 %).

In the Motorcycles segment revenues reflected the good sales volume performance and rose by 3.8 % to €1,490 million. EBIT, however, was below that of the previous year (€9 million; – 80.0 %) due to the sale of Husqvarna Motorcycles. Segment profit before tax fell accordingly by 85.4 % to €6 million.

The Financial Services segment remained on its growth course and made another excellent contribution to the BMW Group's performance in 2012. Segment revenues rose sharply (+ 11.7 %) to €19,550 million (2011: €17,510 million). Segment EBIT, however, declined to €1,558 million (2011: €1,763 million; – 11.6 %), while profit before tax dropped to €1,561 million (2011: €1,790 million; – 12.8 %). Lower earnings for the segment must be seen in the light of the figure reported for the previous year, which included a positive exceptional factor of €439 million arising on the reduction of residual value and credit loss risks. Business with end-of-contract leasing vehicles gave rise to an exceptional gain of €124 million in 2012.

Increase in proposed dividend

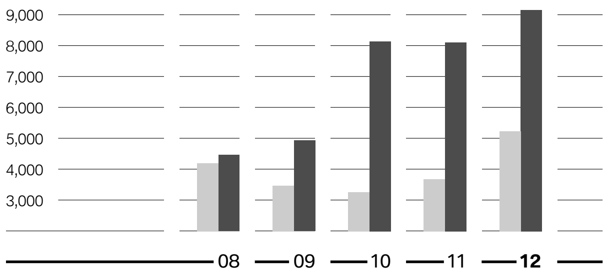
In view of the very strong earnings performance for the year, the Board of Management and the Supervisory Board will propose to the Annual General Meeting to use BMW AG's unappropriated profit of €1,640 million (2011: €1,508 million) to pay a dividend of €2.50 for each share of common stock (2011: €2.30) and a dividend of €2.52 for each share of preferred stock (2011: €2.32). These figures correspond to a distribution rate of 32.0 % for 2012 (2011: 30.7 %).

Numerous model start-ups – level of investment raised

The volume of investment for intangible assets and property, plant and equipment rose to €5,240 million for 2012 and was therefore 41.9 % above that of the previous year (2011: €3,692 million). During the year under report, investments in property, plant and equipment amounted to €4,028 million (2011: €2,598 million; + 55.0 %). Capitalised development costs totalled €1,089 million (2011: €972 million; + 12.0 %). The capitalisation ratio for development expenditure decreased compared to the previous year to 27.6 % (2011: 28.8 %). The capital expenditure ratio for the year rose to 6.8 % of Group revenues (2011: 5.4 %; + 1.4 percentage points), close to the targeted level of 7 %. As in previous years, capital expenditure was covered by operating cash flow[1].

BMW Group Capital expenditure and operating cash flow

in € million



	08	09	10	11	12
Capital expenditure	4,204	3,471	3,263	3,692	**5,240**
Operating cash flow[1]	4,471	4,921	8,149	8,110[2]	**9,167**

[1] Cash inflow from operating activities of the Automotive segment.
[2] Adjusted for reclassifications as described in note 42.

We again invested primarily in the introduction of new models such as the BMW 6 Series Gran Coupé, the derivatives of the BMW 3 Series, the MINI Roadster and the revised models of both the BMW 7 Series and the X1. Moreover, preparations for the manufacture of electric cars under the sub-brand BMW i progressed apace during the period under report.

BMW Group and Toyota Motor Corporation sign cooperation agreement

The BMW Group and the Toyota Motor Corporation (TMC) continue to work together in the field of sustainable mobility. The two entities signed a contract at the end of January 2013 with respect to cooperation in the fields of fuel cells, lightweight-construction technologies and the development of sports cars.

The BMW Group and TMC also signed an agreement on the joint research of lithium-air batteries, a post-lithium battery technology. With the signing of this agreement, the joint research on the next generation of lithium-ion batteries initiated in March 2012 has now entered the second phase.

BMW Group incorporated BMW Peugeot Citroën Electrification

The BMW Group and PSA Peugeot Citroën mutually agreed to terminate cooperation in the BMW Peugeot Citroën Electrification joint venture. The BMW Group is taking over the company and will carry on with the work that has been begun. The decision of the two partners does not have any impact on the current engine-producing cooperation arrangements between PSA Peugeot Citroën and the BMW Group.

New strategy in Motorcycles segment

A new strategy developed for the Motorcycles segment means that the BMW Group will be concentrating in future solely on its BMW brand. Against this background, the takeover of Husqvarna Motorcycles has been agreed upon with Pierer Industrie AG, Austria. The transaction is due to be completed during the first six months of 2013, subject to approval by the Austrian merger control authorities.

Significant downturn in global economy
As expected, the global economy suffered a perceptible downturn in 2012. The source of the downward trend lay clearly in Europe, where economic output fell during the period under report in both the eurozone and the United Kingdom. By contrast, the US economy remained relatively stable throughout 2012 despite the fact that the growth rate was still down on the historic average. Growth rates in the major emerging markets fell short of expectations.

High sovereign debt levels in industrial countries continue to pose a structural risk for the worldwide economy. The future course of the debt crisis in Europe will depend partly on the course of action taken by policy-makers, but also on the way the situation is perceived on the world's capital markets. In view of early elections in Italy, Spain's outstanding decision to apply for support from the European Stability Mechanism (ESM), discussions on a further debt cut for Greece and the performance of the French economy, renewed turbulence cannot be ruled out.

Economic performance is also being held down by high debt levels in the USA, Japan and the UK. The two political sides in the USA reached a compromise at the turn of the new year, reducing the looming threat of a drop in consumer spending due to tax increases and expenditure cuts in 2013 to approximately one third of the originally planned magnitude, equivalent to some 1.5 % of economic output. In December 2012, the newly elected government in Japan announced the initiation of further government-funded stimulus programmes, despite the high level of state debt.

Central banks worldwide have reacted to the risk of an impending economic downturn by continuing their expansive monetary policies on a massive scale. So far, however, only share and raw material prices have really benefited and been propped up at a high level. Despite these moves, there is still no sign of a genuine revival in demand in industrial countries.

The eurozone's economy contracted overall by 0.4 % in 2012. Germany was the only major country in the eurozone that managed to register any real growth (+ 0.7 %). France's gross domestic product (GDP) practically stagnated at a rate of + 0.1 %. By contrast, Italy (– 2.2 %) and Spain (– 1.4 %) slipped into recession. The UK economy – Europe's largest outside the eurozone – reached the previous year's level.

The USA recorded a growth rate of 2.2 % in 2012, thanks to the recovery of the employment and property markets. Despite uncertainties about possible fiscal changes in 2013, domestic demand remained stable up to the year-end.

The Japanese economy grew by 1.8 % as a result of the high level of investment and the production catch-up effect caused by the previous year's catastrophe. Even here, however, the growth rate slowed down sharply over the course of the year.

China, too, lost some momentum in 2012, growing by only 7.8 % compared to the previous year's 9.3 %, but nevertheless remained the most dynamic of the world's major economies. The growth rate in India fell from 6.9 % in 2011 to 5.1 % in 2012. The most pronounced slow-down was registered in Brazil, where growth dropped to 1.1 % and hence to a mere quarter of the previous year's rate (2011: + 4.4 %). Russia's GDP also grew more slowly than one year earlier (+ 3.4 %).

Exchange rates compared to the euro
(Index: 31 December 2007 = 100)

Source: Reuters

Exchange rates remain volatile, but only marginally changed on a year-end comparison

The world's currency markets were heavily influenced again in 2012 by the impact of the sovereign debt crisis. Although the US dollar exchange rate was practically unchanged on a year-end comparison (US dollar 1.30 to the euro), the escalation of the euro crisis in summer 2012 temporarily caused a sharp rise in the value of the US dollar.

Since the rate of the Chinese renminbi is more or less coupled to that of the US dollar, the volatility of the Chinese currency generally reflects that of the US dollar to the euro. A continuation of the gradual appreciation of the renminbi of 1% to 2% was also noticeable in 2012.

The British pound increased moderately in value against the euro and finished the year at GBP 0.81 to the euro, thus continuing to recover from its low point during the financial crisis. The Japanese yen fell to a rate of 114 yen to the euro, in advance of the expansionary monetary and fiscal policies expected to be adopted by the new government.

Higher prices for major raw materials

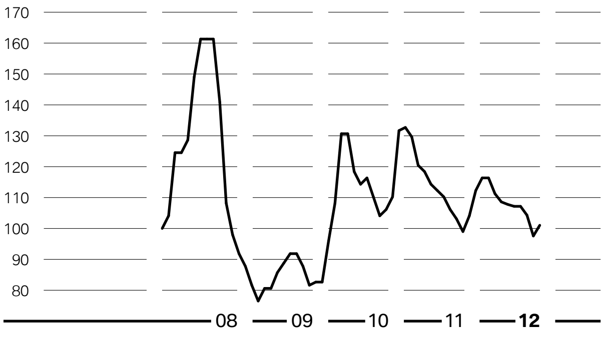
Political uncertainties regarding further developments in various conflicts in the Middle East kept the price of Brent oil – the most relevant for Europe – at a high level, namely US dollar 112 per barrel on average for the year. By contrast, the price of WTI oil – the most relevant parameter for the USA – was somewhat lower in 2012 (average price of US dollar 94 per barrel). The upshot was a further rise in energy prices, particularly in Europe. By contrast, the price of steel decreased worldwide, reflecting the economic downturn. Prices of non-ferrous and precious metals continued to be highly volatile, generally in an upward direction.

Car markets in 2012

The number of passenger cars and light commercial vehicles sold worldwide rose to 72.6 million units (+5.7%) in 2012, primarily on the back of increased demand in the USA and China. This time, however, demand in the USA provided the strongest momentum, with the market growing by 13.4% to 14.5 million units. After a period of exceptionally rapid growth in China, including several years of double-digit growth, the passenger car market expanded by a relatively moderate 9.4% in 2012 to approximately 13.3 million units.

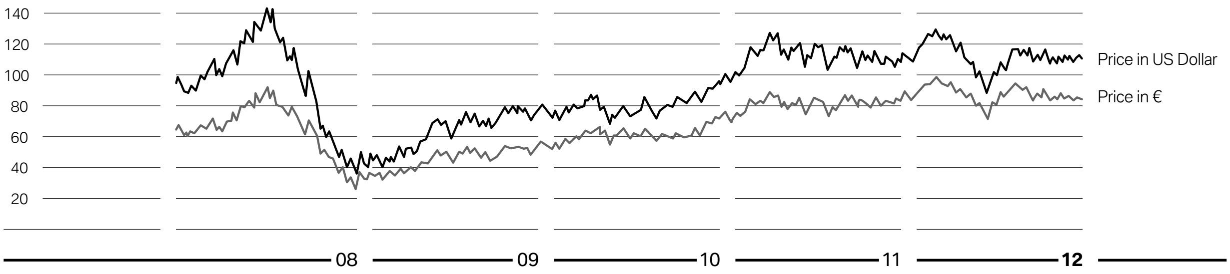
In Europe, the number of new registrations fell once again in 2012 (12.5 million units; –7.8%). The decrease in Germany was less pronounced, with new registrations down by 2.9% to approximately 3.1 million units.

Steel price trend
(Index: January 2008 = 100)



Source: Working Group for the Iron and Metal Processing Industry

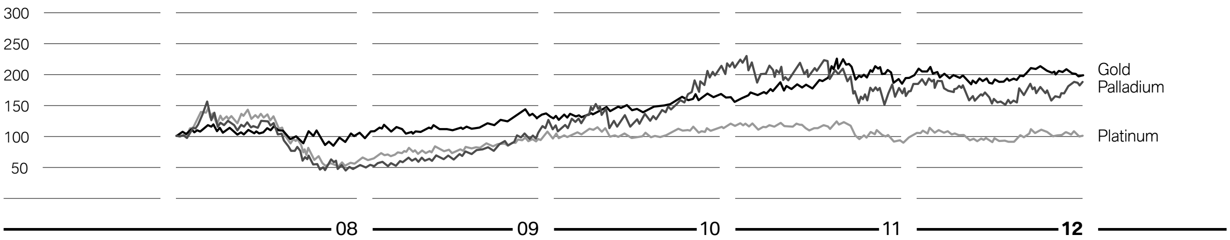
Oil price trend
Price per barrel of Brent Crude



Source: Reuters

Precious metals price trend

(Index: 31 December 2007 = 100)



Source: Reuters

The percentage drops in France (– 14.0 %), Italy (– 20.0 %) and Spain (– 13.4 %) reached double figures in each case. Of the major car markets in Europe, only Great Britain was able to buck the trend, with the number of new vehicles registered up by 5.3 % to approximately 2 million units.

Japan's car market grew exceptionally strongly in 2012, jumping by 28 % to 5.2 million units, mainly due to economic revival in the wake of the Fukushima catastrophe in the previous year, manifested in a production catch-up effect and increased demand for spare parts.

The Russian market demonstrated its generally robust state of health with new registrations up by around 9 % to 2.7 million units. India's car market also continued to display an upward trend (2.8 million units; + 10 %). Brazil saw its car market climb by 3.4 % to 3.6 million units, largely due to the initiation of a new state-funded stimulus programme.

Motorcycle markets in 2012

International motorcycle markets in the 500 cc plus class continued to fare divergently in 2012. Overall this market segment contracted worldwide by 1 % compared to the previous year. In Europe (– 9 %), the impact of the sovereign debt crisis was felt most sharply in the region's southern countries, including sharp market downturns in Italy (– 20 %) and Spain (– 22 %). Great Britain (– 5 %) and France (– 2 %) recorded more moderate declines. In a contrasting trend, the 500 cc plus class market in Germany grew by 4 % compared to one year earlier. The corresponding segment in the USA also registered a moderate increase (+ 2 %) in the period under report. Brazil was 6 % up on the previous year. The motorcycle market in Japan continued to steer a course of recovery in 2012, growing strongly by 18 %.

The financial services market in 2012

All of the world's major central banks adhered to their adopted course, ensuring that commercial banks had access to large volumes of liquidity. Marked rises in refinancing costs in a number of countries within the eurozone triggered various political measures that helped to stabilise the financial markets.

Price levels on international used car markets continued to develop inconsistently in 2012. While North America, Germany and Great Britain were largely stable, adverse economic developments in some southern European countries caused used car prices to fall in the region.

Despite the debt crisis in Europe and the resulting negative impact on unemployment figures, credit risk levels for retail, dealer and importer financing business did not worsen overall. By contrast, the situation in southern Europe continues to be difficult in the face of adverse economic conditions.

AUTOMOTIVE SEGMENT

Car sales volume at new all-time high

The BMW Group sold a total of 1,845,186* BMW, MINI and Rolls-Royce brand vehicles during the year 2012, the best sales volume performance ever achieved in the company's history (+10.6%). Despite increasing uncertainties on many markets, particularly in Europe, the BMW Group retained its pole position in the premium segment worldwide.

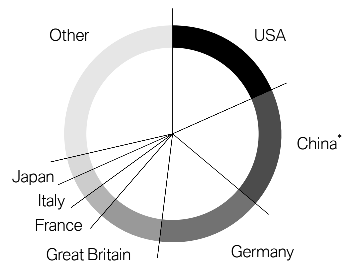
This strong performance was underlined by the fact that all three brands broke their previous sales volume records. Sales of BMW brand cars rose by 11.6% to 1,540,085* units. Both MINI (301,526 units; +5.8%) and Rolls-Royce (3,575 units; +1.0%) also registered sales volume growth.

Double-digit growth in Asia and the Americas

Sales of BMW, MINI and Rolls-Royce brand cars in Asia rose by almost one third to 493,393* units (+31.4%). The number of cars sold in China jumped by 40.1% to 327,341* units, surpassing the 300,000 threshold for the first time with ease. Strong growth was also recorded in Japan (56,701 units; +19.0%).

The Americas region also made a good contribution to the overall performance, with 425,382 units (+11.8%) sold in this region, including 348,532 units sold in the USA (+13.8%). These figures enabled us to maintain our pole position amongst premium manufacturers.

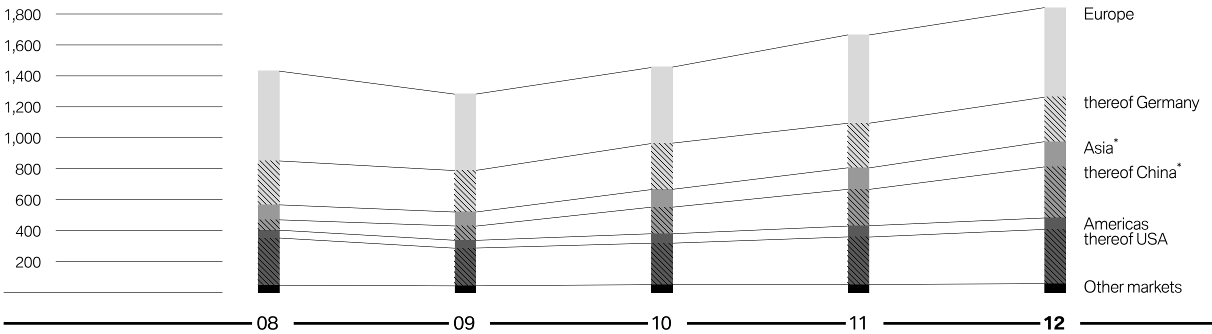
BMW Group – key automobile markets 2012
as a percentage of sales volume



USA	18.9	France	3.7
China*	17.7	Italy	3.3
Germany	15.6	Japan	3.1
Great Britain	9.5	Other	28.2

BMW Group car sales in Europe were marginally higher in a year-on-year comparison, despite somewhat difficult business conditions. Overall, we sold 865,417 vehicles in this region (+0.8%). Sales volume in Germany edged up by 0.7% to 287,362 units. We also convincingly beat the previous year's performance in Great Britain, with sales volume up by 4.2% to 174,530 units. France failed to match the previous year's level (67,364 units; –4.4%),

BMW Group sales volume of vehicles by region and market
in 1,000 units



	08	09	10	11	12
Europe	864.6	761.9	791.2	858.4	**865.4**
— thereof Germany	280.9	267.5	267.2	285.3	**287.4**
Asia*	165.7	183.2	286.3	375.5	**493.4**
— thereof China*	65.9	90.6	169.6	233.6	**327.3**
Americas	355.4	294.2	329.7	380.3	**425.3**
— thereof USA	303.6	242.1	266.6	306.3	**348.5**
Other markets	50.2	47.0	54.0	54.8	**61.1**
Total	**1,435.9**	**1,286.3**	**1,461.2**	**1,669.0**	**1,845.2**

* Including automobiles from the joint venture BMW Brilliance.

while sales in Italy dropped to 60,520 units (–16.5 %) due to the impact of the sovereign debt crisis. By contrast, sales in the growing Russian market rose by almost one third to 40,230 units (+33.0 %).

BMW brand exceeds 1.5 million threshold for first time*

In addition to retaining the top position for the BMW brand in the premium segment as a whole, the BMW 1 Series, 5 Series and 6 Series each consolidated their leading positions in their respective segments of the market. The BMW X1 was again the best-selling model in its segment. The new BMW 3 Series Sedan, which has been on the market since February 2012, accelerated straight into first place in the mid-range segment.

The BMW 1 Series performed extremely well with sales up by 28.6 % on the previous year to 226,829 units. During the year ended 31 December 2012 we sold 406,752 units

Sales volume of BMW vehicles by model variant*

in units

	2012	2011	Change in %	Proportion of BMW sales volume 2012 in %
BMW 1 Series				
Three-door	**14,462**	20,328	–28.9	
Five-door	**176,066**	111,898	57.3	
Coupé	**20,015**	24,357	–17.8	
Convertible	**16,286**	19,835	–17.9	
	226,829	**176,418**	**28.6**	**14.7**
BMW 3 Series				
Sedan	**294,045**	240,279	22.4	
Touring	**59,144**	72,054	–17.9	
Coupé	**29,525**	39,332	–24.9	
Convertible	**24,038**	32,799	–26.7	
	406,752	**384,464**	**5.8**	**26.4**
BMW 5 Series				
Sedan	**280,504**	248,835	12.7	
Touring	**57,425**	61,215	–6.2	
Gran Turismo	**21,087**	22,451	–6.1	
	359,016	**332,501**	**8.0**	**23.3**
BMW 6 Series				
Coupé	**8,480**	2,937	–	
Convertible	**7,880**	6,459	22.0	
Gran Coupé	**6,833**	–	–	
	23,193	**9,396**	**–**	**1.5**
BMW 7 Series				
	59,184	**68,774**	**–13.9**	**3.9**
BMW X1				
	147,776	**126,429**	**16.9**	**9.6**
BMW X3				
	149,853	**117,944**	**27.1**	**9.7**
BMW X5				
	108,544	**104,827**	**3.5**	**7.1**
BMW X6				
	43,689	**40,822**	**7.0**	**2.8**
BMW Z4				
	15,249	**18,809**	**–18.9**	**1.0**
BMW total	**1,540,085**	**1,380,384**	**11.6**	**100.0**

* Including automobiles from the joint venture BMW Brilliance.

(+5.8%) of the BMW 3 Series. Demand for the BMW 5 Series was also strong again in 2012, with sales up by 8.0% to 359,016 units. Sales of the BMW 6 Series more than doubled in 2012 to reach 23,193 units (2011: 9,396 units). Only the BMW 7 Series (59,184 units; –13.9%) and the BMW Z4 (15,249 units; –18.9%) fell short of their previous year's sales volume figures.

The various models of the BMW X family also performed extremely well in 2012. The BMW X1 was handed over to 147,776 customers, an increase of 16.9% on one year earlier. Even faster growth was achieved by the BMW X3, with sales volume of 149,853 units (+27.1%). Sales of the BMW X5 and the BMW X6 totalled 108,544 units (+3.5%) and 43,689 units (+7.0%) respectively.

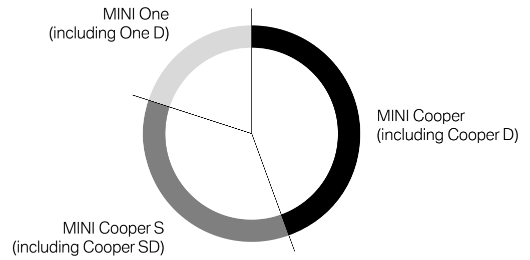
MINI brand with new record sales volume

MINI surpassed the sales volume threshold of 300,000 units for the first time in a single year by achieving a new record of 301,526 units (+5.8%). Sales of the MINI Countryman rose sharply to 102,271 units (+14.9%), while sales of the MINI Coupé practically tripled to 11,311 units (2011: 3,799 units). The new MINI Roadster recorded sales volume of 9,202 units in the period since its market launch. In a contrasting trend, however, sales were down on last year's levels for the MINI Hatch (131,569 units; –4.1%), the MINI Convertible (24,474 units; –16.5%) and the MINI Clubman (22,699 units; –11.8%).

The MINI brand continued to generate a very high-value product mix in 2012, with 44.5% of customers opting for the MINI Cooper, 35.7% for the MINI Cooper S and 19.8% for the MINI One.

MINI brand cars in 2012 – analysis by model variant

as a percentage of total MINI brand sales volume



MINI Cooper (including Cooper D) — 44.5
MINI Cooper S (including Cooper SD) — 35.7
MINI One (including One D) — 19.8

Sales volume of MINI vehicles by model variant

in units

	2012	2011	Change in %	Proportion of MINI sales volume 2012 in %
MINI Hatch	131,569	137,155	–4.1	43.6
MINI Convertible	24,474	29,325	–16.5	8.1
MINI Clubman	22,699	25,745	–11.8	7.5
MINI Countryman	102,271	89,036	14.9	33.9
MINI Coupé	11,311	3,799	–	3.8
MINI Roadster	9,202	–	–	3.1
MINI total	301,526	285,060	5.8	100.0

Sales volume of Rolls-Royce vehicles by model variant

in units

	2012	2011	Change in %
Rolls-Royce			
Phantom (including Phantom Extended Wheelbase)	**573**	537	6.7
Coupé (including Drophead Coupé)	**216**	281	–23.1
Ghost	**2,786**	2,720	2.4
Rolls-Royce total	**3,575**	**3,538**	**1.0**

Rolls-Royce again records all-time high

Rolls-Royce Motor Cars remained market leader in the ultra-luxury segment in 2012. The new Phantom Series II models have been available since September and received a thoroughly positive response from customers. The brand's top model, the Phantom, was handed over to 573 customers (+6.7%) during the year under report. The Coupé (including Drophead Coupé) registered a 23.1% drop in sales to 216 units. Sales of the Rolls-Royce Ghost totalled 2,786 units, surpassing the previous year's already high figure by 2.4%.

Car production increased

Production of BMW, MINI and Rolls-Royce Motor Cars brand vehicles was increased by 7.1% to 1,861,826* units in 2012 in order to meet the continually growing demand for BMW Group vehicles. Of this total, 1,547,057* units (+7.4%) related to BMW, 311,490 units (+5.9%) to MINI and 3,279 units (–12.0%) to Rolls-Royce.

Production network running at full capacity

The BMW Group's production network was dominated in 2012 by numerous model start-ups, preparation work for the series production of the BMW i3 and continued expansion of its international sites. Despite these challenges, new production volume records were set. Its high degree of flexibility enabled the production network to even out regional sales volume fluctuations by adapting its production programme wherever necessary. For the second consecutive year we manufactured over one million vehicles at our German plants. Even so, the percentage of vehicles produced at plants outside Germany grew to over 46%.

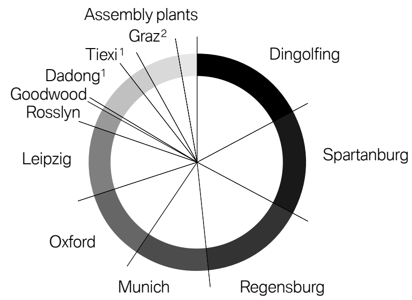
The BMW plant in Munich saw the start-ups of the BMW ActiveHybrid 3 and the BMW 3 Series Touring in 2012. Employees from the Munich plant were also on hand to support the production start-ups of the new BMW 3 Series in other plants, such as at Tiexi in China and in Rosslyn in South Africa. Work is also in full swing to integrate a further model at the plant in Munich – the BMW 4 Series Coupé. At the same time, a record number of over 214,000 units were manufactured in Munich during the period under report. In summer, a family day attended by 80,000 employees and their families was held to celebrate 90 years of production and 60 years of automotive manufacture at the Munich plant.

* Including automobiles from the joint venture BMW Brilliance.

Summer 2012 also saw the production start-up of the three-door BMW 1 Series in Regensburg. The new BMW 3 Series Sedan had already been integrated in the plant's production with equal success in March 2012. The range of vehicles manufactured at this plant includes the BMW 1 Series, the BMW 3 Series and the BMW Z4.

Vehicle production of the BMW Group by plant in 2012

in 1,000 units



Dingolfing	332.7	Rosslyn	45.7
Spartanburg	301.5	Goodwood	3.3
Regensburg	300.3	Dadong[1]	108.9
Munich	214.1	Tiexi[1]	41.1
Oxford	207.8	Graz (Magna Steyr)[2]	103.7
Leipzig	164.3	Assembly plants	38.4

[1] Joint venture BMW Brilliance
[2] Contract production

Also in summer 2012, the five-millionth car rolled off the production line since manufacturing at the Regensburg plant began in 1986. The plant has been undergoing extensive expansion work since the previous autumn. The pressing plant has been enlarged and a second main production line set up for making car bodies. We have also built an additional logistics centre to handle increased material volumes. These measures all contributed towards boosting the efficiency, flexibility and start-up expertise at the Regensburg plant, which is borne out by the numerous awards won in 2012.

Electromobility production network almost completed

Preparations for the series production of the BMW i models represented an important focal point of activities at the Leipzig, Dingolfing and Landshut plants during the year under report. These plants are being built into a competence network for e-mobility, in which the BMW i models will be produced in a multi-plant system. Lightweight construction using carbon-fibre-reinforced plastics (CFRP) plays a key role in the production process.

The Leipzig plant is destined to play a major role in the production and assembly of the BMW i models. The building phase, as well as the enlargement of the body-making and pressing plant, are proceeding according to plan. In spring 2013, four wind turbines installed at the plant's premises will be put into operation to supply the production of BMW i models with clean, renewable energy. A total of 400 new employees have been recruited to manufacture the BMW i models and also take up conventional production duties. Series production of the new five-door BMW 1 Series also commenced with great success in Leipzig.

In summer, the first assembly line for high-voltage batteries designed for use in the new BMW i models went into operation at the Dingolfing plant, thus signalling a further milestone on the road to the series production of BMW electric vehicles. The battery, the e-transmission and the aluminium chassis for the BMW i3 will all be built in Dingolfing. Various components for the BMW i8 will also be produced at the plant. Parallel to preparations for the BMW i vehicles, the Dingolfing plant also mastered the successful start-ups of the BMW 6 Series Gran Coupé and the BMW M6 Convertible. In addition to all these activities, the BMW 6 Series as well as various 5 and 7 Series models continue to be manufactured at the plant.

A new production system for ultra-lightweight, high-strength carbon parts went into operation at the Landshut component plant in spring 2012. The carbon fibre cores produced at the Wackersdorf plant are processed in Landshut and Leipzig to form CFRP body parts and subsequently delivered to the CFRP body making unit at the BMW plant in Leipzig. The new, highly innovative CFRP production set-up in the two plants makes it possible for the first time to manufacture vehicle body sections from carbon fibre parts in an automated, large-scale production system.

The ceremony to celebrate the start of construction of an expanded high-pressure die-casting foundry as well as a core-moulding plant also took place in Landshut in April 2012. As the demand for die-cast lightweight alloy parts is continually growing, production capacity will be boosted from the current 58,000 tonnes to 69,000 tonnes per year in future. In addition, a new resource-saving smelting plant was commissioned in Landshut in the autumn. The BMW Group is thereby demonstrating how economically viable production can be successfully combined with ecological sustainability. Conversion from liquid to solid metal delivery is helping to achieve a 10 % reduction in the total volume of CO_2 emitted from the aluminium smelter through to completion of the die-cast part.

Global presence being strengthened

The BMW Group's production network has meanwhile grown to a total of 29 sites located in 14 countries. In May the second carmaking plant of the BMW Brilliance Automotive joint venture was opened at the Tiexi* site in Shenyang (China) and a local engine production plant was also commissioned. The extended-wheelbase versions of both the BMW X1 and of the BMW 3 Series Sedan for the Chinese market are being built exclusively in Tiexi*. The new plant sets standards in terms of technology and sustainability. Over 41,000 BMW vehicles rolled off the production lines there in 2012. The extended-wheelbase version of the BMW 5 Series Sedan is produced at the Dadong* plant in China.

The BMW Group's global production presence has also been reinforced by the enlargement of the plant at Spartanburg in the USA. At the beginning of 2012 we announced that the plant's capacity would be extended to up to 350,000 units by 2014. The BMW X models X3, X5 and X6 as well as the X5 M and X6 M are currently manufactured at the plant. During the year under report the BMW Group decided that the BMW X4 will also be

* Joint venture BMW Brilliance

built in Spartanburg as the latest member of the X Series family. For the first time, more than 300,000 vehicles were produced at the Spartanburg plant during a single year.

The production start-up of the new BMW 3 Series Sedan commenced at our plant in Rosslyn, South Africa, at the beginning of 2012. Among other improvements, the plant's IT and logistics infrastructure was renewed in advance, in order to accommodate a capacity of 90,000 units in the medium term and further raise the efficiency of the plant.

The assembly plants that mainly serve regional markets are also steadily growing. The BMW Group manufactured over 38,000 units at its production sites in Egypt, India, Indonesia, Malaysia, Russia and Thailand. The production start-up of new models such as the BMW X3 and the 3 Series Sedan has also begun successfully.

A further member of the BMW Group's production network is planned for Brazil, where the market shows great promise for the future. Following the receipt of approval from the Brazilian government at the beginning of 2013, we now plan to manufacture up to 30,000 vehicles there per annum.

Expansion of MINI and Rolls-Royce production

The British production triangle comprising the MINI plant in Oxford, the component plant in Swindon and engine production in Hams Hall is an important element of the BMW Group's production network. The focal point of MINI production is in Oxford, where not only the MINI Hatch, the Convertible and the Clubman are manufactured, but also the Coupé and the Roadster.

In order to secure further capacity for the intended growth of the MINI brand, the BMW Group entered into an agreement in 2012 with the Dutch VDL NedCar bv involving the contract production of MINI automobiles in the Netherlands as from 2014.

The MINI models Countryman and Paceman are already being produced under contract by the company Magna Steyr Fahrzeugtechnik in Austria. After the successful start-up of the MINI Paceman, over 100,000 vehicles were again produced at the plant for the BMW Group in 2012.

Capacity at the Rolls-Royce manufacturing plant in Goodwood, England, was also raised during the year under report. We enlarged both the production facilities and the paint shop in preparation for future models and to meet high demand, particularly for bespoke vehicles.

Engine production network becoming increasingly globalised

The engine production network is also constantly growing and, parallel to the vehicle manufacturing plant in Tiexi, the BMW Brilliance Automotive joint venture opened a new engine plant in Shenyang in 2012, which supplies the two Chinese carmaking plants with the latest generation of 4-cylinder combustion engines. The new engine plant, of which there are now four in the BMW Group's network, was opened after only a 12-month construction period. More than 42,000 engines were manufactured at the plant in 2012.

Due to the strong demand for 4-cylinder petrol-driven engines worldwide, engine-building capacities at the Munich plant were fully utilized, with a daily manufacture of up to 1,600 engines in 2012. Almost 388,000 engines were manufactured at the plant. The range of products manufactured at the Munich plant also includes 8- and 12-cylinder petrol engines as well as 6-cylinder diesel engines for the new M Performance models.

In future, the new BMW Efficient Dynamics family of engines will also be built there and the task of setting up production, logistics and assembly lines began during the year under report. The 3-cylinder engine is the first representative of a new modular engine that enables production to be managed with even greater flexibility. It will be produced in close cooperation with the engine plants in Hams Hall and Steyr.

The largest engine plant in the BMW Group in Steyr celebrated its 30th year of production in 2012. Preparations are currently underway for the start-up of the new generation of modular engines. In 2012 over one million (1,035,902) engines were produced in Steyr, bringing the total number of engines manufactured since commencement of series production at the plant to over 15 million. Currently BMW 4- and 6-cylinder diesel engines, 6-cylinder petrol engines and MINI diesel engines are manufactured in Steyr.

More than 3 million engines have been manufactured at the Hams Hall plant since production commenced in 2001, almost 400,000 (395,854) of which were built in 2012. Preparations for the production of future generations of engines at the plant also include the propulsion unit for the new BMW i8, which is scheduled to be produced exclusively in Hams Hall.

MOTORCYCLES SEGMENT

Record year for Motorcycles segment

The Motorcycles segment achieved its best sales volume to date in 2012, despite a difficult market environment. A total of 117,109 BMW and Husqvarna brand motorcycles was sold worldwide (+3.1%). Sales of BMW brand motorcycles increased by 2.0% to reach a new record of 106,358 units. In addition, a total of 10,751 Husqvarna brand motorcycles was handed over to customers (+15.8%).

Sharp increase in motorcycle sales overseas

Motorcycle sales in the USA jumped by 20.6% to 14,455 units in 2012. Even faster growth was achieved in Brazil, where sales volume of 7,446 units (+36.8%) was recorded. 3,410 motorcycles were sold to customers in Japan (+22.4%).

Continued market uncertainties in Europe were responsible for a decrease to 71,256 units (–5.1%). Sales in Germany, by contrast, rose to 22,363 units, surpassing the previous year's already high figure by 5.9%. Good sales performance was also recorded in France, with 11,441 motorcycles handed over to customers (+11.7%). By contrast, sales volume in Great Britain (5,905 units; –5.9%) fell short of the figure achieved one year earlier. The negative impact of the sovereign debt crisis on consumer spending was felt very clearly on the Spanish (5,317 units; –16.2%) and Italian (11,403 units; –25.5%) motorcycle markets.

Model offensive continued

The G 650 GS Sertão, the revised models of the S 1000 RR and the F 800 R, the special R 1200 GS Rallye model and the special K 1300 R and K 1300 S models all came onto the markets at the end of March 2012, in good time for the start of the motorcycle season. The market launch of the C 650 GT and C 600 SPORT scooters followed in July, initially in Europe. The new BMW F 700 GS and F 800 GS motorcycles were first presented in July 2012 and came onto the markets in September. The fifth generation of the successful R 1200 GS model, with its newly developed boxer engine, was showcased by BMW Motorrad at the INTERMOT International Motorcycle Exhibition in Cologne. The new BMW HP4 was also unveiled to the public for the first time in Cologne. This high-performance model, which is equipped with features and technical highlights that make it extremely agile and ensure an extremely dynamic riding performance, has been available since December 2012. A number of special models were presented during the EICMA International Motorcycle Fair in Milan and will become available to customers in 2013 to mark the 90th anniversary of BMW's motorcycle business. The C evolution – a close-to-production prototype of an electric scooter – was presented at the end of July and is expected to make its market debut in 2014.

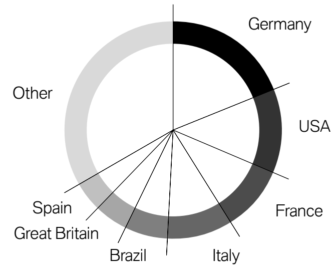
The Husqvarna brand expanded its range of products with the launch of various new on-road bikes (TR 650 Strada, TR 650 Terra, Nuda 900 and 900R ABS) and off-road bikes (TE250R and TE310R).

In January 2012, the BMW K 1600 GT won first prize in the International Bike Of The Year 2011 Awards. The K 1600 GT delighted the motorcycle press with its unique combination of comfort, performance and use of innovative technologies.

Motorcycle production increased

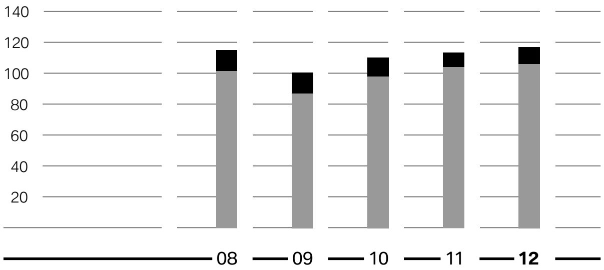
In total, 125,284 BMW and Husqvarna brand motorcycles were manufactured during the year under report (+5.4%), with 113,811 BMW brand motorcycles built at the motorcycle plant in Berlin (+3.1%) and 11,473 Husqvarna brand motorcycles built in Italy (+34.9%).

BMW Group – key motorcycle markets 2012
as a percentage of sales volume



Germany	19.1	Brazil	6.4
USA	12.3	Great Britain	5.0
France	9.8	Spain	4.5
Italy	9.7	Other	33.2

BMW Group sales volume of motorcycles
in 1,000 units



	08	09	10	11	12
BMW	101.7	87.3	98.0	104.3	**106.4**
Husqvarna	13.5	13.1	12.1	9.3	**10.7**
Total	115.2	100.4	110.1	113.6	**117.1**

FINANCIAL SERVICES SEGMENT

Financial Services segment remains on growth course

Despite fluctuations on international capital markets, the Financial Services segment achieved another good performance in 2012 with its attractive range of products and continued to grow. Overall 3,846,364 credit financing and lease contracts were in place with dealers and retail customers at the end of the reporting period (2011: 3,592,093 contracts; +7.1 %). In balance sheet terms, the segment's business volume rose by €5,729 million to €80,974 million (2011: €75,245 million; +7.6 %).

The Financial Services segment operates in more than 50 countries worldwide as partner to the sales organisation, with activities comprising the following six lines of business:

1. Lease and credit financing of BMW Group vehicles for retail customers
2. Lease and credit financing for fleet customers/fleet management
3. Multi-brand financing
4. Dealer financing
5. Insurance
6. Banking

Credit financing and the lease of BMW Group brand cars and motorcycles to retail customers is the largest line of business. The BMW Group operates its international multi-brand fleet business under the brand name "Alphabet International", providing mobility solutions in 19 countries. This includes first and foremost the financing of corporate car requirements as well as the comprehensive management of corporate car fleets. Within the multi-brand financing line of business, credit financing, leasing and other services are marketed to retail customers under the brand name "Alphera". The Financial Services segment also supports the dealer organisation by providing financing for inventories, real estate and equipment. The segment's range of products is rounded off by the provision of insurance and banking services.

Significant growth in new business

Credit and leasing business with retail customers saw further dynamic growth in 2012, with 1,341,296 new contracts signed worldwide, 12.1 % more than last year (2011: 1,196,610 contracts).

Double-digit growth rates were achieved in both lines of financing, with lease business up by 16.3 % and credit financing by 10.0 % compared to the previous year. Leasing accounted for 33.8 % of total new business, credit financing for 66.2 %.

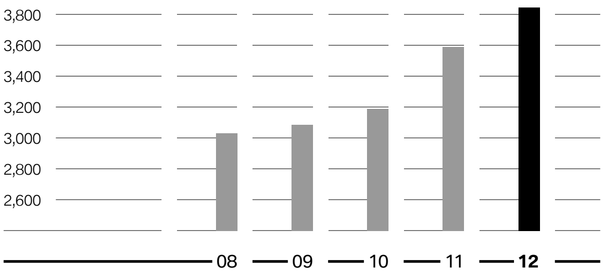
The proportion of new BMW Group cars leased and financed by the Financial Services segment was 40.4 %, marginally lower than one year earlier (2011: 41.1 %; – 0.7 percentage points).

In the used car financing line of business, a total of 303,490 new contracts were signed during 2012, marginally up (+ 0.6 %) on the previous year (2011: 301,539 contracts).

The total volume of all new credit and leasing contracts concluded with retail customers during the period under report amounted to €36,664 million, 15.4 % up on the preceding year (2011: €31,779 million).

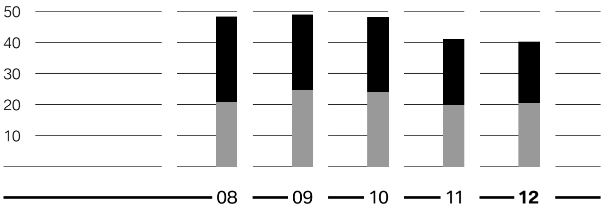
A total of 3,534,620 retail customer contracts was in place at 31 December 2012, 6.7 % more than one year earlier (2011: 3,311,809 contracts). All regions contributed to the increase in business volume, with the contract portfolio rising by 9.8 % in the Europe/Middle East region, 5.2 % in the Americas region and 1.1 % in the EU-Bank region. The sharpest increase was recorded in the Asia/Pacific region (+ 24.2 %).

Contract portfolio of Financial Services segment
in 1,000 units



	08	09	10	11	12
	3,032	3,086	3,190	3,592	**3,846**

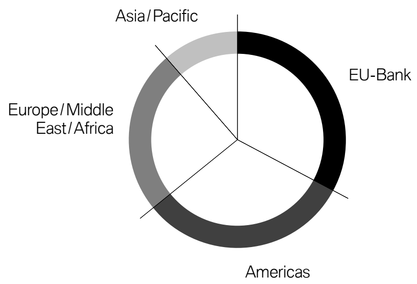
BMW Group new vehicles financed by Financial Services segment
in %



	08	09	10	11	12
Financing	20.9	24.7	24.1	20.0	**20.7**
Leasing	27.6	24.3	24.1	21.1	**19.7**

Contract portfolio retail customer financing of Financial Services segment 2012

as a percentage by region



EU-Bank	32.8	Europe / Middle East / Africa	24.6
Americas	31.4	Asia / Pacific	11.2

Awards for quality of service

The BMW Group's Financial Services segment was again the recipient of numerous international awards in 2012. In the annual survey carried out by the market research institute J. D. Power and Associates, our Financial Services business in the USA came first for the ninth time in succession in the category "Dealer Financing Satisfaction Study[SM]". The award presented by this internationally renowned market research institute is acknowledgement of the high level of dealer satisfaction achieved with our leasing and financing products.

Expansion of BMW Bank continued in line with plan

Further progress was made in 2012 to expand the BMW Bank. With effect from August 2012, financial services business in France was integrated directly with the BMW Bank by means of a subsidiary. Financial Services business in Germany now covers entities in Germany, France, Italy, Portugal and Spain.

Strong growth for fleet business

Alphabet International, with its wide range of multi-brand products, is one of the top four fleet service providers in Europe. At the end of the reporting period, Alphabet was managing a portfolio of 502,397 fleet contracts, up 5.8 % on the previous year (2011: 474,717 contracts).

Multi-brand financing up sharply

Demand for multi-brand financing grew sharply in 2012 with a total of 163,945 new contracts signed (+ 17.3 %). At the end of the reporting period, the multi-brand financing line of business covered 417,408 contracts (2011: 370,999 contracts: + 12.5 %).

Increased dealer financing volumes

The total volume of financing disbursed to the dealer organisation amounted to €12,669 million at 31 December 2012, an increase of 11.0 % compared to one year earlier (2011: €11,417 million).

Deposit volume again higher than at the end of the previous year

Deposit business represents a significant component of the BMW Group's refinancing strategy. The Financial Services segment's deposit volume totalled €13,018 million (+ 8.1 %) at the end of the reporting period. By contrast, decreases were recorded for securities and credit card business, with the number of securities custodian accounts falling by 5.5 % to 23,042 and credit card contracts down by 2.4 % to 281,464.

Dynamic growth for insurance business

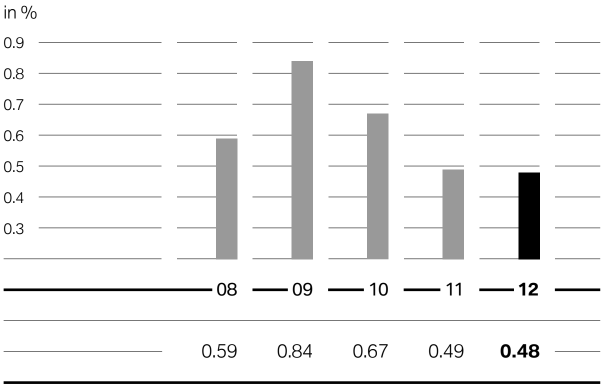
In addition to its leasing and financing products, the Financial Services segment also offers a wide range of insurance services relating to individual mobility. New business grew by 15.7 % to 979,776 contracts in 2012. The insurance contract portfolio expanded by 7.6 % compared to last year's figure to stand at 2,158,892 contracts (2011: 2,007,268 contracts).

Risk profile largely unchanged

The BMW Group's credit and residual value risk profile remained largely unchanged. The loss ratio on lending decreased further in the year under report, falling by one basis point from 0.49 % in 2011 to 0.48 %. Average losses on residual value risks also decreased slightly.

The Financial Services segment uses the value at risk (VaR) methodology to measure the amount of unexpected loss for major risk categories (credit, residual value and interest rate risks, operational risks and insurance business-related risks), based on a confidence level of 99.98 % and a holding period of one year.

Development of credit loss ratio



Losses are managed using an integrated limit system based on a limit determined and set at the beginning of each financial year by reference to available risk coverage equity. The stipulated limit was not exceeded in 2012, which means that the segment's risk-bearing capacity was ensured at all times (see also section "Risk Management").

RESEARCH AND DEVELOPMENT

Research and development expenditure increased

In 2012 our Research and Innovation network employed a workforce of more than 10,900 people based in 13 locations spread over five countries. Research and development expenditure for the year rose by 17.2 % to €3,952 million, mostly on projects aimed at securing the Group's future (2011: €3,373 million). The research and development ratio was 5.1 %, 0.2 percentage points higher than in the previous year (2011: 4.9 %). Further information on research and development activities is provided in note 9 to the Group Financial Statements.

New Efficient Dynamics engine family under development

Efficient Dynamics is one of the most effective strategies for reducing both fuel consumption and CO_2 emissions. During the period under report the efficiency of our combustion engines was further improved while maintaining or even boosting engine performance. Furthermore, full hybrid drive systems were developed for the BMW 3 Series and 7 Series and additional progress was made in the fields of energy management and lightweight construction.

In 2012 we presented a 1.5-litre engine based on the BMW TwinPower Turbo technology. This 3-cylinder engine is one of the first power units of the new Efficient Dynamics engine family. It is based on a standardised design principle and uses a higher number of common components both for petrol and diesel engines. It is thus possible to effectively develop 3-, 4- and 6-cylinder engines of varying capacities using one common technological concept.

Since 2011 we have been offering the ECO PRO Driving Experience Control, which enables drivers to select between various driving modes from sporty to highly economical. The latest ECO PRO mode is connected to the navigation system. With the help of navigation data, the vehicle anticipates the road ahead and provides the driver with information that promotes efficient driving. For instance, the vehicle's energy management system knows it is approaching a town and gives the driver an appropriate early warning. In combination with the ECO PRO coasting function, the engine is decoupled and the vehicle is then only slowed by the aerodynamic drag and rolling resistance. Consistent use of the ECO PRO mode can reduce fuel consumption significantly.

We have also made improvements to our hybrid technology and are currently offering BMW ActiveHybrid technology for the models BMW ActiveHybrid 7, BMW ActiveHybrid 5 and BMW ActiveHybrid 3. The power for the electrically driven features in these vehicles is largely generated by the Brake Energy Regeneration system.

Further progress was also made in the field of lightweight construction during the period under report. Current examples are bumper brackets made of aluminium and instrument panel supports of magnesium.

BMW ConnectedDrive: innovations for connected mobility

Connected Drive stands for forward-looking vehicle concepts and technologies. New functions demonstrate the innovation leadership of the BMW Group when it comes to the connectedness of the driver, the vehicle and the environment.

The latest generation of our navigation system is equipped with a three-dimensional graphic visualisation that includes additional functions as well as an optimised display and operating concept. The new dictation function with speech-text entry enables the driver to dictate texts for e-mails and SMS text messages. Moreover, in 2012 the BMW Group became the first carmaker worldwide to offer high-speed Internet functionality in a vehicle. The LTE standard forms the interface between the user's mobile end device and the Internet.

Since August 2012 the My BMW Remote app has also been available for smartphones with Android operating systems. My BMW Remote enables BMW owners to activate numerous practical functions of their vehicle remotely, such as doors to be locked and unlocked. In addition, users of BMW ConnectedDrive and MINI Connected now have new apps designed to enhance the range of information and entertainment available within the vehicle.

BMW i3 Concept Coupé and i8 Concept Spyder celebrate world premiere

In April 2012 the BMW i8 Concept Spyder celebrated its world premiere at the Shanghai Motor Show. In June we demonstrated the use of regenerative materials for vehicle interiors based on the BMW i3 Concept. The BMW i3 Concept Coupé was presented in Los Angeles in November. As well as providing an opportunity to preview the design of a model nearing series production, the complete connectedness of this vehicle with the outside world was in the spotlight.

In order to offer customers the BMW i3 and i8 complete with electricity from fully renewable sources, in 2012 the BMW Group entered into a strategic cooperation with NATURSTROM AG. In a further step towards the complete automation of CFRP production, cooperation arrangements with the aircraft manufacturer Boeing were announced in December 2012, the main points of which are research into the recycling of carbon fibres and the automation of production processes. We also entered into strategic partnerships during the year under report with a view to establishing efficient, customer-friendly wallboxes in the garages of BMW i3 and i8 owners.

Research project enables cars and motorcycles to communicate with each other

Numerous companies from the automotive and telecommunications industries, the government of the German state of Hesse and the city of Frankfurt am Main as well as various universities and scientific institutions have united in the research project "Sichere Intelligente Mobilität – Testfeld Deutschland (simTD)". Their joint aim is to test the functionality, suitability for everyday use and effectiveness of car-to-X communication for the first time under real conditions. After four years of research work, the field trial commenced in October 2012 with over 120 vehicles. The BMW Group is the only project partner taking part in the field trial with both cars and motorcycles. The simTD project is testing various driver assistance systems based on car-to-X communication methods for BMW Group cars and motorcycles. For example, traffic light systems can transmit information about their switching times to enable a driver assistance system to either pass on information regarding the optimum speed for a personal "green wave" or warn about the imminent danger of going through a red light (traffic light phase assistant). A specific transfer of data describing the traffic situation, the condition of the road surface and further factors makes it possible to relay early warnings of accidents (obstacle warning), traffic jams (end-of-jam warning) or the formation of black ice (road weather warning) from one vehicle to other motorists in the vicinity. Additionally, based on the vehicle data transferred, it is possible to calculate the risk of a collision, enabling warnings to be transmitted about the risk of collision at crossings (cross-traffic assistant). Further car-to-X functions in the simTD research project are the warning for emergency vehicles, the electronic brake light and the road sign assistant. Moreover, the test vehicles supply the data necessary to improve traffic management. In this way, traffic jams can be anticipated, CO_2 emissions can be reduced and waiting times at traffic lights minimised.

Numerous awards received once again for achievements in the field of development

Alongside the BMW 6 Series Convertible, the BMW 6 Series Coupé, the BMW 1 Series M Coupé and the BMW ActiveE, in January 2012 two of the Group's motorcycles, the BMW K 1600 GT/GTL and the BMW G 650 GS received the 2011 GOOD DESIGN™ Award. For over 60 years the world's oldest design award has been given to manufacturers and designers for especially innovative, visionary products, concepts and ideas. The awards are given according to the criteria of functionality and aesthetics and are supplemented by a contemporary ecological standard of sustainable design. In July the Group additionally received the GREEN GOOD DESIGN™ Award for the BMW i8 Concept, the BMW i3 Concept and the MINI Rocketman Concept. Criteria such as low energy consumption and reduced dependency on fossil fuels are particularly focused on.

In February 2012 the new BMW 6 Series Coupé received the iF Gold Award for outstanding design. The special prize is the highest award that the renowned International Forum Design can bestow. In addition, the BMW 1 Series, the BMW 1 Series M Coupé, the BMW 6 Series Convertible and the BMW G 650 GS motorcycle received iF Product Design Awards. The iF Design Award of the International Forum Design has established itself over the last 60 years or so as one of the most highly regarded seals of quality for outstanding design work.

When it came to the red dot awards, the BMW Group was proud to receive a total of eleven of these internationally coveted prizes, including two with the highest seal of quality "best of the best" for the BMW AirFlow 2 helmet and the Husqvarna Nuda 900R. The red dot award was also given to the BMW 6 Series Gran Coupé, the BMW 6 Series Coupé, the BMW M5, the BMW 1 Series M Coupé, the BMW C 600 SPORT, the BMW C 650 GT, the BMW K 1600 GT and the BMW G 650 GS. The BMW 3 Series Sedan also earned an Honourable Mention. The red dot award, which was first presented in 1955, is one of the world's most prestigious awards in the field of product design. With this award, the jury, which consists of 30 international design experts, honours extraordinary design achievements in a wide range of fields.

In October 2012 the jury of experts of the German Design Council announced the winner of the German Design Awards 2013. At this year's competition, the BMW 6 Series Convertible was among the winners in the Transportation and Public Space category. The BMW 1 Series and the Husqvarna Nuda 900R also received recognition. The two vehicles earned a Special Mention for their particularly outstanding design features. The 30-person jury of the German Design Award 2013 comprises design experts from commerce, science and the design industry. The competition pays tribute to innovative and international design trends.

The sixth generation of the BMW 3 Series received the internationally prestigious "Goldenes Lenkrad" automotive prize, which is already the fifth success for this series. The BMW 3 Series Sedan came out top in the medium- and luxury-class category. The award is given to the most convincing new car of the year on the market in each category.

With victories in four classes as well as four second and two third places in the "International Engine of the Year Award" we repeated the success of the previous year and simultaneously underscored our leading position as the dominant manufacturer in this competition. Winners in their classes were the 1.6-litre turbo engine of the MINI Cooper S, the 4-cylinder engine featuring BMW TwinPower Turbo technology that currently powers the new BMW 328i, the in-line 6-cylinder with M TwinPower Turbo engine from the BMW 1 Series M Coupé and the V8 propulsion unit under the bonnet of the BMW M3.

BMW crowns DTM comeback with all three titles

BMW Motorsport celebrated its first season back in the German Touring Car Masters (DTM) championship with a clean sweep in all three categories. Not only the drivers' title, but also the teams' and manufacturers' titles all went to BMW. With this triple success, BMW Motorsport can look back at a DTM season in which its three teams and six drivers greatly exceeded all expectations with the BMW M3 DTM. Apart from four victories, we also managed an additional seven placings.

PURCHASING

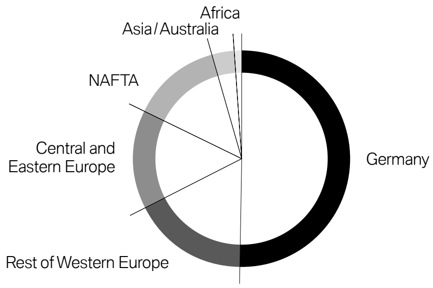
Purchasing and Supplier Network functions further enhanced

As the leading provider of premium automobiles, together with its partners the BMW Group operates the most efficient supply chain in the automotive industry. In today's volatile environment this means being able at all times to react swiftly and flexibly to fluctuations in demand while maintaining a consistently high quality of parts and competitive costs. Moreover, we have made it a key aim to promote our own innovative strengths and those of our suppliers to enhance our position as the leading provider of innovations in the premium segment.

In advance of the introduction of the BMW i3 in 2013 we drew up an extensive sustainability programme during the period under report, aimed at generating yet further improvements in the field of resource efficiency.

Regional mix of BMW Group purchase volumes 2012

in %, basis: production material



Germany	50.3	NAFTA	13.4
Rest of Western Europe	17.3	Asia/Australia	3.1
Central and Eastern Europe	14.8	Africa	1.1

Numerous model start-ups during the reporting year

Numerous new models were launched in 2012 for the BMW, MINI and Rolls-Royce brands. BMW successfully launched six new derivatives of the 1, 3, 5 and 6 Series. MINI successfully introduced its Coupé, while Rolls-Royce Motor Cars brought its Phantom Series II onto the market. Particularly worthy of mention are the launch in 2012 of the BMW 6 Series Gran Coupé and the two hybrid vehicles, the BMW ActiveHybrid 3 and BMW ActiveHybrid 5. The BMW Group also introduced the extended-wheelbase version of the BMW 3 Series Sedan to the Chinese market and brought out revised versions of the BMW 7 Series and the X1 in order to satisfy rising demand in the fast-growing markets of China, India, Brazil and Russia.

Further internationalisation of procurement markets

The BMW Group continued to focus in 2012 on increasing the international scale of its purchasing activities. One example of this was the success achieved with the newly launched BMW 1 Series and 3 Series models. The opening of our new plant in Tiexi*, China, for instance, enabled us to significantly increase the volume of material purchased locally. This is a good example of how we are increasingly shifting added value along the supply chain and into our sales markets, thus helping us to hedge currency exposures. Multi-currency ordering also enables us to pay for purchasing volumes in the currency in which added value is generated.

High level of investment safeguards productivity and technology lead

In addition to its purchasing, quality assurance and logistics functions, the BMW Group's Purchasing and Supplier team is also responsible for component production sites, an arrangement that is unique in the automotive industry. Regular comparative analyses help to guarantee that processes are efficient and effective. The sites concerned are regularly required to prove their competitiveness against external providers. The high level of efficiency achieved was again borne out in 2012 by the bestowal of numerous industry awards.

The significance of Landshut as the competence centre for lightweight construction and electromobility within the BMW Group was underlined by the commissioning of the production plant for ultra-lightweight carbon-fibre parts. The carbon fibre cores produced at the Wackersdorf plant are processed in Landshut to form CFRP body parts and subsequently delivered to the BMW plant in Leipzig, where production of the BMW i3 and BMW i8 will commence during the course of 2013. This investment in CFRP technology provides the basis for large-scale automated series production of carbon-fibre parts and is an important aspect of the BMW Group's long-term lightweight construction strategy. For the time being at least, the BMW Group is in a unique position within the automotive industry.

In addition to the manufacturing of carbon-fibre cores and cockpits for the BMW 1 Series and 3 Series, the Wackersdorf plant handles packaging and distribution of small parts for CKD/SKD production worldwide. As such, the plant constitutes a key element of the Group's logistics arrangements.

* Joint venture BMW Brilliance

Sustainability within the value-added chains
Sustainability criteria are a fundamental part of our purchasing terms and conditions and supplier assessments. Among other requirements, we expect our suppliers to guarantee that sub-suppliers also comply with our exacting standards. Our Top Two position in the Supply Chain category of the Dow Jones Sustainability Index in 2012 is testament to the high standards we set. Further information on risk management procedures applied within the Purchasing and Supplier network is provided in the risk report.

SALES AND MARKETING

Sixth generation of the BMW 3 Series successfully launched
The new BMW 3 Series Sedan has been available on markets worldwide since February 2012. Now in its sixth generation, the latest model is again setting standards in its class and has received broad acclaim internationally from customers and the media alike. The BMW ActiveHybrid 5 came onto the market in March. The BMW M6 Convertible as well as the new M Performance models, M550d xDrive (as Sedan and Touring) have all been available since May. June saw the launch of the BMW 6 Series Gran Coupé, the first four-door Coupé in the brand's history, as well as those of the BMW X5 M50d, the BMW X6 M50d and the BMW X6 (the latter as a model revision). The BMW M 135i plus model revisions of the BMW 7 Series and the BMW X1 reached the showrooms in July. The extended-wheelbase version of the BMW 3 Series Sedan for China and the M6 Coupé became available in August. The new BMW 3 Series Touring and the new BMW 1 Series three-door version were introduced in September, the latter incorporating the xDrive four-wheel-drive system in a 1 Series vehicle for the first time. September also saw the launch of the BMW ActiveHybrid 3. The BMW Concept Active Tourer celebrated its world debut at this year's Automobile Show in Paris, providing an initial insight into a whole array of groundbreaking innovations.

MINI family grows
The MINI Roadster was introduced as the sixth member of the MINI family in March 2012. The brand's seventh model, the MINI Paceman, was presented in Paris, the world's first Sports Activity Coupé to appear in the premium compact segment.

The Countryman John Cooper Works became the sixth model to be sold under the umbrella of the sports-oriented John Cooper Works sub-brand. The MINI John Cooper Works GP, the fastest MINI ever built, celebrated its world debut in Paris. MINI customers can now choose between 43 different models.

Rolls-Royce Phantom Series II launched
Rolls-Royce Motor Cars launched the new Phantom Series II in September. As well as an enhancement to its timeless design, a whole host of technical innovations were incorporated in the Phantom Series II. Both customer and media reactions to the new series have been extremely positive. Rolls-Royce Motor Cars also expanded the scope of its Bespoke Programme for the Phantom family and for the Ghost.

Entire BMW Group brand spectrum now housed at the BMW Welt
In October 2012 the BMW Group presented its expanded brand exhibition at the BMW Welt, which now displays

the entire spectrum of BMW Group brands (BMW, BMW Motorrad, MINI, Rolls-Royce and Husqvarna Motorcycles) and sub-brands (BMW i, BMW M and MINI John Cooper Works). For the first time the BMW Group is now also presenting itself as a company in its own display area in the Double Cone, highlighting the role that our employees can play as company ambassadors.

In the BMW area, both design and technological aspects are showcased alongside the vehicles themselves. The BMW i presentation provides comprehensive information on the subject of electromobility. The BMW M area provides many insights into the world of motor sport. Visitors to the MINI area are welcomed with an array of surprising and unconventional ideas. The Rolls-Royce presentation is stylish and modern as befits the brand.

The BMW Motorrad area features besides motorcycles a Biker's Lodge, which serves as a platform for the motorcycle community. The Husqvarna brand focuses on the sporty nature of the off-road segment.

BMW i establishes its worldwide credentials
BMW i stands for visionary electric vehicles, revolutionary lightweight construction, inspiring design and innovative mobility services. It also stands for a new understanding of the term "premium" that is strongly defined by sustainability. The international BMW i Born Electric Tour, which commenced in June 2012, is scheduled to stage visits in seven megacities in Europe, Asia and the USA in the period up to mid-2013. These events provide an opportunity for interested parties and potential customers to experience the BMW i3 Concept and BMW i8 Concept at first hand and find out about the sustainability aspects, innovative technologies and services that BMW i offers. BMW i's 360° Electric concept provides comprehensive solutions in the fields of battery-charging infrastructure and mobility guarantees.

Range of mobility services broadened
The car-sharing service, DriveNow, launched in 2011, was expanded during the year under report to the cities of Cologne, Düsseldorf and San Francisco, and is now being used by more than 75,000 customers. DriveNow's fleet in San Francisco includes BMW ActiveE electric cars, making it the first car-sharing provider in the world to operate with electrically powered premium vehicles. The ParkNow service was also launched in San Francisco, providing a comprehensive parking service enabling drivers to make reservations, use parking spaces without a ticket and pay online.

Over the course of 2012, three new mobility services were added to the MyCityWay and ParkatmyHouse services already launched in the previous year. Parkopedia provides information on hundreds of thousands of parking and garage spaces worldwide. Chargepoint is currently the world's leading provider for charging stations for electric vehicles and allows future BMW i customers to obtain up-to-date information about available stations at any time. Embark is a mobile app that shows the best way of getting around cities on foot or by public transport.

New premium experience
The BMW Group launched a new worldwide programme called "Future Retail" in 2012 aimed at improving the premium experience when customers come into contact with the Group's brands. The stated objectives of the programme are:
– to create new and additional points of contact for our brands,
– to achieve an even more exclusive ambience in dealerships,
– to provide targeted support to dealerships that help them focus even more effectively on customers' requirements.

In this context, so-called "Experience Centres" were opened in Paris, Amsterdam and London for the BMW and MINI brands.

Sales network expanded
As sales volumes continued to rise, more than 100 sales outlets were added to the worldwide dealer network in 2012. Similar to the previous year, the main thrust of the expansion was in China, where an additional 82 BMW and 25 MINI dealerships were opened. The MINI sales network was strengthened in particular in Asia and South America. The number of dealerships in southern Europe was reduced in response to the economic conditions prevailing in this region. Overall, the BMW Group's car sales network comprises some 3,300 BMW, 1,550 MINI and 110 Rolls-Royce dealerships worldwide.

Another record year for customer service
Worldwide revenues generated with customer services again reached record levels in 2012. This was the case in Germany as well as in the main growth markets. Spare parts revenues also grew strongly in the year under report, repeating the fine performance recorded in the previous year.

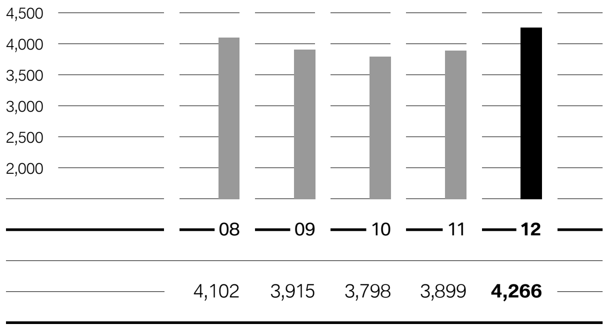
BMW Group as official partner to the Olympic Games in London
As Official Automotive Partner of the London 2012 Olympic and Paralympic Games, the BMW Group made available a fleet of some 4,000 low-emissions vehicles for athletes, officials and the organising committee. This also included the important contribution made by the 160 BMW ActiveE and 40 MINI E vehicles that escorted the Olympic Flame across the United Kingdom prior to the Games themselves.

WORKFORCE

Workforce increased
The BMW Group's worldwide workforce grew to a total of 105,876 employees at 31 December 2012 (2011: 100,306 employees; + 5.6 %). The major part of the increase was attributable to strong demand for cars on the one hand and the development of new technologies (such as electromobility) on the other.

Number of apprentices increased
1,376 young people started their vocational training with the BMW Group at the beginning of the new training year. In Germany alone, the BMW Group increased the number of apprentices by more than 10 % to 1,200. At the end of the reporting period, the BMW Group employed 4,266 apprentices worldwide (+ 9.4 %).

BMW Group apprentices at 31 December



The BMW Group introduced a new training concept in Germany during the year under report, focusing on individual talents and strengths. Alongside the conventional training route, the BMW Group continues to offer training courses that can lead to entrance qualification for university. Our training programme at the Spartanburg plant in the USA, based on the principles of the German dual training system, proceeded into its second year. In cooperation with our joint venture partner, Brilliance Automotive, we also offer young people employed at the Shenyang site in China a comparable route for embarking on a professional career.

Increased investment for employee training
Expenditure on basic and further training rose by 14.6 % in the period under report to €282 million, indicative of the high pace of innovation within the enterprise. The range of courses on offer was expanded significantly, particularly for new technologies, but also in the field of healthcare. Further emphasis was placed on broadening the international scope of our training courses.

Greater promotion of young talent
A well-coordinated system of promoting talented employees has been adopted to ensure that the BMW Group remains competitive in the future. A potential career with the BMW Group is made even more attractive by offering bachelor, master and Ph.D. programmes to all academic target groups, thus combining technical training and practical experience with the provision of financial support. Internationally oriented programmes aimed at securing management-level staff supplement the promotion of talented young people in the BMW Group.

BMW Group highly rated as an attractive employer
The BMW Group remains one of the most attractive employers in the world. This is based on numerous up-to-date studies and rankings tables. In the most recent edition of "The World's Most Attractive Employers" published by the Universum agency, the BMW Group asserted its position as the most attractive German employer, achieving top spot in both the engineering and business categories. We also came out on top among manufacturers in a student survey conducted in China by Trendence.

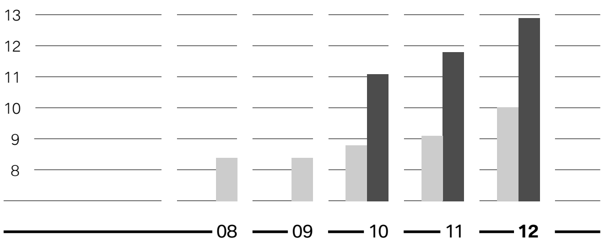
Similarly, we came first in that agency's German Young Professional Barometer 2012 across all sectors. The BMW Group was able to repeat the excellent results achieved a year ago in the Universum Professional Barometer Germany and took first place in the Business and Engineering categories as well as third place in the Information Technology category.

BMW Group employees

	31.12.2012	31.12.2011	Change in %
Automotive	**96,518**	91,517	5.5
Motorcycles	**2,939**	2,867	2.5
Financial Services	**6,295**	5,801	8.5
Other	**124**	121	2.5
BMW Group	**105,876**	**100,306**	**5.6**

Proportion of non-tariff female employees at BMW AG / BMW Group*

in %

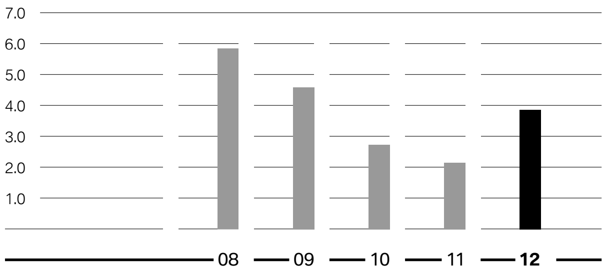


	08	09	10	11	12
BMW AG	8.4	8.4	8.8	9.1	**10.0**
BMW Group			11.1	11.8	**12.9**

* Percentage calculated for the BMW Group since 2010

Employee fluctuation ratio at BMW AG[1]

as a percentage of workforce



08	09	10	11	12
5.85[2]	4.59[2]	2.74	2.16	**3.87**

[1] Number of employees on unlimited employment contracts leaving the Company
[2] After implementation of previously reported measures to reduce the size of the workforce (voluntary employment contract termination agreements)

Diversity as a competitive factor

Social diversity is one of the principal components of our personnel and sustainability strategies. Diversity is encouraged throughout the BMW Group on the basis of the following criteria: gender, origin/cultural background and age/experience. The clear goal is to secure long-term success for the enterprise through the deployment of diverse and complementary talents.

The proportion of women in the workforce, in management positions and in training programmes for young talent was further increased during the year under report. Particularly good progress was made in the number of women in management positions, with the proportion rising to 12.9 % for the BMW Group and 10.0 % for BMW AG. Specific training and promotion programmes – for both women and men – have been expanded and rolled out worldwide as part of the strategy of bringing the proportion of women in management positions up to our target corridor of between 15 % and 17 % by the year 2020. Female representation in trainee programmes throughout the BMW Group is already above 35 %. Employees from 16 countries participated in the international trainee programme in 2012.

International awards for social engagement

For the first time in 2012, the BMW Group presented awards for the social commitment of its employees on a worldwide basis, thereby acknowledging the wide range of voluntary work they carry out for other people in their own free time. Out of numerous projects submitted from a total of 14 countries, awards were ultimately given to four outstanding projects spanning a broad spectrum of social engagement. They include an education centre for children in Peru, support for orphans in Panama, educational projects for children and youths in South Africa and initiatives for combating illiteracy in Ethiopia.

SUSTAINABILITY

Safeguarding the future of the BMW Group with sustainable business practices

Commercial success, the responsible use of resources and the assumption of social responsibility form the basis for long-term growth and a steady rise in corporate value. Sustainability is therefore a key element in our Strategy Number ONE.

The BMW Group's sustainability strategy is valid throughout the organisation and is incorporated in the Group Balanced Scorecard as a strategic corporate goal. In 2012 we again asserted our position as most sustainable premium provider in the field of individual mobility, a fact also confirmed by an independent source: in the Dow Jones Sustainability Index (DJSI) rankings published in September 2012, the BMW Group was listed as the most sustainable automobile manufacturer in the world for the eighth time in succession.

The Sustainability Board, which includes all members of the BMW Board of Management, continually develops the Group's sustainability strategy and manages sustainability initiatives group-wide. The Sustainability Board meets twice a year and is supported by the Sustainability Committee, comprising representatives from the various fields of responsibility. The principal task of this body is to ensure implementation of the sustainability strategy across the Group.

As well as paying due attention to social and ecological aspects in decision-making, the BMW Group's sustainability management strategy encompasses the systematic analysis of external framework conditions and a continual dialogue with our stakeholders. The stakeholder dialogues held in Berlin and San Francisco in 2012 provided us with important input for the further enhancement of our sustainability strategy.

Clean production: key milestone reached

The integration of environmental management in all production processes enables us to reduce our use of resources and minimise environmental impact. We see this as an ongoing process. At an early stage we set ourselves the goal of a 30% reduction in average resource consumption and emissions per vehicle produced for the period 2006 to 2012, using the measurable parameters energy, water, process wastewater, non-recyclable waste and solvents. We also check the level of CO_2 emissions resulting from energy consumption. In actual fact, we improved efficiency by more than a third (35.7%), thus surpassing our ambitious target.

A more detailed look at the fundamental parameters over the six-year period shows the following picture:

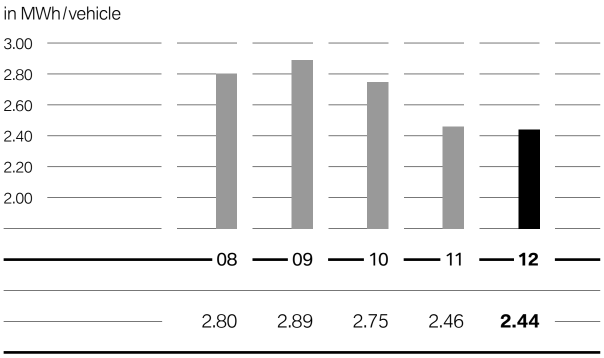
Energy consumption	**–26%**
Water consumption	**–30%**
Process wastewater	**–36%**
Non-recyclable waste	**–65%**
Solvent emissions	**–27%**

During the same period the CO_2 emissions per vehicle produced also fell by 30%. We have now set ourselves new targets to be reached by 2020: we aim to reduce resource consumption and emissions per vehicle produced by an average of 45% compared to 2006.

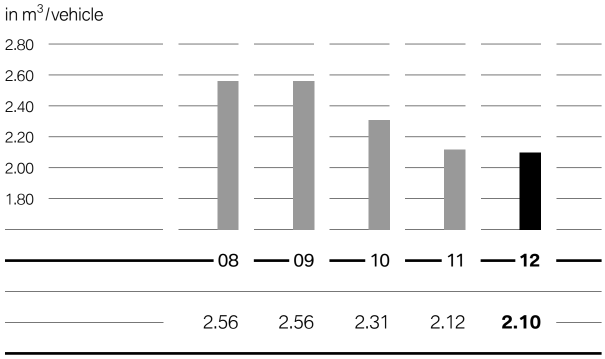
Conserving resources in production

During the period under report, resource consumption and emissions per vehicle produced were reduced by an average of 11.6%, equivalent to cost savings of more than €9 million on the previous year.

Energy consumed per vehicle produced

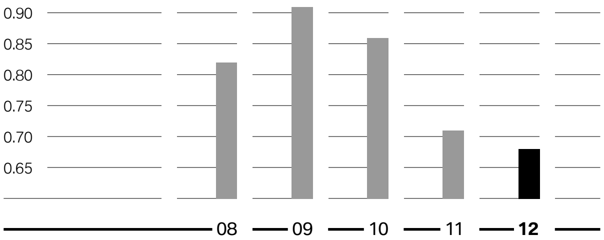


Water consumption per vehicle produced



CO_2 emissions per vehicle produced

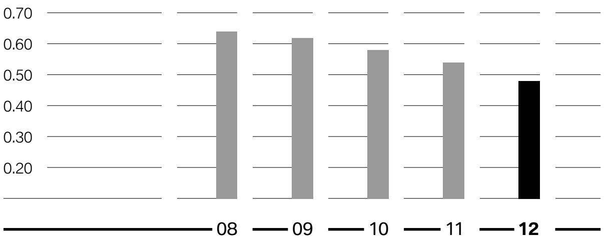
in t/vehicle



08	09	10	11	12
0.82	0.91	0.86	0.71	**0.68**

Process wastewater per vehicle produced

in m^3/vehicle



08	09	10	11	12
0.64	0.62	0.58	0.54	**0.48**

The high number of model start-ups, the increasing number of models being launched and the greater vertical range of manufacture, such as with CFRP, were the main challenges in our endeavours to improve energy efficiency. Expansion of our highly efficient and ecologically sustainable combined heat and power plants led to higher consumption due to conversion factors. Despite this fact we managed to reduce the energy consumed per vehicle produced in 2012 to 2.44 MWh (– 0.8 %). This improvement was achieved by means of a number of measures such as the use of waste heat from the paint shop at the Leipzig plant and the use of energy-efficient motors for cooling the computer centre at our Oxford plant. Greater energy efficiency and the use of electricity produced from regenerative sources helped to reduce the CO_2 emissions per vehicle produced by 4.2 % to 0.68 tonnes during the period under report.

The volume of water required per vehicle produced also fell to 2.10 m^3 (– 0.9 %) in 2012. The amount of process wastewater produced decreased by 11.1 % to 0.48 m^3 per vehicle produced. The conversion of the paint shop in Spartanburg to a water-free paint process and the reuse of water in the paint shops at the Dingolfing and Munich plants were the main contributing factors to this reduction.

The volume of non-recyclable production waste was reduced by a further 23.5 % to 6.11 kg per vehicle produced in 2012. The primary reason for the improvement was the conversion from waste disposal to recycling at all plants in the UK.

Solvent emissions increased slightly by 1.8 % to 1.68 kg per vehicle produced during the period under report, largely due to increased production volumes in China. New, eco-friendly painting processes will come on line at the Tiexi* plant by the end of 2013. The paint shop at the Dadong* plant is also scheduled for retrofitting with a view to minimising solvent emissions in years to come.

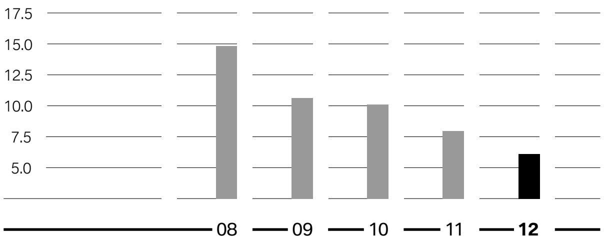
* Joint venture BMW Brilliance

Eco-friendly transportation solutions

The general increase in production volume combined with regional shifts in demand had an impact on the

Waste for disposal per vehicle produced

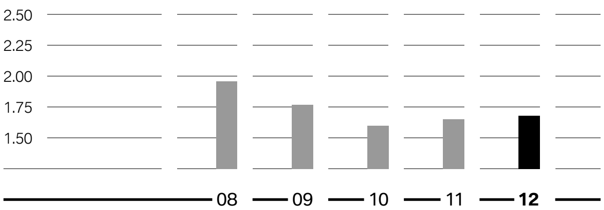
in kg /vehicle



08	09	10	11	12
14.84	10.63	10.09	7.99	**6.11**

Volatile organic compounds (VOC) per vehicle produced

in kg/vehicle



08	09	10	11	12
1.96	1.77	1.60	1.65	**1.68**

percentages of various modes of transportation used. The percentage of air freight used edged up to 1.2 %. The percentage of sea freight also rose slightly to 79.2 %. Rail transportation went up to 8.9 %, whereas the amount of goods transported by road fell to 10.7 %. Overall, 56.9 % of all new vehicles left the Group's plants by rail (+ 3.8 percentage points).

Sustainability also demanded in supplier network
Sustainability aspects also play a key role in the selection and assessment of our suppliers. More information on this topic is available in the section "Purchasing".

Top position in premium segment for reduction of CO_2 emissions
Increasingly strict legislation governing vehicle emissions worldwide is presenting new challenges for the automotive industry. The BMW Group took measures at an early stage aimed at achieving significant reductions in the fuel consumption and emission levels of its vehicle fleet. Efficient Dynamics innovations are having a beneficial impact on the entire fleet and are subject to continual improvement. As from 2013 the electric drive systems in products of the sub-brand BMW i will be increasingly supplementing our range of models. With the growing use of electricity to power vehicles and the rise of hybrid technology, we will continue to play a major role in reducing CO_2 emissions and improving fuel economy. All of these factors taken together will enable us to meet applicable CO_2 and fuel consumption thresholds in the future.

Between 1995 and 2012 we reduced the CO_2 emissions levels of our newly sold cars in Europe by more than 30 %. In 2012 the BMW Group's vehicle fleet recorded average fuel consumption of 5.0 litres of diesel / 100 km, 6.3 litres of petrol / 100 km and average CO_2 emissions of 138 g / km in Europe (EU-27). We also lead the field among German premium-segment manufacturers with CO_2 emissions of 143 g / km. In 2012 the BMW Group's fleet already included 34 models with emissions of less than 120 g CO_2 / km. Our efficient technologies have given us a competitive edge, particularly in markets governed by a CO_2-based vehicle tax. It remains our goal to reduce the CO_2 emissions of our vehicle fleet by at least another 25 % between 2008 and 2020.

Strategic orientation towards sustainable individual mobility of the future
We think the term "premium" will be increasingly defined by reference to sustainability in years to come. With our own BMW i sub-brand and the implementation of innovative car-sharing strategies, also with purely electrically powered vehicles under the DriveNow brand, we are consciously addressing changing needs in the field of individual mobility. Further information on this topic can be found in the sections "Research and Development" and "Sales and Marketing".

Overview of capital markets in 2012
BMW stock significantly outperformed the market as a whole within a generally volatile environment during 2012. Helped by the best ratings in the European automobile sector, the BMW Group was again able to refinance its operations at attractive conditions. The BMW Group was index leader in the Dow Jones Sustainability Index World for the eighth time in succession.

Stock markets record sharp gains despite debt crisis
The debt crisis in the eurozone once again had a significant impact on the performance of stock markets in 2012. In contrast to the previous year, the German stock index, the DAX, was able to avoid these negative influences, particularly towards the end of the year, and – against a background of high volatility – recorded its biggest gain since 2003.

After a good start to the year, the DAX reached more than 7,100 points in the first quarter. The initial failure to form a government in Greece and concerns about Spanish banks pushed down the DAX to its low for the year of 5,900 points in June. The European Central Bank's plan to purchase an unlimited volume of bonds initially provided a sharp boost to stock markets. By the time November came, however, increasing uncertainties caused by the "fiscal cliff" in the USA again took their toll on the DAX, pushing the index back under the mark of 7,000 points. After some substantial gains in the following weeks, the DAX registered its high for the year of 7,683 points on 19 December and finished the stock exchange year at 7,612 points, 29.1 % above its closing level at the end of the previous financial year.

The Prime Automobile Index developed similarly, closing at 976 points (+ 41.9 %) after putting on 288 points over a generally volatile twelve-month period. The EURO STOXX 50 index reached the level of 2,636 points on the last day of trading, thus achieving a gain of 13.8 % for the year as a whole.

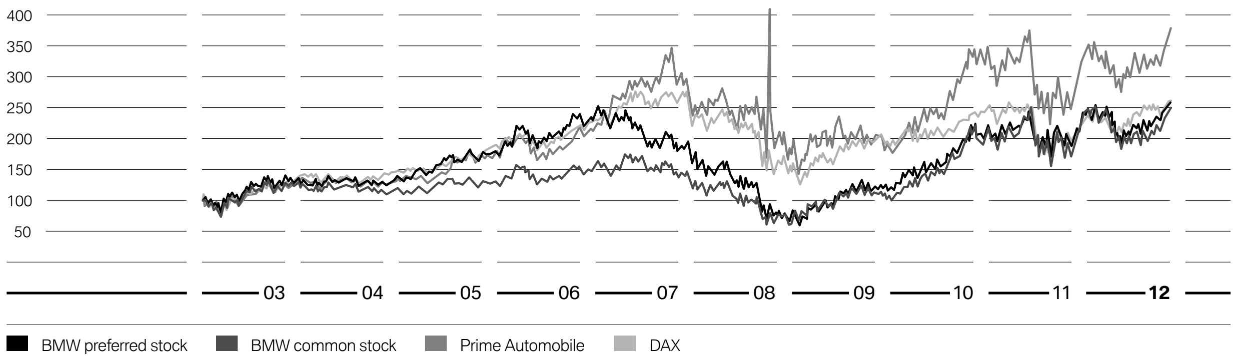
BMW stock was not fully able to entirely escape the influence of these stock exchange developments. After a good start to the year, BMW common stock registered its initial high for the year of €73.95 in March. The price slid back to approximately €53 over the course of the year, only then to complete a catch-up race to the actual high for the year of €74.00 on 28 December 2012. The price of BMW common stock finished the stock exchange year at €72.93. BMW preferred stock finished on 31 December 2012 at €48.76, thus gaining more than one-third in value over the year as a whole (+ 33.4 %). Both categories of BMW stock therefore outperformed the DAX in 2012.

At the beginning of January 2013, the BMW Group was presented with the Global Shareholder Value Award for the best performance in the automobile manufacturer category over a three-year period. This accolade was awarded by PriceWaterhouseCoopers in conjunction with Automotive News. In June 2012, the BMW Group had already won the European Shareholder Value Award for the best performance in the automobile manufacturer category over one- and three-year periods.

Employee Share Scheme
BMW AG has enabled its employees to participate in its success for more than 30 years. Since 1989 this participation has taken the form of an Employee Share Scheme. In total, 422,905 shares of preferred stock were issued to employees in 2012 as part of this scheme.

In accordance with a resolution taken by the Board of Management on 20 November 2012 and with the approval of the Supervisory Board, the share capital was increased by €422,845 from €655,566,568 to

Development of BMW stock compared to stock exchange indices
(Index: 30 December 2002 = 100)



€655,989,413 by the issue of 422,845 new non-voting shares of preferred stock. This increase was executed on the basis of Authorised Capital 2009 in Article 4 (5) of the Articles of Incorporation. The new shares of preferred stock carry the same rights as existing shares of preferred stock. In addition, 60 shares of preferred stock were also bought back via the stock market.

Top-level ratings

In April 2012 the rating agency Standard & Poor's raised BMW AG's long-term rating from A– (positive outlook) to A (stable outlook). At the same time, the short-term rating was also raised by one level from A-2 to A-1.

The main reasons for the upgrade were strong demand for premium vehicles, the sharp rise in profitability and the successful implementation of Strategy Number ONE. The BMW Group therefore has the best ratings of all European car manufacturers.

BMW AG's long-term and short-term ratings had already been raised by one level in July 2011 by the rating agency Moody's from A3/P-2 to A2/P-1 with a stable outlook.

BMW Group is sector leader in the Dow Jones Sustainability Index for the eighth year in succession

As in previous years, the BMW Group was included in numerous sustainability funds and indices in 2012. In September 2012 the BMW Group was named Sector Leader in the Dow Jones Sustainability Index World and Europe for the eighth time in succession. The rating agency, SAM, which analyses the sustainability performance of companies on behalf of Dow Jones, praised our state-of-the-art innovation management as well as our clear commitment to reducing negative environmental impact along the entire value chain. The BMW Group is the only enterprise in the carmaking sector to have been represented continuously since the inception of this family of sustainability indices in 1999. In June

BMW stock

	2012	2011	2010	2009	2008
Common stock					
Number of shares in 1,000	**601,995**	601,995	601,995	601,995	601,995
Stock exchange price in €[1]					
Year-end closing price	**72.93**	51.76	58.85	31.80	21.61
High	**73.76**	73.52	64.80	35.94	42.73
Low	**53.16**	45.04	28.65	17.61	17.04
Preferred stock					
Number of shares in 1,000	**53,994**	53,571	53,163	52,665	52,196
Shares bought back at the reporting date	**–**	–	–	–	363
Stock exchange price in €[1]					
Year-end closing price	**48.76**	36.55	38.50	23.00	13.86
High	**49.23**	45.98	41.90	24.79	36.51
Low	**35.70**	32.01	21.45	11.05	13.00
Key data per share in €					
Dividend					
Common stock	**2.50**[2]	2.30	1.30	0.30	0.30
Preferred stock	**2.52**[2]	2.32	1.32	0.32	0.32
Earnings per share of common stock[3]	**7.77**	7.45	4.91	0.31	0.49
Earnings per share of preferred stock[4]	**7.79**	7.47	4.93	0.33	0.51
Cash flow[5]	**13.97**	12.37[6]	12.45	7.53	6.84
Equity	**46.35**	41.34	36.53	30.42	30.99

[1] Xetra closing prices
[2] Proposed by management
[3] Annual average weighted amount
[4] Stock weighted according to dividend entitlements
[5] Cash inflow from operating activities of the Automotive segment.
[6] Adjusted for reclassifications as described in note 42.

2012, the BMW Group received the SAM Group's Sustainability Award for its commitment to sustainability. The BMW Group was also included in the British FTSE4Good Index again in 2012.

In the Global 500 Ranking of the Carbon Disclosure Project (CDP) published in September, the BMW Group achieved its best performance to date. With a score of 99 out of a possible 100 points, we were crowned Sector Leader and were in the TOP 3 of all participating companies. As a result of this performance, the BMW Group is listed in the CDP's Carbon Disclosure Leadership Index (CDLI) and the Carbon Performance Leadership Index (CPLI).

Regular communication with capital markets
In addition to information provided in quarterly and year-end financial reports, interested parties such as analysts, institutional investors, and rating agencies are kept informed of developments in one-to-one discussions and in roadshows, sometimes attended by members of the Board of Management. A second Capital Markets Day was held in China and attracted a great deal of interest.

As in previous years, dialogue with capital markets was supplemented by SRI (Socially Responsible Investment) roadshows and participation in conferences held for investors with investment strategies based on sustainability criteria. These events were used to keep investors and analysts informed of our sustainability-oriented activities. Debt IR roadshows were also held to communicate specifically with credit analysts and debt capital investors.

The scope of information available to private investors in the "Investor Relations" section of the BMW Group website was also expanded and complemented by a dedicated app. The Investor Relations team again handled a great many inquiries from private investors regarding BMW stock and bonds.

The BMW Group's investor relations activities again received praise in the renowned Extel Survey conducted by Thomson Reuters (first place in the automobile sector) and in specialist publications such as Institutional Investor and IR Magazine.

Disclosures relevant for takeovers[1] and explanatory comments

Composition of subscribed capital

The subscribed capital (share capital) of BMW AG amounted to €655,989,413 at 31 December 2012 (2011: €655,566,568) and, in accordance with Article 4 (1) of the Articles of Incorporation, is sub-divided into 601,995,196 shares of common stock (91.77 %) (2011: 601,995,196; 91.83 %) and 53,994,217 shares of non-voting preferred stock (8.23 %) (2011: 53,571,372; 8.17 %), each with a par value of €1. The Company's shares are issued to bearer. The rights and duties of shareholders derive from the German Stock Corporation Act (AktG) in conjunction with the Company's Articles of Incorporation, the full text of which is available at www.bmwgroup.com. The right of shareholders to have their shares evidenced is excluded in accordance with the Articles of Incorporation. The voting power attached to each share corresponds to its par value. Each €1 of par value of share capital represented in a vote entitles the holder to one vote (Article 18 (1) of the Articles of Incorporation). The Company's shares of preferred stock are shares within the meaning of § 139 et seq. AktG, which carry a cumulative preferential right in terms of the allocation of profit and for which voting rights are normally excluded. These shares only confer voting rights in exceptional cases stipulated by law, in particular when the preference amount has not been paid or has not been fully paid in one year and the arrears are not paid in the subsequent year alongside the full preference amount due for that year. With the exception of voting rights, holders of shares of preferred stock are entitled to the same rights as holders of shares of common stock. Article 24 of the Articles of Incorporation confers preferential treatment to the non-voting shares of preferred stock with regard to the appropriation of the Company's unappropriated profit. Accordingly, the unappropriated profit is required to be appropriated in the following order:

(a) subsequent payment of any arrears on dividends on non-voting preferred shares in the order of accruement,
(b) payment of an additional dividend of €0.02 per €1 par value on non-voting preferred shares and
(c) uniform payment of any other dividends on shares on common and preferred stock, provided the shareholders do not resolve otherwise at the Annual General Meeting.

Restrictions affecting voting rights or the transfer of shares

As well as shares of common stock, the Company has also issued non-voting shares of preferred stock. Further information relating to this can be found above in the section "Composition of subscribed capital".

When the Company issues non-voting shares of preferred stock to employees in conjunction with its Employee Share Scheme, these shares are subject as a general rule to a company-imposed vesting period of four years, measured from the beginning of the calendar year in which the shares are issued.

Contractual holding period arrangements also apply to shares of common stock required to be acquired by Board of Management members and certain senior department heads in conjunction with share-based remuneration programmes (Compensation Report of the Corporate Governance section; note 18 to the Group Financial Statements).

Direct or indirect investments in capital exceeding 10 % of voting rights

Based on the information available to the Company, the following direct or indirect holdings exceeding 10 % of the voting rights at the end of the reporting period were held at the date stated:[2]

	Direct share of voting rights (%)	Indirect share of voting rights (%)
AQTON SE, Bad Homburg v. d. Höhe, Germany	17.4	
Stefan Quandt, Bad Homburg v. d. Höhe, Germany		17.4
Johanna Quandt, Bad Homburg v. d. Höhe, Germany	0.4	16.3
Johanna Quandt GmbH, Bad Homburg v. d. Höhe, Germany		16.3
Johanna Quandt GmbH & Co. KG für Automobilwerte, Bad Homburg v. d. Höhe, Germany	16.3	
Susanne Klatten, Munich, Germany		12.6
Susanne Klatten Beteiligungs GmbH, Bad Homburg v. d. Höhe, Germany	12.6	

[1] Disclosures pursuant to § 289 (4) HGB and § 315 (4) HGB

[2] Based on voluntary balance notifications provided by the listed shareholders at 31 December 2012

The voting power percentages disclosed above may have changed subsequent to the stated date if these changes were not required to be reported to the Company. Due to the fact that the Company's shares are issued to bearer, the Company is generally only aware of changes in shareholdings if such changes are subject to mandatory notification rules.

Shares with special rights which confer control rights
There are no shares with special rights which confer control rights.

System of control over voting rights when employees participate in capital and do not exercise their control rights directly
The shares issued in conjunction with the Employee Share Scheme are shares of non-voting preferred stock which are transferred solely and directly to employees. Like all other shareholders, employees exercise their control rights over these shares on the basis of relevant legal provisions and the Company's Articles of Incorporation.

Statutory regulations and Articles of Incorporation provisions with regard to the appointment and removal of members of the Board of Management and changes to the Articles of Incorporation
The appointment or removal of members of the Board of Management is based on the rules contained in § 84 et seq. AktG in conjunction with § 31 of the German Co-Determination Act (MitbestG).

Amendments to the Articles of Incorporation must comply with § 179 et seq. AktG. All amendments must be decided upon by the shareholders at the Annual General Meeting (§ 119 (1) no. 5, § 179 (1) AktG). The Supervisory Board is authorised to approve amendments to the Articles of Incorporation which only affect its wording (Article 14 no.3 of the Articles of Incorporation); it is also authorised to change Article 4 of the Articles of Incorporation in line with the relevant utilisation of Authorised Capital 2009. Resolutions are passed at the Annual General Meeting by simple majority of shares unless otherwise explicitly required by binding provisions of law or, when a majority of share capital is required, by simple majority of shares represented in the vote (Article 20 of the Articles of Incorporation).

Authorisations given to the Board of Management in particular with respect to the issuing or buying back of shares
The Board of Management is authorised to buy back shares and sell repurchased shares in situations specified in § 71 AktG, e.g. to avert serious and imminent damage to the Company and/or to offer shares to persons employed or previously employed by BMW AG or one of its affiliated companies. In accordance with Article 4 no. 5 of the Articles of Incorporation, the Board of Management is authorised – with the approval of the Supervisory Board – to increase BMW AG's share capital during the period until 13 May 2014 by up to €3,201,945 for the purposes of an Employee Share Scheme by issuing new non-voting shares of preferred stock, which carry the same rights as existing non-voting preferred stock, in return for cash contributions (Authorised Capital 2009). Existing shareholders may not subscribe to the new shares. No conditional capital is in place at the reporting date.

Significant agreements entered into by the Company subject to control change clauses in the event of a takeover bid
The BMW AG is party to the following major agreements which contain provisions for the event of a change in control or the acquisition of control as a result of a takeover bid:
- An agreement concluded with an international consortium of banks relating to a syndicated credit line (which was not being utilised at the balance sheet date) entitles the lending banks to give extraordinary notice to terminate the credit line (such that all outstanding amounts, including interest, would fall due immediately) if one or more parties jointly acquire direct or indirect control of BMW AG. The term "control" is defined as the acquisition of more than 50 % of the share capital of BMW AG, the right to receive more than 50 % of the dividend or the right to direct the affairs of the Company or appoint the majority of members of the Supervisory Board.
- A cooperation agreement concluded with Peugeot SA relating to the joint development and production of a new family of small (1 to 1.6 litre) petrol-driven engines entitles each of the cooperation partners to give extraordinary notification of termination in the event of a competitor acquiring control over the other contractual party and if any concerns of the other contractual party concerning the impact of the change of control on the cooperation arrangements are not allayed during the subsequent discussion process.
- BMW AG acts as guarantor for all obligations arising from the joint venture agreement relating to BMW Brilliance Automotive Ltd. in China. This agreement grants an extraordinary right of termination to either joint venture partner in the event that, either directly or indirectly, more than 25 % of the shares of the other party are acquired by a third party or the other party is merged with another legal entity. The termi-

nation of the joint venture agreement may result in the sale of the shares to the other joint venture partner or in the liquidation of the joint venture entity.

- Framework agreements are in place with financial institutions and banks (ISDA Master Agreements) with respect to trading activities with derivative financial instruments. Each of these agreements includes an extraordinary right of termination which triggers the immediate settlement of all current transactions in the event that the creditworthiness of the party involved is materially weaker following a direct or indirect acquisition of beneficially owned equity capital which confers the power to elect a majority of the Supervisory Board of a contractual party or any other ownership interest that enables the acquirer to exercise control over a contractual party or which constitutes a merger or a transfer of net assets.
- Financing agreements in place with the European Investment Bank (EIB) entitle the EIB to request early repayment of the loan in the event of an imminent or actual change in control at the level of BMW AG (partially in the capacity of guarantor and partially in the capacity of borrower), if the EIB has reason to assume – after the change of control has taken place or 30 days after it has requested to discuss the situation – that the change in control could have a material adverse effect, or, in all but two cases as an additional alternative, if the borrower refuses to hold such discussions. A change in control of BMW AG arises if one or more individuals take over or lose control of BMW AG, with control being defined in the above-mentioned financing agreements as (i) holding or having control over more than 50 % of the voting rights, (ii) the right to stipulate the majority of the members of the Board of Management or Supervisory Board, (iii) the right to receive more than 50 % of dividends payable, or, in all but two cases as an additional alternative (iv) other comparable controlling influence over BMW AG.
- BMW AG is party to an agreement with SGL Carbon SE, Wiesbaden, relating to the joint ventures SGL Automotive Carbon Fibers LLC, Delaware, USA and SGL Automotive Carbon Fibers GmbH & Co. KG, Munich. The agreement includes call and put rights in case – directly of indirectly – 50 % or more of the voting rights relating to the relevant other shareholder of the joint ventures are acquired by a third party, or if 25 % of such voting rights have been acquired by a third party if that third party is a competitor of the party that has not been affected by the acquisition of the voting rights. In the event of such acquisitions of voting rights by a third party, the non-affected shareholder has the right to purchase the shares of the joint ventures from the affected shareholder or to require the affected party to acquire the other shareholder's shares.
- An engine supply agreement between BMW AG and Toyota Motor Europe SA relating to the sale of diesel engines entitles each of the contractual parties to give extraordinary notification of termination in the event that one of the contractual parties merges with another company or is taken over by another company.

Compensation agreements with members of the Board of Management or with employees in the event of a takeover bid

The BMW Group has not concluded any compensation agreements with members of the Board of Management or with employees for situations involving a takeover offer.

Group Internal Management System
Taking into account the interests and expectations of capital providers is an important aspect of value-based management within the BMW Group. Only companies generating profits on a sustainable basis that exceed the cost of equity and debt capital employed are capable of ensuring long-term growth, an increase in value for capital providers, jobs and, ultimately, corporate autonomy.

The BMW Group's internal management system is multi-layered. The principal key financial performance indicator at Group level is value added. Business is managed at segment level on the basis of segment-specific rates of return. The system is complemented by value-based and return-based performance indicators measured in conjunction with project decisions.

Value added as top-level key financial performance indicator
Value added reflects the amount of earnings over and above the cost of capital, and gives an indication of whether the Group is meeting the minimum requirements for the rate of return expected by capital providers. A positive value added means that a company is creating more additional value than the cost of capital and it is therefore an important measure of financial success.

Value added Group = earnings amount – cost of capital
= earnings amount – (cost of capital rate × capital employed)

in € million	Earnings amount		Cost of capital (EC + DC)		Value added Group	
	2012	2011	**2012**	2011	**2012**	2011
BMW Group	**8,128**	7,637	**4,221**	3,575	**3,907**	4,062

Capital employed comprises Group equity, the financial liabilities of the Automotive and Motorcycles segments and pension provisions. Value added is determined on the basis of the average level of capital employed for a particular year, measured as the average capital employed at the beginning of the year, at quarter-ends and at the end of the year.

In line with employed capital, earnings for RoCE purposes corresponds to Group earnings before tax and interest expense incurred in conjunction with the pension provision and on the financial liabilities of the Automotive and Motorcycles segments (earnings before interest and taxes).

The cost of capital rate is the minimum rate of return expected by capital providers in return for the capital employed by the Group. Since capital employed comprises an equity capital element (e.g. share capital) and a debt capital element (e.g. bonds), the overall cost of capital rate is determined on the basis of the weighted average rates for equity and debt capital.

The cost of equity capital corresponds to the minimum rate of return expected by an equity capital provider investing in BMW stock. This minimum rate of return is determined using the Capital Asset Pricing Model (CAPM) and corresponds to the interest rate on long-term, risk-free securities (e.g. German federal bonds) plus a risk premium for the specific risk involved in investing in BMW AG.

The cost of debt capital is calculated on the basis of the average interest rates relevant for long-term financial liabilities and pension obligations.

For the purposes of measuring the average cost of capital rate, equity and debt cost rates are weighted on the basis of a notional ratio derived from fixed, targeted market values for equity and debt capital. Stability in managing the business over time is ensured by keeping the cost of capital rate within a pre-defined range and by refraining from revising it unless there have been significant changes in circumstances.

Cost of capital rate (before tax)

in %	**2012**	2011
BMW Group	**12**	12

The return on capital employed for the Group (RoCE Group) is also important, as – in addition to providing the basis for measuring value added – the RoCE also gives an indication of how efficiently the Group has employed funds made available by capital providers in a particular year.

$$\text{RoCE Group} = \frac{\text{Profit before interest expense and tax}}{\text{Capital employed}}$$

Segments managed based on capital rates of return
Complementing the value added approach taken to manage business at Group level, segments are managed on the basis of rates of return on capital. RoCE is used as a rate-of-return indicator for the Automotive and Motorcycles segments. As is common practice in the banking sector, the performance of the Financial Services segment is measured on the basis of the return on equity (RoE).

$$\text{RoCE Automotive and Motorcycles} = \frac{\text{Profit before financial result}}{\text{Capital employed}}$$

$$\text{RoE Financial Services} = \frac{\text{Profit before tax}}{\text{Equity capital}}$$

The RoCE measured for the Automotive and Motorcycles segments is an indicator of the profitability of operations. It is measured as the ratio of the segment profit before financial result and the average amount of capital employed in operations. Capital employed corresponds to the sum of all current and non-current operational assets less liabilities that do not incur interest (e.g. trade payables). Based on the Group's cost of capital as a minimum rate of return and comparisons with competitive market values, the long-term target RoCE for the Automotive and Motorcycles segments has been set at a minimum of 26 %.

Capital employed by Automotive segment
in € million

	2012	2011
Operational assets	**31,613**	29,323
less: non-interest-bearing liabilities	**21,448**	19,651
Capital employed	**10,165**	**9,672**

Return on capital employed

	Earnings for RoCE purposes in € million		Capital employed in € million		Return on capital employed in %	
	2012	2011	**2012**	2011	**2012**	2011
BMW Group	**8,128**	7,637	**35,178**	29,788	**23.1**	25.6
Automotive	**7,624**	7,477	**10,165**	9,672	**75.0**	77.3
Motorcycles	**9**	45	**511**	442	**1.8**	10.2

RoE for the Financial Services segment is defined as segment profit before taxes divided by the average amount of equity capital allocated to the segment. The target is a sustainable return on equity of at least 18 %.

Return on equity

	Profit before tax in € million		Equity in € million		Return on equity in %	
	2012	2011	**2012**	2011	**2012**	2011
Financial Services	**1,561**	1,790	**7,347**	6,084	**21.2**	29.4

Value management used to control projects

Operations of the Automotive and Motorcycles segments are shaped to a large extent by project work, which have a substantial influence on future performance. Project decisions are therefore a crucial component of value-based management for the BMW Group.

Decisions are taken on the basis of project calculations measured in terms of the cash flows a project is expected to generate. Calculations are made for the full term of a project, i.e. for all years in which cash flows are expected to arise. Project decisions are taken on the basis of the capital value and internal rate of return calculated for the project. These two measures are consistent with the performance indicators employed in the Group's financial target system.

The capital value of a project indicates the extent to which a project will be able to generate a positive contribution to earnings over and above the cost of capital. A project with a positive capital value enhances value added and therefore results in an increase in the value of the business. The internal rate of return corresponds to the average RoCE of a project over its entire term. It therefore provides a basis for assessing the extent to which a project will be able to help the segment achieve its targeted RoCE.

Project calculations are supplemented by a standardised assessment of opportunities and risks. The criteria used for taking decisions as well as the long-term impact of periodic earnings is documented for all project decisions and incorporated in the long-term Group forecast. This system enables an analysis of the periodic reporting impact of project decisions on earnings and rates of return over the term of each project. The overall result is a self-contained controlling model.

Earnings performance

The BMW Group continued on its successful course in 2012 and posted another record year. The number of BMW, MINI and Rolls-Royce brand cars sold rose by 10.6 % to 1,845,186 units, enabling the BMW Group to retain pole position at the head of the premium segment.

The BMW Group recorded a net profit of €5,122 million (2011: €4,907 million) for the financial year 2012. The post-tax return on sales was 6.7 % (2011: 7.1 %). Earnings per share of common and preferred stock were €7.77 and €7.79 respectively (2011: €7.45 and €7.47 respectively).

Group revenues rose by 11.7 % to €76,848 million (2011: €68,821 million), reflecting in particular the expan-

Group Income Statement

in € million

	2012	2011
Revenues	**76,848**	68,821
Cost of sales	**–61,354**	–54,276
Gross profit	**15,494**	**14,545**
Selling and administrative expenses	**–7,007**	–6,177
Other operating income	**829**	782
Other operating expenses	**–1,016**	–1,132
Profit before financial result	**8,300**	**8,018**
Result from equity accounted investments	**271**	162
Interest and similar income	**753**	763
Interest and similar expenses	**–913**	–943
Other financial result	**–592**	–617
Financial result	**–481**	–635
Profit before tax	**7,819**	**7,383**
Income taxes	**–2,697**	–2,476
Net profit	**5,122**	**4,907**

sion and rejuvenation of the model portfolio, dynamic growth in Asia and the Americas and revenues of the ICL Group (2011: consolidated with effect from 30 September 2011). Adjusted for exchange rate factors, the increase was 7.1 %. Revenues from the sale of BMW, MINI and Rolls-Royce brand cars climbed by 11.3 % on the back of higher sales volumes. Motorcycles business revenues were 3.6 % up on the previous year. Revenues generated with Financial Services operations rose by 13.8 %. Revenues attributable to "Other Entities" amounted to €2 million (2011: €1 million).

Revenues generated by the BMW Group in the Africa, Asia and Oceania regions increased overall by 22.7 %. The figure includes China, where revenues jumped by 24.6 % thanks to the growth of business on this market. Revenues in Europe (excluding Germany) and the Americas region grew by 9.6 % and 13.9 % respectively. By contrast, revenues generated in Germany fell by 5.2 %.

Cost of sales went up by €7,078 million to €61,354 million, partly influenced by expenditure for future technologies. Gross profit improved by 6.5 % to €15,494 million, giving a gross profit margin of 20.2 % (2011: 21.1 %).

The gross profit margin recorded by the Automotive segment was 19.5 % (2011: 20.7 %) and that of the Motorcycles segment was 17.0 % (2011: 15.9 %). The gross profit margin of the Financial Services segment fell from 14.3 % to 13.1 %.

Research and development costs increased by 10.6 % to €3,993 million, mostly due to activities related to the electrification of the future product range. As a percentage of revenues, the research and development ratio remained stable at 5.2 %. Research and development expense includes amortisation of capitalised development costs amounting to €1,130 million (2011: €1,209 million). Total research and development expenditure amounted to €3,952 million (2011: €3,373 million). This figure comprises research costs, non-capitalised development costs, capitalised development costs and systematic amortisation of capitalised development costs. The research and development expenditure ratio for 2012 was therefore 5.1 % (2011: 4.9 %). The proportion of development costs recognised as assets in 2012 was 27.6 % (2011: 28.8 %).

Selling expenses went up as a result of volume rises and inclusion of the ICL Group for the full year. The increase in administrative expenses was attributable to the higher number of employees on the one hand and increased non-personnel costs on the other. Overall, selling and administrative expenses rose by 13.4 % compared to the previous year and represented 9.1 % (2011: 9.0 %) of revenues.

Depreciation and amortisation on property, plant and equipment and intangible assets recorded in cost of sales and in selling and administrative expenses amounted to €3,541 million (2011: €3,646 million).

The net expense reported for other operating income and other operating expenses amounted to €187 million, an improvement of €163 million compared to the previous year. The main reason for the change was the lower level of allocations to provisions.

As a result of the progress made, the profit before financial result amounted to €8,300 million (2011: €8,018 million).

The financial result was a net expense of €481 million, which represented an improvement of €154 million compared to the previous year (2011: net expense of €635 million). This includes the result from equity accounted investments totalling €271 million (2011: €162 million), comprising the Group's share of results from interests in the joint venture BMW Brilliance Automotive Ltd., Shenyang, the joint ventures with the SGL Carbon Group, the two new DriveNow entities as well as the joint venture BMW Peugeot Citroën Electrification B.V., the Hague, up to the date of the termination of joint venture arrangements.

Other financial result was positively impacted in 2012 by improved market values on commodity derivatives and negatively impacted by impairment losses on investments. Overall, other financial result improved from a net expense of €617 million in 2011 to a net expense of €592 million in 2012.

Taking all these factors into consideration, the profit before tax improved to €7,819 million (2011: €7,383 million). The figure for the previous year included an exceptional gain of €524 million arising on the reduction of allowances/provisions for residual value and bad debt risks. Business with end-of-contract leasing vehicles gave rise to an exceptional gain of €124 million in 2012. The pre-tax return on sales was 10.2 % (2011: 10.7 %).

Revenues by segment

in € million

	2012	2011
Automotive	**70,208**	63,229
Motorcycles	**1,490**	1,436
Financial Services	**19,550**	17,510
Other Entities	**5**	5
Eliminations	**–14,405**	–13,359
Group	**76,848**	**68,821**

Profit / loss before tax by segment

in € million

	2012	2011
Automotive	**7,195**	6,823
Motorcycles	**6**	41
Financial Services	**1,561**	1,790
Other Entities	**–6**	–168
Eliminations	**–937**	–1,103
Group	**7,819**	**7,383**

Income tax expense for the year totalled €2,697 million (2011: €2,476 million), giving an effective tax rate of 34.5 % (2011: 33.5 %). Tax increases as a result of non-deductible expenses relate mainly to the impact of non-recoverable withholding taxes on intra-group dividends and transfer price issues.

Revenues of the Automotive segment grew by 11.0 % to €70,208 million (2011: €63,229 million) due to increased sales volumes. The strong sales volume performance is also reflected in the profit before tax figure, which despite higher personnel and non-personnel expenses, improved from €6,823 million in 2011 to €7,195 million in 2012.

In the Motorcycles segment, the number of BMW and Husqvarna brand motorcycles sold increased by 3.1 %, while segment revenues rose by 3.8 %. The pre-tax segment result fell by €35 million to €6 million. This deterioration includes the negative impact of the planned sale of the Husqvarna Group entities to Pierer Industrie AG. For further information see note 32 of the Group Financial Statements.

Financial Services segment revenues grew by 11.7 % to €19,550 million. The pre-tax segment result fell by €229 million to €1,561 million (2011: €1,790 million). The previous year's result included exceptional income of €439 million arising on the reduction of provisions for residual value and bad debt risks. Business with end-of-contract leasing vehicles gave rise to an exceptional gain of €124 million in 2012.

The Other Entities segment recorded a pre-tax loss of €6 million compared to one of €168 million in the previous year. The main reason for the improvement in earnings is the lower expense for allocations to provisions in 2012.

Inter-segment eliminations down to the level of profit before tax gave rise to a net expense of €937 million (2011: net expense of €1,103 million).

Financial position*

The consolidated cash flow statements for the Group and the Automotive and Financial Services segments show the sources and applications of cash flows for the financial years 2011 and 2012, classified into cash flows from operating, investing and financing activities. Cash and cash equivalents in the cash flow statements correspond to the amount disclosed in the balance sheet.

Cash flows from operating activities are determined indirectly, starting with Group and segment net profit. By contrast, cash flows from investing and financial activities are based on actual payments and receipts.

The BMW Group used various sources of funds for internal financing purposes. In addition to the issue of interest-bearing debt, cash funds are also allocated internally in line with business requirements, including the use of dividends and similar transactions. In this context, it is possible that cash funds may be transferred from one segment to another. Up to the first quarter 2012, these cash inflows and outflows were reported in the Cash Flow Statements of the Automotive and Financial Services segments as part of cash flows from operating activities. Due to the increasing importance of inter-segment transactions, the method of presentation was changed with effect from the second quarter 2012. Intragroup inter-segment dividends and similar transactions are now reported as part of cash flows from financing activities. The reclassification from operating activities to financing activities resulted in the previous year in an increase in the operating cash flow. The pre-

* Previous year's figures adjusted

vious year's figures were adjusted accordingly (impact in 2011 on the Automotive segment: increase in operating cash flow of €1,033 million/Financial Services segment: €411 million).

The Group's operating activities generated a positive cash flow of €5,076 million (2011: €5,713 million), which includes net profit for the year of €5,122 million (2011: €4,907 million). Changes in working capital resulted in a net cash inflow of €1,755 million (2011: net cash outflow of €1,615 million), reflecting stable inventory levels on the one hand and a reduction in trade receivables on the other. The increase in receivables from sales financing and leased products resulted in a cash outflow from operating activities of €5,409 million (2011: €3,216 million).

The cash outflow for investing activities amounted to €5,433 million, (2011: €5,499 million) and was thus 1.2 % lower than one year earlier. Investment in property, plant and equipment and intangible assets resulted in a cash outflow of €5,236 million (2011: €3,679 million), while disbursements for financial assets amounted to €171 million (2011: €543 million).

Cash inflow from financing activities totalled €952 million (2011: €87 million). Proceeds from the issue of bonds amounted to €7,977 million (2011: €5,899 million), compared with an outflow of €6,727 million (2011: €5,333 million) for the repayment of bonds. Dividend payments made in 2012 totalled €1,516 million, of which €1,508 million was disbursed by BMW AG and €8 million by a subsidiary to minority shareholders. The change in other financial liabilities and commercial paper gave rise to a cash inflow of €1,301 million (2011: €439 million).

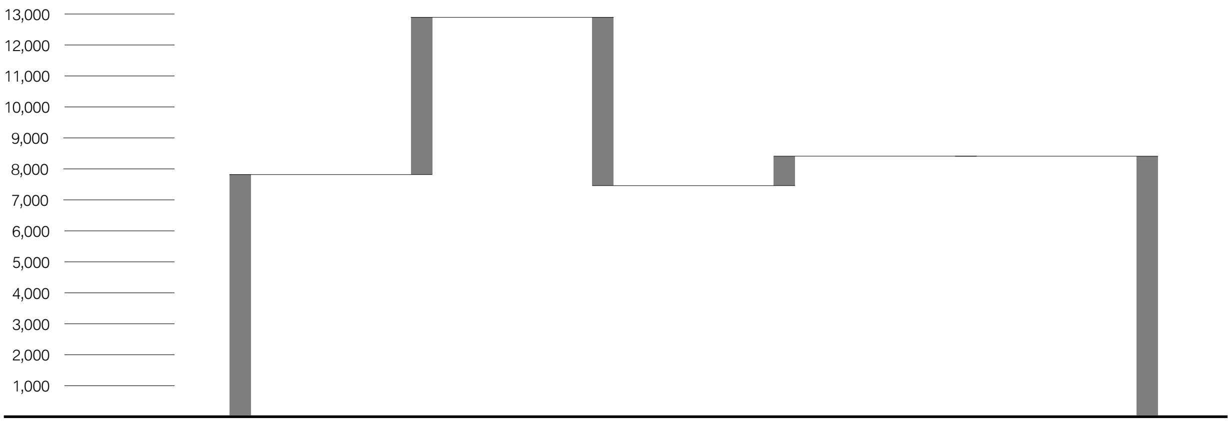
The cash outflow for investing activities exceeded cash inflow from operating activities in 2012 by €357 million. In the previous year, there had been a surplus of €214 million.

After adjustment for the effects of exchange-rate fluctuations and changes in the composition of the BMW Group for a net negative amount of €1 million (2011: net positive amount of €43 million), the various cash flows resulted in an increase in cash and cash equivalents of €594 million (2011: €344 million).

The cash flow statement for the Automotive segment shows that the cash inflow from operating activities exceeded the cash outflow for investing activities by €3,637 million (2011: €2,385 million). Adjusted for net investments in marketable securities amounting to €172 million (2011: €781 million), mainly in conjunction with strategic liquidity planning, the surplus of the cash inflow from operating activities over the cash outflow for investing activities was €3,809 million (2011: €3,166 million).

Change in cash and cash equivalents

in € million



Cash and cash equivalents 31.12.2011	Cash inflow from operating activities	Cash outflow from investing activities	Cash inflow from financing activities	Currency translation, changes in Group composition	Cash and cash equivalents 31.12.2012
7,776	**+5,076**	**–5,433**	**+952**	**–1**	**8,370**

Free cash flow of the Automotive segment can be analysed as follows:

in € million	31.12.2012	31.12.2011
Cash inflow from operating activities	**9,167**	8,110
Cash outflow for investing activities	**–5,530**	–5,725
Net investment in marketable securities	**172**	781
Free cash flow Automotive segment	**3,809**	**3,166**

The cash outflow for operating activities of the Financial Services segment is influenced primarily by cash flows relating to leased products and receivables from sales financing and totalled €4,192 million in 2012 (2011: €1,897 million). Cash outflow for investing activities totalled €32 million (2011: cash inflow of €204 million).

Net financial assets of the Automotive segment comprise the following:

in € million	31.12.2012	31.12.2011
Cash and cash equivalents	**7,484**	5,829
Marketable securities and investment funds	**2,205**	1,801
Intragroup net financial receivables	**5,862**	6,404
Financial assets	**15,551**	**14,034**
Less: external financial liabilities*	**–2,224**	–1,747
Net financial assets	**13,327**	**12,287**

* Excluding derivative financial instruments

Refinancing

Operating cash flow provides a solid financial basis for the BMW Group. We are also able to call on a broadly based range of instruments to refinance our worldwide operations via international money and capital markets. Almost all of the funds raised are used to finance the BMW Group's Financial Services business.

Apart from issuing commercial paper on the money market, the BMW Group's financing companies also issue bearer bonds. In addition, retail customer and dealer financing receivables on the one hand and leasing rights and obligations on the other are securitised in the form of asset-backed securities (ABS) financing arrangements. Financing instruments employed by our banks in Germany and the USA (e.g. customer deposits) are also used as a supplementary source of financing. Owing to the increased use of international money and capital markets to raise funds, the scale of funds raised in the form of loans from international banks is relatively small.

As in previous years, operations were refinanced in 2012 at an attractive level. Thanks to the best rating in the European automobile industry and the high level of acceptance it enjoys on capital markets, the BMW Group's refinancing activities were not affected by financial market volatility in 2012. In addition to the issue of bonds and loan notes on the one hand and private placements on the other, we were also able to issue commercial paper at good conditions. Additional funds were also raised via new securitised instruments and the prolongation of existing instruments. As in previous years, all issues were highly sought after by private and institutional investors.

During the year, the BMW Group issued four benchmark bonds with a total issue volume of €4 billion on

European capital markets. Bonds were also issued in Canadian dollars, British pounds, Norwegian krone, Indian rupees, South Korean won and other currencies for a total amount of €5.1 billion.

A total of eight ABS transactions were executed in 2012, including two public transactions in the USA and one each in Germany and South Africa with a total volume equivalent to €2.3 billion. Further funds were also raised via new ABS conduit transactions in Japan, Australia and the UK totalling €1.7 billion.

The regular issue of commercial paper also strengthens our financial base. The following table provides an overview of existing money and capital market programmes of the BMW Group at 31 December 2012:

Programme	Amount utilised
Euro Medium Term Notes	€25.5 billion
Commercial paper	€4.7 billion

The BMW Group's liquidity position is extremely robust, with cash funds totalling €11.0 billion on hand at 31 December 2012. A syndicated credit line of €6 billion is also in place. The credit line, which is being made available at attractive conditions by a consortium of 39 international banks, has a term up to October 2017 and can be extended by one year.

Further information with respect to financial liabilities is provided in the notes to the Group Financial Statements 33 and 37.

Net assets position

The Group balance sheet total increased by €8,421 million to stand at €131,850 million at 31 December 2012. Adjusted for changes in exchange rates, the balance sheet total increased by 7.5%.

The main factors behind the increase on the assets side of the balance sheet were receivables from sales financing (7.2%), property, plant and equipment (14.2%), leased products (5.9%) and financial assets (24.0%). By contrast, trade receivables went down by 22.6% thanks to proactive receivables management. Inventories increased marginally (0.9%) compared to the previous year.

On the equity and liabilities side of the balance sheet, the increase related to equity (12.2%), pension provisions (81.6%), trade payables (20.5%), non-current financial liabilities (4.0%) and other provisions (8.7%). Deferred tax liabilities (7.1%) and current other liabilities (3.3%) decreased.

At €5,207 million, the carrying amount of intangible assets was €31 million lower than at the end of the previous year. Within intangible assets, capitalised development costs decreased by €41 million to €4,347 million. Development costs recognised as assets during the year under report totalled €1,089 million (+12.0%) and were therefore higher than one year earlier. The proportion of research and development costs recognised as assets was 27.6% (2011: 28.8%). The corresponding amortisation expense was €1,130 million (2011: €1,209 million). Goodwill was unchanged from the previous year and stood at €369 million.

Property, plant and equipment rose sharply to €13,341 million. Capital expenditure of €4,028 million was 55.0% higher than in the previous year (2011: €2,598 million). The main focus was on product investments for production start-ups and infrastructure improvements. Depreciation on property, plant and equipment totalled €2,298 million. Total capital expenditure on intangible assets and property, plant and equipment as a percentage of revenues increased to 6.8% (2011: 5.4%).

Leased products climbed by €1,356 million or 5.9 % as a result of increased business volumes. Adjusted for exchange rate factors, the increase was 6.1 %.

Receivables from sales financing increased by 7.2% to €52,914 million due to higher business volumes. Of this amount, customer and dealer financing accounted for €40,650 million (6.1%) and finance leases for €12,264 million (11.0%).

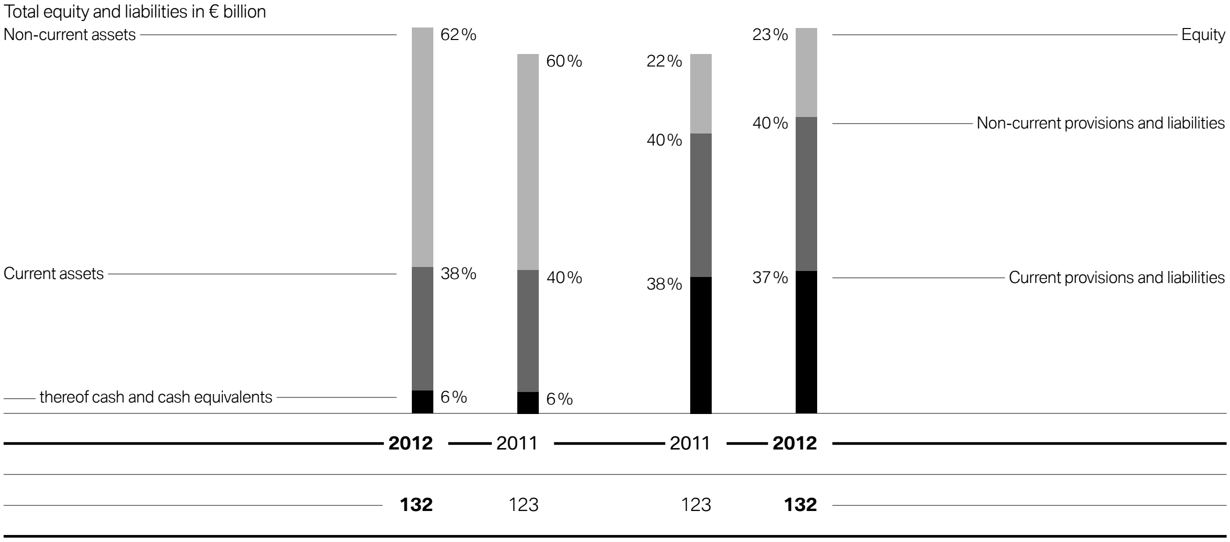
Compared to the end of the previous financial year, inventories went up only marginally by €87 million (+0.9%) to €9,725 million. Adjusted for exchange rate factors, the increase was 1.3%.

Financial assets went up by 24.0% to €6,760 million, largely due to higher levels of marketable securities and investment fund shares as well as increases in fair values of currency derivatives.

Liquid funds went up by 9.1% to €11,025 million and comprise cash and cash equivalents, marketable securities and investment fund shares (the last two items reported as financial assets).

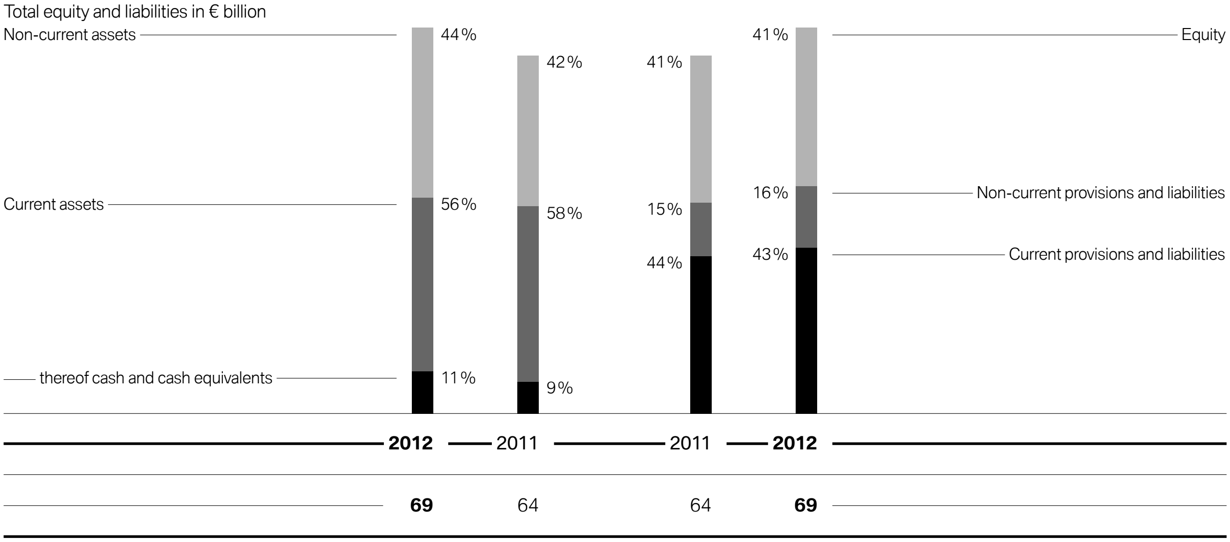
Balance sheet structure – Group

Total equity and liabilities in € billion



Balance sheet structure – Automotive segment

Total equity and liabilities in € billion



Cash and cash equivalents went up by €594 million to €8,370 million.

On the equity and liabilities side of the balance sheet, equity rose overall by €3,299 million (+12.2%) to €30,402 million. The main reason for the increase was the profit attributable to shareholders of BMW AG totalling €5,096 million. Translation differences arising on currency translation reduced equity by €123 million. Deferred taxes on items recognised directly in equity increased equity by €49 million. Actuarial losses on pension obligations mainly due to lower interest rates caused Group equity to reduce by €1,881 million. Changes in fair value gains and losses of derivative financial instruments (€1,302 million) and marketable securities (€214 million) had a positive impact on equity. Income and expenses relating to equity accounted investments and recognised directly in equity, net of deferred tax, increased equity by €82 million. The dividend payment decreased equity by €1,508 million. Minority interests went up by €42 million. Other changes amounted to €7 million.

A portion of the Authorised Capital created at the Annual General Meeting held on 14 May 2009 in conjunction with the Employee Share Scheme was used during the financial year under report to issue shares of preferred stock to employees, thereby increasing subscribed capital to €656 million. An amount of €18 million was transferred to capital reserves in conjunction with this share capital increase. The equity ratio of the BMW Group improved overall by 1.1 percentage points to 23.1 %. The equity ratio of the Automotive segment was 40.9 % (2011: 41.1 %) and that of the Financial Services segment was 8.6 % (2011: 8.7 %).

Pension provisions increased by 81.6 % to €3,965 million mainly as a result of lower discount factors used in Germany, the UK and the USA. In the case of pension plans with fund assets, the fair value of fund assets is offset against the defined benefit obligation.

Current and non-current other provisions increased by €542 million to €6,795 million.

Current and non-current financial liabilities went up by €1,530 million to €69,507 million. Within financial liabilities, there were increases in bonds (+4.5 %), customer deposits (banking) (+8.1 %) and liabilities to banks (+12.9 %). By contrast, liabilities for commercial paper decreased by €901 million.

Trade payables amounted to €6,433 million and were thus 20.5 % higher than one year earlier, mainly attributable to the expansion of business operations.

Other liabilities increased by 2.6 % to €10,196 million.

Overall, the earnings performance, financial position and net assets position of the BMW Group continued to develop very positively during the financial year under report.

Compensation report

The compensation of the Board of Management comprises both a fixed and a variable component. Benefits are also payable – primarily in the form of pension benefits – at the end of members' mandates. Further details, including an analysis of remuneration by each individual, are disclosed in the Compensation Report, which can be found in the section "Statement on Corporate Governance". The Compensation Report is a sub-section of the Combined Group and Company Management Report.

Events after the end of the reporting period

No events have occurred after the balance sheet date which could have a major impact on the earnings performance, financial position and net assets of the BMW Group.

Value added statement

The value added statement shows the value of work performed less the value of work bought in by the BMW Group during the financial year. Depreciation and amortisation, cost of materials and other expenses are treated as bought-in costs in the value added calculation. The allocation statement applies value added to each of the participants involved in the value added process. It should be noted that the gross value added amount treats depreciation as a component of value added which, in the allocation statement, is treated as internal financing.

Net valued added by the BMW Group in 2012 rose by 6.8 % to €18,975 million. The increase over the previous year was attributable to the higher level of revenues.

The bulk of the net value added (45.0 %) is applied to employees. The proportion applied to providers of finance fell to 10.7 %, mainly due to the lower refinancing costs on international capital markets for the financial services side of the business. The government/public sector (including deferred tax expense) accounted for 17.3 %. The proportion of net value added applied to shareholders, at 8.7 %, was higher than in the previous year. Minority interests take a 0.1 % share of net value added. The remaining proportion of net value added (18.2 %) will be retained in the Group to finance future operations.

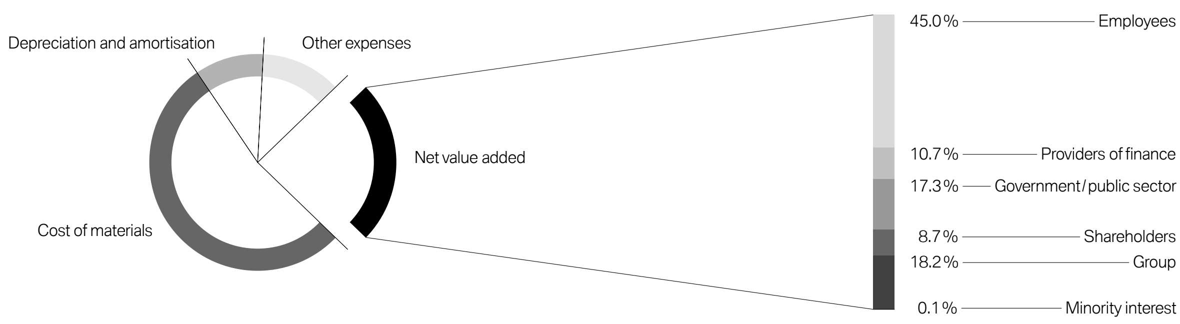
BMW Group value added statement

	2012 in € million	**2012** in %	2011 in € million	2011 in %	Change in %
Work performed					
Revenues	**76,848**	**99.3**	68,821	99.5	
Financial income	**–270**	**–0.4**	–400	–0.6	
Other income	**829**	**1.1**	782	1.1	
Total output	**77,407**	**100.0**	**69,203**	**100.0**	**11.9**
Cost of materials*	**41,304**	**53.4**	36,753	53.1	
Other expenses	**9,173**	**11.8**	7,261	10.5	
Bought-in costs	**50,477**	**65.2**	**44,014**	**63.6**	**14.7**
Gross value added	**26,930**	**34.8**	**25,189**	**36.4**	**6.9**
Depreciation and amortisation	**7,955**	**10.3**	7,424	10.7	
Net value added	**18,975**	**24.5**	**17,765**	**25.7**	**6.8**
Applied to					
Employees	**8,535**	**45.0**	7,739	43.6	10.3
Providers of finance	**2,030**	**10.7**	2,149	12.1	–5.5
Government/public sector	**3,288**	**17.3**	2,970	16.7	10.7
Shareholders	**1,640**	**8.7**	1,508	8.5	8.8
Group	**3,456**	**18.2**	3,373	19.0	2.5
Minority interest	**26**	**0.1**	26	0.1	–
Net value added	**18,975**	**100.0**	**17,765**	**100.0**	**6.8**

* Cost of materials comprises all primary material costs incurred for vehicle production plus ancillary material costs (such as customs duties, insurance premiums and freight).

BMW Group value added 2012

in %



Net value added	24.5	Depreciation and amortisation	10.3
Cost of materials	53.4	Other expenses	11.8

Key performance figures

		2012	2011
Gross margin	%	**20.2**	21.1
EBITDA margin	%	**15.4**	16.9
EBIT margin	%	**10.8**	11.7
Pre-tax return on sales	%	**10.2**	10.7
Post-tax return on sales	%	**6.7**	7.1
Pre-tax return on equity	%	**28.8**	30.9
Post-tax return on equity	%	**18.9**	20.5
Equity ratio – Group	%	**23.1**	22.0
Automotive	%	**40.9**	41.1
Financial Services	%	**8.6**	8.7
Coverage of intangible assets, property, plant and equipment by equity	%	**163.9**	160.2
Return on capital employed			
Group	%	**23.1**	25.6
Automotive	%	**75.0**	77.3
Motorcycles	%	**1.8**	10.2
Return on equity			
Financial Services	%	**21.2**	29.4
Cash inflow from operating activities	€ million	**5,076**	5,713
Cash outflow from investing activities	€ million	**–5,433**	–5,499
Coverage of cash outflow from investing activities by cash inflow from operating activities	%	**93.4**	103.9
Free cash flow of Automotive segment	€ million	**3,809**	3,166*
Net financial assets Automotive segment	€ million	**13,327**	12,287

* Previous year's figure adjusted

Comments on Financial Statements of BMW AG

The financial statements of BMW AG are drawn up in accordance with the German Commercial Code (HGB) and the German Stock Corporation Act (AktG).

BMW AG develops, manufactures and sells cars and motorcycles manufactured by itself, foreign subsidiaries and Magna Steyr. Sales activities are carried out through the Company's own branches, independent dealers, subsidiaries and importers. The number of cars manufactured at German and foreign plants in 2012 rose by 7.1 % to 1,861,826 units. At 31 December 2012, BMW AG had 74,571 employees, 2,941 more than one year earlier.

Sales volume went up again in 2012, as a result of which revenues grew by 6.9 % compared to the previous year. The most significant increase was recorded in Asia. Sales to Group sales companies accounted for €43.9 billion or approximately 74.7 % of total revenues of €58.8 billion. The increase in cost of sales was slightly less pronounced than the increase in revenues. As a consequence, gross profit increased by €866 million to €12.6 billion.

Research and development expenses were 17.3 % higher than in the previous year, driven primarily by activities related to the electrification of the future product range.

The increase in net other operating income and expenses in 2012 was attributable mainly to exceptional factors in 2011 (income from retrospective changes to transfer prices and from the reversal of warranty provisions) and lower expenses for allocations to onerous commodity and currency hedging contracts in 2012.

The financial result improved by €566 million, mainly as a result of the positive impact of fair value changes in designated plan assets for pension and other long-term personnel-related provisions and the offsetting negative effect of impairment losses recognised on financial assets.

The profit from ordinary activities increased from €4,037 million to €4,797 million.

The expense for income taxes relates primarily to current tax for the financial year 2012, and is lower than in the previous year mainly as a result of a reduced amount of expense recorded in conjunction with provisions for tax field audit risks.

After deducting the expense for taxes, the Company reports a net profit of €3,131 million (2011: €1,970 million).

Capital expenditure on intangible assets and property, plant and equipment amounted to €2,776 million (2011: €2,032 million), an increase of 36.6 % over the previous year. The main focus was on product investments for production start-ups and infrastructure improvements. Depreciation and amortisation amounted to €1,613 million (2011: €1,578 million).

Investments went up from €2,823 million to €3,094 million, mainly as a result of transfers to capital reserves at the level of BMW Bank GmbH, Munich, and the acquisition of shares in BMW Finance S.N.C., Guyancourt, which were subsequently contributed to BMW Bank. An impairment loss of €143 million was recognised in 2012 on the investment in SGL Carbon SE, Wiesbaden.

At €3,749 million, inventories remained at a similar level to the previous year despite the expansion of business operations during the year.

Cash and cash equivalents rose by €1,754 million to €4,618 million, reflecting good earnings, the concentration of liquidity at the level of BMW AG and a reduction in investments in marketable securities in favour of liquid funds. Financial receivables from subsidiaries decreased.

Equity rose by €1,642 million to €9,864 million and the equity ratio improved from 29.9 % to 30.9 %.

In order to secure obligations resulting from pre-retirement part-time work arrangements and a part of the Company's pension obligations, assets have been transferred to BMW Trust e.V., Munich, in conjunction with Contractual Trust Arrangements (CTA), on a trustee basis. The assets concerned comprise mainly holdings in investment fund assets and a receivable resulting from a so-called "Capitalisation Transaction" (Kapitalisierungsgeschäft). Fund assets are offset against the related guaranteed obligations. The resulting surplus of assets over liabilities is reported in the BMW AG balance sheet on the line "Surplus of pension and similar plan assets over liabilities".

Pension provisions, net of designated plan assets, decreased from €84 million to €56 million.

External liabilities to banks and financing via subsidiaries increased in 2012.

BMW AG Balance Sheet at 31 December

in € million

	2012	2011
Assets		
Intangible assets	**178**	161
Property, plant and equipment	**7,806**	6,679
Investments	**3,094**	2,823
Tangible, intangible and investment assets	**11,078**	**9,663**
Inventories	**3,749**	3,755
Trade receivables	**858**	729
Receivables from subsidiaries	**6,297**	5,827
Other receivables and other assets	**2,061**	1,479
Marketable securities	**2,514**	3,028
Cash and cash equivalents	**4,618**	2,864
Current assets	**20,097**	**17,682**
Prepayments	**118**	120
Surplus of pension and similar plan assets over liabilities	**672**	43
Total assets	**31,965**	**27,508**
Equity and liabilities		
Subscribed capital	**656**	655
Capital reserves	**2,053**	2,035
Revenue reserves	**5,515**	4,024
Unappropriated profit available for distribution	**1,640**	1,508
Equity	**9,864**	**8,222**
Registered profit-sharing certificates	**32**	32
Pension provisions	**56**	84
Other provisions	**7,406**	7,651
Provisions	**7,462**	**7,735**
Liabilities to banks	**1,408**	911
Trade payables	**3,900**	2,940
Liabilities to subsidiaries	**8,451**	6,923
Other liabilities	**800**	741
Liabilities	**14,559**	**11,515**
Deferred income	**48**	4
Total equity and liabilities	**31,965**	**27,508**

BMW AG Income Statement

in € million

	2012	2011
Revenues	**58,805**	55,007
Cost of sales	**–46,252**	–43,320
Gross profit	**12,553**	**11,687**
Selling expenses	**–3,684**	–3,381
Administrative expenses	**–1,701**	–1,410
Research and development expenses	**–3,573**	–3,045
Other operating income and expenses	**703**	670
Result on investments	**598**	181
Financial result	**–99**	–665
Profit from ordinary activities	**4,797**	**4,037**
Extraordinary income	**–**	29
Income taxes	**–1,635**	–2,073
Other taxes	**–31**	–23
Net profit	**3,131**	**1,970**
Transfer to revenue reserves	**–1,491**	–462
Unappropriated profit available for distribution	**1,640**	**1,508**

KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, has issued an unqualified audit opinion on the financial statements of BMW AG, of which the balance sheet and the income statement are presented here. The BMW AG financial statements for the financial year 2012 will be submitted to the operator of the electronic version of the German Federal Gazette and can be obtained via the Company Register website. These financial statements are available from BMW AG, 80788 Munich, Germany.

Internal Control System* and explanatory comments

The internal control system in place throughout the BMW Group is aimed at ensuring the effectiveness of operations. It makes an important contribution towards ensuring compliance with the laws that apply to the BMW Group as well as providing assurance on the propriety and reliability of internal and external financial reporting. The internal control system is therefore a significant factor in the management of process risks. The principal features of the internal control system and the risk management system, as far as they relate to individual entity and Group financial reporting processes, are described below.

Information and communication

One component of the internal control system is that of "Information and Communication". It ensures that all the information needed to achieve the objectives set for the internal control system is made available to those responsible in an appropriate and timely manner. The requirements relating to the provision of information relevant for financial reporting at the level of BMW AG, other consolidated Group entities and the BMW Group are primarily set out in organisational manuals, in guidelines covering internal and external financial reporting issues and in accounting manuals. These instructions, which can be accessed at all levels via the BMW Group's intranet system, provide the framework for ensuring that the relevant rules are applied consistently throughout the Group. The quality and relevance of these instructions is ensured by regular review as well as by continuous communication between the relevant departments.

Organisational measures

All financial reporting processes (including Group financial reporting processes) are structured in organisational terms in accordance with the principle of segregation of duties. These structures allow errors to be identified at an early stage and prevent potential wrongdoing. Regular comparison of internal forecasts and external financial reports improves the quality of financial reporting. The internal audit department serves as a process-independent function, testing and assessing the effectiveness of the internal control system and proposing improvements when appropriate.

Controls

Extensive controls are carried out by management in all financial reporting processes at an individual entity and Group level, thus ensuring that legal requirements and internal guidelines are complied with and that all business transactions are properly executed. Controls are also carried out with the aid of IT applications, thus reducing the incidence of process risks.

IT authorisations

All IT applications used in financial reporting processes throughout the BMW Group are subject to access restrictions, allowing only authorised persons to gain access to systems and data in a controlled environment. Access authorisations are allocated on the basis of the nature of the duties to be performed. In addition, IT processes are designed and authorisations allocated using the dual control principle, as a result of which, for instance, requests cannot be submitted and approved by the same person.

Internal control training for employees

All employees are appropriately trained to carry out their duties and kept informed of any changes in regulations or processes that affect them. Managers and staff also have access to detailed best-practice descriptions relating to risks and controls in the various processes, thus increasing risk awareness at all levels.
As a consequence, the internal control system can be evaluated regularly and further improved as necessary. Employees can, at any time and independently, deepen their understanding of control methods and design using an information platform that is accessible throughout the entire Group.

Evaluating the effectiveness of the internal control system

Responsibilities for ensuring the effectiveness of the internal control system in relation to individual entity and Group financial reporting processes are clearly defined and allocated to the relevant managers and process owners. The BMW Group assesses the design and effectiveness of the internal control system on the basis of internal review procedures (e.g. management self-audits, internal audit findings). Audits performed at regular intervals show that the internal control system in place throughout the BMW Group is both appropriate and effective. Continuous revision and further development of the internal control system ensures its continued effectiveness. Group entities are required to confirm regularly as part of their reporting duties that the internal control system is functioning properly. Effective measures are implemented whenever weaknesses are identified and reported.

* Disclosures pursuant to § 289 (5) HGB and § 315 (2) no. 5 HGB

Risk management within the BMW Group

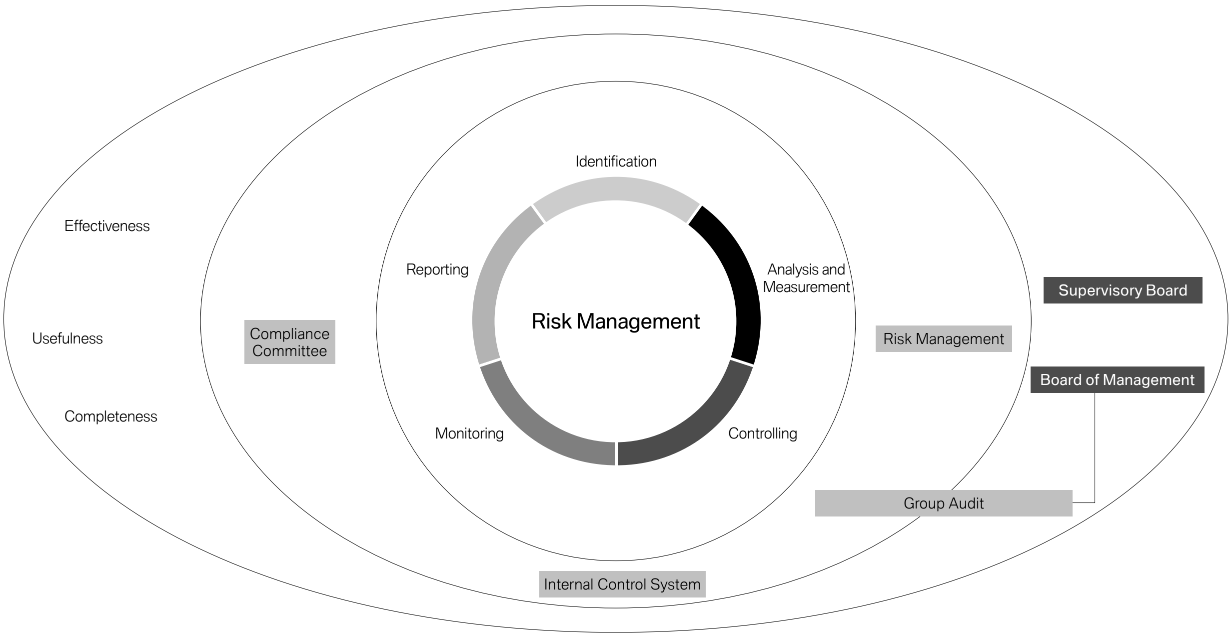
The growing internationalisation of business activities, the increasing pressure of competition and the rapid pace of technological change entail opportunities and risks for the BMW Group. Making full use of the opportunities that present themselves is the basis for our corporate success and reflected in our Strategy Number ONE (see section "Outlook for the BMW Group in 2013"). In order to achieve growth, profitability, efficiency and sustainable levels of business in the future, the BMW Group consciously exposes itself to a wide variety of risks. Managing risks is a fundamental prerequisite for being able to deal successfully with the constant flow of changes in the relevant political, legal, technical and economic landscapes.

Risk management is a permanent process for the BMW Group, covering all aspects of the Group's business worldwide. Its key elements are the early identification, analysis and measurement of opportunities and risks, the coordinated use of suitable management tools and monitoring. Although managed from the centre, the risk management system is based on a decentralised structure, supported by a network of risk managers. This approach raises awareness and encourages a balanced approach to risks at all levels throughout the organisation. The risk management network is formally embedded in the organisational structure of the BMW Group. Duties, responsibilities and tasks are assigned to the network. The integration of risk management functions in the overall management of the enterprise serves to improve transparency and underlines the importance of risk management within the BMW Group. The risk management process is geared towards meeting the criteria effectiveness, usefulness and completeness. Seamless coordination with the Compliance Committee, the Internal Control System and the Group Internal Audit is also ensured.

Risks identified at a decentralised level are initially reported to a steering committee. Risks deemed by that committee to be significant or potentially capable of jeopardising the entity's going-concern status are reported to the Board of Management and the Supervisory Board, classified on the basis of the potential scale of impact on earnings and cash flows on the one hand and qualitative criteria on the other. The risk is quantified, taking account of the probability of occurrence and risk mitigation measures.

Decisions are reached after consideration of detailed project analyses that show both potential risks and potential opportunities. In conjunction with the Group's monthly and long-term forecasting systems, opportunities and risks attached to specific business activities are evaluated and used as the basis for implementing measures to mitigate risks and achieve targets. Important success factors – such as financial market developments or the competitive situation – are monitored continuously to ensure that unfavourable developments are identified at an early stage and appropriate countermeasures implemented.

Risk Management within the BMW Group



The risk management system is tested regularly by the Internal Audit. By regularly sharing experiences with other companies, the BMW Group ensures that new insights flow into the risk management system, thus contributing to continual improvement. Regular basic and further training as well as information events are invaluable ways of preparing people for new or additional requirements with regard to the processes in which they are involved.

Managing the business on a sustainable basis is a core corporate strategy (see “Sustainability” section in the Combined Group and Company Management Report). Opportunities and risks related to sustainability issues are discussed in a sustainability committee. Strategic options and measures open to the BMW Group are put forward to the Sustainability Board, to which all members of the Board of Management belong. The emergence of new risks is also monitored closely throughout the group-wide risk network. The close ties between steering and sustainability committees ensure that risk and sustainability management are closely coordinated.

The principal risk factors facing the BMW Group are described below. Additional disclosures on risks relating to financial instruments are provided in note 41 of the Group Financial Statements.

Political and global economic risks

The ever-growing complexity and intensity of worldwide competition is constantly increasing the danger of incalculable chain reactions and their consequences. General anxiety regarding the stability of the finance system and further developments in the sovereign debt crisis currently constitute risk factors for business performance. The slow-down of economic momentum in China, political instability in the Middle East and parts of Asia as well as market regulations in various countries pose further risks.

The escalation of political tension, terrorist activities, natural disasters or possible pandemics could all have a negative impact on the world economy and international capital markets that can lead to a scarcity of raw materials and the possible breakdown of material or parts deliveries. The BMW Group counters these risks primarily by internationalising its purchasing, sales and production structures in order to reduce the potential impact of risk exposures in individual countries.

Strategic and sector-specific risks

The car manufacturing industry worldwide is faced with the constant challenge of having to reduce fuel consumption and emissions and raise safety standards at the same time. These requirements are increasingly accompanied by rules governing individual mobility in metropolitan areas. Changing regulations and rising fuel and energy prices also influence customer behaviour. One of the main risks the industry faces is the possible threat of short-term tightening of laws and regulations that can trigger the requirement for significantly higher levels of investment. In some cases, changes in customer behaviour are not only brought on by new regulations, but also through changes of opinion, values and environmental issues. Among other factors, global climate change is having an effect on legislation, regulations and consumer behaviour. In order to meet structural changes in the demand for individual mobility that no longer necessarily means actually owning a vehicle, we are offering corresponding mobility services, such as the DriveNow car-sharing model.

With its Efficient Dynamics concept, the BMW Group has a pioneering role in reducing both fuel consumption and emissions and fulfilling legal rules and requirements at the same time. In addition, the BMW Group is investing in the development of sustainable drive technologies and materials, with the aim of providing highly efficient vehicles for individual mobility in the premium segment well into the future.

Risks emanating from statutory requirements to take back and recycle end-of-life vehicles are minimised by ensuring that “designing for recycling” is fully considered during the product development stage. All efforts are taken to ensure that the raw materials gained from recycling end-of-life vehicles can be reused in the production process. Statutory risks stemming from vehicle recycling in various markets are minimised by means of a specialised in-house team working in conjunction with regional managers.

Medium- and long-term targets have already been put in place in Europe, North America, Japan, China and other countries to reduce fuel consumption and CO_2 emissions. Europe has set a target of achieving an average of 130 g CO_2/km for all new vehicles by 2015. The EU Regulation defines rules for CO_2 emissions based on the weight of each particular vehicle. For the BMW Group this means a target of under 140 g CO_2/km per vehicle. In the USA fuel economy targets have now been defined up to the year 2025. Beginning with a gradual reduction for 2012 models, the new car fleets of all manufacturers are to achieve an average emission value of 250 g CO_2/mile (155 g CO_2/km) by model year 2016 and an average value of 163 g CO_2/mile (101 g CO_2/km) by model year 2025. Japan has also set ambitious targets for reducing fuel consumption. Authorities in China are currently discussing new, stricter regulations to tighten up the existing individual vehicle fuel consumption rules for the years 2013 to 2015.

The broader market introduction of alternative drive systems means new challenges and additional investment for the automotive industry. At the same time we also see this as an opportunity to put our technological expertise and innovative strengths to use. Greater fuel economy and the reduction of emissions are fundamental parameters that we automatically include when designing new products.

In the short and medium term we will achieve greater fuel economy by electrifying the drivetrain and developing comprehensive hybrid systems. We are also working on solutions for sustainable mobility in densely populated areas. Large-scale field trials with the MINI E have been carried out in the UK, Germany, France, the USA, China and Japan. A test fleet of BMW ActiveE electric cars based on the BMW 1 Series Coupé has been on the road since 2011. The extensive knowledge gained from the trials will be used in the series development of the BMW Group's electric cars. The BMW i3 will come onto the market at the end of 2013 as the first series-produced electric car made by the BMW Group for the metropolitan regions of the world.

Not only the safety of our customers, but that of all other road users is an essential component of our product responsibility. The BMW Group analyses the entire process chain from accident prevention to post-crash applications, such as the extended emergency call integrated in Connected Drive, which is a unique innovation. In order to minimise injury and damage caused by accidents we are employing both active and passive safety technologies. Active safety measures such as suspension regulation and driver assistance systems make an essential contribution to the prevention of accidents.

Our enhanced technology in passive vehicle safety has also led to the latest BMW 3 Series and 5 Series sedans achieving top marks in consumer tests worldwide, thereby setting new standards in their classes.

Moreover, the BMW Group is already researching topics for which we are only likely to receive answers in the longer term. These include, for instance, safety questions that may only present themselves when a far greater number of hybrid and electric cars are on the road.

Operational risks

Production

Production interruptions represent a major risk for the BMW Group, due to the potential scale of their impact. Apart from hazards posed by the elements (such as fire or flooding), power supply and IT breakdowns, production interruptions can also be caused by logistical problems (such as the failure of a supplier to deliver). Precautionary measures are therefore incorporated in production and logistics structures to make provision for such eventualities, both in terms of likelihood of occurrence and loss impact. These measures include the use of firewalls, sprinkler systems and auxiliary power supplies.

The flexible nature of our production network and working time models also generally help to reduce operational risks. The assessment of both environmental and social risks when selecting new production sites is also an important factor in minimising risk. Risks arising from business interruption and loss of production due to acts of God are insured up to economically reasonable levels with insurance companies that enjoy a good credit standing.

Purchasing

The customary distribution of tasks between manufacturers and suppliers within the automotive sector creates economic benefits, but also exposes contracting parties to a certain degree of mutual dependence. As part of a policy of preventative risk management implemented within the purchasing function, suppliers are assessed for technical competence on the one hand and financial strength on the other, during both the development and production phases of our vehicles. Suppliers' risks at a local level also play an increasingly important role in the context of decision-making. As part of our catalogue of procedures, for instance, we also assess the extent to which supplier sites are exposed to natural hazards, such as floods or earthquakes, thus reducing our exposure to parts supply risks.

Sustainability plays a crucial role in all of our purchasing activities and is taken into consideration when developing environmental, social and governance standards. In this context, we manage sustainability risks using a systematic three-stage risk management approach, comprising risk filters, modularly designed supplier risk evaluation questionnaires and external sustainability audits. In addition to managing risk, we are also constantly on the alert to identify opportunities, including options for using resources more efficiently.

The risk of certain suppliers suffering capacity bottlenecks rose during the period under report, mainly reflecting the growth in volumes that needed to be handled in 2012. Material supplies were nevertheless fully assured at all times by means of appropriate early-intervention measures.

Sales and marketing

The regional spread of sales, the composition of the model mix, and hence the volume of related services, is constantly changing. Sales and production processes within the BMW Group are flexible enough to allow new opportunities to be exploited at short notice. We also offer new and attractive services whenever changes in demand patterns warrant it.

Personnel

As an attractive employer, for many years we have enjoyed a favourable position in the intense competition for qualified technical and management staff. Having a satisfied and motivated workforce is a key factor for success. Training programmes for new employees recruited from specific target groups and attractive personnel development programmes make it easier to recruit and further the careers of highly qualified staff and protect the Group from the risk of know-how drift.

Demographic change will have a lasting impact on conditions prevailing on employment markets, giving rise to risks and opportunities that are likely to affect businesses to an increasing degree in the coming years. We see demographic change as one of our main challenges and we are taking a proactive approach to softening the impact it is likely to have on operational processes. Our key focus is on creating an optimal working environment for the future, promoting and maintaining the workforce's ability to perform with the appropriate set of skills, increasing employees' awareness of health issues and the development of individual employee working life-time models aimed at retaining a motivated workforce in the long term.

We encourage diversity within the BMW Group's workforce. Heterogeneous teams comprising men and women from a variety of cultural backgrounds and differing age groups are often more productive and show greater innovative skill.

Risks relating to pension obligations

Risks arise for the BMW Group in conjunction with obligations relating to defined-benefit pension plans. Pension obligations to employees under such plans are measured on the basis of actuarial reports. Future pension payments are discounted by reference to market yields on high-quality corporate bonds. These yields are subject to market fluctuation and influence the level of pension obligations. Furthermore, changes in other parameters, such as rising inflation, also have an impact on pension obligations.

Most of the BMW Group's pension obligations are administered in external pension funds and the assets of those funds kept separate from Company assets. As a consequence, the level of funds required to finance pension payments out of operations will be substantially reduced in the future, since most of the Group's pension obligations are settled out of pension fund assets. In the case of the UK pension fund, the risk of the rising life expectancy of pensioners has also been hedged. The pension assets of the BMW Group comprise interest-bearing securities with a high level of creditworthiness, equities, property and other investment classes. Pension fund assets are monitored continuously and managed from a risk-and-yield perspective. Risk is reduced by ensuring a broad spread of investments which are structured to coincide with the timing of pension payments and the expected pattern of pension obligations. In their own way, each of these measures helps to reduce fluctuations in pension funding shortfalls.

Information, data protection and IT risks

We attach great importance to protecting individual rights, business secrets, innovation and process information from unauthorised access, damage and/or misuse. The protection of information and data is an integral component of our business processes and based on International Security Standard ISO/IEC 27001. Staff, process design and information technology each play a role in our comprehensive risk and security concept.

The requirement to apply uniform standards across the Group is embedded in the BMW Group's core principles and documented in detailed working instructions. These instructions require employees to handle all information (such as customer and employee data) appropriately, ensure that information systems are properly used and that risks pertaining to information technology (IT risks) are dealt with transparently. Regular communication, awareness-raising activities and training measures (e.g. online training on information and data protection issues) create a high degree of security and risk awareness among the employees involved. Employees also receive training from the Group's Compliance Organisation to ensure compliance with legal and regulatory requirements.

Potential IT and data protection risks resulting from the use of information technology and the processing of information are monitored on a regular basis and managed by the departments responsible.

The technical data protection procedures used primarily involve process-specific security measures. Standard activities such as virus scanners, firewall systems, access controls at both operating system and application level, internal testing procedures and the regular backing up of data are also employed. A security network is in place group-wide to ensure that stipulated requirements are complied with. A high level of protection is afforded by regular analyses, detailed up-front controls (such as compliance with mandatory data protection requirements) and rigorous security management (for instance in the form of our centralised Security Operation Centre, which is responsible for monitoring internal network traffic). The IT data protection and security strategy adopted in 2011 has not only tightened security within the BMW Group, it also helps to identify IT risks and enables appropriate action to be taken. At the same time, the Group's data protection strategy was adopted and a set of data protection rules published, which apply for all of the Group's employees.

In the case of cooperation arrangements and business partner relationships we protect our intellectual property as well as customer and employee data by stipulating clear instructions with regard to data protection and the use of information technology. Information underlying key areas of expertise is subject to particularly stringent security measures.

Financial risks and those relating to the provision of financial services

Currency risks

The sale of vehicles outside the eurozone gives rise to exchange risks. The BMW Group's currency risk in 2012 was dominated by the US dollar, the Chinese renminbi, the British pound, the Russian rouble and the Japanese yen. Foreign currency risks are determined for forecast exposures measured using cash flow-at-risk models and scenario analyses. Operational currency management is based on the results provided by these tools.

The BMW Group manages currency risks both at a strategic (medium and long term) and at an operating level (short and medium term). In the medium and long term, foreign exchange risks are managed by "natural hedging", in other words by increasing the volume of purchases denominated in foreign currency or increasing the volume of local production. In this context, the expansion of the plant in Spartanburg, USA, and the opening of the BMW Brilliance joint venture's new plant in Tiexi in 2012 at the Shenyang site, China, are helping to reduce foreign exchange risks in two major sales markets.

For operating purposes (short and medium term), currency risks are hedged on the financial markets. Hedging transactions are entered into only with financial partners of good credit standing. A description of the methods applied for risk measurement and hedging is provided in the notes to the Group Financial Statements. Counterparty risk management procedures are carried out continuously to monitor the creditworthiness of business partners.

Raw material risks

The availability of specific groups of raw materials and changes in raw materials prices both represent significant risks for the BMW Group. In order to safeguard the supply of production materials and reduce cost risks, commodities markets are closely monitored and analysed.

Financial derivatives are employed to hedge against price risks arising for precious metals (i.e. platinum, palladium and rhodium) and non-ferrous metals (i.e. aluminium, copper and lead) and, to some extent, steel and steel ingredients such as iron ore. Medium and long-term purchase contracts with fixed pricing arrangements for raw materials such as steel and plastics are also in place. A description of the methods applied for risk measurement and hedging is provided in the notes to the Group Financial Statements.

Changes in the price of crude oil (as a basic ingredient in many of our components) have an indirect impact on our production costs. Crude oil prices (and exchange rates) also influence fuel prices, which, in turn, directly influence the purchasing behaviour of our customers. The BMW Group counters this by developing and selling efficient and economical engines and by developing alternative drive technologies.

Liquidity risks

Good liquidity management ensures the BMW Group's solvency at all times. Were strategic and sector-specific risks, operational risks and financial risks to occur, this could have an adverse impact on the Group's liquidity.

A target liquidity concept was put in place several years ago, drawing on the experience gained during the financial crisis, and is adhered to rigorously. As well as maintaining a liquidity reserve, access to liquid funds by Group entities is ensured by a broad diversification of refinancing sources. The liquidity position is monitored continuously at a separate entity level and managed by means of a cash flow requirements and sourcing forecast system in place throughout the Group. Liquidity risks can arise in the form of rising refinancing costs on the one hand and restricted access to funds on the other. Most of the Financial Services segment's credit financing and lease business is refinanced on capital markets. The BMW Group has good access to financial markets thanks to its excellent creditworthiness and, as in previous years, was able to raise funds at good conditions in 2012, reflecting a diversified refinancing strategy and the solid liquidity base of the BMW Group. Internationally recognised rating agencies have confirmed the BMW Group's strong creditworthiness. There is a general risk that ratings could be downgraded, in which case the cost of refinancing conditions would increase; at present this risk is deemed to be low.

Risks relating to Financial Services

The main categories of risk relating to the provision of financial services are credit and counterparty risk, residual value risk, interest rate risk, liquidity risk and operational risk. In order to evaluate and manage these risks, a variety of internal methods has been developed based on regulatory environment requirements (such as Basel II) and which comply with national and international standards.

A set of strategic principles and rules derived from regulatory requirements serves as the basis for risk management within the Financial Services segment. At the heart of the risk management process is a clear division into front- and back-office activities and a comprehensive internal control system.

In order to ensure that the segment is capable of bearing the risks to which it is exposed (i.e. its "risk-bearing capacity"), we monitor the segment's total exposure to major risks. This involves measuring unexpected losses using a variety of value-at-risk techniques adapted to each relevant risk category. These losses are aggregated (after factoring in correlation effects) and compared with resources available to cover risks (i.e. equity). The segment's risk-bearing capacity is monitored continuously with the aid of an integrated limit system which also differentiates between the various risk categories. The segment's total risk exposure was covered at all times during the past year by the available risk-coverage volumes.

Use of the "matched funding principle" to finance the Financial Services segment's operations eliminates liquidity risks to a large extent. Regular measurement and monitoring ensure that cash inflows and outflows from transactions in varying maturity cycles and currencies will offset each other. The relevant procedures are incorporated in the BMW Group's target liquidity concept.

Interest rate risks relate to potential losses caused by changes in market interest rates and can arise when fixed interest rate periods for assets and liabilities recognised in the balance sheet do not match. Interest-rate risks in the Financial Services line of business are managed by raising refinancing funds with matching maturities and by employing interest rate derivatives. For risk management purposes, all interest-related asset or liability exposures are aggregated on a cash flow basis taking account of subsequent changes, e.g. in the case of early termination of a contract. Interest rate risks are managed on the basis of a value-at-risk approach and stipulated limits. Limits are set using a benchmark-oriented approach that focuses on interest rate arrangements contained in the original contracts. Compliance with prescribed limits is tested regularly. Sensitivity analyses and stress scenarios showing the potential impact of interest rate changes on earnings are also used as tools to manage interest rate risks. These interest rate positions are aggregated for the BMW Group as a whole and measured with a value-at-risk methodology and taking other Group positions into account (structured as far as possible on a risk-neutral basis).

Credit risks arise in conjunction with lending to retail customers and major corporate customers, the latter relating primarily to the dealer, fleet and importer financing/leasing lines of business. Counterparty default risk, by contrast, refers to the risk that banks or financial institutes with which financial instruments have been transacted are unable to meet their payment obligations.

Lending to retail customers is largely based on automated scoring techniques. In the case of major corporate customers, creditworthiness is checked using internal rating models, which take account of financial statement data and supplementary qualitative evaluations. Customer creditworthiness is tested at least once a year and revised accordingly. The approval for lending to major corporate customers is primarily based on a standardised method of measuring the value of the vehicle(s) or other object(s) serving as collateral. The recoverability of the value of items accepted as collateral is regularly reviewed, measured and evaluated with a view to assessing the impact on the level of risk not covered by collateral.

In order to minimise risk from lending, we employ standardised instruments such as subsequent security, additional collateral, retention of vehicle documents or higher upfront payments. In addition, the levels of authority and responsibility of those involved in the lending process are clearly defined. Local, regional and centralised credit audits are also regularly performed by Internal Audit to check compliance with lending approval and authorisation rules procedures as well as the processes and IT systems involved.

We continue to develop standardised credit decision processes for the BMW Group worldwide. The focus here is on improving the quality of credit applications, the Group's rating methodology and procedures used to select employees within the worldwide credit and counterparty risk network.

In the case of vehicles which remain with the Financial Services segment at the end of a contract (leases and credit financing arrangements with option of return), there is a residual value risk if the residual value calculated at the inception of the contract is not recovered when the vehicle is sold (residual value risk). Residual values are calculated uniformly throughout the BMW Group in accordance with mandatory guidelines. For risk management purposes, the expected risk-free residual value of a vehicle is measured on the basis of external and internal information. These amounts are checked regularly and adjusted as appropriate. Residual values of vehicles on used car markets are continuously monitored and reported on. In addition to internal information, our assessments also take account of external market data. The BMW Group strives to mitigate effectively against declining residual values by actively managing the life cycles of current models, optimising reselling processes on international markets and implementing targeted price and volume measures. Potential losses are measured by comparing forecasted market values and contractual residual values by model and market.

The scope of procedures applied to manage operational risks is based on Basel II requirements. This includes identifying and measuring potential risk scenarios, computing and monitoring key risk indicators on an ongoing basis, the systematic recording of loss claims and a range of coordinated measures aimed at mitigating risk. Both qualitative and quantitative aspects are taken into account in the decision-making process. The latter is backed up by various system-based solutions, all of which follow the principles of operational risk management, such as the segregation of duties, dual control, documentation and transparency. In addition, both the effectiveness and efficiency of the internal control system are tested regularly.

Legal risks

Acting responsibly and complying with the law are the basic prerequisites for our success. Current legislation provides the binding framework for our wide range of activities around the world. The growing international scale of operations of the BMW Group, the complexity of the business world and the whole gamut of complex legal regulations increase the risk of laws being broken, simply because they are not known or fully understood.

The BMW Group has established a Compliance Organisation aimed at ensuring that its representative bodies, managers and staff act in a lawful manner at all times. Further information on the BMW Group's Compliance Organisation can be found in the section "Corporate Governance".

Like all enterprises, the BMW Group is, or could be, confronted with the risk of legal disputes relating, among other things, to warranty claims, product liability, infringement of protected rights or proceedings initiated by government agencies. Any of these matters could have an adverse impact on the Group's reputation. Such proceedings are typical for the sector or arise as a consequence of realigning our product or purchasing strategy to suit changed market conditions. Particularly in the US market, class action lawsuits and product liability risks can give rise to substantial financial consequences and cause reputational damage. The BMW Group recognises appropriate levels of provision for lawsuits. A part of these risks, especially where the American market is concerned, is insured where this makes business sense. Some risks, however, cannot be assessed in full or cannot be assessed at all. It cannot be ruled out that losses from damages could arise which are not, or which are not fully, covered by insurance policies or provisions.

The high quality of our products, which is ensured by regular quality audits and ongoing improvement measures, helps to reduce this risk. In comparison with competitors, this can give rise to benefits and opportunities for the BMW Group.

The BMW Group is not currently involved in any court or arbitration proceedings which could have a significant impact on its financial condition.

Changes in the regulatory environment may impair our sales volume, revenues and earnings performance in specific markets or economic regions. Further details are provided in the section "Strategic and sector-specific risks".

The assessments contained in the "Outlook" section are based on the forecasts made by BMW AG for the years 2013 and 2014 and reflect the most recent status. The basis of preparation of our forecasts, which take account of consensual opinions of leading organisations, such as banks and economic research institutes, is set out below. These assumptions flow into the targets set for the segments.

Our continuous forecasting process ensures that the BMW Group is always ready to take advantage of opportunities as they arise. The principle risks facing the business are described in detail in the risk report.

Economic outlook for 2013

The global economy is expected to stabilise at a slower growth rate of approximately 2 % in 2013. However, in view of burgeoning public-sector debt in Europe, the USA and Japan, substantial over-capacities in China and conflict hot spots in the Middle East, the outlook is overshadowed by a number of major risks.

Output in the eurozone is set to stagnate in 2013 at the previous year's level. The German economy, the largest in Europe, is forecast to grow again in 2013, albeit at the modest rate of 0.7 %. The French economy is expected to remain flat for the time being, a prediction fraught with major uncertainty in view of the prevailing risks. Based on forecasts, Italy's gross domestic product (GDP) is set to contract by approximately 1.0 %. In Spain the downward trend is likely to continue, with economic output down by a further 1.6 %. A growth rate of 0.9 % is predicted for the UK, Europe's largest market outside the eurozone.

Again this year the recovery in the USA looks set to continue and growth in the region is predicted to run at around 2.0 %. The looming tax rises and expenditure cuts previously planned for the turn of the financial year 2013 were reduced. However, the negative impact on purchasing power should be offset by growing vitality on the job and property markets. Overall, however, growth is likely to remain at roughly the previous year's level and the US economy is set to continue its upward trend.

The performance of the Japanese economy in 2013 will depend largely on the policymaking skills of the newly elected government. Having slipped back into recession at the end of 2012, Japan is at best likely to achieve only modest growth of some 0.8 % in 2013, even with the help of generous expansionary monetary and fiscal policies.

The Chinese economy is likely to gather pace again in the course of the current year. Positive early indicators as well as the announcement made by the Chinese government of further programmes to stimulate the economy give reason to believe that GDP in China will rise by 8.0 %. High property price levels and over-capacities in the construction and heavy industries sector, could, however, hold down the growth rate in the region.

The economies of India and Brazil are expected to grow by 6.0 % and 3.5 % respectively. Russia's GDP is likely to expand by about 3.4 %, roughly in line with the previous year.

Fluctuations on currency markets

High public-sector debt in Europe, the USA and Japan are likely to cause continued fluctuations on the world's currency markets. The US dollar/euro exchange rate is expected to average out at previous year's levels. The Chinese renminbi will probably remain coupled to the US dollar, with only minor fluctuations between the two currencies. The budget situation and greater expansionary monetary policies in Japan could cause the Japanese yen to drop further in value. The British pound is forecast to appreciate modestly against the euro, assuming the UK can maintain stable economic growth.

Car markets in 2013

Taken as a whole, the world's car markets are expected to grow by some 4.0 % in the current year to a total of 75.5 million units. High demand for replacement vehicles after a number of weak years should boost volumes sold in the USA by approximately 2.1 % to 14.8 million units.

The Chinese passenger car market is forecast to grow by approximately 8.5 % to 14.4 million units. The regional spread of sales in China is likely to shift increasingly inland, away from the coast towards the interior provinces, which are now entering a catch-up phase.

The downward trend seen in Europe in recent years is set to continue, with the market as a whole contracting by 1.8 % to 12.3 million units. Following a period of drastic decreases, however, the market could well now consolidate at approximately this level. Sales volumes are forecast to remain flat in Germany, France and Spain and decrease marginally in the UK and Italy.

The car market in Japan could see a drop of 4% to 5.0 million units as the catch-up effect begins to wane.

A growth rate of around 10% is forecast for the Russian car market in 2013, which would entail a volume of some 3.0 million units. Demand for cars in India is predicted to rise by 7% to 2.9 million units in 2013. The corresponding figures for Brazil are 9% and 3.95 million units respectively.

Motorcycle markets in 2013

Overall, we expect the world's motorcycle markets in the 500 cc plus class to grow slightly in 2013. In Europe, however, the negative trend is quite likely to continue, with only the German market looking set to remain stable. Modest growth is forecast for the USA and Japan. The motorcycle market in Brazil is also likely to continue expanding, even if not quite as dynamically as in recent years.

The financial services market in 2013

The forecast of moderate growth for the global economy in the current year is likely to be achieved – among other factors – on the back of looser monetary policies in the USA, China and some growth markets. Downbeat economic prospects will probably ensure that inflationary pressures in industrialised countries do not rise further. We are assuming that the world's major central banks continue their expansionary monetary policies throughout the current year. Both the European Central Bank (ECB) and the US Reserve Bank have announced their intention to keep interest rates at their current low level during 2013. Refinancing conditions for the whole sector are likely to remain volatile for the foreseeable future given the pervading nervousness on the world's capital markets.

There is also unlikely to be any change in the divergent development of vehicle residual values over the course of 2013. The economic situation will remain particularly tense in southern Europe. At present, it is difficult to assess the extent to which the sovereign debt crisis will affect other European countries. For the time being, it seems reasonable to assume that used car markets outside Europe will remain more or less stable in average terms.

A similarly heterogeneous picture is also likely to apply for the credit risk situation over the course of 2013. Compared to the ongoing tenseness in southern Europe, the overall situation elsewhere is expected to improve marginally.

Outlook for the BMW Group in 2013

High public-sector debt levels and the prospect of consolidation in spending, particularly in Europe, remain a source of uncertainty in 2013. Other concerns for the global economy have been kindled by slower growth in China and political instability in a number of regions. The situation is exacerbated by the fact that greater volatility in forecasting parameters currently makes it more difficult for the BMW Group to predict future performance with any degree of accuracy.

Our answer to uncertainties in a volatile environment is to follow our Strategy Number ONE, which we have been actively implementing for several years now. The strategic aim we are pursuing is clearly reflected in the excellent figures reported for the past year and enables us to look forward with confidence to 2013. We intend to continue the success story with our strong brands, all of which enjoy a global presence. We will be aided in this endeavour by our attractive range of models and services, comprehensively designed to meet the needs of individual mobility. With our focus on "premium", as the world's leading provider we benefit to an exceptional extent from the high demand for premium segment vehicles.

We forecast that vehicle sales will again rise to new record levels in 2013, enabling the BMW Group to remain the world's foremost premium car manufacturer.

Demand for our models remains high, particularly for the BMW 1, 3, 5 and 6 Series and the BMW X family. The launches of the BMW 3 Series Touring on European markets and the BMW 3 Series Sedan (with xDrive four-wheel-drive system) in the USA have also driven sales momentum, right from the outset. Further impetus will come from the BMW X1, which is now also available in China and the USA. Our exceptionally strong sales performance in some parts of the world, such as in China and the USA, is more than compensating the market weakness a number of European countries are currently experiencing. Even here, however, we are still achieving good growth in a host of countries.

We will again be introducing numerous new and revised models to the market in 2013 and these will give a boost to sales. The new BMW 3 Series Gran Turismo will be launched in June to become the third body variant of the current model family and represent an innovative, fully autonomous concept within the highly successful BMW 3 Series model range. The M6 Gran Coupé, due to be launched in the same month, is the third body variant of the M6 sports car and combines high performance with elegant design. The new BMW 4 Series Coupé, which again sets standards in terms of design, dynamic performance and efficiency in the sporty medium-class coupé segment, is set to follow in September. At the end of the year, the BMW i3 will be launched as the first series-built electric vehicle made by the BMW Group for the metropolitan regions of the world.

The MINI brand continues to enjoy great popularity. In March, MINI will be adding a seventh vehicle to its family of models in the form of the Paceman. Rolls-Royce recently launched its new top model, the Phantom Series II. The Rolls-Royce Wraith celebrated its world premiere at the Geneva International Automobile Show.

We will continue giving careful consideration to achieving a balanced distribution in terms of global sales volumes. The BMW Group remains committed to the principle that "production follows the market". The opening of the new plant in Tiexi*, China, in 2012 is another important step in our unbroken endeavour to service this emerging market successfully. Production capacity in China currently stands at a total of 200,000 vehicles per year. In the medium term, we plan to increase the capacities of our two Chinese plants to produce up to 300,000 units per annum. We are already taking steps to ensure our ability to ultimately expand production volume on a flexible basis to accommodate up to 400,000 units per annum. Even with its high production levels, the new plant in Tiexi* is setting new standards in the field of emission reduction and efficient use of resources.

The BMW Group's global production capability has also been additionally strengthened by the expansion of the Spartanburg plant in the USA. Capacity here will be increased to manufacture up to 350,000 units by 2014.

* Joint venture BMW Brilliance

We also intend to bolster our presence in growth markets, such as Brazil. Following the receipt of approval from the Brazilian government at the beginning of 2013, we now plan to manufacture up to 30,000 vehicles there per annum.

Compared to the rest of the sector, our global production network is extremely flexible. Revised shift models, working-time accounts for employees and a whole range of other measures enable us to compensate for fluctuations in demand. High levels of capacity utilisation are an important factor in maintaining the Group's profitability.

The efficiency of our drive systems has enabled us to play a pioneering role in reducing fleet consumption and CO_2 emissions, whilst simultaneously enhancing the sporty and dynamic character of our vehicles.

The combustion engine is going to remain the world's foremost drive technology in the foreseeable future. We are therefore developing a new generation of combustion engines as part of our Efficient Dynamics initiative. In future we will be able to offer both petrol- and diesel-powered vehicles with three-, four- and six-cylinder engines of varying capacities. BMW's TwinPower Turbo Technology will be deployed, ensuring a high level of efficiency and enabling further improvements to be made across the fleet in terms of consumption and emissions. In combination with the electric-drive components of our ActiveHybrid or plug-in hybrid vehicles, this new generation of combustion engines will make a significant contribution towards attaining our consumption and emissions targets.

The completely newly developed electric vehicle, the BMW i3, is due to be launched at the end of 2013. This premium car of the future features an absolutely new drivetrain concept and the consistent use of CFRP in its design. The innovative BMW i3 is a striking demonstration of the BMW Group's expertise in the field of lightweight construction.

Connected Drive has been setting standards for many years now in the development of forward-looking concepts and technologies aimed at connecting driver, vehicle and surroundings. These innovations increase road safety levels, offer greater convenience and create new opportunities for information and entertainment.

The BMW Group continues to enjoy a solid financial base. Strong cash flows and straightforward access to capital markets also provide us with additional room to manoeuvre, which we are using to hone our leading competitive edge and pursue our declared strategy of ensuring that the BMW Group remains the world's leading provider of premium products and premium services. Group profit before tax in 2013 should be on a similar scale to that reported for 2012.

Automotive segment in 2013

We forecast that the Automotive segment will continue to perform well in 2013 on the back of strong sales volume growth. We intend to forge ahead with continued investment in innovation, future technologies and the consistent internationalisation of our production network. Assuming economic conditions remain stable, we forecast single-digit sales volume growth for the Group and hence a new record for the current year.

We are again striving to achieve an EBIT margin within the target corridor of between 8 % and 10 % and a RoCE above 26 %. Depending on political and economic developments, however, results may be above or below the targeted levels. The financial position of our Automotive segment is also set to remain very strong in 2013.

Motorcycles segment in 2013

Thanks to its attractive and extremely youthful model range, we forecast further growth in sales volume for the BMW brand in 2013, with impetus also being generated by the full availability of the Scooter and the new R 1200 GS. Increased sales volumes in 2013 should result in higher revenues and earnings, compared to the situation in 2012 where earnings were negatively impacted by one-off higher expenses incurred in realigning the Group's motorcycle business.

Financial Services segment in 2013

We expect the Financial Services segment to continue growing and deliver another strong performance in 2013. Despite the positive impact of various measures taken to ease the debt crisis in Europe, the situation in southern Europe remains tense and uncertain. We are actively reducing our exposure to risks in these countries by rigorously applying appropriate risk management procedures. Based on the segment's performance at the beginning of the year, we forecast a further increase in the contract portfolio and a RoE of at least 18 %.

Residual value risks are expected to develop differently from region to region, remaining stable in growth markets and a source of concern in southern Europe. We also expect a small decline in market prices in the USA, Great Britain and Germany. An improvement in the credit risk situation will have a positive effect on business performance.

Outlook for 2014

Assuming economic conditions remain stable, the BMW Group will continue to grow in 2014. The financial position should also be very solid. New models will provide a further boost to sales volumes, producing a correspondingly favourable impact on revenues and earnings. We expect the Automotive segment will again achieve an EBIT margin within the desired target corridor of between 8 % and 10 % and a RoCE above 26 %. The Financial Services segment should continue to grow apace and continue increasing the size of its contract portfolio. The RoE target for the segment will remain unchanged at 18 %. However, actual returns will partially depend on political and economic developments worldwide.

GROUP FINANCIAL STATEMENTS

BMW Group
Income Statements for Group and Segments
Statement of Comprehensive Income for Group

Income Statements for Group and Segments

in € million

	Note	Group		Automotive (unaudited supplementary information)	
		2012	2011	**2012**	2011
Revenues	8	**76,848**	68,821	**70,208**	63,229
Cost of sales	9	**–61,354**	–54,276	**–56,525**	–50,164
Gross profit		**15,494**	**14,545**	**13,683**	**13,065**
Selling and administrative expenses	10	**–7,007**	–6,177	**–5,837**	–5,260
Other operating income	11	**829**	782	**673**	528
Other operating expenses	11	**–1,016**	–1,132	**–895**	–856
Profit / loss before financial result		**8,300**	**8,018**	**7,624**	**7,477**
Result from equity accounted investments	12	**271**	162	**271**	164
Interest and similar income	13	**753**	763	**620**	680
Interest and similar expenses	13	**–913**	–943	**–819**	–889
Other financial result	14	**–592**	–617	**–501**	–609
Financial result		**–481**	**–635**	**–429**	**–654**
Profit / loss before tax		**7,819**	**7,383**	**7,195**	**6,823**
Income taxes	15	**–2,697**	–2,476	**–2,458**	–1,832
Net profit / loss		**5,122**	**4,907**	**4,737**	**4,991**
Attributable to minority interest	33	**26**	26	**24**	25
Attributable to shareholders of BMW AG	33	**5,096**	**4,881**	**4,713**	**4,966**
Earnings per share of common stock in €	16	**7.77**	7.45		
Earnings per share of preferred stock in €	16	**7.79**	7.47		
Dilutive effects		**–**	–		
Diluted earnings per share of common stock in €	16	**7.77**	7.45		
Diluted earnings per share of preferred stock in €	16	**7.79**	7.47		

* Includes impact of exceptional items relating to the sale of the Husqvarna Group.

Statement of Comprehensive Income for Group

in € million

	Note	**2012**	2011
Net profit		**5,122**	**4,907**
Available-for-sale securities		**214**	–72
Financial instruments used for hedging purposes		**1,302**	–801
Exchange differences on translating foreign operations		**–123**	168
Actuarial losses on defined benefit pension obligations, similar obligations and plan assets	34	**–1,881**	–586
Deferred taxes relating to components of other comprehensive income		**49**	421
Other comprehensive income for the period (after tax) from equity accounted investments		**82**	–41
Other comprehensive income for the period after tax	19	**–357**	**–911**
Total comprehensive income		**4,765**	**3,996**
Total comprehensive income attributable to minority interests	33	**26**	26
Total comprehensive income attributable to shareholders of BMW AG	33	**4,739**	**3,970**

Motorcycles (unaudited supplementary information)		Financial Services (unaudited supplementary information)		Other Entities (unaudited supplementary information)		Eliminations (unaudited supplementary information)		
2012*	2011	**2012**	2011	**2012**	2011	**2012**	2011	
1,490	1,436	**19,550**	17,510	**5**	5	**–14,405**	–13,359	Revenues
–1,236	–1,207	**–16,984**	–15,013	**–**	–	**13,391**	12,108	Cost of sales
254	**229**	**2,566**	**2,497**	**5**	**5**	**–1,014**	**–1,251**	**Gross profit**
–181	–176	**–980**	–719	**–18**	–27	**9**	5	Selling and administrative expenses
8	2	**101**	74	**122**	249	**–75**	–71	Other operating income
–72	–10	**–129**	–89	**–51**	–246	**131**	69	Other operating expenses
9	**45**	**1,558**	**1,763**	**58**	**–19**	**–949**	**–1,248**	**Profit / loss before financial result**
–	–	**–**	–	**–**	–2	**–**	–	Result from equity accounted investments
8	8	**5**	5	**1,792**	1,739	**–1,672**	–1,669	Interest and similar income
–11	–12	**–9**	–15	**–1,758**	–1,841	**1,684**	1,814	Interest and similar expenses
–	–	**7**	37	**–98**	–45	**–**	–	Other financial result
–3	**–4**	**3**	**27**	**–64**	**–149**	**12**	**145**	Financial result
6	**41**	**1,561**	**1,790**	**–6**	**–168**	**–937**	**–1,103**	**Profit / loss before tax**
–22	–12	**–545**	–1,053	**5**	37	**323**	384	Income taxes
–16	**29**	**1,016**	**737**	**–1**	**–131**	**–614**	**–719**	**Net profit / loss**
–	–	**1**	–	**1**	1	**–**	–	Attributable to minority interest
–16	**29**	**1,015**	**737**	**–2**	**–132**	**–614**	**–719**	**Attributable to shareholders of BMW AG**
								Earnings per share of common stock in €
								Earnings per share of preferred stock in €
								Dilutive effects
								Diluted earnings per share of common stock in €
								Diluted earnings per share of preferred stock in €

BMW Group
Balance Sheets for Group and Segments at 31 December

Assets

in € million	Note	Group 2012	Group 2011	Automotive (unaudited supplementary information) 2012	Automotive (unaudited supplementary information) 2011
Intangible assets	21	**5,207**	5,238	**4,648**	4,682
Property, plant and equipment	22	**13,341**	11,685	**13,053**	11,444
Leased products	23	**24,468**	23,112	**128**	151
Investments accounted for using the equity method	24	**514**	302	**514**	281
Other investments	24	**548**	561	**4,789**	4,520
Receivables from sales financing	25	**32,309**	29,331	**–**	–
Financial assets	26	**2,148**	1,702	**759**	287
Deferred tax	15	**2,001**	1,926	**2,219**	2,276
Other assets	28	**800**	568	**3,859**	3,139
Non-current assets		**81,336**	**74,425**	**29,969**	**26,780**
Inventories	29	**9,725**	9,638	**9,366**	9,309
Trade receivables	30	**2,543**	3,286	**2,305**	3,014
Receivables from sales financing	25	**20,605**	20,014	**–**	–
Financial assets	26	**4,612**	3,751	**2,746**	2,307
Current tax	27	**966**	1,194	**775**	1,065
Other assets	28	**3,648**	3,345	**16,146**	15,333
Cash and cash equivalents	31	**8,370**	7,776	**7,484**	5,829
Assets held for sale	32	**45**	–	**–**	–
Current assets		**50,514**	**49,004**	**38,822**	**36,857**
Total assets		**131,850**	**123,429**	**68,791**	**63,637**

Equity and liabilities

in € million	Note	Group 2012	Group 2011	Automotive (unaudited supplementary information) 2012	Automotive (unaudited supplementary information) 2011
Subscribed capital	33	**656**	655		
Capital reserves	33	**1,973**	1,955		
Revenue reserves	33	**28,340**	26,102		
Accumulated other equity	33	**–674**	–1,674		
Equity attributable to shareholders of BMW AG	33	**30,295**	27,038		
Minority interest	33	**107**	65		
Equity		**30,402**	**27,103**	**28,105**	**26,154**
Pension provisions	34	**3,965**	2,183	**2,371**	811
Other provisions	35	**3,513**	3,149	**3,175**	2,840
Deferred tax	15	**3,040**	3,273	**451**	893
Financial liabilities	37	**39,095**	37,597	**1,775**	1,822
Other liabilities	38	**3,404**	2,911	**3,394**	3,289
Non-current provisions and liabilities		**53,017**	**49,113**	**11,166**	**9,655**
Other provisions	35	**3,282**	3,104	**2,641**	2,519
Current tax	36	**1,482**	1,363	**1,269**	1,188
Financial liabilities	37	**30,412**	30,380	**1,289**	1,468
Trade payables	39	**6,433**	5,340	**5,669**	4,719
Other liabilities	38	**6,792**	7,026	**18,652**	17,934
Liabilities in conjunction with assets held for sale	32	**30**	–	**–**	–
Current provisions and liabilities		**48,431**	**47,213**	**29,520**	**27,828**
Total equity and liabilities		**131,850**	**123,429**	**68,791**	**63,637**

Assets

	Motorcycles (unaudited supplementary information) 2012	2011	Financial Services (unaudited supplementary information) 2012	2011	Other Entities (unaudited supplementary information) 2012	2011	Eliminations (unaudited supplementary information) 2012	2011
Intangible assets	**72**	56	**486**	499	**1**	1	**–**	–
Property, plant and equipment	**242**	202	**46**	39	**–**	–	**–**	–
Leased products	**–**	–	**28,060**	25,900	**–**	–	**–3,720**	–2,939
Investments accounted for using the equity method	**–**	–	**–**	–	**–**	21	**–**	–
Other investments	**–**	–	**7**	8	**5,761**	5,727	**–10,009**	–9,694
Receivables from sales financing	**–**	–	**32,309**	29,331	**–**	–	**–**	–
Financial assets	**–**	–	**126**	67	**1,730**	1,883	**–467**	–535
Deferred tax	**–**	–	**279**	216	**381**	373	**–878**	–939
Other assets	**–**	–	**1,330**	1,185	**16,995**	15,384	**–21,384**	–19,140
Non-current assets	**314**	**258**	**62,643**	**57,245**	**24,868**	**23,389**	**–36,458**	**–33,247**
Inventories	**348**	318	**11**	11	**–**	–	**–**	–
Trade receivables	**114**	128	**123**	143	**1**	1	**–**	–
Receivables from sales financing	**–**	–	**20,605**	20,014	**–**	–	**–**	–
Financial assets	**–**	–	**813**	877	**1,480**	955	**–427**	–388
Current tax	**–**	–	**132**	78	**59**	51	**–**	–
Other assets	**31**	33	**3,573**	2,823	**30,285**	29,098	**–46,387**	–43,942
Cash and cash equivalents	**–**	3	**797**	1,518	**89**	426	**–**	–
Assets held for sale	**45**	–	**–**	–	**–**	–	**–**	–
Current assets	**538**	**482**	**26,054**	**25,464**	**31,914**	**30,531**	**–46,814**	**–44,330**
Total assets	**852**	**740**	**88,697**	**82,709**	**56,782**	**53,920**	**–83,272**	**–77,577**

Equity and liabilities

	Motorcycles (unaudited supplementary information) 2012	2011	Financial Services (unaudited supplementary information) 2012	2011	Other Entities (unaudited supplementary information) 2012	2011	Eliminations (unaudited supplementary information) 2012	2011
Subscribed capital								
Capital reserves								
Revenue reserves								
Accumulated other equity								
Equity attributable to shareholders of BMW AG								
Minority interest								
Equity	**–**	**–**	**7,631**	**7,169**	**8,361**	**6,576**	**–13,695**	**–12,796**
Pension provisions	**29**	44	**90**	52	**1,475**	1,276	**–**	–
Other provisions	**135**	114	**173**	164	**30**	31	**–**	–
Deferred tax	**–**	–	**4,777**	4,302	**5**	10	**–2,193**	–1,932
Financial liabilities	**–**	–	**14,174**	13,251	**23,613**	23,059	**–467**	–535
Other liabilities	**246**	383	**19,653**	17,172	**18**	27	**–19,907**	–17,960
Non-current provisions and liabilities	**410**	**541**	**38,867**	**34,941**	**25,141**	**24,403**	**–22,567**	**–20,427**
Other provisions	**114**	57	**289**	297	**235**	228	**3**	3
Current tax	**–**	–	**136**	78	**77**	97	**–**	–
Financial liabilities	**–**	–	**16,830**	16,160	**12,720**	13,141	**–427**	–389
Trade payables	**277**	125	**474**	481	**13**	15	**–**	–
Other liabilities	**21**	17	**24,470**	23,583	**10,235**	9,460	**–46,586**	–43,968
Liabilities in conjunction with assets held for sale	**30**	–	**–**	–	**–**	–	**–**	–
Current provisions and liabilities	**442**	**199**	**42,199**	**40,599**	**23,280**	**22,941**	**–47,010**	**–44,354**
Total equity and liabilities	**852**	**740**	**88,697**	**82,709**	**56,782**	**53,920**	**–83,272**	**–77,577**

BMW Group
Cash Flow Statements for Group and Segments

in € million	Note	Group 2012	Group 2011
Net profit		**5,122**	4,907
Reconciliation between net profit and cash inflow/outflow from operating activities			
Current tax		**2,908**	2,868
Other interest and similar income/expenses		**–4**	1
Depreciation and amortisation of other tangible, intangible and investment assets		**3,716**	3,654
Change in provisions		**446**	779
Change in leased products		**–1,421**	–379
Change in receivables from sales financing		**–3,988**	–2,837
Change in deferred taxes		**–211**	–338
Other non-cash income and expense items		**407**	148
Gain/loss on disposal of tangible and intangible assets and marketable securities		**–16**	–
Result from equity accounted investments		**–271**	–162
Changes in working capital		**1,755**	–1,615
Change in inventories		**–108**	–1,715
Change in trade receivables		**744**	–800
Change in trade payables		**1,119**	900
Change in other operating assets and liabilities		**–1,084**	1,175
Income taxes paid		**–2,462**	–2,701
Interest received		**179**	213
Cash inflow/outflow from operating activities	42	**5,076**	**5,713**
Investment in intangible assets and property, plant and equipment		**–5,236**	–3,679
Proceeds from the disposal of intangible assets and property, plant and equipment		**42**	53
Expenditure for investments		**–171**	–543
Net cash in acquiring ICL Group		**–**	–595
Proceeds from the disposal of investments		**107**	21
Cash payments for the purchase of marketable securities		**–1,265**	–2,073
Cash proceeds from the sale of marketable securities		**1,090**	1,317
Cash inflow/outflow from investing activities	42	**–5,433**	**–5,499**
Issue / Buy-back of treasury shares		**–**	–
Payments into equity		**19**	16
Payment of dividend for the previous year		**–1,516**	–852
Intragroup financing and equity transactions		**–**	–
Interest paid		**–102**	–82
Proceeds from the issue of bonds		**7,977**	5,899
Repayment of bonds		**–6,727**	–5,333
Change in other financial liabilities		**2,159**	191
Change in commercial paper		**–858**	248
Cash inflow/outflow from financing activities	42	**952**	**87**
Effect of exchange rate on cash and cash equivalents		**–14**	**–13**
Effect of changes in composition of Group on cash and cash equivalents	42	**13**	**56**
Change in cash and cash equivalents		**594**	**344**
Cash and cash equivalents as at 1 January		**7,776**	7,432
Cash and cash equivalents as at 31 December	42	**8,370**	**7,776**

[1] Adjusted for reclassifications as described in note 42.
[2] Interest relating to financial services business is classified as revenues/cost of sales.

Automotive (unaudited supplementary information)		Financial Services (unaudited supplementary information)		
2012	2011[1] (changed)	**2012**	2011[1] (changed)	
4,737	4,991	**1,016**	737	Net profit
				Reconciliation between net profit and cash inflow/outflow from operating activities
3,026	2,726	**–104**	86	Current tax
104	95	**–**[2]	10[2]	Other interest and similar income/expenses
3,679	3,564	**38**	20	Depreciation and amortisation of other tangible, intangible and investment assets
261	577	**–2**	–156	Change in provisions
23	29	**–2,256**	–1,311	Change in leased products
–	–	**–3,988**	–2,837	Change in receivables from sales financing
–386	–707	**497**	804	Change in deferred taxes
265	–79	**–13**	–9	Other non-cash income and expense items
–14	–	**–2**	1	Gain/loss on disposal of tangible and intangible assets and marketable securities
–271	–164	**–**	–	Result from equity accounted investments
1,622	–1,590	**18**	83	
–54	–1,685	**–**	–2	Change in inventories
722	–886	**19**	101	Change in trade receivables
954	981	**–1**	–16	Change in trade payables
–1,937	887	**743**	846	Change in other operating assets and liabilities
–2,191	–2,453	**–139**	–171	Income taxes paid
249	234	**–**[2]	–[2]	Interest received
9,167	**8,110**	**–4,192**	**–1,897**	**Cash inflow/outflow from operating activities**
–5,074	–3,565	**–37**	–25	Investment in intangible assets and property, plant and equipment
35	50	**7**	6	Proceeds from the disposal of intangible assets and property, plant and equipment
–384	–1,201	**–**	–	Expenditure for investments
–	–249	**–**	104	Net cash in acquiring ICL Group
65	21	**–**	–	Proceeds from the disposal of investments
–1,167	–1,866	**–97**	–113	Cash payments for the purchase of marketable securities
995	1,085	**95**	232	Cash proceeds from the sale of marketable securities
–5,530	**–5,725**	**–32**	**204**	**Cash inflow/outflow from investing activities**
–	–	**–**	–	Issue/Buy-back of treasury shares
19	16	**–**	–	Payments into equity
–1,516	–852	**–**	–	Payment of dividend for the previous year
–833	–1,666	**1,505**	–1,021	Intragroup financing and equity transactions
–157	–244	**–**[2]	–[2]	Interest paid
–	–	**1,189**	653	Proceeds from the issue of bonds
–	–	**–842**	–925	Repayment of bonds
508	316	**1,653**	3,229	Change in other financial liabilities
–4	299	**–**	–	Change in commercial paper
–1,983	**–2,131**	**3,505**	**1,936**	**Cash inflow/outflow from financing activities**
–11	**–10**	**–3**	**–6**	**Effect of exchange rate on cash and cash equivalents**
12	**–**	**1**	**54**	**Effect of changes in composition of Group on cash and cash equivalents**
1,655	**244**	**–721**	**291**	**Change in cash and cash equivalents**
5,829	5,585	**1,518**	1,227	Cash and cash equivalents as at 1 January
7,484	**5,829**	**797**	**1,518**	**Cash and cash equivalents as at 31 December**

BMW Group
Group Statement of Changes in Equity

in € million	Note	Subscribed capital	Capital reserves	Revenue reserves: Pension obligations	Revenue reserves: Other revenue reserves
31 December 2010	33	**655**	**1,939**	**–1,785**	**24,277**
Dividends paid		–	–	–	–852
Net profit		–	–	–	4,881
Other comprehensive income for the period after tax		–	–	–419	–
Comprehensive income 31 December 2011		**–**	**–**	**–419**	**4,881**
Premium arising on capital increase relating to preferred stock		–	16	–	–
Other changes		–	–	–	–
31 December 2011	33	**655**	**1,955**	**–2,204**	**28,306**

in € million	Note	Subscribed capital	Capital reserves	Revenue reserves: Pension obligations	Revenue reserves: Other revenue reserves
31 December 2011	33	**655**	**1,955**	**–2,204**	**28,306**
Dividends paid		–	–	–	–1,508
Net profit		–	–	–	5,096
Other comprehensive income for the period after tax		–	–	–1,350	–
Comprehensive income 31 December 2012		**–**	**–**	**–1,350**	**5,096**
Subscribed share capital increase out of Authorised Capital		1	–	–	–
Premium arising on capital increase relating to preferred stock		–	18	–	–
Other changes		–	–	–	–
31 December 2012	33	**656**	**1,973**	**–3,554**	**31,894**

Accumulated other equity: Translation differences	Accumulated other equity: Securities	Accumulated other equity: Derivative financial instruments	Accumulated other equity: Pension obligations	Treasury shares	Equity attributable to shareholders of BMW AG	Minority interest	**Total**	
–1,064	**9**	**–127**	**–**	**–**	**23,904**	**26**	**23,930**	**31 December 2010**
–	–	–	–	–	–852	–	**–852**	Dividends paid
–	–	–	–	–	4,881	26	**4,907**	Net profit
201	–70	–623	–	–	–911	–	**–911**	Other comprehensive income for the period after tax
201	**–70**	**–623**	**–**	**–**	**3,970**	**26**	**3,996**	**Comprehensive income 31 December 2011**
–	–	–	–	–	16	–	**16**	Premium arising on capital increase relating to preferred stock
–	–	–	–	–	–	13	**13**	Other changes
–863	**–61**	**–750**	**–**	**–**	**27,038**	**65**	**27,103**	**31 December 2011**

Accumulated other equity: Translation differences	Accumulated other equity: Securities	Accumulated other equity: Derivative financial instruments	Accumulated other equity: Pension obligations	Treasury shares	Equity attributable to shareholders of BMW AG	Minority interest	**Total**	
–863	**–61**	**–750**	**–**	**–**	**27,038**	**65**	**27,103**	**31 December 2011**
–	–	–	–	–	–1,508	–	**–1,508**	Dividends paid
–	–	–	–	–	5,096	26	**5,122**	Net profit
–128	169	952	–	–	–357	–	**–357**	Other comprehensive income for the period after tax
–128	**169**	**952**	**–**	**–**	**4,739**	**26**	**4,765**	**Comprehensive income 31 December 2012**
–	–	–	–	–	1	–	**1**	Subscribed share capital increase out of Authorised Capital
–	–	–	–	–	18	–	**18**	Premium arising on capital increase relating to preferred stock
7	–	–	–	–	7	16	**23**	Other changes
–984	**108**	**202**	**–**	**–**	**30,295**	**107**	**30,402**	**31 December 2012**

1 — Basis of preparation

The consolidated financial statements of Bayerische Motoren Werke Aktiengesellschaft (BMW Group Financial Statements or Group Financial Statements) at 31 December 2012 have been drawn up in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the EU. The designation "IFRSs" also includes all valid International Accounting Standards (IASs). All Interpretations of the IFRS Interpretations Committee (IFRICs) mandatory for the financial year 2012 are also applied.

The Group Financial Statements comply with § 315a of the German Commercial Code (HGB). This provision, in conjunction with the Regulation (EC) No. 1606/2002 of the European Parliament and Council of 19 July 2002, relating to the application of International Financial Reporting Standards, provides the legal basis for preparing consolidated financial statements in accordance with international standards in Germany and applies to financial years beginning on or after 1 January 2005.

The BMW Group and segment income statements are presented using the cost of sales method. The Group and segment balance sheets correspond to the classification provisions contained in IAS 1 (Presentation of Financial Statements).

In order to improve clarity, various items are aggregated in the income statement and balance sheet. These items are disclosed and analysed separately in the notes.

A Statement of Comprehensive Income is presented at Group level reconciling the net profit to comprehensive income for the year.

In order to provide a better insight into the net assets, financial position and performance of the BMW Group and going beyond the requirements of IFRS 8 (Operating Segments), the Group Financial Statements also include balance sheets and income statements for the Automotive, Motorcycles, Financial Services and Other Entities segments. The Group Cash Flow Statement is supplemented by statements of cash flows for the Automotive and Financial Services segments. This supplementary information is unaudited.

In order to facilitate the sale of its products, the BMW Group provides various financial services – mainly loan and lease financing – to both retail customers and dealers. The inclusion of the financial services activities of the Group therefore has an impact on the Group Financial Statements.

Inter-segment transactions – relating primarily to internal sales of products, the provision of funds and the related interest – are eliminated in the "Eliminations" column. Further information regarding the allocation of activities of the BMW Group to segments and a description of the segments is provided in note 48.

In conjunction with the refinancing of financial services business, a significant volume of receivables arising from retail customer and dealer financing is sold. Similarly, rights and obligations relating to leases are sold. The sale of receivables is a well-established instrument used by industrial companies. These transactions usually take the form of asset-backed financing transactions involving the sale of a portfolio of receivables to a trust which, in turn, issues marketable securities to refinance the purchase price. The BMW Group continues to "service" the receivables and receives an appropriate fee for these services. In accordance with IAS 27 (Consolidated and Separate Financial Statements) and Interpretation SIC-12 (Consolidation – Special Purpose Entities) such assets remain in the Group Financial Statements although they have been legally sold. Gains and losses relating to the sale of such assets are not recognised until the assets are removed from the Group balance sheet on transfer of the related significant risks and rewards. At €9.4 billion, the balance sheet value of assets sold at 31 December 2012 was unchanged from one year earlier.

In addition to credit financing and leasing contracts, the Financial Services segment also brokers insurance business via cooperation arrangements entered into with local insurance companies. These activities are not material to the BMW Group as a whole.

The Group currency is the euro. All amounts are disclosed in millions of euros (€ million) unless stated otherwise.

Bayerische Motoren Werke Aktiengesellschaft has its seat in Munich, Petuelring 130, and is registered in the Commercial Register of the District Court of Munich under the number HRB 42243.

All consolidated subsidiaries have the same year-end as BMW AG with the exception of BMW India Private Ltd., New Delhi, and BMW India Financial Services Private Ltd., New Delhi, both of whose year-ends are 31 March.

The Group Financial Statements, drawn up in accordance with § 315a HGB, and the Combined Group and Company Management Report for the financial year ended 31 December 2012 will be submitted to the operator of the electronic version of the German Federal Gazette and can be obtained via the Company Register website. Printed copies will also be made available on request. In addition the Group Financial Statements and the Combined Group and Company Management Report can be downloaded from the BMW Group website at www.bmwgroup.com/ir.

The Board of Management authorised the Group Financial Statements for issue on 19 February 2013.

2 Consolidated companies

The BMW Group Financial Statements include, besides BMW AG, all material subsidiaries, four special purpose securities funds and 26 special purpose trusts (almost all used for asset-backed financing transactions).

The number of subsidiaries – including special purpose securities funds and other special purpose trusts – consolidated in the Group Financial Statements changed in 2012 as follows:

	Germany	Foreign	**Total**
Included at 31 December 2011	26	160	**186**
Included for the first time in 2012	1	13	**14**
No longer included in 2012	3	9	**12**
Included at 31 December 2012	**24**	**164**	**188**

51 subsidiaries (2011: 48), either dormant or generating a negligible volume of business, are not consolidated on the grounds that their inclusion would not influence the economic decisions of users of the Group Financial Statements. Non-inclusion of operating subsidiaries reduces total Group revenues by 0.9 % (2011: 0.7 %).

The joint ventures SGL Automotive Carbon Fibers GmbH & Co. KG, Munich, SGL Automotive Carbon Fibers Verwaltungs GmbH, Munich, and SGL Automotive Carbon Fibers LLC, Dover, DE, as well as BMW Brilliance Automotive Ltd., Shenyang, are accounted for using the equity method. Similarly, the joint ventures DriveNow GmbH & Co. KG, Munich, and DriveNow Verwaltungs GmbH, Munich, are accounted for using the equity method. In accordance with an agreement dated 24 October 2012, BMW Holding B.V., The Hague, acquired from Peugeot Citroën Automobiles S. A., Vélizy-Villacoublay, that entity's investment in BMW Peugeot Citroën Electrification B.V., The Hague, with effect from 30 November 2012 and the joint venture arrangements accordingly terminated. BMW Peugeot Citroën Electrification B.V., The Hague, and its subsidiary, BMW Peugeot Citroën Electrification GmbH, Munich, are not consolidated on the grounds of immateriality. Cirquent GmbH, Munich, which had previously been accounted for using the equity method, was sold in 2012. Four (2011: 18) participations are not consolidated using the equity method on the grounds of immateriality. They are included in the balance sheet in the line "Other investments", measured at cost less, where applicable, accumulated impairment losses.

A "List of Group Investments" pursuant to § 313 (2) HGB will be submitted to the operator of the electronic version of the German Federal Gazette. This list, along with the "List of Third Party Companies which are not of Minor Importance for the Group", will also be posted on the BMW Group website at www.bmwgroup.com/ir. The List of Group Investments, the List of Third Party Companies which are not of Minor Importance for the Group and the full list of consolidated companies are also posted as appendices on the BMW Group website.

PT BMW Indonesia, Jakarta, BMW China Services Ltd., Beijing, BMW India Financial Services Private Ltd., New

Delhi, BMW Osaka Corp., Osaka, BMW Receivables 1 Inc., Whitby, BMW Receivables 2 Inc., Whitby, and BMW Receivables Limited Partnership, Whitby, were consolidated for the first time in the financial year 2012.

The following mergers took place during the financial year 2012: Alphabet B.V., Rijswijk, with Alphabet Nederland B.V., Breda; Alphabet Belgium Short Term Rental N.V., Aartselaar, with Alphabet Belgium Long Term Rental N.V., Aartselaar; ETS Garcia S. A., Paris, with BMW France S. A., Montigny-le-Bretonneux; Alphabet Italia S. p. A., Milan with Alphabet Italia Fleet Management S. p. A., Rome; and Alphabet Fleet Services España S. L., Madrid, with Alphabet España Fleet Management S. A. U., Madrid. As a result of these mergers Alphabet B.V., Rijswijk, Alphabet Belgium Short Term Rental N.V., Aartselaar, ETS Garcia S. A., Paris, Alphabet Italia S. p. A., Milan, and Alphabet Fleet Services España S. L., Madrid, ceased to be consolidated companies. Furthermore, BMW Overseas Enterprises N.V., Willemstad, was wound up and ceased to be a consolidated company.

The group reporting entity also changed by comparison to the previous year as a result of the first-time consolidation of six special purpose trusts and one special purpose securities fund and the deconsolidation of three special purpose trusts and three special purpose securities funds.

3 — Consolidation principles

The equity of subsidiaries is consolidated in accordance with IFRS 3 (Business Combinations). IFRS 3 requires that all business combinations are accounted for using the acquisition method, whereby identifiable assets and liabilities acquired are measured at their fair value at acquisition date. An excess of acquisition cost over the Group's share of the net fair value of identifiable assets, liabilities and contingent liabilities is recognised as goodwill as a separate balance sheet line item and allocated to the relevant cash-generating unit (CGU). Goodwill of €91 million which arose prior to 1 January 1995 remains netted against reserves.

Receivables, payables, provisions, income and expenses and profits between consolidated companies (intragroup profits) are eliminated on consolidation.

Under the equity method, investments are measured at the BMW Group's share of equity taking account of fair value adjustments. Any difference between the cost of investment and the Group's share of equity is accounted for in accordance with the acquisition method. Investments in other companies are accounted for as a general rule using the equity method when significant influence can be exercised (IAS 28 Investments in Associates). As a general rule, there is a rebuttable assumption that the Group has significant influence if it holds between 20 % and 50 % of the associated company's voting power.

4 — Foreign currency translation

The financial statements of consolidated companies which are drawn up in a foreign currency are translated using the functional currency concept (IAS 21 The Effects of Changes in Foreign Exchange Rates) and the modified closing rate method. The functional currency of a subsidiary is determined as a general rule on the basis of the primary economic environment in which it operates and corresponds therefore usually to the relevant local currency. Income and expenses of foreign subsidiaries are translated in the Group Financial Statements at the average exchange rate for the year, and assets and liabilities are translated at the closing rate. Exchange differences arising from the translation of shareholders' equity are offset directly against accumulated other equity. Exchange differences arising from the use of different exchange rates to translate the income statement are also offset directly against accumulated other equity.

Foreign currency receivables and payables in the single entity accounts of BMW AG and subsidiaries are recorded, at the date of the transaction, at cost. At the end of the reporting period, foreign currency receivables and payables are translated at the closing exchange rate. The resulting unrealised gains and losses as well as the subsequent realised gains and losses arising on settlement are recognised in the income statement in accordance with the underlying substance of the relevant transactions.

The exchange rates of those currencies which have a material impact on the Group Financial Statements were as follows:

	Closing rate		Average rate	
	31.12.2012	31.12.2011	**2012**	2011
US Dollar	**1.32**	1.30	**1.29**	1.39
British Pound	**0.81**	0.84	**0.81**	0.87
Chinese Renminbi	**8.23**	8.17	**8.11**	9.00
Japanese Yen	**114.10**	100.15	**102.63**	111.00
Russian Rouble	**40.41**	41.69	**39.91**	40.88

5 **Accounting policies**

The financial statements of BMW AG and of its subsidiaries in Germany and elsewhere have been prepared for consolidation purposes using uniform accounting policies in accordance with IAS 27 (Consolidated and Separate Financial Statements).

Revenues from the sale of products are recognised when the risks and rewards of ownership of the goods are transferred to the dealer or customer, provided that the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and costs incurred or to be incurred in respect of the sale can be measured reliably. Revenues are stated net of settlement discount, bonuses and rebates. Revenues also include lease rentals and interest income earned in conjunction with financial services. Revenues from leasing instalments relate to operating leases and are recognised in the income statement on a straight line basis over the relevant term of the lease. Interest income from finance leases and from customer and dealer financing are recognised using the effective interest method and reported as revenues within the line item "Interest income on loan financing". If the sale of products includes a determinable amount for subsequent services (multiple-component contracts), the related revenues are deferred and recognised as income over the relevant service period. Amounts are normally recognised as income by reference to the pattern of related expenditure.

Profits arising on the sale of vehicles for which a Group company retains a repurchase commitment (buy-back contracts) are not recognised until such profits have been realised. The vehicles are included in inventories and stated at cost.

Cost of sales comprises the cost of products sold and the acquisition cost of purchased goods sold. In addition to directly attributable material and production costs, it also includes research costs and development costs not recognised as assets, the amortisation of capitalised development costs as well as overheads (including depreciation of property, plant and equipment and amortisation of other intangible assets relating to production) and write-downs on inventories. Cost of sales also includes freight and insurance costs relating to deliveries to dealers and agency fees on direct sales. Expenses which are directly attributable to financial services business and interest expense from refinancing the entire financial services business, including the expense of risk provisions and write-downs, are reported in cost of sales.

In accordance with IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance), **public sector grants** are not recognised until there is reasonable assurance that the conditions attaching to them have been complied with and the grants will be received. They are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate.

Basic earnings per share are computed in accordance with IAS 33 (Earnings per Share). Undiluted earnings per share are calculated for common and preferred stock by dividing the net profit after minority interests, as attributable to each category of stock, by the average number of outstanding shares. The net profit is accordingly allocated to the different categories of stock. The portion of the Group net profit for the year which is not being distributed is allocated to each category of stock based on the number of outstanding shares. Profits available for distribution are determined directly on the basis of the dividend resolutions passed for common and preferred stock. Diluted earnings per share would have to be disclosed separately.

Share-based remuneration programmes which are expected to be settled in shares are, in accordance with IFRS 2 (Share-based Payments), measured at their fair value at grant date. The related expense is recognised in the income statement (as personnel expense) over the vesting period, with a contra (credit) entry recorded against capital reserves.

Share-based remuneration programmes expected to be settled in cash are revalued to their fair value at each balance sheet date between the grant date and the settlement date (and on the settlement date itself). The expense for such programmes is recognised in the income statement (as personnel expense) over the vesting period of the programmes and recognised in the balance sheet as a provision.

The share-based remuneration programme for Board of Management members and senior heads of department entitles BMW AG to elect whether to settle its commitments in cash or with shares of BMW AG common stock. Following the decision to settle in cash, this programme is accounted for as a cash-settled share-based transaction.

Further information on share-based remuneration programmes is provided in note 18.

Purchased and internally-generated **intangible assets** are recognised as assets in accordance with IAS 38 (Intangible Assets), where it is probable that the use of the asset will generate future economic benefits and where the costs of the asset can be determined reliably. Such assets are measured at acquisition and/or manufacturing cost and, to the extent that they have a finite useful life, amortised over their estimated useful lives. With the exception of capitalised development costs, intangible assets are generally amortised over their estimated useful lives of between three and five years.

Development costs for vehicle and engine projects are capitalised at manufacturing cost, to the extent that attributable costs can be measured reliably and both technical feasibility and successful marketing are assured. It must also be probable that the development expenditure will generate future economic benefits. Capitalised development costs comprise all expenditure that can be attributed directly to the development process, including development-related overheads. Capitalised development costs are amortised systematically over the estimated product life (usually four to eleven years) following start of production.

Goodwill arises on first-time consolidation of an acquired business when the cost of acquisition exceeds the Group's share of the fair value of the individually identifiable assets acquired and liabilities and contingent liabilities assumed.

All items of **property, plant and equipment** are considered to have finite useful lives. They are recognised at acquisition or manufacturing cost less scheduled depreciation based on the estimated useful lives of the assets. Depreciation on property, plant and equipment reflects the pattern of their usage and is generally computed using the straight-line method. Components of items of property, plant and equipment with different useful lives are depreciated separately.

Systematic depreciation is based on the following useful lives, applied throughout the BMW Group:

in years	
Factory and office buildings, distribution facilities and residential buildings	8 to 50
Plant and machinery	4 to 21
Other equipment, factory and office equipment	3 to 10

For machinery used in multiple-shift operations, depreciation rates are increased to account for the additional utilisation.

The cost of internally constructed plant and equipment comprises all costs which are directly attributable to the manufacturing process and an appropriate proportion of production-related overheads. This includes production-related depreciation and an appropriate proportion of administrative and social costs.

As a general rule, borrowing costs are not included in acquisition or manufacturing cost. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are recognised as a part of the cost of that asset in accordance with IAS 23 (Borrowing Costs).

Non-current assets also include assets relating to **leases**. The BMW Group uses property, plant and equipment as lessee on the one hand and leases out vehicles produced by the Group and other brands as lessor on the other. IAS 17 (Leases) contains rules for determining, on the basis of risks and rewards, the economic owner of the assets. In the case of finance leases, the assets are attributed to the lessee and in the case of operating leases the assets are attributed to the lessor.

In accordance with IAS 17, assets leased under finance leases are measured at their fair value at the inception of the lease or at the present value of the lease payments, if lower. The assets are depreciated using the straight-line method over their estimated useful lives or over the lease period, if shorter. The obligations for future lease instalments are recognised as financial liabilities.

Where Group products are recognised by BMW Group entities as **leased products** under operating leases, they are measured at manufacturing cost. All other leased products are measured at acquisition cost. All leased products are depreciated over the period of the lease using the straight-line method down to their expected residual value. Changes in residual value expectations are recognised – in situations where the recoverable amount of the lease exceeds the carrying amount of the asset – by adjusting scheduled depreciation prospectively over the remaining term of the lease contract. If the recoverable amount is lower than the expected residual value, an impairment loss is recognised for the shortfall. A test is carried out at each balance sheet date to determine whether an impairment loss recognised in prior years no longer exists or has decreased. In these cases, the carrying amount of the asset is increased to the recoverable amount. The higher carrying amount resulting from the reversal may not, however, exceed the rolled-forward amortised cost of the asset.

If there is any evidence of **impairment of non-financial assets** (except inventories and deferred taxes), or if an annual impairment test is required to be carried out – i.e. for intangible assets not yet available for use, intangible assets with an indefinite useful life and goodwill acquired as part of a business combination – an impairment test pursuant to IAS 36 (Impairment of Assets) is performed. Each individual asset is tested separately unless the asset generates cash flows that are largely independent of the cash flows from other assets or groups of assets (cash-generating units/CGUs). For the purposes of the impairment test, the asset's carrying amount is compared with its recoverable amount, the latter defined as the higher of the asset's fair value less costs to sell and its value in use. An impairment loss is recognised when the recoverable amount is lower than the asset's carrying amount. Fair value less costs to sell corresponds to the amount obtainable from the sale of an asset or groups of assets, less the costs of disposal. The value in use corresponds to the present value of future cash flows expected to be derived from an asset or groups of assets.

The first step of the impairment test is to determine the value in use of an asset. If the calculated value in use is lower than the carrying amount of the asset, then its fair value less costs to sell are also determined. If the latter is also lower than the carrying amount of the asset, then an impairment loss is recorded, reducing the carrying amount to the higher of the asset's value in use or fair value less costs to sell. The value in use is determined on the basis of a present value computation. Cash flows used for the purposes of this calculation are derived from long-term forecasts approved by management and which cover a planning period of six years. The long-term forecasts themselves are based on detailed forecasts drawn up at an operational level. For the purposes of calculating cash flows beyond the planning period, the asset's assumed residual value does not take growth into account. Forecasting assumptions are continually brought up to date and take account of economic developments and past experience. Cash flows of the Automotive and Motorcycles CGUs are discounted using a risk-adjusted pre-tax cost of capital (WACC) of 12.0 % (2011: 12.0 %). In the case of Financial Services CGU, a sector-compatible pre-tax cost of equity capital of 13.4 % (2011: 12.7 %) is applied.

If the reason for a previously recognised impairment loss no longer exists, the impairment loss is reversed up to the level of the recoverable amount, capped at the level of rolled-forward amortised cost. This does not apply to goodwill: previously recognised impairment losses on goodwill are not reversed.

Investments accounted for using the equity method are (except when the investment is impaired) measured at the Group's share of equity taking account of fair value adjustments on acquisition. Investments accounted for using the equity method comprise joint ventures and significant associated companies.

Investments in non-consolidated Group companies and interests in associated companies not accounted for using the equity method are reported as **Other investments** and measured at cost or, if lower, at their fair value.

Participations are measured at their quoted market price or fair value. When, in individual cases, these values are not available or cannot be determined reliably, participations are measured at cost.

Non-current marketable securities are measured according to the category of financial asset to which they are classified. No held-for-trading financial assets are included under this heading.

A **financial instrument** is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Once the BMW Group becomes party to such to a contract, the financial instrument is recognised either as a financial asset or as a financial liability.

Financial assets are accounted for on the basis of the settlement date. On initial recognition, they are measured at their fair value. Transaction costs are included in the fair value unless the financial assets are allocated to the category "financial assets measured at fair value through profit or loss".

Subsequent to initial recognition, available-for-sale and held-for-trading financial assets are measured at their fair value. When market prices are not available, the fair value of available-for-sale financial assets is measured using appropriate valuation techniques e.g. discounted cash flow analysis based on market information available at the balance sheet date.

Available-for-sale assets include non-current investments, securities and investment fund shares. This category includes all non-derivative financial assets which are not classified as "loans and receivables" or "held-to-maturity investments" or as items measured "at fair value through profit and loss".

Loans and receivables which are not held for trading and held-to-maturity financial investments with a fixed term are measured at amortised cost using the effective interest method. All financial assets for which published price quotations in an active market are not available and whose fair value cannot be determined reliably are required to be measured at cost.

In accordance with IAS 39 (Financial Instruments: Recognition and Measurement), assessments are made regularly as to whether there is any objective evidence that a financial asset or group of assets may be impaired. Impairment losses identified after carrying out an impairment test are recognised as an expense. Gains and losses on available-for-sale financial assets are recognised directly in equity until the financial asset is disposed of or is determined to be impaired, at which time the cumulative loss previously recognised in equity is reclassified to profit or loss for the period.

With the exception of derivative financial instruments, all **receivables** and **other current assets** relate to loans and receivables which are not held for trading. All such items are measured at amortised cost. Receivables with maturities of over one year which bear no or a lower-than-market interest rate are discounted. Appropriate impairment losses are recognised to take account of all identifiable risks.

Receivables from sales financing comprise receivables from retail customer, dealer and lease financing.

Impairment losses on receivables relating to financial services business are recognised using a uniform methodology that is applied throughout the Group and meets the requirements of IAS 39. This methodology results in the recognition of impairment losses both on individual assets and on groups of assets. If there is objective evidence of impairment, the BMW Group recognises impairment losses on the basis of individual assets. Within the retail customer business, the existence of overdue balances or the incidence of similar events in the past are examples of such objective evidence. In the event of overdue receivables, impairment losses are always recognised individually based on the length of period of the arrears. In the case of dealer financing receivables, the allocation of the dealer to a corresponding rating category is also deemed to represent objective evidence of impairment. If there is no objective evidence of impairment, impairment losses are recognised on financial assets using a portfolio approach based on similar groups of assets. Company-specific loss probabilities and loss ratios, derived from historical data, are used to measure impairment losses on similar groups of assets.

The recognition of impairment losses on receivables relating to industrial business is also, as far as possible, based on the same procedures applied to financial services business.

Impairment losses (write-downs and allowances) on receivables are always recorded on separate accounts and derecognised at the same time the corresponding receivables are derecognised.

Items are presented as **financial assets** to the extent that they relate to financing transactions.

Derivative financial instruments are only used within the BMW Group for hedging purposes in order to reduce currency, interest rate, fair value and market price risks from operating activities and related financing requirements. All derivative financial instruments (such as interest, currency and combined interest/currency swaps, forward currency and forward commodity contracts) are measured in accordance with IAS 39 at their fair value, irrespective of their purpose or the intention for which they are held. The fair values of derivative financial instruments are measured using market information and recognised valuation techniques. In those cases where hedge accounting is applied, changes in fair value are recognised either in income or directly in equity under accumulated other equity, depending on whether the transactions are classified as fair value hedges or cash flow hedges. In the case of fair value hedges, the results of the fair value measurement of the derivative financial instruments and the related hedged items are recognised in the income statement. In the case of fair value changes in cash flow hedges which are used to mitigate the future cash flow risk on a recognised asset or liability or on forecast transactions, unrealised gains and losses on the hedging instrument are recognised initially directly in accumulated other equity. Any such gains or losses are recognised subsequently in the income statement when the hedged item (usually external revenue) is recognised in the income statement. The portion of the gains or losses from fair value measurement not relating to the hedged item is recognised immediately in the income statement. If, contrary to the normal case within the BMW Group, hedge accounting cannot be applied, the gains or losses from the fair value measurement of derivative financial instruments are recognised immediately in the income statement.

In accordance with IAS 12 (Income Taxes), **deferred taxes** are recognised on all temporary differences between the tax and accounting bases of assets and liabilities and on consolidation procedures. Deferred tax assets also include claims to future tax reductions which arise from the expected usage of existing tax losses available for carryforward to the extent that future usage is probable. Deferred taxes are computed using enacted or planned tax rates which are expected to apply in the relevant national jurisdictions when the amounts are recovered.

Inventories of raw materials, supplies and goods for resale are stated at the lower of average acquisition cost and net realisable value.

Work in progress and finished goods are stated at the lower of average manufacturing cost and net realisable value. Manufacturing cost comprises all costs which are directly attributable to the manufacturing process and an appropriate proportion of production-related overheads. This includes production-related depreciation and an appropriate proportion of administrative and social costs.

Borrowing costs are not included in the acquisition or manufacturing cost of inventories.

Cash and cash equivalents comprise mainly cash on hand and cash at bank with an original term of up to three months.

Assets held for sale and **disposal groups held for sale** are presented separately in the balance sheet in accordance with IFRS 5, if the carrying amount of the relevant assets will be recovered principally through a sale transaction rather than through continuing use. This situation only arises if the assets can be sold immediately in their present condition, the sale is expected to be completed within one year from the date of classification and the sale is highly probable. At the date of classification, property, plant and equipment, intangible assets and disposal groups which are being held for sale are written down to the lower of their carrying amount and their fair value less costs to sell and scheduled depreciation/amortisation ceases. This does not apply, however, to items within the disposal group which are not covered by the measurement rules contained in IFRS 5. Simultaneously, liabilities directly related to the sale are presented separately on the equity and liabilities side of the balance sheet as "**Liabilities in conjunction with assets held for sale**".

Provisions for pensions and similar obligations are recognised using the projected unit credit method in accordance with IAS 19 (Employee Benefits). Under this method, not only obligations relating to known vested benefits at the reporting date are recognised, but also the effect of future increases in pensions and salaries. This involves taking account of various input factors which are evaluated on a prudent basis. The calculation is based on an independent actuarial valuation which takes into account all relevant biometric factors.

Actuarial gains and losses arising on defined benefit pension and similar obligations and on plan assets are recognised, net of deferred tax, directly in equity (revenue reserves). This accounting treatment is meant to make it clear that these amounts will not be reclassified to the income statement in future periods.

The expense related to the reversal of discounting on pension obligations and the income from the expected return on pension plan assets are reported separately as part of the financial result. All other costs relating to allocations to pension provisions are allocated to costs by function in the income statement.

Other provisions are recognised when the BMW Group has a present obligation arising from past events, the settlement of which is probable and when a reliable estimate can be made of the amount of the obligation. Measurement is computed on the basis of fully attributable costs. Non-current provisions with a remaining period of more than one year are discounted to the present value of the expenditures expected to settle the obligation at the end of the reporting period.

Financial liabilities are measured on first-time recognition at cost which corresponds to the fair value of the consideration given. Transaction costs are also taken into account except for financial liabilities allocated to the category "financial liabilities measured at fair value through profit or loss". Subsequent to initial recognition, liabilities are – with the exception of derivative financial instruments – measured at amortised cost using the effective interest method. The BMW Group has no liabilities which are held for trading. Liabilities from finance leases are stated at the present value of the future lease payments and disclosed under other financial liabilities.

6 — **Assumptions, judgements and estimations**

The preparation of the Group Financial Statements in accordance with IFRSs requires management to make certain **assumptions and judgements** and to use **estimations** that can affect the reported amounts of assets and liabilities, revenues and expenses and contingent liabilities. Judgements have to be made in particular when assessing whether the risks and rewards incidental to ownership of a leased asset have been transferred and, hence, the classification of leasing arrangements. Major items requiring assumptions and estimations are described below. The assumptions used are continuously checked for their validity. Actual amounts could differ from the assumptions and estimations used if business conditions develop differently to the Group's expectations.

Estimations are required to assess the **recoverability of a cash-generating unit (CGU)**. If the recoverability of an asset is being tested at the level of a CGU, assumptions must be made with regard to future cash inflows and outflows, involving in particular an assessment of the forecasting period to be used and of developments after that period. Forecasting assumptions are determined by management in order to calculate future cash flows, including assumptions about future macroeconomic developments, market developments relevant for the automotive sector and the legal environment.

The BMW Group regularly checks the **recoverability of its leased products**. One of the main assumptions required for leased products relates to their residual value since this represents a significant portion of future cash inflows. In order to estimate the level of prices likely to be achieved in the future, the BMW Group incorporates internally available historical data, current market data and forecasts of external institutions into its calculations. Internal back-testing is applied to validate the estimations made. Further information is provided in note 23.

The bad debt risk relating to **receivables from sales financing** is assessed regularly by the BMW Group. For these purposes, the main factors taken into consideration are past experience, current market data (such as the level of financing business arrears), rating classes and scoring information. Further information is provided in note 25.

The **disposal of an asset** or of a **disposal group** pursuant to IFRS 5 is considered to be highly probable by the BMW Group if management is committed to a sales plan, an active programme to locate a buyer has begun, the price offered is reasonable in relation to the fair value of the asset/disposal group concerned and it is expected at the date of classification that the final negotiations with the buyer and completion of the sale will take place within one year. Further details can be found in note 32.

Estimations are required for the purposes of recognising and measuring **provisions for guarantee and warranty obligations**. In addition to statutorily prescribed manufacturer warranties, the BMW Group also offers various categories of guarantee depending on the product and sales market concerned. Provisions for guarantee and warranty obligations are recognised at the beginning of a lease or sales contract or when a new category of guarantee is introduced. Various factors are taken into consideration when estimating the level of the provision, including past experience with the nature and amount of claims as well as an assessment of future potential repair and maintenance costs. Further information is provided in note 35.

In the event of involvement in legal proceedings or when claims are brought against a Group entity, **provisions**

for litigation and liability risks are recognised when an outflow of resources is probable and a reliable estimate can be made of the amount of the obligation. Management is required to make assumptions with respect to the probability of occurrence, the amount involved and the duration of the legal dispute. For these reasons, the recognition and measurement of provisions for litigation and liability risks are subject to uncertainty. Further information is provided in note 35.

The calculation of **pension provisions** requires assumptions to be made with regard to discount factors, salary trends, employee fluctuation, the life expectancy of employees and the expected rate of return on plan assets. Discount factors are determined annually by reference to market yields at the end of the reporting period on high quality corporate bonds. A company-specific default risk is not taken into account. The salary level trend refers to the expected rate of salary increase which is estimated annually depending on inflation and the career development of employees within the Group. The expected rate of return on plan assets is based on market expectations prevailing at the beginning of the reporting period for investment income over the remaining period of the obligation and is determined for the relevant asset classes in which plan assets are invested, taking account of costs and unplanned risks. Further information is provided in note 34.

The calculation of **deferred tax assets** requires assumptions to be made with regard to the level of future taxable income and the timing of recovery of deferred tax assets. These assumptions take account of forecast operating results and the impact on earnings of the reversal of taxable temporary differences. Since future business developments cannot be predicted with certainty and to some extent cannot be influenced by the BMW Group, the measurement of deferred tax assets is subject to uncertainty. Further information is provided in note 15.

7 — New financial reporting rules

(a) Financial reporting rules applied for the first time in the financial year 2012

The following revised Standard was applied for the first time in the financial year 2012.

Standard		Date of issue by IASB	Date of mandatory application IASB	Endorsed by the EU	Expected impact on BMW Group
IFRS 7	Disclosure Requirements in the Event of the Transfer of Financial Assets	7.10.2010	1.7.2011*	1.7.2011*	Insignificant

* Mandatory application in annual periods beginning on or after 1 July 2011.

(b) Financial reporting pronouncements issued by the IASB, but not yet applied

The following Standards, Revised Standards and Amendments issued by the IASB during previous accounting periods, were not mandatory for the period under report and were not applied in the financial year 2012:

Standard / Interpretation		Date of issue by IASB	Date of mandatory application IASB	Date of mandatory application EU	Expected impact on BMW Group
IFRS 1	Amendments with Respect to Fixed Transition Dates and Severe Inflation	20.12.2010	1.7.2011	1.1.2013	None
	Amendments relating to Government Loans at a Below Market Rate of Interest	13.3.2012	1.1.2013	No	None

Standard / Interpretation		Date of issue by IASB	Date of mandatory application IASB	Date of mandatory application EU	Expected impact on BMW Group
IFRS 7	Notes Disclosures: Offsetting of Financial Assets and Financial Liabilities	16.12.2011	1.1.2013	1.1.2013	Insignificant
IFRS 9	Financial Instruments	12.11.2009 / 28.10.2010 / 16.12.2011	1.1.2015	No	Significant in principle
IFRS 10	Consolidated Financial Statements	12.5.2011	1.1.2013	1.1.2014	Significant in principle
IFRS 11	Joint Arrangements	12.5.2011	1.1.2013	1.1.2014	Significant in principle
IFRS 12	Disclosure of Interests in Other Entities	12.5.2011	1.1.2013	1.1.2014	Significant in principle
	Changes in Transitional Regulations (IFRS 10, IFRS 11 and IFRS 12)	28.6.2012	1.1.2013	No	Significant in principle
	Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)	31.10.2012	1.1.2014	No	Insignificant
IFRS 13	Fair Value Measurement	12.5.2011	1.1.2013	1.1.2013	Significant in principle
IAS 1	Changes to Presentation of Items in Other Comprehensive Income (OCI)	16.6.2011	1.7.2012	1.7.2012*	Significant in principle
IAS 12	Amendments to Deferred Taxes: Realisation of Underlying Assets	20.12.2010	1.1.2012	1.1.2013	Insignificant
IAS 19	Changes in Accounting for Employee Benefits, in particular for Termination Benefits and Pensions	16.6.2011	1.1.2013	1.1.2013	Significant in principle
IAS 27	Separate Financial Statements	12.5.2011	1.1.2013	1.1.2014	None
IAS 28	Investments in Associates and Joint Ventures	12.5.2011	1.1.2013	1.1.2014	None
IAS 32	Presentation – Offsetting of Financial Assets and Financial Liabilities	16.12.2011	1.1.2014	1.1.2014	Insignificant
IFRIC 20	Stripping Costs in the Production Phase of a Mine	19.10.2011	1.1.2013	1.1.2013	None
	Annual Improvements to IFRS 2009–2011	17.5.2012	1.1.2013	No	Insignificant

* Mandatory application in annual periods beginning on or after 1 July 2012.

In November 2009 the IASB issued IFRS 9 (Financial Instruments: Disclosures) as the first part of its project to change the accounting treatment for financial instruments. This Standard marks the first of three phases of the IASB project to replace the existing IAS 39 (Financial Instruments: Recognition and Measurement). The first phase deals with financial assets. IFRS 9 amends the recognition and measurement requirements for financial assets, including various hybrid contracts. It applies a uniform approach to accounting for a financial asset either at amortised cost or fair value and replaces the various rules contained in IAS 39. Under the new rules, there will only be two, instead of four, measurement categories for financial instruments recognised on the assets side of the balance sheet. The new categorisation is based partly on the entity's business model and partly on the contractual cash flow characteristics of the financial assets.

In October 2010, additional rules for financial liabilities were added. The requirements for financial liabilities contained in IAS 39 remain unchanged with the exception of new requirements relating to an entity's own credit risk when it exercises the fair value option. IFRS 9 is mandatory for financial years beginning on or after 1 January 2015. The BMW Group will not apply IFRS 9 early. The impact of adoption of the Standard on the Group Financial Statements is currently being assessed.

In May 2011 the IASB issued three new Standards – IFRS 10 (Consolidated Financial Statements), IFRS 11 (Joint Arrangements), IFRS 12 (Disclosure of Interests in Other Entities) – as well as amendments to IAS 27 (Consolidated and Separate Financial Statements) and to IAS 28 (Investments in Associates) all relating to accounting for business combinations. The Standards are mandatory for the first time for annual periods beginning on or after 1 January 2013. Early adoption is permitted. The new Standards are required to be applied retrospectively. EU endorsement stipulates a later mandatory date (from 1 January 2014) due to increased implementation expense.

IFRS 10 replaces the consolidation guidelines contained in IAS 27 and SIC-12 (Consolidation – Special Purpose Entities). The requirements for separate financial statements remain unchanged in the revised version of IAS 27.

IFRS 10 introduces a uniform model which establishes control as the basis for consolidation – control of a subsidiary entity by a parent entity – and which can be applied to all entities. The control concept must therefore be applied both to parent-subsidiary relationships based on voting rights as well as to parent-subsidiary relationships arising from other contractual arrangements. Under the control concept established in IFRS 10, an investor controls another entity when it is exposed to or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

IFRS 11 supersedes IAS 31 (Interests in Joint Ventures) and SIC-13 (Jointly Controlled Entities – Non-Monetary Contributions by Ventures). This Standard sets out the requirements for accounting for joint arrangements and places the emphasis on the rights and obligations that arise from such arrangements. IFRS 11 distinguishes between two types of joint arrangements, namely joint operations and joint ventures, and therefore results in a change in the classification of joint arrangements. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. IFRS 11 requires joint operators to account for their share of assets and liabilities in the joint operation (and their share of income and expenses). Joint venturers are required to account for their investment using the equity method. The withdrawal of IAS 31 means the removal of the option to account for joint ventures using either the proportionate consolidation or the equity method. The equity method must be applied in accordance with amended IAS 28.

IFRS 12 sets out the requirements for disclosures relating to all types on interests in other entities, including joint arrangements, associated companies, structured entities and unconsolidated entities.

The amendments to the transitional regulations in IFRS 10, IFRS 11 and IFRS 12 have the objective of making it easier for entities to apply the Standards retrospectively. The amendments also restrict the requirement to disclose comparative amounts to the immediately preceding reporting period at the date of first-time application.

The BMW Group is currently investigating the impact on the Group Financial Statements of applying IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28. The removal of the option for accounting for joint ventures does not have any impact since the BMW Group accounts for joint ventures using the equity method. It is currently being investigated whether any joint ventures will be required to be reclassified as joint operations as a result of the introduction of IFRS 11. The BMW Group does not intend to adopt the Standard early.

In May 2011 the IASB published IFRS 13 (Fair Value Measurement). IFRS 13 defines the term fair value, sets out the requirements for measuring fair value where another IFRS prescribes fair value measurement (or fair value disclosure) and stipulates uniform disclosure requirements with respect to fair value measurement. IFRS 13 is mandatory for financial years beginning on or after 1 January 2013. The Standard is required to be applied prospectively. Early adoption is permitted but will not be applied by the BMW Group. IFRS 13 is of relevance for the BMW Group in particular for the measurement of derivatives.

The IASB published IAS 1 (Presentation of Financial Statements) in June 2011. The amendments to IAS 1 require that items reported in accumulated other equity (other comprehensive income or OCI) are sub-divided into elements that will be "recycled" in the income statement and those which will not. Tax associated with items presented before tax are also required to be shown separately for each of the two groups of OCI items. The recognition of these items is regulated in separate Standards. The amendments to IAS 1 are mandatory for annual periods beginning on or after 1 July 2012. The amendments are required to be applied retrospectively. Early adoption is permitted but will not be applied by the BMW Group. It is not expected that the change in presentation of items in OCI will have a significant impact on the Group Financial Statements.

In June 2011 the IASB published amendments to IAS 19 (Employee Benefits), in particular in relation to post-retirement benefits and pensions. The main amendments involve the removal of the option to defer actuarial gains and losses (the so-called "corridor method") and the requirement to recognise actuarial gains and losses in OCI. The amended IAS 19 also requires plan assets to be discounted using the same rate that is applied to discount pension obligations. It also results in changes in the treatment of termination benefits and expands disclosure requirements compared to the previous IAS 19. The amended IAS 19 is mandatory for annual periods beginning on or after 1 January 2013. Early adoption is permitted. The BMW Group does not expect that the amendments to IAS 19 will have a significant impact on the Group Financial Statements, since the BMW Group does not apply the corridor method and actuarial gains and losses are already recognised in OCI. The BMW Group does not intend to adopt the Standard early.

The IASB has published various other Standards and Interpretations. None of these, whether adopted or not yet adopted by the BMW Group, will have a significant impact on the Group Financial Statements.

8 — Revenues

Revenues by activity comprise the following:

in € million	2012	2011
Sales of products and related goods	58,039	52,331
Income from lease instalments	6,900	5,628
Sale of products previously leased to customers	6,399	6,226
Interest income on loan financing	2,954	2,774
Other income	2,556	1,862
Revenues	**76,848**	**68,821**

An analysis of revenues by business segment and geographical region is shown in the segment information in note 48.

9 — Cost of sales

Cost of sales comprises:

in € million	2012	2011
Manufacturing costs	37,648	33,594
Research and development expenses	3,993	3,610
Warranty expenditure	1,200	918
Cost of sales directly attributable to financial services	13,370	11,723
Interest expense relating to financial services business	1,819	1,914
Expense for risk provisions and write-downs for financial services business	798	431
Other cost of sales	2,526	2,086
Cost of sales	**61,354**	**54,276**

Cost of sales include €15,987 million (2011: €14,068 million) relating to financial services business.

As in the previous year, manufacturing costs do not contain any impairment losses on intangible assets and property, plant and equipment. Cost of sales is reduced by public-sector subsidies in the form of reduced taxes on assets and reduced consumption-based taxes amounting to €45 million (2011: €47 million).

Total research and development expenditure, comprising research expenses, development costs not recognised as assets on the one hand and capitalised development costs and the scheduled amortisation thereof on the other, was as follows:

in € million	2012	2011
Research and development expenses	3,993	3,610
Amortisation	–1,130	–1,209
New expenditure for capitalised development costs	1,089	972
Total research and development expenditure	**3,952**	**3,373**

10 — Selling and administrative expenses

Selling expenses amounted to €5,147 million (2011: €4,554 million) and comprise mainly marketing, advertising and sales personnel costs.

Administrative expenses amounted to €1,860 million (2011: €1,623 million) and comprise expenses for administration not attributable to development, production or sales functions.

11 — Other operating income and expenses

in € million	2012	2011
Exchange gains	385	535
Income from the reversal of provisions	114	71
Income from the reversal of impairment losses and write-downs	4	14
Gains on the disposal of assets	41	14
Sundry operating income	285	148
Other operating income	**829**	**782**
Exchange losses	–386	–537
Expense for additions to provisions	–309	–391
Expenses for impairment losses and write-downs	–22	–36
Losses on the disposal of fixed assets	–38	–17
Sundry operating expenses	–261	–151
Other operating expenses	**–1,016**	**–1,132**
Other operating income and expenses	**–187**	**–350**

Other operating income includes public-sector grants of €19 million (2011: €13 million).

12 — Result from equity accounted investments

The profit from equity accounted investments amounted to €271 million (2011: €162 million) and includes the results from the BMW Group's interests in the joint ventures BMW Brilliance Automotive Ltd., Shenyang, SGL Automotive Carbon Fibers GmbH & Co. KG, Munich, SGL Automotive Carbon Fibers Verwaltungs GmbH, Munich, SGL Automotive Carbon Fibers LLC, Dover, DE, DriveNow GmbH & Co. KG, Munich, and DriveNow Verwaltungs GmbH, Munich. Similarly, the BMW Group's share of the joint venture BMW Peugeot Citroën Electrification B.V., The Hague, are also included in the result from equity accounted investments up to the date of termination of the joint venture arrangements.

13 — Net interest result

in € million	2012	2011
Expected return on plan assets relating to pension plans and pre-retirement part-time work arrangements	539	531
Other interest and similar income	214	232
— thereof from subsidiaries: € 19 million (2011: € 13 million)		
Interest and similar income	**753**	**763**
Expense from reversing the discounting of pension obligations	–628	–594
Expense from reversing the discounting of other long-term provisions	–74	–110
Write-downs on marketable securities	–	–4
Other interest and similar expenses	–211	–235
— thereof to subsidiaries: €– 7 million (2011: € – 5 million)		
Interest and similar expenses	**–913**	**–943**
Net interest result	**–160**	**–180**

The expected return on plan assets includes the expected income on assets used to secure obligations relating to pension plans and pre-retirement part-time work arrangements.

14 — Other financial result

in € million	2012	2011
Income from investments	5	1
— thereof from subsidiaries: € 1 million (2011: € 1 million)		
Impairment losses on investments in subsidiaries and participations	–175	–8
Income from reversal of impairment losses on investments in subsidiaries and participations	–	–
Result on investments	**–170**	**–7**
Losses and gains relating to financial instruments	–422	–610
Sundry other financial result	**–422**	**–610**
Other financial result	**–592**	**–617**

The result on investments in 2012 was negatively impacted by an impairment loss recognised on investments amounting to €166 million.

The negative sundry other financial result was largely attributable to net fair value losses on stand-alone commodity and currency derivatives.

15 — Income taxes

Taxes on income comprise the following:

in € million	2012	2011
Current tax expense	2,908	2,868
Deferred tax income	–211	–392
Income taxes	**2,697**	**2,476**

Current tax expense includes €128 million (2011: €201 million) relating to prior periods.

Deferred tax income of €724 million (2011: income of €352 million) is attributable to new temporary differences arising in 2012 and the reversal of temporary differences brought forward.

Tax expense was reduced by €5 million (2011: €12 million) as a result of utilising tax losses/tax credits brought forward for which deferred assets had not previously been recognised.

The change in the valuation allowance on deferred tax assets relating to tax losses available for carryforward and temporary differences resulted in a tax expense of €3 million (2011: expense of €6 million).

Deferred taxes are computed using enacted or planned tax rates which are expected to apply in the relevant national jurisdictions when the amounts are recovered.

A uniform corporation tax rate of 15.0 % plus solidarity surcharge of 5.5 % applies in Germany, giving a tax rate of 15.8 %. After taking account of an average municipal trade tax multiplier rate (Hebesatz) of 420.0 %, the municipal trade tax rate for German entities is 14.7 %. The overall income tax rate in Germany is therefore 30.5 %. All of these German tax rates are unchanged from the previous year. Deferred taxes for non-German entities are calculated on the basis of the relevant country-specific tax rates and remained in a range of between 12.5 % and 46.9 % in the financial year 2012. Changes in tax rates resulted in a deferred tax expense of €21 million in 2012 (2011: €36 million).

The actual tax expense for the financial year 2012 of €2,697 million (2011: €2,476 million) is €312 million (2011: €224 million) higher than the expected tax expense of €2,385 million (2011: €2,252 million) which would theoretically arise if the tax rate of 30.5 %, applicable for German companies, was applied across the Group.

The difference between the expected and actual tax expense is explained in the following **reconciliation**:

in € million	2012	2011
Profit before tax	**7,819**	7,383
Tax rate applicable in Germany	**30.5%**	30.5%
Expected tax expense	**2,385**	**2,252**
Variances due to different tax rates	**–56**	–70
Tax increases (+)/tax reductions (–) as a result of non-taxable income and non-deductible expenses	**302**	59
Tax expense (+)/benefits (–) for prior periods	**128**	201
Other variances	**–62**	34
Actual tax expense	**2,697**	**2,476**
Effective tax rate	**34.5%**	33.5%

Tax increases as a result of non-tax-deductible expenses relate mainly to the impact of non-recoverable withholding taxes on intragroup dividends and transfer price issues. Decreases in taxes due to tax-exempt income amounted to €89 million (2011: €104 million).

The net expense shown in the line “Tax expense/benefits for prior periods” relates primarily to appropriate provision recognised for tax field audit issues and is lower than the net expense reported in the previous year.

The line “Other variances” comprises primarily reconciling items relating to the Group’s share of results of equity accounted investments.

The allocation of deferred taxes tax assets and liabilities to **balance sheet line items** at 31 December is shown in the following table:

	Deferred tax assets		Deferred tax liabilities	
in € million	2012	2011	2012	2011
Intangible assets	**5**	2	**1,356**	1,341
Property, plant and equipment	**37**	44	**260**	273
Leased products	**441**	476	**5,837**	5,794
Investments	**11**	6	**11**	1
Other assets	**1,067**	1,098	**3,497**	3,186
Tax loss carryforwards	**923**	1,452	**–**	–
Provisions	**3,253**	2,601	**60**	46
Liabilities	**2,984**	2,714	**350**	389
Eliminations	**2,729**	2,389	**626**	590
	11,450	**10,782**	**11,997**	**11,620**
Valuation allowance	**–492**	–509	**–**	–
Netting	**–8,957**	–8,347	**–8,957**	–8,347
Deferred taxes	**2,001**	**1,926**	**3,040**	**3,273**
Net			**1,039**	1,347

Deferred tax assets on tax loss carryforwards and capital losses before allowances totalled €923 million (2011: €1,452 million). After valuation allowances of €492 million (2011: €509 million), their carrying amount stood at €431 million (2011: €943 million).

Tax **losses available for carryforward** – for the most part usable without restriction – decreased to €1.3 billion (2011: €2.6 billion). This includes an amount of €92 million (2011: €58 million), for which a valuation allowance of €27 million (2011: €17 million) was recognised on the related deferred tax asset. For entities with tax losses available for carryforward, a net surplus of deferred tax assets over deferred tax liabilities is reported at 31 December 2012 amounting to €204 million (2011: €568 million). Deferred tax assets are recognised on the basis of management's assessment of whether it is probable that the relevant entities will generate sufficient future taxable profits, against which deductible temporary differences can be offset.

Capital losses available for carryforward in the United Kingdom which do not relate to ongoing operations amounted to €2.0 billion at the end of the reporting period, unchanged from one year earlier. As in previous years, deferred tax assets recognised on these tax losses – amounting to €465 million at 31 December 2012 after tax rate changes in 2012 (2011: €492 million) – were fully written down since they can only be utilised against future capital gains.

"Netting" relates to the offset of deferred tax assets and liabilities within individual separate entities or tax groups to the extent that they relate to the same tax authorities.

Deferred taxes recognised directly in **equity** amounted to €1,222 million (2011: €1,202 million), an increase of €20 million (2011: €446 million) compared to the end of the previous year. The change in 2012 includes a reduction in deferred taxes recognised in conjunction with currency translation amounting to €3 million (2011: increase of €17 million).

Changes in deferred tax assets and liabilities during the reporting period can be summarised as follows:

in € million	2012	2011
Deferred taxes at 1 January	**1,347**	2,007
Deferred tax income/expense recognised through income statement	**–211**	–392
Change in deferred taxes recognised directly in equity	**–23**	–429
Exchange rate impact and other changes[1,2]	**–74**	161
Deferred taxes at 31 December	**1,039**	**1,347**

[1] 2011: including €87 million resulting from the purchase of the ICL Group
[2] Including impact of first-time consolidations

Changes in deferred taxes include changes relating to items recognised either through the income statement or directly in equity as well as the impact of exchange rate and first-time consolidations. Net deferred liabilities decreased overall by €23 million (2011: €429 million). On the one hand they were increased by €498 million (2011: decreased by €274 million) due to the fair value measurement of derivative financial instruments and marketable securities, shown in the summary above in the line items "Other assets" and "Liabilities". They were reduced on the other hand by €521 million (2011: €155 million) due to changes in actuarial gains and losses on defined pension obligations and plan assets recognised directly in equity. These amounts are shown in the summary above in the line item "Provisions".

Deferred taxes are not recognised on retained profits of €24.8 billion (2011: €20.7 billion) of foreign subsidiaries, as it is intended to invest these profits to maintain and expand the business volume of the relevant companies. A computation was not made of the potential impact of income taxes on the grounds of disproportionate expense.

The tax returns of BMW Group entities are checked regularly by German and foreign tax authorities. Taking account of a variety of factors – including existing interpretations, commentaries and legal decisions taken relating to the various tax jurisdictions and the BMW Group's past experience – adequate provision has, as far as identifiable, been made for potential future tax obligations.

16 — Earnings per share

		2012	2011
Net profit for the year after minority interest	€ million	**5,096.2**	4,880.9
Profit attributable to common stock	€ million	**4,678.8**	4,483.9
Profit attributable to preferred stock	€ million	**417.4**	397.0
Average number of common stock shares in circulation	number	**601,995,196**	601,995,196
Average number of preferred stock shares in circulation	number	**53,571,312**	53,163,232
Earnings per share of common stock	€	**7.77**	7.45
Earnings per share of preferred stock	€	**7.79**	7.47
Dividend per share of common stock	€	**2.50**	2.30
Dividend per share of preferred stock	€	**2.52**	2.32

Earnings per share of preferred stock are computed on the basis of the number of preferred stock shares entitled to receive a dividend in each of the relevant financial years. As in the previous year, diluted earnings per share correspond to undiluted earnings per share.

17 — Other disclosures relating to the income statement

The income statement includes personnel expenses as follows:

in € million	2012	2011
Wages and salaries	**7,086**	6,399
Social security, retirement and welfare costs	**1,449**	1,340
— thereof pension costs: €857 million (2011: €789 million)		
Personnel expenses	**8,535**	**7,739**

Personnel expenses include €59 million (2011: €70 million) of expenditure incurred to adjust the workforce size.

The average number of employees during the year was:

	2012	2011
Employees	**95,748**	91,168
Apprentices and students gaining work experience	**6,484**	5,942
	102,232	**97,110**

The number of employees at the end of the reporting period is disclosed in the Combined Group and Company Management Report.

The fee expense pursuant to § 314 (1) no. 9 HGB recognised in the financial year 2012 for the Group auditors amounted to €26 million (2011: €22 million) and consists of the following:

in € million	2012	2011
Audit of financial statements	**14**	13
thereof KPMG AG Wirtschaftsprüfungsgesellschaft	3	3
Other attestation services	**4**	2
thereof KPMG AG Wirtschaftsprüfungsgesellschaft	2	1
Tax advisory services	**6**	5
thereof KPMG AG Wirtschaftsprüfungsgesellschaft	3	3
Other services	**2**	2
thereof KPMG AG Wirtschaftsprüfungsgesellschaft	–	1
Fee expense	**26**	**22**
thereof KPMG AG Wirtschaftsprüfungsgesellschaft	8	8

The total fee comprises expenses recorded by BMW AG, Munich, and all consolidated subsidiaries.

The fee expense shown for KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, relates only to services provided on behalf of BMW AG, Munich, and its German subsidiaries.

18 — Share-based remuneration

The BMW Group operates three share-based remuneration schemes, namely the Employee Share Scheme (for entitled employees), share-based commitments to members of the Board of Management members and share-based commitments to senior heads of department.

In the case of the Employee Share Scheme, non-voting shares of preferred stock in BMW AG were granted to qualifying employees during the financial year 2012 at favourable conditions (see note 33 for the number and price of issued shares). The holding period for these shares is up to 31 December 2015. The BMW Group recorded a personnel expense of €5 million (2011: €5 million) for the Employee Share Scheme in 2012, corresponding to the difference between the market price and the reduced price of the shares of preferred stock purchased by employees. The Board of Management reserves the right to decide anew each year with respect to an Employee Share Scheme.

For financial years beginning after 1 January 2011, BMW AG added a share-based remuneration component to the compensation system for Board of Management members.

Each Board of Management member is required to invest 20 % of his/her total bonus (after tax) in shares of BMW AG common stock, which are recorded in a separate custodian account for each member concerned (annual tranche). Each annual tranche is subject to a holding period of four years (vesting period). Once the holding period is fulfilled, BMW AG grants one additional share of BMW AG common stock for each three held or, at its discretion, pays the equivalent amount in cash (share-based remuneration component) provided that the term of office has not been terminated before the end of the agreed contract period (except in the case of death or invalidity).

With effect from the financial year 2012, qualifying senior heads of department are also entitled to opt for a share-based remuneration component, which, in most respects, is comparable to the share-based remuneration arrangements for Board of Management members.

The share-based remuneration component is measured at its fair value at each balance sheet date between grant and settlement date, and on the settlement date itself. The appropriate amounts are recognised as personnel expense on a straight-line basis over the vesting period and reported in the balance sheet as a provision.

The cash-settlement obligation for the share-based remuneration component is measured at its fair value at the balance sheet date (based on the closing price of BMW AG common stock in Xetra trading at 31 December 2012).

The total carrying amount of the provision for the share-based remuneration component of Board of Management members and senior heads of department at 31 December 2012 was €657,276 (2011: €115,114).

The total expense recognised in 2012 for the share-based remuneration component of Board of Management members and senior heads of department was €542,162 (2011: €115,114).

The fair value of the two programmes at the grant date of the share-based remuneration components was €1,379,723 (2011: €668,854), based on a total of 22,915 shares (2011: 11,945 shares) of BMW AG common stock or a corresponding cash-based settlement measured at the relevant market shares price prevailing on the grant date.

Further details on the remuneration of the Board of Management are provided in the 2012 Compensation Report, which is part of the Combined Group and Company Management Report.

19 — Disclosures relating to total comprehensive income

Other comprehensive income for the period after tax comprises the following:

in € million	2012	2011
Available-for-sale securities		
Gains/losses in the period	**174**	–64
Amounts reclassified to income statement	**40**	–8
	214	**–72**
Financial instruments used for hedging purposes		
Gains/losses in the period	**770**	–733
Amounts reclassified to income statement	**532**	–68
	1,302	**–801**
Exchange differences on translating foreign operations	**–123**	168
Actuarial losses on defined benefit pension obligations, similar obligations and plan assets	**–1,881**	–586
Deferred taxes relating to components of other comprehensive income	**49**	421
Other comprehensive income for the period after tax from equity accounted investments	**82**	–41
Other comprehensive income for the period after tax	**–357**	**–911**

Deferred taxes on components of other comprehensive income are as follows:

in € million	2012			2011		
	Before tax	Deferred taxes	After tax	Before tax	Deferred taxes	After tax
Available-for-sale securities	**214**	**–45**	**169**	–72	2	–70
Financial instruments used for hedging purposes	**1,302**	**–437**	**865**	–801	252	–549
Exchange differences on translating foreign operations	**–123**	**–**	**–123**	168	–	168
Actuarial losses on defined benefit pension obligations, similar obligations and plan assets	**–1,881**	**531**	**–1,350**	–586	167	–419
Other comprehensive income relating to equity accounted investments	**111**	**–29**	**82**	–66	25	–41
Other comprehensive income	**-377**	**20**	**-357**	**–1,357**	**446**	**–911**

20 — Analysis of changes in Group tangible, intangible and investment assets 2012

in € million	Acquisition and manufacturing cost 1.1.2012[1]	Translation differences	Additions	Reclassifications	Disposals	31.12.2012
Development costs	8,393	–	1,089	–	994	**8,488**
Goodwill	374	–	–	–	–	**374**
Other intangible assets	1,040	–3	123	3	156	**1,007**
Intangible assets	**9,807**	**–3**	**1,212**	**3**	**1,150**	**9,869**
Land, titles to land, buildings, including buildings on third party land	7,776	–26	366	74	24	**8,166**
Plant and machinery	25,625	–24	1,311	407	517	**26,802**
Other facilities, factory and office equipment	2,170	–11	218	21	86	**2,312**
Advance payments made and construction in progress	992	–8	2,133	–504	8	**2,605**
Property, plant and equipment	**36,563**	**–69**	**4,028**	**–2**	**635**	**39,885**
Leased products	**31,956**	**–74**	**13,297**	**–1**	**11,883**	**33,295**
Investments accounted for using the equity method	**302**	**–**	**350**	**–13**	**125**	**514**
Investments in non-consolidated subsidiaries	221	–1	89	13	117	**205**
Participations	501	–	70	–	–	**571**
Non-current marketable securities	–	–	–	–	–	**–**
Other investments	**722**	**–1**	**159**	**13**	**117**	**776**

[1] Including impact of first-time consolidations
[2] Including assets under construction of €2,205 million

Analysis of changes in Group tangible, intangible and investment assets 2011

in € million	Acquisition and manufacturing cost 1.1.2011[1]	Acquisition ICL Group	Translation differences	Additions	Reclassifications	Disposals	31.12.2011
Development costs	9,147	–	–	972	–	1,727	**8,392**
Goodwill	116	258	–	–	–	–	**374**
Other intangible assets	796	153	5	122	41	78	**1,039**
Intangible assets	**10,059**	**411**	**5**	**1,094**	**41**	**1,805**	**9,805**
Land, titles to land, buildings, including buildings on third party land	7,571	19	47	90	48	17	**7,758**
Plant and machinery	24,166	–	79	1,483	464	567	**25,625**
Other facilities, factory and office equipment	2,143	16	9	163	12	183	**2,160**
Advance payments made and construction in progress	700	–	3	862	–565	8	**992**
Property, plant and equipment	**34,580**	**35**	**138**	**2,598**	**–41**	**775**	**36,535**
Leased products	**26,449**	**5,072**	**343**	**11,252**	**–**	**11,160**	**31,956**
Investments accounted for using the equity method	**212**	**–**	**–**	**113**	**–**	**23**	**302**
Investments in non-consolidated subsidiaries	251	–	2	54	–	85	**222**
Participations	12	–	–	489	–	–	**501**
Non-current marketable securities	–	–	–	–	–	–	**–**
Other investments	**263**	**–**	**2**	**543**	**–**	**85**	**723**

[1] Including the net cost of property, plant and equipment of entities consolidated for the first time (excluding the ICL Group)
[2] Including assets under construction of €718 million

Depreciation and amortisation								Carrying amount		
1.1.2012[1]	Translation differences	Current year	Reclassifications	Changes not effecting net income	Disposals	Reversal of impairment losses	**31.12. 2012**	**31.12. 2012**	31.12. 2011	
4,004	–	1,130	–	–	993	–	**4,141**	**4,347**	4,388	Development costs
5	–	–	–	–	–	–	**5**	**369**	369	Goodwill
558	–2	113	2	–	155	–	**516**	**491**	481	Other intangible assets
4,567	**–2**	**1,243**	**2**	**–**	**1,148**	**–**	**4,662**	**5,207**	**5,238**	**Intangible assets**
3,433	–9	251	–	–	11	–	**3,664**	**4,502**	4,335	Land, titles to land, buildings, including buildings on third party land
19,728	–20	1,886	–	–	497	–	**21,097**	**5,705**	5,896	Plant and machinery
1,706	–9	161	–2	–	74	–	**1,782**	**530**	463	Other facilities, factory and office equipment
1	–	–	–	–	–	–	**1**	**2,604**[2]	991	Advance payments made and construction in progress
24,868	**–38**	**2,298**	**–2**	**–**	**582**	**–**	**26,544**	**13,341**	**11,685**	**Property, plant and equipment**
8,843	**–10**	**4,239**	**–**	**–**	**4,245**	**–**	**8,827**	**24,468**	**23,112**	**Leased products**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**514**	**302**	**Investments accounted for using the equity method**
90	–	9	–	–	41	–	**58**	**147**	132	Investments in non-consolidated subsidiaries
72	–	166	–	–68	–	–	**170**	**401**	429	Participations
–	–	–	–	–	–	–	**–**	**–**	–	Non-current marketable securities
162	**–**	**175**	**–**	**–68**	**41**	**–**	**228**	**548**	**561**	**Other investments**

Depreciation and amortisation									Carrying amount		
1.1.2011	Acquisition ICL Group	Translation differences	Current year	Reclassifications	Changes not effecting net income	Disposals	Reversal of impairment losses	**31.12. 2011**	**31.12. 2011**	31.12. 2010	
4,522	–	–	1,209	–	–	1,727	–	**4,004**	**4,388**	4,625	Development costs
5	–	–	–	–	–	–	–	**5**	**369**	111	Goodwill
501	10	4	113	8	–	78	–	**558**	**481**	295	Other intangible assets
5,028	**10**	**4**	**1,322**	**8**	**–**	**1,805**	**–**	**4,567**	**5,238**	**5,031**	**Intangible assets**
3,186	4	20	224	1	–	12	–	**3,423**	**4,335**	4,385	Land, titles to land, buildings, including buildings on third party land
18,235	–	62	1,961	4	–	533	–	**19,729**	**5,896**	5,931	Plant and machinery
1,731	8	9	139	–13	–	177	–	**1,697**	**463**	412	Other facilities, factory and office equipment
1	–	–	–	–	–	–	–	**1**	**991**[2]	699	Advance payments made and construction in progress
23,153	**12**	**91**	**2,324**	**–8**	**–**	**722**	**–**	**24,850**	**11,685**	**11,427**	**Property, plant and equipment**
7,361	**1,687**	**83**	**3,770**	**–**	**–**	**4,056**	**1**	**8,844**	**23,112**	**19,088**	**Leased products**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**302**	**212**	**Investments accounted for using the equity method**
82	–	–	8	–	–	–	–	**90**	**132**	169	Investments in non-consolidated subsidiaries
4	–	–	–	–	68	–	–	**72**	**429**	8	Participations
–	–	–	–	–	–	–	–	**–**	**–**	–	Non-current marketable securities
86	**–**	**–**	**8**	**–**	**68**	**–**	**–**	**162**	**561**	**177**	**Other investments**

21 — Intangible assets

Intangible assets mainly comprise capitalised development costs on vehicle and engine projects as well as subsidies for tool costs, licences, purchased development projects, software and purchased customer bases. Amortisation on intangible assets is presented in cost of sales, selling expenses and administrative expenses.

In addition, intangible assets include a brand-name right amounting to €44 million (2011: €43 million), goodwill of €33 million (2011: €33 million) allocated to the Automotive cash-generating unit (CGU) and goodwill of €336 million (2011: €336 million) allocated to the Financial Services CGU.

Intangible assets amounting to €44 million (2011: €43 million) are subject to restrictions on title.

As in the previous year, there was no requirement to recognise impairment losses or reversals of impairment losses on intangible assets in 2012.

No borrowing costs were recognised as a cost component of intangible assets during the year under report.

An analysis of changes in intangible assets is provided in note 20.

22 — Property, plant and equipment

No borrowing costs were recognised as a cost component of property, plant and equipment during the year under report.

As in the previous year, there was no requirement to recognise impairment losses in 2012.

A break-down of the different classes of property, plant and equipment disclosed in the balance sheet and changes during the year are shown in the analysis of changes in Group tangible, intangible and investment assets in note 20.

Property, plant and equipment include a total of €46 million (2011: €45 million) relating to land and operational buildings used by BMW AG, BMW Tokyo Corp., BMW Osaka Corp., and BMW of North America LLC, for which economic ownership is attributable to the BMW Group due to the nature of the lease arrangements (finance leases). The leases to which BMW AG is party, with a carrying amount of €39 million (2011: €41 million) run for periods up to 2028 at the latest and contain price adjustment clauses as well as extension and purchase options. The asset leased by BMW Tokyo Corp. has a carrying amount of €3 million (2011: €– million) under a lease with a remaining term of 19 years. BMW Osaka Corp. is party to finance leases running until 2022 for operational buildings with a carrying amount of €2 million at 31 December 2012 (2011: €– million). The finance lease contract accounted for at the level of BMW of North America LLC has a remaining term of three years and includes a purchase option for the underlying asset which has a carrying amount of €1 million at 31 December 2012 (2011: €1 million).

Minimum lease payments of the relevant leases are as follows:

in € million	**31.12.2012**	31.12.2011
Total of future minimum lease payments		
due within one year	**5**	25
due between one and five years	**23**	171
due later than five years	**52**	49
	80	**245**
Interest portion of the future minimum lease payments		
due within one year	**3**	8
due between one and five years	**8**	47
due later than five years	**17**	17
	28	**72**
Present value of future minimum lease payments		
due within one year	**2**	17
due between one and five years	**15**	124
due later than five years	**35**	32
	52	**173**

The decrease in minimum lease payments is primarily due to the early termination of finance leases relating to the Hams Hall production plant.

23 — Leased products

The BMW Group, as lessor, leases out its own products and those of other manufacturers as part of its financial services business. Minimum lease payments of €12,797 million (2011: €11,658 million) from non-cancellable operating leases fall due as follows:

in € million	31.12.2012	31.12.2011
within one year	**6,215**	5,749
between one and five years	**6,570**	5,900
later than five years	**12**	9
Minimum lease payments	**12,797**	**11,658**

Contingent rents of €166 million (2011: €174 million), based principally on the distance driven, were recognised in income. Some of the agreements contain price adjustment clauses as well as extension and purchase options.

An analysis of changes in leased products is provided in note 20.

24 — Investments accounted for using the equity method and other investments

Investments accounted for using the equity method comprise the Group's investments in the joint ventures BMW Brilliance Automotive Ltd., Shenyang, SGL Automotive Carbon Fibers GmbH & Co. KG, Munich, SGL Automotive Carbon Fibers Verwaltungs GmbH, Munich, SGL Automotive Carbon Fibers LLC, Dover, DE, DriveNow GmbH & Co. KG, Munich, and DriveNow Verwaltungs GmbH, Munich. The joint venture BMW Peugeot Citroën Electrification B.V., The Hague, was terminated at the end of November 2012, with the consequence that only the Group's share of earnings up to the date of termination are included in the result from equity accounted investments. In contrast to the end of the previous year, the joint venture BMW Peugeot Citroën Electrification B.V., The Hague, is not included in the balance sheet at 31 December 2012.

The Group's share of results of joint ventures in 2012 and its accumulated interest in investments accounted for using the equity method are as follows:

in € million	31.12.2012	31.12.2011
Disclosures relating to the income statement		
Income	**3,516**	2,142
Expenses	**–3,245**	–1,980
Profit	**271**	**162**
Disclosures relating to the balance sheet		
Non-current assets	**1,018**	636
Current assets	**991**	906
Equity	**663**	392
Non-current liabilities	**117**	126
Current liabilities	**1,229**	1,024
Balance sheet total	**2,009**	**1,542**

Capital commitments to the joint ventures SGL Automotive Carbon Fibers GmbH & Co. KG, Munich, and SGL Automotive Carbon Fibers LLC, Dover, DE, at 31 December 2012 totalled €95 million.

Other investments relate to investments in non-consolidated subsidiaries, interests in associated companies not accounted for using the equity method, participations and non-current marketable securities.

Additions to investments in non-consolidated subsidiaries relate primarily to a capital increase at the level of, and purchase of the remaining shares of, BMW Peugeot Citroën Electrification B.V., The Hague, on the one hand and to a capital increase at the level of BMW Distribution S. A. S., Montigny-le-Bretonneux on the other.

Additions to participations relate primarily to the purchase of available-for-sale marketable securities.

The impairment loss of €9 million on investments in non-consolidated subsidiaries relates mainly to an investment in a dealership which was written down after being tested for impairment.

Disposals of investments in non-consolidated subsidiaries primarily result from the first-time consolidation of BMW India Financial Services Private Ltd., New Delhi, and PT BMW Indonesia, Jakarta.

Impairment losses on participations – recognised with income statement effect – related mainly to the investment in SGL Carbon SE, Wiesbaden, which was written down after being tested for impairment.

A break-down of the different classes of other investments disclosed in the balance sheet and changes during the year are shown in the analysis of changes in Group tangible, intangible and investment assets in note 20.

25 — Receivables from sales financing

Receivables from sales financing, totalling €52,914 million (2011: €49,345 million), comprise €40,650 million (2011: €38,295 million) for credit financing for retail customers and dealers and €12,264 million (2011: €11,050 million) for finance leases. Finance leases are analysed as follows:

in € million	**31.12.2012**	31.12.2011
Gross investment in finance leases		
due within one year	**4,580**	4,217
due between one and five years	**8,938**	7,933
due later than five years	**118**	102
	13,636	**12,252**
Present value of future minimum lease payments		
due within one year	**4,094**	3,725
due between one and five years	**8,060**	7,233
due later than five years	**110**	92
	12,264	**11,050**
Unrealised interest income	**1,372**	**1,202**

Contingent rents recognised as income (generally relating to the distance driven) amounted to €3 million (2011: €2 million). Write-downs on finance leases amounting to €149 million (2011: €77 million) were measured and recognised on the basis of specific credit risks. Non-guaranteed residual values that fall to the benefit of the lessor amounted to €85 million (2011: €– million).

Receivables from sales financing include €32,309 million (2011: €29,331 million) with a remaining term of more than one year.

Allowance for impairment and credit risk

in € million	**31.12.2012**	31.12.2011
Gross carrying amount	**54,593**	50,961
Allowance for impairment	**–1,679**	–1,616
Net carrying amount	**52,914**	**49,345**

Allowances for impairment on receivables from sales financing developed as follows during the year under report:

2012 in € million	Allowance for impairment recognised on a specific item basis	 group basis	**Total**
Balance at 1 January*	1,355	262	**1,617**
Allocated/reversed	298	113	**411**
Utilised	–314	–21	**–335**
Exchange rate impact and other changes	–71	57	**–14**
Balance at 31 December	**1,268**	**411**	**1,679**

* including entities consolidated for the first time during the financial year

2011 in € million	Allowance for impairment recognised on a specific item basis	 group basis	**Total**
Balance at 1 January*	1,455	208	**1,663**
Allocated/reversed	233	67	**300**
Utilised	–315	–14	**–329**
Exchange rate impact and other changes	–19	1	**–18**
Balance at 31 December	**1,354**	**262**	**1,616**

* including entities consolidated for the first time during the financial year

At the end of the reporting period, impairment allowances of €411 million (2011: €262 million) were recognised on a group basis on gross receivables from sales financing totalling €30,813 million (2011: €28,991 million). Impairment allowances of €1,268 million (2011: €1,354 million) were recognised at 31 December 2012 on a specific item basis on gross receivables from sales financing totalling €11,149 million (2011: €10,981 million).

Receivables from sales financing which were not overdue at the end of the reporting period amounted to €12,631 million (2011: €10,989 million). No impairment losses were recognised for these balances.

The estimated fair value of collateral received for receivables on which impairment losses were recognised totalled €21,649 million (2011: €19,916 million) at the end of the reporting period. This collateral related primarily to vehicles. The carrying amount of assets held as collateral and taken back as a result of payment default amounted to €37 million (2011: €41 million).

26 Financial assets

Financial assets comprise:

in € million	**31.12.2012**	31.12.2011
Derivative instruments	**2,992**	2,358
Marketable securities and investment funds	**2,655**	2,330
Loans to third parties	**44**	23
Credit card receivables	**234**	249
Other	**835**	493
Financial assets	**6,760**	**5,453**
thereof non-current	**2,148**	1,702
thereof current	**4,612**	3,751

The increase in derivative instruments was primarily attributable to positive market price developments of currency derivatives.

The rise in marketable securities and investment funds reflects primarily an increase in the BMW Group's strategic liquidity reserve.

The amount by which the value of the investment funds exceeds obligations for pre-retirement part-time work arrangements (€57 million; 2011: €30 million) is reported under Other financial assets. Investment funds are held to secure these obligations. These funds are managed by BMW Trust e.V., Munich, as part of Contractual Trust Arrangements (CTA) and are therefore netted against the corresponding settlement arrears for pre-retirement part-time work arrangements.

Marketable securities and investment funds relate to available-for-sale financial assets and comprise:

in € million	31.12.2012	31.12.2011
Stocks	52	1
Fixed income securities	2,566	2,329
Other debt securities	37	–
Marketable securities and investment funds	**2,655**	**2,330**

The contracted maturities of debt securities are as follows:

in € million	31.12.2012	31.12.2011
Fixed income securities		
due within three months	161	241
due later than three months	2,405	2,088
Other debt securities		
due within three months	37	–
due later than three months	–	–
Debt securities	**2,603**	**2,329**

Allowance for impairment and credit risk

Receivables relating to credit card business comprise the following:

in € million	31.12.2012	31.12.2011
Gross carrying amount	247	267
Allowance for impairment	–13	–18
Net carrying amount	**234**	**249**

Allowances for impairment losses on receivables relating to credit card business developed as follows during the year under report:

2012 in € million	Allowance for impairment recognised on a specific item basis	group basis	Total
Balance at 1 January	18	–	18
Allocated/reversed	8	–	8
Utilised	–13	–	–13
Exchange rate impact and other changes	–	–	–
Balance at 31 December	**13**	**–**	**13**

2011 in € million	Allowance for impairment recognised on a specific item basis	group basis	Total
Balance at 1 January	15	–	15
Allocated/reversed	20	–	20
Utilised	–18	–	–18
Exchange rate impact and other changes	1	–	1
Balance at 31 December	**18**	**–**	**18**

27 — Income tax assets

Income tax assets totalling €966 million (2011: €1,194 million) include claims amounting to €638 million (2011: €872 million) which are expected to be settled after more than 12 months. Some of the claims may be settled earlier than this depending on the timing of proceedings.

28 — Other assets

Other assets comprise:

in € million	31.12.2012	31.12.2011
Other taxes	**796**	740
Receivables from subsidiaries	**738**	714
Receivables from other companies in which an investment is held	**676**	393
Prepayments	**1,024**	945
Collateral receivables	**555**	292
Sundry other assets	**659**	829
Other assets	**4,448**	**3,913**
thereof non-current	**800**	568
thereof current	**3,648**	3,345

Receivables from subsidiaries include trade receivables of €189 million (2011: €129 million) and financial receivables of €549 million (2011: €585 million). They include €178 million (2011: €116 million) with a remaining term of more than one year.

Receivables from other companies in which an investment is held include €608 million (2011: €380 million) due within one year.

Prepayments of €1,024 million (2011: €945 million) relate mainly to prepaid interest, insurance premiums and commission paid to dealers. Prepayments of €572 million (2011: €609 million) have a maturity of less than one year.

Collateral receivables comprise mainly customary collateral (bank deposits) arising on the sale of receivables.

29 — Inventories

Inventories comprise the following:

in € million	31.12.2012	31.12.2011
Raw materials and supplies	**786**	704
Work in progress, unbilled contracts	**827**	908
Finished goods and goods for resale	**8,112**	8,026
Inventories	**9,725**	**9,638**

At 31 December 2012, inventories measured at their net realisable value amounted to €639 million (2011: €616 million) and are included in total inventories of €9,725 million (2011: €9,638 million). Write-downs to net realisable value amounting to €21 million (2011: €28 million) were recognised in 2012. There were no reversals of write-downs in the year under report (2011: €1 million).

30 — Trade receivables

Trade receivables amounting in total to €2,543 million (2011: €3,286 million) include €46 million due later than one year (2011: €37 million).

Allowance for impairment and credit risk

in € million	31.12.2012	31.12.2011
Gross carrying amount	**2,654**	3,387
Allowance for impairment	**–111**	–101
Net carrying amount	**2,543**	**3,286**

Allowances on trade receivables developed as following during the year under report:

2012 in € million	Allowance for impairment recognised on a specific item basis	 group basis	Total
Balance at 1 January*	95	7	**102**
Allocated/reversed	20	1	**21**
Utilised	–6	–2	**–8**
Exchange rate impact and other changes	–4	–	**–4**
Balance at 31 December	**105**	**6**	**111**

* including entities consolidated for the first time during the financial year

2011 in € million	Allowance for impairment recognised on a specific item basis	 group basis	Total
Balance at 1 January*	83	12	**95**
Allocated/reversed	18	2	**20**
Utilised	–8	–5	**–13**
Exchange rate impact and other changes	1	–2	**–1**
Balance at 31 December	**94**	**7**	**101**

* including entities consolidated for the first time during the financial year

Some trade receivables were overdue for which an impairment loss was not recognised. Overdue balances are analysed into the following time windows:

in € million	31.12.2012	31.12.2011
1–30 days overdue	**139**	140
31–60 days overdue	**55**	40
61–90 days overdue	**22**	22
91–120 days overdue	**15**	15
More than 120 days overdue	**16**	25
	247	**242**

Receivables that are overdue by between one and 30 days do not normally result in bad debt losses since the overdue nature of the receivables is primarily attributable to the timing of receipts around the month-end. In the case of trade receivables, collateral is generally held in the form of vehicle documents and bank guarantees so that the risk of bad debt loss is extremely low.

31 — Cash and cash equivalents

Cash and cash equivalents of €8,370 million (2011: €7,776 million) comprise cash on hand and at bank, all with an original term of up to three months.

32 — Assets held for sale and liabilities in conjunction with assets held for sale

In the fourth quarter of the financial year 2012 the Board of Management of BMW AG decided to realign its strategic direction for the Motorcycles segment in view of the changing nature of motorcycle markets, demographic developments and stricter environmental requirements. The BMW Group intends to broaden its product range, in particular in the fields of urban mobility and e-mobility, in order to open up future growth opportunities. In line with the decision to focus on the BMW Motorrad brand, and considering the declining size of the relevant markets, it is considered a sensible move to sell the Husqvarna Motorcycles brand.

In December 2012, BMW AG, Munich, and Pierer Industrie AG, Wels, reached agreement with regard to the sale of Husqvarna Motorcycles S.r.l., Cassinetta di Biandronno, and Husqvarna Motorcycles NA, LLC, Wilmington, DE, to Pierer Industrie AG, Wels. Subject to approval of the transaction by the Austrian Merger Control Authorities, the sale will be completed during the first half of 2013.

At 31 December 2012, the Husqvarna Group accordingly meets the criteria for classification as a "disposal group" in accordance with IFRS 5. The carrying amount of property, plant and equipment and intangible assets attributable to the Husqvarna Group has been written down to fair value less costs to sell. All assets of the Husqvarna Group are reported separately in the balance sheet on the line "Assets held for sale" within the Motorcycles segment. Similarly, its liabilities are reported separately in the balance sheet on the line "Liabilities in conjunction with assets held for sale" within the Motorcycles segment. The remeasurement of assets in accordance with IFRS 5 resulted in the recognition of an impairment loss of €13 million on property, plant and equipment which is reported in "Other operating expenses".

Assets held for sale comprise mainly inventories (€24 million), other assets (€10 million) and trade receivables (€11 million). Liabilities in conjunction with assets held for sale comprise mainly pension provisions (€2 million), other provisions (€7 million), trade payables (€16 million) and other liabilities (€3 million).

33 — Equity

Number of shares issued

	Preferred stock		Common stock	
	2012	2011	**2012**	2011
Shares issued / in circulation at 1 January	**53,571,372**	53,163,412	**601,995,196**	601,995,196
Shares issued in conjunction with Employee Share Scheme	**422,905**	408,140	**–**	–
less: shares repurchased and re-issued	**60**	180	**–**	–
Shares issued/in circulation at 31 December	**53,994,217**	53,571,372	**601,995,196**	601,995,196

At 31 December 2012 common stock issued by BMW AG was divided, as at the end of the previous year, into 601,995,196 shares of common stock with a par-value of €1. Preferred stock issued by BMW AG was divided into 53,994,217 shares (2011: 53,571,372 shares) with a par-value of €1. Unlike the common stock, no voting rights are attached to the preferred stock. All of the Company's stock is issued to bearer. Preferred stock bears an additional dividend of €0.02 per share.

In 2012, a total of 422,905 shares of preferred stock was sold to employees at a reduced price of €31.45 per share in conjunction with an Employee Share Scheme. These shares are entitled to receive dividends with effect from the financial year 2013. 60 shares of preferred stock were bought back via the stock exchange in conjunction with the Company's Employee Share Scheme.

Further information on share-based remuneration is provided in note 18.

Issued share capital increased by €0.4 million as a result of the issue to employees of 422,845 shares of non-voting preferred stock. The Authorised Capital of BMW AG amounted to €3.2 million at the end of the reporting period. The Company is authorised to issue shares of non-voting preferred stock amounting to nominal €5.0 million prior to 13 May 2014. The share premium of €18.2 million arising on the share capital increase in 2012 was transferred to capital reserves.

Capital reserves

Capital reserves include premiums arising from the issue of shares and totalled €1,973 million (2011: €1,955 million). The change related to the share capital increase in conjunction with the issue of shares of preferred stock to employees.

Revenue reserves

Revenue reserves comprise the post-acquisition and non-distributed earnings of consolidated companies. In addition, actuarial gains and losses relating to defined benefit pension obligations, similar obligations and plan assets (as well as deferred taxes recognised directly in equity on these items) are also reported here, along with positive and negative goodwill arising on the consolidation of Group companies prior to 31 December 1994.

Revenue reserves increased during the year to €28,340 million. They were increased by the amount of the net profit attributable to shareholders of BMW AG for the financial year 2012 amounting to €5,096 million (2011: €4,881 million) and reduced by the payment of the dividend for 2011 amounting to €1,508 million (2011: €852 million). Actuarial losses relating to defined benefit pension obligations, similar obligations and plan assets (and related deferred taxes) reduced revenue reserves in 2012 by €1,350 million (2011: €419 million).

The unappropriated profit of BMW AG at 31 December 2012 amounts to €1,640 million and will be proposed to the Annual General Meeting for distribution. This amount includes €135 million relating to preferred stock. The amount proposed for distribution represents an amount of €2.52 per share of preferred stock and €2.50 per share of common stock. The proposed distribution must be authorised by the shareholders at the Annual General Meeting of BMW AG. It is therefore not recognised as a liability in the Group Financial Statements.

Accumulated other equity

Accumulated other equity comprises all amounts recognised directly in equity resulting from the translation of the financial statements of foreign subsidiaries, the effects of recognising changes in the fair value of derivative financial instruments and marketable securities directly in equity and the related deferred taxes recognised directly in equity.

Minority interests

Equity attributable to minority interests amounted to €107 million (2011: €65 million). This includes a minority interest of €26 million in the results for the year (2011: €26 million).

Capital management disclosures

The BMW Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in the long-term and to provide an adequate return to shareholders.

The BMW Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk profile of the underlying assets.

In order to manage its capital structure, the BMW Group uses various instruments including the amount of dividends paid to shareholders and share buy-backs.

The BMW Group manages the structure of debt capital on the basis of a target debt ratio. An important aspect of the selection of financial instruments is the objective to achieve matching maturities for the Group's financing requirements. In order to reduce non-systematic risk, the BMW Group uses a variety of financial instruments available on the world's capital markets to achieve optimal diversification.

The capital structure at the end of the reporting period was as follows:

in € million	**31.12.2012**	31.12.2011
Equity attributable to shareholders of BMW AG	**30,295**	27,038
Proportion of total capital	**30.4%**	28.5%
Non-current financial liabilities	**39,095**	37,597
Current financial liabilities	**30,412**	30,380
Total financial liabilities	**69,507**	67,977
Proportion of total capital	**69.6%**	71.5%
Total capital	**99,802**	**95,015**

Equity attributable to shareholders of BMW AG increased during the financial year by 1.9 percentage points, mainly owing to the high net profit recorded for the year.

BMW AG's long-term and short-term ratings were raised by one level in April 2012 by the rating agency Standard & Poor's from A–/A-2 to A/A-1 with a stable outlook. This means that BMW AG currently enjoys the best ratings of all European car manufacturers.

The improved rating and outlook reflect the worldwide rise in demand for premium cars, the successful implementation of measures in conjunction with Strategy Number ONE and the stable financial position of the BMW Group.

	Moody's	Standard & Poor's
Non-current financial liabilities	A2	A
Current financial liabilities	P-1	A-1
Outlook	stable	stable

With their current long-term ratings of A (S&P) and A2 (Moody's), the agencies continue to confirm BMW AG's robust creditworthiness for debt with a term of more than one year. BMW AG's creditworthiness for short-term debt is also classified by the rating agencies as good, thus enabling it to obtain refinancing funds on competitive conditions.

34 — **Pension provisions**

Pension provisions are recognised as a result of commitments to pay future vested pension benefits and current pensions to present and former employees of the BMW Group and their dependants. Depending on the legal, economic and tax circumstances prevailing in each country, various pension plans are used, based generally on the length of service, final salary and remuneration structure of the employees involved. Due to similarity of nature, the obligations of BMW Group companies in the USA and of BMW (South Africa) (Pty) Ltd., Pretoria, for post-employment medical care are also disclosed as pension provisions in accordance with IAS 19.

Post-employment benefit plans are classified as either defined contribution or defined benefit plans. Under defined contribution plans, an enterprise pays fixed contributions into a separate entity or fund and does not assume any other obligations. The total pension expense for defined contribution plans of the BMW Group amounted to €47 million (2011: €40 million). Employer contributions paid to state pension insurance schemes totalled €444 million (2011: €400 million).

Under defined benefit plans, the enterprise is required to pay the benefits granted to present and past employees. Defined benefit plans may be funded or unfunded, the latter sometimes covered by accounting provisions. Pension commitments in Germany are mostly covered by assets contributed to a separate fund in conjunction with a Contractual Trust Arrangement (CTA). The main other countries with funded plans were the UK, the USA, Switzerland, the Netherlands, Belgium, South Africa and Japan. Obligations not covered by assets held by the fund are covered by pension provisions.

Pension obligations are computed on an actuarial basis at the level of the defined benefit obligation. The actuarial computation requires the use of estimates, based on assumptions relating to life expectancy and the parameters stated below that depend on the economic situation in each particular country. The following weighted average values have been used for Germany, the UK and other countries:

31 December	Germany		United Kingdom		Other	
in %	**2012**	2011	**2012**	2011	**2012**	2011
Discount rate	**3.00**	4.75	**4.25**	4.75	**3.82**	4.57
Salary level trend	**3.18**	3.35	**3.50**	3.65	**3.57**	3.43
Pension level trend	**2.18**	2.35	**2.92**	3.09	**1.84**	1.59

The salary level trend refers to the expected rate of salary increase which is estimated annually depending on inflation and the career development of employees within the Group.

In the case of externally funded plans, the defined benefit obligation is offset against plan assets measured at their fair value. Where the plan assets exceed the pension obligations and the enterprise has a right of reimbursement or a right to reduce future contributions, the surplus amount is recognised as an asset in accordance with IAS 19 and presented within other financial assets. In the case of externally funded plans, a liability is recognised under pension provisions where the benefit obligation exceeds fund assets.

Actuarial gains or losses may result from increases or decreases in either the present value of the defined benefit obligation or the fair value of the plan assets. Causes of actuarial gains or losses include the effect of changes in the measurement parameters, changes in estimates caused by the actual development of risks impacting on pension obligations and differences between the actual and expected return on plan assets. Actuarial gains or losses are recognised directly in revenue reserves within equity. Past service cost arises where a BMW Group company introduces a defined benefit plan or changes the benefits payable under an existing plan.

Based on the measurement principles contained in IAS 19, the following **funding status** applies to the Group's pension plans:

31 December	Germany		United Kingdom		Other		Total	
in € million	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Present value of pension benefits covered by accounting provisions	**3**	2	**–**	–	**110**	93	**113**	95
Present value of funded pension benefits	**7,971**	5,616	**7,280**	6,676	**1,038**	825	**16,289**	13,117
Defined benefit obligations	**7,974**	5,618	**7,280**	6,676	**1,148**	918	**16,402**	13,212
Fair value of plan assets	**6,064**	5,178	**5,782**	5,376	**602**	485	**12,448**	11,039
Net obligation	**1,910**	440	**1,498**	1,300	**546**	433	**3,954**	2,173
Past service cost not yet recognised	**–**	–	**–**	–	**6**	6	**6**	6
Amount not recognised as an asset because of the limit in IAS 19.58	**–**	–	**–**	–	**4**	3	**4**	3
Balance sheet amounts at 31 December	**1,910**	**440**	**1,498**	**1,300**	**556**	**442**	**3,964**	**2,182**
thereof pension provision	**1,910**	440	**1,498**	1,300	**557**	443	**3,965**	2,183
thereof assets	**–**	–	**–**	–	**–1**	–1	**–1**	–1

Pension provisions relating to pension plans in other countries amounted to €557 million (2011: €443 million). This includes €447 million (2011: €350 million) relating to externally funded plans. The provision for pension-like obligations for post-employment medical care in the USA and South Africa amounts to €119 million (2011: €120 million) and is measured, similar to pension obligations, in accordance with IAS 19. In the case of post-employment medical care, it is assumed that the costs will increase on a long-term basis by 6% p.a. (unchanged from the previous year). The expense for medical care obligations in the financial year 2012 was €12 million (2011: €9 million).

The increase in defined benefit obligations results mainly from the change in the discount rate used for the actuarial computation in Germany, the UK and the USA. The impact of this on pension provisions was not fully offset by the better-than-expected return on fund assets in these countries.

The **changes in the pension provision** and the pension asset (reimbursement claims or right to reduce future contributions to the funds) as disclosed in the balance sheet can be derived as follows:

	Germany		United Kingdom		Other		Total	
in € million	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Balance sheet amounts at 1 January	**440**	85	**1,300**	1,202	**442**	275	**2,182**	1,562
Effect of first-time consolidation	**–**	–	**–**	–	**2**	1	**2**	1
Expense from pension obligations	**167**	189	**133**	113	**66**	47	**366**	349
Pension payments or transfers to external funds	**–277**	–153	**–109**	–101	**–71**	–61	**–457**	–315
Actuarial gains (–) and losses (+) on defined benefit obligations	**2,046**	–18	**309**	376	**166**	135	**2,521**	493
Actuarial gains (–) and losses (+) on plan assets	**–466**	334	**–170**	–328	**–33**	31	**–669**	37
Employee contributions	**–**	3	**–**	–	**–**	–	**–**	3
Translation differences and other changes	**–**	–	**35**	38	**–16**	14	**19**	52
Balance sheet amounts at 31 December	**1,910**	**440**	**1,498**	**1,300**	**556**	**442**	**3,964**	**2,182**
thereof pension provision	**1,910**	440	**1,498**	1,300	**557**	443	**3,965**	2,183
thereof assets	**–**	–	**–**	–	**–1**	–1	**–1**	–1

The defined benefit plans of the BMW Group gave rise to an **expense from pension obligations** in the financial year 2012 of €366 million (2011: €349 million), comprising the following components:

	Germany		United Kingdom		Other		Total	
in € million	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Current service cost	**148**	142	**71**	63	**48**	35	**267**	240
Expense from reversing the discounting of pension obligations	**264**	248	**321**	311	**43**	35	**628**	594
Past service cost	**2**	48	**1**	–12	**–3**	1	**–**	37
Expected return on plan assets	**–247**	–249	**–260**	–249	**–22**	–24	**–529**	–522
Expense from pension obligations	**167**	**189**	**133**	**113**	**66**	**47**	**366**	**349**

The expense from reversing the discounting of pension obligations and the income from the expected return on plan assets are reported as part of the financial result. All other components of pension expense are included in the income statement under costs by function.

Depending on the cash flow profile and risk structure of the pension obligations involved, pension plan assets are invested in various investment classes, the most predominant one being bonds. The asset portfolio also includes equity instruments, property and alternative investments. The expected rate of return is derived on the basis of the specific investment strategy applied to each individual pension fund. This is determined on the basis of the rates of return from the individual investment classes taking account of costs and unplanned risks. This approach resulted in the following expected rates of return on plan assets (disclosed on the basis of weighted averages):

	Germany		United Kingdom		Other	
in %	**2012**	2011	**2012**	2011	**2012**	2011
Expected rate of return on plan assets	**4.75**	4.75	**4.75**	5.30	**4.48**	5.35

Compared to the expected return of €529 million (2011: €522 million), fund assets actually increased in the financial year 2012 by €1,198 million (2011: increase in fund assets of €485 million), giving rise to actuarial gains on fund assets of €669 million (2011: actuarial losses of €37 million). Actuarial losses on obligations amounted to €2,521 million in 2012 (2011: actuarial losses of €493 million) and related mainly to the lower discount rates used in Germany, the UK and the USA. At 31 December 2012, accumulated actuarial gains and losses arising on defined benefit pension and similar obligations and on plan assets totalled €4,976 million (2011: €3,095 million).

The level of the pension obligations differs depending on the pension system applicable in each country. Since the state pension system in the UK only provides a low fixed amount benefit, retirement benefits are largely organised in the form of company pensions on the one hand and arrangements financed by the individual on the other. The pension benefits in the UK therefore contain contributions made by the employee.

The **net obligation from pension plans** in Germany, the UK and other countries changed as follows:

Germany

	Defined benefit obligation		Plan assets		Net obligation	
in € million	**2012**	2011	**2012**	2011	**2012**	2011
1 January	**5,618**	5,292	**–5,178**	–5,207	**440**	85
Expense from pension obligations and expected return on plan assets	**414**	438	**–247**	–249	**167**	189
Payments to external funds	**–**	–	**–153**	–32	**–153**	–32
Employee contributions	**39**	37	**–39**	–34	**–**	3
Payments on account and pension payments	**–143**	–131	**19**	10	**–124**	–121
Actuarial gains (–) and losses (+)	**2,046**	–18	**–466**	334	**1,580**	316
Translation differences and other changes	**–**	–	**–**	–	**–**	–
31 December	**7,974**	**5,618**	**–6,064**	**–5,178**	**1,910**	**440**

United Kingdom

in € million	Defined benefit obligation 2012	Defined benefit obligation 2011	Plan assets 2012	Plan assets 2011	Net obligation 2012	Net obligation 2011
1 January	**6,676**	6,014	**–5,376**	–4,812	**1,300**	1,202
Expense from pension obligations and expected return on plan assets	**393**	362	**–260**	–249	**133**	113
Payments to external funds	**–**	–	**–109**	–101	**–109**	–101
Employee contributions	**1**	1	**–1**	–1	**–**	–
Payments on account and pension payments	**–280**	–276	**280**	276	**–**	–
Actuarial gains (–) and losses (+)	**309**	376	**–170**	–328	**139**	48
Translation differences and other changes	**181**	199	**–146**	–161	**35**	38
31 December	**7,280**	**6,676**	**–5,782**	**–5,376**	**1,498**	**1,300**

Other

in € million	Defined benefit obligation 2012	Defined benefit obligation 2011	Plan assets 2012	Plan assets 2011	Net obligation 2012	Net obligation 2011
1 January	**918**	702	**–485**	–436	**433**	266
Effect of first-time consolidation	**2**	4	**–**	–3	**2**	1
Expense from pension obligations and expected return on plan assets	**88**	71	**–22**	–24	**66**	47
Payments to external funds	**–**	–	**–67**	–56	**–67**	–56
Employee contributions	**4**	2	**–4**	–2	**–**	–
Payments on account and pension payments	**–22**	–23	**18**	18	**–4**	–5
Actuarial gains (–) and losses (+)	**166**	135	**–33**	31	**133**	166
Translation differences and other changes	**–8**	27	**–9**	–13	**–17**	14
31 December	**1,148**	**918**	**–602**	**–485**	**546**	**433**

Plan assets in Germany, the UK and other countries comprised the following:

Components of plan assets

in € million	Germany 2012	Germany 2011	United Kingdom 2012	United Kingdom 2011	Other countries 2012	Other countries 2011	Total 2012	Total 2011
Equity instruments	**1,447**	1,384	**1,091**	1,055	**184**	211	**2,722**	2,650
Debt securities	**4,277**	3,556	**3,441**	2,927	**268**	183	**7,986**	6,666
Real estate	**84**	76	**532**	501	**64**	40	**680**	617
Other	**256**	162	**718**	893	**86**	51	**1,060**	1,106
31 December	**6,064**	**5,178**	**5,782**	**5,376**	**602**	**485**	**12,448**	**11,039**

A substantial portion of plan assets is invested in debt securities in order to minimise the effect of capital market fluctuations. Other investment classes, such as stocks and shares, serve to generate higher rates of return. This is necessary to cover risks (such as changes in morbidity tables) not taken into account in the actuarial assumptions applied. The financial risk of pension payments having to be made for longer than the calculated period is also hedged for pensioners in the UK by a so-called longevity hedge.

The present value of the defined benefit obligations and the fair values of fund assets – as well as the actuarial adjustments made for those two items – have developed as follows over the last five years:

in € million	2012	2011	2010	2009	2008
Defined benefit obligation	**16,402**	13,212	12,008	10,931	8,788
Fair value of plan assets	**12,448**	11,039	10,455	7,977	5,491
Net obligation	**3,954**	2,173	1,553	2,954	3,297
Actuarial gains (–) and losses (+) on defined benefit obligations	**2,521**	493	459	1,464	–919
Actuarial gains (–) and losses (+) on plan assets	**–669**	37	–227	–289	868

Actuarial gains on benefit obligations, mostly attributable to experience adjustments, amounted to €279 million (2011: actuarial gains of €60 million). Experience adjustments relating to fund assets also resulted in actuarial gains of €669 million in the financial year under report (2011: actuarial losses of €23 million).

35 — Other provisions

Other provisions comprise the following items:

in € million	31.12.2012 Total	31.12.2012 thereof due within one year	31.12.2011 Total	31.12.2011 thereof due within one year
Obligations for personnel and social expenses	**1,719**	**1,234**	1,632	1,190
Obligations for ongoing operational expenses	**3,177**	**924**	2,953	1,023
Other obligations	**1,899**	**1,124**	1,668	891
Other provisions	**6,795**	**3,282**	**6,253**	**3,104**

Provisions for obligations for personnel and social expenses comprise mainly performance-related remuneration components, early retirement part-time working arrangements and employee long-service awards. Obligations for performance-related remuneration components are normally settled in the following financial year. Provisions for obligations for on-going operational expenses comprise primarily warranty obligations and comprise both statutorily prescribed manufacturer warranties and other guaranties offered by the BMW Group. Depending on when claims are made, it is possible that the BMW Group may be called upon to fulfil obligations over the whole period of the warranty or guarantee. Provisions for other obligations cover numerous specific risks and obligations of uncertain timing and amount, in particular for litigation and liability risks.

Other provisions changed during the year as follows:

in € million	1.1.2012*	Translation differences	Additions	Reversal of discounting	Utilised	Reversed	31.12.2012
Obligations for personnel and social expenses	1,632	–3	1,346	1	–1,226	–31	**1,719**
Obligations for ongoing operational expenses	2,953	–26	1,119	39	–848	–60	**3,177**
Other obligations	1,677	–16	626	18	–254	–152	**1,899**
Other provisions	**6,262**	**–45**	**3,091**	**58**	**–2,328**	**–243**	**6,795**

* including entities consolidated for the first time during the financial year

Income from the reversal of other provisions amounting to €129 million (2011: €308 million) is included in costs by function in the income statement.

36 — Income tax liabilities

Current income tax liabilities totalling €1,482 million (2011: €1,363 million) include claims amounting to €806 million (2011: €807 million) which are expected to be settled after more than twelve months. Some of the liabilities may be settled earlier than this depending on the timing of proceedings.

Current tax liabilities of €1,482 million (2011: €1,363 million) comprise €438 million (2011: €122 million) for taxes payable and €1,044 million (2011: €1,241 million) for tax provisions. In 2012, tax provisions of €23 million were reversed (2011: €27 million).

37 — Financial liabilities

Financial liabilities include all liabilities of the BMW Group at the relevant balance sheet dates relating to financing activities. Financial liabilities comprise the following:

31 December 2012 in € million	Maturity within one year	Maturity between one and five years	Maturity later than five years	**Total**
Bonds	7,427	17,234	5,191	**29,852**
Liabilities to banks	4,595	4,232	657	**9,484**
Liabilities from customer deposits (banking)	10,076	2,942	–	**13,018**
Commercial paper	4,577	–	–	**4,577**
Asset backed financing transactions	2,097	7,212	102	**9,411**
Derivative instruments	865	903	22	**1,790**
Other	775	233	367	**1,375**
Financial liabilities	**30,412**	**32,756**	**6,339**	**69,507**

31 December 2011 in € million	Maturity within one year	Maturity between one and five years	Maturity later than five years	**Total**
Bonds	8,009	16,069	4,495	**28,573**
Liabilities to banks	2,983	5,166	249	**8,398**
Liabilities from customer deposits (banking)	8,928	3,090	23	**12,041**
Commercial paper	5,478	–	–	**5,478**
Asset backed financing transactions	3,152	6,233	–	**9,385**
Derivative instruments	999	1,456	24	**2,479**
Other	831	397	395	**1,623**
Financial liabilities	**30,380**	**32,411**	**5,186**	**67,977**

The BMW Group uses various short-term and long-term refinancing instruments on money and capital markets to finance its operations. This diversification enables it to obtain attractive market conditions.

The main instruments used are corporate bonds, asset-backed financing transactions, liabilities to banks and liabilities from customer deposits (banking).

Customer deposit liabilities arise in the BMW Group's banks in Germany and the USA, both of which offer a range of investment products.

Bonds comprise:

Issuer	Interest	Issue volume in relevant currency (ISO-Code)	Weighted average maturity period (in years)	Weighted average nominal interest rate (in %)
BMW Finance N.V., The Hague	variable	AUD 200 million	1.5	4.2
	variable	EUR 1,240 million	2.1	0.6
	variable	HKD 300 million	3.0	1.3
	variable	JPY 12,500 million	1.8	0.8
	variable	SEK 2,640 million	1.8	2.3
	variable	USD 530 million	1.7	0.9
	fixed	AUD 550 million	3.6	6.3
	fixed	CAD 125 million	2.0	2.2
	fixed	CHF 300 million	6.0	1.8
	fixed	EUR 13,357 million	6.0	4.0
	fixed	GBP 1,050 million	6.9	3.9
	fixed	HKD 836 million	3.0	2.0
	fixed	JPY 22,500 million	1.4	0.9
	fixed	NOK 6,850 million	3.2	3.8
	fixed	NZD 100 million	3.0	4.8
	fixed	SEK 1,000 million	3.0	3.8
BMW (UK) Capital plc, Bracknell	variable	EUR 100 million	3.0	0.2
	variable	JPY 18,900 million	5.0	0.2
	fixed	CHF 500 million	5.0	2.1
	fixed	GBP 300 million	8.0	5.0
	fixed	JPY 24,000 million	5.0	2.5
BMW US Capital, LLC, Wilmington, DE	variable	EUR 372 million	1.8	0.5
	variable	MXN 405 million	0.1	4.8
	variable	SEK 1,350 million	1.7	2.0
	variable	USD 355 million	1.7	0.9
	fixed	CHF 325 million	2.2	3.6
	fixed	EUR 3,250 million	2.2	4.1
	fixed	MXN 725 million	0.1	7.9
	fixed	NOK 1,500 million	2.9	2.4
	fixed	USD 795 million	4.6	5.3
BMW Australia Finance Ltd., Melbourne, Victoria	variable	EUR 202 million	1.4	0.2
	variable	SEK 600 million	2.8	1.4
	variable	USD 175 million	1.7	0.4
	fixed	AUD 230 million	3.0	6.3
	fixed	CHF 200 million	3.0	1.0
	fixed	JPY 11,000 million	2.0	0.5
	fixed	USD 100 million	2.5	1.1
Other	variable	JPY 29,200 million	2.5	0.4
	variable	ZAR 600 million	3.0	6.6
	fixed	INR 8,000 million	3.6	10.1
	fixed	CAD 2,275 million	3.6	2.8
	fixed	JPY 10,000 million	8.5	1.4
	fixed	KRW 100,000 million	3.0	3.9

The following details apply to the commercial paper:

Issuer	Issue volume in relevant currency (ISO-Code)	Weighted average maturity period (in days)	Weighted average nominal interest rate (in %)
BMW AG, Munich	GBP 275 million	92.4	0.5
	USD 200 million	74.5	0.3
BMW Finance N.V., The Hague	EUR 2,175 million	34.2	0.1
BMW Malta Finance Ltd., St. Julians	EUR 100 million	59.0	0.1
BMW US Capital, LLC, Wilmington, DE	USD 2,395 million	36.2	0.2

38 Other liabilities

Other liabilities comprise the following items:

31 December 2012 in € million	Maturity within one year	Maturity between one and five years	Maturity later than five years	**Total**
Other taxes	697	1	15	**713**
Social security	46	23	7	**76**
Advance payments from customers	603	65	–	**668**
Deposits received	355	91	20	**466**
Payables to subsidiaries	236	–	–	**236**
Payables to other companies in which an investment is held	1	–	–	**1**
Deferred income	1,496	2,704	312	**4,512**
Other	3,358	157	9	**3,524**
Other liabilities	**6,792**	**3,041**	**363**	**10,196**

31 December 2011 in € million	Maturity within one year	Maturity between one and five years	Maturity later than five years	**Total**
Other taxes	545	1	2	**548**
Social security	39	21	7	**67**
Advance payments from customers	1,810	48	–	**1,858**
Deposits received	155	76	–	**231**
Payables to subsidiaries	177	1	–	**178**
Payables to other companies in which an investment is held	25	–	–	**25**
Deferred income	1,411	2,377	280	**4,068**
Other	2,864	87	11	**2,962**
Other liabilities	**7,026**	**2,611**	**300**	**9,937**

Deferred income comprises the following items:

in € million	31.12.2012 Total	31.12.2012 thereof due within one year	31.12.2011 Total	31.12.2011 thereof due within one year
Deferred income from lease financing	**1,743**	**791**	1,564	731
Deferred income relating to service contracts	**2,478**	**615**	2,203	570
Grants	**196**	**28**	223	35
Other deferred income	**95**	**62**	78	75
Deferred income	**4,512**	**1,496**	**4,068**	**1,411**

Deferred income relating to service contracts relates to service and repair work to be provided under commitments given at the time of the sale of a vehicle (multi-component arrangements). Grants comprise primarily public funds to promote regional structures and which have been invested in the production plants in Leipzig and Berlin. The grants are subject to holding periods for the assets concerned of up to five years and minimum employment figures. All conditions attached to the grants were complied with at 31 December 2012. In accordance with IAS 20, grant income is recognised over the useful lives of the assets to which they relate. Other deferred income includes primarily the effects of the initial measurement of financial instruments.

39 — Trade payables

31 December 2012 in € million	Maturity within one year	Maturity between one and five years	Maturity later than five years	**Total**
Trade payables	6,424	9	–	**6,433**

31 December 2011 in € million	Maturity within one year	Maturity between one and five years	Maturity later than five years	**Total**
Trade payables	5,295	43	2	**5,340**

The total amount of financial liabilities, other liabilities and trade payables with a maturity later than five years amounts to €6,702 million (2011: €5,488 million).

40 — Contingent liabilities and other financial commitments

Contingent liabilities

No provisions were recognised for the following contingent liabilities (stated at their nominal amount), since an outflow of resources is not considered to be probable:

in € million	31.12.2012	31.12.2011
Guarantees	6	16
Performance guarantees	–	23
Other	60	99
Contingent liabilities	**66**	**138**

Contingent liabilities relate entirely to non-group entities.

The usual commercial guarantees have been given in relation to the sale of Rover Cars and Land Rover activities.

Other financial obligations

In addition to liabilities, provisions and contingent liabilities, the BMW Group also has other financial commitments, primarily under lease contracts for land, buildings, plant and machinery, tools, office and other facilities. The leases run for periods of one to 46 years and in some cases contain extension and/or purchase options. In 2012 an amount of €296 million (2011: €208 million) was recognised as an expense in conjunction with operating leases. All of these amounts relate to minimum lease payments.

The total of future minimum lease payments under non-cancellable and other operating leases can be analysed by maturity as follows:

in € million	31.12.2012	31.12.2011
Nominal total of future minimum lease payments		
— due within one year	320	297
— due between one and five years	805	704
— due later than five years	585	663
Other financial obligations	**1,710**	**1,664**

Other financial obligations include €19 million (2011: €10 million) in respect of non-consolidated subsidiaries and €2 million (2011: €1 million) for back-to-back operating leases.

Purchase commitments amounted to €3,010 million (2011: €1,654 million) for property, plant and equipment and to €440 million (2011: €186 million) for intangible assets.

41 — Financial instruments

The carrying amounts and fair values of financial instruments are assigned to IAS 39 categories and cash funds[1] as follows:

31 December 2012 in € million	Cash funds		Loans and receivables		Held-to-maturity investments	
	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount
Assets						
Other investments	–	–	–	–	–	–
Receivables from sales financing	–	–	54,374	52,914	–	–
Financial assets						
Derivative instruments						
Cash flow hedges	–	–	–	–	–	–
Fair value hedges	–	–	–	–	–	–
Other derivative instruments	–	–	–	–	–	–
Marketable securities and investment funds	–	–	–	–	–	–
Loans to third parties	–	–	44	44	–	–
Credit card receivables	–	–	234	234	–	–
Other	–	–	835	835	–	–
Cash and cash equivalents	8,370	8,370	–	–	–	–
Trade receivables	–	–	2,543	2,543	–	–
Other assets						
Receivables from subsidiaries	–	–	738	738	–	–
Receivables from companies in which an investment is held	–	–	676	676	–	–
Collateral receivables	398	398	–	–	–	–
Other	–	–	205	205	–	–
Total	**8,768**	**8,768**	**59,649**	**58,189**	**–**	**–**
Liabilities						
Financial liabilities						
Bonds	–	–	–	–	–	–
Liabilities to banks	–	–	–	–	–	–
Liabilities from customer deposits (banking)	–	–	–	–	–	–
Commercial paper	–	–	–	–	–	–
Asset backed financing transactions	–	–	–	–	–	–
Derivative instruments						
Cash flow hedges	–	–	–	–	–	–
Fair value hedges	–	–	–	–	–	–
Other derivative instruments	–	–	–	–	–	–
Other	–	–	–	–	–	–
Trade payables	–	–	–	–	–	–
Other liabilities						
Payables to subsidiaries	–	–	–	–	–	–
Payables to other companies in which an investment is held	–	–	–	–	–	–
Other	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**

[1] The carrying amounts of cash flow and fair value hedges are allocated to the category "Held for trading" for the sake of clarity.
[2] Carrying amount corresponds to fair value.

Other liabilities		Available-for-sale	Fair value option	Held for trading	
Fair value	Carrying amount	Carrying amount[2]	Carrying amount[2]	Carrying amount[2]	
					Assets
–	–	548	–	–	Other investments
–	–	–	–	–	Receivables from sales financing
					Financial assets
					Derivative instruments
–	–	–	–	925	Cash flow hedges
–	–	–	–	1,457	Fair value hedges
–	–	–	–	610	Other derivative instruments
–	–	2,655	–	–	Marketable securities and investment funds
–	–	–	–	–	Loans to third parties
–	–	–	–	–	Credit card receivables
–	–	–	–	–	Other
–	–	–	–	–	Cash and cash equivalents
–	–	–	–	–	Trade receivables
					Other assets
–	–	–	–	–	Receivables from subsidiaries
–	–	–	–	–	Receivables from companies in which an investment is held
–	–	157	–	–	Collateral receivables
–	–	–	–	–	Other
–	**–**	**3,360**	**–**	**2,992**	**Total**
					Liabilities
					Financial liabilities
29,966	29,852	–	–	–	Bonds
9,484	9,484	–	–	–	Liabilities to banks
13,098	13,018	–	–	–	Liabilities from customer deposits (banking)
4,577	4,577	–	–	–	Commercial paper
9,369	9,411	–	–	–	Asset backed financing transactions
					Derivative instruments
–	–	–	–	701	Cash flow hedges
–	–	–	–	320	Fair value hedges
–	–	–	–	769	Other derivative instruments
1,375	1,375	–	–	–	Other
6,433	6,433	–	–	–	Trade payables
					Other liabilities
236	236	–	–	–	Payables to subsidiaries
1	1	–	–	–	Payables to other companies in which an investment is held
4,084	4,084	–	–	–	Other
78,623	**78,471**	**–**	**–**	**1,790**	**Total**

31 December 2011 in € million	Cash funds		Loans and receivables		Held-to-maturity investments	
	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount
Assets						
Other investments	–	–	–	–	–	–
Receivables from sales financing	–	–	50,969	49,345	–	–
Financial assets						
Derivative instruments						
Cash flow hedges	–	–	–	–	–	–
Fair value hedges	–	–	–	–	–	–
Other derivative instruments	–	–	–	–	–	–
Marketable securities and investment funds	–	–	–	–	–	–
Loans to third parties	–	–	23	23	–	–
Credit card receivables	–	–	249	249	–	–
Other	–	–	493	493	–	–
Cash and cash equivalents	7,776	7,776	–	–	–	–
Trade receivables	–	–	3,286	3,286	–	–
Other assets						
Receivables from subsidiaries	–	–	714	714	–	–
Receivables from companies in which an investment is held	–	–	393	393	–	–
Collateral receivables	292	292	–	–	–	–
Other	–	–	282	282	–	–
Total	**8,068**	**8,068**	**56,409**	**54,785**	**–**	**–**
Liabilities						
Financial liabilities						
Bonds	–	–	–	–	–	–
Liabilities to banks	–	–	–	–	–	–
Liabilities from customer deposits (banking)	–	–	–	–	–	–
Commercial paper	–	–	–	–	–	–
Asset backed financing transactions	–	–	–	–	–	–
Derivative instruments						
Cash flow hedges	–	–	–	–	–	–
Fair value hedges	–	–	–	–	–	–
Other derivative instruments	–	–	–	–	–	–
Other	–	–	–	–	–	–
Trade payables	–	–	–	–	–	–
Other liabilities						
Payables to subsidiaries	–	–	–	–	–	–
Payables to other companies in which an investment is held	–	–	–	–	–	–
Other	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**

* Carrying amount corresponds to fair value.

Other liabilities Fair value	Other liabilities Carrying amount	Available-for-sale Carrying amount*	Fair value option Carrying amount*	Held for trading Carrying amount*	
					Assets
–	–	561	–	–	Other investments
–	–	–	–	–	Receivables from sales financing
					Financial assets
					Derivative instruments
–	–	–	–	281	Cash flow hedges
–	–	–	–	1,230	Fair value hedges
–	–	–	–	847	Other derivative instruments
–	–	2,330	–	–	Marketable securities and investment funds
–	–	–	–	–	Loans to third parties
–	–	–	–	–	Credit card receivables
–	–	–	–	–	Other
–	–	–	–	–	Cash and cash equivalents
–	–	–	–	–	Trade receivables
					Other assets
–	–	–	–	–	Receivables from subsidiaries
–	–	–	–	–	Receivables from companies in which an investment is held
–	–	–	–	–	Collateral receivables
–	–	–	–	–	Other
–	**–**	**2,891**	**–**	**2,358**	**Total**
					Liabilities
					Financial liabilities
28,686	28,573	–	–	–	Bonds
8,398	8,398	–	–	–	Liabilities to banks
12,127	12,041	–	–	–	Liabilities from customer deposits (banking)
5,478	5,478	–	–	–	Commercial paper
9,337	9,385	–	–	–	Asset backed financing transactions
					Derivative instruments
–	–	–	–	1,259	Cash flow hedges
–	–	–	–	347	Fair value hedges
–	–	–	–	873	Other derivative instruments
1,623	1,623	–	–	–	Other
5,340	5,340	–	–	–	Trade payables
					Other liabilities
178	178	–	–	–	Payables to subsidiaries
25	25	–	–	–	Payables to other companies in which an investment is held
4,497	4,497	–	–	–	Other
75,689	**75,538**	**–**	**–**	**2,479**	**Total**

Fair value measurement of financial instruments
The fair values shown are computed using market information available at the balance sheet date, on the basis of prices quoted by the contract partners or using appropriate measurement methods, e.g. discounted cash flow models. In the latter case, amounts were discounted at 31 December 2012 on the basis of the following interest rates:

in %	EUR	USD	GBP	JPY
Interest rate for six months	0.10	0.21	0.49	0.16
Interest rate for one year	0.10	0.23	0.49	0.24
Interest rate for five years	0.77	0.84	1.03	0.30
Interest rate for ten years	1.61	1.82	1.92	0.84

Interest rates taken from interest rate curves were adjusted, where necessary, to take account of the credit quality and risk of the underlying financial instrument.

Derivative financial instruments are measured at their fair value. The fair values of derivative financial instruments are determined using measurement models, as a consequence of which there is a risk that the amounts calculated could differ from realisable market prices on disposal. Observable financial market price spreads (e.g. for liquidity risks) are taken into account in the measurement of derivative financial instruments, thus helping to minimise differences between the carrying amounts of the instruments and the amounts that can be realised on the financial markets on the disposal of those instruments.

Financial instruments measured at fair value are allocated to different measurement levels in accordance with IFRS 7. This includes financial instruments that are

1. measured at their fair values in an active market for identical financial instruments (level 1),
2. measured at their fair values in an active market for comparable financial instruments or using measurement models whose main input factors are based on observable market data (level 2) or
3. using input factors not based on observable market data (level 3).

The following table shows the amounts allocated to each measurement level at 31 December 2012:

31 December 2012	Level hierarchy in accordance with IFRS 7		
in € million	Level 1	Level 2	Level 3
Marketable securities, investment fund shares and collateral assets – available-for-sale	2,812	–	–
Other investments – available-for-sale	391	–	–
Derivative instruments (assets)			
Cash flow hedges	–	925	–
Fair value hedges	–	1,457	–
Other derivative instruments	–	610	–
Derivative instruments (liabilities)			
Cash flow hedges	–	701	–
Fair value hedges	–	320	–
Other derivative instruments	–	769	–

31 December 2011	Level hierarchy in accordance with IFRS 7		
in € million	Level 1	Level 2	Level 3
Marketable securities, investment fund shares and collateral assets – available-for-sale	2,330	–	–
Other investments – available-for-sale	419	–	–
Derivative instruments (assets)			
Cash flow hedges	–	281	–
Fair value hedges	–	1,230	–
Other derivative instruments	–	827	20
Derivative instruments (liabilities)			
Cash flow hedges	–	1,259	–
Fair value hedges	–	347	–
Other derivative instruments	–	873	–

Other investments (available-for-sale) amounting to €157 million (2011: €142 million) are measured at amortised cost since quoted market prices are not available or cannot be determined reliably. These are therefore not included in the level hierarchy shown above. In addition, other investments amounting to €391 million (2011: €419 million) are measured at fair value since quoted market prices are available. These items are included in Level 1. The option to an equity instrument classified to Level 3 in 2011 was converted to cash in 2012.

As in the previous year, there were no significant reclassifications within the level hierarchy during the financial year 2012.

Gains and losses on financial instruments

The following table shows the net gains and losses arising for each of the categories of financial instrument defined by IAS 39:

in € million	**2012**	2011
Held for trading		
Gains / losses from the use of derivative instruments	**–278**	–565
Available-for-sale		
Gains and losses on sale and fair value measurement of marketable securities held for sale (including investments in subsidiaries and participations measured at cost)	**–145**	–13
Income from investments	**5**	1
Accumulated other equity		
Balance at 1 January	**–61**	9
Total change during the year	**169**	–70
of which recognised in the income statement during the period under report	**40**	–8
Balance at 31 December	**108**	–61
Loans and receivables		
Impairment losses / reversals of impairment losses	**–440**	–340
Other income / expenses	**–61**	–101
Other liabilities		
Income / expenses	**–115**	–91

Gains/losses from the use of derivatives relate primarily to fair value gains or losses arising on stand-alone derivatives.

Net interest income from interest rate and interest rate/currency swaps amounted to €111 million (2011: €57 million).

Impairment losses of €166 million (2011: €4 million) on available-for-sale marketable securities, for which fair value changes were previously recognised directly in equity, were recognised as expenses in 2012. No reversals of impairment losses on marketable securities were recognised directly in equity (2011: €2 million).

The disclosure of interest income resulting from the unwinding of interest on future expected receipts would normally only be relevant for the BMW Group where assets have been discounted as part of the process of determining impairment losses. However, as a result of the assumption that most of the income that is subsequently recovered is received within one year and the fact that the impact is not material, the BMW Group does not discount assets for the purposes of determining impairment losses.

Cash flow hedges

The effect of cash flow hedges on accumulated other equity was as follows:

in € million	2012	2011
Balance at 1 January	–750	–127
Total changes during the year	952	–623
– of which recognised in the income statement during the period under report	532	–68
Balance at 31 December	**202**	**–750**

Fair value gains and losses recognised on derivatives and recorded initially in accumulated other equity are reclassified to cost of sales when the derivatives mature.

A net positive amount of €1 million (2011: net negative amount of €2 million) attributable to forecasting errors (and the resulting over-hedging of currency exposures) was recognised within the line item "Financial Result" in the financial year 2012. These forecasting errors, which all related to the year under report, arise primarily as a result of changes in sales forecasts in foreign currencies. In addition, cash flow hedges of raw materials gave rise to a net expense of €8 million (2011: €– million) from forecasting errors and net income of €67 million (2011: net expense of €52 million) from ineffectiveness, which were also recognised within the line item "Financial Result".

At 31 December 2012 the BMW Group held derivative instruments (mainly option and forward currency contracts) with terms of up to 72 months (2011: 54 months), as a general rule in order to hedge currency risks attached to future transactions. These derivative instruments are intended to hedge forecast sales denominated in a foreign currency over the coming 72 months. The income statement impact of the hedged cash flows will be recognised as a general rule in the same periods in which external revenues are recognised. It is expected that €26 million of net gains, recognised in equity at the end of the reporting period, will be recognised in the income statement in 2013.

At 31 December 2012 the BMW Group held derivative instruments (mostly interest rate swaps) with terms of up to 25 months (2011: 60 months) to hedge interest rate risks. These derivative instruments are intended to hedge interest rate risks arising on financial instruments with variable interest payments over the coming 25 months. The income statement impact of the hedged cash flows will be recognised as a general rule in the same periods over which the relevant interest rates are fixed. It is not expected that any net gains or net losses, recognised in equity at the end of the reporting period, will be reclassified to the income statement in 2013.

At 31 December 2012, the BMW Group held derivative instruments (mostly commodity swaps) with terms of up to 60 months (2011: 55 months) to hedge raw materials price risks attached to future transactions over the coming 60 months. The income statement impact of the hedged cash flows will be recognised as a general rule in the same period in which the derivative instrument matures. It is expected that €5 million of net gains, recognised in equity at the end of the reporting period, will be recognised in the income statement in 2013.

Fair value hedges

The following table shows gains and losses on hedging instruments and hedged items which are deemed to be part of a fair value hedge relationship:

in € million	31.12.2012	31.12.2011
Gains/losses on hedging instruments designated as part of a fair value hedge relationship	127	213
Gains/loss from hedged items	–140	–225
Ineffectiveness of fair value hedges	**–13**	**–12**

The difference between the gains/losses on hedging instruments (mostly interest rate swaps) and the results recognised on hedged items represents the ineffective portion of fair value hedges.

Fair value hedges are mainly used to hedge the market prices of bonds, other financial liabilities and receivables from sales financing.

Bad debt risk

Notwithstanding the existence of collateral accepted, the carrying amounts of financial assets generally take account of the maximum credit risk arising from the possibility that the counterparties will not be able to fulfil their contractual obligations. The maximum credit risk for irrevocable credit commitments relating to credit card business amounts to €969 million (2011:

€1,031 million). The equivalent figure for dealer financing is €18,157 million (2011: €16,699 million).

In the case of performance relationships underlying non-derivative financial instruments, collateral will be required, information on the credit-standing of the counterparty obtained or historical data based on the existing business relationship (i.e. payment patterns to date) reviewed in order to minimise the credit risk, all depending on the nature and amount of the exposure that the BMW Group is proposing to enter into.

Within the financial services business, the financed items (e.g. vehicles, equipment and property) in the retail customer and dealer lines of business serve as first-ranking collateral with a recoverable value. Security is also put up by customers in the form of collateral asset pledges, asset assignment and first-ranking mortgages, supplemented where appropriate by warranties and guarantees. If an item previously accepted as collateral is acquired, it undergoes a multi-stage process of repossession and disposal in accordance with the legal situation prevailing in the relevant market. The assets involved are generally vehicles which can be converted into cash at any time via the dealer organisation.

Impairment losses are recorded as soon as credit risks are identified on individual financial assets, using a methodology specifically designed by the BMW Group. More detailed information regarding this methodology is provided in note 5 in the section on accounting policies.

Creditworthiness testing is an important aspect of the BMW Group's credit risk management. Every borrower's creditworthiness is tested for all credit financing and lease contracts entered into by the BMW Group. In the case of retail customers, creditworthiness is assessed using validated scoring systems integrated into the purchasing process. In the area of dealer financing, creditworthiness is assessed by means of ongoing credit monitoring and an internal rating system that takes account not only of the tangible situation of the borrower but also of qualitative factors such as past reliability in business relations.

The credit risk relating to derivative financial instruments is minimised by the fact that the Group only enters into such contracts with parties of first-class credit standing. The general credit risk on derivative financial instruments utilised by the BMW Group is therefore not considered to be significant.

A concentration of credit risk with particular borrowers or groups of borrowers has not been identified in conjunction with financial instruments.

Further disclosures relating to credit risk – in particular with regard to the amounts of impairment losses recognised – are provided in the explanatory notes to the relevant categories of receivables in notes 25, 26 and 30.

Liquidity risk

The following table shows the maturity structure of expected contractual cash flows (undiscounted) for financial liabilities:

31 December 2012 in € million	Maturity within one year	Maturity between one and five years	Maturity later than five years	**Total**
Bonds	–8,482	–18,375	–5,071	**–31,928**
Liabilities to banks	–4,866	–4,469	–678	**–10,013**
Liabilities from customer deposits (banking)	–10,139	–3,028	–	**–13,167**
Commercial paper	–4,578	–	–	**–4,578**
Asset backed financing transactions	–2,170	–7,346	–137	**–9,653**
Derivative instruments	–1,146	–1,085	–1	**–2,232**
Trade payables	–6,424	–9	–	**–6,433**
Other financial liabilities	–787	–249	–424	**–1,460**
Total	**–38,592**	**–34,561**	**–6,311**	**–79,464**

31 December 2011 in € million	Maturity within one year	Maturity between one and five years	Maturity later than five years	**Total**
Bonds	–9,100	–17,430	–4,509	**–31,039**
Liabilities to banks	–3,197	–5,449	–268	**–8,914**
Liabilities from customer deposits (banking)	–8,968	–3,254	–24	**–12,246**
Commercial paper	–5,486	–	–	**–5,486**
Asset backed financing transactions	–3,191	–6,474	–	**–9,665**
Derivative instruments	–1,410	–2,218	–7	**–3,635**
Trade payables	–5,295	–43	–2	**–5,340**
Other financial liabilities	–847	–483	–488	**–1,818**
Total	**–37,494**	**–35,351**	**–5,298**	**–78,143**

The cash flows shown comprise principal repayments and the related interest. The amounts disclosed for derivatives comprise only cash flows relating to derivatives that have a negative fair value at the balance sheet date. Irrevocable credit commitments to dealers which had not been called upon at the end of the reporting period amounted to €6,044 million (2011: €5,764 million).

Solvency is assured at all times by managing and monitoring the liquidity situation on the basis of a rolling cash flow forecast. The resulting funding requirements are secured by a variety of instruments placed on the world's financial markets. The objective is to minimise risk by matching maturities for the Group's financing requirements within the framework of the target debt ratio. The BMW Group has good access to capital markets as a result of its solid financial position and a diversified refinancing strategy. This is underpinned by the longstanding long- and short-term ratings issued by Moody's and S&P.

Short-term liquidity is managed primarily by issuing money market instruments (commercial paper). In this area too, competitive refinancing conditions can be achieved thanks to Moody's and S&P short-term ratings of P-1 and A-1 respectively.

Also reducing liquidity risk, additional secured and unsecured lines of credit are in place with first-class international banks. Intragroup cash flow fluctuations are evened out by the use of daily cash pooling arrangements.

Market risks

The principal market risks to which the BMW Group is exposed are currency risk, interest rate risk and raw materials price risk.

Protection against such risks is provided in the first instance through natural hedging which arises when the values of non-derivative financial instruments have matching maturities and amounts (netting). Derivative financial instruments are used to reduce the risk remaining after netting. Financial instruments are only used to hedge underlying positions or forecast transactions.

The scope of permitted transactions, responsibilities, financial reporting procedures and control mechanisms used for financial instruments are set out in internal guidelines. This includes, above all, a clear separation of duties between trading and processing. Currency, interest rate and raw material price risks of the BMW Group are managed at a corporate level.

Further information is provided in the Combined Group and Company Management Report ("Risk management" section).

Currency risk

As an enterprise with worldwide operations, business is conducted in a variety of currencies, from which currency risks arise. Since a significant portion of Group revenues are generated outside the euro currency region and the procurement of production material and funding is also organised on a worldwide basis, the currency risk is an extremely important factor for Group earnings.

At 31 December 2012 derivative financial instruments were in place to hedge exchange rate risks, in particular for the currencies Chinese renminbi, US dollar, British pound, Japanese yen and Russian rouble. The currency hedging contracts comprise mainly option and forward currency contracts.

A description of the management of this risk is provided in the Combined Group and Company Management Report. The BMW Group measures currency risk using a cash-flow-at-risk model.

The starting point for analysing currency risk with this model is the identification of forecast foreign currency transactions or “exposures”. At the end of the reporting period, the principal exposures for the relevant coming year were as follows:

in € million	31.12.2012	31.12.2011
Euro/Chinese Renminbi	**8,429**	7,114
Euro/US Dollar	**5,311**	4,281
Euro/British Pound	**3,206**	3,266
Euro/Japanese Yen	**1,585**	1,334
Euro/Russian Rouble	**1,638**	1,330

In the next stage, these exposures are compared to all hedges that are in place. The net cash flow surplus represents an uncovered risk position. The cash-flow-at-risk approach involves allocating the impact of potential exchange rate fluctuations to operating cash flows on the basis of probability distributions. Volatilities and correlations serve as input factors to assess the relevant probability distributions.

The potential negative impact on earnings is computed for each currency for the following financial year on the basis of current market prices and exposures to a confidence level of 95% and a holding period of up to one year. Correlations between the various currencies are taken into account when the risks are aggregated, thus reducing the overall risk.

The following table shows the potential negative impact for the BMW Group – measured on the basis of the cash-flow-at-risk approach – attributable to unfavourable changes in exchange rates. The impact for the principal currencies, in each case for the following financial year, is as follows:

in € million	31.12.2012	31.12.2011
Euro/Chinese Renminbi	**246**	180
Euro/US Dollar	**163**	121
Euro/British Pound	**65**	182
Euro/Japanese Yen	**15**	23
Euro/Russian Rouble	**69**	97

Currency risk for the BMW Group is concentrated on the currencies referred to above.

Interest rate risk

The BMW Group’s financial management system involves the use of standard financial instruments such as short-term deposits, investments in variable and fixed-income securities as well as securities funds. The BMW Group is therefore exposed to risks resulting from changes in interest rates. These risks arise when funds with differing fixed-rate periods or differing terms are borrowed and invested. All items subject to, or bearing, interest are exposed to interest rate risk. Interest rate risks can affect either side of the balance sheet.

The fair values of the Group’s interest rate portfolios for the three principal currencies were as follows at the end of the reporting period:

in € million	31.12.2012	31.12.2011
Euro	**12,736**	6,066
US Dollar	**10,489**	8,684
British Pound	**3,814**	3,278

Interest rate risks can be managed by the use of interest rate derivatives. The interest rate contracts used for hedging purposes comprise mainly swaps which are accounted for on the basis of whether they are designated as a fair value hedge or as a cash flow hedge. A description of the management of interest risk is provided in the Combined Group and Company Management Report.

As stated there, the BMW Group applies a group-wide value-at-risk approach for internal reporting purposes and to manage interest rate risks. This is based on a state-of-the-art historical simulation, in which the potential future fair value losses of the interest rate portfolios are compared across the Group with expected amounts measured on the basis of a holding period of 250 days and a confidence level of 99.98 %. Aggregation of these results creates a risk reduction effect due to correlations between the various portfolios. The methodology applied was refined during the year under report, primarily in order to take account of new regulatory requirements.

In the following table the potential volumes of fair value fluctuations – measured on the basis of the value-at-risk approach – are compared with the expected value for the interest rate relevant positions of the BMW Group for the three principal currencies:

in € million	31.12.2012	31.12.2011
Euro	**269**	38
US Dollar	**271**	24
British Pound	**44**	3

Raw materials price risk

The BMW Group is exposed to the risk of price fluctuations for raw materials. A description of the management of these risks is provided in the Combined Group and Company Management Report.

The first step in the analysis of the raw materials price risk is to determine the volume of planned purchases of raw materials (and components containing those raw materials). These amounts, which represent the gross exposure, were as follows at each reporting date for the following financial year:

in € million	31.12.2012	31.12.2011
Raw materials price exposures	**3,370**	3,300

In the next stage, these exposures are compared to all hedges that are in place. The net cash flow amount represents an uncovered risk position. The cash-flow-at-risk approach now applied – which should generate a more accurate picture than the sensitivity analysis approach previously used – involves allocating the impact of potential fluctuations in raw materials prices to operating cash flows on the basis of probability distributions. Volatilities and correlations serve as input factors to assess the relevant probability distributions.

The potential negative impact on earnings is computed for each raw material category for the following financial year on the basis of current market prices and exposure to a confidence level of 95 % and a holding period of up to one year. Correlations between the various categories of raw materials are taken into account when the risks are aggregated, thus reducing the overall risk.

The following table shows the potential negative impact for the BMW Group – measured on the basis of the cash-flow-at-risk approach – attributable to fluctuations in prices across all categories of raw materials. The risk at each reporting date for the following financial year was as follows:

in € million	31.12.2012	31.12.2011
Cash flow at risk	**350**	305

Other risks

A further exposure relates to the residual value risk on vehicles returned to the BMW Group at the end of lease contracts. The risk from financial instruments used in this context was not material to the Group in the past and/or at the end of the reporting period. A description of the management of this risk is provided in the Combined Group and Company Management Report. Information regarding the residual value risk from operating leases is provided in the section on accounting policies in note 5.

42 — Explanatory notes to the cash flow statements

The cash flow statements show how the cash and cash equivalents of the BMW Group and of the Automotive and Financial Services segments have changed in the course of the year as a result of cash inflows and cash outflows. In accordance with IAS 7 (Statement of Cash Flows), cash flows are classified into cash flows from operating, investing and financing activities.

Cash and cash equivalents included in the cash flow statement comprise cash in hand, cheques, and cash at bank, to the extent that they are available within three months from the end of the reporting period and are subject to an insignificant risk of changes in value.

The cash flows from investing and financing activities are based on actual payments and receipts. By contrast, the cash flow from operating activities is derived indirectly from the net profit for the year. Under this method, changes in assets and liabilities relating to operating activities are adjusted for currency translation effects and changes in the composition of the Group. The changes in balance sheet positions shown in the cash flow statement do not therefore agree directly with the amounts shown in the Group and segment balance sheets.

Cash inflows and outflows relating to operating leases, where the BMW Group is either lessee or lessor, are aggregated and shown on the line "Change in leased products" within cash flows from operating activities.

The net change in receivables from sales financing (including finance leases, where the BMW Group is either lessee or lessor) is also reported within cash flows from operating activities.

Income taxes paid and interest received are classified as cash flows from operating activities in accordance with IAS 7.31 and IAS 7.35. Interest paid is presented on a separate line within cash flows from financing activities. Dividends received in the financial year 2012 amounted to €4 million (2011: €1 million).

The BMW Group used various sources of funds for internal financing purposes. In addition to the issue of interest-bearing debt, cash funds are also allocated internally in line with business requirements, including the use of dividends and similar transactions. In this context, it is possible that cash funds may be transferred from one segment to another. Up to the first quarter 2012, these cash inflows and outflows were reported in the Cash Flow Statements of the Automotive and Financial Services segments as part of cash flows from operating activities. Due to the increasing importance of inter-segment transactions, the method of presentation was changed with effect from the second quarter 2012. Intragroup inter-segment dividends and similar transactions are now reported as part of cash flows from financing activities. The reclassification from operating activities to financing activities resulted in an increase in the operating cash flow. The previous year's figures were restated accordingly (impact in 2011: €1,033 million for the Automotive segment, €411 million for the Financial Services segment).

43 — Related party relationships

In accordance with IAS 24 (Related Party Disclosures), related individuals or entities which have the ability to control the BMW Group or which are controlled by the BMW Group, must be disclosed unless such parties are not already included in the Group Financial Statements as consolidated companies. Control is defined as ownership of more than one half of the voting power of BMW AG or the power to direct, by statute or agreement, the financial and operating policies of the management of the Group.

In addition, the disclosure requirements of IAS 24 also cover transactions with associated companies, joint ventures and individuals that have the ability to exercise significant influence over the financial and operating policies of the BMW Group. This also includes close relatives and intermediary entities. Significant influence over the financial and operating policies of the BMW Group is presumed when a party holds 20 % or more of the voting power of BMW AG. In addition, the requirements contained in IAS 24 relating to key management personnel and close members of their families or intermediary entities are also applied. In the case of the BMW Group, this applies to members of the Board of Management and Supervisory Board.

In the financial year 2012, the disclosure requirements contained in IAS 24 affect the BMW Group with regard to business relationships with non-consolidated subsidiaries, joint ventures and associated companies as well as with members of the Board of Management and Supervisory Board of BMW AG.

The BMW Group maintains normal business relationships with non-consolidated subsidiaries. Transactions with these companies are small in scale, arise in the normal course of business and are conducted on the basis of arm's length principles.

Transactions of BMW Group companies with the joint venture, BMW Brilliance Automotive Ltd., Shenyang, all arise in the normal course of business and are conducted on the basis of arm's length principles. Group companies sold goods and services to BMW Brilliance Automotive Ltd., Shenyang, during 2012 for an amount of €2,962 million (2011: €1,729 million). At 31 December 2012, receivables of Group companies from BMW Brilliance Automotive Ltd., Shenyang, totalled €608 million (2011: €381 million). There were no payables from Group companies to BMW Brilliance Automotive Ltd., Shenyang, at the end of the reporting period (2011: €89 million). Group companies received goods and services from BMW Brilliance Automotive Ltd., Shenyang, during the financial year under report for an amount of €26 million (2011: €15 million).

All relationships of BMW Group entities with the joint ventures SGL Automotive Carbon Fibers GmbH & Co. KG, Munich, and SGL Automotive Carbon Fibers LLC, Dover, DE, arise in the normal course of business. All transactions with these entities were conducted on the basis of arm's length principles. At 31 December 2012 receivables of Group companies for loans disbursed to the joint ventures amounted to €68 million (2011: €61 million). Realised interest income earned on these intragroup loans in 2012 amounted to €2 million (2011: €1 million). Goods and services received by Group companies from the joint ventures during the period under report totalled €9 million (2011: €4 million). At 31 December 2012 payables of Group companies to the joint ventures amounted to €1 million (2011: €1 million).

Transactions of BMW Group companies with the joint venture, BMW Peugeot Citroën Electrification B.V., The Hague, all arose in the normal course of business and were conducted on the basis of arm's length principles. Up to the date of termination of the joint venture arrangements, Group companies sold goods and services to the joint venture amounting to €4 million (2011: €– million). During the first eleven months of the year, the joint venture sold goods and services to Group companies amounting to €82 million (2011: €– million).

All relationships of BMW Group companies with the joint ventures DriveNow GmbH & Co. KG, Munich, and DriveNow Verwaltungs GmbH, Munich, are conducted on the basis of arm's length principles. Transactions with these entities arise in the normal course of business and are small in scale.

The BMW Group maintains normal business relationships with associated companies. Transactions with these companies are small in scale, arise in the normal course of business and are conducted on the basis of arm's length principles.

Stefan Quandt is a shareholder and member of the Supervisory Board of BMW AG. He is also the sole shareholder and Chairman of the Supervisory Board of DELTON AG, Bad Homburg v. d. H., which, via its subsidiaries, performed logistic-related services for the BMW Group during the financial year 2012. In addition, companies of the DELTON Group acquired vehicles on the basis of arm's length principles from the BMW Group, mostly in the form of leasing contracts. These service and lease contracts, which are not material for the BMW Group, all arise in the normal course of business and are conducted on the basis of arm's length principles.

Susanne Klatten is a shareholder and member of the Supervisory Board of BMW AG and also a shareholder and Deputy Chairman of the Supervisory Board of Altana AG, Wesel. Altana AG, Wesel, acquired vehicles from the BMW Group during the financial year 2012, mostly in the form of lease contracts. These contracts are not material for the BMW Group, arise in the course of ordinary activities and are made, without exception, on the basis of arm's length principles.

Apart from the transactions referred to above, companies of the BMW Group did not enter into any contracts with members of the Board of Management or Supervisory Board of BMW AG. The same applies to close members of the families of those persons.

BMW Trust e.V., Munich, administers assets on a trustee basis to secure obligations relating to pensions and pre-retirement part-time work arrangements in Germany and is therefore a related party of the BMW Group in accordance with IAS 24. This entity, which is a registered association (eingetragener Verein) under German law, does not have any assets of its own. It did not have any income or expenses during the period under report. BMW AG bears expenses on a minor scale and renders services on behalf of BMW Trust e.V., Munich.

44 — Declaration with respect to the Corporate Governance Code

The Board of Management and the Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft have issued the prescribed Declaration of Compliance pursuant to § 161 of the German Stock Corporation Act. It is reproduced in the Annual Report 2012 of the BMW Group and is also available to shareholders on the BMW Group website at www.bmwgroup.com/ir.

45 — Shareholdings of members of the Board of Management and Supervisory Board

The members of the Supervisory Board of BMW AG hold in total 27.63 % (2011: 27.65 %) of the issued common and preferred stock shares, of which 16.08 % (2011: 16.09 %) relates to Stefan Quandt, Bad Homburg v. d. H. and 11.55 % (2011: 11.56 %) to Susanne Klatten, Munich. As at the end of the previous financial year, shareholdings of members of the BMW AG Board of Management account, in total, for less than 1 % of issued shares.

46 — Compensation of members of the Board of Management and Supervisory Board

The compensation of current members of the Board of Management and Supervisory Board amounted to €36.4 million (2011: €32.1 million) and comprised the following:

in € million	2012	2011
Short-term employment benefits	**35.2**	31.0
Post-employment benefits	**1.2**	1.1
Compensation	**36.4**	**32.1**

The total compensation of the current Board of Management members for 2012 amounted to €31.4 million (2011: €27.3 million). This comprised fixed components of €7.5 million (2011: €4.7 million), variable components of €23.2 million (2011: €21.9 million) and a share-based compensation component totalling €0.7 million (2011: €0.7 million).

In addition, an expense of €1.2 million (2011: €1.1 million) was recognised for current members of the Board of Management for the period after the end of their employment relationship. This relates to the expense for allocations to pension provisions. Pension obligations to current members of the Board of Management are covered by pension provisions amounting to €29.4 million (2011: €19.0 million), computed in accordance with IAS 19 (Employee Benefits).

The remuneration of former members of the Board of Management and their dependants amounted to €3.8 million (2011: €3.7 million).

Pension obligations to former members of the Board of Management and their surviving dependants are fully covered by pension provisions amounting to €61.2 million (2011: €51.6 million), computed in accordance with IAS 19.

The compensation of the members of the Supervisory Board for the financial year 2012 amounted to €4.5 million (2011: €4.5 million). This comprised fixed components of €1.6 million (2011: €1.6 million) and variable components of €2.9 million (2011: €2.9 million).

The compensation systems for members of the Supervisory Board do not include any stock options, value appreciation rights comparable to stock options or any other stock-based compensation components. Apart from vehicle lease contracts entered into on customary market conditions, no advances and loans were granted to members of the Board of Management and the Supervisory Board, nor were any contingent liabilities entered into on their behalf.

Further details about the remuneration of current members of the Board of Management and the Supervisory Board can be found in the Compensation Report, which is part of the Combined Group and Company Management Report.

47 — Application of exemptions pursuant to § 264 (3) and § 264b HGB

A number of companies and incorporated partnerships (as defined by § 264a HGB) which are consolidated subsidiaries of BMW AG and for which the Group Financial Statements of BMW AG represent exempting consolidated financial statements, apply the exemptions available in § 264 (3) and § 264b HGB with regard to the drawing up of a management report. The exemptions have been applied by:

- Bavaria Wirtschaftsagentur GmbH, Munich
- BMW Fahrzeugtechnik GmbH, Eisenach
- BMW Hams Hall Motoren GmbH, Munich
- BMW M GmbH Gesellschaft für individuelle Automobile, Munich
- Rolls-Royce Motor Cars GmbH, Munich

In addition, the following entities apply the exemption available in § 264 (3) and § 264b HGB with regard to publication:

- Bavaria Wirtschaftsagentur GmbH, Munich
- Alphabet International GmbH, Munich
- BMW Hams Hall Motoren GmbH, Munich
- BMW M GmbH Gesellschaft für individuelle Automobile, Munich
- BMW INTEC Beteiligungs GmbH, Munich
- BMW Verwaltungs GmbH, Munich
- Rolls-Royce Motor Cars GmbH, Munich

48 — Explanatory notes to segment information

Information on reportable segments

For the purposes of presenting segment information, the activities of the BMW Group are divided into operating segments in accordance with IFRS 8 (Operating Segments). Operating segments are identified on the same basis that is used internally to manage and report on performance and takes account of the organisational structure of the BMW Group based on the various products and services of the reportable segments.

The activities of the BMW Group are broken down into the operating segments Automotive, Motorcycles, Financial Services and Other Entities.

The Automotive segment develops, manufactures, assembles and sells cars and off-road vehicles, under the brands BMW, MINI and Rolls-Royce as well as spare parts and accessories. BMW and MINI brand products are sold in Germany through branches of BMW AG and by independent, authorised dealers. Sales outside Germany are handled primarily by subsidiary companies and, in a number of markets, by independent import companies. Rolls-Royce brand vehicles are sold in the USA via a subsidiary company and elsewhere by independent, authorised dealers.

The BMW Motorcycles segment develops, manufactures, assembles and sells BMW and Husqvarna brand motorcycles as well as spare parts and accessories.

The principal lines of business of the Financial Services segment are car leasing, fleet business, retail customer and dealer financing, customer deposit business and insurance activities.

Holding and Group financing companies are included in the Other Entities segment. This segment also includes operating companies – BMW Services Ltd., Bracknell, BMW (UK) Investments Ltd., Bracknell, Bavaria Lloyd Reisebüro GmbH, Munich, and MITEC Mikroelektronik Mikrotechnik Informatik GmbH, Dingolfing – which are not allocated to one of the other segments.

Eliminations comprise the effects of eliminating business relationships between the operating segments.

Internal management and reporting

Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the Group Financial Statements. The only exception to this general principle is the treatment of inter-segment warranties, the earnings impact of which is allocated to the Automotive and Financial Services segments on the basis used internally to manage the business. Inter-segment receivables and payables, provisions, income, expenses and profits are eliminated in the column "Eliminations". Inter-segment sales take place at arm's length prices.

The role of "chief operating decision maker" with respect to resource allocation and performance assessment of the reportable segment is embodied in the full Board of Management. In order to assist the decision-taking process, various measures of segment profit or loss and of segment assets have been set for the various operating segments.

The Automotive and Motorcycles segments are managed on the basis of the profit before financial result. Capital employed is the corresponding measure of segment assets used to determine how to allocate resources. Capital employed comprises all current and non-current operational assets of the segment, after deduction of liabilities used operationally which are not subject to interest (e.g. trade payables).

The performance of the Financial Services segment is measured on the basis of profit or loss before tax. Net assets, defined as all assets less all liabilities, are used as the basis for assessing the allocation of resources.

The performance of the Other Entities segment is assessed on the basis of profit or loss before tax. The corresponding measure of segment assets used to manage the Other Entities segment is total assets less tax assets and investments.

Segment information by operating segment is as follows:

Segment information by operating segment

in € million	Automotive 2012	Automotive 2011	Motorcycles 2012	Motorcycles 2011
External revenues	**57,499**	51,684	**1,478**	1,427
Inter-segment revenues	**12,709**	11,545	**12**	9
Total revenues	**70,208**	**63,229**	**1,490**	**1,436**
Segment result	**7,624**	7,477	**9**	45
Capital expenditure on non-current assets	**5,325**	3,728	**125**	88
Depreciation and amortisation on non-current assets	**3,437**	3,568	**69**	62

in € million	Automotive 31.12.2012	Automotive 31.12.2011	Motorcycles 31.12.2012	Motorcycles 31.12.2011
Segment assets	**10,864**	10,016	**405**	551

Financial Services 2012	Financial Services 2011	Other Entities 2012	Other Entities 2011	Reconciliation to Group figures 2012	Reconciliation to Group figures 2011	Group 2012	Group 2011	
17,869	15,709	**2**	1	**–**	–	**76,848**	68,821	External revenues
1,681	1,801	**3**	4	**–14,405**	–13,359	**–**	–	Inter-segment revenues
19,550	**17,510**	**5**	**5**	**–14,405**	**–13,359**	**76,848**	**68,821**	**Total revenues**
1,561	1,790	**–6**	–168	**–1,369**	–1,761	**7,819**	7,383	Segment result
15,988	13,493	**–**	1	**–2,901**	–2,366	**18,537**	14,944	Capital expenditure on non-current assets
6,112	4,972	**–**	–	**–1,838**	–1,186	**7,780**	7,416	Depreciation and amortisation on non-current assets

Financial Services 31.12.2012	Financial Services 31.12.2011	Other Entities 31.12.2012	Other Entities 31.12.2011	Reconciliation to Group figures 31.12.2012	Reconciliation to Group figures 31.12.2011	Group 31.12.2012	Group 31.12.2011	
7,631	7,169	**50,685**	47,875	**62,265**	57,818	**131,850**	123,429	Segment assets

The segment result of the Motorcycles segment was negatively impacted by an impairment loss of €13 million (2011: €– million) on property, plant and equipment in accordance with IFRS 5 and by an expense of €57 million (2011: €– million) for an allocation to provisions at 31 December 2012.

Interest and similar income of the Financial Services segment is included in the segment result and totalled €5 million in both 2011 and 2012. Interest and similar expenses of the Financial Services segment amounted to €9 million (2011: €15 million). The Other Entities segment result includes interest and similar income amounting to €1,792 million (2011: €1,739 million) and interest and similar expenses amounting to €1,758 million (2011: €1,841 million).

The result from equity accounted investments did not have any impact on the segment result of the Other Entities segment in 2012 (2011: negative impact of €2 million). The segment result is stated after an impairment loss on other investments amounting to €7 million (2011: €8 million).

Segment assets of the Other Entities segment at 31 December 2012 do not contain any investments accounted for using the equity method (2011: €21 million).

The information disclosed for capital expenditure and depreciation and amortisation relates to non-current property, plant and equipment, intangible assets and leased products.

Segment figures can be reconciled to the corresponding Group figures as follows:

in € million	2012	2011
Reconciliation of segment result		
Total for reportable segments	**9,188**	9,144
Financial result of Automotive segment and Motorcycles segment	**–432**	–658
Elimination of inter-segment items	**–937**	–1,103
Group profit before tax	**7,819**	**7,383**
Reconciliation of capital expenditure on non-current assets		
Total for reportable segments	**21,438**	17,310
Elimination of inter-segment items	**–2,901**	–2,366
Total Group capital expenditure on non-current assets	**18,537**	**14,944**
Reconciliation of depreciation and amortisation on non-current assets		
Total for reportable segments	**9,618**	8,602
Elimination of inter-segment items	**–1,838**	–1,186
Total Group depreciation and amortisation on non-current assets	**7,780**	**7,416**

in € million	31.12.2012	31.12.2011
Reconciliation of segment assets		
Total for reportable segments	**69,585**	65,611
Non-operating assets – Other Entities segment	**6,097**	6,045
Operating liabilities – Financial Services segment	**81,066**	75,540
Interest-bearing assets – Automotive and Motorcycles segments	**36,323**	32,584
Liabilities of Automotive and Motorcycles segments not subject to interest	**22,051**	21,226
Elimination of inter-segment items	**–83,272**	–77,577
Total Group assets	**131,850**	**123,429**

In the case of information by geographical region, external sales are based on the location of the customer's registered office. Revenues with major customers were not material overall. The information disclosed for non-current assets relates to property, plant and equipment, intangible assets and leased products. The reconciling item disclosed for non-current assets relates to leased products.

Information by region

in € million	External revenues 2012	External revenues 2011	Non-current assets 2012	Non-current assets 2011
Germany	**12,186**	12,859	**22,954**	21,519
USA	**13,447**	11,516	**11,195**	10,073
China	**14,448**	11,591	**15**	10
Rest of Europe	**22,971**	20,956	**9,887**	9,066
Rest of the Americas	**2,824**	2,771	**1,548**	1,345
Other	**10,972**	9,128	**1,137**	961
Eliminations	**–**	–	**–3,720**	–2,939
Group	**76,848**	**68,821**	**43,016**	**40,035**

Munich, 19 February 2013

Bayerische Motoren Werke
Aktiengesellschaft

The Board of Management

Dr.-Ing. Dr.-Ing. E. h. Norbert Reithofer

Frank-Peter Arndt

Milagros Caiña Carreiro-Andree

Dr.-Ing. Herbert Diess

Dr.-Ing. Klaus Draeger

Dr. Friedrich Eichiner

Harald Krüger

Dr. Ian Robertson (HonDSc)

Statement pursuant to § 37y No. 1 of the Securities Trading Act (WpHG) in conjunction with § 297 (2) sentence 3 and § 315 (1) sentence 6 of the German Commercial Code (HGB)
"To the best of our knowledge, and in accordance with the applicable reporting principles, the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and profit of the Group, and the Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group."

Munich, 19 February 2013

Bayerische Motoren Werke
Aktiengesellschaft

The Board of Management

Dr.-Ing. Dr.-Ing. E. h. Norbert Reithofer

Frank-Peter Arndt | Milagros Caiña Carreiro-Andree

Dr.-Ing. Herbert Diess | Dr.-Ing. Klaus Draeger

Dr. Friedrich Eichiner | Harald Krüger

Dr. Ian Robertson (HonDSc)

BMW Group
Auditor's Report

We have audited the consolidated financial statements prepared by Bayerische Motoren Werke Aktiengesellschaft, comprising the income statement for group and statement of comprehensive income for group, the balance sheet for group, cash flow statement for group, group statement of changes in equity and the notes to the group financial statements and its report on the position of the Company and the Group for the business year from 1 January to 31 December 2012. The preparation of the consolidated financial statements and Group Management Report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB (Handelsgesetzbuch "German Commercial Code") are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the Group Management Report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group Management Report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and in the Group Management Report are examined primarily on a test basis within the framework of the audit. The audit also includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements and Group Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group Management Report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, 1 March 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Schindler	Huber-Straßer
Wirtschaftsprüfer	Wirtschaftsprüferin

Good corporate governance – acting in accordance with the principles of responsible management aimed at increasing the value of the business on a sustainable basis – is an essential requirement for the BMW Group embracing all areas of the business. Corporate culture within the BMW Group is founded on transparent reporting and internal communication, a policy of corporate governance aimed at the interests of stakeholders, fair and open dealings between the Board of Management, the Supervisory Board and employees and compliance with the law. The Board of Management reports in this declaration, also on behalf of the Supervisory Board, on important aspects of corporate governance pursuant to § 289a HGB and section 3.10 of the German Corporate Governance Code (GCGC).

Information on the Company's Governing Constitution
The designation "BMW Group" comprises Bayerische Motoren Werke Aktiengesellschaft (BMW AG) and its group entities. BMW AG is a stock corporation (Aktiengesellschaft) based on the German Stock Corporation Act (Aktiengesetz) and has its registered office in Munich, Germany. It has three representative bodies: the Annual General Meeting, the Supervisory Board and the Board of Management. The duties and authorities of those bodies derive from the Stock Corporation Act and the Articles of Incorporation of BMW AG. Shareholders, as the owners of the business, exercise their rights at the Annual General Meeting. The Annual General Meeting also provides an opportunity to shareholders to engage in dialogue with the Board of Management and the Supervisory Board. The Annual General Meeting decides in particular on the utilisation of unappropriated profit, the ratification of the acts of the members of the Board of Management and of the Supervisory Board, the appointment of the external auditor, changes to the Articles of Incorporation, specified capital measures and elects the shareholders' representatives to the Supervisory Board. The Board of Management manages the enterprise under its own responsibility. Within this framework, it is monitored and advised by the Supervisory Board. The Supervisory Board appoints the members of the Board of Management and can, at any time, revoke an appointment if there is an important reason. The Board of Management keeps the Supervisory Board informed of all significant matters regularly, promptly and comprehensively, following the principles of conscientious and faithful accountability and in accordance with prevailing law and the reporting duties allocated to it by the Supervisory Board. The Board of Management requires the approval of the Supervisory Board for certain major transactions. The Supervisory Board is not, however, authorised to undertake management measures itself.

In accordance with the requirements of the German Co-determination Act for companies that generally employ more than 20,000 people, the Supervisory Board of BMW AG is required to comprise ten shareholder representatives elected at the Annual General Meeting (Supervisory Board members representing equity or shareholders) and ten employees elected in accordance with the provisions of the Co-determination Act (Supervisory Board members representing employees). The ten Supervisory Board members representing employees comprise seven Company employees, including one executive staff representative, and three members elected following nomination by unions.

The close interaction between the Board of Management and the Supervisory Board in the interests of the enterprise as described above is also known as a "two-tier board structure".

Declaration of Compliance and the BMW Group Corporate Governance Code
Management and supervisory boards of companies listed in Germany are required by law (§ 161 German Stock Corporation Act) to report once a year whether the officially published and relevant recommendations issued by the "German Government Corporate Governance Code Commission", as valid at the date of the declaration, have been, and are being, complied with. Companies affected are also required to state which of the recommendations of the Code have not been or are not being applied, stating the reason or reasons. The full text of the declaration, together with explanatory comments, is shown on the following page of this Annual Report.

The Board of Management and the Supervisory Board approved the Group's own Corporate Governance Code based on the GCGC in previous years in order to provide interested parties with a comprehensive and standalone document covering the corporate governance practices applied by the BMW Group. A coordinator responsible for all corporate governance issues reports directly and on a regular basis to the Board of Management and Supervisory Board.

The Corporate Governance Code for the BMW Group, together with the Declaration of Compliance, Articles of Incorporation and other information, can be viewed and/or downloaded from the BMW Group's website at www.bmwgroup.com/ir under the menu items "Corporate Facts" and "Corporate Governance".

Declaration of the Board of Management and of the Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft with respect to the recommendations of the "Government Commission on the German Corporate Governance Code" pursuant to § 161 German Stock Corporation Act

The Board of Management and Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft ("BMW AG") declare the following regarding the recommendations of the "Government Commission on the German Corporate Governance Code":

Since issuance of the last Declaration in December 2011, BMW AG has complied with all of the recommendations published officially on 2 July 2010 in the electronic Federal Gazette (Code version dated 26 May 2010).

BMW AG will comply with all of the recommendations published officially on 15 June 2012 in the electronic Federal Gazette (Code version dated 15 May 2012), with the exception of the amended recommendation contained in section 5.4.6 paragraph 2 sentence 2 ("If members of the Supervisory Board are promised performance-related compensation, it shall be oriented toward sustainable growth of the enterprise.").

The Articles of Incorporation of BMW AG provide for the members of the Supervisory Board to receive, in addition to a fixed compensation component, a performance-related compensation component which is subject to a cap and which is based on earnings per share of common stock in the past financial year. This regulation in the Articles of Incorporation, which was resolved by the shareholders at the Annual General Meeting in 2008, complied with the previous recommendation of the Government Commission contained in section 5.4.6 paragraph 2 sentence 1 ("Members of the Supervisory Board shall receive fixed as well as performance-related compensation.", Code version dated 26 May 2010).

The Board of Management and Supervisory Board will submit a proposal at the Annual General Meeting 2013 to amend the Articles of Incorporation with a view to changing the basis for Supervisory Board compensation. In line with the Code's revised recommendation on supervisory board compensation, the performance-related compensation component will in future take more than one financial year into account and will be oriented toward sustainable growth of the enterprise.

Munich, December 2012

Bayerische Motoren Werke
Aktiengesellschaft

On behalf of the
Supervisory Board

Prof. Dr.-Ing. Dr. h.c.
Dr.-Ing. E.h. Joachim Milberg
Chairman

On behalf of the
Board of Management

Dr.-Ing. Dr.-Ing. E.h.
Norbert Reithofer
Chairman

Members of the Board of Management

Dr.-Ing. Dr.-Ing. E. h. Norbert Reithofer (born 1956)
Chairman

Mandates
— Henkel AG & Co. KGaA

Frank-Peter Arndt (born 1956)
Production

Mandates
— BMW Motoren GmbH (Chairman)
— TÜV Süd AG
— BMW (South Africa) (Pty) Ltd. (Chairman)
— Leipziger Messe GmbH

Milagros Caiña Carreiro-Andree (born 1962)
(since 01. 07. 2012)
Human Resources, Industrial Relations Director

Dr.-Ing. Herbert Diess (born 1958)
Purchasing and Supplier Network (until 31. 03. 2012)
Development (since 01. 04. 2012)

Dr.-Ing. Klaus Draeger (born 1956)
Development (until 31. 03. 2012)
Purchasing and Supplier Network (since 01. 04. 2012)

Dr. Friedrich Eichiner (born 1955)
Finance

Mandates
— Allianz Deutschland AG
— BMW Brilliance Automotive Ltd. (Deputy Chairman)

Harald Krüger (born 1965)
Human Resources, Industrial Relations Director
(until 30. 06. 2012)
MINI, Motorcycles, Rolls-Royce,
After Sales BMW Group (since 01. 04. 2012)

Mandates
— Rolls-Royce Motor Cars Limited (Chairman)
(since 01. 05. 2012)

Dr. Ian Robertson (HonDSc) (born 1958)
Sales and Marketing (until 31. 03. 2012)
Sales and Marketing BMW, Sales Channels
BMW Group (since 01. 04. 2012)

Mandates
— Rolls-Royce Motor Cars Limited (Chairman)
(until 30. 04. 2012)
— Dyson James Group Limited (since 20. 07. 2012)

General Counsel:
Dr. Dieter Löchelt

— Membership of other statutory supervisory boards
— Membership of equivalent national or foreign boards of business enterprises

Members of the Supervisory Board

Prof. Dr.-Ing. Dr. h. c. Dr.-Ing. E. h. Joachim Milberg (born 1943)
Chairman
Former Chairman of the Board of Management of BMW AG

Chairman of the Presiding Board, Personnel Committee and Nomination Committee; member of Audit Committee and the Mediation Committee

Mandates
- ▬ Bertelsmann Management SE (since 04. 05. 2012) (Deputy Chairman since 11. 05. 2012)
- ▬ Bertelsmann SE & Co. KGaA (Deputy Chairman)
- ▬ FESTO Aktiengesellschaft (Chairman)
- ▬ SAP AG (until 23. 05. 2012)
- — Deere & Company
- — FESTO Management Aktiengesellschaft (Chairman)

Manfred Schoch[1] (born 1955)
Deputy Chairman
Chairman of the European and General Works Council
Industrial Engineer

Member of the Presiding Board, Personnel Committee, Audit Committee and Mediation Committee

Stefan Quandt (born 1966)
Deputy Chairman
Entrepreneur

Member of the Presiding Board, Personnel Committee, Audit Committee, Nomination Committee and Mediation Committee

Mandates
- ▬ DELTON AG (Chairman)
- — AQTON SE (Chairman)
- — DataCard Corp.

Stefan Schmid[1] (born 1965)
Deputy Chairman
Chairman of the Works Council, Dingolfing

Member of the Presiding Board, Personnel Committee, Audit Committee and Mediation Committee

Dr. jur. Karl-Ludwig Kley (born 1951)
Deputy Chairman
Chairman of the Executive Management of Merck KGaA

Chairman of the Audit Committee and Independent Finance Expert; member of the Presiding Board, Personnel Committee and Nomination Committee

Mandates
- ▬ Bertelsmann Management SE (since 04. 05. 2012)
- ▬ Bertelsmann SE & Co. KGaA
- ▬ 1. FC Köln GmbH & Co. KGaA (Chairman)

Bertin Eichler[2] (born 1952)
Executive Member of the Executive Board of IG Metall

Mandates
- ▬ BGAG Beteiligungsgesellschaft der Gewerkschaften GmbH (Chairman)
- ▬ ThyssenKrupp AG (Deputy Chairman)

[1]Employee representatives (company employees).
[2]Employee representatives (union representatives).
[3]Employee representative (member of senior management).
▬ Membership of other statutory supervisory boards
— Membership of equivalent national or foreign boards of business enterprises

Franz Haniel (born 1955)
Engineer, MBA

Mandates
- **—** DELTON AG (Deputy Chairman)
- **—** Franz Haniel & Cie. GmbH (Chairman)
- **—** Heraeus Holding GmbH
- **—** Metro AG (Chairman)
- **—** secunet Security Networks AG
- — Giesecke & Devrient GmbH
- — TBG Limited

Prof. Dr. rer. nat. Dr. h. c. Reinhard Hüttl (born 1957)
Chairman of the Executive Board of Helmholtz-Zentrum Potsdam Deutsches GeoForschungsZentrum – GFZ
University professor

Prof. Dr. rer. nat. Dr.-Ing. E. h. Henning Kagermann (born 1947)
President of acatech – Deutsche Akademie der Technikwissenschaften e. V.

Mandates
- **—** Deutsche Bank AG
- **—** Deutsche Post AG
- **—** Franz Haniel & Cie GmbH (since 27. 11. 2012)
- **—** Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München
- — Nokia Corporation
- — Wipro Limited

Susanne Klatten (born 1962)
Entrepreneur

Member of the Nomination Committee

Mandates
- **—** ALTANA AG (Deputy Chairman)
- **—** SGL Carbon SE (Deputy Chairman since 16. 08. 2012)
- — UnternehmerTUM GmbH (Chairman)

Prof. Dr. rer. pol. Renate Köcher (born 1952)
Director of Institut für Demoskopie Allensbach Gesellschaft zum Studium der öffentlichen Meinung mbH

Mandates
- **—** Allianz SE
- **—** Infineon Technologies AG
- **—** Nestlé Deutschland AG (since 25. 05. 2012)
- **—** Robert Bosch GmbH (since 30. 03. 2012)

Dr. h. c. Robert W. Lane (born 1949)
Former Chairman and Chief Executive Officer of Deere & Company

Mandates
- — General Electric Company
- — Northern Trust Corporation
- — Verizon Communications Inc.

Horst Lischka[2] (born 1963)
General Representative of IG Metall Munich

Mandates
- **—** KraussMaffei GmbH
- **—** MAN Truck & Bus AG

Willibald Löw[1] (born 1956)
Chairman of the Works Council, Landshut

Wolfgang Mayrhuber (born 1947)
Former Chairman of the Board of Management of Deutsche Lufthansa Aktiengesellschaft

Mandates
- **—** Infineon Technologies AG (Chairman)
- **—** Lufthansa Technik Aktiengesellschaft
- **—** Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München
- — Austrian Airlines AG
- — HEICO Corporation
- — UBS AG

[1]Employee representatives (company employees).
[2]Employee representatives (union representatives).
[3]Employee representative (member of senior management).
— Membership of other statutory supervisory boards
— Membership of equivalent national or foreign boards of business enterprises

Dr. Dominique Mohabeer[1] (born 1963)
(since 01. 06. 2012)
Member of the Works Council, Munich

Franz Oberländer[1] (born 1952)
(until 31. 05. 2012)
Member of the Works Council, Munich

Anton Ruf[3] (born 1953)
(until 31. 10. 2012)
Head of Development "Small Model Series"

Maria Schmidt[1] (born 1954)
Member of the Works Council, Dingolfing

Jürgen Wechsler[2] (born 1955)
Regional Head of IG Metall Bavaria

Mandates

- Schaeffler AG (Deputy Chairman)

Werner Zierer[1] (born 1959)
Chairman of the Works Council, Regensburg

Oliver Zipse[3] (born 1964)
(since 01. 11. 2012)
Head of Brand and Product Strategies

Composition and work procedures of the Board of Management of BMW AG and its committees
The Board of Management governs the enterprise under its own responsibility, acting in the interests of the BMW Group with the aim of achieving sustainable growth in value. The interests of shareholders, employees and other stakeholders are also taken into account in the pursuit of this aim.

The Board of Management determines the strategic orientation of the enterprise, agrees upon it with the Supervisory Board and ensures its implementation. The Board of Management is responsible for ensuring that all provisions of law and internal regulations are complied with. Further details about compliance within the BMW Group can be found in the "Corporate Governance" section of the Annual Report. The Board of Management is also responsible for ensuring that appropriate risk management and risk controlling systems are in place throughout the Group.

During their period of employment for BMW AG, members of the Board of Management are bound by a comprehensive non-competition clause. They are required to act in the enterprise's best interests and may not pursue personal interests in their decisions or take advantage of business opportunities intended for the enterprise. They may only undertake ancillary activities, in particular supervisory board mandates outside the BMW Group, with the approval of the Supervisory Board's Personnel Committee. Each member of the Board of Management of BMW AG is obliged to disclose conflicts of interest to the Supervisory Board without delay and inform the other members of the Board of Management accordingly.

Following the appointment of a new member to the Board of Management, the BMW Corporate Governance Officer informs the new member of the framework conditions under which the board member's duties are to be carried out – in particular those enshrined in the BMW Group's Corporate Governance Code – as well as the duty to cooperate when a transaction or event triggers reporting requirements or requires the approval of the Supervisory Board.

The Board of Management consults and takes decisions as a collegiate body in meetings of the Board of Management, the Sustainability Board, the Operations Committee and the Committee for Executive Management Matters. At its meetings, the Board of Management defines the overall framework for business strategies and the use of resources, takes decisions regarding the implementation of strategies and deals with issues of particular importance to the BMW Group. The full board also takes decisions at a basic policy level relating to the Group's automobile product strategies and product projects inasmuch as these are relevant for all brands. The Board of Management and its committees may, as required and depending on the subject matters being discussed, invite non-voting advisers to participate at meetings.

Terms of reference approved by the Board of Management contain a planned allocation of divisional responsibilities between the individual board members. These terms of reference also incorporate the principle that the full Board of Management bears joint responsibility for all matters of particular importance and scope. In addition, members of the Board of Management manage the relevant portfolio of duties under their responsibility, whereby case-by-case rules can be put in place for cross-divisional projects. Board members continually provide the Chairman of the Board of Management with all information regarding major transactions and developments within their area of responsibility. The Chairman of the Board of Management coordinates cross-divisional matters with the overall targets and plans of the BMW Group, involving other board members to the extent that divisions within their area of responsibility are affected.

The Board of Management takes its decisions at meetings generally held on a weekly basis which are convened, coordinated and headed by the Chairman of the Board of Management. At the request of the Chairman, decisions can also be taken outside of board meetings if none of the board members object to this procedure. A meeting is quorate if all Board of Management members are invited to the meeting in good time. Members unable to attend any meeting are entitled to vote in writing, by fax or by telephone. Votes cast by phone must be subsequently confirmed in writing. Except in urgent cases, matters relating to a division for which the responsible board member is not present will only be discussed and decided upon with that member's consent.

Unless stipulated otherwise by law or in BMW AG's statutes, the Board of Management makes decisions on the basis of a simple majority of votes cast at meetings. Outside of board meetings, decisions are taken on the basis of a simple majority of board members. In the event of a tied vote, the Chairman of the Board of Management has the casting vote. Any changes to the board's terms of reference must be passed unanimously. A board meeting may only be held if more than half of the board members are present.

In the event that the Chairman of the Board of Management is not present or is unable to attend a meeting, the

Member of the Board responsible for Finances will represent him.

Minutes are taken of all meetings and the Board of Management's resolutions and signed by the Chairman. Decisions taken by the Board of Management are binding for all employees.

The rules relating to meetings and resolutions taken by the full Board of Management are also applicable for its committees.

Members of the Board of Management not represented in a committee are provided with the agendas and minutes of committee meetings. Committee matters are dealt with in full board meetings if the committee considers it necessary or at the request of a member of the Board of Management.

The secretariat for Board of Management matters assists the Chairman and other board members with the preparation and follow-up work connected with board meetings.

At meetings of the Operations Committee (generally held three times a month), decisions are reached in connection with automobile product projects, based on the strategic orientation and decision framework stipulated at Board of Management meetings. The Operations Committee comprises the Board of Management member responsible for Development (who also chairs the meetings), together with the board members responsible for the following areas: Purchases and Supplier Network; Production; Sales and Marketing BMW, Sales Channels BMW Group; and MINI, Motorcycles, Rolls-Royce, Aftersales BMW Group. If the committee chairman is not present or unable to attend a meeting, the Member of the Board responsible for Production represents him. Resolutions taken at meetings of the Operations Committee are made online.

The full board usually convenes twice a year in its function as Sustainability Board in order to define strategy with regard to sustainability and decide upon measures to implement that strategy. The Head of Group Communication and the Group Representative for Sustainability and Environmental Protection participate in these meetings in an advisory capacity.

The Board's Committee for Executive Management Matters deals with enterprise-wide issues affecting executive managers of the BMW Group, either in their entirety or individually (such as the executive management structure, potential candidates for executive management, nominations for or promotions to senior management positions). This committee has, on the one hand, an advisory and preparatory role (e.g. making suggestions for promotions to the two remuneration groups below board level and preparing decisions to be taken at board meetings with regard to human resources principles with the emphasis on executive management issues) and a decision-taking function on the other (e.g. deciding on appointments to senior management positions and promotions to higher remuneration groups or the wording of human resources principles decided on by the full board). The Committee has two members who are entitled to vote at meetings, namely the Chairman of the Board of Management (who also chairs the meetings) and the board member responsible for Human Resources. The Head of Human Resources, Personnel Network and Human Resources International and the Head of Human Resources Senior Management also participate in an advisory function. At the request of the Chairman, resolutions may also be passed outside of committee meetings by casting votes in writing, by fax or by telephone if the other member entitled to vote does not object immediately. As a general rule, between five and ten meetings are held each year.

The Board of Management is represented by its Chairman in its dealings with the Supervisory Board. The Chairman of the Board of Management maintains regular contact with the Chairman of the Supervisory Board and keeps him informed of all important matters. The Supervisory Board has passed a resolution specifying the information and reporting duties of the Board of Management. As a general rule, in the case of reports required by dint of law, the Board of Management submits its reports to the Supervisory Board in writing. To the extent possible, documents required as a basis for taking decisions are sent to the members of the Supervisory Board in good time before the relevant meeting. Regarding transactions of fundamental importance, the Supervisory Board has stipulated specific transactions which require the approval of the Supervisory Board. Whenever necessary, the Chairman of the Board of Management obtains the approval of the Supervisory Board and ensures that reporting duties to the Supervisory Board are complied with. In order to fulfil these tasks, the Chairman is supported by all members of the Board of Management. The fundamental principle followed when reporting to the Supervisory Board is that the latter should be kept informed regularly, without delay and comprehensively of all significant matters relating to planning, business performance, risk exposures, risk management and compliance, as well as any major variances between actual and budgeted figures.

Composition and work procedures of the Supervisory Board of BMW AG and its committees
BMW AG's Supervisory Board, comprising ten shareholder representatives (elected by the Annual General Meeting) and ten employee representatives (elected by employees in accordance with the German Co-determination Act), has the task of advising and supervising the Board of Management in its governance of the BMW Group. It is involved in all decisions of fundamental importance for the BMW Group. The Supervisory Board appoints the members of the Board of Management and decides upon the level of compensation they are to receive. The Supervisory Board can revoke appointments for important reasons.

Together with the Personnel Committee and the Board of Management, the Supervisory Board ensures that long-term successor planning is in place. In their assessment of candidates for a post on the Board of Management, the underlying criteria applied by the Supervisory Board for determining the suitability of candidates are their expertise in the relevant area of board responsibility, outstanding leadership qualities, a proven track record and an understanding of the BMW Group's business. The Supervisory Board takes diversity into account when assessing, on balance, which individual will best complement the Board of Management as a representative body of the Company. "Diversity" in the context of the decision process is understood by the Supervisory Board to encompass different, complementary individual profiles, work and life experiences, at both a national and international level, as well as appropriate representation of both genders. The Supervisory Board strives to ensure appropriate female representation on the Board of Management. The Board of Management reports accordingly to the Personnel Committee – at regular intervals and, on request, prior to personnel decisions being taken by the Supervisory Board – on the proportion of, and changes in, management positions held by women, in particular below senior executive level and at uppermost management level. When actually selecting an individual for a post on the Board of Management, the Supervisory Board decides in the best interests of the Company and after taking account of all relevant circumstances.

The Supervisory Board holds a minimum of two meetings in each of the first and second six-month periods of the calendar year. Normally, five plenary meetings are held per calendar year, as was the case in 2012. One meeting each year is planned to cover a number of days and is used, among other things, to enable an in-depth exchange on strategic and technological matters. The main emphases of meetings in 2012 are described in the Report of the Supervisory Board. As a general rule, the shareholder representatives and employee representatives prepare the Supervisory Board meetings separately and, if necessary, together with members of the Board of Management.

The Chairman of the Supervisory Board coordinates work within the Supervisory Board, chairs its meetings, handles the external affairs of the Supervisory Board and represents it in its dealings with the Board of Management.

The Supervisory Board is quorate if all members have been invited to the meeting and at least half of its members participate in the vote on a particular resolution. A resolution relating to an agenda item not included in the invitation is only valid if none of the members of the Supervisory Board who were not present at the meeting object to the resolution and a minimum of two-thirds of the members are present.

As a basic rule, resolutions are passed by the Supervisory Board by simple majority. The German Co-determination Act contains specific requirements with regard to majority voting and technical procedures, particularly with regard to the appointment and revocation of appointment of management board members and the election of a supervisory board chairman or deputy chairman. In the event of a tied vote in the Supervisory Board, the Chairman of the Supervisory Board has two votes in a renewed vote, even if this also results in a tied vote.

In practice, resolutions are taken by the Supervisory Board and its committees at the relevant meetings. A Supervisory Board member who is not present at a meeting can have his/her vote cast by another Supervisory Board member if an appropriate request has been made in writing, by fax or in electronic form. This rule also applies to the casting of the second vote by the Chairman of the Supervisory Board. The Chairman of the Supervisory Board can also accept the retrospective casting of votes by any members not present at a meeting if this is done within the time limit previously set. In special cases, resolutions may also be taken outside of meetings, i.e. in writing, by fax or by electronic means. Minutes are taken of each meeting and any resolutions made are signed by the Chairman of the Supervisory Board.

After its meetings, the Supervisory Board is generally provided information on new vehicle models in the form of a short presentation.

Following the election of a new Supervisory Board member, the BMW Corporate Governance Officer informs the new member of the principal issues affecting his or her duties – in particular those enshrined in the BMW Group Corporate Governance Code – including the duty to cooperate when a transaction or event triggers reporting requirements or is subject to the approval of the Supervisory Board. New Supervisory Board members are also given the opportunity to become better acquainted with the business outside of Supervisory Board meetings by means of an information programme.

All members of the Supervisory Board of BMW AG are required to ensure that they have sufficient time to perform their mandate. If members of the Supervisory Board of BMW AG are also members of the management board of a listed company, they may not accept more than a total of three mandates on non-BMW Group supervisory boards of listed companies or in other bodies with comparable requirements.

The Supervisory Board examines the efficiency of its activities on a regular basis. Joint discussions are also held at plenum meetings, prepared on the basis of a questionnaire previously devised by and distributed to the members of the Supervisory Board. The Chairman of the Supervisory Board is open to suggestions for improvement at all times.

Each member of the Supervisory Board of BMW AG is bound to act in the enterprise's best interests. Members of the Supervisory Board may not pursue personal interests in their decisions or take advantage of business opportunities intended for the benefit of the enterprise.

Members of the Supervisory Board are obliged to inform the full Supervisory Board of any conflicts of interest which may result from a consultant or directorship function with clients, suppliers, lenders or other business partners, enabling the Supervisory Board to report to the shareholders at the Annual General Meeting on how it has dealt with such issues. Material conflicts of interest and those which are not merely temporary in nature result in the termination of the mandate of the relevant Supervisory Board member.

With regard to nominations for the election of members of the Supervisory Board, care is taken that the Supervisory Board in its entirety has the required knowledge, skills and expert experience to perform its tasks in a proper manner.

The Supervisory Board has set out specific targets for its own composition (see section "Composition targets for the Supervisory Board").

The members of the Supervisory Board are responsible for undertaking appropriate basic and further training measures such as that may be necessary to carry out the tasks assigned to them. The Company provides appropriate assistance to members of the Supervisory Board in this respect.

The ability of the Supervisory Board to supervise and advise the Board of Management independently is also assisted by the fact that the Supervisory Board is required, based on its own assessment, to have an appropriate number of independent members. Prof. Dr.-Ing. Dr. h. c. Dr.-Ing. E. h. Joachim Milberg is the only person on the Supervisory Board to have previously served on the Board of Management, of which he ceased to be a member in 2002. Supervisory Board members do not exercise directorships or similar positions or undertake advisory tasks for important competitors of the BMW Group.

Taking into account the specific circumstances of the BMW Group and the number of board members, the Supervisory Board has set up a Presiding Board and four committees, namely the Personnel Committee, the Audit Committee, the Nomination Committee and the Mediation Committee (see Overview of Supervisory Board committees, meetings). Such committees serve to raise the efficiency of the Supervisory Board's work and facilitate the handling of complex issues. The establishment and function of a mediation committee is prescribed by law. The person chairing a committee reports in detail on its work at each plenum meeting.

The composition of the Presiding Board and the various committees is based on legal requirements, BMW AG's Articles of Incorporation, terms of reference and corporate governance principles. The expertise and technical skills of its members are also taken into account.

According to the relevant terms of reference, the Chairman of the Supervisory Board is, in this capacity, automatically a member of the Presiding Board, the Personnel Committee and the Nomination Committee, and also chairs these committees.

The number of meetings held by the Presiding Board and the committees depends on current requirements. The Presiding Board, the Personnel Committee and the Audit Committee normally hold several meetings in the course of the year (see Overview of Supervisory Board committees, meetings for details of the number of meetings held in 2012).

In line with the terms of reference for the activities of the plenum, the Supervisory Board has also set terms of reference for the Presiding Board and the various committees. The committees are only quorate if all members are present. Resolutions taken by the committees are passed by simple majority unless stipulated otherwise by law. Minutes are also taken at the meetings and for the resolutions of the committees and the Presiding Board, and signed by the person chairing the particular meeting. This person also represents the committee in any dealings it may have with the Board of Management or third parties.

Members of the Supervisory Board may not delegate their duties. The Supervisory Board, the Presiding Board and committees may call on experts and other suitably informed persons to attend meetings to give advice on specific matters.

The Supervisory Board, the Presiding Board and the committees also meet without the Board of Management if necessary.

BMW AG ensures that the Supervisory Board and its committees are sufficiently equipped to carry out their duties. This includes the services provided by a centralised secretariat to support the chairmen in coordinating the work of the Supervisory Board.

In accordance with the relevant terms of reference, the Presiding Board comprises the Chairman of the Supervisory Board and board deputies. The Presiding Board prepares Supervisory Board meetings to the extent that the subject matter to be discussed does not fall within the remit of a committee. This includes, for example, preparing the annual Declaration of Compliance with the German Corporate Governance Code and the Supervisory Board's efficiency examination.

The Personnel Committee prepares the decisions of the Supervisory Board with regard to the appointment and revocation of appointment of members of the Board of Management and, together with the full Supervisory Board and the Board of Management, ensures that long-term successor planning is in place. The Personnel Committee also prepares the decisions of the Supervisory Board with regard to the Board of Management's compensation and the Supervisory Board's regular review of the Board of Management's compensation system. In conjunction with the resolutions taken by the Supervisory Board regarding the compensation of the Board of Management, the Personnel Committee is responsible for drawing up, amending and revoking service/employment contracts or, when necessary, other relevant contracts with members of the Board of Management. In specified cases, the Personnel Committee also has the authority to give the necessary approval for a particular transaction (instead of the Supervisory Board). This includes loans to members of the Board of Management or Supervisory Board, specified contracts with members of the Supervisory Board (in each case taking account of the consequences of related party transactions), as well as other activities of members of the Board of Management, including the acceptance of non-BMW Group supervisory board mandates.

The Audit Committee deals in particular with issues relating to the supervision of the financial reporting process, the effectiveness of the internal control system, the risk management system, internal audit arrangements and compliance. It also monitors the external audit, auditor independence and any additional work performed by the external auditor. It prepares the proposal for the election of the external auditor at the Annual General Meeting, makes a recommendation regarding the election of the external auditor, issues the audit engagement letter and agrees on points of emphasis as well as the auditor's fee. The Audit Committee prepares the Supervisory Board's resolution relating to the Company and Group Financial Statements and discusses interim reports with the Board of Management before publication. The Audit Committee also decides on the Supervisory Board's agreement to use the Authorised Capital 2009 (Article 4 no. 5 of the Articles of Incorporation) and on amendments to the Articles of Incorporation which only affect its wording.

In line with the recommendations of the German Corporate Governance Code, the Chairman of the Audit Committee is independent and not a former Chairman of the Board of Management and has specific know-how and experience in applying financial reporting standards and internal control procedures. He also fulfils the requirements of being an independent financial expert as defined by § 100 (5) and § 107 (4) AktG.

The Nomination Committee is charged with the task of finding suitable candidates for election to the Supervisory Board (as shareholder representatives) and for inclusion in the Supervisory Board's proposals for election at the Annual General Meeting. In line with the recommendations of the German Corporate Governance Code, the Nomination Committee comprises only shareholder representatives.

The establishment and composition of a mediation committee are required by the German Co-determination Act. The Mediation Committee has the task of making proposals to the Supervisory Board if a resolution for the appointment of a member of the Board of Management has not been carried by the necessary two-thirds majority of members' votes. In accordance with statutory requirements, the Mediation Committee comprises the Chairman and the Deputy Chairman of the Supervisory Board and one member each selected by shareholder representatives and employee representatives.

Overview of Supervisory Board Committees, Meetings

Principal duties, basis for activities	Members	Number of meetings 2012	Average attendance
Presiding Board			
– preparation of Supervisory Board meetings to the extent that the subject matter to be discussed does not fall within the remit of a committee – activities based on terms of reference	Joachim Milberg[1] Manfred Schoch Stefan Quandt Stefan Schmid Karl-Ludwig Kley	4 plus 2 telephone conferences	97%
Personnel Committee			
– preparation of decisions relating to the appointment and revocation of appointment of members of the Board of Management, the compensation and the regular review of the Board of Management's compensation system – conclusion, amendment and revocation of employment contracts (in conjunction with the resolutions taken by the Supervisory Board regarding the compensation of the Board of Management) and other contracts with members of the Board of Management – decisions relating to the approval of ancillary activities of Board of Management members, including acceptance of non-BMW Group supervisory mandates as well as the approval of transactions requiring Supervisory Board approval by dint of law (e.g. loans to Board of Management or Supervisory Board members) – set up in accordance with the recommendation contained in the German Corporate Governance Code, activities based on terms of reference	Joachim Milberg[1] Manfred Schoch Stefan Quandt Stefan Schmid Karl-Ludwig Kley	4	95%
Audit Committee			
– supervision of the financial reporting process, effectiveness of the internal control system, risk management system, internal audit arrangements and compliance – supervision of external audit, in particular auditor independence and additional work performed by external auditor – preparation of proposals for election of external auditor at Annual General Meeting, engagement of external auditor and compliance of audit engagement, determination of areas of audit emphasis and fee agreements with external auditor – preparation of Supervisory Board's resolution on Company and Group Financial Statements – discussion of interim reports with Board of Management prior to publication – decision on approval for utilisation of Authorised Capital 2009 – amendments to Articles of Incorporation only affecting wording – establishment in accordance with the recommendation contained in the German Corporate Governance Code, activities based on terms of reference	Karl-Ludwig Kley[1,2] Joachim Milberg Manfred Schoch Stefan Quandt Stefan Schmid	3 plus 3 telephone conferences	97%
Nomination Committee			
– identification of suitable candidates (male/female) as shareholder representatives on the Supervisory Board, to be put forward for inclusion in the Supervisory Board's proposals for election at the Annual General Meeting – establishment in accordance with the recommendation contained in the German Corporate Governance Code, activities based on terms of reference	Joachim Milberg[1] Susanne Klatten Karl-Ludwig Kley Stefan Quandt (In line with the recommendations of the German Corporate Governance Code, the Nomination Committee comprises only shareholder representatives.)	1	100%
Mediation Committee			
– proposal to Supervisory Board if resolution for appointment of Board of Management member has not been carried by the necessary two-thirds majority of Supervisory Board members' votes – committee required by law	Joachim Milberg Manfred Schoch Stefan Quandt Stefan Schmid (In accordance with statutory requirements, the Mediation Committee comprises the Chairman and Deputy Chairman of the Supervisory Board and one member each selected by shareholder representatives and employee representatives.)	–	–

[1] Chair
[2] Independent financial expert within the meaning of § 100 (5) AktG and § 107 (4) AktG

Composition objectives of the Supervisory Board

The Supervisory Board must be composed in such a way that its members as a group possess the knowledge, skills and experience required to properly complete its tasks. To this end, the Supervisory Board has formally specified the following concrete objectives regarding its composition, taking into account the recommendations contained in the German Corporate Governance Code:

- At least four of the members of the Supervisory Board should have international experience or specialist knowledge with regard to one or more of the non-German markets important to the Company.
- If possible, the Supervisory Board should include seven members who have acquired in-depth knowledge and experience from within the Company. The Supervisory Board should not, however, include more than two former members of the Board of Management.
- At least three of the shareholder representatives in the Supervisory Board should be entrepreneurs or persons who have already gained experience in the management or supervision of another medium-sized or large company.
- Ideally, three members of the Supervisory Board should be figures from the worlds of business, science or research who have gained experience in areas relevant to the BMW Group, e.g. chemistry, energy supply, information technology, or who have acquired specialist knowledge in subjects relevant for the future of the BMW Group, e.g. customer requirements, mobility, resources and sustainability.
- When seeking suitably qualified individuals for the Supervisory Board whose specialist skills and leadership qualities are most likely to strengthen the Board as a whole, consideration should also be given to diversity. When preparing nominations, the extent to which the work of the Supervisory Board would benefit from diversified professional and personal backgrounds (including international aspects) and from an appropriate representation of both genders should also be taken into account. In view of the proportion of women in the workforce at 31 December 2012 (BMW AG: 14.2%; BMW Group 17.3%), the Supervisory Board is of the opinion that a proportion of three female members out of a total of twenty members (15%) is satisfactory as far as gender mix is concerned, but that an increase to at least four female members (20%) would be desirable. The Supervisory Board therefore considers it appropriate that opportunities available in conjunction with selection procedures through to the end of the ordinary Annual General Meeting in 2015 should be used to maintain the current proportion of 20% female representation. The Supervisory Board believes it is the joint responsibility of all persons and groupings participating in the nomination and election process to ensure that the Supervisory Board comprises an appropriate number of qualified women.
- At least twelve of the twenty members of the Supervisory Board should be independent members within the meaning of section 5.4.2 of the German Corporate Governance Code in the version dated 15 June 2012, including at least six members representing the Company's shareholders. Two independent members in the Supervisory Board should have expert knowledge of accounting or auditing.
- No persons carrying out directorship functions or advisory tasks for important competitors of the BMW Group may belong to the Supervisory Board. In compliance with prevailing legislation, the members of the Supervisory Board will strive to ensure that no persons will be nominated for election with whom serious conflicts of interest could arise (other than temporarily) due to other activities and functions carried out by them outside the BMW Group; this includes in particular advisory activities or directorships with customers, suppliers, creditors or other business partners.
- As a general rule, the age limit for membership of the Supervisory Board should be set at 70 years. In exceptional cases, members may be allowed to remain on the Board up until the end of the Annual General Meeting following their 73rd birthday in order to fulfil legal requirements or to facilitate smooth succession in the case of persons with key roles or specialist qualifications.

The time schedule set by the Supervisory Board for achieving the above-mentioned composition targets is the Annual General Meeting in 2015, by which time elections will have taken place for all positions on the Supervisory Board. Future proposals for nomination made by the Supervisory Board at the Annual General Meeting – insofar as they apply to shareholder Supervisory Board members – should take account of these objectives in such a way that they can be achieved with the support of the appropriate resolutions at the Annual General Meeting. The Annual General Meeting is not bound by nominations for election proposed by the Supervisory Board. The freedom of employees to vote for the employee members of the Supervisory Board is also protected. Under the procedural rules stipulated by the German Co-Determination Act, the Supervisory Board does not have the right to nominate employee representatives for election. The objectives which the Supervisory Board has set itself with regard to its composition are therefore not intended to be instructions to those entitled to vote or restrictions on their freedom to vote. More to the point, they reflect the composition which the current Supervisory Board believes should be striven for in future by those entitled to nominate and elect board members, in view of the advisory and supervisory needs of BMW AG's Supervisory Board.

In the Supervisory Board's opinion, its own composition at 31 December 2012 fulfils the composition objectives detailed above. Brief curricula vitae of the current members of the Supervisory Board can be found on the Company's website at www.bmwgroup.com.

Information on corporate governance practices applied beyond mandatory requirements

Core principles

Within the BMW Group, the Board of Management, the Supervisory Board and the employees base their actions on twelve core principles which are the cornerstone of the success of the BMW Group:

Customer focus

The success of our Company is determined by our customers. They are at the heart of everything we do. The results of all our activities must be valued in terms of the benefits they will generate for our customers.

Peak performance

We aim to be the best – a challenge to which all of us must rise. Each and every employee must be prepared to deliver peak performance. We strive to be among the elite, but without being arrogant. It is the Company and its products that count – and nothing else.

Responsibility

Every BMW Group employee has the personal responsibility for the Company's success. When working in a team, each employee must assume personal responsibility for his or her actions. We are fully aware that we are working to achieve the Company's goals. For this reason, we work together in the best interests of the Company.

Effectiveness

The only results that count for the Company are those which have a sustainable impact. In assessing leadership, we must consider the effectiveness of performance on results.

Adaptability

In order to ensure our long-term success we must adapt to new challenges with speed and flexibility. We therefore see change as an opportunity – adaptability is essential to be able to capitalise on it.

Frankness

As we strive to find the best solution, it is each employee's duty to express any opposing opinions they may have. The solutions we agree upon will then be consistently implemented by all those involved.

Respect, trust, fairness

We treat each other with respect. Leadership is based on mutual trust. Trust is rooted in fairness and reliability.

Employees

People make companies. Our employees are the strongest factor in our success, which means our personnel decisions will be among the most important we ever make.

Leading by example

Every manager must lead by example.

Sustainability

In our view, sustainability constitutes a lasting contribution to the success of the Company. This is the basis upon which we assume ecological and social responsibility.

Society

Social responsibility is an integral part of our corporate self-image.

Independence

We secure the corporate independence of the BMW Group through sustained profitable growth.

The core principles are also available at www.bmwgroup.com under the menu items "Responsibility" and "Employees".

Social responsibility towards employees and along the supplier chain

The BMW Group stands by its social responsibilities. Our corporate culture combines the drive for success with a willingness to be open, trustworthy and transparent. We are well aware of our responsibility towards society. Our models for sustainable social responsibility towards employees and for ensuring compliance with international social standards are based on various internationally recognised guidelines. The BMW Group is committed to adhering to the OECD's guidelines for multinational companies and the contents of the ICC Business Charter for Sustainable Development. Details of the contents of these guidelines and other relevant information can be found at www.oecd.org and www.iccwbo.org. The Board of Management signed the United Nations Global Compact in 2001 and, in 2005, together with employee representatives, issued a "Joint Declaration on Human Rights and Working Conditions in the BMW Group". This Joint Declaration was reconfirmed in 2010. With the signature of these documents, we have given our commitment to abide worldwide by internationally recognised human rights and with the fundamental working standards of the International Labour Organization (ILO). The most important of these are freedom of employment, the prohibition of discrimination, the freedom of association and the right to collective bargaining, the prohibition of child labour, the right to appropriate remuneration, regulated working times and compliance with work and safety regulations. The complete text of the UN Global Compact and the recommendations of the ILO and other relevant information can be found at www.unglobalcompact.org and www.ilo.org. The Joint Declaration on Human Rights and Working Conditions in the BMW Group can be found at www.bmwgroup.com under the menu item "Responsibility" (Services/downloads/topics: "Employees and Society").

Further information regarding employees is provided in the "Personnel" section of the Group Management Report.

It goes without saying that the BMW Group abides by these fundamental principles and rights worldwide. Employees have therefore been sensitised to this issue since 2005 by means of regular internal communications. Further training was provided again in 2012 on recent developments in this area. A dedicated helpline – the "Human Rights Contact" – is available to employees wishing to raise queries or complaints relating to human rights issues. The BMW Group also conducted its own "Human Rights Impact Assessment" in 2012 with a view to ensuring that human rights are respected throughout the organisation.

Activities can only be sustainable, however, if they encompass the entire value-added chain. That is why the BMW Group not only makes high demands of itself but also expects its suppliers and partners to meet the ecological and social standards it sets and strives continually to improve the efficiency of processes, measures and activities.

Sustainability criteria play an integral part in all aspects of our purchasing terms and conditions as well as for the purposes of evaluating suppliers. Potential suppliers must submit a full disclosure when completing BMW's modularly structured sustainability questionnaire, an inherent component of the acceptance procedure for potential new suppliers. The BMW Group also insists that its suppliers ensure that their sub-contractors comply with set standards. Purchasing terms and conditions and other information relating to purchasing can be found in the publicly available section of the BMW Group Partner Portal at https://b2b.bmw.com.

We foster close relations with our suppliers, providing encouragement and practical assistance to those interested in wishing to make progress in the area of sustainability.

Compliance in the BMW Group

Responsible and lawful conduct is fundamental to the success of the BMW Group. This approach is an integral part of our corporate culture and is the reason why customers, shareholders, business partners and the general public place their trust in us. The Board of Management and the employees of the BMW Group are obliged to act responsibly and in compliance with applicable laws and regulations.

This principle has been embedded in BMW's internal rules of conduct for many years. In order to ensure to protect itself systematically against compliance-related and reputational risks, the Board of Management created a Compliance Committee back in 2007, mandated to establish a worldwide Compliance Organisation throughout the BMW Group.

The BMW Group Compliance Committee comprises the heads of the following departments: Legal Affairs, Corporate and Governmental Affairs, Corporate Audit, Organisational Development and Corporate Human Resources. It manages and monitors activities necessary to avoid non-compliance with the law (Legal Compliance). These activities include training, information and communication measures, compliance controls and following up cases of non-compliance.

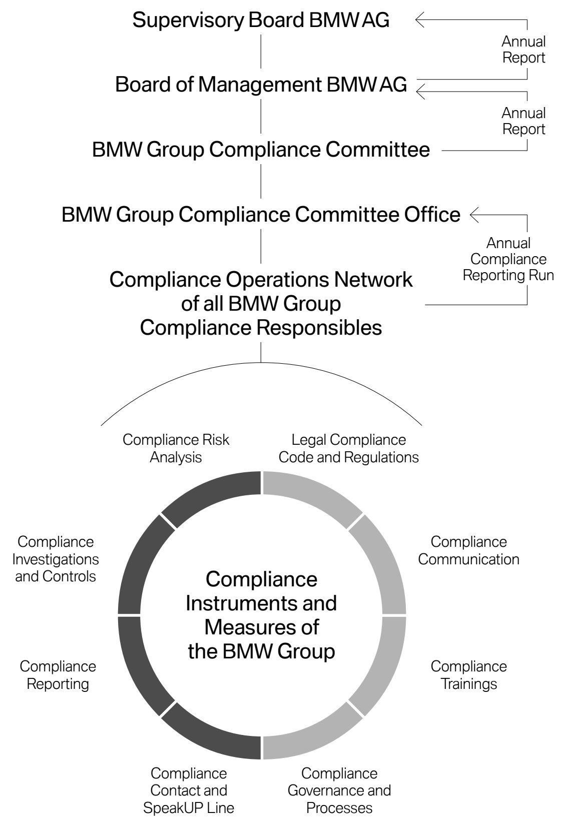
The BMW Group Compliance Committee reports regularly to the Board of Management on all compliance-related issues, including the progress made in developing the BMW Group Compliance Organisation, details of investigations performed, known infringements of the law, sanctions imposed and corrective/preventative measures implemented. The decisions taken by the BMW Group Compliance Committee are drafted in concept, and implemented operationally, by the BMW Group Compliance Committee Office. The BMW Group Compliance Committee Office is allocated in organisational terms to the Chairman of the Board of Management.

The Chairman of the BMW Group Compliance Committee keeps the Audit Committee (i.e. a part of the Supervisory Board) informed on the current status of compliance activities within the BMW Group, both on a regular and a case-by-case basis as the need arises.

The Board of Management keeps track of and analyses compliance-related developments and trends on the basis of the Group's compliance reporting and input from the BMW Group Compliance Committee. Measures to improve compliance systems are initiated on the basis of identified requirements.

A coordinated set of instruments and measures are employed to ensure that the BMW Group, its representative bodies, its managers and its staff act in a lawful manner. Particular emphasis has been placed on compliance with antitrust legislation and the avoidance of corruption risks. Compliance measures are supplemented by a whole range of internal policies, guidelines and instructions, which in part reflect applicable legislation. The BMW Group Policy "Corruption Prevention" deserves particular mention: this document sets out the framework for dealing with gifts, hospitalities and other benefits in compliance with the law and defines appropriate value limits and approval procedures for specified actions.

BMW Group Compliance Organisation



Compliance measures are determined and prioritised on the basis of a group-wide compliance risk assessment covering 250 business units and functions worldwide within the BMW Group. The assessment of compliance risks is updated annually. Measures are realised with the aid of a regionally structured compliance management team covering all parts of the BMW Group and overseeing more than 200 Compliance Responsibles.

The various elements of the BMW Group Compliance Organisation are shown in the diagram on the left and are applicable for all BMW Group entities worldwide. To the extent that additional compliance requirements apply to individual countries or specific lines of business, these are covered by supplementary compliance measures.

The BMW Group Legal Compliance Code is the cornerstone of the Group's Compliance Organisation, spelling out the Board of Management's acknowledgement of the fact that compliance is a joint responsibility ("Tone from the Top"). This document, which explains the significance of legal compliance and provides an overview of the various areas relevant for the BMW Group, is available both as a printed brochure and to download in German and English. In addition, translations into eleven other languages are available (French, Italian, Japanese, Korean, Mandarin, Dutch, Polish, Portuguese, Russian, Spanish and Thai).

Managers in particular bear a high degree of responsibility and must set a good example in the process of preventing infringements. Managers throughout the BMW Group accept this principle by signing a written declaration, in which they also undertake to inform staff working for them of the content and significance of the Legal Compliance Code and to make staff aware of legal risks. Managers must, at regular intervals and on their own initiative, check compliance with the law and communicate regularly with staff on this issue. Any indication of non-compliance with the law must be rigorously investigated.

More than 16,500 managers and staff have received training worldwide in essential compliance matters since the introduction of the BMW Group Compliance Organisation. The training material is available on an internet-based training platform in German and English and includes a final test. Successful participation in the training programme, which is documented by a certificate, is mandatory for all BMW Group managers. Appropriate processes are in place to ensure that all newly recruited managers and promoted staff undergo compliance training. In this way, the BMW Group ensures full training coverage for its managers in compliance matters.

In addition to this basic training, in-depth training is also provided to certain groups of staff on specific compliance issues. This includes a training programme (Compliance Advanced – Competition and Antitrust Law) aimed at employees who come into contact with antitrust-related issues as a result of their functions within sales, purchasing or development.

In order to avoid legal risks, all members of staff are expected to discuss matters with their managers and with the relevant departments within the BMW Group, in particular Legal Affairs, Corporate Audit and Corporate Security. As a further point of contact, the BMW Group Compliance Contact has also been set up both for employees and non-employees to answer any questions that may arise regarding compliance.

Employees also have the opportunity to submit information – anonymously and confidentially – via the BMW Group SpeakUP Line about possible breaches of the law within the company. The BMW Group SpeakUP Line is available in a total of 34 languages and can be reached via local free-of-charge telephone numbers in all of the countries in which BMW Group employees carry out activities.

Compliance-related queries and all matters to which attention has been drawn are documented and followed up by the BMW Group Compliance Committee Office using an electronic Case Management System. If necessary, Corporate Audit, Corporate Security, the Works Council and Legal Affairs may be called upon to assist in the investigation process.

A group-wide reporting system ensures the systematic recording of compliance-relevant information. Through this system, Compliance Responsibles throughout the BMW Group report on compliance-relevant issues to the Compliance Committee on a regular basis, and, if necessary, on an ad hoc basis. This includes reporting on the compliance status of the relevant entities, on identified legal risks and incidences of non-compliance as well as on corrective/preventative measures implemented.

Compliance with and the implementation of the Legal Compliance Code are audited regularly by Corporate Audit and subjected to control checks by Corporate Security and the BMW Group Compliance Committee Office. As part of its regular activities, Corporate Audit carries out on-site audits. The BMW Group Compliance Committee also engages Corporate Audit to perform compliance-specific tests. In addition, sample checks (BMW Group Compliance Spot Checks) specifically designed to identify potential risks of corruption are carried out. Compliance control activities are coordinated by the BMW Group Panel Compliance Controls established in 2011. Any necessary follow-up measures are organised by the BMW Group Compliance Committee Office.

It is essential that employees are aware of and comply with applicable legal regulations. The BMW Group does not tolerate violations of law by its employees. Culpable violations of law result in employment-contract sanctions and may involve personal liability consequences for the employee involved.

In order to avoid this, the BMW Group's employees are kept fully informed of the instruments and measures used by the Compliance Organisation via various internal channels. The central means of communication is the Compliance website within the BMW Group's intranet where employees can find compliance-related information and also have access to training materials in both German and English. Employees can use the website to access frequently asked questions (and answers) on compliance-related issues. The website contains a special service area where various practical tools and aids are made available to employees, which help them deal with typical compliance-related matters. BMW Group employees also have access on the website to an electronically supported approval process for invitations in connection with business partners.

In the same way that the BMW Group is committed to acting responsibly and conducting business in full compliance with the law, it also expects no less from its business partners. During 2012 the BMW Group developed a new Business Relations Compliance programme aimed at ensuring the reliability of its business relations. Relevant business partners are checked and evaluated with a view to identifying potential compliance risks. These procedures are particularly relevant for relations with sales partners and service providers, such as agencies and advisers/consultants. Depending on the results of the evaluation, appropriate measures –

such as communication measures, training and possible monitoring – are implemented to manage compliance risks. The Business Relations Compliance programme was introduced in selected pilot markets in 2012 and, over the coming years, will be rolled out successively throughout the BMW Group's worldwide sales organisation.

Compliance is also an important factor in terms of safeguarding the future of the BMW Group's workforce. With this in mind, the Board of Management and the national and international employee representative bodies of the BMW Group signed a set of Joint Principles for Lawful Conduct in 2009. In doing so, all parties involved gave a commitment to the principles contained in the BMW Group Legal Compliance Code and to trustful cooperation in all matters relating to compliance. Employee representatives are therefore regularly involved in the process of developing compliance systems within the BMW Group.

In the interest of investor protection and in order to ensure that the BMW Group complies with regulations relating to potential insider information, as early as 1994 the Board of Management appointed an Ad-hoc Committee consisting of representatives of various specialist departments and whose members examine the relevance of issues for ad-hoc disclosure purposes. All persons working on behalf of the enterprise who have access to insider information in accordance with existing rules have been, and continue to be, included in a corresponding, regularly updated list and informed of the duties arising from insider rules.

Reportable securities transactions („Directors Dealings")

Pursuant to § 15a of the German Securities Trading Act (WpHG), members of the Board of Management and the Supervisory Board and any persons related to those members, are required to give notice to BMW AG and the Federal Agency for the Supervision of Financial Services of transactions with BMW stock or related financial instruments if the total sum of such transactions exceeds an amount of €5,000 during any given calendar year. BMW AG gives notice of any transaction reported to it on its website at www.bmwgroup.com/ir and in its Annual Document pursuant to § 10 (1) of the German Securities Prospectus Act. No securities transactions pursuant to § 15a WpHG were notified to the Company during the 2012 financial year. The acquisition of financial instruments based on employment contracts or as a compensation component is excepted from the reporting requirement pursuant to § 15a WpHG.

Shareholdings of members of the Board of Management and the Supervisory Board

The members of the Supervisory Board of BMW AG hold in total 27.63 % of the Company's shares of common and preferred stock (2011: 27.65 %), of which 16.08 % (2011: 16.09 %) relates to Stefan Quandt, Bad Homburg v. d. H. and 11.55 % (2011: 11.56 %) to Susanne Klatten, Munich. The shareholding of the members of the Board of Management totals less than 1 % of the issued shares.

Share-based remuneration schemes for employees and Board of Management members

Three share-based remuneration schemes were in place at BMW AG during the year under report, namely the Employee Share Scheme (under which entitled employees of BMW AG participate in the enterprise's success), share-based commitments to members of the Board of Management members and share-based commitments to department heads (see also page 171 of the Compensation Report and note 18 to the Group Financial Statements).

As in the previous year, employees were able in 2012 under the terms of the Employee Share Scheme to acquire packages of between five and 20 shares of non-voting preferred stock with a discount of €12.50 per share compared to the market price (average closing price in Xetra trading during the period from 8 November to 14 November 2012: €43.95). All employees of BMW AG and its wholly owned German subsidiaries (if agreed to by the directors of those entities) were entitled to participate in the scheme. Employees were required to have been in an uninterrupted employment relationship with BMW AG or the relevant subsidiary for at least one year at the date on which the allocation for the year was announced. Shares of preferred stock acquired in conjunction with the Employee Share Scheme are subject to a vesting period of four years, starting from 1 January of the year in which the employees acquired the shares. In total, 422,905 (2011: 408,140) shares of preferred stock were issued to employees in 2012, with 422,845 (2011: 407,960) drawn from the Authorised Capital 2009 and the remainder bought back via the stock exchange. Every year the Board of Management of BMW AG decides whether the scheme is to be continued. Further information is provided in notes 18 and 33 to the Group Financial Statements.

Compensation report

The following section describes the principles relating to the compensation of the Board of Management and the stipulations set out in the statutes relating to the compensation of the Supervisory Board. In addition to discussing the compensation system, the components of compensation are also disclosed in absolute figures. Furthermore, the compensation of each member of the Board of Management and the Supervisory Board for the financial year 2012 is disclosed by individual and analysed into components.

1. Management Board compensation

Responsibilities; approval by shareholders in 2012

The Supervisory Board is responsible for determining and regularly reviewing the Board of Management's compensation. The Personnel Committee plays a preparatory role in this process.

The compensation system applicable to the Board of Management was presented most recently for approval by shareholders at the Annual General Meeting on 16 May 2012 as part of a voluntary consultative process ("Say on Pay"). The compensation system was approved with a majority vote of 95.45 %.

Principles of compensation

The compensation system for the Board of Management at BMW AG is designed to encourage a management approach focused on sustainable development. One important principle applied when designing remuneration systems at BMW is that of consistency at different levels. In other words, compensation systems for the Board of Management, senior management and employees of BMW AG should all have a similar structure and contain similar components. The Supervisory Board carries out regular checks to ensure that all Board of Management compensation components are appropriate, both individually and in total, and do not encourage the Board of Management to take inappropriate risks for the BMW Group. At the same time, the compensation model used for the Board of Management should be attractive in the context of the competitive environment for highly qualified executives.

The compensation of members of the Board of Management is determined by the full Supervisory Board on the basis of performance criteria and after taking into account any remuneration received from Group companies. The principal performance criteria are the nature of the tasks allocated to each member of the Board of Management, the economic situation and the performance and future prospects of the BMW Group. The Supervisory Board sets demanding and relevant parameters as the basis for variable compensation. It also takes care to ensure that variable components based on multi-year assessment criteria take account of both positive and negative developments and that the package as a whole encourages a long-term approach to business performance. Targets and other parameters may not be changed retrospectively.

The Supervisory Board reviews the appropriateness of the compensation system annually. The Personnel Committee also makes use of remuneration studies. The Supervisory Board reviews the appropriateness of the compensation system in horizontal terms by comparing compensation paid by DAX companies and in vertical terms by comparing board compensation with the salaries of the two top levels of management below board level and with the average salaries of employees. Recommendations made by an independent external remuneration expert and suggestions made by investors and analysts are also considered in the consultative process.

Compensation system, compensation components

The compensation of the Board of Management comprises both fixed and variable remuneration as well as a share-based component. Retirement and surviving dependants' benefit entitlements are also in place.

Fixed compensation

Fixed remuneration consists of a base salary (paid monthly) and other remuneration elements. Other remuneration elements comprise mainly the use of company and lease cars as well as the payment of insurance premiums, contributions towards security systems and an annual medical check-up. Members of the Board of Management are also entitled to purchase vehicles and other services of the BMW Group at conditions that also apply in each relevant case for employees.

The basic remuneration of members of the Board of Management were set in 2011 for financial years beginning after 1 January 2012 at €750,000 p. a. (2011: €510,000) for a board member during the first period of office, at €900,000 p. a. (2011: €590,000) for a board member during the second period of office and at €1,500,000 p. a. (2011: €1,020,000) for the Chairman of the Board of Management.

Variable remuneration

The variable remuneration of Board of Management members comprises variable cash remuneration on the one hand and share-based remuneration components on the other.

Variable cash remuneration, in particular bonuses

Variable cash remuneration consists of a cash bonus and a share-based remuneration component equivalent to 20 % of the board member's total bonus after taxes, which the board member is required to invest in BMW AG common stock. Taxes and social insurance relating to the share-based remuneration component are also borne by the Company. In substantiated cases, the Supervisory Board also has the option of paying an additional special bonus.

The bonus is made up of two components, each equally weighted, namely a corporate earnings-related bonus and a personal performance-related bonus. The target bonus (100 %) of a Board of Management member, for both components of the variable compensation, totals €1.5 million p. a. and €1.75 million p. a. with effect from the second term of appointment. The equivalent figure for the Chairman of the Board of Management is €3 million p. a. Upper limits for the amount of the bonus are in place for all Board of Management members (250 % of the relevant target bonus).

The corporate earnings-related bonus is based on the BMW Group's net profit and post-tax return on sales (which are combined in a single earnings factor) and the level of the dividend (common stock). The corporate earnings-related bonus is derived by multiplying the target amount fixed for each member of the Board of Management by the earnings factor and by the dividend factor. In exceptional circumstances, for instance when there have been major acquisitions or disposals, the Supervisory Board may adjust the level of the corporate earnings-related bonus.

An earnings and dividend factor of 1.00 gives rise to a corporate earnings-based bonus of €0.75 million for the relevant financial year for a member of the Board of Management during the first period of office and one of €0.875 million during the second period of office. The equivalent bonus for the Chairman of the Board of Management is €1.5 million. The earnings factor is 1.00 in the event of a Group net profit of €3.1 billion and a post-tax return on sales of 5.6 %. The dividend factor is 1.00 in the event that the dividend paid on the shares of common stock is between 101 and 110 cents. If the Group net profit is below €1 billion or if the post-tax return on sales is less than 2 %, the earnings factor will be zero. In these cases, no corporate earnings-related bonus will be paid. Based on the principle of consistency at all levels, this rule is also applicable in determining the corporate earnings-related variable compensation components of all managers and staff of BMW AG.

The personal performance-related bonus is derived by multiplying the target amount set for each member of the Board of Management by a performance factor. The Supervisory Board sets the performance factor on the basis of its assessment of the contribution of the relevant Board of Management member to sustainable and long-term oriented business development. In setting the factor, consideration is given equally to personal performance and decisions taken in previous forecasting periods, key decisions affecting the future development of the business and the effectiveness of measures taken in response to changing external conditions as well as other activities aimed at safeguarding the future viability of the business to the extent not included directly in the basis of measurement. Performance factor criteria include innovation (economic and ecological, e.g. reduction of CO_2 emissions), customer focus, ability to adapt, leadership accomplishments, contributions to the Company's attractiveness as an employer, progress in implementing the diversity concept and activities that foster corporate social responsibility. The target bonus and the key figures used to determine the corporate earnings-related bonus have been fixed for a period of three financial years, during which time they may not be amended retrospectively.

Share-based remuneration programme

The compensation system includes a share-based remuneration programme, in which the level of share-based remuneration is based on the amount of the bonus paid. The system is aimed at creating further long-term incentives to encourage sustainable governance.

This programme envisages a share-based remuneration component equivalent to 20 % of the board member´s total bonus after taxes, which the board member is required to invest in BMW AG common stock. Taxes and social insurance relating to the share-based remuneration component are also borne by the Company. As a general rule, the shares must be held for a minimum of four years. As part of a matching plan, the Board of Management members will, at the end of the holding period, receive from the Company either one additional share of common stock or an equivalent cash amount for three shares of common stock held, to be decided at the discretion of the Company (share-based remuneration component/matching component), unless the employment relationship was ended before expiry of the agreed contractual period (except where caused by death or invalidity). Special rules apply in the case of death or invalidity of a Board of Management member before fulfilment of the holding period.

Retirement and surviving dependants' benefits

The provision of retirement and surviving dependants' benefits for existing and future members of the Board of Management was changed to a defined contribution system with a guaranteed minimum return with effect from 1 January 2010. However, given the fact that board members appointed for the first time prior to 1 January 2010 had a legal right to receive the benefits already promised to them, these board members were given the option to choose between the previous system and the new one.

In the event of the termination of mandate, Board of Management members appointed for the first time prior to 1 January 2010 are entitled to receive certain defined benefits in accordance with the old pension scheme rules. Pensions are paid to former members of the Board of Management who have either reached the age of 65 or, if their mandate was terminated earlier and not extended, to members who have either reached the age of 60 or who are unable to work due to ill-health or accident, or who have entered into early retirement in accordance with a special arrangement. The amount of the pension is unchanged from the previous year and comprises a basic monthly amount of €10,000 or €15,000 (Chairman of the Board of Management) plus a fixed amount. The fixed amount is made up of approximately €75 for each year of service in the Company before becoming a member of the Board of Management plus between €400 and €600 for each full year of service on the board (up to a maximum of 15 years). Pension payments are adjusted by analogy to the rules applicable for the adjustment of civil servants' pensions: the pensions of members of the Board of Management are adjusted when the civil servants remuneration level B6 (excluding allowances) is increased by more than 5 % or in accordance with the Company Pension Act.

When a mandate is terminated, the new defined contribution system provides entitlements which can be paid either (a) in the case of death or invalidity as a one-off amount or over a maximum of ten years or (b) on retirement – depending on the wish of the ex-board member concerned – in the form of a lifelong monthly pension, as a one-off amount, in a maximum of ten annual instalments, or in a combined form (e.g. a combination of a one-off payment and a proportionately reduced lifelong monthly pension). Pensions are paid to former members of the Board of Management who have either reached the statutory retirement age for the state pension scheme in Germany or, if their mandate had terminated earlier and had not been extended, to members who have either reached the age of 60 or are permanently unable to work, or who have entered into early retirement in accordance with a special arrangement. In addition, following the death of a retired board member who has elected to receive a lifelong pension, 60 % of that amount is paid as a lifelong widow's pension.

Pensions are increased annually by an amount of at least 1 %.

The amount of the retirement pension to be paid is determined on the basis of the amount accrued in each board member's individual pension savings account. The amount on this account arises from annual contributions paid in plus interest earned depending on the type of investment.

The annual contribution to be paid amounts to €300,000 (2011: €270,000) for each member of the Board of Management and €525,000 (2011: €475,000) for the Chairman of the Board of Management. The contributions are credited, along with interest earned, to the personal savings accounts of board members in monthly amounts. The guaranteed minimum rate of return p. a. corresponds to the maximum interest rate used to calculate insurance reserves for life insurance policies (guaranteed interest on life insurance policies).

In the case of invalidity or death, a minimum of the potential annual contributions will be paid until the person concerned would have reached the age of 60.

Contributions falling due under the defined contribution scheme are paid into an external fund in conjunction with a trust model that is also used to fund pension obligations to employees.

Income earned on an employed or a self-employed basis up to the age of 63 is offset against the pension entitlement. In addition, certain circumstances have been specified, in the event of which the Company no longer has any obligation to pay benefits. In such cases, no transitional payments will be made, either.

Board of Management members who retire immediately after their service on the board and who draw a retirement pension are entitled to purchase vehicles and other services of the BMW Group at conditions that also apply in each relevant case for pensioners and to lease BMW Group vehicles in accordance with the guidelines applicable to senior heads of departments.

Compensation claims, entitlements to receive amounts from third parties

If a board member's mandate is terminated early without important reason, there are no contractual commitments to pay compensation. Similarly, there are no commitments to pay compensation for early termination in the event of a change of control or a takeover offer.

No members of the Board of Management received any payments or benefits from third parties in 2012 on account of their activities as members of the Board of Management of BMW AG.

Overview of compensation system and compensation components

Component	Parameter / measurement base
Salary	
	Member of the Board of Management: – €0.75 million p.a. (first term of appointment) – €0.90 million p.a. (from second term of appointment onwards) Chairman of the Board of Management: – €1.50 million p.a.
Variable compensation	
Bonus	Target bonuses (if target is 100% achieved): – €1.50 million p.a. (first term of appointment) – €1.75 million p.a. (from second term of appointment onwards) – €3.00 million p.a. (Chairman of the Board of Management) – Upper limit: 250%
a) Corporate earnings-related bonus (corresponds to 50% of target bonus if target is 100% achieved)	– Quantitative criteria fixed in advance for a period of three financial years – Formula: 50% of target bonus x earnings factor x dividend factor (common stock) – The earnings factor is derived from the Group net profit and the Group post-tax return on sales
b) Performance-related bonus (corresponds to 50% of target bonus if target is 100% achieved)	– Primarily qualitative criteria, expressed in terms of a performance factor aimed at measuring the board members contribution to sustainable and long-term performance and the future viability of the business – Formula: 50% of target bonus x performance factor – Criteria for the performance factor also include: innovation (economic and ecological, e.g. reduction of CO_2 emissions), customer orientation, ability to adapt, leadership accomplishments and attractiveness as employer, progress in implementing the diversity concept and activities that foster corporate social responsibility
Special bonus payments	May be paid in justified circumstances on appropriate basis, contractual basis, no entitlement
Share-based remuneration programme	– Requirement for Board of Management members to each invest an amount equivalent to 20% of their total bonus (after tax) in BMW AG common stock
a) Cash remuneration component	– Earmarked cash remuneration equivalent to the amount required to be invested in BMW AG shares, plus taxes and social insurance contributions
b) Share-based remuneration component (matching component)	– Once the four-year holding period requirement is fulfilled, Board of Management members receive for each three common stock shares held either – at the Company's option – one further share of common stock or the equivalent amount in cash, unless the employment relationship was ended before expiry of the agreed contractual period (except where caused by death or invalidity).
Other remuneration	
	Contractual agreement, main points: use of company cars, insurance premiums, contributions towards security systems, medical check-up
Compensation entitlements on termination of contract, compensation entitlements in event of change of control or takeover bid	
	No contractual entitlements
Retirement and surviving dependants' benefits	
Model	Principal features
a) Defined benefits (only applies to board members appointed for the first time before 1 January 2010; based on legal right to receive the benefits already promised to them, this group of persons is entitled to opt between (a) and (b))	Pension of €120,000 (Chairman: €180,000) p.a. plus fixed amounts based on length of Company and board service
b) Defined contribution system with guaranteed minimum rate of return	Pension based on amounts credited to individual savings accounts for contributions paid and interest earned Annual contribution for board member (Chairman) €300,000 (€525,000) Various forms of disbursement

Compensation of the Board of Management for the financial year 2012 (total)

With effect from 1 July 2012, the Board of Management was expanded by one to a total of eight members. The total compensation of the eight current members of the Board of Management of BMW AG for 2012 amounted to €31.4 million (2011: €27.3 million), of which €7.5 million (2011: €4.7 million) relates to fixed components (including other remuneration). These figures include the impact of the rise in basic remuneration resolved in 2011 for financial years commencing after 1 January 2012. Variable components amounted to €23.2 million (2011: €21.9 million) and share-based remuneration component to €0.7 million (2011: €0.7 million).

In addition, an expense of €1.2 million (2011: €1.1 million) was recognised in the financial year 2012 for current members of the Board of Management for the period after the end of their service relationship. This relates to the expense for allocations to pension provisions.

in € million	2012 Amount	2012 Proportion in %	2011 Amount	2011 Proportion in %
Fixed compensation	**7.5**	**23.9**	4.7	17.2
Variable cash compensation	**23.2**	**73.9**	21.9	80.2
Share-based compensation component*	**0.7**	**2.2**	0.7	2.6
Total compensation	**31.4**	**100.0**	**27.3**	**100.0**

* Matching component; provisional number or provisional monetary value calculated at grant date (date on which the entitlement became binding in law). The final number of matching shares is determined in each case when the requirement to invest in BMW AG common stock has been fulfilled.

Compensation of the individual members of the Board of Management for the financial year 2012 (2011)

in € or number of matching shares	Fixed compensation: Basic compensation	Fixed compensation: Other compensation	Fixed compensation: Total	Variable compensation	Share-based compensation component (matching component)[1]: Number	Share-based compensation component (matching component)[1]: Monetary value	**Compensation Total**	Expense for share-based compensation component in year under report in accordance with HGB and IFRS	Provision at 31.12.2012 for share-based remuneration component in accordance with HGB and IFRS[2]
Norbert Reithofer	1,500,000	112,835	1,612,835	4,881,600	2,495	132,634	**6,627,069**	75,826	97,269
	(1,020,000)	(22,455)	(1,042,455)	(4,971,600)	(2,610)	(142,480)	(6,156,535)	(21,443)	(21,443)
Frank-Peter Arndt	900,000	27,336	927,336	2,847,600	1,455	77,348	**3,852,284**	70,099	88,856
	(590,000)	(22,081)	(612,081)	(2,900,100)	(1,522)	(87,302)	(3,599,483)	(18,757)	(18,757)
Milagros Caiña Carreiro-Andree[3]	375,000	11,526	386,526	1,220,400	514	35,569	**1,642,495**	6,248	6,248
	(–)	(–)	(–)	(–)	(–)	(–)	(–)	(–)	(–)
Herbert Diess	900,000	22,007	922,007	2,847,600	1,563	83,089	**3,852,696**	55,238	70,615
	(590,000)	(72,190)	(662,190)	(2,900,100)	(1,634)	(88,710)	(3,651,000)	(15,377)	(15,377)
Klaus Draeger	900,000	22,948	922,948	2,847,600	1,563	83,089	**3,853,637**	71,283	90,505
	(590,000)	(16,008)	(606,008)	(2,900,100)	(1,634)	(95,998)	(3,602,106)	(19,222)	(19,222)
Friedrich Eichiner	900,000	27,366	927,366	2,847,600	1,563	83,089	**3,858,055**	61,522	78,437
	(590,000)	(26,842)	(616,842)	(2,900,100)	(1,634)	(90,311)	(3,607,253)	(16,915)	(16,915)
Harald Krüger	900,000	19,036	919,036	2,847,600	1,455	77,348	**3,843,984**	37,608	47,532
	(518,333)	(20,148)	(538,481)	(2,520,325)	(1,323)	(73,347)	(3,132,153)	(9,924)	(9,924)
Ian Robertson	900,000	14,881	914,881	2,847,600	1,563	83,089	**3,845,570**	48,583	62,058
	(578,065)	(14,106)	(592,171)	(2,817,686)	(1,588)	(90,707)	(3,500,564)	(13,475)	(13,475)
Total	**7,275,000**	**257,935**	**7,532,935**	**23,187,600**	**12,171**	**655,255**	**31,375,790**	**426,407**	**541,520**
	(4,476,398)	(193,830)	(4,670,228)	(21,910,011)	(11,945)	(668,855)	(27,249,094)	(115,113)	(115,113)

[1] Provisional number or provisional monetary value calculated at grant date (date on which the entitlement became binding in law). The final number of matching shares is determined in each case when the requirement to invest in BMW AG common stock has been fulfilled. See note 18 to the Group Financial Statements for a description of the accounting treatment of the share-based compensation component.

[2] Monetary value calculated on the basis of the closing price of BMW common stock in the XETRA trading system on 28 December 2012 (€72.93) (fair value at reporting date).

[3] Member of the Board of Management since 1 July 2012

Pension benefits of the individual members of the Board of Management

in €	Allocated to pension provisions in financial year 2012[1]	Present value of pension obligations (defined benefit plans), in accordance with IFRS[2, 3]	Present value of pension obligations (defined benefit plans), in accordance with HGB[2]	Balance on accounts at 31.12.2012 (defined benefit plans)[2]
Norbert Reithofer	217,462	7,770,956	5,263,483	4,960,974
	(196,016)	(5,093,510)	(4,733,729)	(3,858,278)
Frank-Peter Arndt	108,769	4,390,861	3,258,422	3,268,852
	(110,826)	(3,027,171)	(2,839,571)	(2,584,455)
Milagros Caiña Carreiro-Andree[4]	150,000	169,119	168,608	151,882
	(–)	(–)	(–)	(–)
Herbert Diess	145,829	3,459,608	2,407,993	2,402,944
	(147,280)	(2,201,981)	(2,041,544)	(1,817,002)
Klaus Draeger	114,531	4,357,273	3,078,164	3,088,017
	(112,163)	(2,908,811)	(2,711,411)	(2,426,238)
Friedrich Eichiner	127,028	4,443,313	3,203,857	3,214,112
	(127,016)	(3,058,014)	(2,872,538)	(2,536,562)
Harald Krüger	88,004	2,911,534	1,934,608	1,911,397
	(87,282)	(1,669,436)	(1,508,167)	(1,382,823)
Ian Robertson	281,416	1,872,190	1,274,502	1,197,553
	(278,587)	(994,200)	(924,011)	(768,936)
Total[2]	**1,233,039**	**29,374,854**	**20,589,637**	**20,195,731**
	(1,059,170)	(18,953,123)	(17,630,971)	(15,374,294)

[1] With the exception of Milagros Caiña Carreiro-Andree, the amount disclosed corresponds to service cost in accordance with IFRS
[2] Based on legal right to receive the benefits already promised to them, Board of Management members appointed for the first time prior to 1 January 2010 were given the option of choosing between the old and new models at the time the Company changed from a defined benefit to a defined contribution system.
[3] Defined Benefit Obligations
[4] Member of the Board of Management since 1 July 2012. The pension expense for Milagros Caiña Carreiro-Andree in the financial year 2012 corresponds to the defined contribution amount

The amount paid to former members of the Board of Management and their dependants was €3.8 million (2011: €3.7 million). Pension obligations to former members of the Board of Management and their surviving dependants are fully covered by pension provisions amounting to €61.2 million (2011: €51.6 million), computed in accordance with IAS 19. The increase in the present value of defined benefit obligations for current Board of Management and pension obligations to former Board of Management members and their surviving dependants, measured in accordance with IFRS, was primarily attributable to interest rate factors.

2. Supervisory Board compensation

Responsibilities, regulation pursuant to Articles of Incorporation

The compensation of the Supervisory Board is determined by shareholders' resolution at the Annual General Meeting. The compensation regulation valid for the financial year 2012 was resolved by shareholders at the Annual General Meeting on 8 May 2008 and is set out in Article 15 of BMW AG's Articles of Incorporation, which can be viewed and/or downloaded at www.bmwgroup.com/ir under the menu items "Corporate Facts" and "Corporate Governance".

Compensation principles, compensation components

The Supervisory Board of BMW AG receives both fixed and corporate performance-related compensation. Earnings per share of common stock form the basis for corporate performance-related compensation.

In accordance with rules contained in BMW AG's Articles of Incorporation, each member of the Supervisory Board receives, in addition to the reimbursement of reasonable expenses, a fixed amount of €55,000 (payable at the end of the year) as well as a performance-related compensation of €220 for each full €0.01 by which the earnings per share (EPS) of common stock reported in the Group Financial Statements for the financial year (remuneration year) exceed a minimum amount of €2.30 (payable after the Annual General Meeting held in the following year). An upper limit corresponding to twice the amount of the fixed compensation (€110,000) is in place for the corporate performance-related compensation.

With this combination of fixed and corporate performance-related compensation, the compensation structure in place for BMW AG's Supervisory Board has complied up to now with the recommendation contained in paragraph 2 of section 5.4.6 of the German Corporate Governance Code (version dated 26 May 2010). The Supervisory Board and Board of Management intend to submit a proposal to the Annual General Meeting 2013 to change Supervisory Board compensation for financial years beginning after 1 January 2013 by way of an amendment to the Articles of Incorporation. In line with the revised recommendation on supervisory board compensation contained in section 5.4.6 paragraph 2 sentence 2 of the Code (version dated 15 May 2012), the corporate performance-related compensation component will in future take more than one financial year into account and be oriented toward sustainable growth of the enterprise.

The German Corporate Governance Code also recommends that the exercising of chair and deputy chair positions in the Supervisory Board as well as the chair and membership of committees should also be considered when determining the level of compensation.

Accordingly, the Articles of Incorporation of BMW AG stipulate that the Chairman of the Supervisory Board shall receive three times the amount and each Deputy Chairman shall receive twice the amount of the remuneration of a Supervisory Board member. Provided the relevant committee convened for meetings on at least three days during the financial year, each chairman of the Supervisory Board's committees receives twice the amount and each member of a committee receives one and a half times the amount of the remuneration of a Supervisory Board member. If a member of the Supervisory Board exercises more than one of the functions referred to above, the compensation is measured only on the basis of the function which is remunerated with the highest amount.

In addition, each member of the Supervisory Board receives an attendance fee of €2,000 for each full meeting of the Supervisory Board (Plenum) which the member has attended (payable at the end of the financial year). Attendance at more than one meeting on the same day is not remunerated separately.

The Company also reimburses to each member of the Supervisory Board reasonable expenses and any value-added tax arising on the member's remuneration. The amounts disclosed below are net amounts.

In order to be able to perform his duties, the Chairman of the Supervisory Board is provided with secretariat and chauffeur services.

Compensation of the Supervisory Board for the financial year 2012 (total)

In accordance with § 15 of the Articles of Incorporation, the compensation of the Supervisory Board for activities during the financial year 2012 amounted to €4.5 million (2011: €4.5 million). This includes fixed compensation of €1.6 million (2011: €1.6 million) and variable compensation of €2.9 million (2011: €2.9 million). As a result of the earnings per share of €7.77 (see note 16 to the Group Financial Statements) (2011: €7.45), the stipulated upper limits for Supervisory Board variable compensation were again applied for the financial year ended 31 December 2012.

in € million	**2012**		2011	
	Amount	Proportion in %	Amount	Proportion in %
Fixed compensation	**1.6**	**35.6**	1.6	35.6
Variable compensation	**2.9**	**64.4**	2.9	64.4
Total compensation	**4.5**	**100.0**	**4.5**	**100.0**

Supervisory Board members did not receive any further compensation or benefits from the BMW Group for advisory and agency services personally rendered.

Compensation of the individual members of the Supervisory Board for the financial year 2012 (2011)

in €	Fixed compensation	Attendance fee	Variable compensation	**Total**
Joachim Milberg (Chairman)	165,000 (165,000)	10,000 (10,000)	330,000 (330,000)	**505,000** (505,000)
Manfred Schoch (Deputy Chairman)[1]	110,000 (110,000)	10,000 (10,000)	220,000 (220,000)	**340,000** (340,000)
Stefan Quandt (Deputy Chairman)	110,000 (110,000)	10,000 (10,000)	220,000 (220,000)	**340,000** (340,000)
Stefan Schmid (Deputy Chairman)[1]	110,000 (110,000)	10,000 (10,000)	220,000 (220,000)	**340,000** (340,000)
Karl-Ludwig Kley (Deputy Chairman)	110,000 (110,000)	8,000 (10,000)	220,000 (220,000)	**338,000** (340,000)
Bertin Eichler[1]	55,000 (55,000)	10,000 (8,000)	110,000 (110,000)	**175,000** (173,000)
Franz Haniel	55,000 (55,000)	10,000 (10,000)	110,000 (110,000)	**175,000** (175,000)
Reinhard Hüttl	55,000 (55,000)	10,000 (10,000)	110,000 (110,000)	**175,000** (175,000)
Henning Kagermann	55,000 (55,000)	10,000 (10,000)	110,000 (110,000)	**175,000** (175,000)
Susanne Klatten	55,000 (55,000)	8,000 (8,000)	110,000 (110,000)	**173,000** (173,000)
Renate Köcher	55,000 (55,000)	8,000 (10,000)	110,000 (110,000)	**173,000** (175,000)
Robert W. Lane	55,000 (55,000)	6,000 (8,000)	110,000 (110,000)	**171,000** (173,000)
Horst Lischka[1]	55,000 (55,000)	10,000 (10,000)	110,000 (110,000)	**175,000** (175,000)
Willibald Löw[1]	55,000 (55,000)	10,000 (10,000)	110,000 (110,000)	**175,000** (175,000)
Wolfgang Mayrhuber	55,000 (55,000)	8,000 (8,000)	110,000 (110,000)	**173,000** (173,000)
Dr. Dominique Mohabeer[1,2]	32,158 (–)	6,000 (–)	64,317 (–)	**102,475** (–)
Franz Oberländer[1,3]	22,842 (55,000)	4,000 (8,000)	45,683 (110,000)	**72,525** (173,000)
Anton Ruf[4]	45,833 (55,000)	8,000 (8,000)	91,667 (110,000)	**145,500** (173,000)
Maria Schmidt[1]	55,000 (55,000)	8,000 (10,000)	110,000 (110,000)	**173,000** (175,000)
Jürgen Wechsler[1]	55,000 (48,973)	10,000 (6,000)	110,000 (97,045)	**175,000** (152,018)
Werner Zierer[1]	55,000 (55,000)	10,000 (10,000)	110,000 (110,000)	**175,000** (175,000)
Oliver Zipse[5]	9,167 (–)	2,000 (–)	18,333 (–)	**29,500** (–)
Total	**1,430,000** (1,423,973)	**186,000** (184,000)	**2,860,000** (2,847,045)	**4,476,000** (4,455,018)

[1] These employee representatives have – in line with the guidelines of the Deutsche Gewerkschaftsbund – requested that their remuneration be paid into the Hans-Böckler-Foundation.
[2] Member of the Supervisory Board since 1 June 2012
[3] Member of the Supervisory Board until 31 May 2012
[4] Member of the Supervisory Board until 31 October 2012
[5] Member of the Supervisory Board since 1 November 2012

3. Other

Apart from vehicle lease contracts entered into on customary market conditions, no advances and loans were granted by the Company to members of the Board of Management and the Supervisory Board, nor were any contingent liabilities entered into on their behalf.

OTHER INFORMATION

BMW Group Ten-year Comparison

		2012	2011	2010	2009
Deliveries to customers					
Automobiles	units	**1,845,186**	1,668,982	1,461,166	1,286,310
Motorcycles[2]	units	**117,109**	113,572	110,113	100,358
Production					
Automobiles	units	**1,861,826**	1,738,160	1,481,253	1,258,417
Motorcycles	units	**125,284**	118,865	112,271	93,243
Financial Services					
Contract portfolio	contracts	**3,846,364**	3,592,093	3,190,353	3,085,946
Business volume (based on balance sheet carrying amounts)[3]	€ million	**80,974**	75,245	66,233	61,202
Income Statement					
Revenues	€ million	**76,848**	68,821	60,477	50,681
Gross profit margin Group[4]	%	**20.2**	21.1	18.1	10.5
Profit before financial result	€ million	**8,300**	8,018	5,111	289
Profit before tax	€ million	**7,819**	7,383	4,853	413
Return on sales (earnings before tax/revenues)	%	**10.2**	10.7	8.0	0.8
Income taxes	€ million	**2,697**	2,476	1,610	203
Effective tax rate	%	**34.5**	33.5	33.1	49.2
Net profit for the year	€ million	**5,122**	4,907	3,243	210
Balance Sheet					
Non-current assets	€ million	**81,336**	74,425	67,013	62,009
Current assets	€ million	**50,514**	49,004	43,151	39,944
Equity	€ million	**30,402**	27,103	23,930	19,915
Equity ratio Group	%	**23.1**	22.0	21.7	19.5
Non-current provisions and liabilities	€ million	**53,074**	49,113	46,100	45,119
Current provisions and liabilities	€ million	**48,374**	47,213	40,134	36,919
Balance sheet total	€ million	**131,850**	123,429	110,164	101,953
Cash Flow Statement					
Cash and cash equivalents at balance sheet date	€ million	**8,370**	7,776	7,432	7,767
Operating cash flow[5]	€ million	**9,167**	8,110[6]	8,149	4,921
Capital expenditure	€ million	**5,240**	3,692	3,263	3,471
Capital expenditure ratio (capital expenditure/revenues)	%	**6.8**	5.4	5.4	6.8
Personnel					
Workforce at the end of year[7]		**105,876**	100,306	95,453	96,230
Personnel cost per employee	€	**89,140**	84,887	83,141	72,349
Dividend					
Dividend total	€ million	**1,640**	1,508	852	197
Dividend per share of common stock/preferred stock	€	**2.50/2.52**	2.30/2.32	1.30/1.32	0.30/0.32

[1] Adjusted for new accounting treatment of pension obligations
[2] Excluding C1, sales volume to 2003: 32,859 units
[3] Amount computed on the basis of balance sheet figures: until 2007 from the Group balance sheet, from 2008 onwards from the Financial Services segment balance sheet
[4] Research and development costs included in cost of sales with the effect from 2008
[5] Figures are reported in the cash flow statement up to 2006 as cash inflow from operating activities of Industrial Operations and from 2007 as cash inflow from operating activities of the Automotive segment.
[6] Adjusted for reclassifications as described in note 42.
[7] Figures exclude dormant employment contracts, employees in the non-work phases of pre-retirement part-time arrangements and low wage earners.
[8] Adjustment to dividend due to buy-back of treasury shares

2008	2007	2006	2005	2004[1]	2003	
						Deliveries to customers
1,435,876	1,500,678	1,373,970	1,327,992	1,208,732	1,104,916	Automobiles
115,196	102,467	100,064	97,474	92,266	92,962	Motorcycles[2]
						Production
1,439,918	1,541,503	1,366,838	1,323,119	1,250,345	1,118,940	Automobiles
118,452	104,396	103,759	92,012	93,836	89,745	Motorcycles
						Financial Services
3,031,935	2,629,949	2,270,528	2,087,368	1,843,399	1,623,425	Contract portfolio
60,653	51,257	44,010	40,428	32,556	28,647	Business volume (based on balance sheet carrying amounts)[3]
						Income Statement
53,197	56,018	48,999	46,656	44,335	41,525	Revenues
11.4	21.8	23.1	22.9	23.2	22.7	Gross profit margin Group[4]
921	4,212	4,050	3,793	3,774	3,353	Profit before financial result
351	3,873	4,124	3,287	3,583	3,205	Profit before tax
0.7	6.9	8.4	7.0	8.1	7.7	Return on sales (earnings before tax / revenues)
21	739	1,250	1,048	1,341	1,258	Income taxes
6.0	19.1	30.3	31.9	37.4	39.3	Effective tax rate
330	3,134	2,874	2,239	2,242	1,947	Net profit for the year
						Balance Sheet
62,416	56,619	50,514	47,556	40,822	36,921	Non-current assets
38,670	32,378	28,543	27,010	26,812	24,554	Current assets
20,273	21,744	19,130	16,973	16,534	16,150	Equity
20.1	24.4	24.2	22.8	24.4	26.3	Equity ratio Group
41,526	33,469	31,372	29,509	26,517	22,090	Non-current provisions and liabilities
39,287	33,784	28,555	28,084	24,583	23,235	Current provisions and liabilities
101,086	88,997	79,057	74,566	67,634	61,475	Balance sheet total
						Cash Flow Statement
7,454	2,393	1,336	1,621	2,128	1,659	Cash and cash equivalents at balance sheet date
4,471	6,246	5,373	6,184	6,157	4,970	Operating cash flow[5]
4,204	4,267	4,313	3,993	4,347	4,245	Capital expenditure
7.9	7.6	8.8	8.6	9.8	10.2	Capital expenditure ratio (capital expenditure / revenues)
						Personnel
100,041	107,539	106,575	105,798	105,972	104,342	Workforce at the end of year[7]
75,612	76,704	76,621	75,238	73,241	73,499	Personnel cost per employee
						Dividend
197	694	458	419[8]	419	392	Dividend total
0.30 / 0.32	1.06 / 1.08	0.70 / 0.72	0.64 / 0.66	0.62 / 0.64	0.58 / 0.60	Dividend per share of common stock / preferred stock

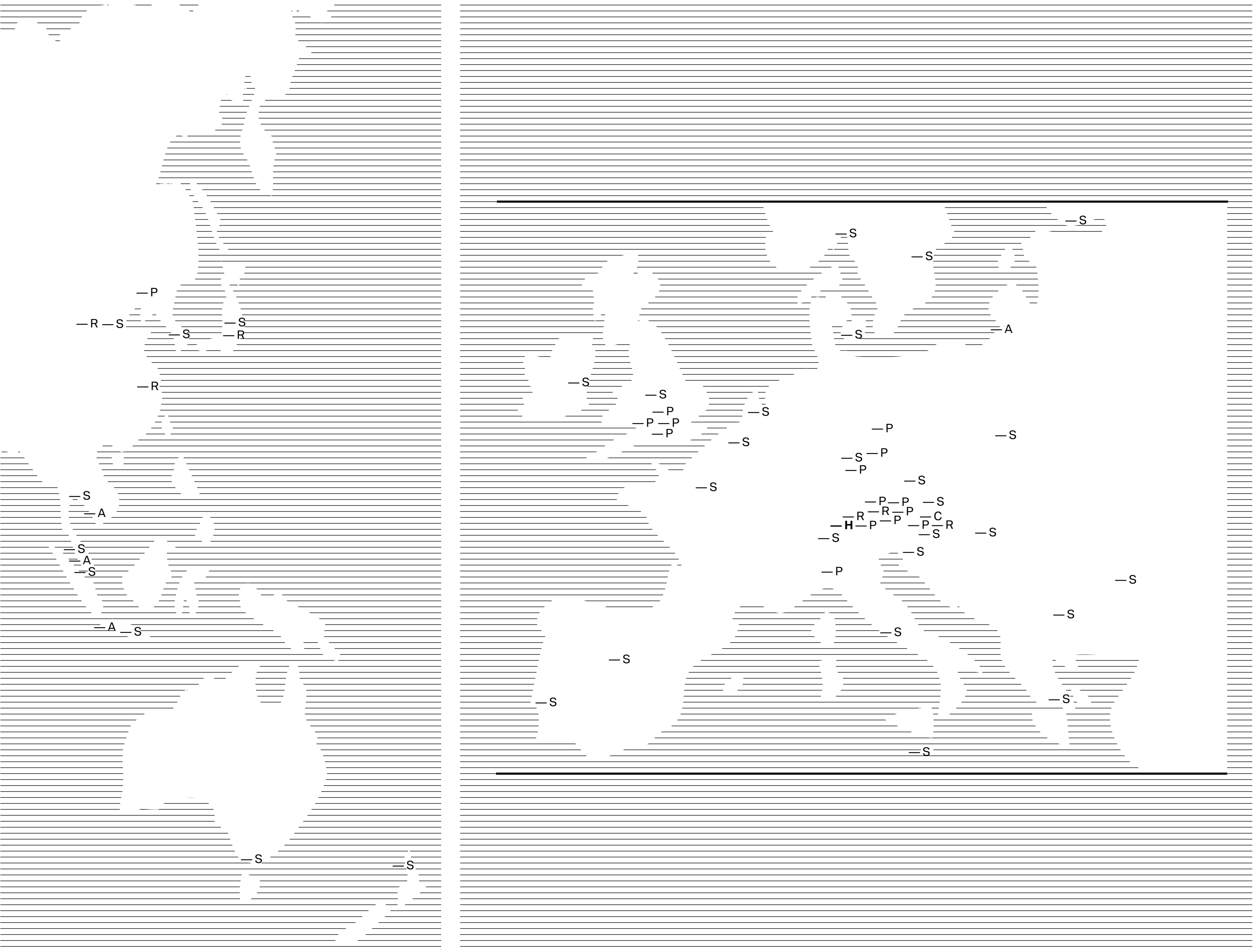
BMW Group Locations

The BMW Group is present in the world markets with 29 production and assembly plants, 43 sales subsidiaries and a research and development network.

— H **Headquarters**

— R Research and Development

BMW Group Research and Innovation Centre (FIZ), Munich, Germany
BMW Group Research and Technology, Munich, Germany
BMW Car IT, Munich, Germany
BMW Innovation and Technology Centre, Landshut, Germany
BMW Diesel Competence Centre, Steyr, Austria
BMW Group Designworks, Newbury Park, USA
BMW Group Technology Office USA, Mountain View, USA
BMW Group Engineering and Emission Test Center, Oxnard, USA
BMW Group ConnectedDrive Lab China, Shanghai, China
BMW Group Designworks USA, Shanghai, China
BMW Group Engineering China, Beijing, China
BMW Group Engineering Japan, Tokyo, Japan
BMW Group Engineering USA, Woodcliff Lake, USA



— P **Production**

Berlin plant
Dingolfing plant
Eisenach plant
Goodwood plant, GB (headquarters of Rolls-Royce Motor Cars Limited)
Hams Hall plant, GB
Landshut plant
Leipzig plant
Munich plant
Oxford plant, GB
Regensburg plant
Rosslyn plant, South Africa
BMW Brilliance Automotive Ltd., Shenyang, China (joint venture with Brilliance China Automotive Holdings – 3 plants)
Spartanburg plant, USA
Steyr plant, Austria
Swindon plant, GB
Wackersdorf plant
BMW – SGL joint venture (2 plants)
Husqvarna Motorcycles S. r. l., Cassinetta di Biandronno, Italy

— C **Contract production**

Magna Steyr Fahrzeugtechnik, Austria

— A **Assembly plants**

CKD production Cairo, Egypt
CKD production Chennai, India
CKD production Jakarta, Indonesia
CKD production Kaliningrad, Russia
CKD production Kulim, Malaysia
CKD production Manaus, Brazil
CKD production Rayong, Thailand

— S **Sales subsidiary markets / Locations Financial Services**

Argentina
Australia
Austria
Belgium
Brazil
Bulgaria
China
Canada
Czech Republic
Denmark
Dubai
Finland
France
Germany
Great Britain
Greece
Hungary
India
Indonesia*
Ireland
Italy
Japan
Malaysia
Malta
Mexico
Netherlands
New Zealand
Norway
Panama*
Poland
Portugal
Romania
Russia
Singapore
Slovakia
Slovenia
South Africa
South Korea
Spain
Sweden
Switzerland
Thailand
USA

* sales locations only

CFRP
Abbreviation for carbon-fibre reinforced polymer. CFRP is a composite material, consisting of carbon-fibres surrounded by a plastic matrix (resin). On a comparative basis, CFRP is approximately 50 % lighter than steel and 30 % lighter than aluminium.

Common stock
Stock with voting rights (cf. preferred stock).

Connected Drive
Under the term Connected Drive, the BMW Group already unites a unique portfolio of innovative features that enhance comfort, raise infotainment to new levels and significantly boost safety in BMW Group vehicles.

Cost of materials
Comprises all expenditure to purchase raw materials and supplies.

DAX
Abbreviation for "Deutscher Aktienindex", the German Stock Index. The index is based on the weighted market prices of the 30 largest German stock corporations (by stock market capitalisation).

Deferred taxes
Accounting for deferred taxes is a method of allocating tax expense to the appropriate accounting period.

Derivatives
Financial products, whose measurement is derived principally from market price, market price fluctuations and expected market price changes of the underlying instrument (e.g. indices, stocks or bonds).

DJSI World
Abbreviation for "Dow Jones Sustainability Index World". A family of indexes created by Dow Jones and the Swiss investment agency SAM Sustainability Group for companies with strategies based on a sustainability concept. The BMW Group has been one of the leading companies in the DJSI since 1999.

EBIT
Abbreviation for "Earnings Before Interest and Taxes". The profit before income taxes, minority interest and financial result.

EBITDA
Abbreviation for "Earnings Before Interest, Taxes, Depreciation and Amortisation". The profit before income taxes, minority interest, financial result and depreciation/amortisation.

Effectiveness
The degree to which offsetting changes in fair value or cash flows attributable to a hedged risk are achieved by the hedging instrument.

Efficient Dynamics
The aim of Efficient Dynamics is to reduce consumption and emissions whilst simultaneously increasing dynamics and performance. This involves a holistic approach to achieving optimum automobile potential, ranging from efficient engine technologies and lightweight construction to comprehensive energy and heat management inside the vehicle.

Equity ratio
The proportion of equity (= subscribed capital, reserves, accumulated other equity and minority interest) to the balance sheet total.

Free cash flow
Free cash flow corresponds to the cash inflow from operating activities of the Automotive segment less the cash outflow for investing activities of the Automotive segment adjusted for net investment in marketable securities.

Gross margin
Gross profit as a percentage of revenues.

IFRSs
International Financial Reporting Standards, intended to ensure global comparability of financial reporting and consistent presentation of financial statements. The IFRSs are issued by the International Accounting Standards Board and include the International Accounting Standards (IASs), which are still valid.

Indicator for water consumption
The indicators for water consumption refer to the production sites of the BMW Group. The water consumption includes the process water input for the production as well as the general water consumption, e.g. for sanitation facilities.

Operating cash flow
Cash inflow from the operating activities of the Automotive segment.

Preferred stock
Stock which receives a higher dividend than common stock, but without voting rights.

Production network
The BMW Group production network consists worldwide of 17 plants, seven assembly plants and one contract production plant. Within this network, the plants supply one another with systems and components and are all characterised by a high level of productivity, agility and flexibility.

Rating
Standardised evaluation of a company's credit standing which is widely accepted on the global capital markets. Ratings are published by independent rating agencies, e.g. Standard & Poor's or Moody's, based on their analysis of a company.

Return on sales
Pre-tax: Profit before tax as a percentage of revenues.
Post-tax: Profit as a percentage of revenues.

Risk management
An integral component of all business processes. Following enactment of the German Law on Control and Transparency within Businesses (KonTraG), all companies listed on a stock exchange in Germany are required to set up a risk management system. The purpose of this system is to identify risks at an early stage which could have a significant adverse effect on the assets, liabilities, financial position and results of operations, and which could endanger the continued existence of the Company. This applies in particular to transactions involving risk, errors in accounting or financial reporting and violations of legal requirements. The Board of Management is required to set up an appropriate system, to document that system and monitor it regularly with the aid of the internal audit department.

Sales locations
Sales locations include separate legal entities, non-separate entities and regional offices. In addition, 105 markets are serviced by 97 importers.

Subsidiaries
Subsidiaries are those enterprises which, either directly or indirectly, are under the uniform control of the management of BMW AG or in which BMW AG, either directly or indirectly
- holds the majority of the voting rights
- has the right to appoint or remove the majority of the members of the Board of Management or equivalent governing body, and in which BMW AG is at the same time (directly or indirectly) a shareholder
- has control (directly or indirectly) over another enterprise on the basis of a control agreement or a provision in the statutes of that enterprise.

Supplier relationship management
Supplier relationship management (SRM) uses focused procurement strategies to organise networked supplier relationships, optimise processes for supplier qualification and selection, ensure the application of uniform standards throughout the Group and create efficient sourcing and procurement processes along the whole value added chain.

Sustainability
Sustainability, or sustainable development, gives equal consideration to ecological, social and economic development. In 1987 the United Nations "World Commission on Environment and Development" defined sustainable development as development that meets the needs of the present without compromising the ability of future generations to meet their own needs. The economic relevance of corporate sustainability to the BMW Group is evident in three areas: resources, reputation and risk.

Index

Index of Graphs

This version of the Annual Report is a translation from the German version. Only the original German version is binding.

Financial Calendar

Annual Accounts Press Conference	19 March 2013
Analyst and Investor Conference	20 March 2013
Quarterly Report to 31 March 2013	2 May 2013
Annual General Meeting	14 May 2013
Quarterly Report to 30 June 2013	1 August 2013
Quarterly Report to 30 September 2013	5 November 2013

Annual Report 2013	19 March 2014
Annual Accounts Press Conference	19 March 2014
Analyst and Investor Conference	20 March 2014
Quarterly Report to 31 March 2014	6 May 2014
Annual General Meeting	15 May 2014
Quarterly Report to 30 June 2014	5 August 2014
Quarterly Report to 30 September 2014	4 November 2014

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The BMW Group on the Internet

Further information about the BMW Group is available online at www.bmwgroup.com. Investor Relations information is available directly at www.bmwgroup.com/ir. Information about the various BMW Group brands is available at www.bmw.com, www.mini.com and www.rolls-roycemotorcars.com.

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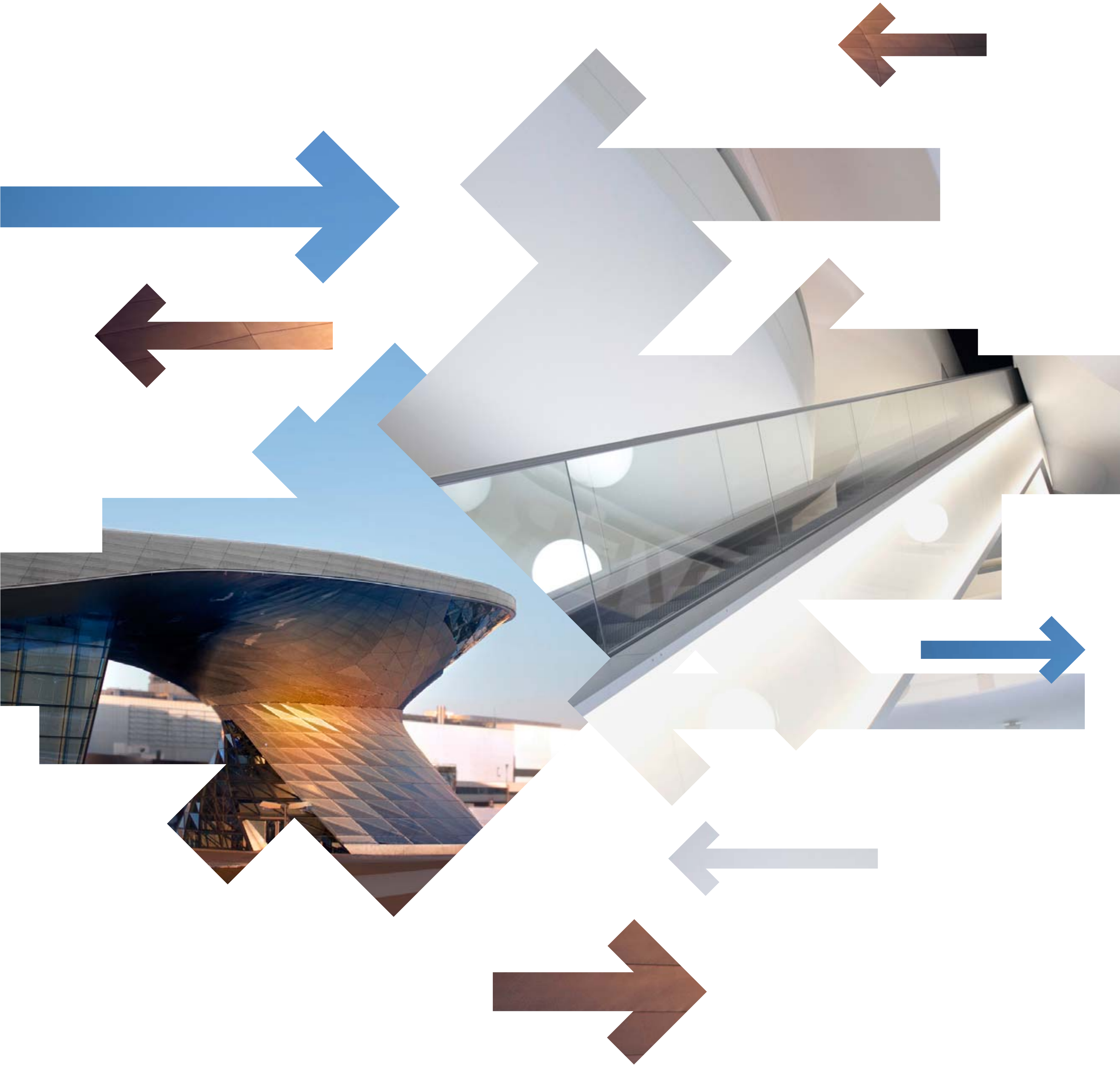

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VIEWS

2012 —— CONNECTING

BMW GROUP

Rolls-Royce
Motor Cars Limited

The BMW Group's global production network combines groundbreaking new approaches and production concepts to create an increasingly high-performance manufacturing organisation. Flexibility, efficiency and effectiveness are the primary targets. As the world's most sustainable car company, we have reduced resource consumption and emissions in this way by more than a third since 2006.

The mobility of the future will be determined not by premium products and premium services alone, but also by flexible and sustainable production.

Read how Clean Production brings together associates and partners from around the world.

United by premium standards.

Every year, "Views" as part of our Annual Report provides information on selected BMW Group topics. But more than that, our aim is to generate discussion and present our view of matters. Because it is important to us.

For the success of the BMW Group. For the society. For the future of mobility.

TALKING
WITH OUR FUTURE.

We connect the ideas of today and tomorrow.

Recognising society's needs and thinking ahead.

> Dr. Norbert Reithofer talks to BMW Group apprentices about the future of individual mobility.

31 January 2013, Double cone at BMW Welt, Munich

“Our Strategy Number ONE will enable us to maintain our success.”

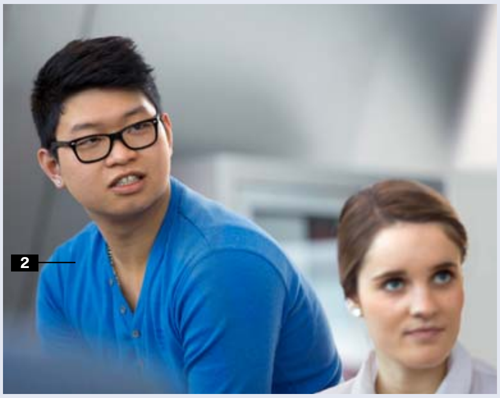
Dr. Norbert Reithofer

Carola Hensel

We sold more cars in 2012 than ever before. But there is also a lot in the news about the euro crisis. How will future crises affect us? Does this mean we will sell fewer cars?

Dr. Norbert Reithofer

We have every reason to be confident about the future. We have great vehicles, a highly flexible production system and will be bringing innovative cars like the BMW i3 onto the market this year. Of course, we have to keep a close eye on developments in Europe and around the globe because of the increasing volatility worldwide. Our Strategy Number ONE will enable us to maintain our success. It is also important to keep costs under control – that is the only way we can steer successfully through crises and invest in the future.

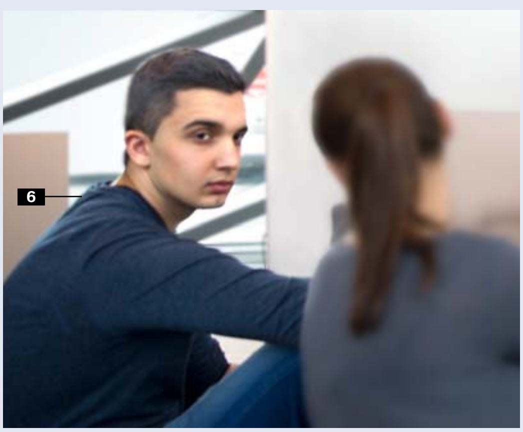


“We have great vehicles, a highly flexible production system and will be bringing innovative cars like the BMW i3 onto the market this year.”

Dr. Norbert Reithofer

“I believe that everyone should contribute to greater sustainability.”

Dr. Norbert Reithofer



Simon Huber and Cennet Sahin

You already mentioned that the BMW i3 will be coming out this year. When do you think we will stop seeing cars with combustion engines and all just drive electric?

Dr. Norbert Reithofer

You have to look far into the future for that. We will be driving mostly combustion engines for many years to come. But those engines will have to be even more efficient in the future. We need new approaches, like the three-cylinder engine, as well as new technologies, such as electromobility. We have already made tremendous progress in reducing CO_2 emissions, but we cannot afford to take it easy. We will only be able to meet ambitious CO_2 legislation in the future if we have efficient combustion engines and electric motors.

Albian Ibraimi

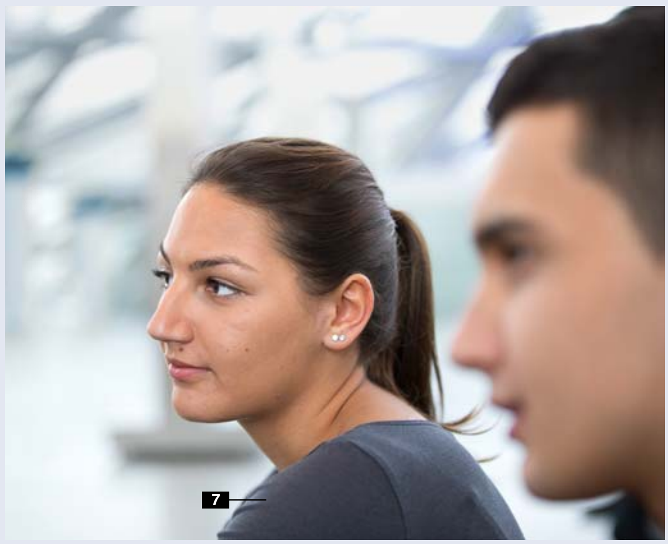
This shows how much sustainability means to the BMW Group. But why is sustainability so important to the company?

Dr. Norbert Reithofer

I believe that everyone – individuals and companies alike – should contribute to greater sustainability. And that applies to us as an automobile company, in particular. With all our improvements in production, such as the reduction of energy and water consumption at our plants, the BMW i3 and the i8 capture exactly our direction.

"We have already made tremendous progress in reducing CO_2 emissions."

Dr. Norbert Reithofer



Sebastian Forster and Duc Huy Cao

Now that we're also building a plant in Brazil, will the same standards apply there, too? Will young associates be able to go to Brazil in the future? People are the BMW Group's capital, after all.

Dr. Norbert Reithofer

Our high sustainability standards apply to all our plants, wherever they are built. And we would certainly like to see young people go abroad to help set up the plant or develop the market, and gain work experience. That is something I can recommend to anyone. I learned a lot myself from my time abroad. That is the kind of experience that enriches our lives and helps us grow into global citizens.

"Our high sustainability standards apply to all our plants, wherever they are built."

Dr. Norbert Reithofer

Miriam Wittmann

If you look ahead 20 years from now, where do you see BMW? Will we still be number one?

Dr. Norbert Reithofer

Yes, I am sure we will. But we will have to keep on working hard to stay ahead. Highly motivated people and innovation are the key. That is what makes cars like the i3 and the 6 Series Gran Coupé so important. They are icons with a positive impact on all our vehicles.

Representing all BMW Group apprentices, seven young men and women interviewed Chairman of the Board of Management Dr. Norbert Reithofer about the future of the BMW Group:

[1] Carola Hensel, Munich
[2] Duc Huy Cao, Munich
[3] Miriam Wittmann, Munich
[4] Sebastian Forster, Munich
[5] Simon Huber, Dingolfing
[6] Albian Ibraimi, Munich
[7] Cennet Sahin, Munich

Contents

Key technical data, fuel consumption and CO_2 emission ratings for the presented vehicles referred to in this report can be found on page 85.

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Plant Spartanburg / USA

LEIPZIG

Germany 51° 20' N, 12° 22' E

Plant Tiexi / China

— **Evolution and revolution in automobile manufacturing**

Efficient paint shop

Utilises its own thermal energy

→ Page 16

Energy-optimised body shop

Lowers energy consumption and costs

→ Page 18

Intelligent energy supply

Anticipates energy price fluctuations and production data

→ Page 20

High-performance wind turbines

Generate 100 % renewable energy

→ Page 25

Leipzig plant profile

Construction:	**2005**
Vehicle production (2012):	**164,282**
BMW vehicles:	**BMW X1, 1 Series five-door, 1 Series Coupé, 1 Series Convertible, BMW i3 (from late 2013 onwards)**
Associates:	**over 3,000**
Plant grounds:	**229 ha**
New buildings for BMW i production:	**4 production halls**
Investment in BMW i production:	**€400 million**
Energy savings from current efficiency projects:	**6.4 GWh / year**

The BMW Leipzig plant has achieved something no other car plant has attempted before: automotive evolution and revolution under the same roof.

Passion unites us.

The mobility of the future comes from Leipzig. Teams of process and air-conditioning engineers work together to boost plant efficiency and lower energy consumption significantly. At the same time, this is where the mobility and automobile manufacturing of the future are being created. The production of our revolutionary BMW i models uses 70 per cent less water and 50 per cent less energy per vehicle produced than the average for our already efficient production network. The electricity required for BMW i production is generated in a resource-efficient and climate-neutral process by four specially built wind turbines situated on the plant grounds.

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Path-breaking production solutions
developed by specialist project teams throughout the BMW Group's worldwide production network

Team Heat Recovery → Page 16

Robert Hache
Paint shop control technology

Sylvia Arlt
Paint shop installation planning

Olaf Merboth
Control of paint shop heating and electrical systems

Jeannine Sagner
BMW i assembly

Efficiency

Analysis

Joy

Pilot projects

Evolution

BMW GROUP PRODUCTION NETWORK

Great ideas are born when the best brains come together – at the Leipzig plant, and at the BMW Group's 28 other production locations in 14 countries worldwide.

Ambition

Benchmark solutions

Know-how

Synergies

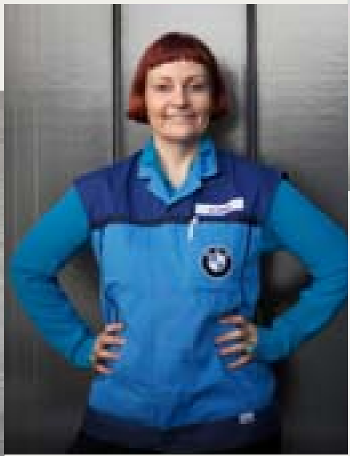
Intelligent cooperation

Team Production BMW i → Page 22

Revolution

Jürgen Laube
BMW i production project manager

Alexandra Pfeifer
BMW i assembly



Hanne Dinkel
Production control and structural planning

Veit Melzer
Building management, Leipzig plant

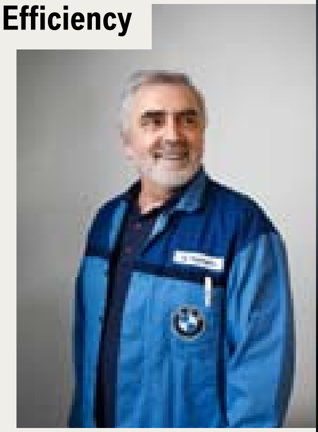
Mutual learning

Curiosity

Networking

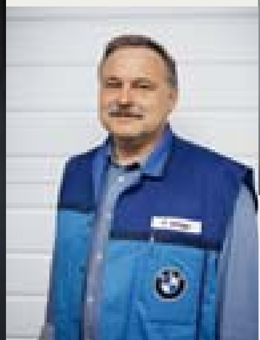
Drive

→ Page 18 Team Energy Efficiency



Stefan Thalheim
Body shop control technology

Dr. Rainer Angerhöfer
Energy monitoring and management



Frank Böttger
Energy supply

Stefan Köhn
Energy and object management

Dialogue

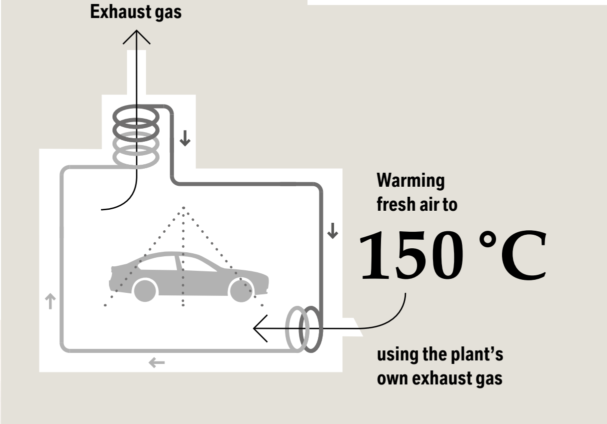
Leadership

Following the success of the Leipzig pilot project, the team is now looking to capitalise on similar potential at other paint shops in the production network.

– 55 %

Paint shop heat recovery project. Sylvia Arlt and her co-workers have accomplished in rudimentary form a feat that has eluded physicists since time immemorial: the creation of perpetual motion. On the roof of the paint shop, the process engineer has installed a powerful heat exchanger, which collects thermal energy from exhaust air systems and feeds it back into the paint shop's drying plant as warm fresh air. Although this pilot installation does not capture all of the waste heat, it still reduces carbon dioxide emissions by 300,000 kilogrammes a year and lowers the amount of natural gas **previously required by 55 per cent** – enough to heat up to 100 households.

Energy recycling using heat exchangers



A vehicle paint shop inevitably needs a substantial amount of heat for drying and exhaust air treatment. The Leipzig plant uses a heat exchanger to recover a significant percentage (far left).

fossil energy

“The most efficient kind of energy doesn’t need to be generated in the first place.”

Sylvia Arlt (left), installation planner at BMW plant Leipzig

◄◄ Sylvia Arlt – Process engineer

— responsible for the paint shop waste heat utilisation project

— has worked for the BMW Group production network since 2010

— “Free, climate-neutral energy from waste heat – for me, that’s the most intelligent resource possible.”

◄ Robert Hache – Electrical engineer

— responsible for paint shop control technology

— has worked for the BMW Group production network since 2003

— “Retrofitting a well-running paint shop is no trivial matter. The solution we have developed here will benefit other paint shops in the BMW production network.”

–21% energy require

"Lower power consumption. Same performance. Perfect balance."

Frank Böttger (left), energy supply, BMW plant Leipzig

► **Frank Böttger – Air-conditioning and drying technology engineer**

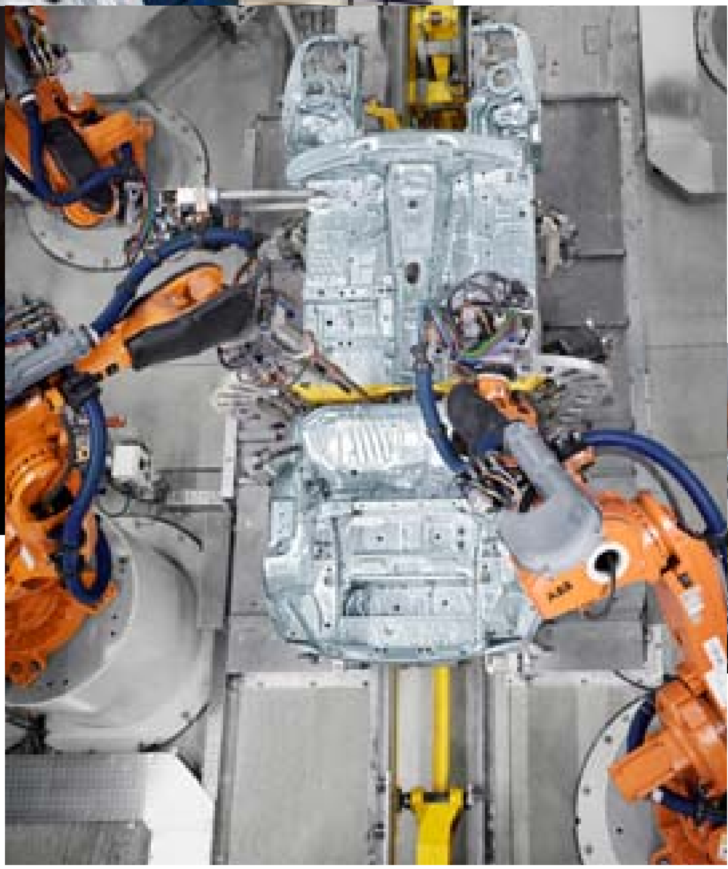
- responsible for energy supply
- has worked for the BMW Group production network since 2004
- "Planning is one thing. But you only see the real energy requirements – and the corresponding savings potential – when the plant comes on stream."

►► **Stefan Thalheim – Control technology engineer**

- responsible for body shop control technology
- has worked for the BMW Group production network since 2005
- "It's hard to uncover energy reserves in an efficient plant, of course. But we still manage to find some."

ments

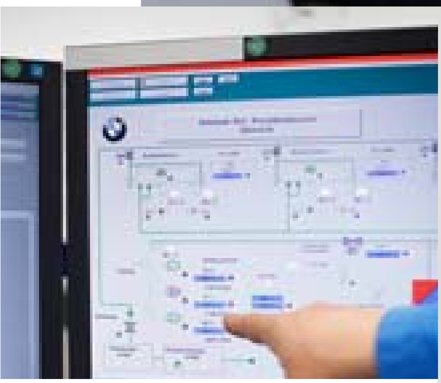
↑
Intelligent robot control also lowers energy costs at the Tiexi plant. Page 54



Every stage in the body construction process was evaluated in detail by energy analysts – including welding robots (right), which assemble the car bodies in a fully automated process.

Body shop energy efficiency project. Over a period of three years, the Leipzig plant's energy experts worked side-by-side with scientists, industrial partners and energy management consultants on the energy efficiency controlling project. They analysed the motion sequence of welding robots, simulated the flow configuration of the ventilation system and measured waste heat from compressors at the energy headquarters. The pilot project found that energy requirements could be reduced by almost a quarter in the body shop alone – with investments that would **pay for themselves within a year and a half**.

– 5,000,



A plant only operates at full capacity in certain phases. In partial load operation, the new, more efficient heat pumps (right) are fully adequate.

Energy supply efficiency controlling project. In the final analysis, a vehicle plant is little more than a highly active organism that works and breathes, with some periods of rest and other periods where it operates at full tilt. The trick is to adjust its energy supply accordingly. Intelligent control systems developed at the Leipzig plant ensure that weather and production data, electricity prices and many other factors are evaluated to manage production and energy supply. This not only saves **five million kilowatt hours** of electricity **per year**, but also enables the power required to be used more efficiently and purchased more cheaply.

Similar energy efficiency projects are also in progress at the Munich Research and Innovation Centre (FIZ) and the BMW Group's Steyr plant.

↓

000 kilowatt hours

"We use intelligence and know-how to reduce our energy usage."

Stefan Köhn (left), energy and installation management at BMW plant Leipzig

◄◄ Stefan Köhn – Mechanical engineer

— responsible for energy and facility management

— has worked for the BMW Group production network since 1998

— "The issue of energy has become incredibly important in recent years. It is amazing what I am able to achieve here today."

◄ Dr. Rainer Angerhöfer – Supply engineer

— responsible for energy monitoring and management

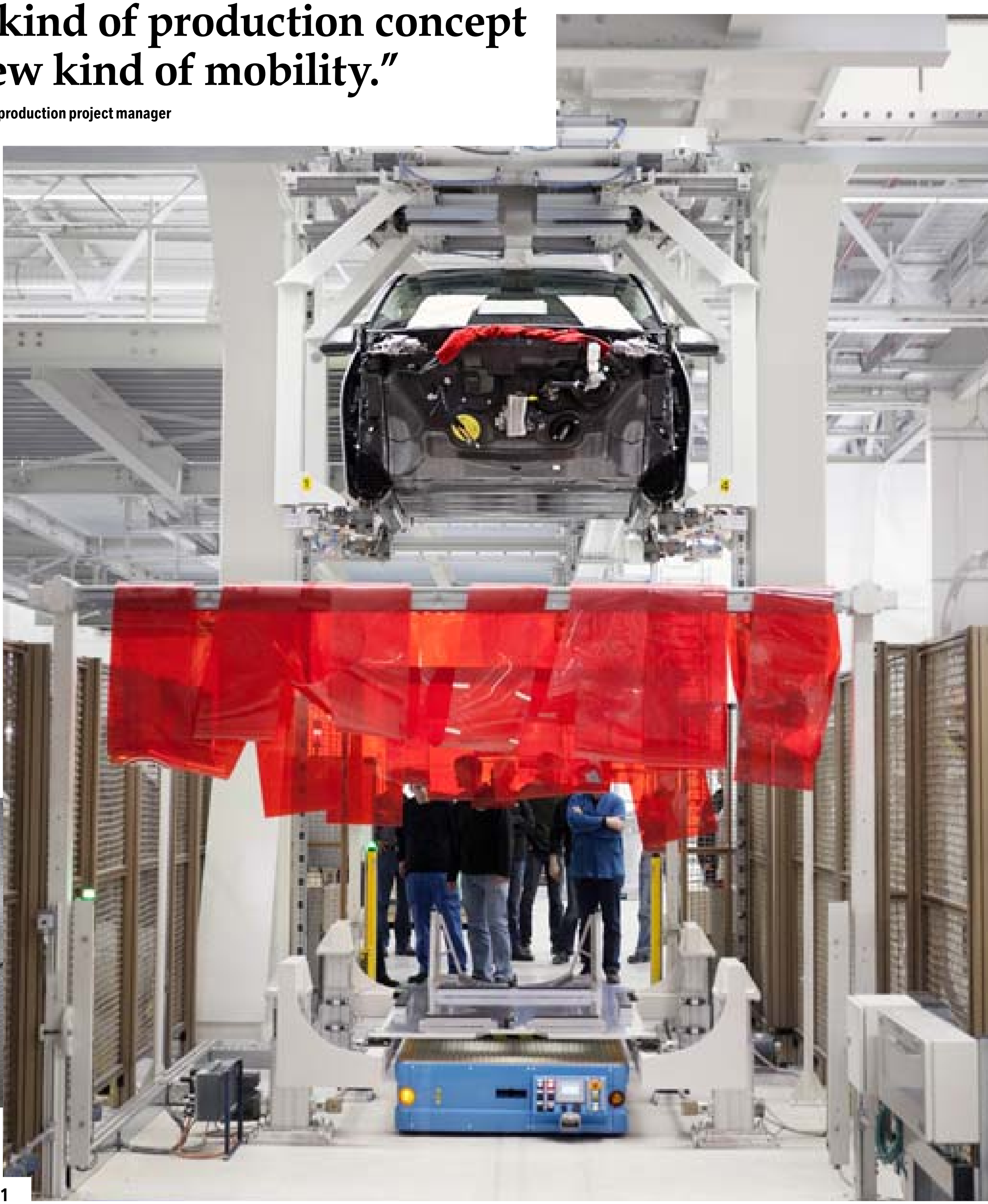
— has worked for the BMW Group production network since 2001

— "We analysed our energy supply in detail with partners from the fields of science and industry – with a fresh perspective, we were able to discover new savings potential."

BMW i

"A new kind of production concept for a new kind of mobility."

Jürgen Laube, BMW i production project manager



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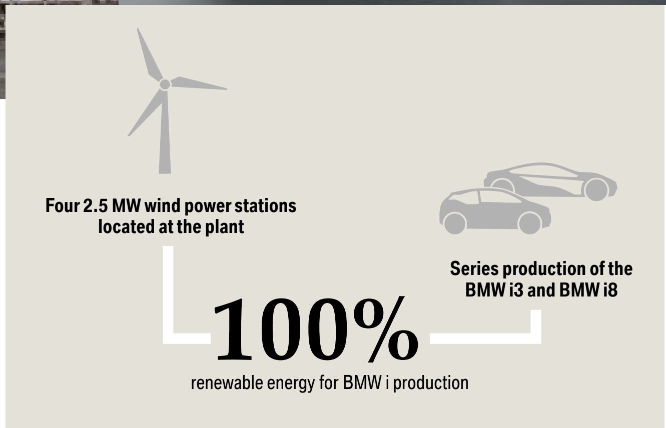


Resource-efficient automobile production

— **1** The entire production concept for the BMW i Series is designed for sustainability.

— **2** The four wind turbines reach almost 200 metres into the sky to harness power for the plant.

— **3** Structural planner Hanne Dinkel and production project manager Jürgen Laube with a model of a wind turbine.

Renewable energy for BMW i. When the first electric BMW i3 rolls off the assembly line at the Leipzig plant later this year, it will mark the beginning of a new era of automobile manufacturing: production of the BMW i3 and the BMW i8 is designed to be just as sustainable as the vehicles themselves. Thanks to totally new materials, technologies and manufacturing processes, production uses 70 per cent less water and 50 per cent less energy. The remaining electricity is generated by four 2.5 MW wind turbines located **directly on our plant grounds**.

4 —

↑

The carbon fibre used as a raw material
for passenger cells is also
produced using only renewable energy.

— 5

— 6

—**4** Before the start of series production, the team examines the first production prototype from Leipzig.

—**5** Formula for the future of electromobility: BMW i3.

—**6** At least as stable as steel and aluminium, but even lighter: a car roof made of high-performance carbon fibre.

7 Checking the details before production ramp-up.

8 Sustainable from the start: the first BMW i3 models.

Freedom for ideas. From the manufacture of carbon fibres using renewable hydrogen to highly efficient assembly at the Leipzig plant, we have taken a completely new approach to the entire BMW i Series production chain. Four new production halls were designed to meet the high standards required for American LEED certification. With its resource-efficient architecture and highly efficient production processes, the Leipzig plant sets new standards for automobile production. As a result, the pure electric BMW i3 and the BMW i8 hybrid sports car are already paragons of sustainability – **even before they drive their first mile**.

The start of production of the BMW i Series at the Leipzig plant marks a new chapter in automotive history: combining a totally new vehicle concept with revolutionary progress in clean production technology and sustainability to bring us closer to our goal of emission-free automobile production.

United by a shared vision.

SPARTANBURG

USA 34° 57' N, 81° 56' W

— **Dynamic growth with steadily decreasing emissions**

Plant Tiexi / China

Plant Leipzig / Germany

Spartanburg plant profile

Construction:	**1994**
Vehicle production (2012):	**301,519**
BMW vehicles:	**X3, X5, X6, X5 M, X6 M**
Associates:	**around 5,000**
Sustainable energy from landfill gases:	**around 50 %**
Reduction in CO_2 emissions:	**92,000 tons / year**

Resource-efficient production using environmentally friendly energy sources and knowledge transfer with local institutions.

Partnership unites us.

BMW plant Spartanburg has not only grown dynamically, but also developed an extensive network. Through projects with local partners, we are able to continually reduce the plant's dependence on fossil fuels and enhance our flexibility and efficiency, as well as our sustainability balance sheet. The plant's capacity expansion to around 350,000 vehicles per year goes hand in hand with higher productivity and lower emissions per vehicle.

Scan the QR code to go directly to the online Annual Report for tablets.
http://annual-report2012.bmwgroup.com/spartanburg/

The State House in the heart of Columbia is home to the government of South Carolina.

PARTNERSHIP UNITES US: BMW PLANT SPARTANBURG AND LOCAL PARTNERS IN SOUTH CAROLINA, USA

With a large number of research institutes, highly qualified skilled workers and active citizens, South Carolina is the ideal location for the BMW Group's US plant. In consultation with them, we continue to evolve and refine our plant.

Three of the many local partners discuss their reasons and goals for collaboration:

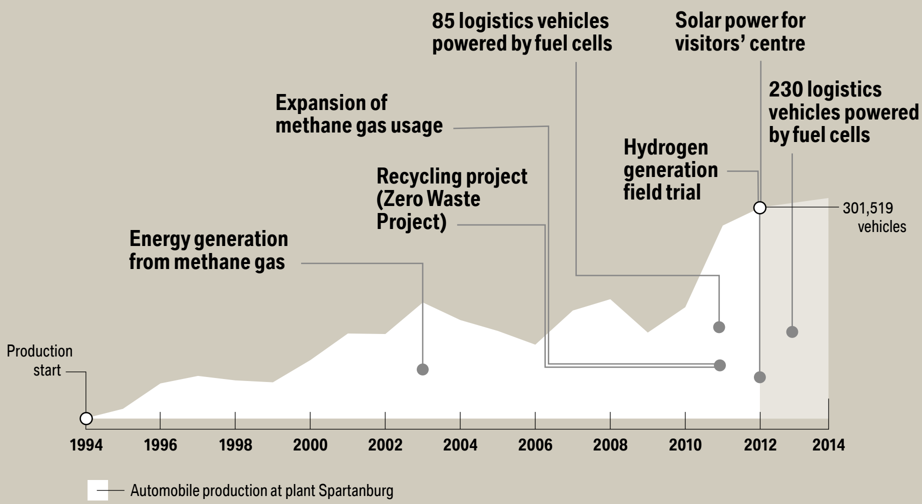
Robert M. Hitt
South Carolina Secretary of Commerce ⟶ Page 32

Russ Keller
South Carolina Research Authority ⟶ Page 36

Shelley Robbins
Environmental organisation Upstate Forever ⟶ Page 40

CLEAN PRODUCTION MILESTONES AT BMW PLANT SPARTANBURG

The BMW Group was the first German premium automobile manufacturer to launch its own production operations in the US back in 1994. Since then, the number of pioneering Clean Production projects has continued to increase in line with our production figures.



The Spartanburg plant has plenty of room for ideas and sustainable innovations.

METHANE GAS SUPPLIES SUSTAINABLE ENERGY

Robert M. Hitt
South Carolina Secretary of Commerce

“We should think more about which sustainable resources we can utilise, rather than depleting fossil fuels.”

Our answer

METHANE GAS SUPPLIES SUSTAINABLE ENERGY

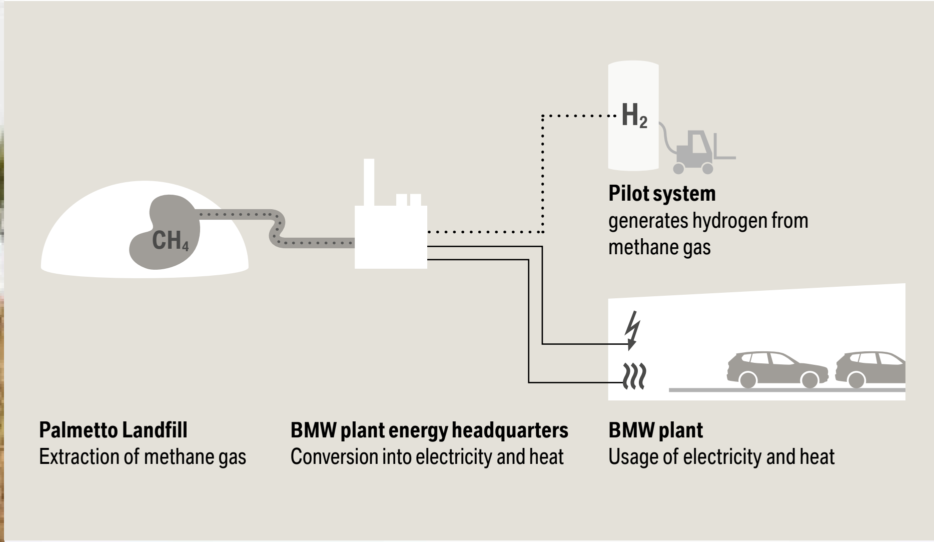
Beth Phillips
Energy manager at BMW plant Spartanburg

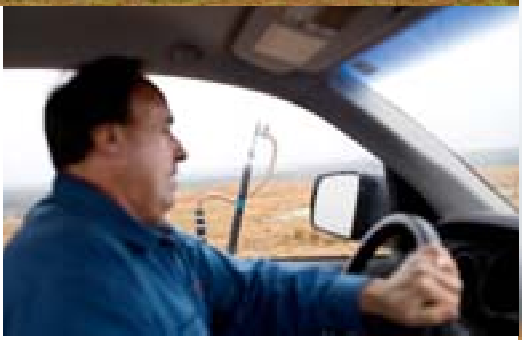
"By using excess landfill gas, we are tapping into one of the most sustainable energy sources."

Our challenge

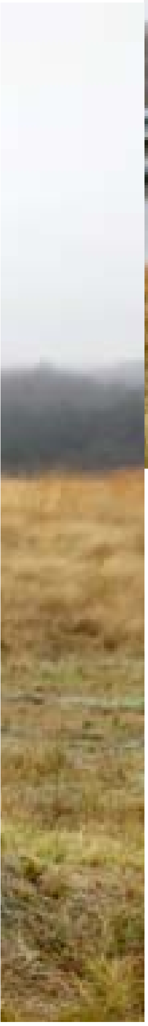
METHANE GAS SUPPLIES SUSTAINABLE ENERGY

The plant obtains around half of its energy from waste landfill gases.





Microorganisms produce methane gas from old waste at the Palmetto Landfill. Wellheads extract the gas, which is then pumped to the Spartanburg plant through a 15-kilometre pipeline.



Beth Phillips and her co-workers at the energy headquarters convert the greenhouse gas into renewable electricity and heat. This spares the environment about 92,000 tons of greenhouse gas emissions annually – and saves the BMW Group almost seven million US dollars a year in energy costs.


SCRA
SCRA
SCRA

HYDROGEN FOR SUSTAINABLE LOGISTICS

Russ Keller
Vice President South Carolina Research Authority

"Our primary goal is mobility that uses emission-free, renewable energy."

Our answer

HYDROGEN FOR SUSTAINABLE LOGISTICS

Cleve Beaufort
Energy manager at BMW plant Spartanburg

> **"Hydrogen-powered fuel cells turn the vision of zero-emission driving into reality."**

Our challenge

HYDROGEN FOR SUSTAINABLE LOGISTICS

Forklift trucks and trailers powered by environment-friendly hydrogen.

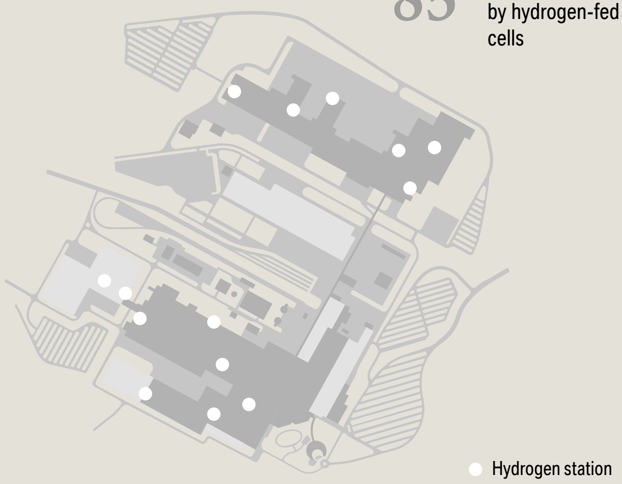
The use of hydrogen in fuel cells generates only steam and heat.

Hydrogen provides the fuel for 85 fuel-cell vehicles, which not only operate emission-free, but are also much faster to refuel. Over the course of this year, the plant fleet will expand to 230 vehicles. At the same time, Cleve Beaufort and his co-workers are exploring how to obtain renewable hydrogen from methane gas at the Palmetto Landfill – a groundbreaking experiment that the US Department of Energy has classified as the most important of its kind.

2013 **230** Fleet expands to 230 vehicles

↑

2011 85 plant vehicles powered by hydrogen-fed fuel cells



EASING THE BURDEN ON LANDFILLS AND THE SOUTH CAROLINA ENVIRONMENT

Shelley Robbins
of the environmental organisation Upstate Forever

"Today, we need smarter solutions than landfill for our waste materials."

Our answer

EASING THE BURDEN ON LANDFILLS AND THE SOUTH CAROLINA ENVIRONMENT

Veronica Taylor
Production planner at BMW plant Spartanburg

"We are already feeding almost all of our waste back into the raw materials cycle."

← Our challenge


Veronica
RECYCLE TODAY FO
FOR A BETTER TOMORROW

EASING THE BURDEN ON LANDFILLS AND THE SOUTH CAROLINA ENVIRONMENT

The Zero Waste Project gives waste a second life.

491
tons of paper waste per month

217,000
tons of metal residues per month

62
tons of plastic waste per month

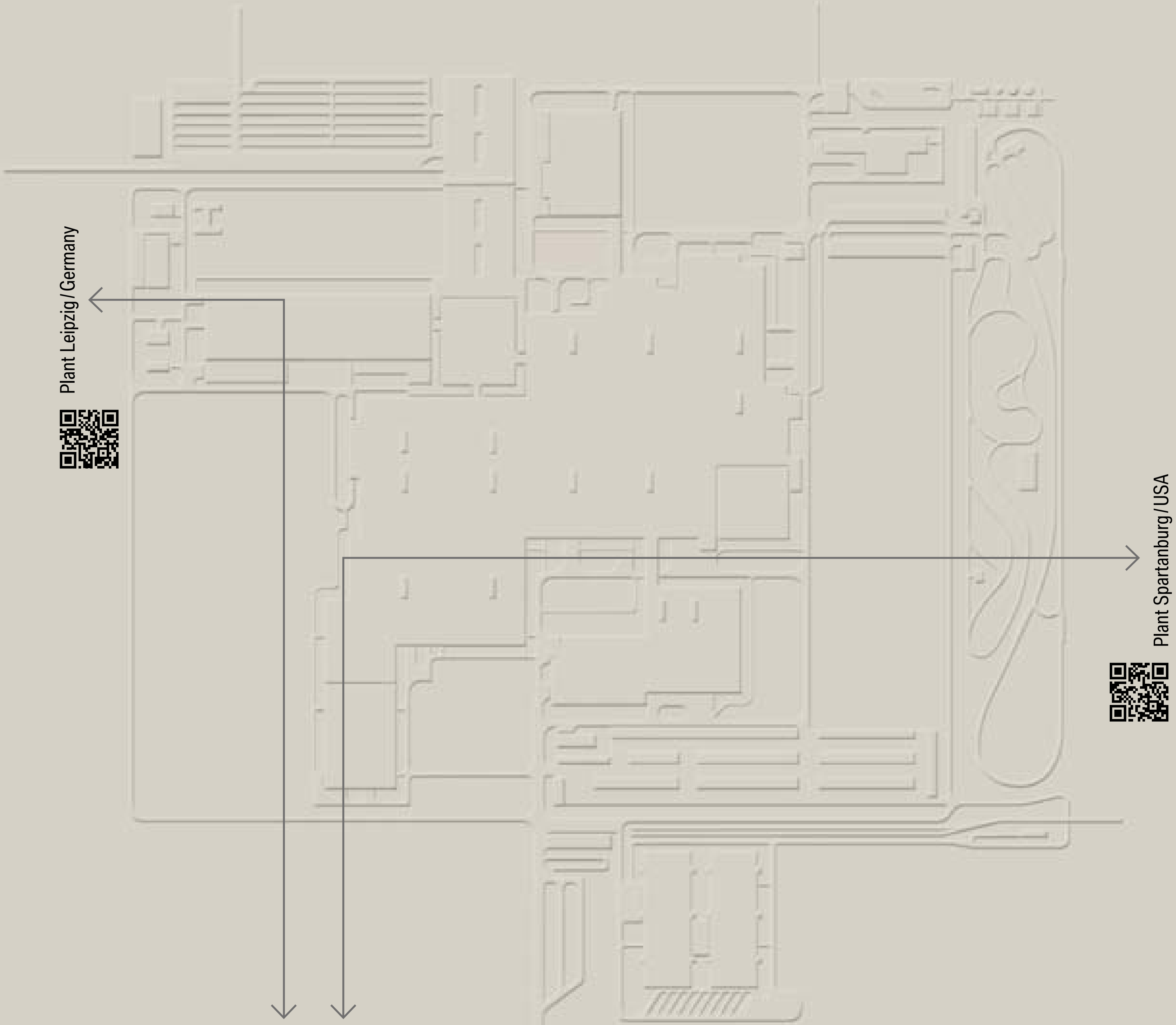
100 % recycling

Where others see waste, Veronica Taylor and her co-worker, Wes Westbrooks, see valuable resources. They spent months analysing the amount of waste generated by the plant, training co-workers and finding suitable customers for everything left over from production, administration and even the canteen.

Finally, in August 2012, the last truck with reusable waste headed to the landfill. Since then, all waste has been collected, sorted and reused. With its zero waste policy, the Spartanburg plant is recognised as a pioneer nationwide.

Our plants also collaborate with one another, as well as local partners, on new approaches for resource-efficient vehicle production. In this way, Clean Production innovations become worldwide standards – and solutions become the new point of reference. Using this approach, we aim to lower resource consumption and emissions per vehicle produced by an ambitious 45 per cent from 2006 levels by 2020.

United by common standards.



TIEXI

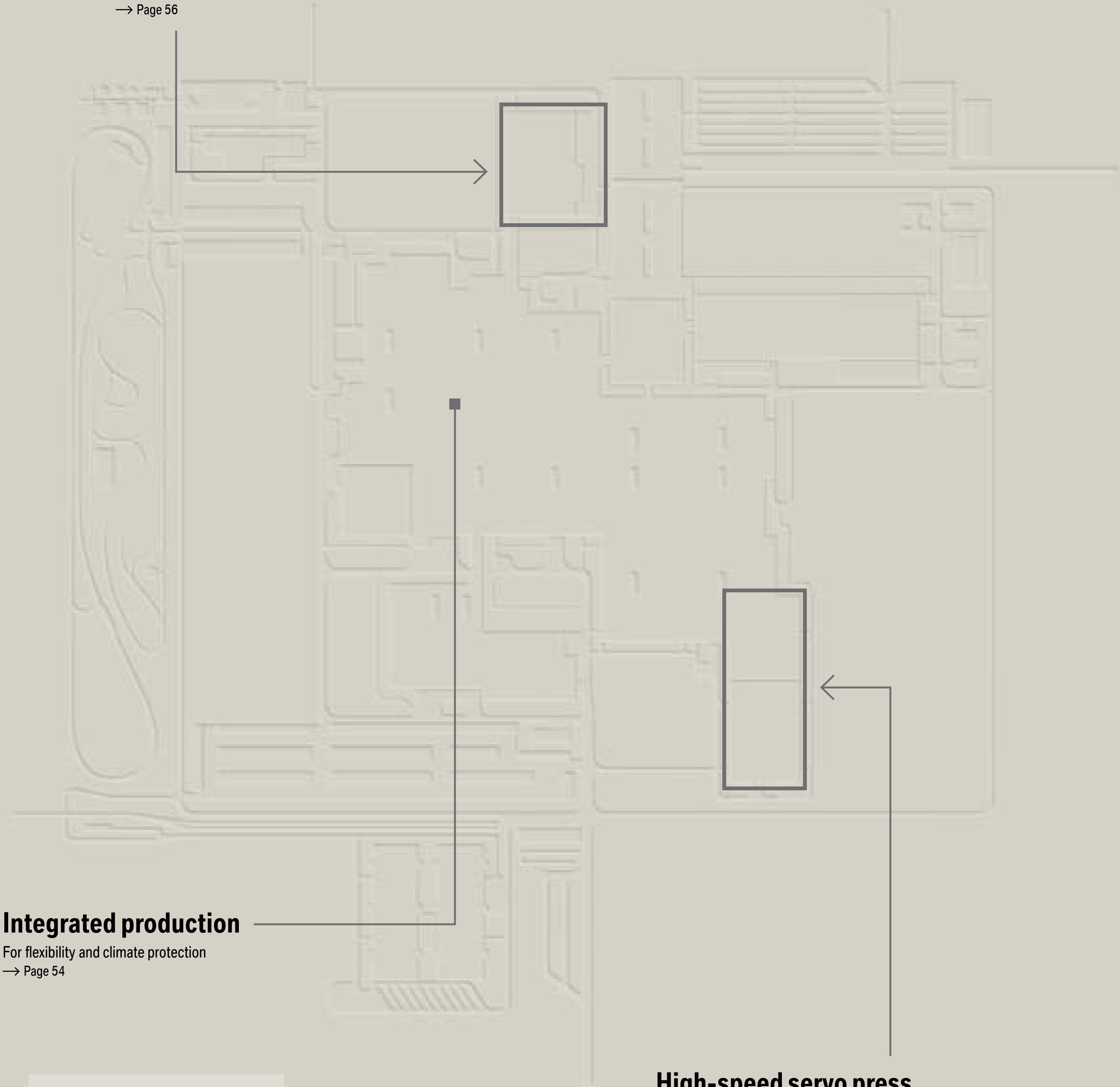
CHINA 41° 48' N, 123° 21' E

— **A leader in efficiency and sustainability**

Regional suppliers

For cooperation and reliability

⟶ Page 56



Integrated production

For flexibility and climate protection

⟶ Page 54

High-speed servo press

For speed and efficiency

⟶ Page 50

Tiexi plant profile

Construction:	**2011 / 2012**
Vehicles per year (2013):	**100,000**
Vehicles per year (2015):	**200,000**
Associates:	**around 4,000**
Plant grounds:	**2.07 square kilometres**
Plant building:	**220,000 square metres**

Smart plant architecture. Highly efficient pressing machines. Local suppliers. The cleanest paint shop in the world – and almost five dozen other sustainability measures: the newest plant in the BMW Group production network sets a new global benchmark.

Know-how unites us.

The highest standards of sustainability in a highly dynamic market: With the opening of its Tiexi plant in northern China, the BMW Group and its partner, Brilliance China Automotive, have built one of the most sustainable vehicle production sites in China and one of the best examples of environmentally conscious manufacturing worldwide. Here, in the world's largest automobile market, the company demonstrates how to deliver maximum productivity with unbeatably low environmental impact.

Scan the QR code to go directly to the online Annual Report for tablets.
http://annual-report2012.bmwgroup.com/tiexi/

“What do we do when we plan a new plant? We bring the best ideas in the world together in one place.”

Fiona Zhang, environmental expert at BMW Brilliance Automotive (BBA)

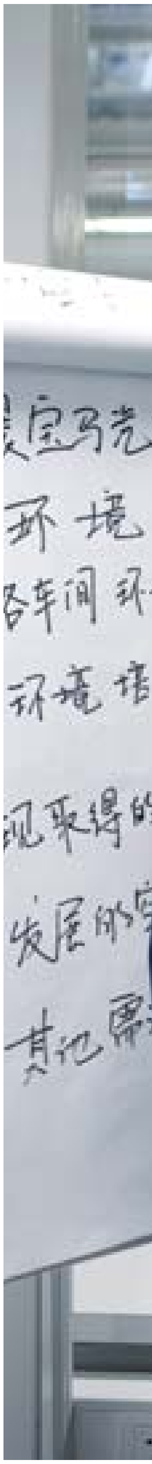
The work day begins at what is currently China’s most sustainable car plant.

Shenyang, a 90-minute flight northeast of Beijing, is a place of extremes. In winter, temperatures drop as low as 35 below freezing; in summer, they soar to a tropical 40 degrees Celsius. Not so long ago, this industrial city used to belong to China’s notorious north-eastern “rust belt” of mines and steelworks, coal-polluted air and natural devastation. Today, it is home to a world-class example of resource-efficient production.

To the north-east of this city of eight million people, the BMW Group and its joint venture partner, Brilliance China Automotive Holdings, have built the most sustainable automotive manufacturing facility in China. The ultra-modern car plant, with an annual capacity of 200,000 vehicles, was raised from the ground in just two years on a plot of land roughly two square kilometres, located in the district of Tiexi. Environmental experts like Fiona Zhang from China and her South-African colleague, Sean Dempsey, brought fresh ideas and tried-and-tested approaches from around the world to Tiexi. At the same time, BMW Brilliance Automotive’s (BBA) newest plant also took local factors into account, choosing an architecture to fit the surroundings and bringing in regional suppliers. “We were pretty much able to give the plant the best of both worlds from the beginning,” says Dempsey, “which is a lot easier than optimising a production facility further down the line.”

A tour of the plant with Zhang and Dempsey reveals no fewer than five dozen measures, small and large, to reduce energy and water consumption, solvent emissions, process wastewater and waste for disposal. Many of them involve smart optimisation of details – but together they make a huge difference. In this respect also, Shenyang is a city of extremes – in the most sustainable sense.

Rush hour in Shenyang, a city which has rapidly grown to eight million inhabitants.



The Tiexi plant uses
proven Clean Production technologies
from many other BMW Group plants.

Two of around 4,000 experts: Sean Dempsey and Fiona Zhang

Fiona Zhang is amazed how quickly her country is catching up in the field of environmental protection. "What takes much longer, though, is changing people's mindset," explains the environmental expert. Nevertheless, she hopes to speed up progress here, too, through compulsory environmental training for all associates.

Sean Dempsey worked as an industrial engineer at the BMW plant in Rosslyn, South Africa, for 14 years. Almost two years ago, the environmental expert moved with his family from Rosslyn to Shenyang to assist with construction of the Tiexi plant. While his children are enjoying their very first experience of snow, Dempsey himself is relishing the unique challenge of "helping design and build a completely new production site."

The high-speed servo press is undeniably worthy of its name: while the press line itself works at record-breaking speed, a new equipment architecture also enables tools to be changed within minutes. In this way, body panels for totally different BMW models can be produced within a very short time.

–67 %

production time at the press line

Six generators in the basement recapture some of the energy released by pressing processes. Overall, the new pressing machine cuts energy consumption by more than half.

–60 %

energy consumption per work step

One of the fastest, most efficient press shops today.

Low-emission dry separation is used at the Leipzig plant, among others.

↓

Every body part is re-examined at the end of the pressing process.

HIGH-SPEED SERVO PRESS

A powerful crane peeps a warning as it hovers over Sean Dempsey's head; a press line with the dimensions of a substantial apartment building towers in front of him, while, at the other end of the enormous hall, an army of pressing tools weighing several tons awaits. "Small" is the last word anyone would use to describe the brand-new press shop. And yet, as the BBA environmental expert explains, many aspects here have been minimised: shorter tool change times and ultra-high-speed stroke rhythms ensure faster production cycles. Economical warehousing takes up less space and therefore reduces the area to be cooled, heated, cleaned and maintained.

"This giant here," says Dempsey, pointing at the huge press line, "is something of a miracle when it comes to flexibility and efficiency." In fact, the so-called high-speed servo press technology used at the plants in Leipzig, Regensburg and Munich, and now also in Tiexi, is capable of up to 17 strokes per minute. Compared with conventional hydraulic presses, this not only reduces space requirements and production time per unit (– 67 %), but also power consumption per work step (– 60 %) and noise emissions (– 13 %). In other words: the "titan of Tiexi" is much faster, more efficient, more flexible and therefore more economical than conventional presses – and quieter, too.

No less impressive are the performance figures for the paint shop – the most resource-intensive section of any car plant. Sean Dempsey explains how resources are conserved and emissions prevented through use of an integrated paint process developed at the Oxford plant, so-called dry separation (used in the Leipzig, Regensburg and Spartanburg plants) and the RoDip dip-painting process for corrosion protection. The environmental expert is proud to point out that, all in all, Tiexi currently boasts one of the most sustainable paint shop in the automotive industry.

Environmental experts in the pressing tool store.

"Higher speed and efficiency ensure low energy consumption and increased productivity."

Sean Dempsey on the high-speed servo press installed at the Tiexi plant

Resource-efficient production
through consistent best-practice implementation

LOGISTICS

100 % reusable packaging
for locally manufactured goods.

Container warehouses
on plant grounds and a rail link between port and plant reduce truck transportation.

Location of high-volume suppliers
on plant grounds reduces transportation distances.

PAINT SHOP

Dry separation
uses a stone dust-coated filter to eliminate paint mist and save water.

RoDip dip-painting
rotates the car body on its own axis in an immersion tank to apply corrosion protection.

Integrated Paint Process
using wet-on-wet cycles allows car bodies to be painted without applying primer.

BUILDING PLANNING

Highly efficient electric motors
supply the building with economical and efficient energy.

Integrated production
houses assembly, body shop and logistics under one roof. The building's limited exterior surface area helps optimise temperature regulation.

District heating plants and thermal insulation
contribute to low-resource energy usage and efficient temperature regulation.

BODY SHOP

Optimised robot control
reduces energy consumption by switching on and off as demand requires.

Cooled welding guns
save energy through warm water exchange between building and technology.

PLANT BMW TIEXI

The BMW Group has brought technologies and experience from many different sites in its global production network to the Tiexi plant.

The overview below lists the most important elements of resource-friendly production.

IT CENTRE

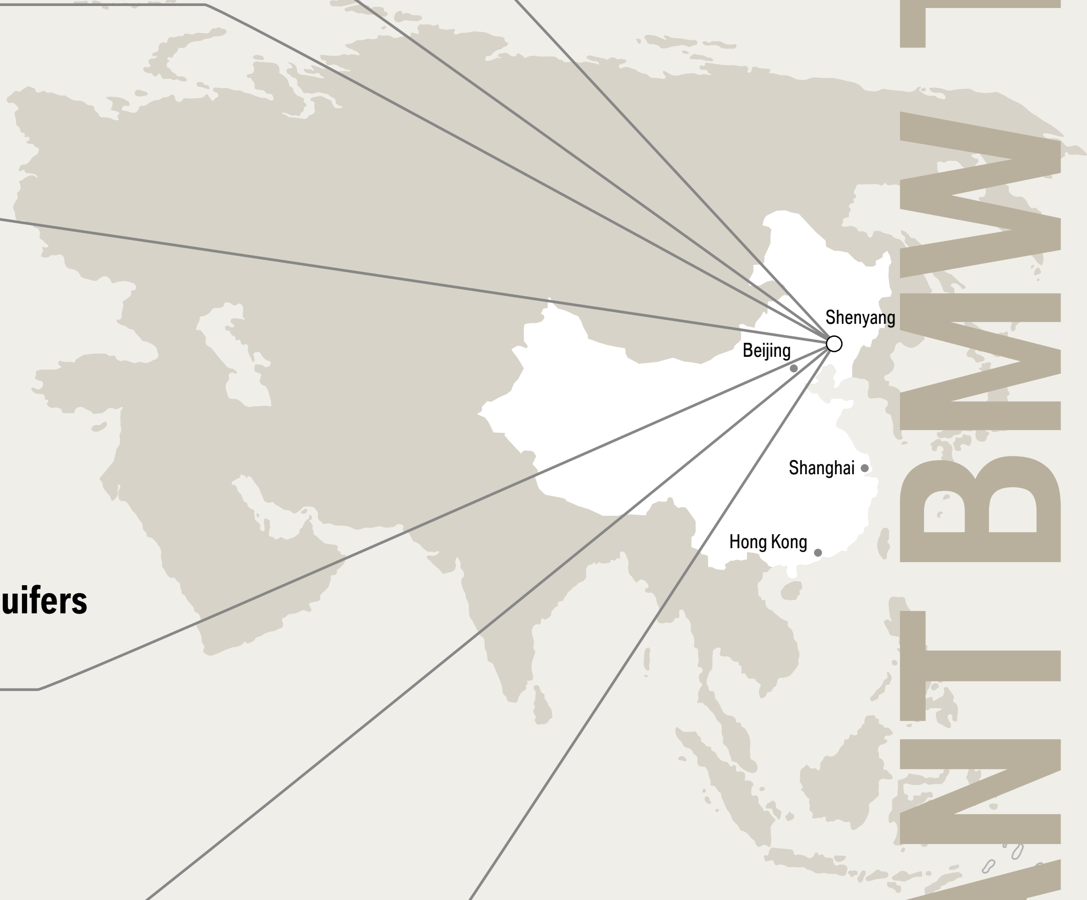
Cold aisle containment

saves energy and reduces CO_2 emissions through strict separation of heated and cooled zones.

ASSEMBLY

Water cycles

in car wash facilities and leak tests are designed to allow 90 % of the water to be recycled.



Ground collectors and aquifers

conduct the summer heat from the main building into the ground for storage.

PRESS SHOP

High-speed servo presses

simultaneously reduce energy consumption, production time and noise.

Scan the QR code to go directly to the Tiexi plant.

Employees and vehicles under one roof

In Tiexi, for the first time, assembly, body shop and logistics are all located in one production hall. Highly efficient heating and cooling technologies ensure resource-efficient temperature control.

– 32 % CO_2 emissions

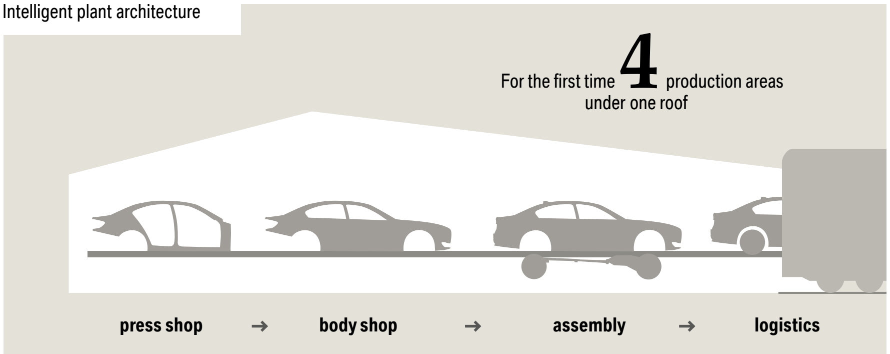
through sustainable architecture

355 latest-generation production robots weld together body parts at the Tiexi plant. Their waste heat will be used in future to heat the plant. They already revert to an especially energy-efficient standby mode as soon as they are no longer in use – lowering their power consumption by one quarter.

– 25 % electrical power

through efficient standby mode

Intelligent plant architecture



“The compact building more or less protects itself from the climate.”

Sean Dempsey

The Tiexi plant is already a model for others.

INTEGRATED PRODUCTION

The most striking feature of the new vehicle plant is the 220,000-square-metre building, which, for the first time in the BMW Group production network, houses press shop, body shop, assembly and logistics under one roof. The integration of all these areas under one roof provides a kind of natural climate protection for the BBA plant. The building’s limited exterior surface area, second front of permanently installed slats, mostly north-facing windows and a white, sunlight-reflecting roof minimise exposure to sun and wind.

Inside the building, a slew of resource-efficient measures maintain a constant indoor climate, despite outdoor temperature differences of more than 70 degrees. Production halls are naturally ventilated through strategically placed skylights. One method of cooling uses groundwater that is pumped back into its natural reservoirs after it has done its job – an environmentally compatible concept that has been used successfully for years at the BMW Group’s “Project House” in Munich. “For heating, besides district heating, we mostly use the energy-efficient low-temperature and high-temperature systems familiar from the Munich and Leipzig plants,” explains Fiona Zhang.

Besides the primacy of efficiency, the main paradigm for the plant’s architecture is maximum flexibility. The new manufacturing facility is designed in such a way that the planned capacity expansion from 100,000 vehicles per year initially to up to 200,000 units can be completed without disrupting on-going operations. The plant will then be able to produce any additional BMW model required at any time alongside the BMW X1 and the BMW 3 Series Sedan long-wheelbase version – with everything still under the same roof.

A network of local suppliers ensures that the Tiexi plant is supplied with parts in a reliable, fast and resource-efficient manner. Partners from the region were also involved in developing and building the production facilities. In a first for China, four suppliers with 500 associates currently operate directly on site at the plant.

For the first time in the BMW Group production network, only reusable packaging is used for local cargo handling. This means 100 per cent protection for products and material, and zero per cent waste.

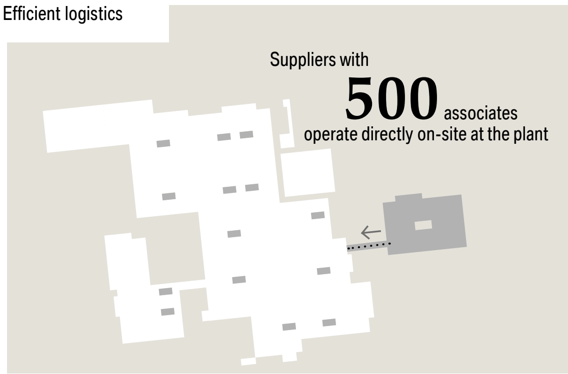
100 % reusable packaging

for locally manufactured goods

Key suppliers are also located on-site at other BMW Group plants.

↓

Efficient logistics



Material carriers deliver supplier parts directly to the assembly line just in time.

REGIONAL SUPPLIERS

Every 20 minutes, on the dot, a heavily laden tugger train jolts to a start at the Tiexi plant's supplier building. Materials are transported through a 300-metre tunnel directly to the assembly lines, where the supplied parts are immediately built into new BMW vehicles. The parts are manufactured right next door in the plant's supplier hall, where four partner companies with around 500 associates currently produce car seats, axles, roof liners and shock absorbers for BBA. The concept of housing major volume suppliers directly on-site, unique in China, generates a whole range of benefits, both for BBA and the regional partners themselves. "It gives us a real home advantage," says Sherman Du, general manager of a seat manufacturer based at the plant. "Because our production is here on-site, we are able to meet demand from the plant straight away – and, if problems arise, we can fix them right on the assembly line."

Many of the materials and vehicle parts that have to be shipped from farther afield will be delivered to the Tiexi plant by rail in the future. The completion of a direct train link between port and plant will allow a significant percentage of transport volumes to be switched to rail, largely eliminating the need for truck delivery. This will not only improve the plant's CO_2 balance sheet, but also its supply security. In icy temperatures and difficult road conditions, truck delivery is much riskier than rail.

Sherman Du's company builds car seats.

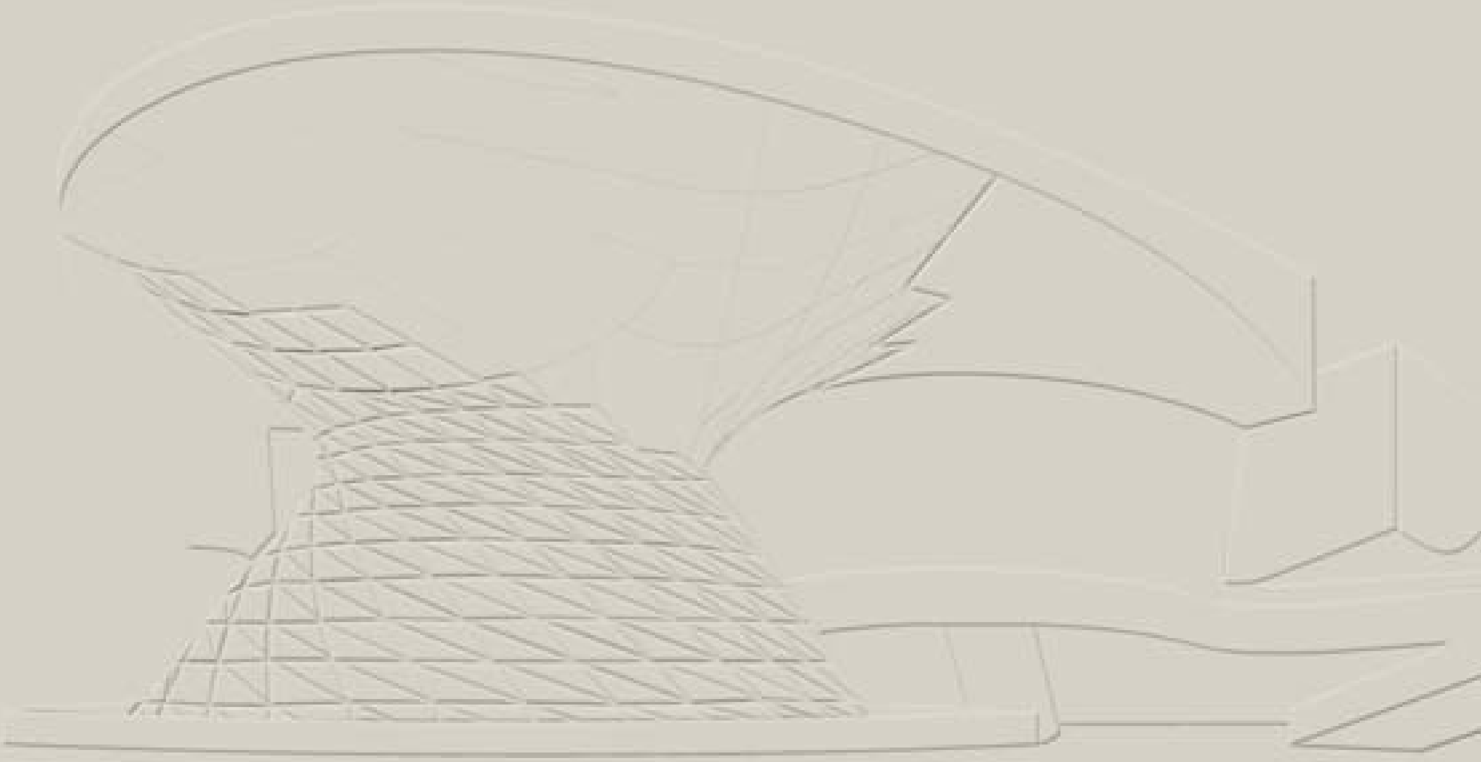
> "The plant and the region strengthen each other through jobs, advanced technology and constant learning from one another."
>
> Fiona Zhang

Incorporating a large number of pioneering concepts from all over the world, the Tiexi plant is currently considered best practice. For us, however, it is just one more step on the road towards increasingly resource-friendly production of our vehicles. The BMW Group's global production network constantly generates new ideas for this. For one another and with one another.

United by common goals.

JOY BRINGS PEOPLE TOGETHER

Creating moments of sheer pleasure for our customers



Moments of sheer pleasure 2012

> Our latest models presented to their new owners

Scan the QR code to go directly to the online Annual Report for tablets.
http://annual-report2012.bmwgroup.com/moments-of-sheer-pleasure/

Final preparations for the big moment – ten stages before presentation of a BMW 640d Gran Coupé

> 9 October 2012, BMW plant in Dingolfing

— 02

— 01

The new BMW 640d Gran Coupé receives a final polish. **Johannes Schütz [01]** smiles at his reflection in the gleaming paintwork. **Muhammet Asik [02]** checks that everything is exactly as it should be. He is proud of his role in bringing the vehicle to life.

Only a few more hours at the plant – Finishing touches at BMW Welt

> 9 October 2012, BMW plant in Dingolfing | 19 November 2012, BMW Welt vehicle storage facility

03 —

— 05

— 04

06 —

— 07

— 08

The car is only allowed to leave the plant once **Renate Hauer [03/04]** has performed an expert check of its technology. The final detail is complete when **Daileen Böhme [05]** mounts the BMW logo on the Gran Coupé. From that moment on, everything is ready for the customer.

The excitement grows as the new car arrives at BMW Welt. **Sascha Zahreddin [06/07]** is the man in charge of the finer details. Every inch of the car is carefully scrutinised one last time – until not a speck of dust remains. **[08]** The new BMW 640d Gran Coupé is now ready for its entrance and its ultimate premiere at BMW Welt.

— 10

09 —

Klaus Schulten [09] will get to see his new car for the first time in just a few moments. He took his time carefully choosing equipment options as well as the colour. Full of anticipation, he tries to catch a glimpse of his new car. **[10]** And then, there it is.

Moments of sheer pleasure for our customers – the fascination of the first encounter

> 20 November 2012, BMW Welt vehicle delivery

Attributes that impressed me right away…

— dynamic

— **great acoustics**

— **superior**

— sporty

Klaus Schulten, BMW Welt, Munich, 20 November 2012

BMW 640d Gran Coupé

A design that perfectly combines sportiness with comfort, inside and out. For those who like to express their individuality.

› Resource-efficient production

- The BMW 640d Gran Coupé is produced at the BMW plant in Dingolfing.
- Almost 70 % of new vehicles leaving the Dingolfing plant are shipped by emission-friendly rail. As a result, over 100 fewer trucks are needed per day.

Scan the QR code to go directly to the BMW 640d Gran Coupé website.

What I am most looking forward to …

"Listening to the Vienna Philharmonic New Year's concert with Mariss Jansons on the drive home and enjoying the unique sound in this fantastic interior. And, of course, trying out everything else right away."

MINI Cooper Roadster

Powerful, aerodynamic and impressively agile. For those who like to combine adventure with comfort. With its spacious design, the new MINI Roadster is the perfect choice.

› Resource-efficient production

- The MINI Cooper Roadster is produced at the MINI plant in Oxford.
- Thanks to a new painting technology, the paint shop uses 8,000 MWh less energy and generates 1,600 tons less CO_2.

What I am most looking forward to …

"Driving through Italy for the first time with the top down. But mostly, I'm happy to own a MINI again. It has been a cult car to me for more than 20 years."

Petra Bräuhauser, MINI Munich, 6 December 2012

Scan the QR code to go directly to the MINI Cooper Roadster website.

Attributes that impressed me right away…

— smooth-running

— free

— **responsive**

— agile

— **pure**

What I am most looking forward to…

“My next business trip, when I’ll be driving for several hours again. It should be nice and relaxed in this model. The 7 Series is such a quiet ride, you hardly hear any noise at all. No stress or strain for me or my body. So I’ll arrive as fresh as I left.”

BMW 750i

For visionaries who seek the ideal combination of luxurious comfort and the ultimate in intelligent safety for a unique driving experience.

› Resource-efficient production

- The BMW 750i is produced at the BMW plant in Dingolfing.
- More than half of the plant’s water requirements are met by groundwater that is unsuitable for drinking. This conserves valuable resources.

Dr. Klaus-Peter Fritzsche, BMW Welt, Munich, 8 November 2012

Scan the QR code to go directly to the BMW 750i website.

Attributes that impressed me right away…

—safe

—powerful

—innovative

—luxurious

Attributes that impressed me right away…

— flexible

— convenient

Linda Bätz, BMW Welt, Munich, 9 November 2012

BMW X1 xDrive28i

The perfect car for anyone who likes to add their own personal touch and appreciates functional versatility.

› Resource-efficient production

— The BMW X1 xDrive28i is produced at the BMW plant in Leipzig.

— Heat recovery in the paint shop: reclaimed waste heat is reused at other stages of the production process. This lowers gas consumption and demand for electrical power by 32 %.

— athletic — nimble **— strong**

Scan the QR code to go directly to the BMW X1 xDrive28i website.

What I am most looking forward to…

"I am going to drive straight to my daughter's and take her on a shopping trip. I decided on a smaller car, because my children are grown up – but there is still plenty of space in the luggage compartment."

Scan the QR code to go directly to the BMW ActiveHybrid 5 website.

Patrick Shuao-Fong Chung, BMW Welt, Munich, 21 November 2012

Attributes that impressed me right away…

—reliable

—connected

—uncompromising

—environmentally friendly

What I am most looking forward to…

"The first time I drive in California, I want to open the sun roof and cruise along the roads silently and emission-free – just so I can be at one with nature."

BMW ActiveHybrid 5

With its highly intelligent drive concept, this hybrid is the right choice for anyone looking for an environmentally friendly car with the ideal dimensions of a sedan, but unwilling to compromise on dynamic performance.

› Resource-efficient production

- The BMW ActiveHybrid 5 is produced at the BMW plant in Dingolfing.
- The paint shop reconditions up to 40,000 litres of water per hour, which it then feeds back into the production processes.

Scan the QR code to go directly to the BMW C 650 GT website.

BMW C 650 GT

For sprints and long distances: the new Maxi-Scooter conveys an amazing feeling of freedom and independence. It is extremely economical and features many practical details, such as LED daytime running lights for added safety.

› Resource-efficient production

- The BMW C 650 GT is produced at the BMW plant in Berlin.
- Electrostatic coating of plastic parts significantly reduces emissions.

What I am most looking forward to …

“When I get to ride my new scooter in the mountains for the first time, or cruise past all those RVs during the summer holidays. Now I have the driving performance of a motorcycle with all the comfort of a scooter.”

Attributes that impressed me right away…

— mobile

— comfortable

— efficient

— independent

— outdoorsy

Helmut Berner, Karl Maier Motorrad, Neufinsing near Munich, 5 December 2012

What we are most looking forward to …

"We are going snowboarding in just a few days. It should be a nice, smooth drive in this car and we'll have plenty of room for all our equipment. And for our dog, Nika, too."

BMW 318d Touring

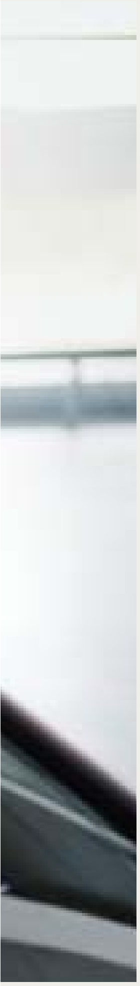
Consistently smart design for maximum flexibility. The authentic feel of the new BMW 318d Touring is also part of its appeal.

› Resource-efficient production

- The BMW 318d Touring is produced at the BMW plant in Munich.
- 99.8 % of the waste generated at the BMW plant in Munich is recycled.

Scan the QR code to go directly to the BMW 318d Touring website.

Fabrice Rustler and Enrico Lepschi, BMW Welt, Munich, 19 December 2012



Attributes that impressed us right away…

—spacious

—harmonious —dependable

—smooth

—fuel-efficient

Scan the QR code to go directly to the MINI John Cooper Works website.

Manuela Gruschwitz, MINI Munich, 20 December 2012

Attributes that impressed me right away…

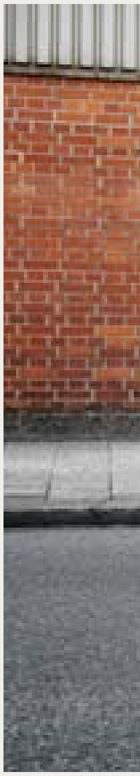
— bold

— unusual

— thrilling

— clever

— likeable



What I am most looking forward to…

"We have set up a whole fleet of MINI for our company. MINI is a way of life for me – a holiday I can look forward to every day."

MINI John Cooper Works

The fastest MINI on the road today, with exceptional traction control combined with intelligent technology for top performance.

› Resource-efficient production

– The MINI John Cooper Works is produced at the MINI plant in Oxford.

– The paint shop ventilation system recycles heated air back into the system to supply the main paint spraying unit. This saves 6,000 MWh of energy and 1,250 tons of CO_2 per year.

What I am most looking forward to…

"I'm going to drive all the way down to Nuremberg this weekend, so I can enjoy the car to the full. Normally, I only drive a car for a short while. But I want to drive my new Rolls-Royce for longer. There's no alternative to the Phantom for me anymore."

Rolls-Royce Phantom Series II

A combination of the latest technology and engineering expertise with timeless, contemporary design: for all those who seek to redefine luxury.

› Resource-efficient production

- The Rolls-Royce Phantom Series II is produced at the Rolls-Royce plant in Goodwood.
- The Goodwood plant pursues a rigorous recycling and waste prevention policy. Parts are delivered in recyclable packaging to avoid waste.

Scan the QR code to go directly to the Rolls-Royce Phantom Series II website.

Herbert Geiss, Rolls-Royce, Cologne, 4 February 2013

Attributes that impressed me
right away…

— **quiet**
— top-quality workmanship
— refined
— **exclusive**

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›

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Scan the QR code to go directly to the online Annual Report for tablets.
http://annual-report2012.bmwgroup.com

Consumption data

Model		Urban (l/100 km)	Extra-urban (l/100 km)	Combined (l/100 km)	CO_2 emissions (g/km) combined
BMW					
BMW X1 xDrive28i	Manual transmission	9.9–9.7	6.6–6.4	7.8–7.7	182–179
	Automatic transmission	9.3–9.1	6.2–6.1	7.3–7.2	171–168
BMW 750i	Automatic transmission	11.9	6.6	8.6	199
BMW 640d Gran Coupé	Automatic transmission	6.9–6.8	4.9–4.8	5.7–5.5	149–146
BMW ActiveHybrid 5	Automatic transmission	6.2–5.7	7.4–6.7	7.0–6.4	163–149
BMW 318d Touring	Manual transmission	5.8–5.6	4.1–3.9	4.7–4.5	123–119
	Automatic transmission	5.7–5.5	4.1–4.0	4.7–4.5	123–119
MINI					
MINI Cooper Roadster	Manual transmission	7.2	4.9	5.7	133
	Automatic transmission	8.9	5.3	6.6	154
MINI John Cooper Works (Hatch)	Manual transmission	8.8	5.3	6.6	153
	Automatic transmission	10.1	5.3	7.1	165
Rolls-Royce					
Rolls-Royce Phantom Series II	Automatic transmission	22.8	10.2	14.8	347

Fuel consumption and CO_2 emissions are dependent on wheel and tyre size.
Further, regularly updated information on vehicles can be found on the www.bmw.com, www.mini.com and www.rolls-roycemotorcars.com websites.
Fuel consumption is determined in accordance with the ECE driving cycle. Valid for vehicles with a European country specification.
All engines comply with Euro-5 emissions standards.

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DAIMLER

Annual Report 2012.

Key Figures

Daimler Group

	2012	2011	2010	12/11
Amounts in millions of euros				% change
Revenue	114,297	106,540	97,761	+7[1]
Western Europe	39,377	39,387	38,478	-0
thereof Germany	19,722	19,753	19,281	-0
NAFTA	31,914	26,026	23,582	+23
thereof United States	27,233	22,222	20,216	+23
Asia	25,126	22,643	19,659	+11
thereof China	10,782	11,093	9,094	-3
Other markets	17,880	18,484	16,042	-3
Employees (December 31)	275,087	271,370	260,100	+1
Investment in property, plant and equipment	4,827	4,158	3,653	+16
Research and development expenditure	5,644	5,634	4,849	+0
thereof capitalized	1,465	1,460	1,373	+0
Free cash flow of the industrial business	1,452	989	5,432	+47
EBIT	8,615	8,755	7,274	-2
Value added	4,185	3,726	2,773	+12
Net profit	6,495	6,029	4,674	+8
Earnings per share (in €)	5.71	5.32	4.28	+7
Total dividend	2,349	2,346	1,971	+0
Dividend per share (in €)	2.20	2.20	1.85	0

1 Adjusted for the effects of currency translation, increase in revenue of 4%.

Divisions

	2012	2011	2010	12/11
Amounts in millions of euros				% change
Mercedes-Benz Cars				
EBIT	4,389	5,192	4,656	-15
Revenue	61,660	57,410	53,426	+7
Return on sales (in %)	7.1	9.0	8.7	.
Investment in property, plant and equipment	3,495	2,724	2,457	+28
Research and development expenditure	3,863	3,733	3,130	+3
thereof capitalized	1,125	1,051	940	+7
Unit sales	1,451,569	1,381,416	1,276,827	+5
Employees (December 31)	98,020	99,091	96,281	-1
Daimler Trucks				
EBIT	1,714	1,876	1,332	-9
Revenue	31,389	28,751	24,024	+9
Return on sales (in %)	5.5	6.5	5.5	.
Investment in property, plant and equipment	989	1,201	1,003	-18
Research and development expenditure	1,197	1,321	1,282	-9
thereof capitalized	180	251	373	-28
Unit sales	461,954	425,756	355,263	+9
Employees (December 31)	80,519	77,295	71,706	+4
Mercedes-Benz Vans				
EBIT	541	835	451	-35
Revenue	9,070	9,179	7,812	-1
Return on sales (in %)	6.0	9.1	5.8	.
Investment in property, plant and equipment	223	109	91	+105
Research and development expenditure	371	358	267	+4
thereof capitalized	137	126	29	+9
Unit sales	252,418	264,193	224,224	-4
Employees (December 31)	14,916	14,889	14,557	+0
Daimler Buses				
EBIT	-232	162	215	.
Revenue	3,929	4,418	4,558	-11
Return on sales (in %)	-5.9	3.7	4.7	.
Investment in property, plant and equipment	82	103	95	-20
Research and development expenditure	222	225	223	-1
thereof capitalized	23	32	31	-28
Unit sales	32,088	39,741	39,118	-19
Employees (December 31)	16,901	17,495	17,134	-3
Daimler Financial Services				
EBIT	1,292	1,312	831	-2
Revenue	13,550	12,080	12,788	+12
New business	38,076	33,521	29,267	+14
Contract volume	79,986	71,730	63,725	+12
Investment in property, plant and equipment	23	21	12	+10
Employees (December 31)	7,779	7,065	6,742	+10

Mercedes-Benz Cars

Mercedes-Benz smart

Daimler Trucks

Mercedes-Benz FREIGHTLINER FUSO

WESTERN STAR Thomas BUILT BUSES BHARATBENZ

Mercedes-Benz Vans

Mercedes-Benz FREIGHTLINER

Daimler Buses

Mercedes-Benz SETRA

Daimler Financial Services

Mercedes-Benz Bank Mercedes-Benz Financial Daimler Truck Financial

We invented the automobile – and now we are passionately shaping its future. As automotive pioneers, we see it as both motivation and a duty to continue our tradition with groundbreaking technologies and superior products.

We do our very best for customers who expect the best, and we live and breathe a culture of operational excellence based on shared values. Our corporate history features numerous innovations and pioneering achievements; they are the foundation for our claim to leadership in the automotive industry.

At the same time, our thoughts and actions are guided by the principle of sustainable and safe mobility. With tailored products and services, we intend to enter new markets and attract additional groups of customers. Our goal is to lead our industry in terms of unit sales, revenue and profitability – and to do so in all the businesses in which we are active. In this way, we want to create lasting added value – for our shareholders, customers and employees, and for society in general.

Dieter Zetsche

Wolfgang Bernhard

Christine Hohmann-Dennhardt

Wilfried Porth

Andreas Renschler

Hubertus Troska

Bodo Uebber

Thomas Weber

At Daimler, the letter A stands not only for our brand-new products like the Mercedes-Benz A-Class, the Actros and the Antos, but above all for our aim to be the global leaders in all of our businesses. Booming growth markets in Asia, ground-breaking strategic alliances, attractive jobs and development opportunities, and pioneering new assistance systems in our vehicles – these are some of the topics you can read about on pages 30-75 of this Annual Report 2012.

A-Class

All inclusive

Antos

Actros

Assistance systems

Always on

Avant-garde

A matter
of integrity

Alternative drive

Apprenticeship

Alliances

Americas

Asia

Attractive

Contents

Information guidance system

↗ Refers to an illustration or a table in the Annual Report
Refers to additional information on the Internet
Cross-reference within the Annual Report
Reference to a Daimler publication

Important Events in 2012

Production start of the new A-Class. Under the motto "Heartbeat of a new generation," the first new Mercedes-Benz A-Class rolls off the assembly line at the Mercedes-Benz plant in Rastatt on July 16, 2012. This production start is a further milestone in Daimler's product strategy. The A-Class stands for our offensive in the compact segment. It is the second model of our new compact cars after the B-Class, which went into production in Rastatt in September 2011 and in the new Mercedes-Benz plant in Kecskemét, Hungary, at the end of March 2012.

Q1.12

Test winner for environmental friendliness. The Mercedes-Benz S 250 CDI BlueEFFICIENCY and the Mercedes-Benz ML 250 BlueTEC 4MATIC are the most environmentally friendly cars in their categories. This was the result of the automobile environmental ranking carried out by the Öko-Trend ecology institute.

Chinese truck joint venture receives business license. Daimler and its Chinese partner Foton receive a business license for the joint venture Beijing Foton Daimler Automotive Co., Ltd. (BFDA). With BFDA, Daimler Trucks will participate in the Chinese market for medium and heavy trucks.

Mercedes-Benz gives the iPhone® wheels. Mercedes-Benz makes smart phones mobile and decides to fully integrate them into car infotainment systems, starting with the Apple® iPhone®: Drivers can access key content using the specially developed Digital DriveStyle app in combination with Drive Kit Plus.

World premiere of the A-Class. The focus of the Mercedes-Benz stand at the Geneva Motor Show is the new A-Class, which features an emotive design, technical innovations and convincing inner values. Visitors also see the European premieres of the E 300 BlueTEC HYBRID, the world's most economical large sedan, and the new SL.

Presentation of new-generation truck engines. Daimler Trucks presents the all-new generation of Mercedes-Benz medium-duty engines with low emissions and longer maintenance intervals.

Production start in Hungary. Daimler starts production at its new car plant in Kecskemét, Hungary. Parallel production of the new compact class in Rastatt und Kecskemét allows the flexible and optimal management of each plant's capacities.

Strong first quarter of 2012. Despite large investments in future growth and a challenging market environment, Daimler's unit sales, revenue and earnings are all higher than the very good prior-year figures.

Q2.12

Dividend of €2.20 for our shareholders. The Annual Meeting of the Shareholders of Daimler AG approves the distribution of a dividend of €2.20 per share for financial year 2011 (2010: €1.85). The amount paid out totals approximately €2.3 billion.

Opening of BharatBenz truck plant in India. After a record construction period of just 24 months, the 160 hectare production facility is opened with its own research and development center and an ultra-modern test track. By the year 2014, the plant is to produce the full range of 17 BharatBenz models in weight classes from 6 to 49 metric tons.

DENZA electric car presented at Auto China. The battery-powered concept vehicle of the new DENZA brand is the result of a partnership between BYD and Daimler. DENZA is the first automotive brand of New Energy Vehicles (NEV) in the Chinese market.

Presentation of Mercedes-Benz Antos. With its Mercedes-Benz Antos, Daimler Trucks is the first manufacturer to present a truck model series specially developed to meet the demands of heavy-duty distribution transport.

Launch of new smart fortwo electric drive. This electric car is now rolling off the assembly lines in Hambach in the standard production process along with models with gasoline and diesel engines. The sale&care distribution system allows customers to buy, finance or lease the car for an attractive price, and to rent the battery for a monthly fee.

Presentation of the new Citan city van. The new Citan model completes the range of vehicles supplied by Mercedes-Benz Vans. Like no other city van, it combines minimal CO_2 emissions with optimal driving comfort and high performance with low running costs.

Daimler remains on track for growth in second quarter. Unit sales increase by 8% and revenue by 10%. Group EBIT is once again at the high level of €2.2 billion.

Q3.12

Joint venture starts truck production in China. The first truck produced by the joint venture between Daimler Trucks and Chinese truck manufacturer Foton rolls off the assembly line in Beijing. In the future, all trucks under the Auman brand will be produced by the joint venture BFDA.

Major order for Daimler Buses from Singapore. Daimler is to deliver a total of 450 Mercedes-Benz Citaro city buses to Singapore between autumn 2012 and 2015. The customer is the public transport company SBS Transit, which operates more than 250 bus lines in the metropolis of five million inhabitants.

Expansion of production capacities for the A-Class. Due to the excellent response to the new Mercedes-Benz A-Class, Daimler agrees with Finnish supplier Valmet Automotive that Valmet will assemble more than 100,000 units of the car for Daimler from 2013 until 2016.

Foundation stone laid for production of compact cars in China. The foundation stone is laid at Beijing Benz Automotive Co., Ltd. for a new section of the plant where models of the new generation of Mercedes-Benz compact cars will be produced as of 2014.

Start of leasing business in China. As the first automotive provider of financial services in the premium segment, Daimler Financial Services now offers leasing contracts for car and commercial vehicle customers in China.

Daimler and Renault-Nissan expand their cooperation. In a new engine project, Daimler and Renault-Nissan are to jointly develop a new generation of four-cylinder engines. And in a transmission project, Nissan is to receive a license to produce automatic transmissions for Nissan and Infiniti cars starting in 2016.

"Trucks For The World" in Hanover. At IAA Commercial Vehicles, Daimler for the first time presents its entire global range of trucks in one place. Visitors to the trade fair also experience a burst of new models, with world premieres of the Mercedes-Benz Antos truck range and the Setra ComfortClass 500 coach. And the new generation of the Fuso Canter Eco Hybrid is presented for the frst time in Europe.

Daimler earnings again at a high level. Considering the significantly more difficult market environment, Daimler achieves good earnings in the third quarter. Group EBIT amounts to €1.9 billion. Earnings forecasts for the full year have to be adjusted, however.

Q4.12

ÖkoGlobe for Mercedes-Benz F 125! The internationally recognized environmental prize for ecological innovation, ÖkoGlobe, is awarded to Daimler once again in 2012. The Mercedes-Benz F 125! research vehicle is awarded the first prize in the Concept Car category.

Agreement on new Integrity Code. The management and the employee representatives sign the new Integrity Code. Feedback was utilized from several thousand employees who participated in a Group-wide integrity dialog.

Brazilian government awards major order to Daimler. Mercedes-Benz do Brasil wins several tenders of the Brazilian government for a total of 2,100 vehicles. This major order comprises the supply of more than 1,700 Mercedes-Benz Atego trucks and 400 Mercedes-Benz Sprinter vans.

Fuso and Nissan cooperate on light-duty trucks. Daimler's Japanese subsidiary for commercial vehicles and Nissan Motor Co., Ltd. sign a long-term cooperation agreement on the mutual supply of light-duty trucks in Japan.

Fuso Canter Eco Hybrid wins Japanese award for innovative technology. This award underscores Fuso's leading role with green innovations. The main factor for winning this prize is the DUONIC® double-clutch transmission in combination with hybrid drive.

car2go electrifies Stuttgart. On the road with full electric drive and full flexibility: car2go now offers this freedom also in Stuttgart. Germany's biggest fleet of electric cars starts in Daimler's home town. The electricity for these cars under the smart brand comes from regenerative energy sources.

Daimler sells EADS shares. Daimler AG reduces its equity interest in the European Aeronautic Defence and Space Company (EADS) from 15% to 7.5% in economic terms. The sale proceeds of €1.7 billion are invested in strengthening the Group's core business.

New Board of Management position for China. The Supervisory Board of Daimler AG appoints Hubertus Troska (52) to the newly created position of Board of Management Member for "Greater China" as of December 13, 2012 until December 31, 2015. This decision emphasizes the strategic importance of China to Daimler. The Chinese market is seen to have substantial potential for further sustainable growth and for the ongoing expansion of our business activities.

Dear Shareholders,

About 2.2 million times – that's how often people around the world opted for a vehicle from your company last year; more than ever before. Revenue was also the highest in our history. Net profit amounted to 6.5 billion euros. Based on these results, the Board of Management and the Supervisory Board will propose the distribution of a dividend at last year's high level of 2.20 euros per share so that you continue to benefit from the Daimler Group's success.

What were the most important developments at our divisions?

At **Mercedes-Benz Cars**, we achieved record sales in 2012. Our new products performed especially well. The new A-Class was our most successful market launch of all time: Its conquest rate is already 40 percent, meaning that two out of every five A-Class customers previously drove another brand. Our B-Class and sport-utility vehicles also sold better than ever before in 2012. In addition, our M-Class was the market leader in its segment. The same was true for our S-Class – for the eighth year in a row and in spite of the forthcoming model changeover this year.

At **Daimler Trucks**, our global orientation bore fruit: Despite what were in part weaker markets, we were able once more to significantly increase our total sales. At the same time, we expanded our product portfolio around the world. In Europe, with our Mercedes-Benz Antos, we launched our first truck specifically for heavy-duty distribution. At the same time, we introduced the Fuso Canter Eco Hybrid, the most economical hybrid truck in the world. In India, our new truck brand BharatBenz made a successful start; and in China, we began local production of trucks under the Auman brand in our joint venture with Foton.

At **Mercedes-Benz Vans**, the upward sales trend in North and Latin America somewhat offset the weakness in our key Western European market, but could not fully compensate for it. Therefore, it's all the more important that we develop new market segments: And that's exactly what we're doing with our new Citan city van.

Daimler Buses was once again the market leader in the segment of buses above 8 tons in its core markets. However, in Latin America we were confronted with very low demand for our bus chassis. As a result, total unit sales of buses decreased. Also in this division, we are countering weak markets with strong new products, such as the Mercedes-Benz Citaro Euro VI and a new generation of travel coaches from our top Setra brand.

"Doing business efficiently and growing profitably – those are two sides of the same coin."

Daimler Financial Services can look back on yet another successful year. New business and contract volume set new records. In Asia in particular, we continued to expand our service offerings. We are ahead worldwide with our new flexible mobility services as well. That's true for our established services such as "car2go" and for additional services like "moovel" – an innovative new platform that networks different modes of transportation.

That all goes to make one thing clear: 2012 was a year of many successes. But it's also true that not all of our goals have yet been achieved. We can do much more – and we'll prove that in the coming years.

Although growth forecasts for key markets in 2013 are rather moderate, the dynamic in the world vehicle market should significantly pick up in the long term – mainly driven by China, India and other large emerging markets.

Against this backdrop, we have launched comprehensive product offensives in all of our divisions: We're expanding our model portfolio, entering new segments and fully meeting regional differences in customer needs. In this way, we aim to be Number One for premium automobiles also in terms of unit sales by 2020 at the latest. With trucks, we will continue to build on our current leadership position. Altogether, this constitutes the biggest growth story in our company's history: We are growing at a faster pace, on a broader front and in more markets than ever before.

Four strategic growth themes run through our entire Group and every single business area:

- the strengthening of our core business in traditional markets;
- the development of new markets (including the requisite expansion of our research and development, production and distribution networks);
- the continued expansion of our leadership position in "green" technologies (including electric mobility) and in safety;
- and the introduction of fundamentally new mobility concepts based on innovation at the interfaces of mobility and digital networking.

Key to all of this is that we don't want to grow "at any price," but with sustainable profitability. That's why the growth strategies of all our divisions have an efficiency program as a central component: At our car division, we're adding "Fit for Leadership" to "Mercedes-Benz 2020;" Daimler Trucks started the next phase of our "Global Excellence" growth strategy with "Daimler Trucks #1".

In this way, we will ensure that we are profitable even under difficult market conditions and that we maintain our financial strength for continued future investments. In a parallel effort, we are also pressing forward with structural improvements to our global business systems: Doing business efficiently and growing profitably – those are two sides of the same coin.

I'd like to thank you, our shareholders, for your trust and support. We also owe thanks to our employees. They are the ones who make a difference with their professional expertise and personal dedication. Superior performance is not a question of race, gender or age. That's why we promote diversity in our workforce, the professional development of highly qualified women and the management training of local executives.

Finally, sustained success requires a solid ethical foundation. What does that mean exactly? That is something thousands of Daimler employees throughout the Group, of all ranks and at all levels, have discussed as part of our "Integrity Dialog." The result: Virtually everyone wants clear rules, responsible behavior and mutual respect. That has flowed into our new "Integrity Code." The consensus was also that, as much as guidelines serve as important "safety belts," they cannot replace the "inner compass" that keeps us on course and acting responsibly, even where there are no clear rules.

In any case, the same goes for our corporate culture as it does for all of the Daimler Group: We are on the right track and will continue to move forward. We look forward to you accompanying us into the future.

Dieter Zetsche

The Board of Management

Ambition. “We are going new ways with fascinating products and our strategy of global growth. At the same time, we are building on our proven strengths.”

Dieter Zetsche | 59, Chairman of the Board of Management, Head of Mercedes-Benz Cars, appointed until December 2016

Approach. “The expansion of our international production network forms the basis for our ambitious growth targets.”

Wolfgang Bernhard | 52, Manufacturing and Procurement Mercedes-Benz Cars & Mercedes-Benz Vans, as of April 1, 2013 Daimler Trucks, appointed until February 2018

A matter of integrity. “We are convinced that business practices based on integrity are essential for sustained success.”

Christine Hohmann-Dennhardt | 62, Integrity and Legal Affairs, appointed until February 2014

All together. “Our employees’ diversity and motivation are our future capital.”

Wilfried Porth | 53, Human Resources & Labor Relations Director, appointed until April 2017

Active. “Efficiency and dependability are key features of our commercial vehicles. In our global network, we are working hard to excel worldwide.”

Andreas Renschler | 54, Daimler Trucks, as of April 1, 2013 Manufacturing and Procurement Mercedes-Benz Cars & Mercedes-Benz Vans, appointed until September 2018

Appreciated. “Our new Board of Management position of ‘Greater China’ emphasizes the strategic importance of the Chinese market for Daimler.”

Hubertus Troska | 52, Greater China, since December 13, 2012, appointed until December 2015

Answers. “A sound growth strategy on a foundation of solid finances is the basis for our future success.”

Bodo Uebber | 53, Finance & Controlling, Daimler Financial Services, appointed until December 2014

Alternative drive. “Our innovations are pacemakers for clean and safe vehicles. To the benefit of all road users.”

Thomas Weber | 58, Group Research & Mercedes-Benz Cars Development, appointed until December 2016

Report of the Supervisory Board

Dear Shareholders, the Supervisory Board dealt in detail with the operational and strategic development of the Daimler Group in seven meetings during the 2012 financial year.

In the year 2012, the Supervisory Board performed its tasks as laid down by applicable law, the Articles of Incorporation and its rules of procedure, and continually advised and supervised the Board of Management on the management of the company. Following careful reviews and consultations, the Supervisory Board passed resolutions on numerous business matters for which its consent was required, such as investment and personnel planning, capital changes at companies of the Group, investments and divestments and the conclusion of contracts of particular importance for the Group. In addition, the Supervisory Board examined for example whether the risk report, the financial reporting and the annual financial statements were in conformance with requirements. The Board of Management also informed the Supervisory Board about a large number of transactions not requiring the Supervisory Board's consent and the two boards discussed those matters together, for example the further development of strategic programs in the various divisions and the status of various cooperation projects. The Supervisory Board discussed the information and evaluations that were material for its decisions and suggestions together with the Board of Management. The Supervisory Board meetings were regularly prepared in separate discussions of the members representing the employees and the members representing the shareholders with the members of the Board of Management. The Board of Management generally participates in the meetings of the Supervisory Board. The Supervisory Board has also established an executive session in each of its meetings in order to discuss topics in the absence of the Board of Management.

No member of the Supervisory Board attended less than half of the meetings in the past financial year. The Chairman of the Supervisory Board was regularly informed by the Chairman of the Board of Management about all significant operating developments as well as personnel changes and appointments.

Daimler's business activities continued to develop successfully during the year 2012. The Group's unit sales and revenue increased significantly. Earnings from ongoing operations were at the good level of €8.1 billion. During the year under review, in line with the strategic planning, the Group considerably expanded its international presence with the opening of new plants in Hungary and India, with the start of operations by our truck joint venture in China, and with investment in the expansion of our car joint venture in Beijing and in our plant in Tuscaloosa, USA. Further steps were thus taken to give the Group a regional balance. Disproportionately high increases in unit sales and revenues in Asia and the NAFTA region are evidence of a consistent regional strategy and reduce Daimler's dependence on developments in Western Europe. The Supervisory Board expressly supports this strategy, which will enhance Daimler's future competitiveness and competitive position. The additional expenditure to expand the product portfolio and increase the number of production locations had a corresponding effect on the key financial metrics for the year 2012.

An issue relevant to the work of the Supervisory Board throughout the year 2012 was the feasibility of planning further developments and their stability. On the whole, the economic environment was, and still is, marked by great uncertainty. The general economic outlook, and in particular the situation in the financial markets, was dominated by significant risk factors and uncertainty. The Board of Management and the Supervisory Board carefully monitored the economic situation in China, one of the Group's key markets.

Supporting actions at the European level prevented the disintegration of the euro zone. For the crisis to be overcome, however, further measures will have to be taken at the European level; above all the required structural reforms will have to be carried out in the countries affected by the sovereign-debt crisis so that they can regain their international competitiveness.

Dr. Manfred Bischoff, Chairman of the Supervisory Board

The Supervisory Board also dealt in detail with the causes of the development of Daimler's share price, and held detailed discussions with the Board of Management about proposals and the expected impact of strategic projects on the share price.

In addition to the usual key financial metrics, the Board of Management regularly informed the Supervisory Board about important topics such as:
- the Group's profitability, especially in terms of return on equity, and its liquidity situation,
- the internal control and risk management system including compliance,
- specific developments in sales and procurement markets, and
- the general economic situation in the main sales markets as well as developments in the area of financial services.

The Supervisory Board also dealt with safeguarding the Group's long-term profitability, fundamental questions of corporate planning including financial, investment, sales and human resources planning, developments in the companies of the Group, revenue developments and the situation of the Group, as well as the ongoing implementation of measures to secure pioneering and sustainable mobility for the future. The latter was dealt with also considering current and future requirements under the heading of "Digital Life," with special reference to the Group's products and services. The Supervisory Board was occupied with these topics going beyond the operating business in close communication with the Board of Management and especially intensively in a two-day strategy workshop held at the end of September 2012.

Cooperation between the Supervisory Board and the Board of Management. All the members of the Board of Management attended all the meetings of the Supervisory Board. The meetings featured intensive and open exchanges of opinions and information concerning the position of the Group, business and financial developments, fundamental issues of corporate policy and strategy, and development opportunities in important growth markets. Any deviations from the planning were explained in detail to the Supervisory Board by the Board of Management. The members of the Supervisory Board regularly prepared for upcoming resolutions on transactions requiring Supervisory Board consent on the basis of documentation that had been provided in advance by the Board of Management. They were supported by the relevant committees, and discussed the actions and transactions upon which decisions were to be taken with the Board of Management. Furthermore, the Board of Management informed the Supervisory Board with the use of monthly reports and quarterly risk reports about the most important performance figures and risks, and submitted the interim financial reports to the Supervisory Board. The Supervisory Board was kept fully informed of specific matters also between its meetings. As required in individual cases, following consultation with the Chairman of the Supervisory Board, the members were requested to pass resolutions in writing. In addition, the Chairman of the Board of Management informed the Chairman of the Supervisory Board in regular discussions about important developments and consulted with him on upcoming decisions.

Topics discussed at the Supervisory Board meetings in the year 2012. In a meeting in February 2012, in the presence of the external auditors, the preliminary key figures of the annual company and consolidated financial statements for 2011 and the dividend proposal to be made at the 2012 Annual Shareholders' Meeting were discussed. The preliminary key figures for the year 2011 were announced at the Annual Press Conference on February 9, 2012.

In another meeting held in February 2012, the Supervisory Board dealt with the annual company financial statements, the annual consolidated financial statements and the combined management report for Daimler AG and the Daimler Group, each of which had been issued with an unqualified audit opinion by the external auditors, as well as the reports of the Audit Committee and the Supervisory Board, the corporate governance report and the remuneration report, and the proposal on the distribution of distributable profit. In preparation, the members of the Supervisory Board were provided with comprehensive documentation, some of it in draft form, including the Annual Report with the consolidated financial statements according to IFRS, the combined management report for Daimler AG and the Daimler Group, the corporate governance report and the remuneration report, the annual company financial statements of Daimler AG, the proposal of the Board of Management on the distribution of distributable profit, and the audit reports of KPMG for the annual company financial statements and the consolidated financial statements of Daimler AG, each including the combined management report, as well as drafts of the reports of the Supervisory Board and of the Audit Committee.

The Audit Committee and the Supervisory Board dealt with those documents in detail and discussed them intensively in the presence of the responsible external auditors, who reported on the results of their audit and were available to answer supplementary questions and to provide additional information. Following the final results of the review by the Audit Committee and its own review, the Supervisory Board declared its agreement with the results of the audit by the external auditors, determined that no objections were to be raised, and approved the financial statements and the combined management report as presented by the Board of Management. The company financial statements of Daimler AG for the year 2011 were thereby adopted. The Supervisory Board also consented to the proposal made by the Board of Management on the distribution of distributable profit and approved the report of the Supervisory Board, the corporate governance report and the remuneration report in their current drafts. Furthermore, the Supervisory Board approved its proposed decisions on the items of the agenda for the 2012 Annual Shareholders' Meeting. In addition, the Supervisory Board received information on the status of the introduction of a new pension plan adapted to the capital-market trend and granted its consent for capital contributions to the German pension plan.

Finally, the Supervisory Board dealt with topics of Board of Management remuneration and approved the external board positions and sideline business activities of the members of the Board of Management as presented in the meeting.

In March, the Supervisory Board dealt with an agreement to extend the period of the deferred prosecution agreement with the Department of Justice of the United States of America. The extension until December 31, 2012 was approved in order to allow the period to be adjusted to match the duration of the monitorship and to ensure the implementation of further improvements to the compliance system.

Two Supervisory Board meetings were held in April. In the first of those two meetings, which was held straight after the Annual Shareholders' Meeting, in which Dr. Clemens Börsig was reelected as a member of the Supervisory Board, the Supervisory Board reelected Dr. Börsig to the Audit Committee of the Supervisory Board.

In the second meeting held in April 2012, Dr. Wolfgang Bernhard was reappointed as a member of the Board of Management with responsibility for Manufacturing and Procurement Mercedes-Benz Cars & Mercedes-Benz Vans for a further five years as of March 1, 2013. The Supervisory Board also dealt with the course of business and results of the first quarter, as well as with status reports on Daimler Trucks and Daimler Buses, and received information on the Group's special activities for the promotion of integrity. In addition, the Supervisory Board granted its consent to the reclassification of retained earnings of Brazilian subsidiaries into equity and approved the execution of capital changes at Mercedes-Benz Auto Finance Ltd. in China and Mercedes-Benz Leasing China.

In addition to discussing the business development and results of the second quarter, in its meeting in July, the Supervisory Board received information on the subject of generation management and the impact of demographic developments on the age structure of the workforce. Furthermore, the Supervisory Board dealt with the status of the cooperation between Daimler and BYD Auto Co. Ltd. in the joint venture BYD Daimler New Technology Co., Ltd. The Supervisory Board was also informed about the current development of the joint venture Beijing Foton Daimler Automotive and the status of the strategic cooperation with BAIC, and approved an increase in Daimler's equity interest in Mercedes-Benz (China) Ltd. The Supervisory Board additionally dealt with a progress report on EADS and the planned sale of 7.5% of the shares in EADS to the KfW banking group, and confirmed the continuation of Daimler's involvement in Formula 1. In the same meeting, the Supervisory Board also dealt with the topics for the upcoming strategy workshop.

During the two-day strategy workshop in September, as every year, the Supervisory Board first of all received information on the stage of implementation of the strategic goals set in previous years by the Board of Management for Daimler AG and the divisions. Against the backdrop of the current economic situation, the Supervisory Board discussed the stage of implementation of projects initiated by the individual divisions, the positioning of the Group and its divisions with regard to the competition, and the brand and product strategies.

Other key areas of the strategy workshop were:
- opportunities for further growth in the various markets,
- analyses of competitors,
- marketing strategy, product strategy and price strategy,
- the latest trends in customer behavior, also with regard to the future development of urban mobility and the use of modern media and social networks,
- the overall technology and market strategy for safeguarding sustainable mobility,
- the technological development of internal-combustion engines, in particular further improvements in CO_2 emissions,
- electric, hybrid and hydrogen drive systems,
- the design of Mercedes-Benz cars, connectivity in vehicles, autonomous driving and digital life at the Group,
- the implementation of flexible production and procurement networks as well as plant expansion and new sites,
- employment developments, personnel planning and recruitment worldwide,
- current developments with regard to integrity and the current situation and future challenges of compliance, and
- other strategic topics.

In October, the Supervisory Board once again dealt with the planned sale of 7.5% of the shares of EADS and approved that sale. In November, the Supervisory Board consented to an increase in the 2012 refinancing limits for medium-term and long-term borrowing. Also in November, the Supervisory Board granted its consent to changes to the shareholder structure and management structure of EADS.

In the meeting in December 2012, the Supervisory Board decided to expand the Board of Management and appointed Hubertus Troska as a member of the Board of Management of Daimler AG as of December 13, 2012 for a period of three years in accordance with the regulations on initial appointments, i.e. until December 31, 2015, with responsibility for the newly created position of “Greater China”. Along with this appointment, Troska took over the functions of CEO and Chairman of Daimler Northeast Asia as well as responsibility for all of Daimler’s strategic and operational activities in China. With the decision to establish a Board of Management position for the world’s biggest vehicle market, the Supervisory Board has underscored the strategic importance of China in recognition of its potential for sustained growth and the continuous expansion of business activities there.

Also in December, Andreas Renschler was reappointed as a member of the Board of Management with unchanged responsibility as of October 1, 2013 for a period of five years, i.e. until September 30, 2018. Furthermore, the members of the Supervisory Board representing the shareholders decided to propose to the Annual Shareholders’ Meeting that Andrea Jung be elected to the Supervisory Board as of the end of the Annual Shareholders’ Meeting on April 10, 2013 until the end of the Annual Shareholders’ Meeting that decides on ratification of the Board of Management’s actions for 2017. In addition, the Supervisory Board dealt in detail on the basis of comprehensive documentation with the operational planning for the years 2013 and 2014. This included discussion of existing opportunities and risks and of the Group’s risk management.

Subsequently, the Supervisory Board approved the acquisition of equity interests and was informed about measures taken under the heading of cyber security to defend the Group against attacks by hackers and to protect customer data. In this context, it dealt with questions of data security in particular against the backdrop of the increasing networking of vehicles.

Other matters discussed in the December meeting were corporate governance, as described in detail below, and Board of Management remuneration.

Corporate governance. During the year 2012, the Supervisory Board was continually occupied with standards of good corporate governance. This took place also in consideration of the fact that the Government Commission German Corporate Governance Code had decided on some changes for stock-exchange listed companies in May 2012, after there had been no changes to the Code in 2011.

An important precondition for effective cooperation in the Supervisory Board in the sense of good corporate governance, in addition to the members’ prioritized specialist expertise, is their diversity to adequately reflect the Group’s size and internationality in terms of nationality, gender, ethnic origin and experience. Proposals by the Supervisory Board on candidates for election representing the shareholders give due consideration to the goals stated by the Supervisory Board in accordance with the German Corporate Governance Code, including appropriate internationality and the appropriate consideration of women. With regard to the appropriate consideration of women, the Supervisory Board focuses on Daimler’s goal of gradually increasing the proportion of women among senior executives to 20% by the year 2020. The Supervisory Board already achieved a proportion of 20% female members representing the shareholders by 2011, which will increase to 30% if the election proposal for Andrea Jung made by the Supervisory Board to the Annual Shareholders’ Meeting 2013 is accepted. As of December 31, 2012, there are no female members of the Supervisory Board representing the employees. The members of the Supervisory Board representing the employees are elected every five years. The next elections to the Supervisory Board, in which several women are also nominated, are planned for March 2013.

The members of the Supervisory Board of Daimler AG are obliged to disclose conflicts of interest, especially those that might arise due to an advisory or board function for a customer, supplier or creditor of Daimler or for other third parties, to the entire Supervisory Board. There were no indications of any conflicts of interest in 2012.

In its meeting in December, due to the new version of the erman Corporate Governance Code as amended on May 15, 2012, the Supervisory Board discussed in detail and confirmed the targets on the number of independent representatives of the shareholders that had already been set in its rules of procedure before that new version of the Code took effect. In addition, the Supervisory Board adjusted its targets for the consideration of potential conflicts of interests in its composition, in accordance with the new version of the German Corporate Governance Code. As it has no influence on the election of members representing the employees, the Supervisory Board limited itself to setting targets for the shareholder side. Furthermore, as mentioned above, the resolution was passed in this meeting to propose to the Annual Shareholders' Meeting 2013 that Andrea Jung be elected to the Supervisory Board. Also in the meeting in December, the Supervisory Board updated and amended the wording of the rules of procedure of the Supervisory Board and its committees, and approved the 2012 declaration of compliance with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG). With the exceptions explained in the declaration, all the recommendations of the Code have been complied with and continue to be complied with.

The Supervisory Board arranged for an externally moderated efficiency review to be carried out during the year 2012, thus fulfilling the requirement to carry out a regular review of its efficiency in accordance with its own rules of procedure and the German Corporate Governance Code. The results of the efficiency review, which the Supervisory Board dealt with intensively in its meeting at the end of February 2013, indicate very good cooperation within the Supervisory Board and with the Board of Management. There was no indication of any need for fundamental action or changes. However, some suggestions were made, which will be put into practice.

Corporate governance at Daimler is described in detail in the Corporate Governance Report on see pages 182 ff and in the Remuneration Report on see pages 119 ff of this Annual Report.

Report on the work of the committees

The **Presidential Committee** convened four times last year. It dealt primarily with corporate governance topics and questions of remuneration, as well as personnel matters of the Board of Management. As in previous years, compliance targets constituted part of the individual target agreements of the members of the Board of Management. For the first time, further non-financial targets were included as criteria in the target agreements. For the past financial year, those criteria were the firm establishment in the Group of the principles of the UN Global Compact.

The **Audit Committee** met six times in 2012. Details of those meetings are provided in a separate report of this committee.
see pages 176 ff

The **Nomination Committee** convened twice in 2012. Among other matters, it prepared recommendations for the Supervisory Board's proposals to the Annual Shareholders' Meeting 2013 on candidates for election. The election proposal gives due consideration not only to the defined qualifications for the specific position, but also to the recommendations of the German Corporate Governance Code.

As in previous years, the **Mediation Committee**, a body required by the provisions of the German Codetermination Act (MitbestG), had no occasion to take any action in 2012.

The chairmen of the committees informed the members of the Supervisory Board about the activities of the committees and their decisions, in each case in the Supervisory Board meeting following such decisions.

Personnel changes in the Supervisory Board. With effect as of the end of the Annual Shareholders' Meeting on April 4, 2012, Dr. Clemens Börsig was reelected as a member of the Supervisory Board representing the shareholders. Furthermore, in December, the Supervisory Board decided to propose to the 2013 Annual Shareholders' Meeting that Andrea Jung be elected as a member of the Supervisory Board representing the shareholders with effect as of the end of the Annual Shareholders' Meeting on April 10, 2013 until the end of the Annual Shareholders' Meeting that decides on ratification of the Board of Management's actions for the year 2017. At the end of February 2013, the Supervisory Board decided to propose to the 2013 Annual Shareholders' Meeting that Sari Baldauf and Dr. Jürgen Hambrecht be reelected as members of the Supervisory Board representing the shareholders with effect as of the end of the Annual Shareholders' Meeting on April 10, 2013 until the end of the Annual Shareholders' Meeting that decides on ratification of the Board of Management's actions for the year 2017. The election proposals of the Supervisory Board to the Annual Shareholders' Meeting were based on recommendations made by the Nomination Committee.

Personnel changes in the Board of Management. In the Supervisory Board meeting in April 2012, as mentioned above, Dr. Wolfgang Bernhard was reappointed as a member of the Board of Management with responsibility for Manufacturing and Procurement Mercedes-Benz Cars & Mercedes-Benz Vans for a further five years as of March 1, 2013. In the meeting in December 2012, the Supervisory Board decided to expand the Board of Management and appointed Hubertus Troska as a member of the Board of Management with responsibility for “Greater China” as of December 13, 2012 for a period of three years, i.e. until December 31, 2015. With the appointment of Hubertus Troska, the Board of Management has been expanded to eight members. In addition, Andreas Renschler was reappointed as a member of the Board of Management with unchanged responsibility as of October 1, 2013 for a period of five years, i.e. until September 30, 2018.

In the Supervisory Board meeting on February 21, 2013, Dr. Dieter Zetsche was appointed for a further three years as of January 1, 2014 as Chairman of the Board of Management of Daimler AG and Head of Mercedes-Benz Cars. Also in this meeting, Prof. Dr. Thomas Weber was appointed for a further three years as of January 1, 2014 as Member of the Board of Management of Daimler AG responsible for Group Research & Mercedes-Benz Cars Development. As of April 1, 2013, Andreas Renschler will assume Board of Management responsibility for Manufacturing and Procurement Mercedes-Benz Cars & Mercedes-Benz Vans. At the same time, Dr. Wolfgang Bernhard will assume Board of Management responsibility for Daimler Trucks.

Audit of the 2012 company and consolidated financial statements. The financial statements of Daimler AG and the combined management report for the Company and the Group for 2012 were duly audited by KPMG AG, Wirtschaftsprüfungsgesellschaft, Berlin, and were given an unqualified audit opinion. The same applies to the consolidated financial statements for 2012 prepared according to IFRS.

In the presence of the auditors in a meeting in early February 2013, the Supervisory Board discussed the preliminary key figures of the annual company and consolidated financial statements for 2012 and the dividend proposal to be made at the 2013 Annual Shareholders’ Meeting. The preliminary key figures for the year 2012 were announced at the Annual Press Conference on February 7, 2013.

In the aforementioned meeting, the Supervisory Board dealt with the annual company financial statements, the annual consolidated financial statements and the combined management report for Daimler AG and the Daimler Group, each of which had been issued with an unqualified audit opinion by the external auditors, as well as the reports of the Audit Committee and the Supervisory Board, the corporate governance report and the remuneration report, and the proposal on the distribution of distributable profit. In preparation, the members of the Supervisory Board were provided with comprehensive documentation, some of it in draft form, including the Annual Report with the consolidated financial statements according to IFRS, the combined management report for Daimler AG and the Daimler Group, the corporate governance report and the remuneration report, the annual company financial statements of Daimler AG, the proposal of the Board of Management on the distribution of distributable profit, the audit reports of KPMG for the annual company financial statements and the consolidated financial statements of Daimler AG, each including the combined management report, as well as drafts of the reports of the Supervisory Board and of the Audit Committee.

The Audit Committee and the Supervisory Board dealt with those documents in detail and discussed them intensively in the presence of the responsible external auditors, who reported on the results of their audit and were available to answer supplementary questions and to provide additional information. Following the final results of the review by the Audit Committee and its own review, the Supervisory Board declared its agreement with the results of the audit by the external auditors, determined that no objections were to be raised, and approved the financial statements and the combined management report as presented by the Board of Management. The company financial statements of Daimler AG for the year 2012 were thereby adopted. The Supervisory Board also consented to the proposal made by the Board of Management on the distribution of distributable profit and approved the report of the Supervisory Board, the corporate governance report and the remuneration report in their current drafts. Furthermore, the Supervisory Board approved its proposed decisions on the items of the agenda for the 2013 Annual Shareholders’ Meeting.

Appreciation. The Supervisory Board thanks all of the employees and the management of the Daimler Group for their personal contributions to the successful year 2012. Special thanks are due to a longstanding member of the Supervisory Board, Stefan Schwaab, who stepped down in June after many years of close involvement and exceptional personal commitment to the Group.

Stuttgart, February 2013

The Supervisory Board

Dr. Manfred Bischoff
Chairman

The Supervisory Board

Dr. Manfred Bischoff
Munich
Chairman of the Supervisory Board of Daimler AG
Other supervisory board memberships/directorships:
Royal KPN N.V.
SMS GmbH – Chairman
UniCredit S.p.A.
Voith GmbH – Chairman

Erich Klemm*
Sindelfingen
Chairman of the General Works Council, Daimler Group and Daimler AG; Deputy Chairman of the Supervisory Board of Daimler AG

Dr. Paul Achleitner
Frankfurt am Main
Chairman of the Supervisory Board of Deutsche Bank AG
Other supervisory board memberships/directorships:
Deutsche Bank AG - Chairman
Bayer AG
RWE AG

Sari Baldauf
Helsinki
Former Executive Vice President and General Manager of the Networks Business Group of Nokia Corporation
Other supervisory board memberships/directorships:
F-Secure Corporation
Fortum OYj - Chairwoman
Deutsche Telekom AG
AkzoNobel N.V.

Dr. Clemens Börsig
Frankfurt am Main
Former Chairman of the Supervisory Board of Deutsche Bank AG
Other supervisory board memberships/directorships:
Linde AG
Bayer AG
Emerson Electric Co.

Michael Brecht*
Gaggenau
Deputy Chairman of the General Works Council, Daimler Group and Daimler AG; Chairman of the Works Council, Gaggenau Plant, Daimler AG (since July 1, 2012)

Prof. Dr. Heinrich Flegel*
Stuttgart
Director Research Materials, Lightweight Design and Manufacturing, Daimler AG; Chairman of the Management Representative Committee, Daimler Group

Dr. Jürgen Hambrecht
Ludwigshafen
Former Chairman of the Board of Executive Directors of BASF SE
Other supervisory board memberships/directorships:
Deutsche Lufthansa AG
Fuchs Petrolub AG – Chairman
Trumpf GmbH + Co. KG – Chairman from January 1, 2013

Petraea Heynike
Vevey
Former Executive Vice President of the Executive Board of Nestlé S.A.
Other supervisory board memberships/directorships:
Schulich School of Business

Jörg Hofmann*
Stuttgart
German Metalworkers' Union (IG Metall), District Manager, Baden-Württemberg
Other supervisory board memberships/directorships:
Robert Bosch GmbH
Heidelberger Druckmaschinen AG

Dr. Thomas Klebe*
Frankfurt am Main
General Counsel of the German Metalworkers' Union (IG Metall)
Other supervisory board memberships/directorships:
Daimler Luft- und Raumfahrt Holding AG
ThyssenKrupp Materials International GmbH

Gerard Kleisterlee
Amsterdam
Former President and CEO of Royal Philips Electronics N.V.
Other supervisory board memberships/directorships:
Vodafone Group Plc. – Chairman
Royal Dutch Shell Plc.
Dell Inc.

Jürgen Langer*
Frankfurt am Main
Chairman of the Works Council of the Frankfurt/Offenbach Dealership, Daimler AG

Ansgar Osseforth*
Sindelfingen
Manager Mercedes-Benz Research and Development, Daimler AG

Valter Sanches*
São Paulo
Director of Communications of the Metalworkers' Union ABC; President of the Fundação Sociedade Comunicação, Cultura e Trabalho (Foundation Society of Communications, Culture and Work)

Jörg Spies*
Stuttgart
Chairman of the Works Council, Headquarters, Daimler AG

Lloyd G. Trotter
Plainville
Former Vice Chairman General Electric; President & CEO of the General Electric Group's Industrial Division; Managing Partner, Founder, GenNx360 Capital Partners
Other supervisory board memberships/directorships:
PepsiCo Inc.
Textron Inc.
syncreon Holdings Ltd.
syncreon.US Holdings Inc.
syncreon.US Inc.

Dr. h.c. Bernhard Walter
Frankfurt am Main
Former Spokesman of the Board of Management of Dresdner Bank AG
Other supervisory board memberships/directorships:
Bilfinger Berger SE – Chairman
Deutsche Telekom AG

Uwe Werner*
Bremen
Chairman of the Works Council, Bremen Plant, Daimler AG

Lynton R. Wilson
Toronto
Chairman of the Board of CAE Inc.;
Chancellor, McMaster University

Retired from the Supervisory Board:

Stefan Schwaab*
Gaggenau
Vice Chairman of the General Works Council, Daimler Group and Daimler AG; Vice Chairman of the Works Council, Gaggenau Plant, Daimler AG
(retired on June 30, 2012)

Committees of the Supervisory Board:

Committee pursuant to Section 27 Subsection 3 of the German Codetermination Act (MitbestG)
Dr. Manfred Bischoff – Chairman
Erich Klemm*
Dr. Jürgen Hambrecht
Dr. Thomas Klebe*

Presidential Committee
Dr. Manfred Bischoff – Chairman
Erich Klemm*
Dr. Jürgen Hambrecht
Dr. Thomas Klebe*

Audit Committee
Dr. h.c. Bernhard Walter – Chairman
Erich Klemm*
Dr. Clemens Börsig
Michael Brecht*

Nomination Committee
Dr. Manfred Bischoff – Chairman
Dr. Paul Achleitner
Sari Baldauf

* Representative of the employees

Daimler Shares

Share prices on the world's stock exchanges are influenced by uncertainty about the ongoing development of the European sovereign debt crisis and the world economy, as well as by measures taken by central banks. Daimler's share price gains 22% over the year. The Board of Management and the Supervisory Board propose a dividend of €2.20 per share. We offer investors and analysts a wide range of investor-relations services.

1.01

Development of Daimler's share price and major indices

	End of 2012	End of 2011	12/11 % change
Daimler's share price (in euros)	41.32	33.92	+22
DAX 30	7,612	5,898	+29
Dow Jones Euro STOXX 50	2,636	2,317	+14
Dow Jones Industrial Average	13,104	12,218	+7
Nikkei	10,395	8,455	+23
Dow Jones STOXX Auto Index	351	259	+36

1.02

Key figures per share

In euros	2012	2011	12/11 % change
Net profit	5.71	5.32	+7
Net profit (diluted)	5.71	5.31	+8
Dividend	2.20	2.20	0
Equity (December 31)	42.63	38.77	+10
Xetra price at year end[1]	41.32	33.92	+22
Highest[1]	48.45	58.46	-17
Lowest[1]	33.40	29.16	+15

1 Closing prices

Volatile year on global stock markets. The world's stock markets made a positive start to the year 2012. Buoyed by good company profits and key leading indicators pointing towards further expansion of the world economy, share prices increased on a broad front on international stock exchanges. But renewed concern about the European sovereign debt crisis, economic weakening and geopolitical stability caused investors to prefer low-risk assets once again. As a result, prices of government bonds with good credit ratings increased significantly in the months of April and May, while share prices fell substantially.

At the end of June, the positive assessment of statements made at the EU summit in Brussels significantly improved stock-market sentiment and share prices rose again. In late July, statements by ECB President Draghi about supporting the euro additionally boosted investor confidence. There was further stimulus in September from the announcement of new programs for the purchase of government bonds by the ECB and of mortgage-backed securities by the US Federal Reserve (QE3). As a result of this positive stream of news, the major indices rose to new interim highs in September. However, following the presidential election in the United States in November, a number of negative factors gave rise to increasing uncertainty amongst investors. Those factors included the fear that failure to avert the "fiscal cliff" (i.e. a combination of automatic tax increases and spending cuts) would force the USA back into recessions very quickly in 2013, the escalation of violence in the Middle East and the tense situation in Greece. Following the decision of the US Fed to expand the bond-buyback program, many share indices reached new highs for the year in December.

The index of the most important stocks in the euro zone, the Dow Jones Euro STOXX 50, rose by 14% over the full year. Germany's main index, the DAX, performed even better due to the robust state of the country's industry and gained 29%. In the United States, the Dow Jones climbed by 7% over the year, and the Japanese Nikkei index closed the year with a gain of 23%. ↗ 1.01

Daimler share price gains significantly over the year. Automotive stocks made a very strong start to the year 2012. Our shares profited at the beginning of the year from the anticipated continuation of the positive unit-sales trend from record year 2011, from the prospects of strong business in China and from the dividend increase to €2.20 per share. Daimler's share price peaked for the year at €48.45 on March 15. After that, the aforementioned weakening of stock markets had a disproportionately strong impact on prices of cyclical stocks such as Daimler's, so our shares fell significantly until late June. During this phase, our share price reached its low for the year of €33.40 on June 26. In the following six weeks, however, Daimler's share price increased again significantly and reached a new interim high of €42.17 on August 21, before fears of weakening automobile markets along with our reduced earnings guidance for 2012 and lower expected earnings for 2013 led to gradual price falls. In the last two trading months of the year, our share price was very volatile but profited from the general upward movement of stock markets and closed the year on December 28 at €41.32. Daimler's market capitalization at the end of the year was €44.1 billion.

Daimler's share price thus gained 22% over the full year, which is a weaker performance than the Dow Jones STOXX Auto Index (+36%) and the DAX (+29%). Including the distribution of a dividend of €2.20 per share, our shareholders had an increase in value of 28%.

In the first several weeks of the year 2013, Daimler's share price again climbed significantly.

Dividend of €2.20. ↗ 1.02 The Board of Management and the Supervisory Board will propose to the Annual Shareholders' Meeting to be held on April 10, 2013 that a dividend of €2.20 per share be distributed (prior year: €2.20). The total dividend payout will thus amount to €2,349 million (prior year: €2,346 million).

Broad shareholder structure. ↗ 1.07 Daimler continues to have a broad shareholder base of approximately 1.0 million shareholders. The number of shareholders remained stable compared with 2011. The Kuwait Investment Authority gradually increased its shareholding in Daimler AG from 6.9% to 7.6% during the year under review. The Renault-Nissan Alliance continues to hold 3.1% of Daimler's stock.

Aabar Investments PJS, Abu Dhabi, (Aabar) informed us in October 2012 that its shareholding had fallen below the 3% notification threshold as stipulated by the German Securities Trading Act (WpHG).

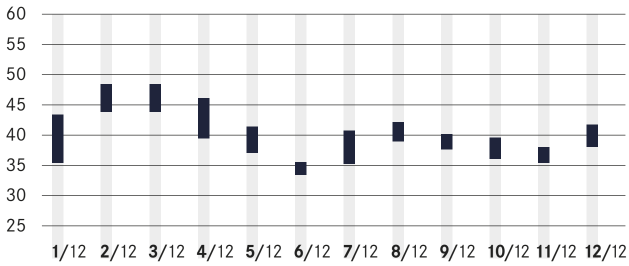
BlackRock Inc., New York, which informed us in August 2011 that it held 5.7% of our shares, is still above the 5% notification threshold as stipulated by the German Securities Trading Act (WpHG).

During the year 2012, we received several voting-rights notifications from subsidiaries of BlackRock Inc., each of whose Daimler shares are part of the total investment of BlackRock Inc. According to the most recent notifications in May 2012, the voting rights held by BlackRock Holdco 2 Inc. and by BlackRock Financial Management Inc. exceeded the notification threshold of 5% on May 4, 2012 and amounted to 5.3% as of that date. The Daimler shares held by BlackRock International Holdings Inc. and BR Jersey International Holdings L.P. exceeded the notification threshold of 3% on May 4, 2012 and amounted to 3.30%, and the Daimler shares held by BlackRock Group Limited exceeded the notification threshold of 3% and amounted to 3.13% as of that date.

1.03

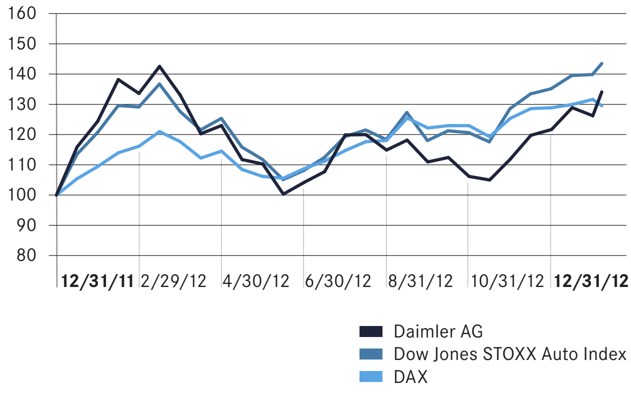
Daimler share price (high/low), 2012

In euros



1.04

Share price index



1.05
Key figures for Daimler shares

	End of 2012	End of 2011	12/11 % change
Share capital (in millions of euros)	3,063	3,060	+0
Number of shares (in millions)	1,067.6	1,066.3	+0
thereof treasury shares	0	0	0
Market capitalization (in billions of euros)	44.1	36.2	+22
Number of shareholders (in millions)	1.0	1.0	0
Weighting in share indices			
DAX 30	6.16%	5.93%	
Dow Jones Euro STOXX 50	2.58%	2.26%	
Long-term credit ratings			
Standard & Poor's	A-	BBB+	
Moody's	A3	A3	
Fitch	A-	A-	
DBRS	A (low)	A (low)	

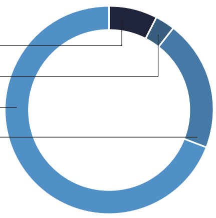
1.06
Stock-exchange data for Daimler shares

ISIN	DE0007100000
German securities identification number	710000
Stock-exchange symbol	DAI
Reuters ticker symbol	DAIGn.DE
Bloomberg ticker symbol	DAI:GR

1.07
Shareholder structure as of December 31, 2012

By type of shareholder

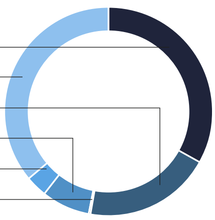
Kuwait Investment Authority	7.6%
Renault-Nissan	3.1%
Institutional investors	69.1%
Retail investors	20.2%



1.08
Shareholder structure as of December 31, 2012

By region

Germany	33.3%
Europe, excluding Germany	35.9%
USA	19.5%
Kuwait	7.6%
Asia	3.3%
Rest of the world	0.4%



The Norwegian central bank, Norges Bank, Oslo, informed us in September 2012 that it had exceeded the 3% notification threshold as defined by Section 21 of the WpHG and that its Daimler voting rights amounted to 3.03% as of September 17, 2012.

The shares held by Capital Research and Management Company, Los Angeles are no longer above the 3% notification threshold stipulated by the WpHG. This company informed us in August 2012 that its shareholding had decreased to 2.98%.

On February 1, 2012, an amendment to the German Securities Trading Act (WpHG) took effect, extending the notification obligations of investors upon reaching, exceeding or falling below statutory notification thresholds for significant percentages of voting rights to other (financial) instruments. These extended disclosure obligations led to additional notifications in the year under review, which we have published on the Internet at daimler.com/investor-relations/daimler-shares/shareholder-structure

In total, institutional investors hold 69% of our share capital and private investors hold 20%. Approximately 69% of our equity is in the hands of European investors and approximately 20% is held by US investors. ↗ 1.08

The weighting of Daimler shares in major indices increased slightly during 2012 due to the increase in the free float. In the German DAX 30 index, our stock was ranked in sixth position with a weighting of 6.16% at the end of the year (end of 2011: 5.93%). ↗ 1.05 In the Dow Jones Euro STOXX 50, Daimler shares were represented with a weighting of 2.58% (end of 2011: 2.26%). Daimler shares are listed in Frankfurt and Stuttgart. Stock-exchange trading in Germany in the year 2012 amounted to 1,421 million shares (2011: 1,728 million). In addition, Daimler shares are increasingly traded on multilateral trading platforms and in the over-the-counter market.

Good participation in employee share program. In March 2012, eligible members of the workforce were once again able to acquire employee shares. As in the prior year, a price incentive and bonus shares were offered. The participation rate of 17.3% was similar to the good rate in 2011 (19%). The number of participants decreased slightly to 29,900 employees who acquired a total of 534,000 shares (2011: 32,200 employees acquired 610,300 shares).

Large number of visitors to Annual Shareholders' Meeting. Our Annual Shareholders' Meeting at the International Congress Center (ICC) in Berlin on April 4, 2012 was attended by approximately 5,700 shareholders (2011: 5,100). With 44.1% of the share capital represented at the Annual Meeting, shareholder representation (attendance plus absentee votes) was higher than in the prior year (43.3%). In voting on the items of the agenda, the shareholders adopted the recommendations of the management with large majorities. Dr. Clemens Börsig was reelected to the Supervisory Board for a further five years. The shareholders are able to exercise their voting rights at the Annual Meeting either in person or through a proxy of their own choice or through a proxy appointed by Daimler who is bound by their voting instructions. For the Annual Shareholders' Meeting in 2012, we once again offered the possibility of absentee voting. All documents and information on the Annual Meeting are available at daimler.com/ir/am. Daimler utilized the exhibition space at the ICC to demonstrate to the shareholders the Group's technological expertise and broad spectrum of products, with a focus on the new vehicles in the compact-car segment. The shareholders made good use of this interesting opportunity.

Comprehensive investor relations activities once again. In the year 2012, the Investor Relations department once again provided timely information on the development of the Group to institutional investors, analysts, rating agencies and private investors. Our communication activities for institutional investors and analysts included roadshows in the major financial centers of Europe, North America, Asia and Australia, as well as large numbers of one-on-one meetings. These took place in the context of investor conferences, in particular during the international motor shows in Geneva and Paris. We regularly reported on our quarterly results via conference calls and Internet broadcasts. The presentations can be seen on our website at daimler.com/ir/event/e.

The focus of discussions with analysts and investors was on current earnings expectations for the year 2012, as well as business developments and profitability in the various divisions and regions. For the first time, we additionally carried out three roadshows, featuring speeches and individual discussions with sustainability-oriented investors.

Additional attractive events were two capital-market days. In late March, the Board of Management presented the strategies, main thrusts and key goals of the Mercedes-Benz Cars division on the occasion of opening our new car plant in Kecskemét, Hungary. In late June, the management team of Daimler Trucks provided information on that division's strategies, main thrusts and goals in the various regions at the truck plant in Mannheim. Audio recordings and presentation slides of the events can be accessed on our Internet website at Investor Relations – Presentations & Events. In Beijing, Daimler participated in two investor conferences in June and November, and explained its strategy and position in the important Chinese market.

Internet presence established on many channels. The broad range of information provided by our Internet website is reaching more and more people. In addition to the established addresses, daimler.com and daimler.mobi, Daimler has further intensified its social-media activities. Besides current information on the Group, our brands and products, technologies and innovations, starting in 2012, the Daimler app offers iPhone® and iPad® users comprehensive and up-to-date information from the area of investor relations.

Daimler received some coveted awards for its online Annual Report 2011. This report under the motto of "Innovation and Growth" was for the first time also published as a touch-optimized tablet version – a new approach in the digital financial reporting of German DAX companies.

Number of online shareholders remains at a high level. Our electronic information and communication service was as popular as ever: Approximately 86,000 shareholders chose to receive their invitations to the Annual Meeting by e-mail instead of by post in 2012. We thank them for helping us to protect the environment and reduce costs. As in previous years, we held a lottery amongst the participants with attractive prizes for the winners. Access and further information on the e-service for shareholders can be found on our website at https://register.daimler.com.

A for…

On the way to the top, Daimler is systematically utilizing all of its options. The A stands not only for the exciting new A-Class from Mercedes-Benz and for the Actros and Antos trucks, but also for our global strategy. By offering outstanding products, pioneering technologies, and innovative mobility services, we are enhancing our leading position worldwide. In markets such as Asia and the Americas, we aim to continue growing. As an appealing employer, we want to attract the most talented employees and offer them excellent training and comprehensive career opportunities. Our unshakable basic principles are founded on financial returns and integrity alike. We are convinced that by complying with these principles, we are acting in the interests of our shareholders. We intend to take the lead wherever we enter the field.

Attack

Daimler's offensive in the compact segment is speeding up. After the successful launch of the new B-Class, we're upping the pace. With the launch of the young, progressive and sporty A-Class, we're increasing the dynamism of the Mercedes-Benz premium brand. The breathtaking CLA four-door coupe is also already winning the hearts of our customers. We're in tune with the beat of a new generation.

The new A-Class.

The characteristic taillights and the LED "torch" in the main headlights are just two of the intriguing details. You can see additional highlights of the new A-Class here:

a-class.mercedes-benz.com/
com/en/

With its sporty and expressive front and dramatic tapering, the Mercedes-Benz A-Class is the exciting new face in the crowd.

The new A-Class is a clear statement about the dynamism of Mercedes-Benz. Completely new down to the last detail, it's setting the benchmarks for design and technology in its segment.

The rear of the model also displays expressive design combined with outstanding aerodynamics. For example, the tail lights emphasize the model's width, while also improving the streamlining.

The unique sculptural quality of the new A-Class can be seen in its characteristic lines, well-defined edges, and taut surfaces. These fascinating shapes were initially handmade in clay.

With the new A-Class from Mercedes-Benz, Daimler is mounting an attack in the fiercely contested compact-car segment. The new compact model hugs the road 160 mm lower than its predecessor and boasts many other new aspects as well. For example, the expressive design, sophisticated equipment, and unique handling properties embody the emotional personality of the young vehicle generation with the Mercedes star. The new A-Class is an authentic Mercedes-Benz – with a compact design and tremendous potential to take new markets and customers by storm.

Automobile designers don't often get the chance to start afresh with a blank page. But the designers and engineers from Daimler had this opportunity and used it impressively. With the new A-Class, Mercedes-Benz is revitalizing the model range in ways that can be seen and felt. The radical design vocabulary that was presented in the Concept A-CLASS has been systematically implemented in a series-produced vehicle. As a result, this compact sports car boasts the most progressive design in its class.

Perfect aesthetics and functionality. The leap into a new era is also evident in the interior of the A-Class. The innovative design, sporty details and high-quality materials demonstrate that the new compact car is a premium automobile.

A leader in safety and lifestyle. As a bona fide Mercedes-Benz, the new A-Class offers a wealth of assistance systems that are otherwise found only in the premium class. These standard-equipment features include the radar-supported COLLISION PREVENTION ASSIST and the blind-spot assistant. Optional equipment includes the PRE-SAFE® occupant protection system. Thanks to its multimedia system and the integration of the iPhone into the vehicle, the new A-Class is becoming a home on wheels for the Facebook generation. see pages 38 ff

“In addition to the SLS super sports car, nature was a very important source of inspiration during the initial design phase. The way the wind shapes sand dunes into sculptures, for example – it's fantastic.”

Mark Fetherston, designer of the A-Class.
He previously also helped to design the SLS AMG.

The new A-Class is a real eyecatcher. This compact sports car is the right product at the right time – and it's already making a big splash in the market.

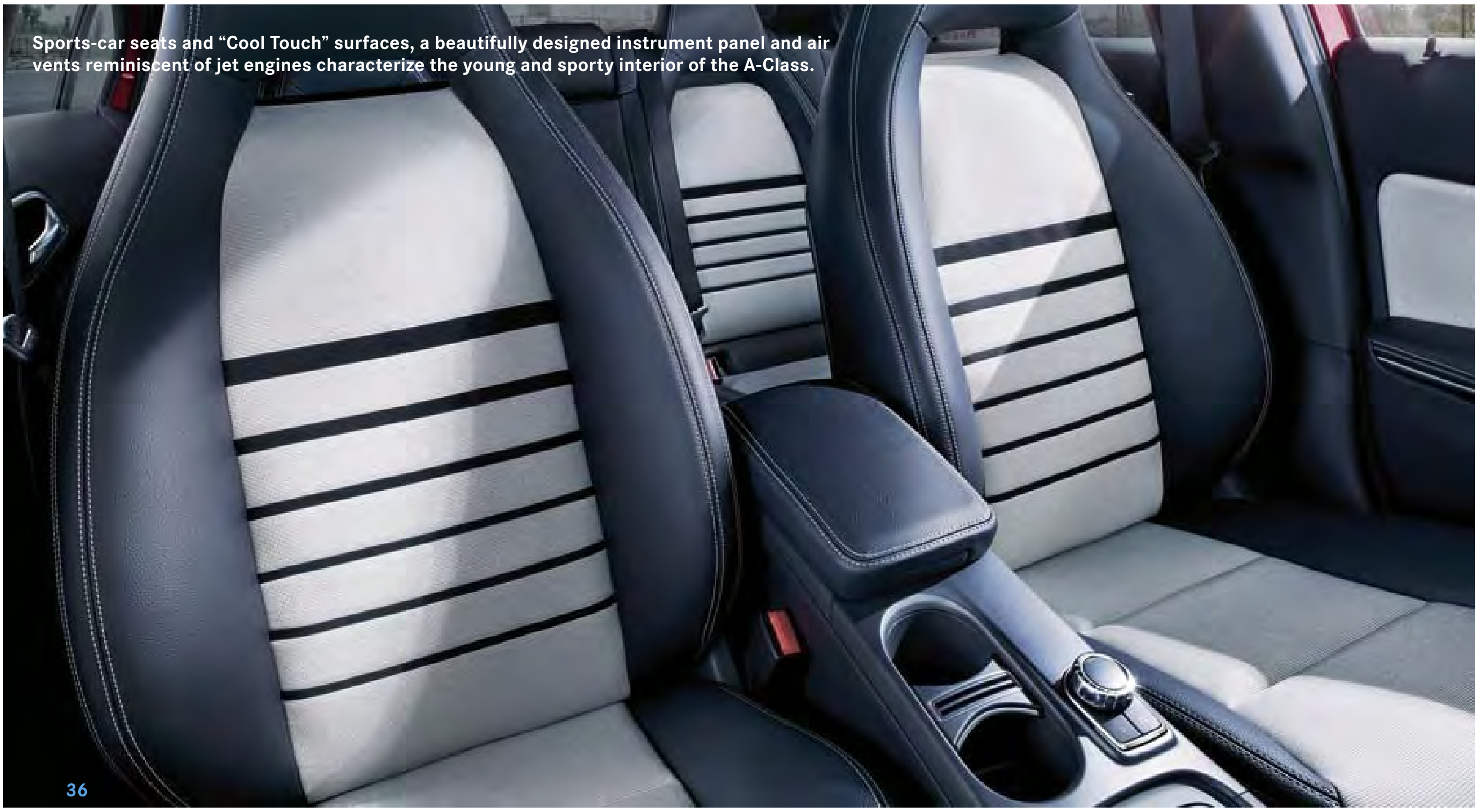
The best or nothing: Thanks to its unique emotional appeal, the A-Class is rapidly acquiring more and more admirers. In particular, this small Mercedes-Benz is thrilling new young customers. It is fulfilling their desire for sporty yet elegant driving pleasure by offering a broad range of engines, a dynamic handling package, and two sports models with top-performance engines. The A-Class chassis effortlessly delivers maximum agility and the sense of security that is typical of the brand.

Like every new Mercedes-Benz, the A-Class defines new technical benchmarks in its segment. It combines pure driving pleasure with exemplary efficiency and safety. With up to 28% lower fuel consumption, low emission values starting at 92 grams of CO_2 per kilometer, its best-in-class cd values starting at 0.26, and compliance with the EURO 6 emissions standard for all of its gasoline engines, the A-Class gets top marks for environmental friendliness. see pages 164 f

A car as fascinating as this creates its own economic boom. Even before the official start of sales, readers of Auto Bild magazine named the new A-Class "Germany's most beautiful car." The model's market launch was also outstanding. The A-Class effortlessly collected additional German and international awards, such as the "Yellow Angel 2013" prize from the ADAC, which is presented to Germany's favorite car. In order to keep up with the enormous demand, the Mercedes-Benz plant in Rastatt has hired 500 additional employees working in three shifts to produce the new model. We are creating additional capacity for A-Class production by commissioning the Finnish production specialist Valmet.

"If you were to get into the new A-Class with your eyes shut and then open them, you'd never think you were sitting in a compact car."

Jan Kaul, designer of the A-Class interior, Sindelfingen



Sports-car seats and "Cool Touch" surfaces, a beautifully designed instrument panel and air vents reminiscent of jet engines characterize the young and sporty interior of the A-Class.

The next star in the compact-car segment is eagerly awaited. The avant-garde four-door coupe from Mercedes-Benz, the CLA, will celebrate its market launch in spring 2013.

Always on

Mobile and online.

Daimler has ushered in a new era of vehicle connectivity by becoming the world's first automaker to completely integrate the iPhone into its cars. Drivers can now continue their digital lifestyles while on the move with a feature that appeals not only to the Facebook generation. Online services in networked vehicles are also making our car2go mobility concept and electric mobility more efficient and convenient. We are shaping the future of digital driving culture.

Daimler, the inventor of the automobile, is also a pioneer when it comes to vehicle networking. Telematics and infotainment systems are integrating the digital lifestyle into the driving experience.

The networked world allows greater flexibility and freedom. As an automotive pioneer, Daimler utilizes the tremendous innovation potential at the interface between communication and mobility.

Automobiles are increasingly being transformed into intelligent digital companions that not only provide support – both immediate and anticipatory – but also link drivers with their social networks and surrounding environments. This so-called digital drivestyle is made possible by the Internet, mobile terminals, and innovative telematics systems and apps from Mercedes-Benz.

Just as a smartphone can be far more than a communication device, a smart car can be much more than just a means of transportation. For example, Mercedes-Benz apps enable drivers to safely and conveniently access multimedia content such as music, news, weather reports, stock prices, and Facebook and Google websites while on the move. The telematics systems from Mercedes-Benz provide the associated data.

With mbrace2, Mercedes-Benz drivers in the United States now have access to the latest generation of telematics systems. mbrace2 users can post information, conduct online research and establish remote contact with their vehicles via a smartphone or PC. As a result, they can, for example, determine a car's location, call up vehicle service data or transmit route plans. Mercedes-Benz vehicles in Europe are connected to the digital world by the COMAND multimedia system, which includes an Internet browser as well as audio, telephone and navigation functions.

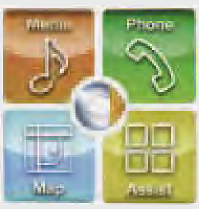
Mercedes-Benz creates an iPhone on wheels. With the advent of the Digital DriveStyle app and the Drive Kit Plus system, Mercedes-Benz has become the world's first automaker to consistently integrate iPhones into its vehicles. The system gives drivers access to all the content in their iPhone and to additional online services. This innovation celebrated its world premiere in the new Mercedes-Benz A-Class and will be gradually spreading the digital lifestyle to all of our other vehicles.

Optimal travel from point A to point B with new forms of mobility. Daimler is shaping tomorrow's mobility with a range of increasingly networked innovative mobility services that offer a high level of customer utility. A key component here is the pioneering moovel mobility platform, which was launched in Berlin and Stuttgart in 2012 and will be further expanded in 2013. moovel collects and displays private and public mobility options in a neutral manner. It can be accessed via the moovel smartphone app or at moovel's mobile website.

Daimler's vehicles and mobility concepts are becoming an intelligent component of the global flow of digital information. The market-leading car2go mobility concept developed by Daimler is being consistently expanded. Thanks to new partnerships, it is now possible to book not only car2go smart cars but also taxis via the car2go app. see pages 59 f

car2go.com/en/washingtondc

moovel.com/en

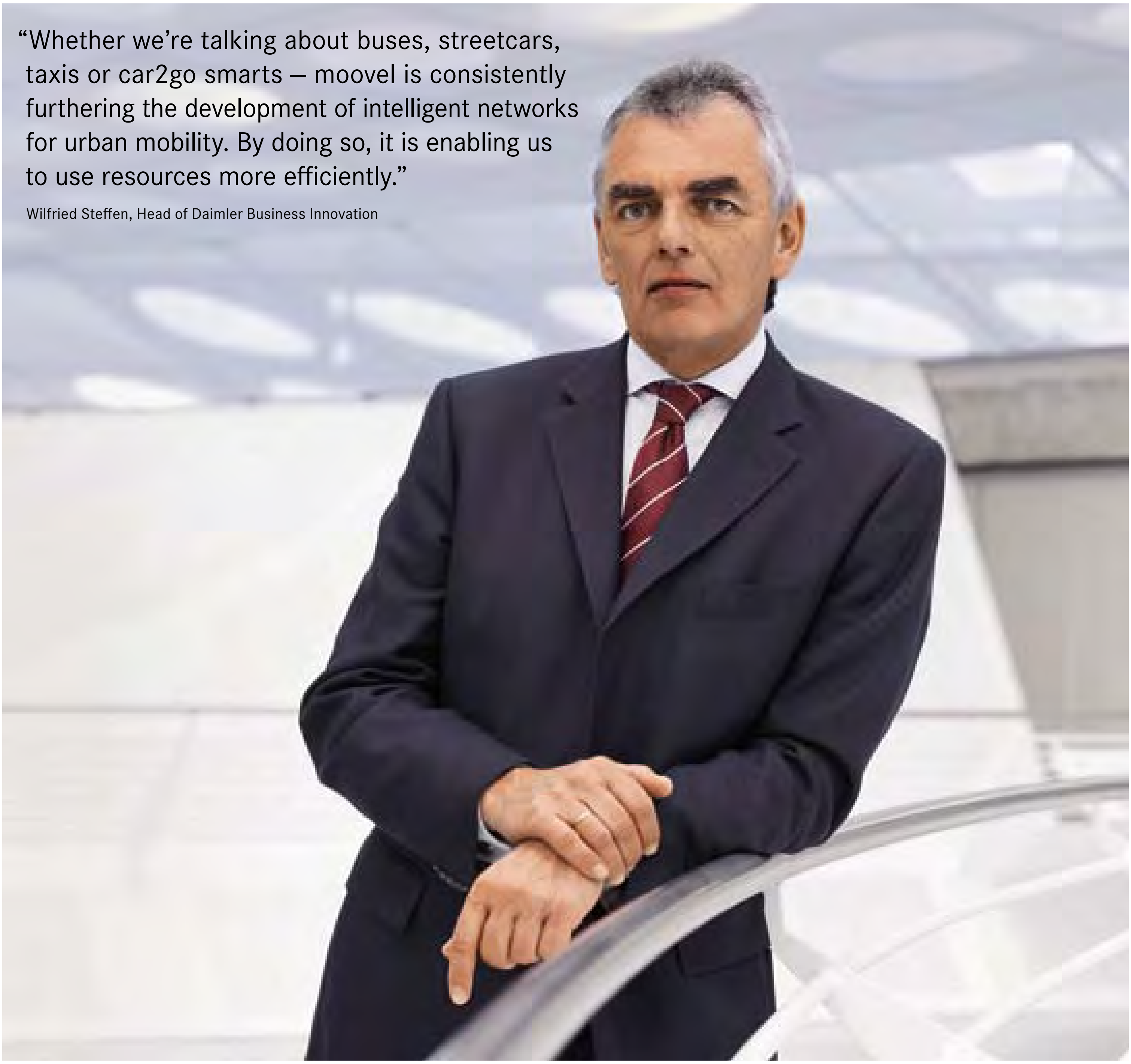


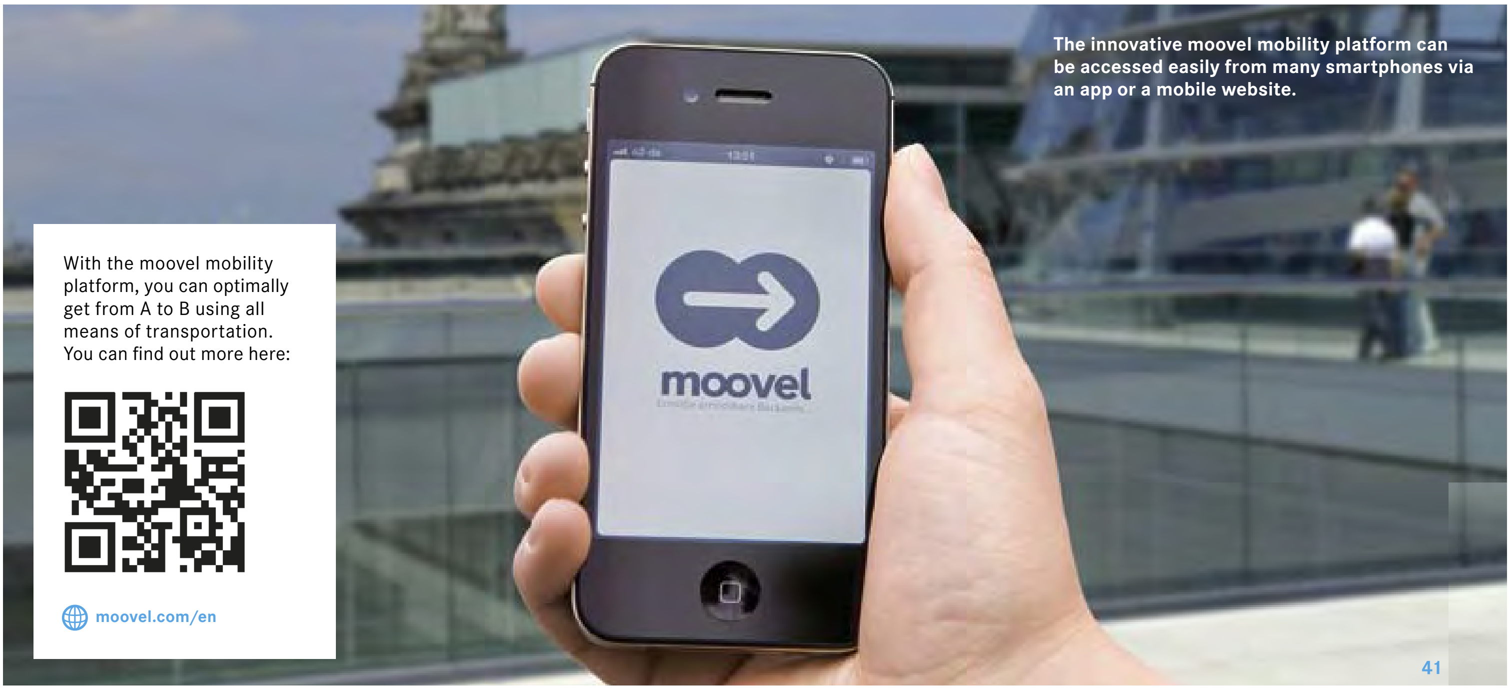
Connected services: more fun with electric driving.
The smart drive app transforms iPhones into multimedia onboard computers. The app has been given additional specialized functions for use in the smart fortwo electric drive. The new features enable users to continually monitor their vehicle's battery charge while in the vehicle or at home from their PC. The app shows destinations that are still in range and the locations of public charging stations. It can also display an interactive 3D map via its vehicle website feature.

Mobility made easy: car2go had 270,000 satisfied customers in 18 European and North American cities at the end of 2012. car2go vehicles can be booked conveniently with a smartphone.

“Whether we’re talking about buses, streetcars, taxis or car2go smarts – moovel is consistently furthering the development of intelligent networks for urban mobility. By doing so, it is enabling us to use resources more efficiently.”

Wilfried Steffen, Head of Daimler Business Innovation





The innovative moovel mobility platform can be accessed easily from many smartphones via an app or a mobile website.

With the moovel mobility platform, you can optimally get from A to B using all means of transportation. You can find out more here:

moovel.com/en

Daimler Trucks is performing extremely well also in international markets. Trucks from our Freightliner brand in the United States maintain their dominant position on American highways. The Fuso Canter Eco Hybrid, which is the leading green commercial vehicle, recently celebrated its European premiere. The new Actros has also made a powerful impression from the start as a forward-looking heavy-duty truck that boasts the lowest fuel consumption in its class. The success story is now being continued at Mercedes-Benz with the Antos – a completely new truck series for heavy-duty distribution transportation. We deliver innovations that make a difference.

Antos Actros

Heavy-duty success.

The new Antos and Actros from Mercedes-Benz were real eye-catchers at the 2012 IAA Commercial Vehicles show. Learn more about Daimler Trucks' product offensive here:

www5.mercedes-benz.com/en/vehicles/trucks/

Antos

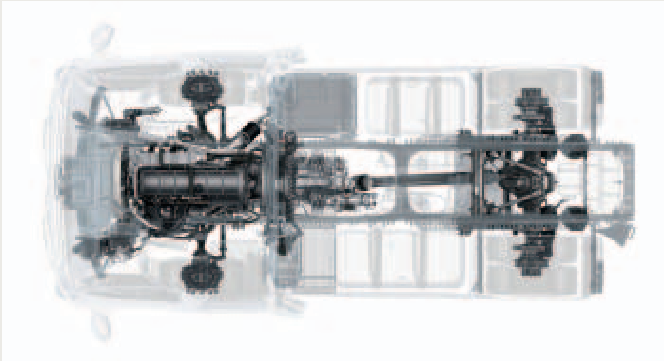
The Antos cab is available in three versions, all of which make a big impression with comfortable entry and outstanding ergonomics and interior arrangements.

The new Mercedes-Benz Antos is the first specialist for heavy-duty distribution transportation. With the Antos, Daimler Trucks is once again setting the pace with truck solutions for specific needs.

Like the world's most successful heavy-duty truck – the Mercedes-Benz Actros – the new Antos is in a class of its own. This truck makes Mercedes-Benz the first manufacturer to specifically address the needs of the heavy-duty distribution transportation sector. This sector requires easy-to-operate, economical and low-emission vehicles that have a clear layout and can be equipped with a wide range of engines for various terrains and payloads.

A new name, a new face, a new truck: Daimler Trucks is underscoring its innovative prowess with the launch of the world's first-ever heavy-duty distribution transportation truck. The new Mercedes-Benz Antos boasts an extensive range of models that are tailored to specific applications and the various requirements of businesses and drivers. The truck already has the future on board in the form of its ultramodern, economical and consistently environmentally friendly range of BlueTec engines, all of which comply with the stringent Euro VI emission limits.

Eight becomes three. A standardized and efficient truck engine range.
Daimler Trucks is relying on its Global Excellence program to further consolidate its position as the world's Number 1 manufacturer of commercial vehicles. One element of this program is the cross-brand modular design of powertrains and parts. This new design has reduced the number of engine platforms of Mercedes-Benz, Fuso and Detroit from eight to three without altering any of the typical brand characteristics.
The new engines set standards in their segments through uncompromising environmental compatibility, economy and performance. They are also adapted to fulfill regional emission and fuel consumption regulations – strengths that are exploited by the Antos and the Actros as well.



The premium dashboard in the new Antos, which has already proved itself in the new Actros, has an arched design that offers greater driver comfort.

The pioneering technology in Predictive Powertrain Control system of the new Actros helps conserve fuel and can be easily operated by drivers.

"Predictive Powertrain Control fully utilizes its knowledge of the road ahead in hilly terrain, thereby helping vehicle operators achieve the most economical driving style possible."

Mathias Beismann, professional driving trainer at Mercedes-Benz

Actros

Exemplary truck technologies that are ready for everyday use.

Across the board, the Actros and the Antos are leading the way in terms of economy, safety and comfort.

Thanks to its Actros and Antos truck models, Mercedes-Benz is well prepared for the future. True to the brand motto of “Trucks you can trust,” both vehicles are equipped with innovative and reliable technology. In typical brand fashion, the Antos features all the safety and assistance systems customers are familiar with from the Actros, including Lane Keeping Assist and the latest generation of Active Brake Assist 3.

Sophisticated comfort features such as an automated transmission, easy-to-operate instruments and a premium dashboard make life easier for Actros and Antos drivers.

In tune with the times: The vehicles built by Daimler Trucks meet the highest market demands and are now defining the future of road freight transport. As a capital investment, the new trucks fulfill the most stringent demands for economical operation and environmental protection.

Thanks to their clean Euro VI-compliant BlueTec engines, the Actros and the Antos are eligible for reduced road tolls and for operation in low-emission zones. Besides featuring low emissions, the trucks boast great fuel efficiency. Outstanding aerodynamics lead to additional fuel savings, as does the optional Predictive Powertrain Control (PPC) system.

The Mercedes-Benz heavy-duty truck family will welcome a new member in 2013 with the launch of the Mercedes-Benz Arocs construction truck.

trucks.mercedes-benz.com/new-actros/index.en.html

Predictive Powertrain Control (PPC) — fuel-saving cruise control that “sees ahead.”

The innovative Predictive Powertrain Control (standard in the new Mercedes-Benz Actros and optional in the Antos) reduces fuel consumption by a further three percent. The satellite-assisted system monitors the vehicle and the road ahead, including all uphill and downhill grades. The intelligent cruise control can therefore adjust speed and gear-shifting times in advance. In other words, it exploits the fuel-saving potential of the new Actros down to the last drop.

Assistance systems

Safe? Absolutely!

As a pioneer of safety technology, Daimler is on the “Road to Accident-free Driving” and is pointing the way forward with groundbreaking developments and patents. We aim to make the future of mobility as safe as possible for people on the move around the globe. As well as offering relief and support to drivers, Mercedes-Benz assistance systems protect drivers and pedestrians alike. Such systems have been available in the S-Class for quite some time. Now they are also included in the new E-Class and the new compact-car models from Mercedes-Benz. We set standards for safety.

Not only in the new S-Class, but also in the new Mercedes-Benz E-Class, various new or optimized assistance systems will already be included. One such system is the new Traffic Sign Assist feature, which can recognize "No Entry" signs and issue visual and acoustic warnings to prevent dangerous wrong-way driving.

"6D Vision is a milestone. The sensors detect activity in their surroundings much faster than people can. This technology will definitely lead to greater safety on the road."

Dr. Uwe Franke, Dr. Stefan Gehring, and Dr. Clemens Rabe from the Daimler Research and Advance Development for Assistance Systems and Chassis Systems

Mercedes-Benz “Intelligent Drive” takes driving to a new dimension. The goal is to provide all-round protection to vehicle occupants and other road users.

Spurred by its “Vision of Accident-free Driving,” Mercedes-Benz is continually improving the capabilities of its driver assistance systems. Numerous systems with new and expanded features are now serving as active partners that can assist drivers in an increasing number of situations. These assistance systems use state-of-the-art sensor technology to continually monitor the area around the vehicle and, if necessary, support drivers in line with the current traffic situation.

The new systems are setting standards in the automotive industry and consistently build on the holistic approach adopted by Mercedes-Benz safety researchers. Mercedes-Benz has combined these intelligent assistance systems of the future in its Intelligent Drive concept, whose fundamental components are a stereo camera and an algorithm developed by Mercedes-Benz. In addition to detecting moving objects such as pedestrians and other vehicles, the camera records complex traffic situations. A closely linked network of sensors and systems not only lends the vehicle “eyes,” but also gives it a 360-degree view. This groundbreaking safety technology was nominated for the German Future Prize in 2011; it also received the 2012 Karl Heinz Beckurts Award. Along with other innovative safety, assistance and lighting systems, this 6D technology will become standard equipment in the new Mercedes-Benz S-Class in 2013. Several of these innovations will soon be on the road in the new E-Class.

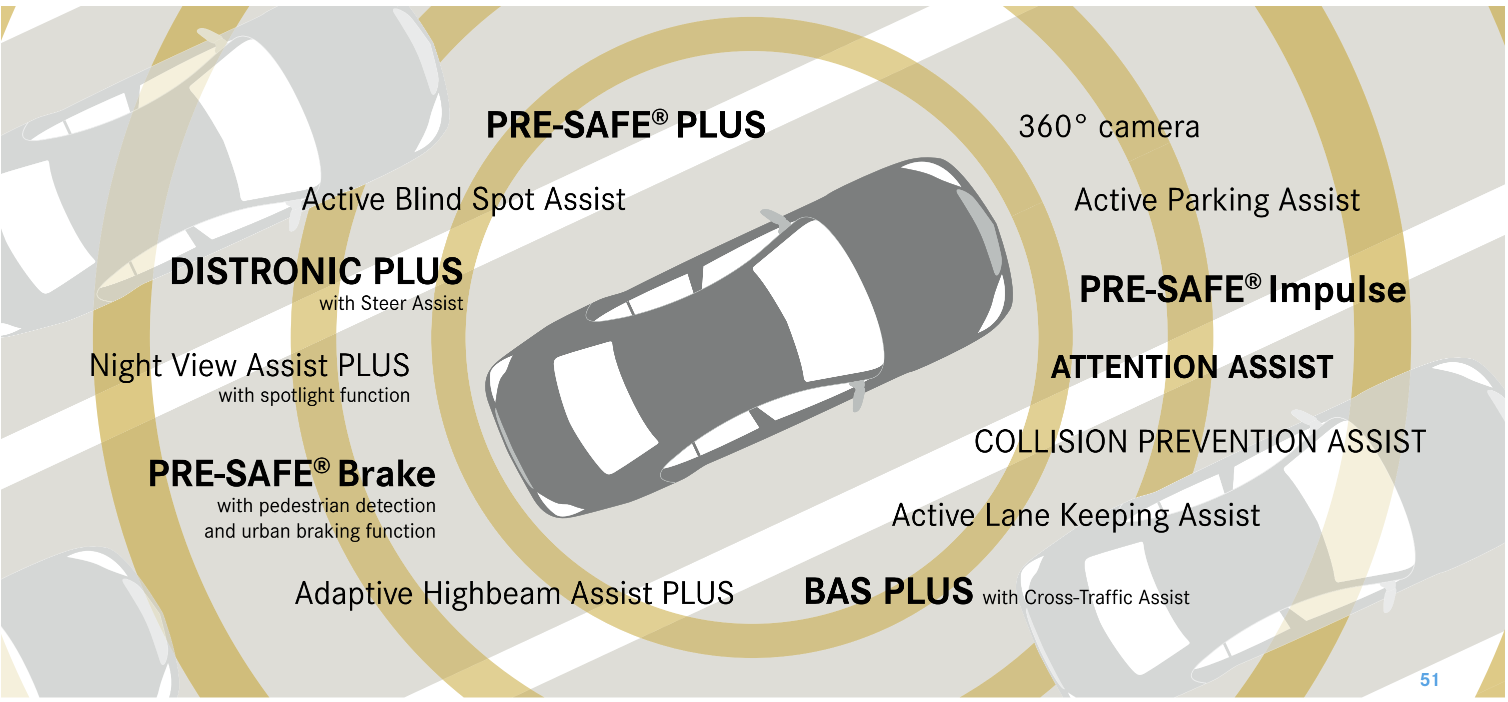
daimler-technicity.de/en/6d-vision-team

e-class.mercedes-benz.com/com/en

Mercedes-Benz “Intelligent Drive”: Assistance systems for noticeably enhanced comfort and safety.

Our driver-support features cover a wide spectrum. They include systems for reducing stress, enhancing comfort and improving drivers’ reactions, as well as visual, acoustic, and tactile alarms. Some of the systems can even intervene autonomously to correct driver mistakes if necessary.

- DISTRONIC PLUS with Steer Assist helps keep drivers in their lane and can automatically follow a vehicle in front in slow-moving traffic.
- BAS PLUS with Cross-Traffic Assist is now capable of detecting traffic at intersections and also recognizes pedestrians. If necessary, it can boost the braking force applied by the driver.
- PRE-SAFE® brakes can detect pedestrians and initiate a braking maneuver autonomously in order to prevent a collision at speeds of up to 50 km/h.
- For the first time, PRE-SAFE® PLUS can now trigger PRE-SAFE® occupant protection measures when a rear-end collision is imminent.
- PRE-SAFE® Impulse can reduce the risk and severity of injuries to drivers and front-seat passengers in a frontal collision.
- Active Lane Keeping Assist detects oncoming traffic and automobiles in the adjacent lane, and can prevent the vehicle from leaving its lane unintentionally.
- Adaptive Highbeam Assist PLUS makes it possible to keep high-beams on permanently without blinding the drivers of oncoming vehicles.
- Night View Assist PLUS can warn drivers of the presence of pedestrians or animals in unlit areas. The systems can also flash a spotlight at the pedestrians it detects.
- ATTENTION ASSIST can alert drivers to their own inattentiveness and drowsiness in an extended speed range of 60–200 km/h. For the first time, the system’s level of sensitivity can now be adjusted in line with the driver’s condition.



Alliances

Joining forces.

By cooperating with strong partners, Daimler will continue to safeguard its worldwide access to promising growth markets. We pool technological know-how in cooperative projects and close partnerships. And through joint development activities, we gain valuable cost advantages and a head start on innovations. In this way, we are putting the mobility of the future on the road even faster. We gain strength by joining forces with others.

Bringing future-oriented technologies to the market faster. Daimler is forging ahead with the reinvention of the automobile. In order to make its vehicles even cleaner and safer, the company is cooperating with partners to develop and introduce new technologies. Together with its cooperation partners, Daimler pools pioneering vehicle development know-how and thus reaches its goals more quickly. In addition, the necessary production volumes are reached faster in order to make future-oriented technologies available to as many drivers as possible.

Exploiting growth potential efficiently. In order to take optimal advantage of opportunities in new markets and segments, Daimler relies on cooperation with partners that are already well-established in their respective fields. These partners' local experience and their access to attractive new markets are valuable for Daimler. In some countries, national requirements allow Daimler to produce or sell vehicles only in cooperation with a local partner.

Optimal planning of costs and investments. In view of ever shorter product lifecycles and higher levels of investment, cooperative partnerships are becoming increasingly important. Through joint development and production activities, Daimler is taking advantage of valuable economies of scale and the possibility of sharing costs. By working together with its cooperation partners, the company can distribute its investments over larger production volumes. It can also save on operating costs. Some projects – for example in the compact segment or in relation to downsized engines – become financially feasible for Daimler only through cooperation partners with high production volumes.

The Citan urban delivery vehicle was created jointly with Renault – and it's a genuine Mercedes-Benz. Find out more about the Citan here:

citanvan.co.uk

The first milestones of our successful partnerships are already on the road. Daimler will continue to be open to cooperation opportunities involving pioneering vehicles and technologies.

Together, Mercedes-Benz Cars and Renault-Nissan are exploiting the potential of the European market. The first success of this partnership is the Mercedes-Benz Citan city van. It will be followed by further joint projects, such as the successor models of the smart and the development of fuel-efficient engines for the new compact models. One example of the latter is a four-cylinder diesel engine for the new A-Class from Mercedes-Benz. Because this strategic alliance offers even greater potential savings than was initially assumed, Daimler will expand this successful cooperation in the coming years.

In Russia, Daimler Trucks and Kamaz are opening up one of the biggest truck markets of the future. Daimler's partner Kamaz is the Russian market leader in the heavy-duty truck segment and has outstanding know-how and a well-established sales network. Daimler and Kamaz have established two 50:50 joint ventures for the production and sale of trucks in Russia: Fuso Kamaz Trucks Rus and Mercedes-Benz Trucks Vostok. The plant in Naberezhnye Chelny produces the Fuso Canter and the Mercedes-Benz Actros, Axor, and Atego trucks. It also makes the Mercedes-Benz Unimog from assembly kits. In addition, Daimler Trucks supplies engines and axles for Kamaz trucks and buses. This sharing of technology and sales experience is opening up new perspectives for Daimler in the Russian market. A further step will involve a component truck from Kamaz that uses cabs, engines and axles from the Mercedes-Benz modular system.

Mercedes-Benz Cars and BAIC are jointly building cars for the Chinese market. Beijing Benz Automotive Co. (BBAC), a joint venture of Daimler and the Beijing Automotive Group (BAIC), is producing the E-Class, the C-Class and the GLK in Beijing. Starting in 2014, it will produce one of the new compact cars models for the Chinese market. In a shared new engine plant, it will also build four-cylinder gasoline engines starting in 2013. The construction of a research and development center in China is now in full swing.

Daimler Trucks and Foton are successful in the Chinese truck market. Through the 50:50 joint venture Beijing Foton Daimler Automotive (BFDA), Daimler Trucks is participating in the market for medium-duty and heavy-duty trucks in China. Furthermore, BFDA plans to set up an engine plant. In addition to contributing production facilities and the sales and service network, the truck producer Foton is contributing its knowledge of the Chinese and Asian markets to the joint venture.

"Daimler plans to sell approximately 300,000 cars in China in 2015. We want to produce two thirds of them in China jointly with our partner BAIC."

Frank Deiss, President & CEO
Beijing Benz Automotive Co., Ltd. (BBAC), Beijing

Europe

The Citan is the youngest member of the Mercedes-Benz van family – and the first vehicle to result from the strategic partnership of Daimler and Renault-Nissan. With this city van, Mercedes-Benz is entering new and traditional markets alike.

Russia

At the end of 2011, Kamaz presented the first Kamaz truck with Mercedes-Benz components to the public. The new truck, which is optimally adapted to Russian requirements, will be produced at the Kamaz plant in Naberezhnye Chelny starting in 2013. To this end, Mercedes-Benz will supply Kamaz with cab components, engines and axles. Together with GAZ, we will also build vans in Russia as of 2013.

China

The first Auman truck produced by the joint venture Beijing Foton Daimler Automotive (BFDA) rolled off the assembly line in July 2012. BFDA has its headquarters in Beijing's Huairou district.

Alongside local car production, the joint manufacture of engines by Beijing Benz Automotive Co. (BBAC) will start in Beijing in 2013. The first locally produced compact cars from Mercedes-Benz will roll off the assembly line in 2014.

All inclusive

DFS financial products and the innovative car2go mobility concept are popular with customers all over the world. More information on Daimler's successful mobility concept is available here:

car2go.com/en/washingtondc

Just hop in.

Daimler Financial Services (DFS) plays a major role in supporting our vehicle sales by offering customized financial services for everything related to automobiles. The comprehensive range of financing, leasing, insurance, fleet management, banking and mobility services makes it easier for private and commercial customers to enter the world of our premium automobiles, and also ensures long-term customer loyalty to our brands around the globe. We offer convincing solutions.

Financial flexibility. Daimler Financial Services' individualized products and contract options are enabling even more customers to make their dream of owning a new or used Daimler vehicle come true.

Mercedes-Benz is turning up the heat in the compact-car segment with the new A-Class. see pages 32 ff In an effort to attract new customers – particularly younger ones – to the sporty compact model, Daimler Financial Services (DFS) has developed new financing solutions that are precisely aligned with the lifestyles of the younger generation and take into account their affinity for leasing or financing packages.

Daimler Financial Services offers a complete range of convincing arguments for choosing its financing, leasing, and insurance products – and customers who opt to purchase a new Mercedes-Benz A-Class can expect to benefit from them as well. Switch Leasing allows customers to easily change mileage limits or contract durations during the period of the leasing agreement. Timeout Leasing offers a one-month break in payments, which gives A-Class customers greater financial leeway for other needs. DFS also offers exclusive insurance conditions that are made possible by the outstanding safety equipment available in Mercedes-Benz vehicles. All-in Financing is a complete package consisting of vehicle financing, insurance and service.

A better ride with Daimler Financial Services. The comprehensive services provided by DFS are making mobility simpler and safer. The MercedesCard, which was relaunched in the fall of 2012, offers significantly expanded services, including a credit card with a rewards program supplemented by a package of services that focus on money matters, travel, roadside assistance and mobility. The mobility protection program guarantees assistance in the event of an accident and also covers the cost of repairs and towing.

Daimler Financial Services' vehicle insurance products also meet the needs of the premium segment. Cooperation with major insurance companies enables customers to enjoy tailored insurance solutions for their Mercedes-Benz models. In addition, they have the peace of mind that comes with knowing that their vehicle will be repaired at an authorized service center with genuine brand parts.

Simply clever mobility. car2go is redefining private transport in inner cities and offering customers freedom of mobility in a contemporary fashion.

car2go is yet another program from Daimler Financial Services that offers customers more options concerning their mobility.

Pioneer and world market leader for flexible carsharing. car2go, which was launched by Daimler in 2008, established a new segment for flexible carsharing services. At the end of 2012, 270,000 very satisfied customers were utilizing the service and its speedy urban smart cars at 18 locations in Europe and North America. In other words, the number of car2go users quadrupled during the course of the year. In line with the "always on" lifestyle, see pages 38 ff car2go vehicles can be rented on the spot or reserved in advance simply by making a few clicks on a smartphone or PC.

car2go is now the fastest-growing carsharing company in the world. car2go has also been "electrifying" Stuttgart since November 2012. The carsharing company is now operating 300 battery-powered smart electric drive vehicles in Daimler's home city. This fleet, the largest pool of electric cars in Germany, is part of the "Living Lab BWe mobil" electric mobility showcase project. The electric smarts make it possible for city residents and visitors to drive a completely electric vehicle at any time and at an affordable price. The service also demonstrates how well suited Daimler's innovative mobility concepts and drive system technologies are for everyday use.

"car2go enables me to rent a vehicle on the spur of the moment. I don't have to return the car to a rental agency and I don't have to pay for parking. But the best thing of all is that I'm helping to protect the environment by driving an electric car."

Damaris Kristin Zierhut,
teacher-training student, Stuttgart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electric drive
CAR
2GO

Asia, the Americas

Open horizons.

In the dynamic automotive market, Daimler is raising its flag all over the world. Perfectly positioned, we are systematically expanding our strong presence in the established markets of the Americas, Japan and Europe. We are also exploiting the outstanding prospects offered by the emerging markets of Brazil, Russia, India and China. New production capacities, cooperative projects and local brands are powering our growth in the BRIC countries. We are going places worldwide.

Successfully penetrating the growth markets. Daimler vehicles and local brands are already part of the urban landscape of major Asian cities.

There are good prospects for long-term growth in the vehicle markets of the emerging economies. Daimler aims to take advantage of this potential on its way to the top. The BRIC countries – Brazil, Russia, India and China – still play the most important role in the markets with the highest growth rates. But the markets of other ambitious young nations are also gaining importance.

Singapore relys on the Mercedes-Benz Citaro. In the future, the Mercedes-Benz star will shine more frequently on the streets of Singapore. Daimler Buses has once again received a major order from one of Asia's most important cities. By the end of 2015, a total of 450 Mercedes-Benz Citaro city buses from the EvoBus plant in Mannheim will be delivered to the local public transportation authority of Singapore. Since fall 2012, the first 300 Citaro buses have been making Singapore's bus fleet, the biggest in Asia, fit for the future. All of the buses feature ultramodern BlueTec technology and low-floor design for easy entry.

Thanks to its regional presence and its country-specific know-how in all vehicle segments, Daimler is ideally equipped to serve the upward trend in the new markets. For example, Mercedes-Benz SUVs are becoming increasingly popular in Asia. As a result, since 2012, the M-Class has been produced not only at its main plant in Tuscaloosa but also in India, Thailand and Indonesia for local markets. Starting in mid-2013, the final assembly of the GL-Class will be carried out in India and Indonesia. Since December 2011, the GLK compact SUV has been rolling off the assembly line not only in Bremen but also in Beijing.

The BharatBenz truck model offensive in India. There is a strong demand in India for high-quality and economical trucks. In response, the successful market launch of the heavy-duty BharatBenz truck in fall 2012 was quickly followed by the start of production of medium-duty trucks in Chennai. Daimler's subsidiary in India, Daimler India Commercial Vehicles (DICV), has thus expanded its range of vehicles by adding a number of models. By 2014, DICV will have launched a total of 17 BharatBenz truck models on the market. These models will be based on Daimler Trucks platforms and specially designed to meet the requirements of customers in India.

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www5.mercedes-benz.com/en/vehicles/buses/

daimler-indiacv.com

daimler.com/company/daimler-worldwide

Asia

"In my opinion, the brand name says it all! 'Bharat' stands for my country, India, and 'Benz' denotes the state-of-the-art technologies from Daimler."

Omprakash Singh, Head of Corporate Human Resources, Daimler India Commercial Vehicles Pvt. Ltd.

In Singapore, the local transport authority relies on the Mercedes-Benz Citaro – the most successful city bus of all time. Passengers in Singapore appreciate the special comfort of these buses, which are the first-ever low-floor buses to operate in Southeast Asia.

Daimler is putting high-quality, reliable and fuel-efficient BharatBenz trucks on the road in India. These advantages are convincing more and more fleet operators to expand their fleets with new, economical BharatBenz trucks.

With the new Freightliner Cascadia Evolution, Daimler Trucks North America (DTNA) is leading the way in the US market when it comes to economical and environmentally friendly trucks. In a 2,400-mile test drive, the new heavy-duty truck's fuel consumption was up to 7% lower than that of the current model.

Systematically expanding its presence in the core markets.

In its traditional markets as well, Daimler is engaging in new projects in order to satisfy customers' growing desire for automotive freedom.

On the road and in rough terrain: The new GL-Class from Mercedes-Benz is a leader in all SUV disciplines, thanks to its exemplary safety features, excellent handling properties and outstanding driving comfort.

The Americas

Premium vehicles are objects of desire all over the world. Daimler is meeting this demand in its traditionally important auto market of North America as well as in the up-and-coming countries of Latin America. Thanks to the Group's model offensive, its broad range of vehicles with efficient combustion engines and alternative drive systems, and its expanded production capacity, the Daimler vehicle brands will continue to promote the American way of life in the future.

As a global player, Daimler can react to the wishes of customers all over the world – and thanks to its local production facilities, it is also becoming more important as a local player. The expansion of its plant in Tuscaloosa will enable Daimler to bring its vehicle lineup even closer to its customers in North America in the future. Starting in 2015, a total of five models will be rolling off the assembly line at Mercedes-Benz US International (MBUSI). This is the main plant for the production of the Mercedes-Benz SUV models of the M, GL and R-Class. Starting in 2014, the C-Class sedan for the North American market will also be produced here. An additional fifth model will follow in 2015. Through these operations, Daimler is further expanding its US production base and creating approximately 1,400 new jobs.

Fleet renewal in Brazil with Mercedes-Benz buses. Brazil's major cities are equipping themselves with new bus fleets in order to cope with the tremendous increase in traffic that is expected for the World Cup in 2014 and the Olympic Games in 2016. For an initial major order, Daimler, the leader in the Brazilian bus market, is supplying more than 520 city buses in all. The company also expects to receive additional orders. A total of 135 Mercedes-Benz buses with environmentally friendly BlueTec 5 technology will be on the road in Fortaleza. About 390 Mercedes-Benz bus chassis will be delivered to the local public transport authority in Ribeirão Preto. The buses will be part of a modern urban infrastructure that will include additional bus lines operating in dedicated lanes.

Local production of the Mercedes-Benz Actros in Juiz de Fora. To respond quickly and flexibly to the growing demand for commercial vehicles in Brazil, Daimler has been producing the Mercedes-Benz Actros also at its Juiz de Fora plant since 2012. This successful heavy-duty truck is also produced in plants in Wörth, Germany, and Aksaray, Turkey.

freightlinertrucks.com/Trucks/Models/Evolution

daimler.com/company/daimler-worldwide

Whether it's used as a travel van or a fleet vehicle, the Sprinter is continuing to speed ahead in the United States. This successful van is sold as a Mercedes-Benz and Freightliner vehicle. Its state-of-the-art motorization and low fuel consumption make it extremely popular with customers.

Attractive

Ideally prepared for the new compact cars. Thanks to highly motivated young employees, expanded training programs and new courses in "green technology," the Mercedes-Benz plant in Rastatt is steering its activities toward a bright future.

Powered by talent.

Daimler mobilizes people — not only through its fascinating automobiles but also as an attractive employer. The company offers a broad spectrum of opportunities for professional and personal development as well as a work environment characterized by respect and cooperation. We do so because the skills and enthusiasm of our employees are a major force that is helping us achieve growth. Our pioneering products are created by a team of more than 270,000 employees all over the world. We foster a pioneering spirit.

As an attractive employer, Daimler offers outstanding opportunities to careers starters, trainees and interns in Germany and abroad. Find out more here:

career.daimler.com/dhr/

With the right teams in the right place at the right time. On its way to the top, Daimler is powered by a unique force – the skills and ideas of its employees.

Daimler is shaping the mobility of the future through innovative technologies and mobility concepts. The crucial factor that makes this possible is our employees. Thanks to their skills and their opportunities for further development, our teams are able to create pioneering vehicles and services. Promoting equal opportunities, fairness and a spirit of cooperation and trust are not only ethical and legal obligations for Daimler; they are the foundation of our company's success all over the world.

We aim to attract and retain the most talented employees, act on our sense of social responsibility, and promote diversity in our company wherever we operate. As an attractive employer, Daimler focuses on the rights and requirements of all its employees, as well as on their talents and qualifications – independently of their age, place of origin, gender or other characteristics. Companies all over the world are competing to attract skilled employees. In this context, optimally designed working conditions are a crucial factor in the effort to attract and retain outstandingly trained, highly motivated, and loyal employees.

Diversity brings better results. Daimler values the different characteristics, talents, and abilities of all its employees. We are convinced that diversity brings better results, and we therefore systematically deploy these various talents and abilities in the interests of the company. Diversity management at Daimler includes many different activities all over the world in all of the company's divisions. It is firmly anchored in our corporate strategy and our corporate culture. Our current focus is on gender diversity – especially our efforts to put more women in management positions – generation management, and the internationality of our worldwide organization.

A good work-life balance supports performance. Daimler offers a variety of work-life balance services that help the company's employees combine their private and professional lives harmoniously. Firmly anchored in its corporate culture are services such as e-mail regulations for employees who are currently not available, guidelines for managers, company day-care centers, regionally adjusted flexible worktime models, and healthcare programs. The aim of all of these services is to ensure that the employees can responsibly manage their individual resources.

The employer of choice for talented young people. Outstanding potential employees can choose between a number of job offers. That's why it is becoming increasingly important for Daimler to position itself as the employer of choice for students, graduates and young people beginning their careers. In order to get young people interested in joining the company, Daimler engages in a dialog with them at schools, universities and job fairs, and on the Internet. In addition to the company's careers website, social media are becoming an increasingly important recruitment channel. Daimler also uses offers such as the Daimler Student Partnership and the company-wide trainee program CAReer to attract young college graduates.

career.daimler.com/dhr/

"I'd like to continue growing, both professionally and personally. Daimler offers me outstanding opportunities."

Asmara Yeman, an alumna of the Daimler CAReer Talent Program

Well-qualified and dedicated employees are the engine of our automotive innovations.

A matter of integrity

Excellent in every way.

The same high standards that characterize our products are also applied to the way we conduct business. By joining the UN Global Compact, we committed ourselves to upholding and actively promoting its principles with regard to human rights, labor standards, environmental protection and anti-corruption policies. In addition, we implement initiatives aimed at safeguarding integrity on a long-term basis. We also actively contribute to maintaining integrity with measures that extend far beyond the boundaries of our company. We aim to lead the way when it comes to ensuring that business is conducted with integrity.

Doing what is right out of conviction. Our success as a premium manufacturer is also based on maintaining a culture of integrity that encompasses shared values and a shared concept of ethical behavior.

Top performance incurs obligations. We at Daimler aim to be pioneers not only when it comes to products and services, but also with regard to integrity. Because integrity is a key issue for us, we launched a variety of measures last year to permanently embed this value in our corporate culture.

Behaving with integrity is an essential part of Daimler's corporate culture. This culture is brought to life in our dialog with internal and external discussion partners. To maintain an ongoing dialog with our employees, workshops and other events were held in all of Daimler's Board of Management departments and in all markets in 2012. The aim of these events was to achieve a shared understanding of what integrity actually means at Daimler, regardless of an individual's country, department or hierarchy level. The results were incorporated into Daimler's new Integrity Code.

The new Daimler Integrity Code. In October 2012, the Board of Management and the employee representatives signed the new Integrity Code, which incorporates employee feedback in order to ensure that it is based on a shared system of values. The code is based on the principles of fairness, responsibility, and respect for the law and for individual rights. In line with these requirements, it stipulates the principles and guidelines for everyday behavior at Daimler. It affects employees' dealings with one another as well as with customers and business partners.

The Integrity Truck tour. In a continuation of the Integrity in Dialog initiative, the Integrity Truck toured 18 company locations in Germany between October and December 2012. In line with the slogan "Integrity gets us moving: Right of way for respect, openness and fairness," the Integrity Truck featured an exciting, demanding and informative program for the employees at the Daimler plants. Participants were also given the opportunity to discuss integrity-related issues.

Advisory Board for Integrity and Corporate Responsibility. In September 2012, Daimler took another step in connection with its sustainable, dialog-oriented integrity strategy when it established the Advisory Board for Integrity and Corporate Responsibility. In the future, the committee will critically and constructively advise Daimler on integrity-related issues from an external perspective. The committee is composed of nine notable people who are involved with integrity-related issues. They represent the fields of science, business, politics and the media, as well as non-governmental organizations.
see page 179

Business partner brochure. More than 63,000 copies of the corporate brochure "Ethical Business. Our Shared Responsibility" have been distributed to external business partners since its publication in 2012. The brochure communicates Daimler's standards of value and ethical principles to its business partners.

daimler.com/sustainability/integrity

"The most important thing is that all of us – ranging from workers to Board of Management members – treat one another fairly!"

Anastasia Tsiliaka, assembly gear box parts, Stuttgart-Untertürkheim

Since 2011, the Group-wide “fairplay” campaign has provided our employees with information about integrity and compliance in 19 languages and in more than 40 countries.

Avant-garde

Ahead of our time.

Daimler, the inventor of the automobile, is also the pacemaker for tomorrow's mobility. Research, innovation and design form the vital foundation of our success. As laboratories on wheels, the legendary research vehicles from Mercedes-Benz not only make it possible to experience our technology and the fascination of the brand at first hand, but also open up visionary horizons. The unique products that bear the Mercedes star have always set the pace for the entire automotive sector. We are shaping the future of the automobile.

With the sculpture "Aesthetics S," Mercedes-Benz offers a glimpse of the design of the upcoming new S-Class luxury sedan, which will be launched in 2013. Find out more about "Aesthetics S" here:

daimler.com/aesthetics

Management Report

Daimler continued along its growth path in 2012. Revenue increased by 7% to €114.3 billion. EBIT of €8.6 billion did not quite reach the high prior-year level due to difficult conditions in important markets. With substantial expenditure to secure our future success, we created the right conditions in 2012 for ongoing and profitable growth. For 2013, we anticipate a market-related weakening of our business development in the first half of the year followed by a recovery as the year progresses, which will be supported by our product launches.

3 | Management Report

Business and General Conditions

The Daimler Group

Daimler AG is the parent company of the Daimler Group and is domiciled in Stuttgart (Mercedesstraße 137, 70327 Stuttgart, Germany). The main business of the Company is the development, production and distribution of cars, trucks and vans in Germany and the management of the Daimler Group. In addition to Daimler AG, the Daimler Group includes all the subsidiaries throughout the world in which Daimler AG has a direct or indirect controlling interest. Through those companies, we conduct for example our business with buses and financial services. The management reports for Daimler AG and for the Daimler Group are combined in this management report.

Daimler can look back on a tradition covering more than 125 years, a tradition that extends back to Gottlieb Daimler and Carl Benz, the inventors of the automobile, and features pioneering achievements in automotive engineering. Today, the Daimler Group is a globally leading vehicle manufacturer with an unparalleled range of premium automobiles, trucks, vans and buses. The product portfolio is completed with a range of tailored automotive services.

With its strong brands, Daimler is active in nearly all the countries of the world. The Group has production facilities in a total of 19 countries and approximately 8,000 sales centers worldwide. The global networking of research and development activities and of production and sales locations gives Daimler considerable potential to enhance efficiency and gain advantages in international competition, resulting in additional growth opportunities. For example, we can apply our green drive technologies in a broad portfolio of vehicles while utilizing experience and expertise from all parts of the Group. In the year 2012, Daimler increased its revenue by 7% to €114.3 billion. The individual divisions contributed to this total as follows: Mercedes-Benz Cars 52%, Daimler Trucks 26%, Mercedes-Benz Vans 8%, Daimler Buses 3% and Daimler Financial Services 11%. At the end of 2012, Daimler employed a total workforce of more than 275,000 people worldwide.

The products supplied by the **Mercedes-Benz Cars** division range from the high-quality small cars and innovative e-bikes of the smart brand to the premium automobiles of the Mercedes-Benz brand and to the Maybach luxury sedans. The main country of manufacture is Germany, but the division also has production facilities in the United States, China, France, Hungary, South Africa, India, Vietnam and Indonesia. Worldwide, Mercedes-Benz Cars has 17 production sites at present. In the context of extending our product range in the compact-car segment, our new plant in Kecskemét, Hungary went into operation in 2012 and the new B-Class has been produced there since April. In the medium term, we anticipate significant growth in worldwide demand for automobiles and above-average growth in the premium car segment. To ensure that we can participate in this development, we are creating additional production capacities, especially in China, the United States and India. The most important markets for Mercedes-Benz Cars in 2012 were Germany with 20% of unit sales, the other markets of Western Europe (24%), the United States (21%) and China (14%).

As the biggest globally active manufacturer of trucks above 6 metric tons gross vehicle weight, Daimler Trucks develops and produces vehicles in a global network under the brands Mercedes-Benz, Freightliner, Western Star, Fuso and BharatBenz. The division’s 27 production facilities are in the NAFTA region (14, thereof 11 in the United States and 3 in Mexico), Europe (7), Asia (3), South America (2) and Africa (1). In Juiz der Fora in Brazil, the Mercedes-Benz Actros heavy-duty truck and the medium-duty Accelo have been produced for the Latin American market since early 2012. In our new truck plant in Chennai, India, trucks of the new BharatBenz brand have been rolling off the production lines since June 2012. By the year 2014, we will produce 17 different BharatBenz models in India in weight classes from 6 to 49 metric tons. In China, Beijing Foton Daimler Automotive Co., Ltd. (BFDA), a joint venture with our Chinese partner Beiqi Foton Motor Co., Ltd., has been producing trucks under the Auman brand since July 2012. Daimler Trucks’ product range includes light, medium and heavy trucks for local and long-distance deliveries and construction sites, as well as special vehicles for municipal applications, the energy sector and fire services. Due to close links in terms of production technology, the division’s product range also includes the buses of the Thomas Built Buses and Fuso brands. Daimler Trucks’ most important sales markets in 2012 were Asia with 35% of unit sales, the NAFTA region (29%), Western Europe (13%) and Latin America excluding Mexico (10%).

Daimler Trucks' area of responsibility also includes our investment in Tognum, a globally leading supplier of complete systems in the field of industrial engines. This company is controlled by Engine Holding GmbH, in which Daimler and Rolls-Royce Holdings plc each holds a 50% interest.

The product range of the **Mercedes-Benz Vans** division in the segment of medium and heavy vans comprises the Sprinter, Vito, Viano and Vario series. In 2012, we expanded our portfolio with the addition of a city van, the Mercedes Benz Citan, making us a full-range supplier in the vans business. The division has production facilities at a total of seven locations: in Germany, Spain, the United States, Argentina, China in the context of the 50:50 joint venture Fujian Benz Automotive Co., Ltd, and France in the context of the strategic alliance with Renault-Nissan. Starting in the first half of 2013, the Mercedes-Benz Sprinter will be produced under license also by our partner GAZ in Russia. The most important markets for vans are in Europe, which accounts for 75% of unit sales. As part of the "Vans goes global" business strategy, we are also increasingly developing the growth markets of South America and Asia as well as the Russian van market through appropriate distribution and production activities in those regions. We intend to continue our growth also in the American van market, where the Sprinter is sold not only as a Mercedes-Benz vehicle, but also under the Freightliner brand.

The **Daimler Buses** division with its brands Mercedes-Benz and Setra continues to be the world's leading manufacturer in its core markets in the segment of buses above 8 tons. The product range supplied by Daimler Buses comprises city and intercity buses, coaches and bus chassis. The most important of the 13 production sites are in Germany, France, Spain, Turkey, Argentina, Brazil and Mexico. In 2012, 45% of Daimler Buses' revenue was generated in Western Europe, 25% in Latin America (excluding Mexico) and 11% in the NAFTA markets. While we mainly sell complete buses in Europe, our business in Latin America, Africa and Asia is focused on the production and distribution of bus chassis. In view of continuously falling demand for city buses in North America over recent years, we have decided to cease production of Orion buses in the United States and Canada. The US bus manufacturer Motor Coach Industries International (MCI) was awarded the rights to exclusive sales of Setra coaches in the United States during the year under review; in return, we have acquired a 10% interest in MCI.

The **Daimler Financial Services** division supports the sales of the Daimler Group's automotive brands in 40 countries. Its product portfolio primarily comprises tailored financing and leasing packages for customers and dealers, but it also provides services such as insurance, fleet management, investment products and credit cards, as well as car sharing and other mobility services. The main areas of the division's activities are in Western Europe and North America, and increasingly also in Asia. In 2012, more than 40% of the vehicles sold by the Daimler Group were financed or leased by Daimler Financial Services. Its contract volume of €80 billion covers more than 2.8 million vehicles. Daimler Financial Services also holds a 45% interest in the Toll Collect consortium, which operates an electronic road-charging system for trucks above 12 metric tons on highways in Germany.

Through a subsidiary, Daimler held a 22.4% equity interest in the European Aeronautic Defence and Space Company (EADS), a leading company in the aerospace and defense industries, until December 6, 2012. In economic terms, Daimler owned a 14.9% stake in EADS, because until that date, a consortium of national and international investors owned a one-third interest in the subsidiary that holds the EADS shares. On December 6, 2012, Daimler AG reduced its shareholding in EADS to 7.5%, as previously announced in November 2011. 61.1 million EADS shares were sold through an accelerated book building process to the KfW banking group, private investors in the consortium and institutional investors.

Through a broad network of holdings, joint ventures and cooperations, Daimler is active in the global automotive industry and related sectors. The statement of investments of Daimler in accordance with Section 313 of the German Commercial Code (HGB) can be found in the notes to the Consolidated Statements. see Note 39

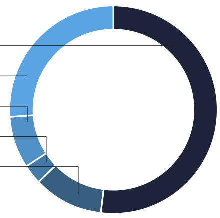
Corporate governance statement

The corporate governance statement to be issued pursuant to Section 289a of the German Commercial Code (HGB) can be seen on the Internet at daimler.com/corpgov/en. Pursuant to Section 317 Subsection 2 Sentence 3 of the HGB, the contents of the statement pursuant to Section 289a of the HGB are not included in the audit carried out by the external auditors.

3.01

Consolidated revenue by division

Mercedes-Benz Cars	52%
Daimler Trucks	26%
Mercedes-Benz Vans	8%
Daimler Buses	3%
Daimler Financial Services	11%



Information and explanation relevant to acquisitions

(Report pursuant to Section 315 Subsection 4 and Section 289 Subsection 4 of the German Commercial Code (HGB))

Composition of share capital. The share capital of Daimler AG amounts to approximately €3,063 million at December 31, 2012. It is divided into 1,067,578,882 registered shares of no par value. With the exception of treasury shares, from which the Company does not have any rights, all shares confer equal rights to their holders. Each share confers the right to one vote and, with the possible exception of any new shares that are not yet entitled to a dividend, to an equal share of the profits. The rights and obligations arising from the shares are derived from the provisions of applicable law. There were no treasury shares at December 31, 2012.

Restrictions on voting rights and on the transfer of shares. The Company does not have any rights from treasury shares. In the cases described in Section 136 of the German Stock Corporation Act (AktG), the voting rights of treasury shares are nullified by law.

Shares acquired by employees within the context of the employee share program may not be disposed of until the end of the following year. Eligible participants in the Performance Phantom Share Plans are obliged by the Plans' terms and conditions and by the so-called Stock Ownership Guidelines to acquire Daimler shares with a part of their Plan income and to hold them for the duration of their employment at the Daimler Group.

On April 7, 2010, Daimler AG and the Renault-Nissan Alliance signed a master cooperation agreement on wide-ranging strategic cooperation and a cross-shareholding. Renault S.A. and Nissan Motor Co. Ltd. each received an equity interest of 1.55% in Daimler AG, and Daimler AG received equity interests of 3.1% in each of Renault S.A. and Nissan Motor Co. Ltd. Due to an increase in the total number of outstanding shares of Daimler AG following the exercise of stock options, each shareholding in Daimler of Renault S.A. and Nissan Motor Co. Ltd. amounted to 1.54% at December 31, 2012. For the duration of the master cooperation agreement or for a period of five years (whichever is the shorter), without the prior consent of the other party, i) Daimler AG may not transfer its shares in Renault S.A. and Nissan Motor Co. Ltd. to a third party, and ii) Renault S.A. and Nissan Motor Co. Ltd. may not transfer their shares in Daimler AG to a third party. Transfers to third parties that are not competitors of one of the issuers of the shares in question are exempted from this prohibition under certain circumstances, including the case of internal corporate transfers, transfers related to a takeover offer from a third party for the shares of one of the other parties, or the case of a change of control of the issuer of the shares in question. Following the acquisition of their equity interests in Daimler, each of Renault S.A. and Nissan Motor Co. Ltd. has stated in its voting-rights notification issued pursuant to Sections 21 ff of the German Securities Trading Act (WpHG) that the Daimler shares held by the other company are to be allocated to it pursuant to Section 22 Subsection 2 of the WpHG (coordinated action).

Provisions of applicable law and of the Articles of Incorporation concerning the appointment and dismissal of members of the Board of Management and amendments to the Articles of Incorporation. Members of the Board of Management are appointed and dismissed on the basis of Sections 84 and 85 of the German Stock Corporation Act (AktG) and Section 31 of the German Codetermination Act (MitbestG). In accordance with Section 84 of the German Stock Corporation Act, the members of the Board of Management are appointed by the Supervisory Board for a maximum period of office of five years. However, the Supervisory Board of Daimler AG has decided generally to limit the initial appointment of members of the Board of Management to three years. Reappointment or the extension of a period of office is permissible, in each case for a maximum of five years.

Pursuant to Section 31 Subsection 2 of the German Codetermination Act (MitbestG), the Supervisory Board appoints the members of the Board of Management with a majority comprising at least two thirds of its members' votes. If no such majority is obtained, the Mediation Committee of the Supervisory Board has to make a suggestion for the appointment within one month of the vote by the Supervisory Board. The Supervisory Board then appoints the members of the Board of Management with a majority of its members' votes. If no such majority is obtained, voting is repeated and the Chairman of the Board of Management then has two votes. The same procedure applies for dismissals of members of the Board of Management.

In accordance with Article 5 of the Articles of Incorporation, the Board of Management has at least two members. The number of members is decided by the Supervisory Board. Pursuant to Section 84 Subsection 2 of the German Stock Corporation Act (AktG), the Supervisory Board can appoint a member of the Board of Management as its Chairperson. If a required member of the Board of Management is lacking, an affected party can apply in urgent cases for that member to be appointed by the court pursuant to Section 85 Subsection 1 of the German Stock Corporation Act (AktG). Pursuant to Section 84 Subsection 3 of the German Stock Corporation Act (AktG), the Supervisory Board can revoke the appointment of a member of the Board of Management and of the Chairman of the Board of Management if there is an important reason to do so.

Pursuant to Section 179 of the German Stock Corporation Act (AktG), the Articles of Incorporation can only be amended by a resolution of a Shareholders' Meeting. Unless otherwise required by applicable law, resolutions of the Annual Shareholders' Meeting – with the exception of elections – are passed pursuant to Section 133 of the German Stock Corporation Act (AktG) and Article 16 Paragraph 1 of the Articles of Incorporation with a simple majority of the votes cast and if required with a simple majority of the share capital represented. Pursuant to Section 179 Subsection 2 of the German Stock Corporation Act, any amendment to the purpose of the Company requires a 75% majority of the share capital represented at the Shareholders' Meeting; no use is made in the Articles of Incorporation of the possibility to stipulate a larger majority of the share capital. Amendments to the Articles of Incorporation that only affect the wording can be decided upon by the Supervisory Board in accordance with Article 7 Paragraph 2 of the Articles of Incorporation. Pursuant to Section 181 Subsection 3 of the German Stock Corporation Act, amendments to the Articles of Incorporation take effect upon being entered in the Commercial Register.

Authorization of the Board of Management to issue or buy back shares. By resolution of the Annual Shareholders' Meeting of April 14, 2010, the Board of Management was authorized, with the consent of the Supervisory Board, during the period until April 13, 2015 to acquire its own shares for all legal purposes, in particular for certain defined purposes, up to a maximum of 10% of the share capital at the time of the resolution of the Annual Shareholders' Meeting. The purchase of the Company's own shares is allowed, inter alia, for the following purposes: for the purpose of canceling them, offering them to third parties in connection with a corporate merger or acquisition, disposing of them in another way than through the stock exchange, offering them to all shareholders, or serving the stock option plan created in or before 2004. Own shares in a volume of up to 5% of the share capital existing at the time of the resolution of the Annual Shareholders' Meeting can also be acquired with the application of derivative financial instruments, whereby the period of the individual option may not exceed 18 months. No use has yet been made of this authorization.

By resolution of the Annual Shareholders' Meeting held on April 8, 2009, the Board of Management was authorized with the consent of the Supervisory Board to increase the share capital of Daimler AG by up to €1 billion during the period until April 7, 2014 by issuing new registered shares of no par value in exchange for cash or non-cash contributions, wholly or in partial amounts, on one or several occasions (Approved Capital 2009). Inter alia, the Board of Management was also authorized, under certain circumstances, within certain limits and with the consent of the Supervisory Board, to exclude shareholders' subscription rights. No use has yet been made of Approved Capital 2009.

Furthermore, the Board of Management was authorized by resolution of the Annual Shareholders' Meeting of April 14, 2010,

- with the consent of the Supervisory Board during the period until April 13, 2015 to issue convertible bonds and/or bonds with warrants or a combination of those instruments, once or several times, in a total nominal amount of up to €10 billion with a maximum term of ten years, and
- to grant the owners/lenders of those bonds conversion or option rights to new, registered shares of no par value in Daimler AG with a corresponding amount of the share capital of up to €500 million, in accordance with the terms and conditions of those convertible bonds or bonds with warrants.

Inter alia, the Board of Management was also authorized, under certain circumstances, within certain limits and with the consent of the Supervisory Board, to exclude shareholders' subscription rights to the bonds with conversion or warrant rights to shares in Daimler AG. The bonds can also be issued by direct or indirect majority-owned subsidiaries of Daimler AG.

Accordingly, the share capital was conditionally increased by up to €500 million (Conditional Capital 2010). No use has yet been made of this authorization to issue convertible bonds and/or bonds with warrants.

Material agreements taking effect in the event of a change of control. Daimler AG has concluded various material agreements, as listed below, that include clauses regulating the possible event of a change of control, as can occur as a result of a takeover bid:

- A non-utilized syndicated credit line in a total amount of €7 billion, which the lenders are entitled to terminate if Daimler AG becomes a subsidiary of another company or comes under the control of one person or several persons acting jointly.
- Credit agreements with lenders for a total amount of €1.5 billion, which the lenders are entitled to terminate if Daimler AG becomes a subsidiary of another company or comes under the control of one person or several persons acting jointly.
- Guarantees and securities for credit agreements of consolidated subsidiaries for a total amount of €610 million, which the lenders are entitled to terminate if Daimler AG becomes a subsidiary of another company or comes under the control of one person or several persons acting jointly.
- An agreement concerning the acquisition of a majority (50.1%) of AFCC Automotive Fuel Cell Cooperation Corp., which has the purpose of further developing fuel cells for automotive applications and making them marketable. In the case of a change of control of Daimler AG, the agreement provides for the right of termination by the other main shareholder, Ford Motor Company, as well as for a put option for the minority shareholder, Ballard Power Systems. Control as defined by this agreement is the beneficial ownership of the majority of the voting rights and the resulting right to appoint the majority of the members of the Board of Management.
- A master cooperation agreement on wide-ranging strategic cooperation with Renault S.A., Renault-Nissan B.V. and Nissan Motor Co. Ltd. in connection with cross-shareholdings. The Renault-Nissan Alliance received an equity interest of 3.1% in Daimler AG and Daimler AG received equity interests of 3.1% in each of Renault S.A. and Nissan Motor Co. Ltd. In the case of a change of control of one of the parties to the agreement, each of the other parties has the right to terminate the agreement. A change of control as defined by the master cooperation agreement occurs if a third party or several third parties acting jointly acquires, legally or economically, directly or indirectly, at least 50% of the voting rights in the company in question or is authorized to appoint a majority of the members of the managing board. Under the master cooperation agreement, several cooperation agreements were concluded between Daimler AG on the one side and Renault and/or Nissan on the other concerning a new architecture for small cars and the shared use of fuel-efficient diesel and gasoline engines and transmissions, as well as the development and supply of a small van, which provide for the right of termination for a party to the agreement in the case of a change of control of another party. A change of control is deemed to occur at a threshold of 50% of the voting rights or upon authorization to appoint a majority of the members of the managing board. In the case of termination of cooperation in the area of the development of small cars due to a change of control in the early phase of the cooperation, the party affected by the change of control would be obliged to bear its share of the costs of the development of shared components even if the development were terminated for that party.

- Furthermore, Daimler AG has concluded a cooperation agreement with Ford and Nissan regarding the joint predevelopment of a fuel-cell system. In the case of a change of control of one of the parties to the agreement, the agreement provides for the right of termination for the other parties. A change of control is deemed to occur at a threshold of 50% of the voting rights or upon authorization to appoint a majority of the members of the managing board.
- An agreement between the owners (the so-called shareholders' pact), regulating the exercise of voting rights in EADS N.V. In the case of a change of control, this agreement stipulates that Daimler AG is obliged, if so requested by the French party to the agreement, to make all efforts to dispose of its shares in EADS under appropriate conditions to a third party that is not a competitor of EADS or of the French contracting partner of Daimler AG. In this case, the French party has the right of preemption under the same conditions as offered by a third party. A change of control can also lead to the dissolution of the voting-rights consortium. According to the shareholders' pact, a change of control has taken place if a competitor of EADS N.V. or of the French contracting party either appoints so many members of the Supervisory Board of Daimler AG that it can appoint the majority of the members of the Board of Management, or holds an investment that enables it to control the day-to-day business of Daimler AG. Meanwhile, an agreement has been concluded to which amongst others the current members of the shareholders' pact are parties, whereby the shareholders' pact is to be terminated. The termination of the agreement is still subject to the condition that various measures are taken, for which amongst other things the consent of the annual shareholders' meeting of EADS is required.
- A shareholders' agreement with Rolls-Royce Holdings plc (Rolls-Royce) and Vinters International Limited, a subsidiary of Rolls-Royce, relating to the acquisition of Tognum AG of Friedrichshafen by Engine Holding GmbH and the planned merger with Rolls-Royce's Bergen business. Daimler and Vinters International Limited each hold 50% of the shares of Engine Holding GmbH. In the case of a change of control of one of the contracting parties, the agreement gives the other contracting party the right to acquire the shares of that party in the jointly held company at appropriate conditions at the time of the change of control.
- An agreement relating to a joint venture with BAIC Motor Co. Ltd. for the production and distribution of cars of the Mercedes-Benz brand in China, by which BAIC Motor Co. Ltd. is given the right to terminate or exercise a put or call option in the case that a third party acquires one third or more of the voting rights in Daimler AG.
- An agreement relating to the establishment of a joint venture with Beiqi Foton Motor Co., Ltd. for the purpose of producing and distributing heavy and medium-duty trucks of the Foton Auman brand. This agreement gives Beiqi Foton Motor Co., Ltd. the right of termination in the case that one of its competitors acquires more than 25% of the equity or assets of Daimler AG or becomes able to influence the decisions of its Board of Management.
- An agreement between Daimler and Robert Bosch GmbH relating to the joint establishment and joint operation of EM-motive GmbH for the development and production of traction and transmission-integrated electric motors as well as parts and components for such motors for automotive applications and for the sale of those articles to the Robert Bosch Group and the Daimler Group. If Daimler should become controlled by a competitor of Robert Bosch GmbH, Robert Bosch GmbH has the right to terminate the consortium agreement without prior notice and to acquire all the shares in the joint venture held by Daimler at a fair market price.
- An agreement between Daimler, Toray Industries, Inc. and ACE Advanced Composite Engineering GmbH relating to the joint establishment and joint operation of Euro Advanced Carbon Fiber Composites GmbH for the development, production and distribution of automotive parts made of carbon-fiber-reinforced plastics. If Daimler should become controlled by a third party, each of the two other partners to the consortium agreement has the right to terminate the consortium agreement without prior notice and to acquire the shares in the joint venture held by Daimler at a fair market price.

Strategy

As the inventor of the automobile, we look back on a long automotive history that we have shaped to a great extent with groundbreaking innovations and outstanding vehicles. We aim to continue playing a pioneering role with the ongoing development of mobility. We are committed to making the mobility of the future safe and sustainable. Our activities are focused on our customers' needs. We want to inspire them with

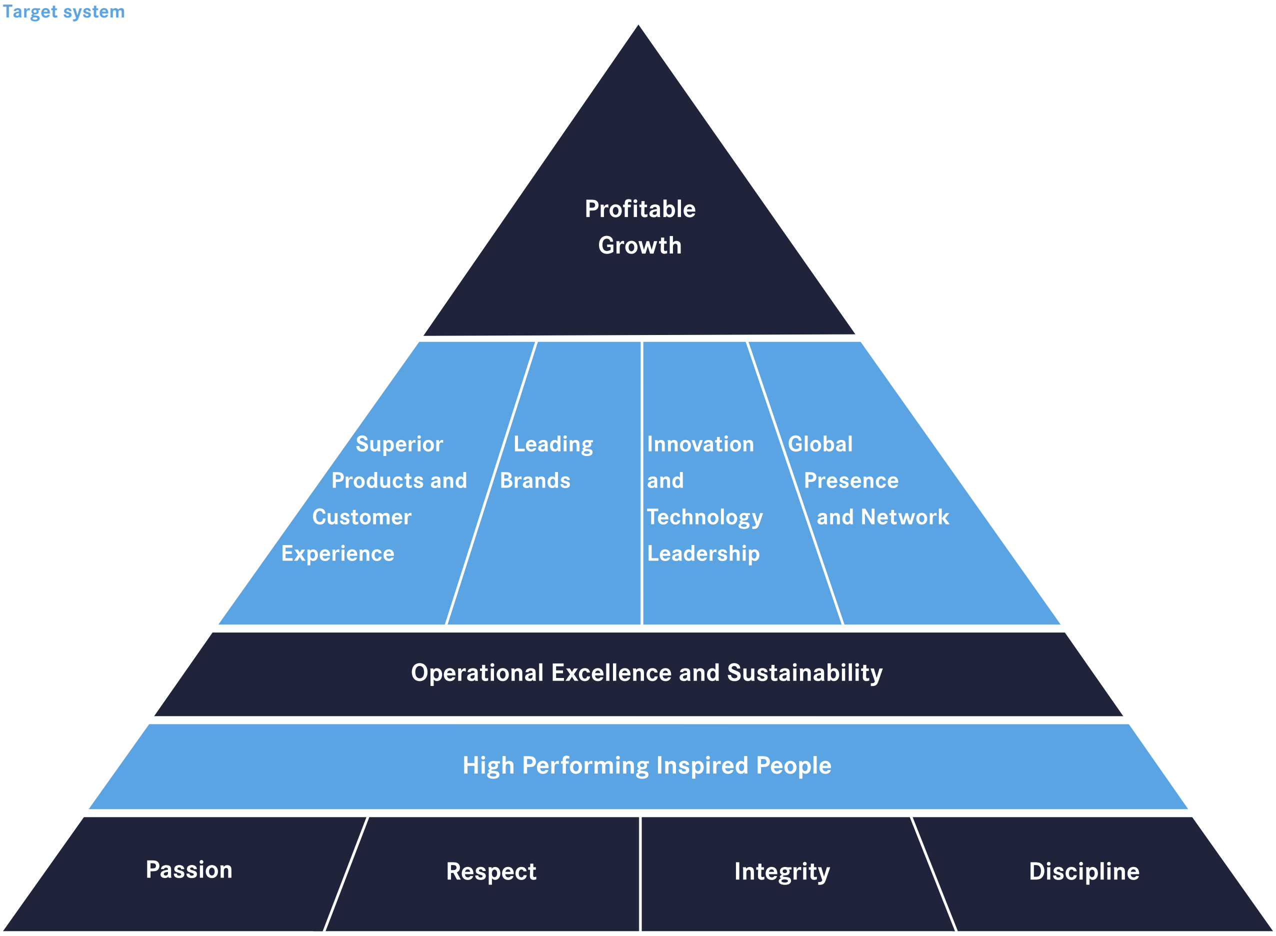
- exciting premium automobiles that set standards in the areas of design, safety, comfort, perceived value, reliability and environmental compatibility;
- commercial vehicles that are the best in their respective competitive environments;
- outstanding service packages related to those products; and
- new, customer-oriented mobility solutions that utilize the possibilities of increasing digitalization.

Target system. ↗ 3.02 Our overriding corporate goal is to achieve sustainable profitable growth and thus to increase the value of the Group. We strive to achieve the leading position in all our businesses. We aim to inspire our customers with our brands, products and services. With groundbreaking technologies, we demonstrate our pioneering position for sustainable drive systems and safety. We strengthen our global presence by securing our position in traditional markets and expanding in new markets. Operational excellence and efficiency along with inspired and high-performing people are the key to our future corporate success. At the same time, our entrepreneurial activities are guided by the principle of sustainability: in the areas of economics, corporate governance, environmental protection and safety, as well as in our relations with employees, customers and society in general. The four corporate values of passion, respect, integrity and discipline form the foundation of our actions and help us to achieve our goals. One key principle applies to everything we do: No business in the world is worth violating laws, regulations or ethical standards. For us, integrity and business success are two sides of the same coin. That is why we want to lead the competition also in terms of integrity. We are working hard to get there.

Clear claim to leadership in all businesses. With the "Mercedes-Benz 2020" growth strategy, our Mercedes-Benz Cars division strives to occupy the leading role for premium automobiles by the end of this decade. This means that we aim to be ahead of the competition in terms of brand image, product range, unit sales and profitability. On the way to achieving this goal, we want to sell more than 1.6 million cars of the Mercedes-Benz brand already in 2015. The smart brand will further extend its pioneering role in urban mobility and will lead its market segment for alternative drive systems. At Daimler Trucks, we want to further strengthen our position as number 1 in the global truck business and aim to expand to an annual unit-sales volume of more than 700,000 vehicles by the end of the decade. Daimler Buses has set itself the goal of further strengthening its leading position for buses above 8 metric tons gross vehicle weight, and Mercedes-Benz Vans is striving to achieve further profitable growth also outside its present market segments and markets with the strategic initiative, "Vans goes global." Daimler Financial Services has targeted the position of best captive financial services provider and will continue to grow in line with our automotive business and additionally also in the area of mobility services.

3.02

Target system



Four strategic growth areas. We aim to achieve our goals through four strategic growth areas. ↗ 3.03
We will
- further strengthen our core business,
- grow in new markets,
- take the lead with "green" technologies, and
- lead the way with the development of new mobility concepts and services.

Strengthening the core business. A strong core business is the foundation for sustainable profitability and growth. In order to strengthen our core business, we are renewing and expanding our model range with a focus on the changing desires of our customers. At the same time, we are effectively developing our brands and taking measures to increase efficiency and competitiveness in all our businesses. We will also further extend our pioneering role for active and passive safety with both cars and commercial vehicles.

The Mercedes-Benz model range will be extended by a total of 13 new models by the year 2020. The CLS Shooting Brake kicked off this model offensive in the autumn of 2012. "The best or nothing" serves as an incentive to consolidate the top position of the Mercedes-Benz brand. The year 2013 will see the market launch of the new S-Class, with which we will underscore our claim to leadership in the areas of comfort and security with new technologies. With the new A-Class, we are aiming specifically at younger target groups. This objective is also served by our brand and corporate communication, in which we are increasingly applying digital media. As a result of our long-term initiative, "Customer Satisfaction #1," we have achieved first place for customer satisfaction in many markets. The "Fit for Leadership" program, a key element of the Mercedes-Benz 2020 growth strategy, consists of two dimensions. In the short term, it is combining existing efficiency actions and will be supplemented with additional newly derived elements. The medium term dimension creates structures that will make our business system even more competitive. By the end of the year 2014, we want to achieve a sustained improvement in our cost structures of approximately €2 billion with this program.

At Daimler Trucks, we have been working for several years on uniform product platforms and modular systems for vehicles and components. At the same time, we have developed a global production network with great flexibility. With the new Antos, the first truck model series developed specifically for heavy-duty distribution transport, we are continuing our model offensive in the area of trucks and are once again setting trends in terms of economy, safety and comfort. The new Fuso Canter Eco Hybrid, which we now produce and distribute also in Europe, once again demonstrates our leading role with technologies for the reduction of fuel consumption and with alternative drive systems for commercial vehicles.

With our "Daimler Trucks #1" excellence program, we aim to sustainably secure our profitability targets by the end of 2014. In this context, we are on the one hand concentrating on increasing the efficiency of the operating units. On the other hand, we want to improve the interaction between the various

3.03
Strategic Pillars of Growth

business units and functions by means of interdepartmental initiatives, thus better utilizing the potential of our global positioning. The sustained earnings improvement targeted with Daimler Trucks #1 is €1.6 billion, which we intend to realize by the end of 2014.

Mercedes-Benz Vans will support the planned worldwide growth with new products and new technologies. There will be an important contribution in this respect from the new Citan city van, with which the Mercedes-Benz brand will penetrate the small-van segment. In the United States, we intend to continue our growth with the Sprinter, which we sell there under both the Mercedes-Benz and the Freightliner brands.

The Daimler Buses division is strengthening its competitive position with new products and economical engines. The new Setra ComfortClass 500 coach sets new standards for economy, quality and comfort, with the added attraction of a unique safety concept. In addition, Daimler Buses is working to secure its long-term profitability, through the reorganization of its European sales structure for example.

Daimler Financial Services is also focused on growth - and in different ways: The division will continue increasing its business volumes along with the model and market offensives for cars and commercial vehicles. At the same time, it will further expand its product offering in the field of vehicle insurance, as well as with mobility services.

Growing in new markets. Growth in global automotive demand will mainly take place in the markets outside Europe, North America and Japan in the coming years. Although we continue to strengthen our position in those traditional markets, we also aim to expand in other regions, especially in Brazil, Russia, India and China, the so-called BRIC countries. In order to achieve Mercedes-Benz Cars' sales targets, we are intensifying our activities above all in China. That is where versions of the new compact-car series will be produced in the future and a new engine plant for four-cylinder engines will be opened in 2013. At the same time, we are expanding our sales network in China and reorganizing the distribution system. With medium and heavy trucks, we are focusing on the cooperation with our partner Foton in China. Mercedes-Benz Vans produces the Vito, Viano and Sprinter models for the Chinese market in cooperation with Fujian Benz Automotive Corporation. In Brazil, Daimler Trucks is optimizing its production capacities and further extending its strong market position with new truck models. In Russia, the biggest European truck market, we are continuing our expansion in cooperation with our partner Kamaz. Mercedes-Benz Vans' Sprinter will be produced in Russia under a license agreement with truck manufacturer GAZ as of the year 2013. In India, Daimler Trucks has started production of the first trucks under the new BharatBenz brand. By the year 2014, BharatBenz will have launched a total of 17 truck models in weight classes above 6 metric tons. This will allow Daimler to satisfy the rising demand for robust and reliable trucks. Daimler Buses is active in India with our partner Sutlej in the field of coaches. Daimler Financial Services has established a new company in Malaysia. In 2012, we were the first automobile manufacturer to offer leasing on a large scale for cars and commercial vehicles in China; we established an additional company for this purpose. We are also expanding our market position in other new growth markets in addition to the BRIC countries.

Leading with green technologies. As a pioneer of automotive engineering, our goal is to make the future of mobility safe and sustainable. Varying mobility requirements call for different drive solutions. Our portfolio of solutions ranges from the optimization of internal-combustion engines to hybrid drive and locally emission-free driving. Already in the year 2012, we were able to reduce the CO_2 emissions of newly registered vehicles from Mercedes-Benz Cars in the European Union to an average of 140 grams per kilometer. By the year 2016, we aim to reduce the CO_2 emissions of our new car fleet in the European Union to an average of 125 g/km. Worldwide, we are the first automobile manufacturer to use lithium-ion batteries in a series-produced car with hybrid drive. With nine different models, we have the biggest product portfolio of electric vehicles – from light motorcycles to cars, light trucks, vans and buses. Our fuel-cell vehicles have already clocked up more than 9 million kilometers in customer use – this depth of experience with fuel cells is unique in the automotive industry. The Actros is the most economical truck in its market segment and Daimler leads the world with hybrid-drive trucks.

Pioneering with the development of new mobility concepts and services. More than half of the world's population already lives in cities, and this proportion is rising. Digital technologies are changing our products, our brand and corporate communication, and our working life. In parallel, customers are increasingly demanding individual, needs-oriented and convenient mobility solutions. This is creating new business potential for Daimler, which we intend to effectively utilize with new and innovative products and services. For some groups of customers, who for various reasons do not own a car themselves, the flexible use of a vehicle is important nonetheless. We are reacting to this by offering mobility solutions for private, business and public applications such as car2go, CharterWay, Bus Rapid Transit (BRT) and the "moovel" mobility platform. We will significantly expand the car2go business in the coming years. By the end of 2012, approximately 270,000 customers had registered in 18 cities of Europe and North America. With the "moovel" integrated mobility platform, we offer customers the possibility to optimally combine various private and public mobility services, with combined billing via a pay system planned for the future. We have already gone live with moovel" in Stuttgart and Berlin. In order to further expand our range of mobility services, we are entering into strategic partnerships with various mobility service providers, which we will successively integrate into our mobility platform.

In the area of innovative services, we offer the new sale&care product for the smart fortwo electric drive and create service brands such as "TruckWorks" for commercial vehicles as well as "My Service" and "mbrace2" for cars. Furthermore, we offer communication systems such as COMAND Online, making cars into mobile communication centers. Within the framework of "Digital Life," we combine the areas of working life, corporate and brand communication, customer and product with new business opportunities. In this way, we are working on automotive concepts to shape the future of mobility while promoting growth in all segments, markets and businesses.

Ambitious return targets. In addition to our growth targets, we have we set ourselves a return target of 9% on average for the automotive business, which we intend to achieve on a sustained basis. This overall target is based on return targets for the individual divisions of 10% for Mercedes-Benz Cars, 8% for Daimler Trucks, 9% for Mercedes-Benz Vans and 6% for Daimler Buses. Our target for the Daimler Financial Services division is a return on equity of 17%.

Portfolio changes and strategic cooperations. By means of targeted investment and future-oriented partnerships, we strengthened our core business, pushed forward with new technologies and utilized additional growth potential in 2012. At the same time, we focused on the continuous further development of our existing business portfolio.

In February 2012, Daimler and Chinese partner Beiqi Foton Motor Co., Ltd. received the business license for the **Beijing Foton Daimler Automotive Co., Ltd. (BFDA)** joint venture. Through BFDA, Daimler's truck division will participate in the Chinese market for medium and heavy trucks. Foton is contributing its existing business with medium and heavy trucks of the Auman brand, production facilities and the sales and service network. The joint venture will also benefit from Foton's knowledge of markets in China and the whole of Asia. This will enable BFDA to push forward faster with the development of business in the entire region. The first jointly produced truck under the Auman brand already rolled off the assembly line in the third quarter of 2012. Furthermore, BFDA plans to set up an engine plant.

In April 2012, the antitrust authorities approved the acquisition by AKKA Technologies S.A. of a stake in **MBtech Group**. As already agreed in December 2011, AKKA Technologies was then able to buy a 65% interest in MBtech Group, which was previously wholly owned by Daimler. An agreement on this transaction was signed by Daimler and AKKA Technologies on December 7, 2011. With an interest of 35%, Daimler remains a long-term and strategic shareholder as well as an important client of MBtech. AKKA Technologies' entry at MBtech has created one of the biggest European engineering consultancies for the automotive, aerospace, transport and energy industries.

In September 2012, **Daimler and Renault-Nissan** confirmed that the German-French-Japanese partnership now includes two additional shared projects in the field of fuel-efficient drive systems. In one of the projects, the two companies are jointly developing a new family of four-cylinder gasoline engines. These turbo engines with direct fuel injection will offer the latest technology in a compact form. The goal is to significantly reduce fuel consumption combined with even lower emissions. The new engines are to be produced jointly and will be used in Daimler and Renault-Nissan vehicles as of the year 2016. In the other project, Daimler will grant Nissan a license to produce automatic transmissions incorporating the latest technology for Nissan and Infiniti vehicles as of 2016. The Nissan subsidiary Jatco plans to produce these new transmissions in Mexico. Already in January 2012, it was announced that Daimler and Nissan intend to jointly produce Mercedes-Benz four-cylinder gasoline engines at Nissan's powertrain plant in Decherd, Tennessee. Production will start in 2014. The engines will be used in both Mercedes-Benz and Infiniti models.

In December 2012, Daimler AG reduced its equity interest in the **European Aeronautic Defence and Space Company (EADS)** in economic terms from 14.9% to 7.5%. The sale of 61.1 million EADS shares resulted in proceeds of €1.7 billion, which had a corresponding positive impact on our free cash flow. Those proceeds will be used for the global growth of our divisions, for our products, and to strengthen our technologically leading position. The reduction of our equity interest in EADS took place in the context of optimizing the company's shareholder structure: State influence is now limited to 30%. In this context, the other private-sector shareholders in the Dedalus investor consortium also sold their EADS shares, while the public-sector Dedalus investors continue to hold their shares. The voting rights of the Dedalus consortium are to be exercised by Daimler until the extraordinary shareholders' meeting of EADS on March 27, 2013. As part of the focus on our core business of producing motor vehicles and providing mobility services, we generally intend to further reduce our interest in EADS. No decision has yet been made on when or how that will occur.

Also in December 2012, Daimler established a new, integrated car distribution company in China, thus taking an important step in the implementation of our growth strategy. **Beijing Mercedes-Benz Sales Service Co., Ltd.** is a 50:50 joint venture with our strategic partner Beijing Automotive Group (BAIC). The new company combines the functions of sales and marketing, aftersales, dealer network development, used-car and fleet-car sales, and dealer and workshop training for Mercedes-Benz cars in China in an integrated organization. Previously, there were two separate sales channels: one for imported and one for locally produced vehicles. Already in mid-2012, Daimler had also increased its interest in the import company, Mercedes-Benz (China) Ltd., from 51% to 75% – an important step on the way to an integrated distribution company.

New Board of Management position for "Greater China"

On December 12, 2012, the Supervisory Board of Daimler AG decided to create a new Board of Management position for "Greater China". It includes the function of CEO and Chairman of Daimler Northeast Asia as well as responsibility for all of Daimler's strategic and operating activities in China. This decision underscores the strategic importance of China for Daimler. We see considerable further potential there for sustainable growth and the continuous expansion of our business activities.

Economy and markets

The world economy. With growth of approximately 2.5%, the world economy expanded in 2012 at a below-average rate and more slowly than the growth of 3.2% recorded in the prior year. ↗ 3.04 Overall, 2012 was a difficult year for the world economy, which was significantly affected by structural adjustments caused by the financial crisis in the years 2008 and 2009. One major negative factor was the sovereign-debt crisis in the European Monetary Union (EMU), which not only affected the economy of the euro zone, but also triggered considerable turmoil on the financial markets. At the same time, there were sharp fluctuations in the price of crude oil – primarily driven by geopolitical unrest. And then in the summer months, key economic leading indicators worsened so much that the danger of recession increased considerably. Major central banks reacted to this by taking significantly expansive measures. This applies above all to the Chinese Central Bank, the US Federal Reserve and the European Central Bank (ECB). Although the situation improved somewhat following these actions, investor and consumer uncertainty remained very high in 2012, and the resulting crisis of confidence prevented any stronger economic expansion.

Developments in the industrial countries were disappointing with economic growth of 1.2%, a similarly weak level to that of the prior year, and once again significantly lower than their long-term potential. Although the Japanese economy was still stimulated in the first half of the year from reconstruction efforts after the disaster of 2011, it subsequently lost so much impetus that gross domestic product (GDP) decreased once again in the third quarter. In the United States, both consumption and investment developed weakly. Private consumption was dampened by the continuation of relatively high unemployment. And companies became more unwilling to invest as the year progressed, primarily due to fears of the “fiscal cliff” anticipated for the beginning of 2013. But as the real-estate sector supplied positive impetus once again, the US economy achieved overall growth of just over 2%.

The EMU posted the weakest development in the year under review. Not only did the hard-hit peripheral countries remain in recession, but larger economies such as Italy and Spain slipped into clearly negative growth. The two largest countries, France and Germany, also lost a lot of their growth impetus. While the French economy stagnated, the German economy achieved growth of 0.7% due to a strong first half of the year. But strong economic headwinds also in Germany led to slightly negative growth in the fourth quarter. In total, the EMU therefore posted a GDP decrease for the year of approximately 0.5%. The period of the summer months was particularly alarming, when concern about the disintegration of the euro zone reached its peak. It was only due to the announcements made and measures taken by the ECB in September that the situation did not escalate any further and the financial markets calmed down again somewhat. However, the structural problems of the individual countries were not solved, so the European sovereign-debt crisis was by no means overcome at the end of 2012. The countries of Western Europe outside the EMU did not remain unaffected by the unfavorable environment, and also the British economy was unable to expand over the full year.

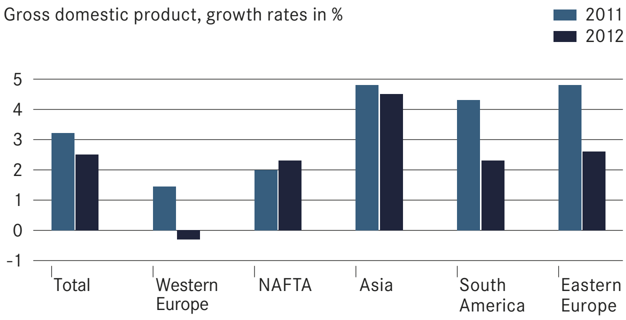
Against the backdrop of the global growth weakness, the emerging markets grew at an overall rate of approximately 4.5%, which is significantly more slowly than in the prior year (5.9%). The development in China was particularly worrying. Growth there slowed down continuously and fell below the 8% mark for the year as a whole. In India, economic expansion fell from 7.5% in 2011 to significantly less than 6%. High inflation rates dampened private consumption, and the resulting high central-bank interest rates reduced investment activity. Also in other emerging markets, there was a negative impact from hesitant export demand and turbulence on the financial markets due to the debt crisis in the euro zone. Economic growth in Eastern Europe and Latin America was significantly weaker than in the prior year with rates of approximately 2.5%, after well over 4% in 2011.

In this difficult global economy, exchange rates were once again very volatile. Against the euro, the US dollar fluctuated over the year in a range from \$1.20 to \$1.35. But at the end of 2012, it was close to the level of early 2011 at \$1.32 to the euro. The fluctuation of the Japanese yen to the euro was even higher, within a corridor of ¥95 to ¥114. By the end of 2012, the euro had gained nearly 14% against the yen compared with the beginning of the year. Against the British pound, the euro closed the year with a slight depreciation of 2%, after rather less volatile movements towards the end of the year.

3.04

Economic growth

Gross domestic product, growth rates in %



Source: IHS Global Insight

Automotive markets. Despite relatively unfavorable economic conditions, the **worldwide demand for automobiles** grew by almost 7% in 2012, reaching a new record level. ↗ 3.05

The fact that this growth was actually higher than in 2011 is primarily due to special effects in the Japanese and the Thai markets, which slumped significantly following the natural disasters in 2011. In 2012, pent-up demand in combination with state incentives for car buyers led to strong market growth of 30% in Japan and actually more than 80% in Thailand. The US market also made a substantial contribution to the global growth in demand. The recovery of demand in the United States continued during 2012, resulting in market growth of a good 13% over the year as a whole. With a total of 14.4 million vehicles, new registrations were at their highest level since 2007, the last year before the beginning of the global financial crisis. Another important driver of demand was again the Chinese car market, which expanded by about 8% despite the economic slowdown and was thus once more the world's biggest car market, almost equal to the United States.

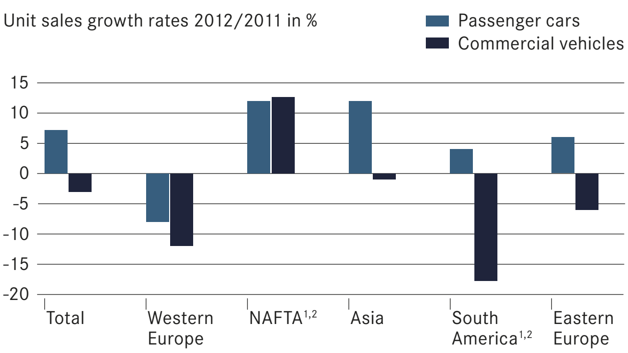
On the other hand, demand for cars in Western Europe was still affected by the sovereign-debt crisis and the related economic weakness. With contraction of 8% and sales of well below 12 million vehicles, the market was at its lowest level since 1993, when Western Europe was in a pronounced recession. Compared with the volumes achieved before the financial crisis, approximately three million fewer cars were sold in Western Europe last year, which is roughly equivalent to the number of new cars registered in Germany in 2012.

In the large emerging markets, however, the growth trend continued also outside China. In India, car sales increased by approximately 10%, once again expanding at a considerably higher rate than in the prior year. With growth of more than 10%, the Russian market exceeded the level of 2008, after demand had meanwhile slumped by about a half due to the worldwide financial crisis.

3.05

Global automotive markets

Unit sales growth rates 2012/2011 in %



1 Cars segment includes light-trucks
2 Medium- and heavy-duty trucks

Source: German Association of the Automotive Industry (VDA), various institutions

Global demand for medium and heavy-duty trucks decreased significantly in the year under review. This development was primarily due, however, to significant market contraction in China (about -25%) and India (about -15%). But apart from those two markets, which together make up nearly half of the world's total volume, worldwide registrations increased only moderately and varied significantly from one region to another.

Despite the significant slowdown during the year, the North American market developed positively with growth of almost 13%. The Japanese market posted a strong increase of 30%, profiting especially in the first half of the year from the reconstruction activities after the natural disaster, from pent-up demand for trucks, and also from state incentives for buyers. The latter ended in the third quarter, and the stimulating effect of reconstruction also subsided, so market growth weakened considerably in the second half of the year. The European truck market, which was suffering amongst other things from the ongoing sovereign-debt crisis in the euro zone and the resulting economic weakness, lost almost 10% of its volume. The German market was unable to escape this development and contracted by a similar magnitude.

The Brazilian market posted a drastic drop in demand of approximately 20%. This was the result of a significant economic slowdown as well as purchases brought forward to 2011 and considerable uncertainty in connection with the introduction of stricter emission limits. There was a revival of demand towards the end of the year, however. The Russian market, which had lost about two thirds of its volume due to the global financial crisis, continued its dynamic recovery with significantly double-digit growth once again, thus returning to the pre-crisis level of 2008.

The Western European **market for medium-sized and large vans**, which continues to be very important to Daimler, contracted by 8% as a result of the sovereign-debt crisis and the related consumer uncertainty. All the major Western European markets were affected, but demand dropped particularly sharply in the markets of Southern Europe. The market for large vans was generally favorable in the United States, however, while the Latin American markets were in aggregate weaker than in the prior year due to the slowdown of economic growth in Brazil. In China, the market of premium vans, which is relevant for us, also contracted last year.

European **bus markets** continued to contract as a result of the sovereign-debt crisis, with a particular impact on the route buses segment. In Turkey, the bus market profited from a clear revival of demand for city buses. In Latin America, however, the market volume decreased significantly. This was primarily due to the introduction of Euro V emission regulations in Brazil and the resulting unwillingness to buy.

Business development

Unit sales. As previously announced, Daimler further increased its unit sales in 2012. Sales of 2.2 million vehicles were 4 % higher than in 2011. Mercedes-Benz Cars and Daimler Trucks were responsible for the growth, while the Mercedes-Benz Vans and Daimler Buses divisions did not match their unit sales of the prior year.

The **Mercedes-Benz Cars** division continued along its growth path in 2012 with a new unit-sales record of 1,451,600 vehicles (2011: 1,381,400). The Mercedes-Benz brand also increased its unit sales with growth of 5% to the new record of 1,345,800 vehicles. This allowed us to improve our position in numerous markets. The S-Class sedans, the M-Class, the CLK and the C-Class coupe are global leaders in their respective market segments. As a result of our new and attractive SUV models, our unit sales in the SUV segment grew by 16% to 295,400 vehicles. In the S-Class segment we achieved the previous year's level with sales of 80,700 units, and in the C-Class segment we increased our unit sales by 3% to 425,000 units. For lifecycle reasons, unit sales in the E-Class segment decreased to 313,600 vehicles (-8%). Despite the model change of the A-Class in September 2012, we increased our unit sales in the compact-car segment by 20% to 231,100 vehicles. This was primarily due to strong sales of the B-Class. The market launch of the new A-Class was extremely successful. In fact, more than 70,000 orders had already been received by the time the model went on sale in September 2012. ↗ 3.06

Despite a partially difficult market environment, we were able to increase our unit sales in many markets. In Germany, Mercedes-Benz defended its position as the most successful premium brand with shipments of 261,100 vehicles (2011: 262,300). In Western Europe (excluding Germany), we were able to improve our position in nearly all markets. Total unit sales of 300,100 vehicles exceeded the prior-year level by nearly 5% despite weak markets in the countries of Southern Europe. In the United States, we set a new record with unit sales of 289,300 vehicles (+17%). And in China, retail sales rose by 1% to the new record of 196,200 vehicles. In order to optimize the inventories of our Chinese sale partners, we reduced unit sales, i.e. shipments to our dealer network, by 9%. Unit sales of Mercedes-Benz cars were particularly dynamic in Japan (+37%), Russia (+27%), Mexico (+27%), Switzerland (+23%) and the United Kingdom (+20%).

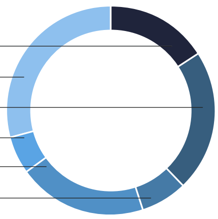
We sold a total of 105,700 smart fortwo cars in 2012, an increase of 6% compared with the prior year. The smart fortwo was particularly successful in the United States, Canada, Japan and China. see pages 144 ff

Daimler Trucks was able to increase its unit sales by 9% in 2012, although the market environment worsened significantly in the second half of the year. In total, we shipped 462,000 heavy-, medium- and light-duty trucks as well as buses of the Thomas Built Buses and Fuso brands, thus continuing as the biggest producer of trucks above 6 metric tons gross vehicle weight with a global reach. ↗ 3.07 This growth was primarily driven by the NAFTA region and Asian markets, while unit sales decreased slightly in Western Europe and significantly in Latin America. Due to the sovereign-debt crisis and the resulting unwillingness to buy, our unit sales in Western Europe decreased by 6% to 58,000 vehicles. But we performed well compared with our competitors: We once again improved our market share in the medium and heavy segments in the region of Western Europe as well as in Germany, our domestic market, thus reinforcing our market leadership. In Latin America, the introduction of stricter emission limits in Brazil, our main market, and the weak state of the overall economy led to a sharp decrease in unit sales to 46,200 vehicles (2011: 61,900).

In the NAFTA region, we achieved growth in unit sales of 18% to 135,000 vehicles despite a considerably weaker second half of the year. There was a positive impact from the high need to replace older vehicles, but many truck customers postponed their purchase decisions in the second half of the year due to the worsened economic outlook. In total we increased our market share in the NAFTA region for medium and heavy trucks of Classes 6 to 8 to 34%, thus strengthening our leading competitive position. ↗ 3.08

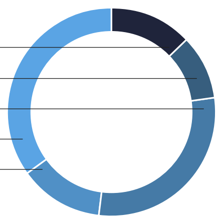
3.06
Unit sales structure of Mercedes-Benz Cars

A-/B-Class	16%
C-/CLK-/SLK-Class	29%
E-/CLS-Class	22%
S-/CL-/SL-Class/SLR/SLS/Maybach	6%
M-/R-/GL-/GLK-/G-Class	20%
smart	7%



3.07
Unit sales structure of Daimler Trucks

Western Europe	13%
Latin America	10%
NAFTA	29%
Asia	35%
Rest of World	13%



In Asia, Daimler Trucks sold 163,700 vehicles, which is 21% more than in 2011. Demand for trucks in Japan continued to be boosted by reconstruction activities after the natural disaster in the prior year. We not only increased our unit sales by 30% in Japan, we also improved our market share for heavy trucks. The development of unit sales was also very positive in Indonesia (+10%). In India, we shipped the first trucks of the new BharatBenz brand in September; 1.100 vehicles had already been sold by the end of the year. see pages 148 ff

3.08

Market share[1]

In %	2012	2011	12/11 Change in %-points
Mercedes-Benz Cars			
Western Europe	5.3	5.0	+0.3
thereof Germany	10.1	9.9	+0.2
United States	2.0	1.9	+0.1
China	1.4	1.4	+0.0
Japan	0.9	0.9	+0.0
Daimler Trucks			
Medium and heavy trucks Western Europe	22.9	22.3	+0.6
thereof Germany	39.2	37.5	+1.7
Heavy trucks NAFTA region (Class 8)	32.9	30.9	+2.0
Medium trucks NAFTA region (Classes 6 and 7)	36.9	34.1	+2.8
Medium and heavy trucks Brazil	25.5	25.2	+0.3
Trucks Japan	20.4	20.8	-0.4
Mercedes-Benz Vans			
Medium and large vans Western Europe	18.1	18.0	+0.1
thereof Germany	26.7	28.1	-1.4
Daimler Buses			
Buses over 8 metric tons Western Europe	28.3	27.0	+1.3
thereof Germany	48.9	50.0	-1.1
Buses over 8 metric tons Latin America	42.7	43.0	-0.3

1 Based on estimates in certain markets

In 2012, **Mercedes-Benz Vans** sold 252,400 vans of the Sprinter, Vito, Viano, Vario models - and since autumn also of the new Citan city van (2011: 264,200). Against the backdrop of the European sovereign-debt crisis and a challenging market environment, unit sales decreased by 8% to 164,900 vehicles in Western Europe, our most important sales market. Demand in the Western European volume markets in particular did not match the high level of 2011. Unit sales in Germany decreased by 8% to 71,100 vehicles after record unit sales in the previous year. The positive development of business continued in Eastern Europe, where we increased our unit sales by 6% to 24,000 vehicles. As in the prior year, the Sprinter continued its success in the United States, with growth of 19% to 21,500 vehicles and the best-ever market share of 8.3%. Due to the newgeneration Sprinter, unit sales also developed positively in Latin America, where sales of 14,000 vans were 2% above the prior-year level. In China, however, the negative development of the market for premium vans continued and unit sales reached only 8,800 vehicles (2011: 13,500). In total, we sold 159,000 units of the Sprinter (2011: 163,300), 83,700 of the Vito and Viano (2011: 98,000), and 2,700 of the Vario (2011: 2,900). 7,100 units of the new Citan city van were sold. Despite the difficult environment, Mercedes-Benz Vans was able to defend its market share of 18.1% in the segment of medium and large vans in Western Europe. see pages 152 f

With unit sales of 32,100 complete buses and bus chassis (2011: 39,700), **Daimler Buses** did not reach the prior-year level, but defended its position as market leader in its core markets in the segment for buses above 8 metric tons. The main reason for the decrease in unit sales was the negative development of sales of bus chassis in Latin America. Especially in Brazil, the region's most important bus market, our unit sales fell as expected due to the introduction of the stricter Euro V emission standards. In Western Europe, the sovereign-debt crisis had a dampening effect on customer demand; nonetheless, unit sales of 5,900 vehicles were at the prior-year level. Daimler Buses thus succeeded in further strengthening its leading position in Western Europe with a market share of 28.3% (2011: 27.0%). ↗ 3.08 In Latin America, sales of bus chassis under the Mercedes-Benz brand decreased by 29% to 17,800 units. With a market share of 42.7% (2011: 43.0%), the division clearly defended its leading market position in Latin America. In a stable Mexican market, we sold 3,500 units. Unit sales in the NAFTA region fell due to the discontinuation of sales of Orion city buses. see pages 154 f

The business of **Daimler Financial Services** continued to develop positively in the year under review. New business and contract volume both reached new record levels. Worldwide contract volume increased by 12% to €80.0 billion. Adjusted for exchange-rate effects, there was an increase of 13%. New business increased compared with the prior year by 14% to €38.1 billion. Nearly all regions contributed to this expansion, with particularly high growth rates in Asia. Last August, we became the first premium automaker to offer leasing products in China. In India, we successfully started the financing business for BharatBenz, Daimler's new locally produced truck brand. In November 2012, we launched vehicle financing also in Malaysia. In the insurance business, we brokered more policies in 2012 than ever before: The number of policies concluded increased by 13% to approximately 1,100,000. In the area of mobility services, our innovative car2go car-sharing concept is meanwhile represented in 18 cities in Europe and North America; last year, it more than quadrupled its customer base to approximately 270,000 customers. see pages 156 f

Order situation. The Mercedes-Benz Cars, Daimler Trucks, Mercedes-Benz Vans and Daimler Buses divisions produce vehicles predominantly to order in accordance with customers' specifications. While doing so, we flexibly adjust the production numbers to changing levels of demand. Mainly as a result of strong demand in the United States and in various emerging markets, the volume of orders received by Mercedes-Benz Cars in 2012 exceeded the high prior-year level, despite the negative impact of the European debt crisis. On the product side, this was primarily due to the models of the new compact class and the ongoing strong success of our SUVs. As a result of growing demand, we increased our production volumes, but the order backlog at the end of the year was still slightly higher than a year earlier. Orders received by Daimler Trucks decreased in the second half of the year due to the weakening of the world economy. The total number of orders received in 2012 was therefore lower than in the prior year, although we adjusted production volumes to the reduced demand in the second half of the year.

Revenue. The Daimler Group increased its total revenue in the year 2012 by 7% to €114.3 billion; adjusted for exchange-rate effects, there was an increase of 4%. This means that the positive business development of 2011 continued, as we had expected at the beginning of 2012, although growth impetus became weaker towards the end of the year. Revenue grew by 7% to €61.7 billion at Mercedes-Benz Cars and by 9% to €31.4 billion at Daimler Trucks. Mercedes-Benz Vans' revenue of €9.1 billion was slightly lower than the prior-year level, while Daimler Buses' revenue decreased by 11% to €3.9 billion. At the Daimler Financial Services division, revenue rose by 12% to €13.6 billion. ↗ 3.10

In regional terms, Daimler achieved revenue growth in the NAFTA region (+23% to 31.9 billion). ↗ 3.09 But we also increased our revenue in Asia (+11% to €25.1 billion) and Eastern Europe (+8% to €6.9 billion). The business volume of €39.4 billion in Western Europe was at the prior-year level; this development was reflected in both Germany and the other markets of Western Europe in aggregate. In general, the regional distribution of Daimler's revenue has altered significantly in recent years in favor of new markets. We now generate 36% of our business in markets outside the United States, Western Europe and Japan. That proportion was just 28% in 2008.

3.10

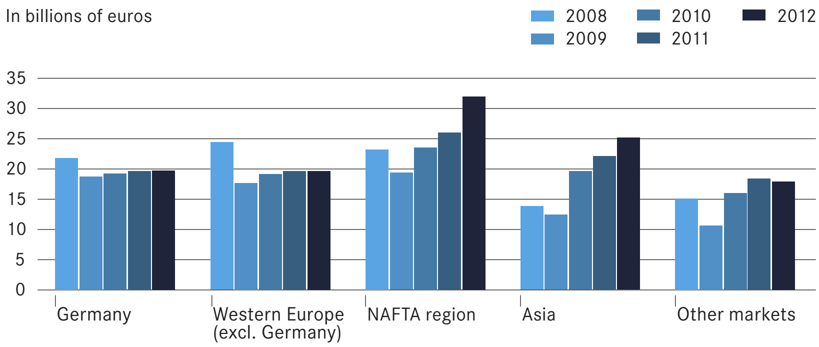
Revenue by division

In millions of euros	2012	2011	12/11 % change
Daimler Group	114,297	106,540	+7
Mercedes-Benz Cars	61,660	57,410	+7
Daimler Trucks	31,389	28,751	+9
Mercedes-Benz Vans	9,070	9,179	-1
Daimler Buses	3,929	4,418	-11
Daimler Financial Services	13,550	12,080	+12

3.09

Consolidated revenue by region

In billions of euros



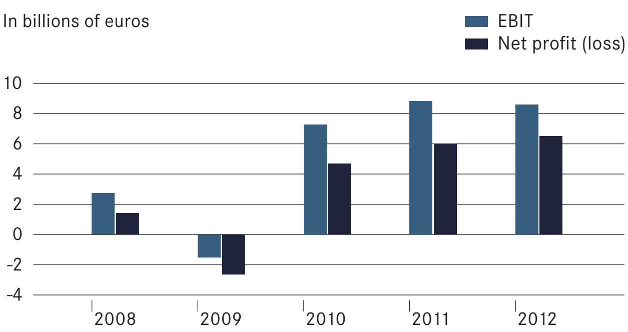
Profitability

3.11
EBIT by segment

In millions of euros	2012	2011	12/11 % change
Mercedes-Benz Cars	4,389	5,192	-16
Daimler Trucks	1,714	1,876	-9
Mercedes-Benz Vans	541	835	-35
Daimler Buses	-232	162	.
Daimler Financial Services	1,292	1,312	-2
Reconciliation	911	-622	.
Daimler Group	8,615	8,755	-2

3.12
Development of earnings

In billions of euros



EBIT

The **Daimler Group** achieved EBIT of €8.6 billion in 2012 (2011: €8.8 billion). ↗ 3.11 ↗ 3.12

The development of earnings reflects further increases in unit sales at Mercedes-Benz Cars and Daimler Trucks, despite partially difficult market conditions. Unit sales by Daimler Buses and Mercedes-Benz Vans decreased, however. A shift in the regional structure of unit sales, a less favorable model mix and higher expenses in connection with the expansion of the product portfolio at Mercedes-Benz Cars and the current product offensive at Daimler Trucks also had an impact on Group EBIT. In addition, Mercedes-Benz Vans incurred expenses in connection with the impairment of the Chinese joint venture Fujian Benz Automotive Corporation. Daimler Financial Services achieved earnings at the prior-year level. The development of currency exchange rates had an overall positive effect on Group EBIT.

EBIT also includes significantly higher expenses from the compounding of non-current provisions as well as effects from lower discount rates (2012: €543 million; 2011: €225 million).

The repositioning of the European and North American business systems of Daimler Buses, which was decided upon in the first quarter of 2012, resulted in expenses of €155 million. The sale of 7.5% of the shares in EADS resulted in a gain of €709 million in the reporting period.

In 2011, charges of €80 million were recognized at Daimler Trucks and Daimler Financial Services in connection with the natural disaster in Japan. Group EBIT for that year also included charges from the impairment of Daimler's investments in Renault (€110 million) and Kamaz (€32 million).

The special items affecting earnings in the years 2012 and 2011 are listed in the table. ↗ 3.13

Mercedes-Benz Cars posted EBIT of €4,389 million, which is lower than the prior-year result of €5,192 million. The division's return on sales was 7.1% (2011: 9.0%). ↗ 3.14

In an economic environment that became increasingly difficult during the year, unit sales developed well. We achieved high growth rates in particular in the segments of compact cars and SUVs. In regional terms, our business in the United States developed very positively. Growth in earnings was also realized by positive exchange-rate effects. There were negative effects on earnings from a shift in the regional structure of unit sales and the changed model mix. Furthermore, EBIT was reduced by expenses for the enhancement of our products' attractiveness, capacity expansion and advance expenditure for new technologies and vehicles. This negative effect on earnings was only partially offset by ongoing efficiency improvements. In addition, the compounding of non-current provisions and effects from changes in interest rates led to higher expenses.

EBIT of €1,714 million reported by **Daimler Trucks** was lower than in the prior year (2011: €1,876 million). The division's return on sales was 5.5% (2011: 6.5%). ↗ 3.14

Earnings were boosted on the one hand by the positive development of unit sales and revenue in the NAFTA region and Asia. Lower warranty expenses and exchange-rate effects also made a positive contribution. On the other hand, earnings were reduced by the current product offensive and by lower demand in Brazil and Western Europe. The decline in demand was related to weaker economic developments and in Brazil additionally to the introduction of new emission limits as of the beginning of 2012. Expenses arose from the compounding of non-current provisions and from the effects of interest-rate changes. Earnings for the previous year include expenses of €70 million due to the natural disaster in Japan and an impairment charge on the investment in Kamaz (€32 million).

Mercedes-Benz Vans achieved EBIT of €541 million in 2012 (2011: €835 million). The division's return on sales was 6.0%, compared with 9.1% in the prior year. ↗ 3.14

The decrease in earnings was partially related to lower levels of unit sales, especially caused by the significantly weaker market in Western Europe. Good product quality was reflected by lower warranty costs. Exchange-rate effects also had a positive impact on earnings. There was an opposing effect from expenses of €64 million in connection with the impairment of the Chinese joint venture Fujian Benz Automotive Corporation. Earnings were additionally reduced by expenses connected with the market launch of the Citan city van and the launch of the new Sprinter in Argentina.

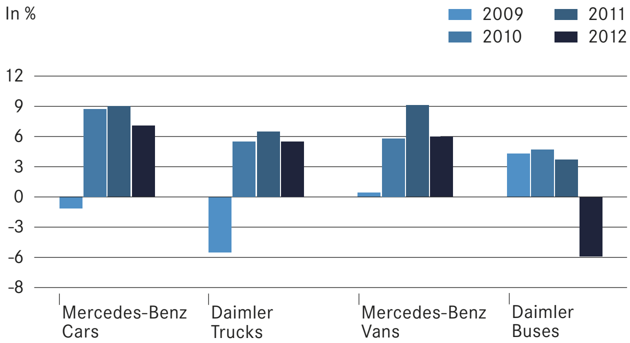
3.13

Special items affecting EBIT

	2012	2011
In millions of euros		
Daimler Trucks		
Impairment of investment in Kamaz	–	-32
Natural disaster in Japan	–	-70
Mercedes-Benz Vans		
Impairment of joint venture Fujian Benz Automotive Corporation	-64	–
Daimler Buses		
Business repositioning	-155	–
Daimler Financial Services		
Natural disaster in Japan	–	-10
Reconciliation		
Impairment of investment in Renault	–	-110
Gain on the sale of EADS shares	+709	–

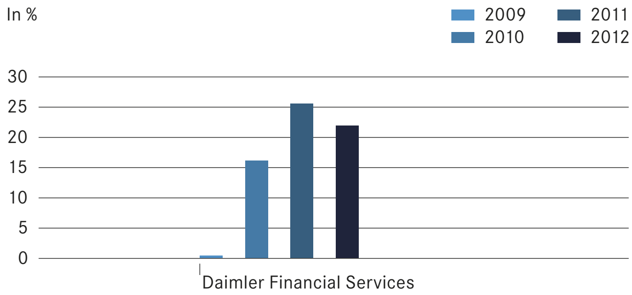
3.14

Return on sales



3.15

Return on equity



3.16

Value Added = Profit Measure – Net Assets x Cost of Capital (%)

(Net Assets x Cost of Capital (%) = Cost of Capital)

3.17

Value Added = [Return on Sales x Net Assets Productivity – Cost of Capital (%)] x Net Assets

3.18

Cost of capital

	2012	2011
In percent		
Group, after taxes	8	8
Industrial dvisions, before taxes	12	12
Daimler Financial Services, before taxes	13	13

Daimler Buses posted EBIT for the year of minus €232 million (2011: plus €162 million). The division's return on sales was minus 5.9% (2011: plus 3.7%). ↗ 3.14

The decrease in earnings was primarily the result of lower sales of bus chassis due to the difficult business situation in Latin America as well as an unfavorable model mix in the declining European market. There were additional negative effects on earnings from expenses of €155 million for the repositioning of the European and North American business systems and from exchange-rate changes.

Daimler Financial Services achieved EBIT of €1,292 million in 2012, which is close to its earnings of the prior year (€1,312 million). The division's return on equity was 21.9% (2011: 25.5%). ↗ 3.15

A larger contract volume and exchange-rate effects contributed positively to the earnings development. There were opposing effects on earnings from lower interest margins and a normalization of risk costs, which had been unusually low in the prior year. Additional expenses arose in connection with the portfolio expansion. Prior-year earnings included allowances for bad debts in connection with the natural disaster in Japan (€10 million).

The **reconciliation** of the divisions' EBIT to Group EBIT comprises our proportionate share of the results of our equity-method investment in EADS, other gains and/or losses at the corporate level, and the effects on earnings of eliminating intra-group transactions between the divisions.

Daimler's proportionate share of the net profit of EADS amounted to €307 million (2011: €143 million). In addition, the Group realized a gain of €709 million on the sale of 7.5% of the shares of EADS during the reporting period. At the corporate level, an expense of €113 million was recognized (2011: expense of €588 million). Corporate items in the prior year included in particular litigation expenses and a charge on the impairment of our investment in Renault (€110 million).

The elimination of intra-group transactions resulted in income of €8 million in 2012 (2011: expense of €177 million).

Financial performance measures

The financial performance measures used at Daimler are oriented towards our investors' interests and expectations and provide the foundation for our value-based management.

Value added. ↗ 3.19 For purposes of performance measurement, Daimler differentiates between Group level and divisional level. Value added is one element of the performance measurement system at both levels and is calculated as the difference between the operating result and the cost of capital of the average net assets in that period. ↗ 3.16

Alternatively, the value added of the industrial divisions can be determined by using the main value drivers: return on sales (ROS, quotient of EBIT and revenue) and net assets productivity (quotient of revenue and net assets). ↗ 3.17

The use of ROS and net assets productivity within the context of a revenue growth strategy provides the basis for a positive development of value added. Value added shows to which extent the Group and its divisions achieve or exceed the minimum return requirements of the shareholders and creditors, thus creating additional value.

Profit measure. The measure of operating profit at divisional level is EBIT and is calculated before interest and income taxes. EBIT hence reflects the divisions' profit and loss responsibility. The operating profit measure used at Group level is net operating profit. It comprises the EBIT of the divisions as well as profit and loss effects for which the divisions are not held responsible, including income taxes and other reconciliation items.

Net assets. ↗ 3.20 ↗ 3.22 Net assets represent the basis for the investors' required return. The industrial divisions are accountable for the net operating assets; all assets, liabilities and provisions which they are responsible for in day-to-day operations are therefore allocated to them. Performance measurement at Daimler Financial Services is on an equity basis, in line with the usual practice in the banking business. Net assets at Group level include the net assets of the industrial divisions and the equity of Daimler Financial Services, as well as assets and liabilities from income taxes and other reconciliation items for which the divisions are not held accountable. Average annual net assets are calculated from average quarterly net assets, which are calculated as the average of net assets at the beginning and the end of each quarter.

Cost of capital. ↗ 3.18 The required rate of return on net assets and hence the cost of capital is derived from the minimum rates of return that investors expect on their invested capital. The cost of capital of the Group and the industrial divisions comprises the cost of equity as well as the costs of debt and pension obligations of the industrial business; the expected returns on liquidity and plan assets of the pension funds of the industrial business are considered with the opposite sign. The cost of equity is calculated according to the capital asset pricing model (CAPM), using the interest rate for long-term risk-free securities (such as German government bonds) plus a risk premium reflecting the specific risks of an investment in Daimler shares. The cost of debt is derived from the required rate of return for obligations entered into by the Group with external lenders. The cost of capital for pension obligations is calculated on the basis of discount rates used in accordance with IFRS. The expected return on liquidity is based on money market interest rates. The expected return on the plan assets of the pension funds is derived from the expected interest, dividends and other income generated by the plan assets invested to cover the pension obligations. The Group's cost of capital is the weighted average of the individually required or expected rates of return; in the reporting period, the cost of capital amounted to 8% after taxes. For the industrial divisions, the cost of capital amounted to 12% before taxes; for Daimler Financial Services, a cost of equity of 13% before taxes was applied.

Return on sales. As one of the main drivers of value added, return on sales (ROS) is of particular importance for assessing the industrial divisions' profitability. The profitability measure for Daimler Financial Services is not ROS, but return on equity (ROE), in line with the usual practice in the banking business.

3.19
Value added

	2012	2011	12/11
In millions of euros			% change
Daimler Group	4,185	3,726	+12
Mercedes-Benz Cars	2,716	3,775	-28
Daimler Trucks	396	796	-50
Mercedes-Benz Vans	387	690	-44
Daimler Buses	-369	23	.
Daimler Financial Services	526	643	-18

3.20
Net assets (average)

	2012	2011	12/11
In millions of euros			% change
Mercedes-Benz Cars	13,947	11,814	+18
Daimler Trucks	10,987	9,000	+22
Mercedes-Benz Vans	1,284	1,212	+6
Daimler Buses	1,141	1,161	-2
Daimler Financial Services[1]	5,890	5,147	+14
Net assets of the divisions	33,249	28,334	+17
Investments accounted for using the equity method [2]	2,408	2,643	-9
Assets and liabilities from income taxes [3]	-80	-385	+79
Other reconciliation [3]	808	834	-3
Daimler Group	36,385	31,426	+16

1 Total equity
2 To the extent not allocated to the segments
3 Industrial business

3.21
Reconciliation to net operating profit

	2012	2011	12/11
In millions of euros			% change
Mercedes-Benz Cars	4,389	5,192	-15
Daimler Trucks	1,714	1,876	-9
Mercedes-Benz Vans	541	835	-35
Daimler Buses	-232	162	-243
Daimler Financial Services	1,292	1,312	-2
EBIT of the divisions	7,704	9,377	-18
Income taxes [1]	-1,519	-2,515	+40
Othe reconciliation	911	-622	+246
Net operating profit	7,096	6,240	+14

1 Adjusted for tax effects of interest income

Value added

The **Group's value added** increased by €0.5 billion to €4.2 billion; representing a return on net assets of 19.5% (2011: 19.9%). This was once again considerably higher than the minimum required rate of return of 8%. Despite lower earnings by the operating divisions and higher net assets, the Group's value added surpassed the high level of the prior year. This was primarily due to the lower income tax expense and the sale of 7.5% of the shares of EADS. ↗ 3.19 ↗ 3.20

Mercedes-Benz Cars' value added decreased by €1.1 billion to €2.7 billion. Despite higher unit sales, earnings decreased due to the increasingly difficult economic environment as the year progressed as well as expenses related to the enhancement of our products' attractiveness, capacity expansion and advance expenditure for new technologies and vehicles. There was an additional negative impact from the increase in average net assets by €2.1 billion to €13.9 billion, mainly due to the higher level of fixed assets caused by increased investment for new products.

The decrease in value added at the **Daimler Trucks** division from €0.8 billion to €0.4 billion was caused on the one hand by the lower earnings mainly due to falling demand in Brazil and Western Europe, and on the other hand by expenses for the current product offensive. Furthermore, net assets increased by €2.0 billion as a result of higher inventories and fixed assets.

The value added of the **Mercedes-Benz Vans** division also decreased to €0.4 billion. The reason for this development was the fall in EBIT due to lower levels of unit sales, especially caused by the significantly weaker market in Western Europe. There were negative effects also in connection with the impairment of the Chinese joint venture Fujian Benz Automotive Corporation and expenses for the market launch of the new Citan city van and of the new Sprinter in Argentina. Average net assets were almost unchanged compared with the prior year.

At the **Daimler Buses** division, value added decreased from plus €23 million to minus €369 million. This development reflects the negative earnings due to lower unit sales of bus chassis, especially in Latin America, and the difficult market situation in Western Europe. There were additional effects from expenses connected with the repositioning of the European and North American business systems.

The value added of the **Daimler Financial Services** division decreased by €0.1 billion to €0.5 billion. Return on equity was 21.9% (2011: 25.5%). This development was primarily the result of the increase in average equity by €0.7 billion to €5.9 billion due to the higher contract volume. Earnings were at the level of the prior year.

Table ↗ 3.22 shows the derivation of net assets from the consolidated statement of financial position.

Statement of income

The Group's **total revenue** improved by 7.3% to €114.3 billion in 2012; adjusted for exchange-rate effects, it increased by 3.6%. The revenue growth primarily reflects higher shipments of vehicles by Mercedes-Benz Cars, increased unit sales by Daimler Trucks in North America and Asia, and the larger contract volume at Daimler Financial Services. Mercedes-Benz Vans posted a slight decrease in revenue. Revenue at Daimler Buses also decreased, as a result of lower unit sales of bus chassis. Further information on the development of revenue is provided in the "Business development" section of this Management Report. ↗ 3.23

Cost of sales amounted to €88.8 billion in the year under review, increasing by approximately 10% compared with the prior year (2011: €81.0 billion). The increase in cost of sales was caused by higher business volumes and consequentially higher material costs. Personnel expenses and depreciation of property, plant and equipment also increased. At Financial Services, depreciation of equipment on operating leases increased in connection with the growing leasing business. Overall, cost of sales increased at a higher rate than revenue, so gross profit in relation to revenue fell to 22.3% (2011: 24.0%). Further information on cost of sales is provided in Note 5 of the Notes to the Consolidated Financial Statements. ↗ 3.23

Due to the growth in unit sales, **selling expenses** increased by €0.6 billion to €10.5 billion. The main factors here were higher expenses for marketing, personnel and IT services. As a percentage of revenue, selling expenses decreased from 9.2% to 9.1%. ↗ 3.23

General administrative expenses increased to €4.0 billion (2011: €3.9 billion). The increase was partially due to higher costs for IT and consulting services. As a percentage of revenue, general administrative expenses decreased slightly to 3.5% (2011: 3.6%). ↗ 3.23

Research and non-capitalized development costs were unchanged compared with the prior year at €4.2 billion in 2012. They were mainly related to advance expenditure for the development of new models, the renewal of existing models, and the further development of drive systems and safety technologies. As a proportion of revenue, research and development costs decreased from 3.9% to 3.7%. Further information on the Group's research and development costs is provided in the "Research and development, environmental protection" section of this Management Report. ↗ 3.23

Other operating income increased to €1.5 billion (2011: €1.4 billion). The increase was mainly due to higher income from services charged to third parties. ↗ 3.23

3.22
Net assets of the Daimler Group at year-end

In millions of euros	2012	2011	12/11 % change
Net assets of the industrial business			
Intangible assets	8,761	8,174	+7
Property, plant and equipment	20,546	19,129	+7
Leased assets	12,163	10,849	+12
Inventories	17,075	16,575	+3
Trade receivables	6,864	7,580	-9
Less provisions for other risks	-11,316	-11,967	+5
Less trade payables	-8,515	-9,233	+8
Less other assets and liabilities	-14,464	-13,954	-4
Assets and liabilities from income taxes	573	24	.
Total equity of Daimler Financial Services	6,153	5,373	+15
Net assets	37,840	32,550	+16

3.23
Consolidated statement of income

In millions of euros	2012	2011	12/11 % change
Revenue	114,297	106,540	+7
Cost of sales	-88,784	-81,023	+10
Gross profit	25,513	25,517	.
Selling expenses	-10,451	-9,824	+6
General administrative expenses	-3,973	-3,855	+3
Research and non-capitalized development costs	-4,179	-4,174	.
Other operating income	1,507	1,381	+9
Other operating expense	-291	-355	-18
Share of profit/loss from investments accounted for using the equity method, net	990	273	.
Other financial income/expense, net	-501	-208	-141
Earnings before interest and taxes (EBIT)[1]	8,615	8,755	-2
Interest income	828	955	-13
Interest expense	-1,725	-1,261	+37
Profit before income taxes	7,718	8,449	-9
Income taxes	-1,223	-2,420	-50
Net profit	6,495	6,029	+8
thereof Profit attributable to non-controlling interest	400	362	+11
thereof **Profit attributable to shareholders of Daimler AG**	6,095	5,667	+8

1 EBIT includes expenses from the compounding of provisions and effects from changes in discount rates (2012: minus €543 million; 2011: minus €225 million).

Other operating expense decreased slightly to €0.3 billion (2011: €0.4 billion). ↗ 3.23

Further information on the composition of other operating income and expense is provided in Note 6 of the Notes to the Consolidated Financial Statements.

In 2012, our **share of profit from investments accounted for using the equity method** improved to €1.0 billion (2011: €0.3 billion). The increase primarily reflects the sale of 7.5% of the shares of EADS. ↗ 3.23

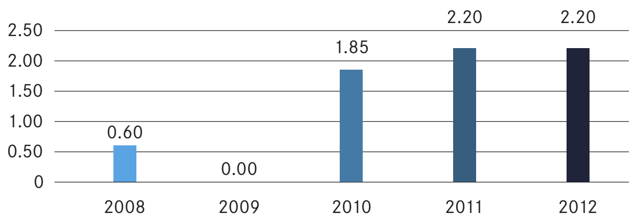
Other financial expense increased from €0.2 billion in 2011 to €0.5 billion in 2011. This is mainly due to higher expenses from the compounding of provisions and effects from changes in discount rates of €0.5 billion (2011: €0.2 billion). ↗ 3.23

The Group recorded a net **interest expense** of €0.9 billion (2011: €0.3 billion). The causes of the higher interest expense were higher expenses in connection with pension and health-care obligations and an increase in other interest expenses. The prior-year figure includes positive effects from interest-rate hedging instruments. ↗ 3.23

3.24

Dividend per share

In euros



The **income tax expense** for 2012 of €1.2 billion (2011: €2.4 billion) decreased partially due to the lower pre-tax profit. Profit before income taxes in 2012 includes the mainly tax-free gain on the sale of EADS shares. Both years were affected by tax benefits from the reversal of impairments recognized on deferred tax assets and 2012 was also affected by tax benefits from the tax assessment of prior years. The effective tax rate in 2012 was 15.8% (2011: 28.6%). ↗ 3.23

Net profit for the year amounts to €6.5 billion (2011: €6.0 billion), of which €400 million is attributable to non-controlling interest of subsidiaries (2011: €362 million). Net profit **attributable to shareholders of Daimler AG** amounts to €6.1 billion (2011: €5.7 billion), representing **earnings per share** of €5.71 (2011: €5.32). ↗ 3.23

The calculation of earnings per share (basic) is based on an average number of outstanding shares of 1,066.8 million (2011: 1,066.0 million).

Dividend

We want our shareholders to participate appropriately in our financial success. In setting the dividend, we aim to distribute approximately 40% of the net profit attributable to Daimler shareholders. The Board of Management and the Supervisory Board will propose to the shareholders for their approval at the Annual Meeting to be held on April 10, 2013 that a dividend of €2.20 per share be paid out (2011: €2.20). The total dividend payment will then amount to €2,349 million (2011: €2,346 million). ↗ 3.24

Research and development, environmental protection

Research and development is an important success factor. Research and development have always been given very high priority at Daimler. Our research activities help us to anticipate trends as well as customers' desires and the requirements they place on future mobility, which are then consistently integrated into series products by our development engineers. Our goal is to provide our customers with exciting products and tailored solutions for needs-oriented, safe and sustainable mobility. We organize our technology portfolio and our core competencies to ensure that we achieve this goal.
see pages 164 ff

Key factors for the market success of our vehicles are the expertise, creativity and motivation of our employees in research and development. At the end of the year 2012, 21,100 persons were employed in Daimler's research and development departments around the world (end of 2011: 23,200). The decrease was primarily due to the deconsolidation of MBtech Group. see page 86 Of that total, 13,400 persons were employed at Group Research and Mercedes-Benz Cars Development (2011: 15,600), 5,600 at the Daimler Trucks division (2011: 5,500), 1,000 at the Mercedes-Benz Vans division (2011: 1,000) and 1,100 at Daimler Buses (2011: 1,100). More than 4,300 research and development personnel were employed outside Germany (2011: 4,400).

The largest sites in our research and development network are Sindelfingen and Stuttgart-Untertürkheim, in Germany. Our research and development locations in North America and Asia include Palo Alto, California and Portland, Oregon, as well as the research center for information and communication technology in Bangalore, India and the Global Hybrid Center in Kawasaki, Japan. And a new Daimler research and development center went into operation in Beijing during the year under review. Furthermore, we collaborate with various renowned research institutes worldwide and participate in international exchange programs for young scientists.

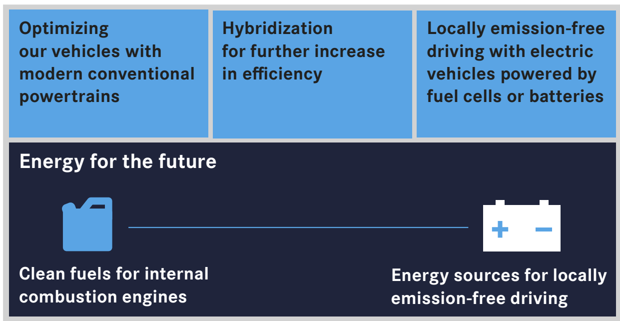
Effective involvement of the supplier industry. In order to achieve our ambitious goals, we collaborate intensively with the research and development departments of supplier companies. Particularly in view of rapid technological changes in the automotive industry and the need to bring new technologies to market maturity as quickly as possible, it is essential to coordinate our activities with supplier companies. But within the framework of joint research and development work, we ensure that core competencies in technologies important for the future of the automobile and for the uniqueness of our brands remain at the Group.

2,200 patents filed. Daimler newly registered a total of 2,200 patents in the year 2012 (2011: 2,175), most of which were in the areas of drive systems and safety. More than 1,000 patent applications related to the issue of emission-free mobility, in particular electric drive systems using power from batteries or fuel cells. In the coming years, we will further extend our technology and innovation leadership across all products and brands with the advantage of our industrial property rights.

€5.6 billion for research and development. We intend to continue playing an active part in shaping the technological transformation facing the automotive industry with pioneering innovations in the future. We therefore invested the large amount of €5.6 billion in research and development, the same as in the prior year. As in 2011 €1.5 billion of that amount was capitalized. Research and development expenditure also remained at a high level as a proportion of revenue, at a rate of 4.9% (2011: 5.3%). Based on our "Road to Emission-free Mobility" strategy, the main focus of our work was in the area of new, extremely fuel-efficient and environmentally friendly drive technologies in all automotive divisions. ↗ 3.25. We worked on optimizing conventional drive technologies as well as on achieving further efficiency improvements through hybridization and with electric vehicles using fuel cells or batteries. In order to further enhance the efficiency of our vehicles, we are also improving other key automotive aspects – from energy management to lightweight construction. Another focus of our activities is on new safety technologies: In the context of our "Vision of Accident-free Driving," we are pursuing the goal of avoiding accidents as far as possible and of alleviating the consequences to occupants and other road users of any accidents that might still occur.

The most important projects at Mercedes-Benz Cars were the additional models in the compact class and the new S-Class, the new E-Class and the successor models of the C-Class. In addition, we are continually working on new generations of engines and alternative drive systems. Total research and development expenditure at Mercedes-Benz Cars of €3.9 billion was once again higher than the high level of the prior year (2011: €3.7 billion). Daimler Trucks invested €1.2 billion in research and development projects (2011: €1.3 billion). The main areas there were the Arocs (a new Mercedes-Benz construction-site truck), the Antos (specially developed for heavy-duty distribution transport), new medium and heavy-duty engines, and successor generations of existing products. The focus of R&D expenditure at Mercedes-Benz Vans was on the successor models of the Vito and Viano and the new generation of the Sprinter. The Daimler Buses division concentrated its development activities on new products, the fulfillment of new emission standards and alternative drive systems. ↗ 3.26 ↗ 3.27

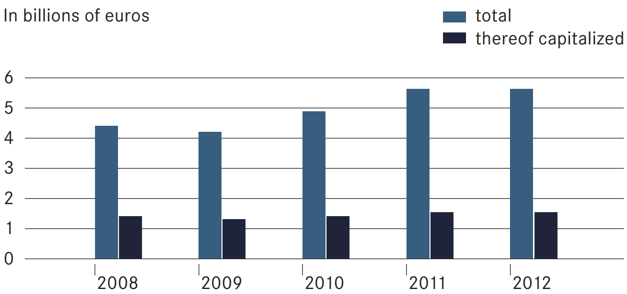
3.25
Road to emission-free mobility



Further reductions of our cars' CO_2 emissions. Thanks to our new and fuel-efficient engines and the particularly economical "BlueEFFICIENCY" models, we were able to reduce the average CO_2 emissions of the cars we sell in the European Union to 140 grams per kilometer in 2012 (2011: 150 g/km). We thus achieved an above-average reduction in the CO_2 emissions of our vehicle fleet once again in 2012, simultaneously undercutting the EU targets for this year. Our new models consume up to 30% less fuel than their predecessor models. The E 220 CDI BlueEFFICIENCY Edition, which has been available since March 2012, is one of the most economical cars in its segment. Thanks to various efficiency-enhancing features such as an aerodynamics package, electric power-assisted steering (EPS), a longer rear-axle ratio and tires with low roll resistance, this E-Class model emits only 119 g CO_2/km – ten grams or almost 8% less than before. That represents 4.5 liters of diesel per 100 kilometers. With the record figures of 4.1 liters of diesel per 100 km and 107 g CO_2/km, in June 2012 we launched the new E 300 BlueTEC HYBRID as the world's most fuel-efficient large sedan. The most fuel-efficient Mercedes-Benz of all time is the A 180 CDI BlueEFFICIENCY Edition, which we have been shipping to customers since March 2013. It uses only 3.6 liters of diesel per 100 kilometers and has CO_2 emissions of just 92 g/km. Meanwhile, more

3.26

Research and development expenditure



3.27

Research and development expenditure by division

in millions of euros	2012	2011	12/11 % change
Daimler-Group	5,644	5,634	+0
thereof capitalized	1,465	1,460	+0
Mercedes-Benz Cars	3,863	3,733	+3
thereof capitalized	1,125	1,051	+7
Daimler Trucks	1,197	1,321	-9
thereof capitalized	180	251	-28
Mercedes-Benz Vans	371	358	+4
thereof capitalized	137	126	+9
Daimler Buses	222	225	-1
thereof capitalized	23	32	-28

than 57% of our cars sold in Europe have CO_2 emissions of less than 140 g/km. We will reduce fuel consumption and CO_2 emissions even further in the future with innovative technologies for locally emission-free mobility. Our goal is to reduce the average CO_2 emissions of our new car fleet in the European Union to 125 grams per kilometer by 2016. In recent years, we have continuously reduced the emission of pollutants by our cars: by more than 80% since 1995 and by approximately 40% in the past five years. Even bigger reductions are achieved by our cars with BlueTEC diesel engines. We are global leaders for diesel engines with the BLUETEC technology. Our BLUETEC automobiles fulfill the strictest emission standards and are the cleanest diesel cars in the world. see pages 164 ff

Commercial vehicles with low fuel consumption and emissions. We have also continuously reduced the emissions of CO_2 and harmful substances by our commercial vehicles in recent years. We managed this, in combination with the introduction of the BLUETEC technology, with new and more efficient engines, needs-oriented axle ratios and improvements to tires and aerodynamics. With our new heavy-duty truck engines, we are the first manufacturer to fulfill the Euro VI emission standards that will be take effect in 2014. At the same time, those engines' fuel consumption is lower than for the predecessor models: up to 7% better with Euro V and up to 4% better with Euro VI, despite exhaust-gas after-treatment. This makes our new Actros and Antos model series the cleanest and most fuel-efficient vehicles in their class. In the North American market, we will set new standards for fuel consumption as of the year 2013 with the Freightliner Cascadia Evolution heavy truck: The new truck will consume up to 7% less fuel than the current model. This was measured and independently confirmed in a one-week test drive across the United States. Our new buses also deliver impressive fuel consumption figures. In the Record Run Buses 2012, the new Mercedes-Benz Citaro city bus and the new Setra ComfortClass 500 coach with Euro VI proved that buses are also able to fulfill the Euro VI emission limits while reducing fuel consumption by more than 8%. see page 166

In particular with trucks and vans for local deliveries and with buses, fuel consumption can be significantly reduced also with the application of hybrid drive technology. The new Fuso Canter Eco Hybrid consumes approximately 25% less fuel than a comparable diesel truck and the Freightliner M2e Hybrid uses up to 30% less fuel than the conventional diesel-engined M2 106. No other manufacturer of commercial vehicles has more experience, testing and technology ready for series production in the field of alternative drive systems and electric mobility – from vans to trucks to buses. Worldwide, more than 880,000 environmentally friendly commercial vehicles from Daimler with SCR technology and another 18,000 with alternative drive technology are on the road.

For our total fleet in Europe, we want to reduce our trucks' fuel consumption by an average of 20% per ton per kilometer during the period of 2005 through 2020. To achieve this goal, we continue to work hard on technological innovations.

€2.8 billion for environmental protection. Once again in the year 2012, we intensively pursued the goal of preserving resources and reducing all relevant emissions. We take the effects of all our processes into consideration – from vehicle development to production and to recycling and environmentally friendly disposal. Last year, we increased our spending on environmental protection by 9% to €2.8 billion.

Far-reaching recyclability of end-of-life vehicles. In order to increase the environmental compatibility of our vehicles, we reduce their emissions and use of resources over their entire lifecycles. We therefore consider the needs of recycling already in the stages of design and development. All Mercedes-Benz models are 85% material recyclable and 95% recoverable – so we already fulfill the stipulations of the EU regulations that come into force in 2015.

Proven elements of our recycling concept include the resale of tested and certified used parts, the reconditioning of so-called exchange parts, and the workshop disposal system, MeRSy Recycling Management.

Extensive activities for environmental protection in production. With the help of environmentally friendly production methods, we have succeeded in recent years in reducing our plants' energy consumption, CO_2 emissions, production-related solvent emissions and noise pollution. For example, from 2007 to 2012, energy consumption increased at a much lower rate than the growth in production: by just 2.4% to €10.9 million megawatt hours. During the same period, total CO_2 emissions decreased by 12% to 3.2 million tons due to the changeover to energy sources with lower CO_2. With the energy-saving projects now running, we have been at least partially able to compensate for the additional energy consumption resulting from the growth in production and the start-up of the two new plants in India and Hungary. Compared with the prior year, energy consumption therefore rose only slightly by 6% and CO_2 emissions increased by only 0.5%. With resource-conserving technologies such as circulation systems, we reduce water consumption between 2007 and 2012 by more than 4%. Compared with the prior year, water consumption was unchanged despite the increased production.

In the area of waste management, our guiding principle is that avoidance and recycling are better than disposal. The recycling and reuse of raw materials and manufacturing supplies has therefore been standard practice in our plants for many years. In order to avoid waste right from the start, we apply innovative technical methods and an environmentally friendly production planning system. Most of the waste that we cannot avoid is reused; the average recycling ratio of waste from our plants is above 92%. In some plants, nearly 100% of all waste is recycled, so sending waste to landfills is almost completely avoided.

We make use of comprehensive environmental management systems in our efforts to make further progress in the field of environmental protection. More than 98% of our employees worldwide work in plants whose environmental management systems have been certified according to ISO 14001 or EMAS environmental standards.

The figures stated for the year 2012 are based on extrapolations; the exact figures will be released with the publication of the new Sustainability Report in April 2013.
daimler.com/sustainability

Employment

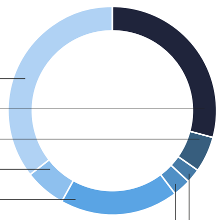
Workforce growth. As of December 31, 2012, the Daimler Group employed a total of 275,087 people. Due to the significant increase in our business volumes, the workforce grew by 3,717 persons. While the number of employees in Germany decreased slightly to 166,363 (2011: 167,684), there was growth in the United States to 21,720 (2011: 20,702). At year-end, 14,610 people were employed in Brazil (2011: 14,533) and 11,286 in Japan (2011: 11,479). Our consolidated subsidiaries in China employed a total of 2,730 people at the end of last year (2011: 2,121). The number of apprentices and trainees at the Group was 8,267 (2011: 8,499). The parent company, Daimler AG, employed 149,644 people as of December 31, 2012 (2011: 148,651).

Employment at the Daimler Trucks and Daimler Financial Services divisions increased significantly in the year under review (+4% and +10% respectively). While there were slight increases compared with the end of 2011 also at Mercedes-Benz Vans (+0%) and in our sales and marketing organization (+2%), fewer people were employed by Mercedes-Benz Cars (-1%) and Daimler Buses (-3%). ↗ 3.28 Further information on the development of employment and other personnel topics can be found in the chapter "Human Resources" of this Annual Report. see pages 168 f

High level of profit sharing. Daimler's Board of Management and General Works Council had agreed that there would be a high performance participation bonus for the successful year 2011. At the end of April 2012, an amount of €4,100 was paid to each eligible employee of Daimler AG. This is a clear sign of recognition of our employees' hard work and commitment.

3.28
Employees by division

Daimler Group	275,087
Mercedes-Benz Cars	98,020
Daimler Trucks	80,519
Mercedes-Benz Vans	14,916
Daimler Buses	16,901
Sales Organization	50,683
Daimler Financial Services	7,779
Other	6,269



Despite the worsening economic environment, the year 2012 also drew to a successful conclusion. Therefore, the eligible employees of Daimler AG in Germany will once again be rewarded with a fair and appropriate performance participation bonus. We will inform of the exact level of that bonus as soon as the Board of Management and the Group Works Council have decided on criteria for the performance participation bonus with long-term validity. The payout is planned for April 2013 as usual.

Average age at prior-year level. The average age of our employees worldwide in 2012 was 41.9 (2011: 41.9). In Germany, the average age of the employees was 43.1 (2011: 43.0). In our core workforce in Germany, the proportion of employees who are 50 or over is currently 30%. That proportion can increase to approximately 50% in the next ten years. This demographic trend will be accelerated by wage-tariff and statutory conditions such as retirement at the age of 67.

In order to meet the challenges presented by this demographic development, we have firmly anchored generation management in our human resources strategy. The management of an aging workforce requires on the one hand workplaces appropriate for older people, and on the other hand the safeguarding of our employees' knowledge and experience.

Employees' average period at the Group and proportion of women in management positions. The average period for which Daimler employees have been at the Group was close to the prior-year level at 15.8 years in 2012 (2011: 15.9). At the end of the year, Daimler Group employees in Germany had been with us for an average of 18.8 years (2011: 18.8); the average for employees of Daimler AG was 19.1 years (2011: 19.0). The average period for our employees outside Germany was 11.0 years (2011: 11.2). Women accounted for 14.4% of the total workforce of Daimler AG at the end of 2012 (2011: 13.9%). In management positions of Levels 1 to 4, the proportion of women increased from last year's 12.4% to 13.4%.

Procurement

Global procurement activities. The Daimler Group's procurement organization consists of three departments – Procurement Mercedes-Benz Cars and Vans, Procurement Daimler Trucks and Buses, and International Procurement Services for non-production materials – and is present at more than 50 locations all over the world. The goal of the procurement organization is to create the world's most effective supplier network and thus to contribute to Daimler's overall success. The best suppliers are recognized each year for their outstanding performance with the Daimler Supplier Award. In the context of the Daimler Key Supplier Meetings in 2012, we also awarded a special prize in the category of "Partnership" to our Japanese suppliers. Above all, this was to honor the exceptional commitment of our Japanese partners with the reconstruction of the supply chain after the natural disaster in March 2011.

Performance-oriented partnership with our suppliers. Under the "Commitment to Excellence" motto, the Daimler Supplier Network (DSN) defines the business philosophy of Daimler's procurement organization. Its principles are performance and partnership: With the help of the external balanced scorecard, suppliers' performance is measured in the categories of quality, technology, costs and reliability. To us, partnership means fairness, dependability and credibility.

Sustainability and integrity in procurement. In order to be successful also in the future, we take our responsibility to the environment and society very seriously. Our suppliers are contractually obliged to fulfill the standards we have defined in the areas of business ethics, environmental protection and human rights. In addition, they are also required to propagate those standards in their upstream value chains. We support our suppliers with this task by providing targeted information and extensive possibilities to obtain further qualifications. The central information platform for this is the Daimler Supplier Portal. In 2012, we reformulated our principles and the expectations we place on our suppliers with regard to the topic of integrity, and communicated them to our suppliers around the world in the form of a brochure.

Expansion of local sourcing activities. Daimler is expanding its procurement activities in international markets. In the future, we want to purchase more from local suppliers – especially in those countries where we are expanding our production activities. In 2012 for example, we started various activities for the development of local suppliers and sub-suppliers in the BRIC countries.

Prices of raw materials remain volatile. Market uncertainty in connection with the European sovereign-debt crisis once again led to large price fluctuations in raw-material and capital markets in 2012. After the economy-related fall in raw-material prices in late 2011, the trend reversed in early 2012 and led to significant price increases, especially in the first quarter. As the year progressed, somewhat lower raw-material prices were offset by the euro's loss in value. Overall, the development of prices continued to be very volatile. Daimler protects itself against price fluctuations with a number of measures, including long-term agreements and hedging transactions.

Continuous risk management. In the year 2012, we continued to regularly monitor the financial development of our suppliers in the context of our risk management. We focused on refinancing, the development of working capital and the continuation of productivity-enhancing projects. Due to the great importance of suppliers for our production processes, the Daimler Supplier Risk Board convenes regularly. If required, it also develops and decides on measures so that we can react at short notice to any potential supplier insolvencies.

Information technology

Efficient design of business processes. Daimler's internal IT organization (Information Technology Management – ITM) has approximately 5,000 employees worldwide and is involved in nearly all of the Group's business processes – from product development to vehicle production to sales and financing workflows. In addition, it is playing an increasingly central role with the design of new business models or mobility concepts. The key task of information technology (IT) consists of providing these business processes with efficient and innovative systems, thus ensuring that business activities can run smoothly. Through the integration of IT into business processes and the growing networking of data, systems and sites, there is a rising worldwide requirement for flexible IT solutions that can be quickly adapted to the divisions' needs.

Information security remains a key topic. The benefits of effective data access and the risks of potential damage from data misuse have to be permanently compared and evaluated. This applies in particular to data that is subject to data protection. ITM therefore moderates and monitors the classification of data into the categories of public, internal, confidential and secret. Furthermore, courses were started in 2012 to train Daimler's employees all over the world in 21 languages in the principles of information security.

Development of IT landscapes in growth markets. With modular and flexible IT solutions, we once again made an important contribution in 2012 to expanding the divisions' presence in growth markets and enhancing their effectiveness. For example in Chennai, India, the "IT Readiness" project prepared the IT landscape for production at BharatBenz. And in Beijing, China, we applied "BBAC Future IT" at the Chinese joint venture Beijing Benz Automotive Co. to introduce the local IT infrastructure and IT support for all relevant processes for the plant's expansion. Standardized IT landscapes were implemented in Kecskemét, Hungary, and for the joint venture with Foton in China. Within the framework of cooperation with Renault-Nissan, ITM provided the IT solutions for all business processes from engineering to after sales.

In order to perform the upcoming tasks, we have recruited properly qualified specialist personnel in the growth markets. In the past two years, the IT staff was nearly tripled in China and doubled in Turkey. In total, the number of qualified IT employees has grown by almost 70% in the markets of China, Turkey, India and Brazil.

Growth through IT efficiency. Efficient IT systems are becoming increasingly important for the development of new markets and the launch of new vehicles. An example of this is the logistics systems in the car plants of Mercedes-Benz, which we are continually modernizing. With the "Automotive Supply" project, we changed over the Bremen plant in 2012 – after Rastatt and Kecskemét – to an ultra-modern and thoroughly integrated SAP system. Also in the after-sales business, we are creating the right conditions for significant efficiency advances with the start of the "Service Parts Management@ Mercedes-Benz" project. In this project, we will replace approximately 50 logistics systems with an integrated IT system for order, inventory and supplier management, and will replace the inventory management at seven locations by 2018. As the first step, an optimized inventory control and management system will be rolled out in the European regional warehouses.

"Always on" – IT is a factor for value added and innovation. An effective IT landscape not only ensures efficient workflows, it also enhances the Group's attractiveness as an innovative employer.

This is supported by the Group-wide "next workplace" project, whose mass rollout was started in the fourth quarter of 2012. Approximately 200,000 PC workplaces will be migrated worldwide to a uniform, modern and effective collaboration platform. More than 10,000 mailboxes and some 100,000 PCs were changed over to a new operating system and new software in 2012. In addition, the platform will promote inter-team cooperation also in virtual teams.

The IT organization also plays a key role with mobility concepts. With the "moovel" mobility platform, which is running in Stuttgart and Berlin as a pilot project, Daimler is consistently developing the idea of individual mobility for different groups of customers. IT forms the technical back-end platform. It networks the various mobility providers' individual services and allows access to the services offered via smartphones, PCs and tablet computers.

The digital integration of the sales process (web-based sales workplace "Mercedes-Benz Point of Sales", MBC POS), which was started in the prior year, was continued in 2012. Sales discussions link up seamlessly with customers' Internet inquiries – for example via the new Mercedes-Benz car configurator with 3D images. Sales personnel have access to an interface with all the required functions – from the configuration of new cars to cars in stock to financial services. Following a successful start in the Swiss market, we integrated additional dealerships in the United Kingdom into the pilot operation in 2012. At the same time, selected sales processes were realized in MBC POS for mobile devices such as tablets, allowing customer advice directly at or in the vehicle.

Awards for excellent IT services. ITM's services have once again received external awards: In the GreenIT Best Practice Awards 2012, Daimler took first place in the category of "Green through IT." In addition, Daimler Trucks North America received the "Top 20 Innovation Award" from the magazine "Heavy Duty Trucking" for an innovative diagnosis system which carries out an analysis of engine electronics in real time. And the IT organization received the "SAP Quality Award in Gold" for quality in project management with the implementation of a project in the logistics of the after-sales area. Furthermore, the Daimler-subsidiary TSS GmbH received "Europe's IT Workplace 2012 Award." This is given by the internationally active Best Quality Institute to the best employers in the IT sector.

Liquidity and Capital Resources

Principles and objectives of financial management

Financial management at Daimler consists of capital structure management, cash and liquidity management, pension asset management, market price risk management (foreign exchange rates, interest rates, commodity prices) and credit and financial country risk management. Worldwide financial management is performed within the scope of legal requirements for all Group entities by Treasury. Financial management operates within a framework of guidelines, limits and benchmarks, and is organizationally separate from other financial functions such as settlement, financial controlling, reporting and accounting.

Capital structure management designs the capital structure for the Group and its subsidiaries. Decisions regarding the capitalization of financial services companies, as well as production, sales and financing companies, are based on the principles of cost-optimized and risk-optimized liquidity and capital resources. In addition, it is necessary to adhere to various restrictions on capital transactions and on the transfer of capital and currencies.

Liquidity management secures the Group's ability to meet its payment obligations at any time. For this purpose, liquidity planning provides information about all cash flows from operating and financial activities in a rolling plan. The resulting financial requirements are covered by the use of appropriate instruments for liquidity management (e.g. bank credits, commercial papers, notes); liquidity surpluses are invested in the money market or the capital market to optimize risk and return. Our goal is to ensure the level of liquidity regarded as necessary at optimal costs. Besides operational liquidity, Daimler keeps additional liquidity reserves which are available in the short term. These additional financial resources include a pool of receivables from the financial services business which are available for securitization in the credit market, as well as a contractually confirmed syndicated credit line in a volume of €7 billion.

Cash management determines the Group's cash requirements and surpluses. The number of external bank transactions is minimized by the Group's internal netting of cash requirements and surpluses. Netting is done by means of cash-concentration or cash-pooling procedures. Daimler has established standardized processes and systems to manage its bank accounts, internal cash-clearing accounts and the execution of automated payment transactions.

Management of market price risks aims to minimize the impact of fluctuations in foreign exchange rates, interest rates and commodity prices on the results of the divisions and the Group. The Group's overall exposure to these market price risks is determined to provide a basis for hedging decisions, which include the definition of hedging volumes and corresponding periods as well as the selection of hedging instruments. Decisions regarding the management of risks resulting from fluctuations in foreign exchange rates and commodity prices, as well as decisions on asset/liability management (interest rates), are regularly made by the relevant committees.

Management of pension assets includes the investment of pension assets to cover the corresponding pension obligations. Pension assets are held in separate pension funds and are thus not available for general business purposes. The funds are allocated to different asset classes such as equities, fixed-interest securities, alternative investments and real estate, depending on the expected development of pension obligations and with the help of a process for risk-return optimization. The performance of asset management is measured by comparing with defined reference indices. Local custodians of the pension funds are responsible for the risk management of the individual pension funds. The Global Pension Committee limits these risks by means of a Group-wide binding guideline with due consideration of applicable laws. Additional information on pension plans and similar obligations is provided in Note 22 of the Notes to the Consolidated Financial Statements.

The risk volume that is subject to **credit risk management** includes all of Daimler's worldwide creditor positions with financial institutions, issuers of securities and customers in the financial services business and automotive businesses. Credit risks with financial institutions and issuers of securities arise primarily from investments executed as part of our liquidity management and from trading in derivative financial instruments. The management of these credit risks is mainly based on an internal limit system that reflects the creditworthiness of the respective financial institution or issuer. The credit risk with customers of our automotive businesses relates to contracted dealerships and general agencies, other corporate customers and retail customers. In connection with the export business, general agencies that according to our creditworthiness analysis are not sufficiently creditworthy are generally required to provide collateral such as first-class bank guarantees. The credit risk with end customers in the financial services business is managed by Daimler Financial Services on the basis of a standardized risk management process. In this process, minimum requirements are defined for the sales financing and leasing business and standards are set for credit processes as well as for the identification, measurement and management of risks. Key elements for the management of credit risks are appropriate creditworthiness assessments, supported by statistical analyses and evaluation methods, as well as structured portfolio analysis and monitoring.

Financial country risk management includes various aspects: the risk from investments in subsidiaries and joint ventures, the risk from the cross-border financing of Group companies in risk countries, and the risk from direct sales to customers in those countries. A Credit Committee sets country limits for this cross-border financing. Daimler has an internal rating system that divides all countries in which it operates into risk categories. Equity capital transactions in risk countries are hedged against political risks with the use of investment-protection insurance such as the German government's investment guarantees. Some cross-border receivables due from customers are protected with the use of export-credit insurance, first-class bank guarantees and letters of credit. In addition, a committee sets and restricts the level of hard-currency credits granted to financial services companies in risk countries.

Additional information on the management of market price risks, credit default and liquidity risks is provided in Note 31 of the Notes to the Consolidated Financial Statements.

Cash flows

Cash provided by operating activities ↗ 3.29 of minus €1.1 billion was lower than in the prior year. There were negative effects from the lower net profit before income taxes and the higher volume of new business in the area of leasing and sales financing. The increase in working capital was slightly higher than in the prior year. The comparatively low increase of inventories and the decrease of trade receivables did not fully offset the development of trade payables. Positive effects resulted from lower income-tax payments (€2.1 billion; 2011: €2.8 billion); the prior year was significantly affected by payments of income taxes for previous years in North America. The year-on-year comparison is also affected by significantly lower contributions to pension funds (€1.1 billion; 2011: €2.0 billion).

3.29
Condensed consolidated statement of cash flows

In millions of euros	2012	2011	12/11 Change
Cash and cash equivalents at beginning of year	9,576	10,903	-1,327
Net cash from operating activities	-1,100	-696	-404
Net cash used in investing activities	-8,864	-6,537	-2,327
Net cash from financing activities	11,506	5,842	5,664
Effect of exchange-rate changes on cash and cash equivalents	-122	64	-186
Cash and cash equivalents at end of year	10,996	9,576	1,420

3.30

Free cash flow of the industrial business

In millions of euros	2012	2011	12/11 Change
Net cash from operating activities	7,527	7,346	+181
Net cash used in investing activities	-8,166	-6,263	-1,903
Changes in marketable debt securities	2,699	-36	+2,735
Other adjustments	-608	-58	-550
Free cash flow of the industrial business	1,452	989	+463

3.31

Net liquidity of the industrial business

In millions of euros	Dec. 31, 2012	Dec. 31, 2011	12/11 Change
Cash and cash equivalents	9,887	8,908	+979
Marketable debt securities	3,841	1,171	+2,670
Liquidity	13,728	10,079	+3,649
Financing liabilities	-2,883	2,275	-5,158
Market valuation and currency hedges for financing liabilities	663	-373	+1,036
Financing liabilities (nominal)	-2,220	1,902	-4,122
Net liquidity	11,508	11,981	-473

3.32

Net debt of the Daimler Group

In millions of euros	Dec. 31, 2012	Dec. 31, 2011	12/11 Change
Cash and cash equivalents	10,996	9,576	+1,420
Marketable debt securities	5,598	2,281	+3,317
Liquidity	16,594	11,857	+4,737
Financing liabilities	-76,251	-62,167	-14,084
Market valuation and currency hedges for financing liabilities	665	-369	+1,034
Financing liabilities (nominal)	-75,586	-62,536	-13,050
Net debt	-58,992	-50,679	-8,313

Cash used for investing activities ↗ 3.29 amounted to €8.9 billion (2011: €6.5 billion). The increase compared with the prior year was primarily the result of higher investments in property, plant and equipment and intangible assets. In addition, there were significantly higher overall (net) outflows from purchases and sales of securities carried out in the context of liquidity management. The flows of payments for sales and acquisitions of equity interests led to a net cash inflow in 2012, while acquisitions significantly exceeded sales in the prior year. In 2012, shares in EADS and MBtech Group were sold and Daimler also made capital contributions to Engine Holding and the joint venture of Daimler Trucks in China.

Cash flows from financing activities ↗ 3.29 resulted in a net cash inflow of €11.5 billion (2011: €5.8 billion), which almost solely reflects new borrowing (net). There was an opposing effect from the higher dividend paid to the shareholders of Daimler AG and from the increased dividend payments to shareholders of non-controlling interests of subsidiaries.

Cash and cash equivalents increased compared with December 31, 2011 by €1.4 billion, after taking currency translation into account. Total liquidity, which also includes marketable debt securities, rose by €4.7 billion to €16.6 billion.

The parameter used by Daimler to measure the financing capability of the Group's industrial activities is the **free cash flow of the industrial business** ↗ 3.30, which is derived from the reported cash flows from operating and investing activities. On that basis, a correction is made in the amount of the cash flows from the acquisition and sale of marketable debt securities included in cash flows from investing activities, as those securities are allocated to liquidity and changes in them are thus not a part of the free cash flow.

Other adjustments relate primarily to additions to property, plant and equipment that are allocated to the Group as their beneficial owner due to the form of their underlying lease contracts. Effects from the financing of dealerships within the Group have also been adjusted. Other adjustments include acquisitions of non-controlling interests in subsidiaries, which are reported as part of cash used for financing activities.

The free cash flow of the industrial business amounted to €1.5 billion in 2012.

The positive profit contributions of the industrial business were offset by the increase in working capital, defined as the net change in inventories, trade receivables and trade payables, with a total amount of €0.8 billion. Positive effects resulted from the sale of trade receivables of companies in the industrial business to Daimler Financial Services. High investments in property, plant and equipment and intangible assets as well as capital contributions to Engine Holding and the joint venture of Daimler Trucks in China led to cash outflows. Other positive effects resulted from the sale of shares in EADS and MBtech Group. In addition, income tax and interest payments reduced the free cash flow of the industrial business.

The **net liquidity of the industrial business** ↗ 3.31 is calculated as the total amount as shown in the balance sheet of cash, cash equivalents and marketable debt securities included in liquidity management, less the currency-hedged nominal amounts of financing liabilities.

To the extent that the Group's internal refinancing of the financial services business is provided by the companies of the industrial business, this amount is deducted in the calculation of the net debt of the industrial business.

Compared with December 31, 2011, the net liquidity of the industrial business decreased by €0.5 billion to €11.5 billion. The reduction was mainly caused by the free cash flow and the payment of the dividend to the shareholders of Daimler AG for the year 2011.

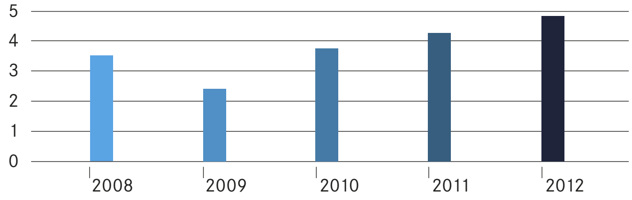
Net debt at Group level ↗ 3.32, which primarily results from the refinancing of the leasing and sales financing business, increased by €8.3 billion compared with December 31, 2011. The increase was primarily the result of the higher volume of new business in the area of leasing and sales financing and the payment of the dividend for the year 2011. There was also an impact from the positive free cash flow of the industrial business.

Capital expenditure

Renewed increase in investment. ↗ 3.33 In the context of our global growth strategy, we want to make good use of the opportunities presented by international automotive markets. This requires substantial capital expenditure on local production facilities, new products and new technologies. In 2012, we therefore once again significantly increased our investment in property, plant and equipment to €4.8 billion (2011: €4.2 billion). Of that total, €3.3 billion was invested in Germany (2011: €2.7 billion). In relation to revenue, investment in property, plant and equipment reached the very high proportion of 4.2% (2011: 3.9%).

At Mercedes-Benz Cars, investment in property, plant and equipment increased by 28% to €3.5 billion in 2012. ↗ 3.34 One focus was on the expansion of production capacities for our new compact-class models at the Rastatt plant in Germany and at the new plant in Kecskemét, Hungary. In Sindelfingen, we invested in preparations for production of the new S-Class. In Tuscaloosa, USA, and in Bremen, preparations are already under way for production of the new C-Class as of 2014. At Daimler Trucks, the main areas of investment were the new Mercedes-Benz Antos for heavy-duty distribution transport, the new heavy construction-site truck Arocs and various projects for the global harmonization and standardization of engines and other main components and for meeting stricter emission regulations. We also invested in expanding our production capacities in Brazil and in the new plant in India, where trucks of the new BharatBenz brand have been rolling off the production line since mid-2012. Total investment in property, plant and equipment at Daimler Trucks amounted to €1.0 billion (2011: €1.2 billion). At the Mercedes-Benz Vans division, the focus of investment was on the new Citan small van and the successor generation of the Vito goods van and the Viano passenger van. We also invested in the production and marketing of the Sprinter in Argentina and in the expansion and modernization of the sales organization. The main investments at Daimler Buses in 2012 were in new products and the modernization of production facilities.

3.33
Capital expenditure
In billions of euros



3.34
Investment in property, plant and equipment by division

In millions of euros	2012	2011	12/11 % change
Daimler Group	4,827	4,158	+16
in % of revenue	4.2	3.9	
Mercedes-Benz Cars	3,495	2,724	+28
in % of revenue	5.7	4.7	
Daimler Trucks	989	1,201	-18
in % of revenue	3.2	4.2	
Mercedes-Benz Vans	223	109	+105
in % of revenue	2.5	1.2	
Daimler Buses	82	103	-20
in % of revenue	2.1	2.3	
Daimler Financial Services	23	21	+10
in % of revenue	0.2	0.2	

Refinancing

The fundings raised by Daimler in the year 2012 primarily served to refinance the leasing and sales-financing business. For this purpose, Daimler makes use of a broad spectrum of various financing instruments in different currencies and markets. They include bank credits, commercial papers in the money market and bonds with medium and long maturities. Customer deposits at Mercedes-Benz Bank and the securitization of receivables from customers in the financial services business (asset backed securities, ABS) serve as additional sources of refinancing.

Various issue programs are available for raising longer-term funds in the capital market. They include the Euro Medium Term Note program (EMTN) with a total volume of €35 billion, under which several companies of the Group can issue bonds in various currencies. Other capital-market programs – smaller than the EMTN program – exist in local markets such as South Africa, Mexico, Thailand and Argentina. Capital-market programs allow flexible, repeated access to the capital markets.

3.35

Refinancing instruments

	Average interest rates		Book values	
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011
	in %		in millions of euros	
Notes/bonds and liabilities from ABS transactions	1.86	3.17	40,845	29,507
Commercial paper	1.52	1.00	1,768	1,233
Liabilities to financial institutions	3.80	4.16	20,210	19,175
Deposits in the direct banking business	2.13	2.40	12,121	11,035

In 2012, the Group covered its liquidity requirements mainly through the issuance of bonds. A large proportion of those bonds were placed in the form of so-called benchmark emissions (bonds with high nominal volumes) in the US dollar and euro markets. In addition, a large number of smaller bonds were issued in various currencies in the euro market as well as in Canada, South Africa, Mexico, Thailand, Brazil, Argentina and South Korea. The volume of bonds issued breaks down by currency as follows: approximately one third in US dollars, one third in euros and one third in other local currencies. We have thus further diversified our refinancing and further reduced our dependence on individual capital markets.

The ongoing high degree of uncertainty in the global financial markets – in particular the European sovereign-debt crisis – meant that corporate bonds could be placed at attractive conditions by issuers with good ratings. We took the opportunities that were offered and in the framework of our liquidity management tended to raise more funds with longer maturities.

Daimler also issued commercial papers in 2012, but in low volumes. In addition to a euro commercial paper program, upon which several European companies can draw, the Group has commercial paper programs in the United States, Canada, Australia, South Africa, Mexico and India, with which we can optimally supplement our local financing.

In the year 2012, the Group successfully placed several ABS transactions with investors in the United States. Receivables from customer and dealer financing in a volume of US$5.4 billion were securitized. We also increased an existing ABS transaction in Canada.

Another important source of refinancing in 2012 were bank credits. Funds were provided not only by large, globally active banks, but increasingly also by a number of smaller banks with more local activities. This allowed us further diversification in bank refinancing.

At the end of 2012, Daimler had short and long-term credit lines totaling €33.7 billion (2011: €29.0 billion), of which €12.2 billion was not utilized (2011: €9.3 billion). They included a syndicated credit line arranged in 2010 with a consortium of international banks with a volume of €7 billion and a maturity of five years, which was not utilized.

The carrying values of the main refinancing instruments and the weighted average interest rates are shown in table. ↗ 3.35 At December 31, 2012, they are mainly denominated in the following currencies: 45% in euros, 25% in US dollars, 5% in Brazilian real, 5% in Japanese yen and 3% in Canadian dollars.

At December 31, 2012, the total financial liabilities shown in the consolidated balance sheet amounted to €76,251 million (2011: €62,167 million).

Detailed information on the amounts and terms of financing liabilities is provided in Notes 24 and 31 of the Notes to the Consolidated Financial Statements. Note 31 also provides information on the maturities of the other financial liabilities.

Credit ratings

In the year 2012, there was one change in Daimler's credit ratings. The upgrade of our issuer rating from BBB+ to A- by the Standard & Poor's rating agency in February 2012 means that since then Daimler has had comparable credit ratings at the level of A- with all four of the agencies it has engaged. ↗ 3.36

On February 23, 2012, **Standard & Poor's Ratings Services** (S&P) lifted its long-term rating for Daimler AG from BBB+ to A-. At the same time, the short-term rating of A-2 was confirmed. The outlook was assessed as stable. With these actions, S&P stated that it was reacting to the significant improvement in Daimler's financial risk profile over the previous two years, whereby S&P already anticipated reduced dynamism in key sales markets during the rest of the year. In view of the significantly improved financial metrics, S&P assumes that Daimler will be able to maintain the ratings level it has now reached also in the case of a mild recession.

In its credit opinions of March 21 and September 21, 2012, **Moody's Investors Service** (Moody's) affirmed its existing long-term rating of A3. The outlook, which has been positive since August 2011, was also confirmed. Moody's thus recognized the strong position of Mercedes-Benz in the premium automobile segment, our worldwide presence and leading market position for commercial vehicles, and the improvement in the Group's profitability and cash flows since 2010. In its credit assessment, Moody's also considers the challenges posed for Daimler and especially for Mercedes-Benz by stricter emission regulations worldwide and the related technology costs and capital expenditure.

On June 5, 2012, **Fitch Ratings** (Fitch) also confirmed the existing long-term issuer rating of A- with a stable outlook, with reference to our sound financial metrics, our leading position in relevant markets, and long-term growth prospects for both cars and commercial vehicles. Fitch is of the opinion that the business fluctuations typical of the trucks business in connection with economic cycles are a factor limiting Daimler's rating prospects. On the other hand, Daimler Trucks will profit from the new products launched since the year 2011.

DBRS, the Canadian rating agency, confirmed its long-term rating for Daimler and its subsidiaries on October 25, 2012 at A (low) with a stable trend. DBRS is of the opinion that with its current financial profile, Daimler is very well positioned in that rating category. The agency assumes that the economic conditions for the car and commercial-vehicle business will generally continue to develop positively and that Daimler can participate successfully in that development. The Group's current high levels of investment should help to strengthen its long-term profitability.

The short-term ratings of all four rating agencies remained unchanged in 2012.

3.36
Credit ratings

	End of 2012	End of 2011
Long-term credit ratings		
Standard & Poor's	A-	BBB+
Moody's	A3	A3
Fitch	A-	A-
DBRS	A (low)	A (low)
Short-term credit ratings		
Standard & Poor's	A-2	A-2
Moody's	P-2	P-2
Fitch	F2	F2
DBRS	R-1 (low)	R-1 (low)

Financial Position

3.37

Consolidated statement of financial position

	Dec. 31, 2012	Dec. 31, 2011	12/11
In millions of euros			% change
Assets			
Intangible assets	8,885	8,259	+8
Property, plant and equipment	20,599	19,180	+7
Equipment on operating leases and receivables from financial services	75,118	68,378	+10
Investments accounted for using the equity method	4,646	4,661	.
Inventories	17,720	17,081	+4
Trade receivables	7,543	7,849	-4
Cash and cash equivalents	10,996	9,576	+15
Marketable debt securities	5,598	2,281	+145
Other financial assets	5,960	4,964	+20
Other assets	5,913	5,903	.
Total assets	162,978	148,132	+10
Equity and liabilities			
Equity	45,510	41,337	+10
Provisions	16,557	19,137	-13
Financing liabilities	76,251	62,167	+23
Trade payables	8,832	9,515	-7
Other financial liabilities	8,391	9,693	-13
Other liabilities	7,437	6,283	+18
Total equity and liabilities	162,978	148,132	+10

Consolidated statement of financial position

The **balance sheet total** increased compared with December 31, 2011 from €148.1 billion to €163.0 billion. Adjusted for the effects of currency translation, the increase amounted to €17.2 billion. The financial services business accounted for €85.5 billion or 52% of the Daimler Group's balance sheet total (December 31, 2011: €75.6 billion or 51%).

The increase in the balance sheet total is primarily due to the increases in equipment on operating leases, receivables from financial services, liquidity (cash and cash equivalents and marketable debt securities) and property, plant and equipment. This increase is accompanied on the liabilities side primarily by a higher level of financing liabilities and increased equity, while provisions decreased. Current assets account for 41% of the balance sheet total, at the level of a year earlier. Current liabilities account for 36% of the balance sheet total (December 31, 2011: 37%). ↗ 3.38

Intangible assets of €8.9 billion (December 31, 2011: €8.3 billion) include capitalized development costs of €7.2 billion (December 31, 2011: €6.7 billion). The increase is mainly accounted for by capitalized development costs at the Mercedes-Benz Cars segment. Capitalized development costs amounted to €1.5 billion, as in the prior year, and account for 26.0% of the Group's total research and development expenditure (2011: 25.9%). see page 100 ↗ 3.27

Capital expenditure ↗ 3.34 was higher than depreciation and caused **property, plant and equipment** to increase to €20.6 billion (December 31, 2011: €19.2 billion). In 2012, a total of €4.8 billion was invested in the launch of new products, the expansion of production capacities, and modernization – mainly at the sites in Germany.

Equipment on operating leases and receivables from financial services increased to a total of €75.1 billion (December 31, 2011: €68.4 billion). The increase of €7.9 billion adjusted for exchange-rate effects was caused by the higher level of new business due to growth in unit sales by the automotive divisions. The proportion of total assets is unchanged compared with the prior year at 46%.

Investments accounted for using the equity method of €4.6 billion primarily comprise the carrying amounts of our equity interests in EADS, Engine Holding, the two Chinese joint ventures (Beijing Foton Daimler Automotive in the truck business and Beijing Benz Automotive in the car business), and Kamaz. The decrease from the sale of 7.5% of the shares in EADS in December 2012 (minus €0.9 billion) was offset by capital contributions to Engine Holding (€0.2 billion) and the two Chinese joint ventures (€0.4 billion) and the equity-method earnings from our equity interests (€0.3 billion).

Inventories increased by €0.6 billion to €17.7 billion and account for 11% of total assets (December 31, 2011: 12%). Due to the shift in the regional sales structure, finished goods increased by €0.5 billion to €13.2 billion. Higher stocks of raw materials and manufacturing supplies were offset by lower volumes of work in progress.

Trade receivables decreased by €0.3 billion to €7.5 billion. The decrease compared with the prior year mainly relates to the Asian car and truck markets.

Cash and cash equivalents increased compared with the end of 2011 by €1.4 billion to €11.0 billion.

Marketable debt securities increased compared with December 31, 2011 from €2.3 billion to €5.6 billion. They consist of debt instruments quoted in an active market and are allocated to liquidity.

Other financial assets increased by €1.0 billion to €6.0 billion. They principally comprise investments and derivative financial instruments, as well as loans and other receivables due from third parties. The change was mainly caused by derivative financial instruments.

Other assets of €5.9 billion (December 31, 2011: €5.9 billion) primarily comprise deferred tax assets and tax refund claims.

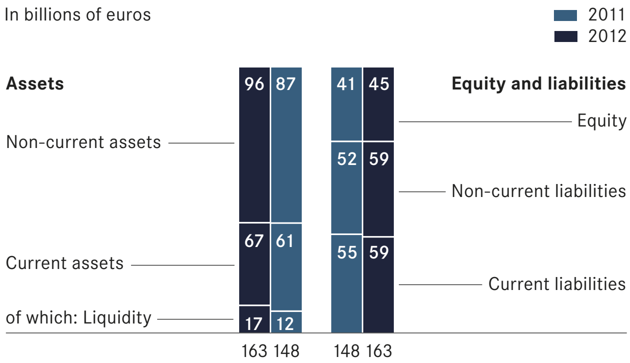
The Group's **equity** increased compared with December 31, 2011 by €4.2 billion to €45.5 billion. Net profit see page 97 ↗ 3.23 of €6.5 billion was partially offset by the distribution of the dividend ↗ 3.24 for the year 2011 of €2.3 billion as well as negative exchange-rate effects of €0.5 billion. For the year 2012, a dividend payment of €2.20 per share will be proposed.

The **equity ratio** was 26.5% for the Group (December 31, 2011: 26.3%) and 47.8% for the industrial business (December 31, 2011: 46.4%). The 2011 and 2012 equity ratios are adjusted for the paid and proposed dividend payments for the years 2011 and 2012.

3.38

Balance sheet structure Daimler Group

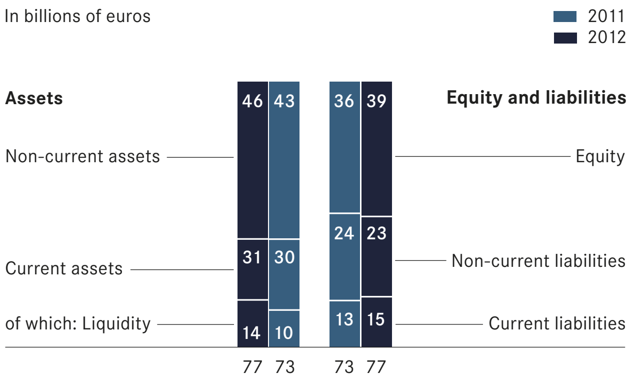
In billions of euros



3.39

Balance sheet structure industrial business

In billions of euros



Provisions of €16.6 billion were lower than at December 31, 2011 (€19.1 billion) and accounted for 10% of the balance sheet total (December 31, 2011: 13%). The decrease was caused by lower tax liabilities in connection with tax assessments of prior years and warranty obligations. Provisions for pensions were slightly lower than at the end of 2011.

Financing liabilities increased by €14.1 billion to €76.3 billion. The increase of €15.3 billion after adjusting for exchange-rate effects is mainly the result of the growing leasing and sales-financing business. Of the total financing liabilities, 47% are accounted for by bonds, 27% by liabilities to financial institutions, 16% by deposits in the direct banking business, and 7% by liabilities from ABS transactions.

Trade payables were reduced compared with the prior-year figure to €8.8 billion (December 31, 2011: €9.5 billion).

Other financial liabilities decreased by €1.3 billion to €8.4 billion. They mainly consist of liabilities from residual-value guarantees and wages and salaries, derivative financial instruments and accrued interest on financing liabilities. The change was primarily related to derivative financial instruments.

Other liabilities of €7.4 billion (December 31, 2011: €6.3 billion) primarily comprise deferred taxes, tax liabilities and deferred income. The increase is related to deferred taxes and deferred income.

Further information on the assets presented in the statement of financial position and on the Group's equity and liabilities is available in the Consolidated Statement of Financial Position see page 194 ↗ **7.03**, the Consolidated Statement of Changes in Equity see page 195 ↗ **7.04** and the related notes in the Notes to the Consolidated Financial Statements.

Funded status of pension obligations

The **funded status of the Group's pension benefit obligations**, defined as the difference between the present value of the pension obligations and the fair value of pension plan assets, amounts to minus €9.7 billion, compared with minus €6.5 billion at the end of the prior year. At December 31, 2012, the present value of the Group's pension obligations amounts to €23.9 billion, compared with €19.1 billion a year earlier. The increase resulted primarily from the reduction in the discount rate for German pension plans of 1.6 of a percentage point to 3.1%.

The plan assets available to finance the pension obligations increased mainly as a result of the income earned in the year 2012 (€1.3 billion) from €12.6 billion to €14.2 billion.

With the application of the amended IAS 19 as of January 1, 2013, actuarial losses, which were previously recorded off balance sheet (minus €8.3 billion), have to be entered in the statement of financial position with no effect on the statement of income; this reduces equity by €6.4 billion. We therefore continue to have a sound equity ratio of 22.6% for the Group and 39.7% for the industrial business.

Further information on the effects on the statement of financial position and the statement of income as well as on pensions and similar obligations is provided in Note 1 and Note 22 respectively of the Notes to the Consolidated Financial Statements.

Other financial commitments and off-balance-sheet transactions

In the context of its normal business operations, the Group has entered into **other financial commitments** in addition to the liabilities shown in the consolidated balance sheet at December 31, 2012. Those other financial commitments primarily relate to purchasing commitments and commitments to invest in property, plant and equipment and other agreements. The Group has also committed to make payments in connection with rental and leasing agreements for the use of production facilities and property, plant and equipment. In addition, Daimler Financial Services in particular has made irrevocable loan commitments within the framework of its business operations.

The table ↗ **3.40** provides an overview of these commitments and their maturities.

The Group's **off-balance-sheet transactions** relate to transactions in the context of which Daimler has provided guarantees and thus, in connection with these transactions, continues to be subject to risk. However, they do not include warranties and goodwill the Group provides on its products in the context of its vehicle sales. The guarantees reported by the Group (excluding product warranties) principally constitute financial guarantees. As guarantor, we generally guarantee that we will make the payments due from the principal debtor if it fails to fulfill its financial obligations. The maximum potential obligation resulting from these guarantees amounts to €0.9 billion at December 31, 2012 (end of 2011: €1.4 billion); provisions recognized in this context amount to €0.1 billion at the end of the year (end of 2011: €0.2 billion).

Most of the financial guarantees relate to the situations described as follows: In connection with the transfer of a majority interest in Chrysler, Daimler provides guarantees for Chrysler obligations; at December 31, 2012, these guarantees amounted to €0.3 billion, whereby Chrysler provided €0.2 billion on an escrow account as collateral for the guaranteed obligations. The prior-year figure included a guarantee for payments into the Chrysler pension plans, the term of that guarantee expired in August 2012. Another financial guarantee of €0.1 billion relates to bank loans of Toll Collect GmbH, the operator company of the toll-collection system for trucks in Germany.

Other risks arise from an additional guarantee that the Group provided for obligations of Toll Collect GmbH to the Federal Republic of Germany. This guarantee is related to the completion and operation of the toll-collection system. A claim on this guarantee could primarily arise if for technical reasons toll revenue is lost or if certain contractually defined parameters are not fulfilled, if the Federal Republic of Germany makes additional claims or if the final operating permit is not granted. Furthermore, arbitration proceedings have been initiated against the Group. The maximum obligation that could result from this guarantee is substantial, but cannot be reliably estimated.

Furthermore, the Group has issued a number of smaller guarantees, some of which specify that Daimler guarantees the financial obligations of companies which supply us with parts, vehicle components or services, or which lease production facilities to us.

Buyback obligations arise for the Group from agreements under which we guarantee to customers certain trade-in or resale values for sold vehicles. Most of these guarantees provide the holder with the right to return purchased vehicles to the Group if the customer acquires another vehicle from Daimler. At December 31, 2012, the maximum potential obligation from these guarantees amounted to €0.8 billion (December 31, 2011: €0.7 billion); provisions recognized in this context amounted to €115 million at December 31, 2012 (December 31, 2011: €44 million).

Further information on other financial commitments and contingent liabilities from guarantees granted as well as on the electronic toll-collection system and related risks is provided in Note 29 (Guarantees and other financial commitments) and Note 28 (Legal proceedings) of the Notes to the Consolidated Financial Statements.

3.40
Other financial commitments

		Payments falling due:			
	Total	within 1 year	in 1-3 years	in 4-5 years	after 5 years
In millions of euros					
Purchasing agreements, investments in property, plant and equipment and other agreements	10,159	7,290	1,869	700	300
Future lease payments under rental and leasing agreements	2,139	360	575	437	767
Irrevocable loan commitments	1,022	672	176	174	-

Daimler AG

Condensed version according to the German Commercial Code (HGB)

In addition to reporting on the Daimler Group, in this chapter, we also describe the development of Daimler AG.

Daimler AG is the parent company of the Daimler Group and is domiciled in Stuttgart. Its principal business activities comprise the development, production and distribution of cars, vans and trucks in Germany and the management of the Daimler Group.

The vehicles are produced at the domestic plants of Daimler AG as well as under contract-manufacturing agreements by domestic and foreign subsidiaries and by producers of special vehicles. Daimler AG distributes its products through its own sales network of 34 German sales-and-service centers, through foreign sales subsidiaries and through third parties.

The annual financial statements of Daimler AG are prepared in accordance with the German Commercial Code (HGB). The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS).This results in some differences with regard to recognition and measurement, primarily relating to intangible assets, provisions, financial instruments, the leasing business and deferred taxes.

Profitability

Daimler AG posted an **income from ordinary activities** of €5.1 billion, which is slightly lower than in the prior year (2011: €5.5 billion). The development of earnings reflects the reduction in operating profit to €1.4 billion (2011: €3.1 billion) and an opposing effect from the increase in financial income.

Revenue increased by €3.2 billion to €72.7 billion. Revenue in the car business increased by 8% to €53.2 billion, due to higher unit sales. The revenue generated by sales of trucks and vans decreased by 3% to €19.5 billion.

In a more difficult economic environment, especially in the second half of the year, earnings in the car business were lower than in 2011. Further growth in unit sales had a positive impact on earnings. We achieved high growth rates particularly in the compact-car segment, with SUVs and with shipments in the United States. Earnings were adversely affected primarily by a less favorable model mix and by measures taken to enhance the products' attractiveness. There were other negative impacts from expenditure for new technologies and new vehicles. The car division's unit sales increased by 4% to 1,357,000 vehicles in 2012[1]. Following the successful market launch of the A-Class in Europe and the strong sales of the B-Class, the compact-car segment posted growth in unit sales of 31% to 238,000 units[1]. Due to the great popularity of the new SUVs, unit sales of the M-, R-, GL-, GLK- and G-Class increased by 9% to 273,000 units[1]. Unit sales in the E-Class segment decreased to 273,000 vehicles for lifecycle reasons (2011: 297,000)[1].

Earnings from trucks and vans were also lower than in the prior year due to lower unit sales. Unit sales of 96,000 trucks were close to the prior-year level (2011: 99,000)[1]. 249,000 vans were sold (2011: 254,000)[1].

Cost of sales (excluding research and development expenses) increased by 9.2% to €59.8 billion (2011: €54.8 billion). The changed product mix, expenses for the enhancement of products' attractiveness and for new technologies and products led to higher cost of sales.

Research and development expenses, which are included in cost of sales, of €4.8 billion were at the prior-year level (2011: €4.8 billion); as a proportion of revenue, they amounted to 6.6% (2011: 6.9%). These expenses are primarily caused by the renewal of the product portfolio, especially with regard to the compact class and the S-, E- and C-Class. In addition, we are continuously working on new generations of engines and alternative drive systems. At the end of the year, approximately 17,000 people were employed in the area of research and development.

1 The unit sales of Daimler AG include vehicles invoiced to companies of the Group which have not yet been sold on to external customers by those companies. Vehicle sales by production companies of the Daimler Group are not counted in the unit sales of Daimler AG.

Selling expenses increased to €5.9 billion in 2012 (2011: €5.7 billion). The increase was caused by the higher volume of business and the related higher expenses for purchased services, as well as higher shipping and IT costs.

General administrative expenses increased by 6.4% to €2.6 billion (2011: €2.4 billion). This development was mainly the result of higher expenses for IT services and consulting.

The **net other operating income** improved by €0.5 billion to €1.8 billion. The change compared with the prior year was mainly the result of reclassifying license income of €0.4 billion; in the prior year, it had been classified under revenue. In addition, higher income was realized from recharging costs to third parties and companies of the Group. There was an opposing, negative effect from the lower income from currency translation.

Financial income improved by €1.4 billion to €3.7 billion, mainly due to higher net income from investments in subsidiaries and associated companies and higher net interest income. This increase primarily reflects the higher profit transfer from Daimler Luft- und Raumfahrt Holding AG following the sale of approximately 7.5% of the shares of EADS.

The **income tax** benefit for 2012 amounts to €0.4 billion (2011: expense of €0.7 billion). One of the reasons for the lower income tax expense in 2012 is the lower pre-tax profit, which also includes a large gain on the sale of EADS shares that is almost tax free. There were also tax benefits from the tax assessment of previous years.

Net income improved compared with the prior year from €4.8 billion to €5.5 billion. This increase is primarily due to special factors from the sale of EADS shares and from income tax benefits from the assessment of previous years.

Financial position, liquidity and capital resources

Compared with December 31, 2011, the **balance sheet total** increased from €78.7 billion to €83.4 billion.

Non-current assets increased by €2.1 billion to €42.8 billion during 2012. This was primarily the result of investments in subsidiaries and associated companies: In 2012, Rolls-Royce completed the agreed contribution of the piston-engine business of the Bergen brand to Engine Holding GmbH. In return, Daimler AG made a cash contribution into the capital reserve of Engine Holding GmbH. Furthermore, a capital contribution was made to the new truck joint venture in China. Capital expenditure on property, plant and equipment (approximately €2.8 billion excluding leased assets) mainly constituted investments for the production of the new compact class, the new C- and S-Class, as well as investments in engine and transmission projects.

Inventories of €6.6 billion were slightly higher than a year earlier (2011: €6.3 billion).

Receivables, securities and other assets decreased compared with December 31, 2011 by €0.1 billion to €26.7 billion. This was primarily caused by receivables from subsidiaries (minus €0.8 billion) and receivables from associated companies (minus €0.2 billion). Securities increased compared with the end of 2011 by €0.9 billion. **Cash and cash equivalents** increased by €2.3 billion to €7.1 billion.

Gross liquidity – defined as cash and cash equivalents and other marketable securities – of €9.6 billion was significantly higher than a year earlier (2011: €6.5 billion).

Cash provided by operating activities amounted to €5.4 billion in 2012 (2011: €4.0 billion) and was mainly affected by the substantial net income. The main opposing effects were the higher tax payments.

3.41
Condensed statement of income of Daimler AG

	2012	2011
In millions of euros		
Revenue	72,727	69,486
Cost of sales (including R&D expenses)	-64,600	-59,562
Selling expenses	-5,883	-5,655
General administrative expenses	-2,600	-2,443
Other operating income/expense, net	1,755	1,309
Operating profit	1,399	3,135
Financial income	3,710	2,323
Income from ordinary activities	5,109	5,458
Income taxes (benefit, 2011: expense)	366	-701
Net income	5,475	4,757
Transfer to retained earnings	-2,737	-2,378
Distributable profit	2,738	2,379

3.42

Balance sheet structure of Daimler AG

	Dec. 31, 2012	Dec. 31, 2011
In millions of euros		
Assets		
Non-current assets	42,763	40,623
Inventories	6,612	6,331
Receivables, securities and other assets	26,736	26,820
Cash and cash equivalents	7,089	4,827
Current assets	40,437	37,978
Prepaid expenses	177	97
	83,377	78,698
Equity and liabilities		
Share capital	3,063	3,060
(conditional capital €600 million)		
Capital reserve	11,390	11,351
Retained earnings	17,061	14,298
Distributable profit	2,738	2,379
Equity	34,252	31,088
Provisions for pensions and similar obligations	3,097	3,313
Other provisions	9,205	11,179
Provisions	12,302	14,492
Trade payables	5,004	5,175
Other liabilities	31,383	27,361
Liabilities	36,387	32,536
Deferred income	436	582
	83,377	78,698

The **cash flow from investing activities** resulted in a net cash outflow of €5.5 billion in 2012 (2011: €4.4 billion). This was primarily the result of investment in property, plant and equipment and financial assets.

The **cash flow from financing activities** resulted in a net cash inflow of €2.4 billion in 2012 (2011: net cash outflow of €0.5 billion). The payment of the dividend for the year 2011 accounts for a cash outflow of €2.3 billion. On the other hand, an increase in financing liabilities led to a cash inflow.

Equity increased by €3.2 billion compared with December 31, 2011 to €34.3 billion. This change primarily resulted from the net income for 2012, of which, pursuant to Section 58 Subsection 2 of the German Stock Corporation Act (AktG), €2.7 billion was transferred to retained earnings. The equity ratio at December 31, 2012 was 41.1% (2011: 39.5%).

Provisions decreased compared with December 31, 2011 by €2.2 billion to €12.3 billion. This was primarily due to the decrease in provisions for taxes in connection with the tax assessment of previous years.

Liabilities increased by €3.9 billion to €36.4 billion. This change was mainly caused by financing liabilities (plus €6.0 billion). There was an opposing effect primarily from the decrease in liabilities to subsidiaries (minus €1.8 billion).

Risks and opportunities

The business development of Daimler AG is fundamentally subject to the same risks and opportunities as the Daimler Group. Daimler AG generally participates in the risks of its subsidiaries and associated companies in line with the percentage of each holding. The risks are described in the Risk Report. Charges may additionally arise from relations with subsidiaries and associated companies in connection with statutory or contractual obligations (in particular with regard to financing).

Outlook

Due to the interrelations between Daimler AG and its subsidiaries and the relative size of Daimler AG within the Group, we refer to the statements in the “Outlook” chapter, which also largely reflect our expectations for the parent company. Daimler AG expects to post a net income in the year 2013 that will be lower than in 2012. This will be mainly caused by the aforementioned special factors. For 2014, an earnings improvement is anticipated in line with the development of the Group.

Overall Assessment of the Economic Situation

Considering the difficult situation of the global economy and major markets, the Daimler Group's business generally developed satisfactorily in 2012. We largely achieved the targets we had set ourselves, but we had to accept a certain shortfall with regard to earnings, due to the increasingly difficult environment as the year progressed.

We once again increased our unit sales and revenue in the year under review, thus continuing along our growth path. Mercedes-Benz Cars achieved a new record for unit sales and Daimler Trucks also significantly surpassed its prior-year level. Unit sales by Mercedes-Benz Vans and Daimler Buses decreased, but the Daimler Financial Services division achieved significant growth.

Our EBIT of €8.6 billion did not equal the high earnings of the prior year (€8.8 billion). The return on sales of our automotive business therefore decreased from 8.1% to 6.0%. This was primarily due to the difficult market situation in Western Europe for both cars and commercial vehicles, and the weak business with commercial vehicles in Latin America. Nonetheless, we achieved a good return on capital employed also in 2012, earning significantly more than our cost of capital with a return on net assets of 19.5% (2011: 19.9%). This is reflected also by value added, which increased by 12% to €4.2 billion in 2012.

Thanks to the ongoing high level of earnings, we continue to have sound key financial metrics. At year-end, the Group's overall equity ratio was 26.5% (2011: 26.3%) and the equity ratio of the industrial business was 47.8% (2011: 46.4%). The net liquidity of our industrial business also remained at a comfortably high level of €11.5 billion at the end of the year. The free cash flow from the industrial business was €1.5 billion in 2012 (2011: €1.0 billion). The cash inflow from the reduction of our shareholding in EADS was offset by investments in joint ventures, high advance expenditure for new products and a growth-related increase in inventories.

All in all, the year 2012 was a transitional year for us with mixed results: On the one hand, we were not quite able to achieve the targets we had set ourselves at the beginning of the year; but on the other hand, we took some very important steps with regard to the Group's future success.

For example, we consistently pursued our growth strategy and invested a total of approximately €11 billion in property, plant and equipment and research and development. The focus of this investment was on new products, new technologies and additional production and sales facilities in new locations. On the product side, we launched some ground-breaking and above all exciting new vehicles such as the new A-Class, the CLS Shooting Brake, the new Antos heavy-duty distribution truck, the new Citan city van and the new Setra ComfortClass 500 coach.

Our new A-Class is specifically aimed at new and younger customer groups: It is highly emotive in design, dynamic with new engines, and highly efficient with CO_2 emissions starting at 92 grams per kilometer.

But we achieved considerable progress in reducing emissions and fuel consumption not only with the A-Class. We reduced the CO_2 emissions of our entire fleet of new cars in the European Union by another 10 g/km to an average of 140 g/km in 2012. The new models launched in 2011 und 2012, whose fuel consumption was reduced by up to 30% compared with the predecessor models, demonstrate that we are consistently applying fuel-saving technologies in all vehicle segments.

We established an excellent position last year in the market of the future for mobility services with innovative business concepts such as car2go or the new "moovel" mobility platform. We will significantly expand the car2go business in the coming years. By the end of 2012, approximately 270,000 customers had already registered for car2go in 16 cities of Europe and North America.

We also made very good progress with the development of our worldwide production network. In India, we have been producing trucks under the BharatBenz brand since June 2012, and our new car plant in Kecskemét, Hungary, started production in April 2012. In China, trucks of the Auman brand have been rolling off the assembly line in a joint venture with our partner Foton since July 2012. In addition, we have intensified the cooperation with our partners Renault/Nissan, Kamaz and GAZ in Russia, and BAIC in China. In order to utilize our potential in China better in the future than we did in 2012, we will optimize our business model and recently created a Board of Management position specifically for this key market.

Events after the End of the 2012 Financial Year

With the goal of placing our growth strategy on a sound financial foundation, we have initiated far-reaching programs to improve our efficiency and competitiveness in all divisions. Those programs include “Fit for Leadership” at Mercedes-Benz Cars, “Trucks#1” at Daimler Trucks, “Performance Vans 2013” at Mercedes-Benz Vans and “GLOBE 2013” at Daimler Buses. In total, we intend to achieve a sustained earnings improvement with these programs of approximately €4 billion by the end of 2014. That total breaks down as Mercedes-Benz Cars €2 billion, Daimler Trucks €1.6 billion, Mercedes-Benz Vans €0.1 billion and Daimler Buses €0.2 billion.

As market conditions have significantly worsened, achieving the profit margins we defined for our divisions as of the year 2013 over the respective cycles has become much more challenging. We therefore assume that we will not achieve those targets until a later date, but we continue to pursue them consistently – supported by the measures we have taken and the programs initiated in all divisions.

Although the outlook for the development of our markets is still very uncertain, we look forward to the challenges ahead with great confidence. With the actions that have been initiated, Daimler is very well prepared for those challenges, and the global automobile market continues to offer excellent prospects in the medium term.

Daimler, Beijing Automotive Group Co., Ltd. (BAIC Group) and BAIC Motor Corporation Ltd. (BAIC Motor) signed a contract on February 1, 2013 whereby Daimler will invest approximately €0.64 billion in BAIC Motor. BAIC Motor is the car company of BAIC Group, one of the leading automotive groups in China. The investment will be executed by the issue of new shares in Daimler and will represent an equity interest of 12% in BAIC Motor. The agreement is subject to the approval of the relevant authorities. The approvals for the completion of the transaction will require at least nine months. The contract specifies that Daimler will have two seats on the board of directors of BAIC Motor. Furthermore, the two parties have agreed that BAIC Motor will increase its interest in the joint venture Beijing Benz Automotive Co., Ltd. by means of a capital increase by 1 percentage point to 51%. At the same time, Daimler will increase its interest in the joint, integrated sales company Beijing Mercedes-Benz Sales Service Co., Ltd. also by 1% to 51%. Daimler will examine the effects of these transactions on the consolidated financial statements; a reliable assessment of the impact on earnings is not yet possible.

Daimler has announced personnel adjustments for the Daimler Trucks division in Germany, the United States and Brazil. In the area of production, it is assumed that up to 1,300 employees will be laid off in the United States, while approximately 1,400 employees in Brazil who are currently laid off will be reemployed. In non-production areas, headcount reductions are expected in Germany of approximately 800 persons and in Brazil of approximately 850 persons. Discussions with the employee representatives are ongoing. The effects on the consolidated financial statements can only be calculated following the resolutions that still have to be made.

Since the end of the 2012 financial year, there have been no further occurrences that are of major significance for Daimler. The course of business in the first two months of 2013 confirms the statements made in the Outlook section of this Annual Report. see pages 133 ff

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. The Remuneration Report is part of the Management Report for Daimler AG and for the Group.

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 this context, 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 remuneration, also with consideration of entitlement to a retirement pension and fringe benefits.

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 proposals for such changes 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 variable components of remuneration in the coming year. Furthermore, once a year, individual goals are agreed for the respective areas of responsibility for the coming year between the Chairman of the Supervisory Board, the Chairman of the Board of Management and each member of the Board of Management; 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.

In this way, the individual base and target remuneration and the relevant performance parameters are set by the beginning of each year. These details require the approval of the Supervisory Board.

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

The system of Board of Management remuneration in 2012. 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, depending on the development of the Daimler share price compared with an automotive index (Dow Jones STOXX Auto Index see pages 26f), which Daimler AG uses as a benchmark for the relative share-price development. Both the delayed payout 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 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 can be included; for 2012, these were key non-financial metrics and indicators oriented towards the UN Global Compact and its ten principles.

Primary reference parameters:
- 50% relates to a comparison of actual EBIT in 2012 with EBIT targeted for 2012.
- 50% relates to a comparison of actual EBIT in 2012 with actual EBIT in 2011.

Amount with 100% target achievement:
In the year 2012, 100% of the base salary.

Range of 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 two percent 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 the deepened establishment in the Daimler Group of the principles of the UN Global Compact. Furthermore, the Supervisory Board has the possibility, based for example on the aforementioned agreed targets, 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 2012, additional individual targets were agreed upon with the Board of Management with regard to the development and sustained function of a compliance 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 an element of remuneration with long-term incentive effects. At the beginning of the plan, a number of phantom shares are granted and medium-term performance targets are set for a period of three years. On the basis of the degree of target achievement determined at the end of the three-year period, the final number of phantom shares is determined that are then paid out at the end of the fourth plan year. This final number can be between 0% and 200% of the phantom shares granted at the beginning of the plan. Payouts under the 2012 plan occur after four years at the price of Daimler shares that is then valid. Due to the granting of phantom shares and their payout at the end of the plan on the basis of the share price then valid, an opportunity and risk potential exists relating to the development of the share price. Half of the net amount paid out must be used to buy ordinary Daimler shares, which must then be held until the applicable guidelines for share ownership are fulfilled. see page 125

For the granting of phantom shares, the Supervisory Board specifies an absolute amount in euros in the context of setting the annual target remuneration. The number of phantom shares granted is calculated by dividing that amount by the relevant average share price over a period of several weeks. This average price is definitive not only for granting phantom shares under the new plan, but also for payment under the plan granted four years previously.

Reference parameters for Plan 2012:
- 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 plus or minus two 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 two percentage points or more above the calculated average. Target achievement is 0% if Daimler's return on sales is two percentage points or more below the calculated 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. The extent that Daimler's return on net assets deviates over a period of three years by plus or minus two percentage points from a target of 8% is deemed to be the range of target achievement. This means that target achievement is 200% if Daimler's return on net assets is 10% or more. Target achievement is 0% if Daimler's return on net assets is 6% or less.

  As of PPSP 2013, the Supervisory Board has decided that target achievement of 200% will only be achieved with a return on net assets of 16% or more.

Value upon allocation:
Determined annually in relation to a market comparison; for 2012, approximately 1.3 to 1.6 times the base salary.

Range of 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:
In line with the calculated share price and the number of shares achieved according to the aforementioned criteria. The share price used as a basis for payout is limited to 2.5 times the share price at the beginning of the plan and the amount paid out is limited to 2.5 times the grant value used to calculate the preliminary number of phantom shares.

During the four-year period, the allocated phantom shares earn a dividend equivalent whose amount is related to the dividend paid on real Daimler shares in the respective year. With regard to share-based remuneration, any subsequent change in the defined performance targets or reference parameters is ruled out.

Guidelines for share ownership. As a supplement to these three components of remuneration, Stock Ownership Guidelines have been approved 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, half of the net payment made out of a 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 confirmed by external auditors in 2012. The remuneration system was unchanged in 2012 compared with 2011 and had already been approved by the Annual Shareholders' Meeting in 2011.

Board of Management remuneration in 2012

Total Board of Management remuneration in 2012. The total remuneration granted by Group companies to the members of the Board of Management of Daimler AG is calculated as the total of the amounts of

- the base salary in 2012,
- the half of the annual bonus for 2012 payable in 2013,
- the half of the medium-term share-based component of the annual bonus for 2012 payable in 2014 with its value at the balance sheet date (entitlement depending on the development of Daimler's share price compared with the Dow Jones STOXX Auto Index),
- the value of the long-term share-based remuneration for 2012 at the time when granted, and
- the taxable non-cash benefits in 2012.

For both of the share-based components – the second 50% of the annual bonus and the PPSP with a long-term orientation – the amounts actually paid out can deviate significantly from the values described depending on the development of the Daimler share price and on the achievement of the relevant target parameters.

The remuneration of the Board of Management for the year 2012 amounts to €28.2 million (2011: €29.0 million). Of that total, €7.5 million was fixed, that is, non-performance-related remuneration (2011: €7.4 million), €9.3 million was variable, that is, short- and medium-term performance-related remuneration (2011: €12.8 million), and €11.4 million was variable performance-related remuneration granted in 2012 with a long-term incentive effect (2011: €8.8 million). ↗ 3.43

3.43

Board of Management Remuneration 2012

In thousands of euros		Base salary	Short and medium-term variable remuneration (annual bonus): Short-term	Medium-term	Long-term variable remuneration (PPSP): Number	Value when granted (2012: at share price €48.23) (2011: at share price €51.08)	Total
Dr. Dieter Zetsche	2012	2,008	1,426	1,426	68,273	3,293	8,153
	2011	2,008	2,038	2,038	50,311	2,570	8,654
Dr. Wolfgang Bernhard[1]	2012	715	508	508	27,309	1,316	3,047
	2011	715	726	726	20,125	1,026	3,193
Dr. Christine Hohmann-Dennhardt	2012	715	526	526	27,309	1,317	3,084
	2011	624	618	618	17,609	899	2,759
Wilfried Porth[2]	2012	715	508	508	27,309	1,229	2,960
	2011	715	708	708	20,125	966	3,097
Andreas Renschler[3]	2012	755	536	536	30,487	1,460	3,287
	2011	755	747	747	22,467	1,148	3,397
Hubertus Troska	2012	37	24	24	–	–	85
	2011	–	–	–	–	–	–
Bodo Uebber[4]	2012	866	636	636	32,647	1,402	3,540
	2011	866	879	879	24,058	1,054	3,678
Prof. Dr. Thomas Weber	2012	715	490	490	28,998	1,399	3,094
	2011	715	726	726	21,369	1,092	3,259
Total	2012	6,526	4,654	4,654	242,332	11,416	27,250
	2011	6,398	6,442	6,442	176,064	8,755	28,037

1 Taking into account supervisory board remuneration of €1,250.
2 Taking into account supervisory board remuneration of €88,460.
3 Taking into account supervisory board remuneration of €10,913.
4 Taking into account supervisory board remuneration of €173,048.

When comparing with the prior-year figures, with regard to the total of base salary, the annual bonus and the PPSP granted, it is necessary to consider the appointment of Mr. Troska taking effect as of December 13, 2012. The same applies to Dr. Hohmann-Dennhardt for the year 2011.

The granting of non-cash benefits in kind, primarily the reimbursement of expenses for security precautions and the provision of company cars, resulted in taxable benefits for the members of the Board of Management in 2012 as shown in the table. ↗ 3.44

Commitments upon termination of service

Retirement provision. The pension agreements of some Board of Management members include a commitment to an annual retirement pension, calculated as a proportion of the former base salary and depending on the number of years of service. Those pension rights were granted until 2005 and remain valid; they have been frozen at that level, however.

Retirement pensions start upon request when the term of service ends at or after the age of 60, or are paid as disability pensions if the term of service ends before the age of 60 due to disability. The agreements provide for a 3.5% annual increase in benefits (with the exception that Wilfried Porth's benefits are adjusted in accordance with applicable law). The agreements include a provision by which a spouse of a deceased Board of Management member is entitled to 60% of that member's pension. That amount can increase by up to 30 percentage points depending on the number of dependent children.

3.44

Non-cash benefits and other benefits

	2012	2011
In thousands of euros		
Dr. Dieter Zetsche	151	159
Dr. Wolfgang Bernhard	63	71
Dr. Christine Hohmann-Dennhardt	191	121
Wilfried Porth	114	123
Andreas Renschler	152	169
Hubertus Troska	4	–
Bodo Uebber	112	165
Prof. Dr. Thomas Weber	156	149
Total	943	957

Effective as of January 1, 2006, we replaced the pension agreements of the Board of Management members with a new arrangement, the so-called Pension Capital system. Under this system, each Board of Management member is credited with a capital component each year. This capital component comprises an amount equal to 15% of the sum of the Board of Management member's fixed base salary and the actual annual bonus for 2012, multiplied by an age factor equivalent to a rate of return of 6% until 2015 and 5% as of 2016 (Wolfgang Bernhard and Wilfried Porth: 5% for all years). In accordance with the regulations in force at Daimler AG, contributions to pension plans are only granted until the age of 60. The benefit from the pension plan is payable to surviving Board of Management members upon retirement at or after the age of 60, or as a disability pension upon retirement before the age of 60 due to disability.

Daimler has introduced a new company retirement benefit plan for new entrants and new appointments for employees paid according to collective bargaining wage tariffs as well as for executives: the "Daimler Pensions Plan". As before, the new retirement benefit system features the payment of annual contributions by Daimler, but is orie nted towards the capital market, combined with Daimler's commitment to guarantee the contributions paid. The Supervisory Board of Daimler AG has approved the application of this system for all newly appointed members of the Board of Management (2012: Mr. Troska).

Members of the Board of Management are credited with a capital component each year. This amount is calculated from 15% of the total of the base salary and the actual annual bonus. The contribution period ends when the contract of service ends. The benefit from the pension plan is payable to surviving Board of Management members upon retirement at or after the age of 62, or as a disability pension upon retirement before the age of 62 due to disability.

Payments under the Pension Capital system and the Daimler Pensions Plan can be made in three ways:
- in a single amount;
- in twelve annual installments, whereby interest accrues on each partial amount until it is paid out;
- as a pension with or without benefits for surviving dependents, with an annual increase (see above).

The contracts specify that if a Board of Management member passes away before retiring for reason of age, the spouse or dependent children is/are entitled to the full committed amount in the case of the Pension Capital system, and to the credit amount reached plus an imputed amount until the age of 62 in the case of the Daimler Pensions Plan. If a Board of Management member passes away after retiring for reason of age, in the case of payment of twelve annual installments, the heirs are entitled to the remaining present value. In the case of a pension with benefits for surviving dependents, the spouse/registered partner or dependent children is/are entitled to 60% of the discounted terminal value (Pension Capital), or the spouse/registered partner is entitled to 60% of the actual pension (Daimler Pensions Plan).

Departing Board of Management members receive, for the period beginning after the end of the original service period, payments in the amounts of the pension commitments granted as described in the previous section, as well as the use of a company car, in some case for a defined period. These payments are made until the age of 60, possibly reduced due to other sources of income, and are subject to the aforementioned annual increases.

Service costs for pension obligations according to IFRS amounted to €2.4 million in 2012 (2011: €2.2 million). The present value of the total defined benefit obligation according to IFRS amounted to €81.7 million at December 31, 2012 (2011: €56.8 million). Taking age and period of service into account, the individual entitlements, service costs and present values are shown in the table. ↗ 3.45

Commitments upon early termination of service. No severance payments are foreseen for Board of Management members in the case of early termination of their service contracts. Solely in the case of early termination of a service contract by mutual consent, Board of Management service contracts include a commitment to payment of the base salary and provision of a company car until the end of the original service period. Such persons are only entitled to payment of the performance-related component of remuneration pro rata for the period until they leave the Company. Entitlement to payment of the performance-related component of remuneration with a long-term incentive effect is defined by the exercise conditions specified in the respective plans. In the case of early termination of service by mutual consent, the total of the payments described above including fringe benefits is limited, to the extent that they are subject to the regulations of the German Corporate Governance Code on the so-called severance-payment cap, to double the annual remuneration and may not exceed the total remuneration for the remaining period of the service contract.

Sideline activities of Board of Management members. The members of the Board of Management should accept management board or supervisory board positions and/or any other administrative or honorary functions outside the Group only to a limited extent. Furthermore, they require the consent of the Supervisory Board before commencing any sideline activities. This ensures that neither the time required nor the remuneration paid for such activities leads to any conflict with the members' duties to the Group. Insofar as such sideline activities are memberships of other supervisory boards or comparable boards, they are disclosed in the Notes to the Consolidated Financial Statements of Daimler AG and on our website. No remuneration is paid to Board of Management members for board positions held at other companies of the Group.

Loans to members of the Board of Management. In 2012, no advances or loans were made to members of the Board of Management of Daimler AG.

Payments made to former members of the Board of Management of Daimler AG and their survivors. Payments made in 2012 to former members of the Board of Management of Daimler AG and their survivors amounted to €15.4 million (2011: €13.9 million). Pension provisions for former members of the Board of Management and their survivors amounted to €225.9 million at December 31, 2012 (2011: €195.9 million).

3.45

Individual entitlements, service costs and present values for members of the Board of Management

		Annual pension (as regulated until 2005) as of age 60	Service cost (for pension, pension capital and Daimler Pensions Plan)	Present value of obligations (for pension, pension capital and Daimler Pensions Plan)
In thousands of euros				
Dr. Dieter Zetsche	2012	1,050	872	39,597
	2011	1,050	794	29,633
Dr. Wolfgang Bernhard	2012	–	265	1,494
	2011	–	234	715
Wilfried Porth	2012	156	156	6,472
	2011	156	140	4,303
Andreas Renschler	2012	250	309	10,243
	2011	250	278	7,067
Hubertus Troska	2012	–	5	2,227
	2011	–	–	–
Bodo Uebber	2012	275	510	9,974
	2011	275	461	6,439
Prof. Dr. Thomas Weber	2012	300	333	11,701
	2011	300	303	8,682
Total	2012	2,031	2,450	81,708
	2011	2,031	2,210	56,839

The service cost for Mr. Troska is derived from the new Daimler Pensions Plan as of his appointment to the Board of Management on December 13, 2012.
Dr. Hohmann-Dennhardt has no entitlement to a company retirement benefit.

Remuneration of the Supervisory Board

Supervisory Board remuneration in 2012. The remuneration of the Supervisory Board is determined by the Shareholders' Meeting of Daimler AG and is governed by the Company's Articles of Incorporation. The new regulations for Supervisory Board remuneration approved by the Annual Shareholders' Meeting in April 2011 specify that the members of the Supervisory Board receive, in addition to the refund of their expenses and the cost of any value-added tax incurred by them in performance of their office, fixed remuneration of €100,000. The Chairman of the Supervisory Board receives an additional €200,000 and the Deputy Chairman of the Supervisory Board receives an additional €100,000. The members of the Audit Committee are paid an additional €50,000, the members of the Presidential Committee are paid an additional €40,000 and the members of the other committees of the Supervisory Board are paid an additional €20,000; one exception is the Chairman of the Audit Committee, who is paid an additional €100,000. Additional payments are made for activities in a maximum of three committees; any persons who are members of more than three such committees receive additional payments for the three most highly paid functions. Members of a Supervisory Board committee are only entitled to remuneration for such membership if the committee has actually convened to fulfill its duties in the respective year. The individual remuneration of the members of the Supervisory Board is shown in the table. ↗ 3.46

The members of the Supervisory Board and its committees receive a meeting fee of €1,100 for each Supervisory Board meeting and committee meeting that they attend.

No remuneration was paid for services provided personally beyond the aforementioned board and committee activities, in particular for advisory or agency services, except for the remuneration paid to the members of the Supervisory Board representing the employees in accordance with their contracts of employment.

The remuneration of all the activities of the members of the Supervisory Board of Daimler AG in the year 2012 was thus €3.0 million (2011: €3.0 million).

Loans to members of the Supervisory Board. In 2012, no advances or loans were made to members of the Supervisory Board of Daimler AG.

3.46
Supervisory Board remuneration

Name	Function(s) remunerated	Total in 2012
In euros		
Dr. Manfred Bischoff	Chairman of the Supervisory Board, the Presidential Committee and the Nomination Committee	373,200
Erich Klemm[1]	Deputy Chairman of the Supervisory Board, the Presidential Committee and the Audit Committee	308,700
Dr. Paul Achleitner	Member of the Supervisory Board and the Nomination Committee	127,700
Sari Baldauf	Member of the Supervisory Board and the Nomination Committee	128,800
Dr. Clemens Börsig	Member of the Supervisory Board and the Audit Committee	164,300
Michael Brecht[1]	Member of the Supervisory Board (since July 1, 2012) and the Audit Committee (since July 25, 2012)	76,531
Prof. Dr. Heinrich Flegel	Member of the Supervisory Board	107,700
Dr. Jürgen Hambrecht	Member of the Supervisory Board and of the Presidential Committee	152,100
Petraea Heynike	Member of the Supervisory Board	107,700
Jörg Hofmann[1]	Member of the Supervisory Board	107,700
Dr. Thomas Klebe[1, 3]	Member of the Supervisory Board and of the Presidential Committee	161,800
Gerard Kleisterlee	Member of the Supervisory Board	104,400
Jürgen Langer[1]	Member of the Supervisory Board	107,700
Ansgar Osseforth[4]	Member of the Supervisory Board	107,700
Valter Sanches[2]	Member of the Supervisory Board	106,600
Stefan Schwaab[1]	Member of the Supervisory Board and the Audit Committee (until June 30, 2012)	83,390
Jörg Spies[1]	Member of the Supervisory Board	107,700
Lloyd G. Trotter	Member of the Supervisory Board	107,700
Dr. h. c. Bernhard Walter	Member of the Supervisory Board and Chairman of the Audit Committee	213,200
Uwe Werner[1]	Member of the Supervisory Board	106,600
Lynton R. Wilson[5]	Member of the Supervisory Board	111,593

1 The employee representatives have stated that their board remuneration is to be transferred to the Hans-Böckler Foundation, in accordance with the guidelines of the German Trade Union Federation. The Hans-Böckler Foundation is a German not-for-profit organization of the German Trade Union Federation.
2 Mr. Sanches has directed that his board remuneration is to be paid to the Hans-Böckler Foundation.
3 Dr. Klebe also received remuneration and meeting fees of €9,700 for his board services at Daimler Luft- und Raumfahrt Holding AG. These amounts are also to be transferred to the Hans-Böckler Foundation.
4 Mr. Osseforth has directed that a portion of his board remuneration is to be paid to a German foundation for adult education ("Treuhandstiftung Erwachsenenbildung").
5 Mr. Wilson also received remuneration of €3,893 for his board services at Mercedes-Benz Canada Inc. and Mercedes-Benz Financial Services Canada Corp.

Risk Report

Risks and opportunities

Daimler's divisions are exposed to a large number of risks which are inextricably linked with our entrepreneurial activities. In order to identify, evaluate and deal consistently with those risks, we make use of effective management and control systems; we have combined these systems in a uniform risk management system, which is described below. Entrepreneurial activity primarily consists of creating and utilizing opportunities in order to secure and strengthen the company's competitiveness. The divisions have direct responsibility for recognizing and utilizing opportunities at an early stage. As part of the strategy process, long-term opportunities for further profitable growth are identified and included in the decision process. Entrepreneurial opportunities are not reported within our risk management system; they are identified in the context of strategic and medium-term planning and are followed up during the year in the context of periodical reporting. Further information on this subject is provided on page 137 of the Management Report.

Risk management systems

(Report and explanation provided pursuant to Section 315 Subsection 2 Number 5 and Section 289 Subsection 5 of the German Commercial Code (HGB))

The **risk management system with regard to material risks and risks threatening the existence of the Group** is integrated into the value-based management and planning system of Daimler AG and the Group. It is an integral part of the overall planning, management and reporting process in all relevant legal entities, divisions and corporate functions. It aims to systematically identify, assess, monitor and document material risks and risks threatening Daimler's existence. Risk assessment principally takes place for a two-year planning period, although in the discussions for the derivation of medium-term and strategic goals, Daimler also identifies and monitors longer-term risks. In the context of the two-year operational planning – with the use of defined risk categories – risks are identified for the divisions and operating units, the major joint ventures and associated companies and the corporate departments, and they are assessed regarding their probability of occurrence and possible extent of damage. Assessment of the possible extent of damage usually takes place with regard to the risks' impact on EBIT. In addition, risks for example for the Group's reputation are assessed according to qualitative criteria. The reporting of relevant risks is based on fixed value limits. The responsible persons also have the task of developing, and initiating as required, measures to avoid, reduce and hedge risks. Material risks and the countermeasures taken are monitored within the framework of a regular process. As well as the regular reporting, there is also an internal reporting obligation within the Group for risks arising unexpectedly. The Group's central risk management department regularly reports on the identified risks to the Board of Management and the Supervisory Board.

The **internal control and risk management system with regard to the accounting process** has the goal of ensuring the correctness and effectiveness of accounting and financial reporting. It is continually further developed and is an integral part of the accounting and financial reporting process in all relevant legal entities and corporate functions. The system includes principles and procedures as well as preventive and detective controls. Among other things, we regularly check that

- the Group's uniform financial reporting, valuation and accounting guidelines are continually updated and regularly trained and adhered to;
- transactions within the Group are fully accounted for and properly eliminated;
- issues relevant for financial reporting and disclosure from agreements entered into are recognized and appropriately presented;
- processes exist to guarantee the completeness of financial reporting;
- processes exist for the segregation of duties and for the "four-eyes principle" in the context of preparing financial statements, and authorization and access rules exist for relevant IT accounting systems.

We systematically assess the effectiveness of the internal control and risk management system with regard to the corporate accounting process. The first step consists of risk analysis and definition of control. Significant risks are identified relating to the process of corporate accounting and financial reporting in the main legal entities and corporate functions. The controls required are then defined and documented in accordance with Group-wide guidelines. Regular random tests are carried out to assess the effectiveness of the controls. Those tests constitute the basis for self-assessment of the appropriate extent and effectiveness of the controls. The results of this self-assessment are documented and reported in a global IT system. Any weaknesses recognized are eliminated with consideration of their potential effects. At the end of the annual cycle, the selected legal entities and corporate functions confirm the effectiveness of the internal control and risk management system with regard to the corporate accounting process. The Board of Management and the Audit Committee of the Supervisory Board are regularly informed about the main control weaknesses and about the effectiveness of the control mechanisms installed. However, the internal control and risk management system for the accounting process cannot ensure with absolute certainty that material false statements are avoided in accounting.

In order to ensure the **complete presentation and assessment** not only of material risks and risks threatening the existence of the Group, but also of the control and risk process with regard to the corporate accounting process, Daimler has established the Group Risk Management Committee (GRMC). It is composed of representatives of the areas of Finance & Controlling, Accounting and Integrity & Legal Affairs, and is chaired by the Board of Management Member for Finance (CFO). The Internal Auditing department contributes material statements on the internal control and risk management system. In addition to fundamental issues, the committee has the following tasks:

- The GRMC creates and shapes the framework conditions with regard to the organization, methods, processes and systems we need to ensure a functioning, Group-wide and thorough control and risk management system.
- The GRMC regularly reviews the effectiveness and functionality of the installed control and risk management processes. Minimum requirements can be laid down in terms of the design of the control processes and of risk management and corrective measures can be commissioned as necessary or appropriate to eliminate any system failings or weaknesses exposed. But responsibility for operational risk management for risks threatening the existence of the Group and for the control and risk management processes with regard to the corporate accounting process remains directly with the corporate areas, companies and central functions. The measures taken by GRMC ensure that relevant risks and any existing process weaknesses in the corporate accounting process are identified and eliminated as early as possible.

In the Board of Management and the Audit Committee of the Supervisory Board of Daimler AG, regular reports are given regarding the current risk situation and the effectiveness, functions and appropriateness of the internal control and risk management system. Furthermore, the responsible managers regularly discuss the risks of business operations with the Board of Management.

The Audit Committee of the Supervisory Board is responsible for **monitoring the internal control and risk management system**. The Internal Auditing department monitors whether the statutory conditions and the Group's internal guidelines are adhered to in the Group's entire monitoring and risk management system, and if required develops appropriate measures which are initiated by the management. The external auditors audit the system for the early identification of risks that is integrated in the risk management system for its fundamental suitability to identify risks threatening the existence of the Group; in addition, they report to the Supervisory Board on any significant weaknesses that have been discovered in the internal control and risk management system.

Economic risks

2012 was another difficult year for the **world economy**, so overall expansion of 2.5% was significantly below the existing growth potential and also lower than the previous year's growth of 3.2%. The world economy was and still is sensitive to external disturbances. We see the biggest individual risks for the year 2013 in a renewed worsening or escalation of the sovereign-debt crisis in the euro zone, the resulting turmoil in the financial markets and the banking sector, uncertainty about budget and fiscal policy in the United States, a growth slump in China, high price volatility in raw-material markets due to geopolitical unrest in the Middle East, further inflationary pressure and nascent protectionism. The development of the world economy in 2013 that is expected by the majority of economic research institutions, and also by Daimler, is highly dependent on those risk factors. Some of those risk factors certainly have the potential, if they occur, to lead the world economy into a renewed recession. This means that there are still considerable economic risks for Daimler's financial position, cash flows and profitability.

The measures taken for the reduction of the **burden of debt on public budgets in Western Europe, the United States and Japan** are still one of the dominant issues for the world economy and could dampen economic prospects and have a substantial negative impact on the financial markets once again in 2013. This applies in particular to the risk of a sovereign default, which cannot be entirely ruled out above all for Greece, but also for some of the other peripheral countries despite the support programs provided by the European Union and the International Monetary Fund (IMF). Austerity measures have the potential to depress domestic demand in the affected countries even further, so that their national economies might contract even more than previously expected. Another risk is that after the countries of the euro zone, the financial markets might focus on other highly indebted countries such as Japan or the United States.

As in the past two years, we see the development of the **euro zone** as the biggest risk for the world economy. The economy of the euro zone slipped into recession in 2012, and prospects for the year 2013 remain difficult. The political implementation of reforms and other actions for budget consolidation in the countries of Southern Europe could be slowed down by increasing public protects or decreased pressure to reform following the announcement of measures to be taken by the European Central Bank. This would lead to a massive loss of confidence in the capital markets and thus to increased volatility and rising interest rates. The burdens on government budgets and on the banking system would be hard to manage and could further jeopardize a recovery of the real economy. Even the risk that the reform process in Greece will fail altogether has not been completely averted despite the renewed aid package in late 2012. If no further reform steps are taken – whether for political or economic reasons – or if public rejection is too great, this could finally lead to Greece's exit from the euro zone with significant contagion effects for the global financial system and the world economy. Unlike the global financial crisis of 2008/09, most European countries would no longer be able to afford to recapitalize their national banks or to stimulate their economies by means of fiscal policy. Due to global interconnections, the then inevitable banking crisis and recession in the euro zone would probably spread to other countries with severe consequences. Such a case would result in a global recession. Due to the ensuing crisis of confidence and credit crunch, both consumption and investment would fall drastically – along with demand for cars and commercial vehicles. For Daimler, such a development would not only reduce unit sales considerably, it would also have a very negative impact on refinancing costs and possibilities.

Although the **United States** managed to avoid some of the feared impact of the "fiscal cliff" at least temporarily, the country's government continues to be faced with considerable pressure to consolidate its finances. The agreement reached at the beginning of 2013 only included the most urgent issues and in fact only avoided a direct drift into recession in the first quarter. But the level of debt is grave as ever and will stay right at the top of the political agenda. This includes above all raising the debt ceiling as well as the approach to and design of the automatic spending cuts. Uncertainty about the direction of US fiscal policy and potential steps to be taken to balance the budget will thus remain as negative economic factors also in 2013. Due to the continued comparative weakness of investment and the real-estate market, the continuation of historically high unemployment, and fragile consumer confidence, the US economy would not have many options to counteract an unexpected budget-policy shock. In this case, the United States could slip into recession for one or several quarters. An escalation of the debt crisis in the euro zone, for example in the form of one or several exits by euro member states, would have a massive impact on the global economy and thus also on the US economy. These could have negative effects for the passenger cars and the truck market demand.

A lasting growth slump in **China** would be of strategic importance for Daimler. It already became clear during 2012 that the Chinese growth model is not invulnerable. As a result of the global growth slowdown, but also due to the weakness of the country's real-estate sector, expansion of Chinese GDP fell to its lowest level since the global finance and economic crisis. But as China has become the main driver of world growth in recent years, a growth slump in China would have massive consequences for the global economy. Although economic development stabilized again towards the end of 2012, thanks to stimulating economic policies, risks still remain. If the expected significant recovery of GDP expansion does not materialize in 2013, the Chinese government could take fiscal and monetary countermeasures. But this would further exacerbate the budgets of local municipalities, which were already massively burdened by the stimulus programs of 2008/09, thus substantially limiting the scope of future debt. An additional factor is that repeated one-sided support for investment and exports could further delay the targeted balancing of the country's growth model with increased private consumption. That would further increase the medium-term risks for growth of over-investment and export dependency, making a "hard landing" of the Chinese economy in the coming years more likely. A slump in growth rates to less than 6% would have an enormous impact on the world economy, especially on exporters of raw materials in the Middle East, Africa and Latin America. As well as their importance for worldwide demand for raw materials, Chinese companies have increasingly invested abroad in recent years, in emerging markets and in the EU. In the case of a growth slump in the domestic market, such investment would undoubtedly decrease and cause further headwinds for the development of the OECD countries.

As the year 2012 has shown in Brazil and India, other **emerging markets** that are also highly important for Daimler can also unexpectedly enter phases of economic weakness. This has immediate effects on demand for cars and commercial vehicles in those regions, and is a risk that cannot be discounted also in 2013.

As in the previous years, significant **geopolitical risks** exist, especially in the Middle East, with the potential to massively disturb the global economic equilibrium. There is a danger for example of an escalation of the nuclear conflict between Iran on the one side and Israel and the United States on the other. A military escalation or a blockade of the Strait of Hormuz could result in an oil-price shock, which would drastically reduce global growth rates and in an extreme case could even plunge the world economy back into recession. Developments in Egypt, Libya and Yemen remain uncertain, still no end is in sight to the civil war in Syria. The combination of several of these potential risks in the Middle East could lead to significantly higher oil prices in 2013. Even in a relatively mild scenario, higher oil prices would reduce demand in many countries and as part of a chain reaction could also influence prices of other raw materials, including food. Rising inflation rates would require stricter monetary policy on the part of the central banks than we currently anticipate. This in turn would dampen growth in the emerging markets and growth in the weakened industrialized countries would at least be brought to a standstill.

In order to counteract the global growth slowdown and the various associated risks, the large central banks, especially in Europe and the United States, have continued or even expanded their unconventional monetary policies with nearly no limitations on duration or extent. The enormous volumes of liquidity provided by those policy actions have the potential to significantly raise inflation expectations in the medium term, with corresponding medium-term **risks for price stability**. Furthermore, the spread of available liquidity could be increasingly reflected in the development of **raw-material prices**. When market players in search of high-yield investments increasingly invest in raw materials, prices worldwide could increase at a higher rate than is fundamentally justified. This would lead to a massive burden for consumers and manufacturing companies; on the other hand, a bursting of the ensuing speculative bubbles would have a drastic impact on global economic activity, especially in countries that export raw materials. And the effects of expansive monetary policy on global currency exchange rates also involve considerable risks.

Excessive liquidity also results in speculative capital movements, which have led to unwanted exchange-rate developments in some countries, such as the appreciation of the Japanese yen and of the Brazilian real. If these developments continue this year, there is a danger that individual countries will attempt to defend their competitiveness in the world's markets by resorting to **interventionist and protectionist actions**. This could culminate in competitive devaluation or a "currency war." Daimler's position in key foreign markets could also be affected by an increase in bilateral free-trade agreements outside the European Union.

Industry and business risks

General market risks. The situation of the world economy has become significantly more uncertain and subject to volatilities, leading to risks for the development of demand for motor vehicles. And **competitive pressure in the automotive markets** is as high as ever. Customers have meanwhile become used to a certain level of **sales-supporting actions**. If this competitive pressure in the automotive markets becomes even tougher, possibly due to further worsening of global economic developments, it could lead to the increased application of sales-promoting financing offers and other incentives. That would not only reduce revenues in the new-vehicle business, but would also lead to lower price levels in used-vehicle markets and thus to falling residual values. In many markets, a shift in demand towards smaller, more fuel efficient vehicles is apparent; this is the result of customers' significantly increased sensitivity to vehicles' environmental friendliness and the development of fuel prices. A further shift in the model mix towards smaller vehicles with lower margins would place an additional burden on the Group's financial position, cash flows and profitability.

Due to the competitive pressure in automotive markets, it is essential for us to continually and successfully adapt our **production and cost structures** to changing conditions. We continually analyze our competitiveness. Clear strategies have been formulated for all divisions. Each division consistently pursues the goal of growing profitably and increasing its efficiency.

The recent crisis years have also led to a worsening of the **financial situation of some suppliers, dealerships and vehicle importers**. For this reason, it is still not possible to rule out supporting actions, which would have a negative impact on Daimler's profitability, cash flows and financial position.

Risks relating to the leasing and sales-financing business. In connection with the sale of vehicles, Daimler also offers its customers a wide range of financing possibilities – primarily leasing and financing the Group's products. This business involves the risk that the prices realizable for used vehicles at the end of leasing contracts are below their book values (residual-value risk). An additional risk is that some of the receivables due in the financial services business might not be recoverable due to customer default (credit risk). Another risk connected with the leasing and sales-financing business is the possibility of increased refinancing costs due to potential changes in interest rates. An adjustment of credit conditions for customers in the leasing and sales-financing business due to higher refinancing costs could reduce the new business and contract volume of Daimler Financial Services, thus also reducing the unit sales of the automotive divisions. In addition, risks could arise from of a lack of matching maturities with our refinancing. Daimler counteracts residual-value risk and credit risk by means of appropriate market analyses, creditworthiness checks on the basis of standardized scoring and rating methods, and the collateralization of receivables. Fixed-rate and variable-rate derivative financial instruments are used to hedge against the risk of changes in interest rates. The risk of mismatching maturities is minimized by coordinating our refinancing with the periods of financing agreements. Further information on credit risks and the Group's risk-minimizing actions is provided in Note 31 of the Notes to the Consolidated Financial Statements.

Production and technology risks. In order to achieve the targeted levels of prices, factors such as **brand image, design and product quality** play an important role, as well as additional technical features resulting from our innovative research and development. Convincing solutions, which for example promote accident-free driving or further improve our vehicles' fuel consumption and emissions such as with diesel-hybrid or electric vehicles, are of key importance for safe and sustainable mobility. Because these solutions generally require higher advance expenditure and greater technical complexity, there is an increasing challenge to realize further technological advances while simultaneously fulfilling Daimler's own quality standards. If we fail to perform this task optimally or if technical developments at an advanced stage prove not to be marketable, that could adversely affect the Group's future profitability.

Product quality has a major influence on a customer's decision to buy a car or commercial vehicle. At the same time, technical complexity continues to grow as a result of additional features, for example for the fulfillment of various emission, fuel-economy regulations and safety instructions, increasing the danger of vehicle malfunctions. Technical problems could lead to recall and repair campaigns, or could even necessitate new engineering work. Furthermore, deteriorating product quality can lead to higher warranty and goodwill costs.

Risks related to the legal and political framework. The legal and political framework has a considerable impact on Daimler's future business success. Regulations concerning vehicles' **emissions, fuel consumption and safety** play a particularly important role. Complying with these varied and often diverging regulations all over the world requires strenuous efforts on the part of the automotive industry. We expect that we will have to expend an even larger proportion of our research and development budget to ensure that we fulfill these regulations. Many countries have already implemented stricter regulations to reduce vehicles' emissions and fuel consumption, or are now doing so. For example, new legislation in the United States on greenhouse gases and fuel consumption stipulates that new car fleets in the United States may only emit an average of 163 grams of carbon dioxide per kilometer as of 2025 (approximately 100 grams per miles). These new regulations will require an average annual reduction in CO_2 emissions as of 2017 for cars of 5% and for SUVs and pickups at first of 3.5% (this rather lower rate applies until 2022). This will hit the German premium manufacturers and thus also Daimler harder than for example the US manufacturers. As a result of strong demand for large, powerful engines in the United States and Canada, financial penalties cannot be ruled out. Regulations on the CO_2 emissions of new cars also exist in the EU. For 2015, all new cars in Europe will have to meet a fleet average of 130 g CO_2/km. The relevant limit for Daimler depends on the portfolio of cars we sell in the European Union and will depend on vehicle weight. Furthermore, the EU Parliament and the EU Council of Ministers are currently dealing with an EU regulation proposed by the EU Commission calling for fleet averages to be reduced to 95 g CO_2/km by the year 2020. Daimler will have to pay penalties if it exceeds its limits. The Chinese authorities have defined fleet average fuel consumption as of 2015 of 6.9 liters per 100 kilometers (approximately 160 g CO_2/km) as the industry's target for new cars. As the legislative procedure for 2015 has not yet been concluded, there is a risk that although each car will be calculated for the average of the fleet, it must individually at least meet the previous limits, posing a big challenge for cars with powerful engines. Sanctions have not yet been announced. For the year 2020, a new, very demanding target of 5.0 l/100 km has been stipulated (approximately 116 g CO_2/km), although the exact details are still under discussion. Similar legislation exists or is being prepared in many other countries, e.g. in Japan, South Korea, India, Canada, Switzerland, Mexico, Brazil and Australia. Daimler gives these targets due consideration in its product planning. The increasingly ambitious targets require significant numbers of plug-in hybrids or cars with other types of electric drive. The market success of these drive systems will be primarily determined by regional market conditions, for example the battery-charging infrastructure and state support. But as market conditions cannot be predicted with certainty, a residual risk exists. Very demanding regulations for CO_2 emissions are also planned for commercial vehicles, which will present a challenge for the Mercedes-Benz Vans division, especially in the long term. Legislation on reducing the greenhouse-gas emissions and fuel consumption of heavy commercial vehicles has also been passed or is under discussion. We therefore have to assume that the statutory limits will be very difficult to meet in some countries. In addition to emission, consumption and safety regulations, **traffic-policy restrictions** for the reduction of traffic jams and pollution are becoming increasingly important in the cities and urban areas of the European Union and other regions of the world. Drastic measures such as general vehicle-registration restrictions like in Beijing, Guangzhou or Shanghai can have a dampening effect on the development of unit sales, especially in the growth markets. Daimler therefore continually monitors the development of statutory and political conditions and attempts to anticipate foreseeable requirements and long-term targets already during the phase of product development. The biggest challenge in the coming years will be to offer an appropriate range of drive systems and the right product portfolio in each market, while fulfilling customers' wishes, internal financial targets and statutory requirements.

As of 2013, the EU has stipulated the use of a new **refrigerant** with reduced climate-damaging potential. In so-called real-life tests in mid-2012, Daimler ascertained a higher flammability than previously assumed. Daimler's safety concerns are serious and no alternative is available to the prescribed refrigerant at present. For this reason, Daimler is holding constructive discussions with the relevant German and European authorities in order to arrive at possible alternative solutions together with other manufacturers and suppliers. If no solution is found in good time, this could result in negative effects on the production costs of the vehicles involved due to the required technical modifications and on the development of sales.

Procurement market risks. Procurement market risks arise for the Group in particular from **fluctuations in prices of raw materials**. After the economy-related fall in raw-material prices in late 2011, that trend reversed in early 2012 and led to price increases especially in the first quarter. As the year progressed, lower commodity prices were offset by the loss in value of the euro. The development of raw-material prices and their volatilities in the past three years also reflect worldwide expansive monetary policies as well as diverging economic expectations in the United States, Western Europe and Japan and the emerging markets. The outlook for future price developments remains uncertain, due in particular to the ongoing development of the debt crisis and the increasing influence of institutional investors. That influence can be seen in the stronger demand for commodity investments, and is exacerbating the high volatility of prices in raw-material markets. Vehicle manufacturers are generally limited in their ability to pass on the higher costs of commodities and other materials in higher prices for their products because of the strong competitive pressure in the international automotive markets. Daimler continues to counteract procurement risks by means of targeted commodity and supplier risk management. We attempt to reduce our dependency on individual materials in the context of commodity management, by making appropriate technological progress for example. Daimler protects itself against the volatility of raw-material prices by entering into long-term supply agreements, which make short-term risks for material supplies and the effects of price fluctuations more calculable. Furthermore, in connection with some metals, we make use of derivative price-hedging instruments. Supplier risk management aims to identify suppliers' potential financial difficulties at an early stage and to initiate suitable countermeasures. Also after the recent crisis years, the situation of some of our suppliers is still difficult due to the tough competitive pressure. This has necessitated individual or joint **support actions** by vehicle manufacturers to safeguard their own production and sales. In the context of supplier risk management, regular reporting dates are set for suppliers depending on our assessment of them, in which key performance indicators are reported to Daimler and any required support actions are decided upon.

Information technology risks and unforeseeable events. Production and business processes could also be disturbed by **unforeseeable events** such as **natural disasters** or **terrorist attacks**. Consumer confidence would be significantly affected and production could be interrupted by supply problems and intensified security measures at territorial borders. **Information technology** plays a crucial role in our business processes. Storing and exchanging data in a timely, complete and correct manner and being able to utilize fully functioning IT applications are of key importance for a global group such as Daimler. Risks of occurrences which could result in the interruption of our business processes due to the failure of IT systems or the loss or corruption of data are therefore identified and evaluated over the entire lifecycles of applications and IT systems. Daimler has defined suitable actions for risk avoidance and limitation of damage, continually adapts these actions to changing circumstances. These activities are embedded in a multi-stage IT risk management process. For example, the Group minimizes potential interruptions of operating routines in the data centers by means of mirrored data sets, decentralized data storage, outsourced archiving, high-availability computers and appropriate emergency plans. In order to meet the growing demands placed on the confidentiality, integrity and availability of data, we operate our own risk management system for information security. Despite all the precautionary measures that we take, we cannot completely rule out the possibility that IT disturbances will arise and have a negative impact on our business processes.

Reputation. The general public is becoming increasingly aware of companies' behavior in matters of ethics and sustainability. Compliance of corporate actions with applicable law and ethical principles is essential for the Daimler Group. Furthermore, customers and capital markets critically observe how the Group reacts to the technological challenges of the future and the extent to which we succeed in placing up-to-date and technologically leading products on the market. Dealing securely with sensitive data is also a precondition for conducting business relations with customers and suppliers in a trusting and fair environment. Daimler applies comprehensive packages of measures so that risks affecting the Group's reputation are subject to formal internal controls.

Specific risks in the area of human resources. Daimler's success is highly dependent on our employees and their expertise. Competition for highly qualified staff and management is still very intense in the industry and the regions in which we operate. Our future success also depends on the extent to which we succeed over the long term in recruiting, integrating and retaining executives, engineers and other specialists. Our human resources instruments take such personnel risks into consideration, while contributing towards the recruitment and retention of staff with high potential and expertise and ensuring transparency with regard to our resources. One focus of our human resources management is on the targeted personnel development and further training of our workforce. Our employees profit for example from the range of courses offered by the Daimler Corporate Academy and from the transparency created by LEAD, our uniform worldwide performance and potential management system.

Because of demographic developments, the Group has to cope with changes relating to an aging workforce and has to secure a sufficient number of qualified young persons with the potential to become the next generation of highly skilled specialists and executives. We address this issue by taking appropriate measures in the area of generation management. An additional factor is that production in Germany might be impacted in connection with collective wage bargaining.

Risks relating to equity holdings and cooperations as well as other business risks. Daimler bears in principle a proportionate share of the risks of its joint ventures and associated companies in growth markets for example. In order to utilize additional growth opportunities, and also against the background of increasing national regulations, particularly in the emerging markets, cooperation with partners in joint ventures and associated companies is of increasing importance; the same applies to the resulting risks. The Group includes associated companies and joint ventures in the consolidated financial statements using the equity method of accounting. Any factors with a negative impact on those companies' earnings have a proportionate negative impact on Daimler's net profit. In addition, negative business developments at our associated companies or substantial decreases in the share prices of listed companies in which we hold an interest can also mean that impairment losses have to be recognized on the carrying values of the equity investments. If the development of these companies in important markets should fail or be delayed, this could have additionally an impact on the achievement of our growth targets. The successful implementation of cooperations with other companies is also of key importance to realize cost advantages and to combat the competitive pressure in the automotive industry.

The Group is also exposed to a number of risks arising from **guarantees** it has issued. For example, Daimler holds an equity interest in the system for recording and charging tolls for the use of highways in Germany by commercial vehicles of more than 12 metric tons gross vehicle weight. The operation of the electronic toll-collection system is the responsibility of the operator company, Toll Collect GmbH, in which Daimler holds a 45% stake and which is included in the consolidated financial statements using the equity method of accounting. In addition to Daimler's membership of the Toll Collect consortium and its equity interest in Toll Collect GmbH, risks also arise from guarantees that Daimler issued supporting obligations of Toll Collect GmbH towards the Federal Republic of Germany concerning the completion and operation of the toll system. Claims could be made under those guarantees if toll revenue is lost for technical reasons or if certain contractually defined parameters are not fulfilled, if additional claims are made by the Federal Republic of Germany, or if the final operating permit is not granted. Additional information on contingent obligations from guarantees granted and on the electronic toll collection system and the related risks can be found in Note 28 (Legal proceedings) and Note 29 (Guarantees and other financial commitments) of the Notes to the Consolidated Financial Statements.

Risks connected with pension benefit plans. Daimler has pension benefit obligations, and to a smaller extent obligations relating to healthcare benefits, which are not completely covered by plan assets. The balance of obligations less plan assets constitutes the funded status for these employee benefit plans. Even small changes in the assumptions used for the valuation of the benefit plans such as a reduction in the discount rate could lead to an increase in those obligations. The market value of plan assets is determined to a large degree by developments in the capital markets. Unfavorable developments, especially relating to equity prices and fixed-interest securities, could reduce that market value. Higher or reduced plan assets or a combination of the two would have a negative impact on the funded status of our benefit plans. Plan assets at December 31, 2012 did not include significant investments in bonds issued by countries which are currently especially affected by the European sovereign debt crisis. Lower yields from plan assets could also increase the net expenses relating to the benefit plans in the coming years. Information on the Group's pension benefit plans can be found in Note 22 of the Notes to the Consolidated Financial Statements.

Financial risks

Daimler is exposed to market risks from changes in foreign currency exchange rates, interest rates, commodity prices and share prices. Market risks may adversely affect Daimler's financial position, cash flows and profitability. Daimler seeks to control and manage these risks primarily through its regular operating and financing activities and, if appropriate, through the use of derivative financial instruments. In addition, the Group is exposed to credit and liquidity risks. As part of the risk management process, Daimler regularly assesses these risks by considering changes in key economic indicators and market information. Any market-sensitive instruments held in pension funds and other postretirement pension plans, including equity and interest-bearing securities, are not included in the following analysis.

Exchange rate risks. The Daimler Group's global reach means that its business operations and financial transactions are connected with risks arising from fluctuations of foreign exchange rates, especially of the US dollar and other important currencies against the euro. An exchange rate risk arises in the operating business primarily when revenue is generated in a different currency than the related costs (transaction risk). This applies in particular to the Mercedes-Benz Cars division, as a major portion of its revenue is generated in foreign currencies while most of its production costs are incurred in euros. The Daimler Trucks division is also exposed to such transaction risks, but only to a minor degree because of its worldwide production network. Currency exposures are gradually hedged with suitable financial instruments (predominantly foreign exchange forwards and currency options) in accordance with exchange rate expectations, which are constantly reviewed. Exchange rate risks also exist in connection with the translation into euros of the net assets, revenues and expenses of the companies of the Group outside the euro zone (translation risk); these risks are not hedged.

Interest rate risks. Daimler holds a variety of interest rate sensitive financial instruments to manage the cash requirements of its business operations on a day-to-day basis. Most of these financial instruments are held in connection with the financial services business of Daimler Financial Services, whose policy is generally to match funding in terms of maturities and interest rates. However, to a limited extent, the funding does not match in terms of maturities and interest rates, which gives rise to the risk of changes in interest rates. The funding activities of the industrial business and the financial services business are coordinated at Group level. Derivative interest rate instruments such as interest rate swaps and forward rate agreements are used to achieve the desired interest rate maturities and asset/liability structures (asset and liability management).

Equity price risks. Daimler predominantly holds investments in shares of companies such as EADS, Kamaz, Renault and Nissan, which are classified as long-term investments or which are included in the consolidated financial statements using the equity method. Therefore, the Group does not include these investments in an equity price risk analysis.

Commodity price risks. Associated with Daimler's business operations, the Group is exposed to changes in the prices of consignments and commodities. We address these procurement risks by means of concerted commodity and supplier risk management. To a minor extent, derivative commodity instruments are used to reduce some of the Group's commodity risks, primarily the risks associated with the purchase of metals.

Liquidity risks. In the normal course of business, we make use of bonds, commercial papers and securitized transactions as well as bank credits in various currencies, primarily to refinance the leasing and sales-financing business. A negative development of the capital markets could increase the Group's financing costs. More expensive refinancing would also have a negative effect on the competitiveness and profitability of our financial services business if we were unable to pass on the higher refinancing costs to our customers; a limitation of the financial services business would have a negative impact on the automotive business.

Credit risks. The Group is exposed to credit risks which result primarily from its financial services activities and from its operating business. In addition, credit risks also arise from the Group's liquid assets. Should defaults occur, this would negatively affect the Group's financial position, cash flows and profitability. In recent years, the limit methodology has been continually further developed in order to counteract the ever worsening creditworthiness of the banking sector. In connection with investment decisions, priority is placed on the borrower's very high creditworthiness and on balanced risk diversification. Most liquid assets are held in investments with an external rating of A or better.

Risks from changes in credit ratings. Daimler's creditworthiness is assessed by the rating agencies Standard & Poor's Rating Services, Moody's Investors Service, Fitch Ratings and DBRS. Upgrades of the credit ratings issued by the rating agencies could reduce the Group's cost of borrowing. There are risks connected with potential downgrades, which could have a negative impact on the Group's financing. Advance investment expenditures related to the Group's growth strategy are also connected with risks for our credit ratings if the unit sales and earnings anticipated from the growth cannot be realized. Further information on financial market risks, risk-minimizing actions and the management of those risks is provided in Note 31 of the Notes to the Consolidated Financial Statements. Information on financial instruments can be found in Note 30.

Legal risks

Various legal proceedings, claims and governmental investigations (legal proceedings) are pending against Daimler AG and its subsidiaries on a wide range of topics, including vehicle safety, emissions, fuel economy, financial services, dealer, supplier and other contractual relationships, intellectual property rights, product warranties, environmental matters and shareholder matters. Some of these proceedings allege defects in various components in several different vehicle models or allege design defects relating to vehicle stability, pedal misapplication, brakes or crashworthiness. Some of the claims asserted by way of class action suits seek repair or replacement of the vehicles or compensation for their alleged reduction in value, while others seek recovery for damage to property, personal injuries or wrongful death. Adverse decisions in one or more of these proceedings could require us to pay substantial compensatory and punitive damages or undertake service actions, recall campaigns or other costly actions. Some of these proceedings may have an impact on the Group's reputation.

We recognize provisions for these proceedings if the resulting obligations are probable and can be reasonably estimated. It is possible, as these proceedings are connected with a large degree of uncertainty, that after the final resolution of litigation, some of the provisions we have recognized for legal proceedings could prove to be insufficient. As a result, substantial additional expenditures may arise. This also applies to legal proceedings for which the Group has seen no requirement to recognize a provision. Although the final result of any such litigation may influence the Group's earnings and cash flows in any particular period, Daimler believes that any resulting obligations are unlikely to have a sustained effect on the Group's cash flows, financial position or profitability. Further information on legal proceedings can be found in Note 28 of the Notes to the Consolidated Financial Statements.

Overall risk

The Group's overall risk situation is the sum of all the individual risks of all risk categories for the divisions and the corporate functions. There are no discernible risks that either alone or in combination with other risks could jeopardize the continued existence of the Group. But since considerable economic and industry risks still exist, setbacks on the way to regularly achieving our growth and profitability targets cannot be completely ruled out.

Outlook

The statements made in the Outlook chapter are generally based on the operational planning of Daimler AG as approved by the Board of Management and Supervisory Board in December 2012 for the years 2013 and 2014. This planning is based on premises regarding the economic situation, which are derived from assessments made by renowned economic institutions, and on the targets set by our divisions. The prospects for our future business development as presented here reflect the opportunities and risks offered by anticipated market conditions and the competitive situation. We are constantly adjusting our expectations, taking into account the latest forecasts on the development of the world economy and of automotive markets, as well as our recent business development. The statements made below are based on the knowledge available to us in February 2013.

World economy

The world economy started the year 2013 with only moderate momentum. The global economy is generally following a sideways movement at the beginning of the year and should therefore at least have left the falling growth rates of last year behind. Nonetheless, the situation remains very difficult and no significant acceleration is to be expected – if at all – before the second half of the year. As in 2012, the world economic outlook is still affected by the difficult situation in the industrialized countries. And developments in the European Monetary Union (EMU) are still particularly critical. Although the various measures taken by the European Central Bank have significantly reduced the risks of the disintegration of the EMU, the underlying problems of the sovereign-debt crisis are far from solved. It must therefore be assumed also for the year 2013 that particularly in Europe, the crisis of confidence amongst investors and consumers will last a long time.

Against this backdrop, the economic outlook for the EMU worsened perceptibly at the beginning of this year. After last year's recession, gross domestic product is likely to remain flat at best in 2013. Although the overall dampening effects on economic growth of the austerity measures should be weaker than in 2012, the unchanged need for fiscal consolidation efforts continues to restrict domestic demand. So this year, not only small peripheral countries, but also larger economies such as Italy and Spain will once again post decreases in their GDP. While a number of other countries will at best achieve marginal growth, the German economy is likely to develop better than the EMU average once again. But also Germany will find it very difficult to achieve growth of more than 1%, and the consensus expectations at the beginning of the year are distinctly lower than that.

The economic outlook for the United States is significantly better than for Europe, and the currently available leading indicators confirm this picture. At the turn of the year, the dominant economic issue was avoiding the so-called "fiscal cliff" resulting from the discontinuation of fiscal stimuli on the one hand and automatic budget cuts on the other. Although agreement was finally reached between US politicians to avoid most of the negative fiscal effects on the economy that would otherwise have occurred in the first quarter, public debt remains a serious problem in the United States. With forecast GDP growth of approximately 2%, the prospects for the US economy therefore remain limited. In Japan, growth expectations had fallen so substantially below 1% that in January, the new government announced a stimulus program and the central bank announced additional expansive monetary measures.

In view of the economically rather disappointing industrialized countries with hardly more than 1% growth, the emerging markets will once again be the drivers of the world economy. In total, the emerging economies should grow by approximately 5% in 2013, and would thus account for three quarters of global growth. It will be of overriding importance that economic stabilization in China makes further progress and that the measures initiated take effect so that economic growth in the magnitude of about 8% is possible. It will also be important that Brazil gains perceptible impetus from increased investment after last year's economic blip, and that the Indian economy can overcome its phase of weakness. But growth should also occur in 2013 in those economies of Central and Eastern Europe which were still in recession last year. However, the growth weakness of the major sales markets of Western Europe will prevent a more favorable development. In the Middle East, considerable geopolitical tension is worsening the economic outlook. Further escalation could lead for example to large fluctuations in the price of oil.

In total therefore, global economic output could expand by approximately 2.5% to 3% at best in 2013. This would then be another below-average year in a long-term comparison. Another factor is that the world economy remains very sensitive to external disturbances. In this difficult environment, monetary policy will continue to be expansive and supportive, but at the expense in the medium term of an increased risk of inflation and possibly of bubbles being created in the asset and commodity markets.

With regard to the currencies important for our business, we continue to anticipate sharp exchange-rate fluctuations.

Automotive markets

According to current estimates, worldwide **demand for automobiles** is likely to grow this year by approximately 2 to 4%. This growth should be primarily driven by the ongoing expansion of the Chinese market and a moderate increase in demand in the United States. No impetus is to be expected from the Western European market, however. Demand in Japan will probably decrease significantly, with a perceptible negative impact on the growth of the world market.

In the US car market, after three years in succession with double-digit growth rates, significantly more moderate growth in demand is anticipated for this year. This is due on the one hand to the fact that the market has meanwhile returned to a respectable size and on the other hand to the below-average development of the US economy. The ongoing weakness of the economy and the still unresolved sovereign-debt crisis in the euro zone will continue to significantly dampen demand for cars in Western Europe. From today's perspective, a further, but more moderate, market decline is to be expected, so new registrations will remain at their lowest level in 20 years. The German market should be about as big as last year; but from today's perspective, a slight decrease cannot be ruled out, depending on further economic developments. The Japanese market was driven last year by catch-up effects and state incentives for car buyers. Following the expiry of those special effects, a significant drop in demand must be assumed for 2013.

For the car markets of the emerging economies, growth prospects are relatively favorable overall, whereby market developments are likely to display considerable regional differences. According to current estimates, growth in demand in the Chinese market could be rather stronger than last year. The premium segment should once again expand more dynamically than the total market. In India, the market volume will probably increase at a similar rate to that of 2012. In contrast, the number of cars sold in Russia should rise at a rather low rate.

Worldwide demand for **medium and heavy trucks** can be expected to increase perceptibly in 2013. However, this will mainly be driven by the significant recovery in China, which was responsible for a large proportion of the global drop in demand last year.

In North America, we anticipate a decline of 5 to 10%. This is due on the one hand to a recognizable market slowdown in the second half of 2012, and on the other hand to ongoing unwillingness to invest in the private sector because of the fiscal problems in the United States. For the European truck market, we expect demand to fall by up to 5% due to the ongoing weak economic environment. The Japanese market should be at about the prior-year level, following the expiry of certain special effects in connection with the reconstruction there. A significant recovery of up to 10% is expected for the Brazilian market thanks to better economic prospects and the continuation of favorable financing conditions. The Russian market has meanwhile returned to its level of before the global financial crisis and should expand moderately once again in 2013.

We expect the European **van market** to decline by approximately 5% in the year 2013, with demand in the southern countries in particular remaining weak. The outlook is positive for the United States, where we expect further expansion of the market for large vans. In Latin America, the market for large vans should expand again after the significant decline of last year. In China, we assume that our targeted market segment will recover slightly.

We expect a stable development of **bus markets** in Western Europe, with a market volume slightly higher than in 2012. Demand for buses in Latin America should increase again moderately after the distinct decline in 2012. In Brazil, the bus market should revive again in the medium term, also in connection with the upcoming soccer World Cup in 2014 and the Olympic Games in 2016.

Independently of the markets' economic fluctuations, the regional distribution of demand has shifted significantly in recent years. The importance of the emerging markets has increased enormously not only for the industry as a whole, but especially for manufacturers of premium vehicles, and the trend is likely to continue in the coming years. This creates great challenges for the industry regarding production sites and flexibility, as well as the requirements of differing customers in a global market. Another factor is the continuing and increasing need to invest in fuel-efficient and future-oriented technologies and to develop and supply innovative and sustainable mobility and transport solutions.

Unit sales

Mercedes-Benz Cars is consistently pursuing its "Mercedes-Benz 2020" offensive. Numerous model changes and new products should ensure that the division achieves new records for unit sales in the years 2013 and 2014. A major contribution to this growth is likely to come from the new models in the high-volume compact-car segment. The new B-Class was already well established in the market in the year 2012. And then in September we had the extremely successful launch of the new A-Class, with which we intend to attract additional groups of customers to the brand. In April 2013, the third model on the basis of the new compact-car architecture will be launched: the CLA four-door coupe. Also starting in April, the new E-Class sedan and wagon will be available from Mercedes-Benz dealerships after a thorough upgrade. And as of mid-May 2013, the new E-Class coupes and convertibles will create additional impetus. In June 2013, the locally emission-free super sports car SLS AMG Coupe Electric Drive will be launched on the market. In the second half of 2013, Mercedes-Benz expects significant growth in the luxury segment, above all due to the launch of the all-new S-Class. As the most important new model of the year 2013, the new S-Class will set new standards with pioneering innovations for comfortable and safe driving, summarized under the heading of "Mercedes-Benz Intelligent Drive." In addition, the Mercedes-Benz brand will also continue to profit in 2013 from the great market success of its models in the compact-car and SUV segments.

Within the framework of the long-term "Mercedes-Benz 2020" growth strategy, the product portfolio will be further expanded across all segments in the coming years. In the compact-car segment, the Mercedes-Benz product portfolio will be expanded to a total of five models. In parallel, the model offensive will also be continued at the upper end of the automobile spectrum, for example with new models of the coming S-Class and with another SUV model version.

The smart brand expects good chances that the unique two-seater in the highly competitive micro-car segment will defy its advanced model lifecycle also in 2013, and will achieve unit sales in the magnitude of the prior year. The successor model of the two-seater, the new smart four-seater and the electric smart scooter will be presented in 2014.

Daimler Trucks anticipates a slight increase in unit sales in the year 2013 and further growth in 2014, although the development in 2013 will at first be rather moderate or even negative in some key markets due to the ongoing difficult economic situation. We expect the introduction of stricter emission limits in 2014 to cause some purchases to be brought forward to 2013. As a result of its extensive product offensive, Daimler Trucks not only has a complete model range of Euro VI trucks, but is also in a very good starting position in all relevant regions: A highly attractive, innovative product portfolio should allow us to further strengthen our market position worldwide and to increase our share of important markets.

Unit sales should benefit from the complete availability of the Actros and Antos models and from other new models such as the Arocs for the construction sector and the new Atego.

Our strong North American products like the new Freightliner Cascadia Evolution in combination with the strong Detroit components should make an important contribution to further growth. With our clear focus on profitable customer segments such as the construction and municipal segments within the framework of our "Vocational Strategy," we want to utilize additional market potential and strengthen our leading position in North America.

Our brands Fuso and BharatBenz will also make an important contribution to growth in unit sales in the coming years. The Fuso Canter and its hybrid version, which has been produced also in Europe since 2012, should stimulate additional demand. Fuso will extend its leading position in the field of "green innovation" with the new Canter Eco Hybrid and other technologies. Furthermore, Fuso is developing profitable export markets in the context of its growth offensive. In India, as previously announced, we will expand our range of BharatBenz trucks to a total of 17 models in the weight classes from 6 to 49 metric tons by the year 2014, and will also expand the sales and service network. In Russia and China, we are gradually intensifying the cooperation with our local partners Kamaz and Foton, and are thus creating the right conditions for the further development of these growth markets.

Mercedes-Benz Vans plans to increase its unit sales in the years 2013 and 2014. On the product side, the new Mercedes-Benz Citan should contribute to this growth. Entering the market segment of small vans makes us a full-range supplier and thus gives us additional growth potential in Europe. As of mid-2013, there will be demand stimulus from the new-generation Sprinter. As part of our "Vans goes global" strategy, we are increasingly developing markets outside Europe. Furthermore, Mercedes-Benz vans are increasingly produced also locally: in Argentina and China, and in the first half of 2013, production will begin also in Russia with our partner GAZ.

Daimler Buses assumes that it will be able to maintain its globally leading position in its core markets for buses above 8 tons with innovative and high-quality new products. Not least due to various major orders in advance of the soccer World Cup in 2014 and the Olympic Games in 2016, we anticipate a rise in unit sales in Brazil for the years 2013 and 2014. In Western Europe we have launched excellent high-quality products: the new Mercedes-Benz Citaro and the Setra 500, the new coach generation. In order to realize further growth potential and to enhance our competitiveness, we started the "GLOBE 2013" growth and efficiency offensive in 2012.

With its "DFS 2020" strategy, **Daimler Financial Services** aims to achieve further profitable growth in the coming years. Key growth drivers are the expansion of our business in Asia, the product offensives of the Daimler Group, and the further development of innovative mobility service packages. Worldwide, we want to gain larger numbers of young customers, who Daimler will increasingly attract with its new models in the compact class and who are particularly open-minded with regard to financing and leasing offers. For the new Mercedes-Benz A-Class for example, we have designed packages including financing, insurance and services specifically for these target groups. Daimler Financial Services sees additional growth opportunities in the field of innovative mobility services, where we will systematically expand our service offering in the coming years – with and beyond car2go.

On the basis of our assumptions concerning the development of automotive markets and the divisions' planning, we expect the **Daimler Group** to achieve further growth in total unit sales in the years 2013 and 2014.

Revenue and earnings

We assume that the Daimler Group's **revenue** will continue growing in the years 2013 and 2014. Although uncertainty regarding the future development of our markets tended to increase during the year 2012, we will launch numerous new products in the context of our growth strategy in the coming years. Furthermore, we will increasingly develop the growth markets of Asia, Eastern Europe and Latin America for our products – partially also through local production. The growth we anticipate will probably be driven by all divisions, with the biggest contributions in absolute terms coming from Daimler Trucks and Mercedes-Benz Cars. In regional terms, we assume that growth rates will be above average in the emerging markets and in North America.

The following factors are particularly important for the **earnings situation of the Daimler Group** in the years 2013 and 2014:

- We will profit from the fact that we can convince our customers also in difficult markets with a large number of new and attractive products and with new technologies, and will thus be able to grow in many cases faster than the overall market.
- Within the context of our growth strategy, we are expanding our production capacities and distribution structures in North America and Eastern Europe, and especially in the BRIC countries. This will enable us to participate in the growth of those markets, although it is connected with substantial expenditure which will lead to corresponding revenue only after a certain delay.
- The currently very high expenditure for our model offensive and innovative technologies will only have a positive impact on revenue after a time lag. In particular the new S-Class and the new generation of the E-Class will not lead to a significant earnings improvement until the second half of the year 2013 and above all in the year 2014.
- By implementing our module strategies in the respective divisions, we will be able to utilize economies of scale across the entire product portfolio, thus making substantial savings especially with regard to production material.
- In addition, we are implementing far-reaching efficiency-enhancing programs in all divisions, whose effects will positively affect earnings already in 2013 and then above all in the following years. With the programs "Fit for Leadership" at Mercedes-Benz Cars, "Daimler Trucks #1" at Daimler Trucks, "Performance Vans 2013" at Mercedes-Benz Vans and "GLOBE 2013" at Daimler Buses, we intend to achieve sustained improvement in earnings of approximately €4 billion in total by the end of 2014. In this way, we are placing our growth strategy on a sound financial base.

We assume that the weakness of major markets will at first continue in the first half of 2013, and therefore anticipate a weaker development of earnings in the first half of the year compared with 2012. But due to the planned new models, the assumptions made for the development of markets important to Daimler and the increasing effects of the efficiency measures that have been initiated, we expect earnings to improve in the second half of 2013 compared with the level of the first half. On the basis of the anticipated recovery in the second half of the year, we currently assume that Group EBIT from ongoing business in the year 2013 will reach the magnitude of the prior year. For Mercedes-Benz Cars, full-year EBIT is expected to be slightly lower than in 2012, while the other automotive divisions should post higher earnings than in the prior year. In 2014 and the following years, we expect an improvement in operating profit for all automotive divisions and for the Group. For Daimler Financial Services, we anticipate a stable development of earnings in the next two years.

In the medium term, we aim to achieve an annual average return on sales in our automotive business of 9% across market and product cycles. This is based on target returns on sales for the individual divisions: 10% for Mercedes-Benz Cars, 8% for Daimler Trucks, 9% for Mercedes-Benz Vans and 6% for Daimler Buses. For the Daimler Financial Services division, we have set a target return on equity of 17%. Due to significantly worsened market conditions, the achievement of these profitability targets has become much more challenging for the Group and the individual divisions. We therefore assume that these targets will not be achieved as originally planned in the year 2013, but at a later date. In order to make sure we meet our profitability targets in the long term, we are carrying out far-reaching programs to improve our efficiency and competitiveness in all divisions.

We want our shareholders to participate appropriately in Daimler's financial success also in the coming years. In setting the dividend, we aim to distribute approximately 40% of the Group's net profit attributable to the Daimler shareholders. On this basis, the Board of Management and the Supervisory Board will propose the distribution of a dividend of €2.20 per share at the Annual Meeting of the Shareholders to be held on April 10, 2013 (prior year: €2.20). The total dividend paid out will thus amount to €2,349 million (prior year: €2,346 million).

For the years 2013 and 2014, we aim to have liquidity available in a volume appropriate to the general risk situation in the financial markets and to Daimler's risk profile. We want to continue to cover our funding needs primarily by means of bonds, bank loans, customer deposits in the direct banking business and the securitization of receivables in the financial services business. We assume that we will continue to obtain refinancing at attractive conditions during the planning period. Our goal is to take various measures in order to secure a high degree of financial flexibility.

Opportunities and risks

Our forecasts for the years 2013 and 2014 are based on the assumptions that political conditions will remain generally stable and the world economy will not slip back into recession. We also anticipate growth in worldwide demand for motor vehicles in 2013 and 2014, although at first only with a moderate rate of expansion. In addition to the assessments that we describe in this Outlook, further opportunities and risks exist that may have a positive or negative impact on our potential unit sales, revenue or earnings. This includes the development of currency exchange rates and raw-material prices, as well as the market success of our products and the intensity of competition in our key markets.

We see significant risks for the year 2013 in the renewed worsening or escalation of the sovereign-debt crisis in the euro zone and the resulting turbulence in financial markets and the banking sector, uncertainty about budget and fiscal policy in the United States, a sharp growth slump in China, high price volatility in commodity markets due to geopolitical unrest in the Middle East, increasing inflationary pressure and nascent protectionism. If one of those risk events should occur, the world economy might enter another recessive phase.

A detailed description of the risks associated with our business activities can be found in the Risk Report. see pages 125 ff

We have already excluded the risks arising for our business from exchange-rate fluctuations for the year 2013 to a large extent by means of appropriate financial instruments. Specifically for the US dollar, we were hedged by approximately 70% as of mid-February 2013.

Even though risks predominate at the beginning of 2013, there are also chances of a generally more positive development of the world economy. The biggest positive growth stimulus would be from a quick and lasting solution to the European sovereign-debt crisis. The quicker investors and consumers overcome the current crisis of confidence and return to more optimistic expectations of the future, the faster and stronger the revival of domestic demand will be. That would significantly benefit the financial markets and the banking sector. In such a case, credit could be expected to start flowing more freely again. Higher investment and increased consumption would also generate positive employment effects and thus reduce the high unemployment rates of many industrialized countries. This would result in significant acceleration of growth, especially in the industrialized countries. Higher economic growth rates would also make it much easier to maintain the still-necessary budget discipline. The dampening effects on the economy of state consolidation measures would then be considerably weaker than assumed. A quick and lasting agreement in the United States on carrying out the required consolidation measures would supply more impetus for domestic demand. Due to the great importance of the US economy for the global economy, this would have positive spill-over effects on other economies. But the emerging markets might also supply stronger impetus in 2013, especially if the overall economic upward trend in the major markets of China, India, Brazil and Russia were amplified. A stronger revival in China would of course be of prime importance.

Such a scenario would open up the possibility of a significantly more favorable business development at Daimler in the years 2013 and 2014. We see opportunities for additional unit sales and earnings in particular if the weak European automobile market recovers faster than assumed.

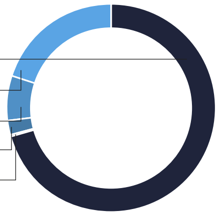
In the medium term, additional growth potential will be presented above all by the expansion of our presence in Asia and Eastern Europe. Our local activities there will enable us to utilize those opportunities. Together with our local partners, we are expanding our production capacities in China. In India, we have been producing trucks under the BharatBenz brand in a new plant since the year 2012. In Russia, we are intensifying our partnership with truck manufacturer Kamaz, while in Hungary, a new car plant for the production of our new compact class went into operation in 2012.

3.47

Investment in property, plant and equipment 2013 – 2014

In %

Mercedes-Benz Cars	71%
Daimler Trucks	20%
Mercedes-Benz Vans	7%
Daimler Buses	2%
Daimler Financial Services	0.3%



3.48

Investment in property, plant and equipment

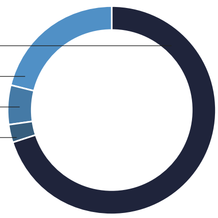
	2011	2012	2013-2014
In billions of euros			
Daimler Group	4.2	4.8	10.2
Mercedes-Benz Cars	2.7	3.5	7.3
Daimler Trucks	1.2	1.0	2.0
Mercedes-Benz Vans	0.1	0.2	0.7
Daimler Buses	0.1	0.1	0.2
Daimler Financial Services	0.02	0.02	0.03

3.49

Research and development expenditure 2013 – 2014

In %

Mercedes-Benz Cars	70%
Daimler Trucks	21%
Mercedes-Benz Vans	6%
Daimler Buses	3%



3.50

Research and development expenditure

	2011	2012	2013-2014
In billions of euros			
Daimler Group	5.6	5.6	10.8
Mercedes-Benz Cars	3.7	3.9	7.6
Daimler Trucks	1.3	1.2	2.3
Mercedes-Benz Vans	0.4	0.4	0.6
Daimler Buses	0.2	0.2	0.3

Furthermore, the upcoming fundamental changes in automotive technology are on the one hand a risk factor, but on the other hand can present considerable opportunities. If we succeed in our aim of playing a pioneering role for motor vehicles and concepts for sustainable mobility with innovative technologies, this should give us additional growth potential in terms of both unit sales and earnings.

We also see opportunities going beyond our planning in the area of innovative mobility services. A large and fast-growing market is being created in which we are already very well positioned with car2go. We will significantly expand our offering in this field of business and intend to participate to an above-average extent in the growth of this market.

New perspectives are also opening up through pioneering cooperations that we have agreed upon in various areas. We combine our expertise with that of our partners, which allows us to bring new technologies to market maturity more quickly and more cost effectively. It also enables us to produce on a larger scale and therefore less expensively.

Capital expenditure

In order to achieve our ambitious growth targets, we will expand our product range in the coming years and develop additional production and distribution capabilities. We also want to make sure that we can play a leading role in the far-reaching technological transformation of the automotive industry. For this purpose, we will invest a total of approximately €10.2 billion in property, plant and equipment in the years 2013 and 2014. ↗ 3.47 ↗ 3.48 We will thus exceed the already very high level of the past two years by €1.2 billion. In addition to capital expenditure, we are developing our position in the emerging markets by means of targeted financial investment in joint ventures and equity interests. These include our joint ventures with BAIC and Foton in China as well as Engine Holding with Rolls-Royce.

At the Mercedes-Benz Cars division, the focus of our capital expenditure will be on renewing and expanding our product range. The main projects include the expansion of our model range in the A-/B-Class segment, preparations for the new S-Class at the plant in Sindelfingen and preparations for the new C-Class family. But substantial investment is planned also for the modernization and expansion of engine and transmission production at the plant in Untertürkheim, as well as for the expansion of our production capacities in the United States. After last year's high level of capital expenditure, Daimler Trucks will mainly invest in successor generations of existing products and new global component projects in the coming years. At Mercedes-Benz Vans, the focus is on the further development of the existing model range and the expansion of the sales and service organization outside Western Europe, especially in the United States, Russia, Latin America and China. The key projects at Daimler Buses are advance expenditure for new model versions, future emission technology and alternative drive systems.

Research and development

With our research and development activities, our goal is to further strengthen Daimler's competitive position against the backdrop of upcoming technological challenges. We want to create competitive advantages above all by means of innovative solutions for low emissions and safe mobility. In addition, we intend to utilize the growth opportunities offered by worldwide automotive markets with new and attractive products that are tailored to the needs of our customers. In the years 2013 and 2014, Daimler plans to spend a total of €10.8 billion on research and development activities. ↗ 3.49 ↗ 3.50 This means we are at the high level of the years 2011 and 2012. Research and development expenditure at Mercedes-Benz Cars of €7.6 billion will be in the magnitude of the two previous years. Key projects are the successor models to the C- and E-Class and the new smart models. We are also investing substantial sums in new, low-emission and fuel-efficient engines, alternative drive systems and innovative safety technologies. As some important product and engine projects have meanwhile been realized, research and development expenditure at Daimler Trucks will be lower than the high level of previous years. The focus here will remain on developing and adapting new engine generations in order to fulfill increasingly stringent emission regulations, as well as on successor generations for existing products. The further development of engines to fulfill future emission standards is an important area of research and development also at Mercedes-Benz Vans and Daimler Buses. Alternative drive systems also play an important role, in particular at Daimler Buses.

Workforce

Due to the anticipated business development, production volumes will continue increasing in the years 2013 and 2014. At the same time, we will significantly increase our efficiency and thus also productivity as a result of the programs we are carrying out in all divisions. Against this backdrop, we assume that we will be able to achieve our ambitious growth targets with a largely stable workforce. New jobs will tend to be created in the international growth markets.

The Divisions

Electrifying. Mercedes-Benz SLS AMG Coupe Electric Drive – the world's most powerful electric super sports car.

Daimler’s divisions generally performed well in an increasingly difficult market environment. Further growth was achieved at Mercedes-Benz Cars and Daimler Trucks, while the unit sales of Mercedes-Benz Vans and Daimler Buses decreased. The business volume of Daimler Financial Services increased significantly.
In order to achieve our ambitious growth and profitability targets, far-reaching programs designed to increase our competitiveness are being implemented in all divisions.

4 | The Divisions

Mercedes-Benz Cars

2012 was another record year for Mercedes-Benz Cars. Our figures for unit sales, revenue, and production volume were at all-time highs. At €4.4 billion, EBIT did not reach the high level of the prior year. We set standards in the compact-car segment with our sporty new A-Class. Additional new model highlights in 2012 were the new SL, the CLS Shooting Brake, and the new GL. The E 300 BlueTEC HYBRID, which we have been offering to customers since June 2012, is the most fuel-efficient luxury sedan in the world. In 2012, we expanded our Mercedes-Benz 2020 growth strategy to include a new key component: Fit for Leadership.

4.01
Mercedes-Benz Cars

	2012	2011	12/11
Amounts in millions of euros			% change
EBIT	4,389	5,192	-15
Revenue	61,660	57,410	+7
Return on sales (in %)	7.1	9.0	.
Investment in property, plant, and equipment	3,495	2,724	+28
Research and development expenditure	3,863	3,733	+3
thereof capitalized	1,125	1,051	+7
Production	1,455,650	1,392,083	+5
Unit sales	1,451,569	1,381,416	+5
Employees (December 31)	98,020	99,091	-1

4.02
Unit sales Mercedes-Benz Cars

	2012	2011	12/11
In thousands			% change
Mercedes-Benz	1,346	1,279	+5
thereof A/B-Class	231	192	+20
C/CLK/SLK-Class	425	412	+3
E/CLS-Class	314	340	-8
S/CL/SL-Class/ SLR/SLS/Maybach	81	81	+0
M/R/GLK/GL/ G-Class	295	254	+16
smart	106	100	+6
Mercedes-Benz Cars	1,452	1,381	+5
thereof Western Europe	631	625	+1
thereof Germany	290	291	-0
NAFTA	342	288	+19
thereof United States	300	250	+20
China	208	223	-7
Japan	45	32	+37

New records set for sales and revenue. Mercedes-Benz Cars, comprising the brands Mercedes-Benz, Maybach and smart, continued to grow with sales of 1,451,600 vehicles in the year under review (2011: 1,381,400). ↗ 4.01 Revenue increased by 7% to the new record level of €61.7 billion, although major markets weakened in the second half of the year. At €4.4 billion, EBIT was lower than the high figure recorded in the prior year. This development was primarily due to extensive investment in the expansion of our production capacities, high advance expenditure for new vehicles and technologies, and difficult overall economic conditions – particularly in the second half of the year.

Fit for Leadership. To ensure we are able to achieve our targets for growth and margins – even under less favorable conditions – we have expanded our Mercedes-Benz 2020 growth strategy to include a new central component known as Fit for Leadership. This program combines existing efficiency actions and supplements them with additional, newly derived elements. Our main short-term goal here is to implement measures that will safeguard our earnings. Of particular importance, however, is our long-term component for optimizing our development, production and sales structures. One example of this optimization is the restructuring of our business activities in China, where we merged our two existing sales companies into a single and much more efficient sales organization, thereby creating the right conditions for further growth. In total, we intend to achieve a sustainable improvement in our cost structures of approximately €2 billion as a result of “Fit for Leadership” by the end of 2014.

Mercedes-Benz remains on course for growth. We set a new record in 2012 with unit sales of 1,345,800 Mercedes-Benz brand passenger cars (2011: 1,279,100). This achievement also enabled us to improve our position in key markets around the world. ↗ 4.02 The S-Class sedans, the M-Class, the CLS, the SLK and the C-Class coupe are worldwide market leaders in their categories.

The launch of our new and attractive SUVs led to a 16% increase in unit sales in that segment to 295,400 vehicles. Particularly high sales increases were recorded for the M-Class (+34%) and the updated GLK (+14%). We remained very successful in the S-Class segment with unit sales of 80,700 vehicles, and we were able to increase our sales in the C-Class segment by 3% to 425,000 units. Sales in the E-Class segment declined to 313,600 vehicles (-8%) due to lifecycle-related factors. Despite the model changeover of the A-Class

Presented in January 2013: The strong and dynamic styling makes the four-door coupe Mercedes-Benz CLA unmistakable.

in September 2012, unit sales in the compact segment rose by 20% to 231,100 vehicles. This positive development was mainly due to high unit sales of the B-Class (+57% to 150,200 vehicles). The market launch of the new A-Class was extremely successful. In fact, more than 70,000 orders had already been received by the time the model went on sale in September 2012.

All in all, we managed to increase sales in many markets, despite facing difficult economic conditions. Mercedes-Benz successfully defended its position as the most successful premium brand in Germany with shipments of 261,100 vehicles last year (2011: 262,300). This positive sales momentum was generated primarily by the B-Class, the M-Class, the upgraded GLK and, from the fourth quarter on, the new A-Class. In addition, we succeeded in improving our position in nearly all markets in Western Europe excluding Germany. Total unit sales of 300,100 vehicles exceeded the prior-year level by nearly 5% despite weak markets in the countries of Southern Europe. Sales in the United States reached a new record level of 289,300 vehicles (+17%); this development was primarily a result of the success of our new SUVs. Retail sales were up also in China, increasing by 1% to a record of 196,200 vehicles. As of the third quarter, sales were stimulated by the launch of the new B-Class. In order to optimize the inventories of our Chinese sales partners, we simultaneously reduced unit sales, i.e. shipments to our dealer network, by 9%. In 2012, sales of Mercedes-Benz passenger cars developed especially dynamically in Japan (+37%), Russia (+27%), Mexico (+27%), Switzerland (+23%) and the United Kingdom (+20%).

The heartbeat of a new generation. The highlight of the Mercedes-Benz presentation at the Geneva Motor Show in March 2012 was the world premiere of the new A-Class. With this model, we ushered in a new era for the compact-car segment. The new A-Class is exceptionally emotive in terms of design, dynamic thanks to new engines, and highly efficient with emission values starting at 92 grams of CO_2 per kilometer. The model's fuel consumption is up to 28% lower than that of its predecessor, despite a significant increase in engine performance. At the same time, the new A-Class underscores the fact that safety is not a question of cost at Mercedes-Benz. For example, the vehicle is offered with the radar-based COLLISION PREVENTION ASSIST system as standard equipment. The model's ability to seamlessly integrate iPhones® is also making the Mercedes-Benz brand particularly attractive to younger customers.

CLS Shooting Brake: A sports car with cargo space. With the all-new CLS Shooting Brake, which was first delivered to customers in October 2012, Mercedes-Benz offers yet another highlight in its lineup of innovative luxury vehicles. Although the model clearly has the proportions of a coupe, its five doors and a roof that stretches to the rear of the vehicle also offer impressive new possibilities. As a sports car with five seats and a large rear hatch, the vehicle is a unique option for customers who desire both a sporty driving experience and plenty of room for cargo.

Additional new models in 2012. The completely redesigned SL celebrated its world premiere at the Detroit Auto Show at the beginning of the year. This automobile is made almost entirely of aluminum and weighs up to 140 kilograms less than its predecessor. Its new BlueDIRECT engines are more powerful and up to 30% more fuel-efficient than the engines of the predecessor generation.

We also upgraded our range of SUVs in 2012 by launching new generations of the compact GLK and the G-Class as well as the new GL. With their new designs, more exclusive appointments, pioneering assistance systems, and powertrains that are both efficient and agile, all of these vehicles underscore the Mercedes-Benz claim to leadership in the SUV segment.

The E 300 BlueTEC HYBRID, which we began offering to customers in June 2012, is the most fuel-efficient luxury sedan in the world. The vehicle's modular hybrid concept, which includes a lithium-ion battery, stands out thanks to its exceptional driving performance and fuel consumption of only 4.1 liters of diesel per 100 kilometers (107 g CO_2/km). see page 165

The new highlights of 2012 also included two very environmentally friendly versions of the new B-Class: the Concept B-Class Electric Drive and the Mercedes-Benz B 200 Natural Gas Drive model. see page 165

In April 2012, Mercedes-Benz presented a four-door concept coupe with an avant-garde design at the Auto China show. The new CLA coupe, which was presented in January 2013 in Detroit, seamlessly integrates the design of the Concept Style Coupe into a series-production model. see page 37

Launch of the new smart fortwo electric drive. The new generation of the smart fortwo electric drive was launched in June 2012. The electric smart accelerates from 0 to 60 km/h in 4.8 seconds and has a top speed of 125 km/h. The vehicle's powerful lithium-ion battery enables it to travel 145 kilometers on a single charge. smart now also offers a new sales model that makes switching over to electric driving more appealing. With sale&care, customers can purchase, finance or lease the car at favorable terms and rent the battery for a monthly fee. Daimler has also been offering customers electricity from a new wind power facility – and thus from a completely renewable energy source – since the vehicle's market launch. In this way, we are ensuring that new smart fortwo electric drive models purchased in Germany are fully CO_2 neutral.

We also began offering the smart ebike to our customers in July 2012. With its unconventional design and a highly efficient and high-performance drive-system package, the smart ebike occupies an exceptional position on the market. The brand will also be expanding its urban electric mobility concept with the introduction of the smart scooter in 2014.

We sold a total of 105,700 smart fortwo cars in 2012, an increase of 6% compared with the prior year. The smart fortwo was particularly successful in the United States, Canada, Japan and China.

AMG – cutting-edge technology and a fascinating driving experience. Impressive results in motor sports and a unique array of high-performance vehicles continue to underscore AMG's reputation as the successful performance brand from Mercedes-Benz. The brand motto of "driving performance" has guaranteed the most sophisticated technology and a fascinating driving experience for 45 years now. As the first vehicle developed independently by Mercedes-AMG, the SLS AMG super sports car impressively highlights the expertise and passion that are hallmarks of the company's headquarters in Affalterbach. The spectacular gullwing model was followed by the open-top SLS AMG Roadster, two GT versions of the super sports car and the customer sports racecar SLS AMG GT3.

In the autumn of 2012, AMG continued the almost legendary tradition of its Black Series with the introduction of the SLS AMG Black Series coupe. AMG will also launch its new SLS AMG Electric Drive coupe in 2013. Getting behind the wheel of this fascinating electric super sports car is the most exclusive and dynamic way of experiencing what it means to drive an electrically powered vehicle. AMG will enter the compact class as well in 2013 with the introduction of the A 45 AMG. Additional AMG high-performance compact cars are also almost ready for market launch.

Continuous expansion of production network. Due to strong demand, the production plants of Mercedes-Benz were very well utilized also in the year 2012. To ensure that we fulfilled all of our customers' wishes, we implemented numerous special shifts and holidays were shortened. In this way, it was possible to produce over 1.35 million Mercedes-Benz automobiles: more than ever before.

Important product launches such as the new A-Class and the SL were mastered in top quality. A special prize was awarded to the plants in Sindelfingen and East London: the renowned J.D. Power Silver Plant Quality Award. The most important milestone in the year 2012 was the opening of our new Mercedes-Benz plant in Kecskemét, Hungary, which since then has been producing the new generation of Mercedes-Benz compact cars together with the plant in Rastatt. A total of €800 million has been invested in the Kecskemét plant, which meanwhile employs more than 3,000 people. Production of the B-Class started there after the plant was opened, followed by the new four-door compact coupe CLA in January 2013. The production network for our new compact cars allows us to significantly enhance our flexibility.

In addition to the substantial investment in Germany, we are also expanding our international production facilities so that we can manufacture our products closer to our markets and customers, especially in the growth regions. In China for example, together with our partner BAIC, we are investing a total of approximately €2 billion over several years in the expansion of local car production in Beijing. Last September, we laid the foundation stone for a plant that will produce the new generation of compact cars. And good progress has been made with the development of a new plant for the production of four-cylinder gasoline engines, which will go into operation in 2013.

As well as the systematic expansion of the production network, the productivity of the existing facilities is also being improved continuously. In this way, we are creating the right conditions also in the area of production to allow us to achieve the targets set by our Mercedes-Benz 2020 growth strategy.

Further reduction of CO_2 emissions. Our new economical engines and extremely efficient model variants once again enabled us to substantially reduce the average CO_2 emissions of the cars we sold in the European Union in 2012 – this time from 150 g/km to 140 g/km. We thus once again achieved an above-average reduction in the CO_2 emissions of our vehicle fleet, simultaneously undercutting the EU targets for this year. The new A- and B-Class models played a major role in this accomplishment. Our overall objective is to reduce the average CO_2 emissions of our fleet of new cars in the European Union to 125 g/km by 2016. see pages 100 and 164 ff

Pioneering technology and a new design: The extensively modernized new E-Class will be delivered to our customers as of April 2013.

Intelligent drive. This concept stands for a new dimension of driving at Mercedes-Benz. In the future, intelligent assistance systems will analyze complex situations and utilize improved sensor technology in order to identify potential danger on the road even better than is possible today. With many new systems, the new S-Class will make driving even more comfortable and even safer. Some of these innovations will already be implemented in the new E-Class. see pages 48 ff and 166 f

Numerous awards for Mercedes-Benz passenger cars. In 2012, a series of international design prizes such as the coveted “red dot award: product design” demonstrate that we were once again able to impress our customers with the forward-looking design and cultivated sportiness that typifies the Mercedes-Benz brand.

In the ADAC AutomarxX study, Mercedes-Benz occupies the top position as Germany’s strongest automobile brand and the A-Class has been voted “Germany’s favorite car” in the ADAC prize Yellow Angel 2013. The brand’s A-, C-, and E-Class models all received top marks in their respective segments in the J.D. Power market research institute’s Vehicle Ownership Satisfaction Study for Germany. In addition, Mercedes-Benz was proclaimed to be the best automotive brand in Germany in the same study. The Ökotrend environmental institute named the S 250 CDI BlueEFFICIENCY and the ML 250 BlueTEC 4MATIC the most environmentally friendly vehicles in their respective classes, while readers of Auto Bild magazine voted the A-Class Germany’s most beautiful car in the Auto Bild Design Award competition. Mercedes-Benz also won the Quality Trophy 2012, which is presented by Auto Zeitung magazine and the Association for Technical Inspection (GTÜ) to the company providing the best quality and dependability. This coveted top-class award is based on three criteria: the results of some eight million general technical inspections conducted by GTÜ, findings from the quality and service report published by Auto Zeitung, and magazine readers’ responses that reflect their own personal experience.

Our service also received top marks in the year under review. The Mercedes-Benz company-owned and authorized sales and service outlets that were examined in the workshop tests carried out by auto motor und sport magazine were all designated as providing very good service quality. In addition, Mercedes-Benz workshops once again achieved the grade “very good” in tests conducted by Germany’s ADAC automobile association.

Focusing on younger customer groups. In 2012, we added new chapters to the success story of the Mercedes-Benz brand. For example, we enhanced the fascination and appeal of the Mercedes star with a comprehensive product and communication offensive whose activities centered on the brand motto “The Best or Nothing.” New models such as the unique CLS Shooting Brake and in particular the progressively designed new A-Class enabled us to open up the Mercedes-Benz brand to new target groups. We also adopted new approaches to communication and marketing. In addition to existing Mercedes-Benz customers, who continue to enjoy the traditional brand attributes of premium quality, safety and longevity in the new A-Class, the new model specifically addresses young and contemporary-minded target groups who are particularly interested in sporty design and the ability to integrate digital media into their automobiles. see pages 32 ff and 38 ff

We therefore designed our various campaigns to be expressive and modern in order to attract more customers from those target groups. Among other things, our communication activities here focus on innovative digital media and social networks such as Facebook and Twitter.

Daimler Trucks

2012 was a multifaceted year for Daimler Trucks. The Antos for heavy distribution transportation, the new medium-duty engine generation and the completely new model range of the BharatBenz brand once again demonstrated our innovative capabilities and substantially expanded the product lineup for our customers. The joint venture with Chinese manufacturer Foton took over the production of Auman brand trucks last summer. Despite higher unit sales, EBIT was lower than in 2011.

4.03
Daimler Trucks

	2012	2011	12/11
Amounts in millions of euros			% change
EBIT	1,714	1,876	-9
Revenue	31,389	28,751	+9
Return on sales (in %)	5.5	6.5	.
Investment in property, plant, and equipment	989	1,201	-18
Research and development expenditure	1,197	1,321	-9
thereof capitalized	180	251	-28
Production	450,622	435,918	+3
Unit sales	461,954	425,756	+9
Employees (December 31)	80,519	77,295	+4

4.04
Unit sales Daimler Trucks

	2012	2011	12/11
In thousands			% change
Total	462	426	+9
Western Europe	58	61	-6
thereof Germany	31	31	-0
United Kingdom	7	8	-9
France	7	8	-9
NAFTA	135	114	+18
thereof United States	114	97	+17
Latin America (excluding Mexico)	46	62	-25
thereof Brazil	29	44	-34
Asia	164	135	+21
thereof Japan	35	27	+30
Indonesia	69	62	+10

Another significant increase in unit sales and revenue. After many truck markets had posted strong sales growth in the first half of the year, all core markets saw demand slow down or even decrease in the third and fourth quarters. In Europe, the sovereign-debt crisis and the resulting economic weakness led to a marked decline in purchases, and economic constraints limited demand in the NAFTA region to the procurement of essential replacement vehicles. Although reconstruction activities led to an upswing in Japan following the earthquake, this development slowed considerably. In Brazil, weak economic growth and the introduction of tougher emissions standards led to a significant drop in unit sales throughout the year. In spite of these difficulties, Daimler Trucks managed to further increase its revenue and unit sales. As a result, the division was able to grow, particularly in Asia and the NAFTA region. We sold 462,000 vehicles during the year under review, or 9% more than in 2011. Revenue totaled €31.4 billion (+9%). Due to lower unit sales in Brazil and Western Europe as well as scheduled expenses for the current product offensive, EBIT of €1.7 billion was 9% below the prior-year level. ↗ 4.03

Daimler Trucks #1 safeguards the division's sustainable profitability. With the launch of the "Daimler Trucks #1" excellence initiative, Daimler Trucks aims to become a leader also in terms of profitability. DT#1 is part of the Global Excellence Strategy and encompasses excellence programs at the individual operating units as well as cross-business initiatives. DT#1 has precise targets and is expected to contribute €1.6 billion in earnings by the end of 2014 from both additional business activities and cost-cutting measures. Daimler Trucks aims to achieve a significant portion of the cost reduction by the end of 2013.

The overall goal of the business units' growth and optimization programs is to ensure that the division either remains or becomes the market leader in each region. The associated measures encompass the entire value chain.

For example, we have determined that there is great potential in the optimization of production and the reduction of material costs and fixed costs. Moreover, our current product offensive will play a key supporting role as we strive to meet our growth and efficiency targets.

A global reach with a unique portfolio of truck brands is a key element of our strategy for the future growth of Daimler Trucks.

In order to optimally exploit the advantages of our global reach, we have created programs at the various operating units as well as new cross-business excellence initiatives. For example, as part of its module strategy, Daimler Trucks aims to achieve a much higher rate of shared parts in its products without eliminating the key distinctions between the various brands. Reduced complexity and a smaller range of parts generate not only cost benefits in procurement, but also significant economies of scale in production and logistics. Furthermore, we are now realigning our R&D organization to optimally harmonize our development activities with our global platform and module strategy. Closer cooperation, including the systematic sharing of best practices, will also help us achieve our goal in the aftersales business. At the same time, a global growth strategy for component remanufacturing will enable us to exploit additional earnings potential. By expanding our regional activities and product range, we aim to increase the revenue from our remanufacturing business by 30% in the medium term. Finally, we are working on an integrated business model for Asia that will enable us to benefit from the region's growth potential even more than was previously the case.

Significant growth in worldwide unit sales. ↗ 4.04 Weak economic developments combined with the sovereign-debt crisis led to fewer purchases in **Western Europe**, thus causing the market to contract. At 58,000 units, sales at Daimler Trucks were down by 6% from the prior-year level. The year-on-year declines were particularly severe in southern European markets such as Italy and Spain. However, those two countries account for only a relatively small share of Daimler Trucks' sales in Western Europe (6%; 2011: 8%). In contrast, we once again reached or slightly surpassed the prior year's unit sales in Germany and the Netherlands. Despite facing a challenging market environment, Daimler Trucks was able to maintain its good position. In both Western Europe as a whole and Germany, its home market, Mercedes-Benz strengthened its market leadership by further increasing its market share in the medium and heavy segments. In the year under review, our market share was 22.9% in Western Europe (2011: 22.3%); in Germany it was 39.2% (2011: 37.5%).

The situation was similar in Turkey, where demand was very high in 2011 before dropping last year, particularly in the key heavy-truck segment. As a result, Daimler Trucks saw sales in Turkey fall slightly by 8% to 18,300 units. Despite this decrease, we substantially increased Mercedes-Benz Trucks' market share in the country to 45.4% (2011: 37.3%) and consequently extended our market leadership. At the end of August, we also added the Fuso Canter to our truck lineup in Turkey. Thanks to a favorable market environment, we sold 7,100 Mercedes-Benz and Fuso brand vehicles in Russia, representing an increase of more than 30%. This positive development is partly due to our joint venture's successful cooperation with Kamaz, the country's market leader for heavy trucks.

In **Latin America**, a substantial worsening of the overall economy and the introduction at the beginning of the year of tougher emissions standards in the region's main market, Brazil, caused sales to drop considerably to 46,200 vehicles (2011: 61,900). The change in emission limits from Euro III to Euro V not only required vehicles to use significantly more advanced technology, but also placed great demands on the infrastructure. For example, it became necessary to ensure the availability of suitable diesel fuel and AdBlue, an important exhaust gas treatment, throughout the country. The Brazilian government responded to the weakening of the economy by substantially improving the terms of the FINAME support program. Favorable financing conditions and short amortization periods are intended to serve as additional sales incentives and should eventually cause the truck business to rebound.

Developments in the **NAFTA region** were very promising at the beginning of 2012. At the end of the first half of the year, demand for Class 6 to 8 trucks was approximately 30% higher than it had been at the same time in 2011. The relatively high average age of the vehicles in this region continues to generate demand for substantial numbers of replacement trucks. However, increasing numbers of truck customers postponed their purchases in the second half of the year due to the deteriorating economic outlook. As a result, demand stagnated compared with 2011. Despite these developments, sales of 135,000 vehicles in the NAFTA region represent a substantial increase of 18%. With a market share of 34.0% (2011: 31.9%) for the Class 6 to 8 segment and 32.9% (2011: 30.9%) for heavy-duty trucks, we have further strengthened our leading position in this key market. We significantly boosted sales not only in our main market, the United States, where sales of 113,800 vehicles surpassed the prior-year figure by 17%, but also in Mexico, where sales rose by 28%. Daimler Trucks is the only manufacturer in the NAFTA region which has engines, axles and transmissions completely from its own production (from the component brand Detroit) and can thus offer its customers optimally tailored products.

At 163,700 units, Daimler Trucks sold many more vehicles in **Asia** this year than in 2011 (134,900). Our vehicle sales were up by 30% in Japan, where demand remained strong this year as a result of the extensive reconstruction work that was necessary following the natural disaster in March 2011. Our Fuso vehicles gained market share especially in the attractive heavy-duty truck segment (+2.4 percentage points). Despite intensified competition, we greatly increased our truck sales in Indonesia once again, selling a total of 68,500 units there. Although our market share declined slightly in Indonesia, we continue to be the undisputed leader in the overall truck segment with a market share of 43.7% (2011: 48.7%).

One of the high points of 2012 was the start of the production and sales of BharatBenz brand vehicles in India. We put a new production plant into operation in India last April after a record set-up time of only about 24 months. 85% of the parts and components for BharatBenz trucks are manufactured in India. In addition to truck assembly and powertrain production, the facility encompasses an R&D center and a test track. The plant in Chennai has been producing heavy-duty trucks of the new Daimler Trucks brand BharatBenz since the summer of 2012; sales of the vehicles commenced in September. Since early October, the company has also been producing and selling medium-duty trucks. Although not much time had elapsed since sales commenced, we had already sold 1,100 medium and heavy-duty vehicles by the end of the year.

Our premium brand, Mercedes-Benz, is already very successful in the Chinese truck market. Last year, we increased our sales in China above all in the country's construction vehicle segment. Those vehicles were manufactured at the truck plant in Wörth and adapted for their specific applications. We also sell Fuso models in China. During the year under review, Daimler Trucks sold a total of 6,900 vehicles in China under its various brands, thus increasing its sales volume there by 6%, although the overall market contracted significantly.

Our holdings make further progress. Our cooperation with the Chinese truck manufacturer Foton gives Daimler Trucks access to China's attractive volume segment. After the Chinese Ministry of Commerce had given Daimler and Foton the final approval for a joint venture in the fall of 2011, the partnership's operational phase began in Beijing in 2012. Since July, the joint venture company Beijing Foton Daimler Automotive Co., Ltd. (BFDA) has been manufacturing all of the Auman brand's trucks. In addition to completing a second Auman truck production plant, the joint venture will also set up a manufacturing facility for engines in the future. Daimler will contribute its technological expertise, especially in the areas of diesel engines and exhaust gas systems.

Through a partnership between Fuso and Nissan, Daimler Trucks is also continuing to expand its product range in Japan. An agreement signed in November regulates the mutual supply of light trucks. As a result, Fuso will add the Fuso Canter Guts to its vehicle lineup in 2013.

In Russia, Daimler Trucks is benefiting from its modular system as it cooperates with its partner Kamaz. Beginning in 2013, Mercedes-Benz Axor cabs will be installed in Kamaz's new generation of trucks on the basis of a licensing agreement. Since November 2012, we have also been supplying diesel and natural gas engines as well as axles to Kamaz as part of a supply agreement. In this way, Daimler Trucks is expanding the partnership, which also encompasses two local joint ventures established to produce and sell Mercedes-Benz and Fuso trucks in Russia.

Product offensive proceeding as planned. Besides introducing the new BharatBenz brand, Daimler Trucks also presented numerous new products last year.

The Mercedes-Benz Antos for example is the first vehicle class designed specifically for use in heavy-duty distribution transportation. The Antos is being rolled out with a wide range of EURO VI diesel engines. Featuring three displacements and outputs ranging from 175 kW to 375 kW, these engines allow customers to select the right powertrain for their needs. In all of the versions, power is transmitted by the fully automated PowerShift 3 transmission. As a result, even trucks and semitrailer tractors that are only occasionally fully loaded have a good operating performance. Specific models are also offered for special applications. For the first time ever, all of the assistance systems used in the Actros long-haulage truck are now also available for distribution transportation.

In May 2012, Daimler Trucks presented the new Freightliner Cascadia Evolution, which becomes available in the US market in 2013. The new truck consumes up to 7% less fuel than the current EPA10 Cascadia model. These fuel savings were demonstrated during a 2,400-mile test drive and have also been confirmed by an independent institute. The large savings were made possible by equipping the truck with the new Detroit DD15 engine and implementing aerodynamic measures.

The Aerodynamics Trailer saves about 2,000 liters of diesel per semi-trailer truck each year while reducing CO_2 emissions by five tons.

Also in May, we began selling the new Fuso Canter Eco Hybrid in Japan. The truck has also been available in Europe and other international markets since the third quarter of 2012. This vehicle boasts great fuel efficiency, economy and comfort, thanks to the first-ever combination of a dual-clutch transmission and hybrid drive. As the cleanest vehicle in its class, the Fuso Canter Eco Hybrid generates 30% less nitrogen oxide and particulate emissions than the limit stipulated by Japanese regulations. In addition, it reduces fuel consumption by more than 25% compared with the current Canter model with a conventional diesel engine. The Fuso Canter Eco Hybrid has been awarded prizes by Japanese automotive experts for its innovative technology.

After introducing the new heavy-duty engine generation, Daimler Trucks presented its all-new OM 93x series of medium-duty engines last spring. This is the first time that all of the units of a commercial vehicle engine series meet the future Euro VI emissions standard without exception. The new engines are tailored to meet the requirements associated with light, medium, and heavy-duty distribution transportation; light and medium-duty construction site work; long-haul operations; and city and intercity bus services.

Daimler Trucks also offers a broad range of new and optimized driver assistance systems that provide customers with substantial benefits. For example, Predictive Powertrain Control is an anticipatory cruise control system that reduces fuel consumption by up to 3%. The system can optimize fuel consumption by recognizing the topography of the road ahead. To achieve this goal, the system is also able to change gears.

The third generation of Active Brake Assist (ABA3) enables us to greatly reduce the risk of front-end collisions. ABA3 was enhanced on the basis of the proximity control system. However, unlike the automatic adaptive cruise control, ABA3 independently initiates an emergency braking maneuver if a front-end collision with moving or stationary obstacles appears imminent. The system also warns other drivers on the road by sounding the horn and turning on the hazard warning lights.

After running a successful pilot project in several core markets in Asia and the Middle East, Fuso is now greatly expanding its aftersales business with its Diamond Value Parts brand. Although the quality, reliability, and efficiency of this secondary brand's spare parts are much better than those of competing products, they are much less expensive than original parts.

Shaping Future Transportation – as far as Daimler Trucks is concerned, this motto means using resources sparingly, reducing emissions of all kinds, and simultaneously ensuring the greatest possible degree of road safety. With its Aerodynamics Truck & Trailer initiative, Daimler Trucks aims to dramatically reduce wind resistance and fuel consumption. And with the new Actros, Mercedes-Benz has the world's most fuel-efficient heavy-duty truck in its model range. The vehicle was recently joined by the Aerodynamics Trailer, whose drag coefficient has been reduced by approximately 18%. The prototype Aerodynamic Truck, whose cab is based on the Actros ClassicSpace, also boasts optimized wind resistance. Thanks to better aerodynamics, which have been improved by approximately 12%, the truck's fuel consumption on highways has been reduced by about 3%. The Aerodynamic Truck and Trailer are currently undergoing further test drives.

At the beginning of 2012, the Environmental Protection Agency certified Daimler Trucks North America's (DTNA) complete range of Freightliner and Western Star on-highway, vocational and medium-duty trucks as fully compliant with the Greenhouse Gas 2014 (GHG14) regulations. DTNA is the first US truck manufacturer to receive this certification.

There are also plans to further optimize the new Freightliner Cascadia Evolution. When this vehicle is equipped with an automated Detroit DT12 transmission, wide tires with low roll resistance and an aerodynamically shaped semitrailer, it has been shown to have an outstanding fuel efficiency rating of 10.67 miles per US gallon (22 liters/100 km).

Mercedes-Benz Vans

In 2012, Mercedes-Benz Vans launched the new Citan city van, which ideally supplements our existing product range. The sovereign-debt crisis in Western Europe led to market contractions that affected our business. EBIT of €541 million was lower than the high level recorded in the prior year. Our top-selling Sprinter van continued to be very successful in North and Latin America. Because our standards are high, we have further intensified initiatives aimed at boosting the efficiency of the division and increasing its international scope.

4.05

Mercedes-Benz Vans

	2012	2011	12/11
Amounts in millions of euros			% change
EBIT	541	835	-35
Revenue	9,070	9,179	-1
Return on sales (in %)	6.0	9.1	.
Investment in property, plant, and equipment	223	109	+105
Research and development expenditure	371	358	+4
thereof capitalized	137	126	+9
Production	257,496	268,851	-4
Unit sales	252,418	264,193	-4
Employees (December 31)	14,916	14,889	+0

4.06

Unit sales Mercedes-Benz Vans

	2012	2011	12/11
			% change
Total	252,418	264,193	-4
Western Europe	164,907	178,335	-8
thereof Germany	71,044	77,585	-8
Eastern Europe	24,026	22,646	+6
United States	21,474	18,027	+19
Latin America (excluding Mexico)	13,954	13,659	+2
China	8,836	13,514	-35
Other markets	19,221	18,012	+7

Unit sales and earnings impacted by crisis in Europe. Mercedes-Benz Vans' global sales of Sprinter, Vario, Vito, Viano, and Citan vehicles decreased to 252,400 units last year (2011: 264,200). This development was due in particular to the difficult market situation in Western Europe. Revenue was also slightly lower than in the prior year at €9.1 billion (2011: €9.2 billion). EBIT decreased from €835 million to €541 million, primarily due to lower unit sales in Western Europe. Expenses were incurred for the market launch of new products. Furthermore, there were expenses of €64 million in connection with the impairment of the Chinese joint venture Fujian Benz Automotive Corporation. ↗ 4.05

Initiatives for boosting efficiency and making the division more international. At Mercedes-Benz Vans, we launched the "Performance Vans 2013" short-term program to further intensify previous initiatives aimed at continuously boosting efficiency. The new program was conceived to counteract unfavorable market developments in Western Europe and help us deal with intensified competition in key markets. With this program, we intend to realize efficiency improvements in the magnitude of €100 million. At the same time, we are retaining the key pillars for achieving further profitable growth. The elements of those pillars include measures to increase the international scope of the division and to expand its product range. We refer to this strategy as "Vans goes global." see page 153

The Sprinter remains successful in North and Latin America. Due to Europe's sovereign-debt crisis and a challenging market environment, Mercedes-Benz Vans saw its unit sales decline by 8% in Western Europe to 164,900 vehicles. ↗ 4.06 The Western European volume markets in particular were unable to match their high levels of 2011. Because of market developments, our unit sales were especially low in Germany and France compared with the prior year. By contrast, sales developed very well in Eastern Europe, where Mercedes-Benz Vans once again saw unit sales grow rapidly (+6%) in 2012 following excellent results in the prior year. Due to the market success of the Sprinter in the United States and Canada, sales once again rose substantially in the NAFTA region to 26,400 units, representing an increase of 18% over the prior year. The high level of customer acceptance is also reflected in our increasing market share. In Latin America, we sold 14,000 vehicles (+2%). After the introduction of the current generation of the European Sprinter in the spring of 2012, unit sales rose in Latin America, particularly during the second half of the year. However, sales in China declined to 8,800 units (-35%), due to the contraction of those segments of the market in which

Mercedes-Benz Sprinter: The current version of the global van has been produced also in Argentina since 2012.

we are active. We sold 159,000 Sprinters worldwide in 2012 (-3%). Sales of the Vito and Viano models decreased after record unit sales in 2011 by 15% to 83,700 units, and we sold 2,700 Vario vans (2011: 2,900). The new Citan city van, which was launched in September, accounted for sales of 7,100 units. Despite the difficult market environment, Mercedes-Benz Vans retained its market position for medium-sized and large vans in the European Union and defended its market share of 18%.

Full-line supplier with the new Mercedes-Benz Citan. In 2012, Mercedes-Benz Vans launched a new vehicle that made the division a full-line supplier of vans. The Mercedes-Benz Citan city van marks our entry into the rapidly growing small-van segment. By taking this step, we plan to strengthen our leading position in the European market. The Citan is the first vehicle to be created as a result of the strategic partnership between Daimler and Renault-Nissan, and made its debut at the IAA Commercial Vehicles show in Hanover in September 2012. The Citan is designed for commercial customers and is offered in panel van and crewbus variants, as well as in a "Mixto" version with two rows of seats and a small cargo area. The city van is available in three lengths based on two different wheelbases and two different gross vehicle weights. The Citan is one of the most fuel-efficient vans of its class in both the gasoline and the diesel-powered variants. The Citan BlueEFFICIENCY has fuel consumption of 4.3 l/100 km and CO_2 emissions of 112 g/km. No conventionally powered city van consumes less fuel or produces lower emissions. At the same time, the Citan ensures optimal driving comfort and high performance while keeping operating costs low.

"Vans goes global" in Latin America, Russia, China and North America. The worldwide success of the Sprinter is one of the key elements of our "Vans goes global" growth strategy. The Sprinter, which is the designation for an entire class of vehicles, is a best-selling export model and a truly global van. The Sprinter impresses customers worldwide and is now being produced in several key growth regions. Since the beginning of 2012, we have been manufacturing the current Mercedes-Benz Sprinter generation at our plant in Buenos Aires, Argentina, where it is primarily produced as a bus variant. The upgraded product range will enable Mercedes-Benz Vans to benefit from the anticipated sharp increase in demand for passenger transport systems in Latin America. The success of the new-generation Sprinter has already been demonstrated by the van's steadily increasing sales figures in the second half of 2012. We plan to invest more than €80 million in the production of new van models at the Buenos Aires plant over the next few years. In the process, we will create 700 new jobs there. We have also taken an important step forward in Russia, where we have formed a partnership for the production of Mercedes-Benz vans. We are currently implementing this project in cooperation with the Russian commercial vehicle manufacturer GAZ. The project's aim is to pave the way for the production of the proven Sprinter Classic, engines and other components at the GAZ facility in Nizhny Novgorod. Production is scheduled to begin during the first half of 2013. The vehicles will be sold and serviced by the existing Mercedes-Benz dealership network, which will be greatly expanded. At present, the Russian van market is growing faster than any other van market in Europe. In China, Mercedes-Benz Vans is the only manufacturer to date that produces vans locally. We have been producing the Vito and Viano in China since 2010, and our joint venture Fujian Benz Automotive Corporation also began manufacturing a bus version of the Sprinter in 2011. With its Sprinter, Mercedes-Benz Vans is also performing very successfully in North America. Unit sales of the Sprinter increased at a double-digit rate, thanks to an outstanding retail network and the use of a consistent two-brand strategy (Mercedes-Benz and Freightliner) in the United States.

Two electric vans celebrate world premieres. One of the key elements of Mercedes-Benz Vans' strategy is its goal of technological leadership in the sector. This leadership will be maintained by developing environmentally compatible technologies that provide customers with real utility. In this connection, we celebrated two world premieres during the year under review. At the Geneva Motor Show in March 2012, we presented the Mercedes-Benz Vito E-CELL crewbus. This crewbus is the world's first locally emission-free series-produced seven-seat vehicle. Another van, the Sprinter E-CELL concept, made its public debut at the IAA Commercial Vehicles show. This vehicle greatly expands the possibilities of locally emission-free transportation.

Daimler Buses

As the market leader in its core markets, Daimler Buses focuses on ecologically responsible innovations that also meet the financial requirements of its customers. With its presentation of the new Mercedes-Benz Citaro Euro VI and Setra ComfortClass 500 models, Daimler Buses is setting new standards in the premium bus segment. Market-related declines in demand for bus chassis in Latin America and the ongoing difficult situation in the European bus market had a negative impact on revenue and earnings last year. We began reorganizing our bus operations in 2012, thus creating the conditions for further growth at Daimler Buses.

4.07

Daimler Buses

	2012	2011	12/11
Amounts in millions of euros			% change
EBIT	-232	162	.
Revenue	3,929	4,418	-11
Return on sales (in %)	-5.9	3.7	.
Investment in property, plant, and equipment	82	103	-20
Research and development expenditure	222	225	-1
thereof capitalized	23	32	-28
Production	31,384	40,391	-22
Unit sales	32,088	39,741	-19
Employees (December 31)	16,901	17,495	-3

4.08

Unit sales of Daimler Buses

	2012	2011	12/11
			% change
Total	32,088	39,741	-19
Western Europe	5,851	5,943	-2
thereof Germany	2,039	2,214	-8
NAFTA	3,943	4,042	-2
Latin America (excluding Mexico)	17,800	25,048	-29
Asia	1,886	1,667	+13
Other markets	2,608	3,041	-14

Unit sales down from the prior year. Daimler Buses sold 32,100 buses and chassis worldwide in 2012 (2011: 39,700) and was able to defend its market leadership in its core markets in the segment for buses over eight tons gross vehicle weight. ↗ 4.07 The decline in sales volume compared with 2011 was largely due to lower orders for bus chassis in Latin America. The decrease in unit sales caused revenue to fall by €0.5 billion to €3.9 billion. At minus €232 million, EBIT was substantially lower than the figure recorded in 2011. Earnings were negatively affected also by expenditure of €155 million on the repositioning of our European and North American business systems.

Reorganization of European and North American business systems. Daimler Buses launched a growth and efficiency campaign known as "GLOBE 2013" in order to generate additional growth potential and strengthen the division's competitiveness, particularly in Europe. This program for safeguarding sustainable profitability is being rolled out along the entire value chain and at all locations, and aims to utilize potential for an earnings improvement in the magnitude of €200 million, to be realized by the end of 2014. One of its objectives is to intensify the links between all business locations in the European production network. As part of "GLOBE 2013," Daimler Buses will also exploit existing growth potential in its traditional markets and further expand business in new ones. In response to the continually decreasing demand for city buses in North America in recent years, we decided to discontinue production of Orion buses in the United States and Canada. The American bus manufacturer Motor Coach Industries International (MCI) became the exclusive distributor of Setra coaches in the USA during the year under review, and we received a 10% share in MCI in return.

Varying business development in the regions. In Western Europe, the Daimler Buses brands Mercedes-Benz and Setra offer a complete range of city buses, intercity buses and coaches, as well as Mercedes-Benz bus chassis. The sovereign-debt crisis had a dampening effect on customer demand in this region, but sales of 5,900 units were nonetheless at the level of the previous year. ↗ 4.08 Daimler Buses was thus able to further strengthen its leading market position in Western Europe with a market share of approximately 28% (2011: 27%). In Turkey, we sold 1,100 units (2011: 1,100), benefiting from a larger number of public-sector orders for city buses than was the case in 2011. Sales of Mercedes-Benz bus chassis in Latin America (excluding Mexico) declined by 29% to 17,800 units. In Brazil, the stricter Euro V emissions stan-

The Setra S 517 HD – a model of the new ComfortClass 500.

dards were introduced in early 2012. In anticipation of this development, many purchases that would otherwise have been made in 2012 were concluded in 2011. With a market share of approximately 43% (2011: 43%), we were able to clearly maintain our leading market position in Latin America. The stable development of the Mexican market enabled Daimler Buses to sell 3,500 units there, just as it had done in the prior year. In addition, our market share of roughly 48% (2011: 50%) once again allowed us to defend our leading market position in Mexico last year. In the context of repositioning our North American bus business, sales of Orion city buses were discontinued in 2012.

Major orders for city buses and chassis from Brazil. Brazil's major cities are already renewing their bus fleets and improving traffic infrastructures in preparation for the huge influx of visitors and traffic expected for the World Cup soccer championship in 2014 and the Olympic Games in 2016. With its order for 135 new Mercedes-Benz city buses equipped with BlueTec 5 technology, the city of Fortaleza is just one of many environmentally conscious municipalities that are striving to modernize their local public transport fleets in anticipation of these events. We also received a major order from the Ribeirão Preto transportation company in São Paulo province for just under 390 Mercedes-Benz bus chassis. In addition, we will supply 2,600 school buses for the Brazilian educational program. The chassis will be built up as school buses together with a Brazilian bodybuilder and will be delivered in 2013.

New Mercedes-Benz Citaro named "Bus of the Year 2013." The new Citaro with its Euro VI-compliant engine greatly impressed the international jury of experts who selected the winner of the "Bus of the Year 2013" award. The new Citaro – the first series-produced regular-service bus to comply with Euro VI – was praised for the economical and forward-looking transport solution it embodies. Our main goal in developing the Citaro was to combine environmental compatibility and economy with advances in performance, safety and comfort.

New ComfortClass 500 sets the benchmark. The Setra brand's new-generation ComfortClass 500 coach sets new benchmarks for design, comfort, safety, and efficiency. The two-axle S 515 HD, the two- and three-axle S 516 HD and the three-axle S 517 HD were all launched in the fall of 2012. The new aerodynamic design of the Setra ComfortClass 500 reduces fuel consumption. Aerodynamic adjustments have lowered the bus's wind resistance by 20%, which translates into a 5% decrease in fuel consumption. With the help of additional individual measures, the Setra ComfortClass 500 now boasts a drag coefficient of 0.33, a figure unmatched in the industry.

Daimler Buses continues to work on clean drive systems. The world's population is steadily growing and becoming increasingly urbanized. The need for mobility is therefore increasing worldwide, and this development is affecting the climate and the environment. Because buses will play a key role in the mobility networks that will be required in the future, Daimler Buses is developing pioneering drive technologies to address the associated challenges. For example, it is optimizing vehicles by equipping them with ultramodern combustion engines. In particular, Daimler Buses introduced two additional Euro VI-compliant models in 2012 – the Mercedes-Benz Citaro Euro VI and the Setra ComfortClass 500. Euro VI emission limits will become obligatory in early 2014, leading to a further drastic reduction of pollutant emissions. The two buses impressively demonstrated how emission reductions can be combined with enhanced fuel economy during the Record Run Buses 2012 comparative test. During this five-day event, which was monitored by neutral parties, five buses covered a total distance of almost 18,000 kilometers. The emission and fuel consumption performance of the Euro VI-compliant buses was then compared with that of their predecessors. The anticipated fuel savings of 4-6% (Citaro) and 5-6% (Setra) were not only achieved, but also significantly exceeded. In fact, both models cut fuel consumption by more than 8% compared to their predecessors and produced lower emissions thanks to their compliance with Euro VI.

Daimler Financial Services

Daimler Financial Services achieved further growth in new business and contract volume in 2012. We expanded our financial services portfolio particularly in Asia. By the end of 2012, our car2go mobility concept was being used by some 270,000 customers in 18 cities. Daimler Financial Services once again received awards in the areas of customer satisfaction, dealer satisfaction and employer attractiveness.

4.09

Daimler Financial Services

	2012	2011	12/11
Amounts in millions of euros			% change
EBIT	1,292	1,312	-2
Revenue	13,550	12,080	+12
New business	38,076	33,521	+14
Contract volume	79,986	71,730	+12
Investment in property, plant, and equipment	23	21	+10
Employees (December 31)	7,779	7,065	+10

Further growth in new business and contract volume. Business at Daimler Financial Services once again developed favorably in 2012. New business increased by 14% to the record figure of €38.1 billion. Contract volume, which expresses the value of all leasing and financing contracts managed by Daimler Financial Services, rose by 12% to €80.0 billion. Adjusted for exchange-rate effects, contract volume increased by 13%. EBIT of €1,292 million was at the same level as in the prior year (€1,312 million). ↗ 4.09

Positive business development in Europe. Daimler Financial Services concluded new financing and leasing contracts worth €18.2 billion in the Europe region in 2012. The development of new business was particularly dynamic in Russia (+127%), Turkey (+43%) and the United Kingdom (+39%). Contract volume in Europe totaled €34.5 billion at the end of the year under review, which is an increase of 11% compared to 2011. In Germany, the contract volume of Mercedes-Benz Bank increased by 4% to €17.8 billion.

In 2012, we successfully completed the realignment of Mercedes-Benz Bank and the transfer of Daimler Financial Services' global headquarters from Berlin to Stuttgart. We expect the resulting efficiency gains to generate savings of more than €10 million each year. At €12.1 billion, Mercedes-Benz Bank's deposit volume in the direct banking business was 10% higher than a year earlier.

Growth in the Americas region. New business in the Americas region increased compared with the prior year by 16% to €14.6 billion in 2012. Business developments were particularly positive in Canada (+27%), the United States (+22%) and Mexico (+19%). However, new business in Brazil declined due to the general economic development there. Contract volume in the Americas region increased by 11% to a total of €34.1 billion at the end of the year under review.

Dynamic growth in Asia. The Africa & Asia-Pacific region once again recorded the strongest growth in 2012. At €5.3 billion, new business was up by 17% from the prior year. In Japan, the volume of new leasing and financing contracts rose by 43% to €1.4 billion. Total contract volume in the Africa & Asia-Pacific region reached €11.3 billion, which is 14% higher than in 2011. In August 2012, Daimler Financial Services became the first automotive financial services provider in China's premium segment to offer leasing contracts. Financing activities designed to support the Group's new BharatBenz commercial vehicle brand in India were successfully launched last year. In Malaysia, the new Mercedes-Benz Services Malaysia subsidiary began operating in November.

Insurance business passes the one-million mark. In the insurance business, Daimler Financial Services brokered over one million policies for the first time in one year. The number of new insurance contracts signed increased by 13% to approximately 1,100,000. Policies brokered in China were up by 22% compared with 2011, while our Russian subsidiary recorded nearly twice as many policies as in the prior year. Our cooperation with major insurance partners makes it possible for Mercedes-Benz customers to obtain exclusive vehicle insurance conditions for the brand's typical safety features. In the event that a vehicle of one of our customers is damaged, it will be repaired in authorized workshops by highly skilled mechanics using genuine Mercedes-Benz spare parts. This arrangement also supports the Group's service centers and spare parts business.

Daimler Financial Services offers tailored financial services packages also for younger people.

Growth of business with fleet customers. Daimler Financial Services once again helped small and medium-sized commercial customers as well as major international companies in many countries to finance and manage their fleets of vehicles. We were able to grow in this sector as well, with new business increasing by 6% to 126,000 units. We managed a total of 328,000 vehicles for commercial customers by the end of 2012, representing an increase of 6% compared with a year earlier. With approximately 700 customers from all industries, the Daimler Financial Services subsidiary Daimler Fleet Management is one of the biggest providers of fleet management services in Germany.

Numerous awards for customer and dealer satisfaction. Daimler Financial Services was once again honored many times in 2012 for the outstanding quality of its services. For the fourth consecutive year, Germany's "Autohaus" magazine named Mercedes-Benz Bank the best premium-segment provider of automotive financial services. Daimler Financial Services ranked first in several categories of the J.D. Power and Associates study of dealer satisfaction in the United States and Canada. The division's Australian subsidiary finished first in a local dealer satisfaction study for the third time in succession.

A highly attractive employer. Daimler Financial Services is highly regarded as an employer. This fact was confirmed in 2012 by external institutes. For example, the highly respected Great Place to Work Institute reported that Daimler Financial Services' US subsidiary is among the country's 25 most attractive employers in its segment. Daimler Financial Services in China was also singled out for praise by the Great Place to Work Institute.

Further expansion of business with innovative mobility services. Daimler Financial Services is increasingly supplementing its automotive financial services operations with activities in the rapidly growing market for mobility services. The division's innovative car2go car-sharing concept is now up and running in 18 cities in Europe and North America. As a result, the number of car2go locations more than doubled during the year under review. car2go was launched in Stuttgart at the end of November with a fleet of 300 fully electric vehicles. At the end of 2012, car2go had some 270,000 customers worldwide (2011: 60,000). Starting at the beginning of 2013, Daimler Financial Services also concentrated all activities related to innovative mobility services in the subsidiary Daimler Mobility Services GmbH and assumed responsibility for the "moovel" mobility platform, which enables customers to compare various mobility options on their smartphones.

Expansion of Toll Collect system. This system, which is used to collect truck tolls on German autobahns, continued to run smoothly and reliably during the year under review. On August 1, 2012, the system was extended to cover approximately 1,100 kilometers of four-lane non-autobahn highways in Germany. A total of 741,900 onboard systems for automatic toll collection were in use at the end of 2012. Tolls were collected for a total distance of 26.6 billion kilometers during the year under review. Daimler Financial Services holds a 45% equity interest in the Toll Collect consortium.

Sustainability

The new Mercedes-Benz Vito E-CELL wagon:
the first seven-seater with a locally emission-free drive system.

Daimler is committed to the principle of sustainability and has a holistic view of this topic. So for us, economic, social and environmental responsibility are inseparable from each other.

5 | Sustainability

- The principle of sustainability is a fixed element of our corporate strategy
- Goal of a sustained increase in enterprise value
- Intensive dialog with stakeholders

- Investment in research and development of €5.6 billion
- Further reductions in fuel consumption and CO_2 emissions
- A-Class receives environmental certificate
- Presentation of the world's most economical large sedan
- Vehicles with alternative drive systems in series production
- Fuel-efficient trucks and buses
- New technologies for greater safety

- Increase in size of total workforce
- Flexible working models gain importance
- Lifetime learning secures employees' qualifications
- High priority on fostering next-generation executives
- Personnel diversity is a value factor at Daimler

- Social involvement according to the principle of "help for self-help"
- Binding regulations on Group-wide promotion process
- Benefits provided in the context of donations, sponsoring, foundations and corporate volunteering
- Support provided for example for the arts and culture, education and charitable projects

Detailed reporting on the subject of sustainability.
Detailed information is provided in our separate Sustainability Report. It describes transparently and factually the sustainability aspects of the past year.

The web-based Interactive Sustainability Report supplements our sustainability reporting with additional details and information sustainability.daimler.com.

In 2013, the new Sustainability Report will be available as of early April in time for the Annual Shareholders' Meeting.

Further information on the subject of sustainability can be found on our website at daimler.com/sustainability.

Sustainability at Daimler

Sustainability is an integral part of our corporate strategy. Efficient management structures support the implementation of sustainability policies at all of our divisions. In the year under review, we continued and expanded our intensive dialog with our stakeholders concerning issues related to sustainability.

Our sustainability strategy. We want to enhance the value of our company over the long term. And we can do that only if we define value creation holistically and measure the success of our business operations not only in terms of financial metrics, but also in relation to their social acceptance. In order to do that, we have established sustainability as an integral part of our pyramid of goals and as a basic principle of our corporate strategy. In addition, the ideas that are of fundamental importance to us include the ten principles of the Global Compact. As one of the Global Compact's founding members and a member of the LEAD team since 2011, we are strongly committed to these principles. We are also guided by the labor standards established by the International Labour Organization (ILO) and by the OECD guidelines for multinational companies.

Our effective and coordinated strategies and initiatives ensure that the concept of sustainability is firmly embedded in our business operations. In our Group-wide sustainability management system, these strategies are implemented by means of concrete measures and measurable target indicators. Our Sustainability Program 2010–2020, which we presented for the first time in April 2011, is an important step toward our goal. This program defines our essential areas of activity in the years ahead. We aim to steadily continue reducing pollutants and emissions, further enhance the safety of our vehicles, expand the dialog with our suppliers and dealers, and further strengthen our social involvement.

The economic dimension: Profitable growth and long-term economic success safeguard our commitment to sustainable development. As the technological pacesetter of the automotive industry, we aim to stand out because of our top performance and to shape the future of safe and environmentally compatible mobility. Our business operations are based on responsible corporate management that focuses on integrity, good corporate governance and the principles of compliance. In addition, our corporate management requires and encourages the irreproachable ethical behavior of every single executive and employee.

The environmental dimension: Environmental protection, innovation and safety are the biggest issues our company will have to deal with as it strives to attain its sustainability goals. Our cars and commercial vehicles are among the very best in their respective market segments in terms of their environmental friendliness and safety. As we explore new mobility concepts, we are extending our focus beyond the individual vehicles themselves and testing environmentally compatible approaches to urban mobility. Also in the production of our vehicles, we carefully design every production step to make it as environmentally compatible as possible.

A key focus of our research and development work is to continuously improve our products and processes in terms of their environmental compatibility. In this area, we achieved impressive results during the year under review in particular. For example, in just one year, we succeeded in reducing the CO_2 emissions of our newly registered cars in the European Union by an average of 10 grams, thus meeting the target of 140 g/km that we set in our Sustainability Report.

The social dimension: Daimler regards itself as an active member of society. That's why we are committed to our employees, our customers and the people who live and work near our business locations. After all, we benefit from highly motivated and well-qualified employees, satisfied customers and relationships with our stakeholders that are based on mutual trust. We want to create values for society, and through our donations, sponsorships and foundation activities, we help people in need, promote intercultural understanding and support the arts, culture, education, science and sports.

Intensified dialog with our stakeholders. As a member of the Global Compact, we once again intensified the dialog with our stakeholders in connection with our commitment to sustainability. We also support the Code of Responsible Conduct in Business, which promotes a social market economy in which fair rules govern global competition. Through our Daimler Sustainability Dialog, we bring social leaders, politicians and scientists together with representatives of Daimler's top management. The aim of these events is to intensify dialog on various topics, including critical issues, and to engage in a joint search for practical solutions.

Daimler has a unique portfolio of cars and commercial vehicles with environmentally friendly drive systems.

In November 2012, around 130 participants came together in Stuttgart at the fifth Daimler Sustainability Dialog. Among other things, the event focused on workshops dealing with the following topics: electric mobility, generation management and human rights – particularly with respect to the supply chain and community involvement. As always, the results of the workshops will be further developed in the following twelve months in working groups that include representatives of the company's stakeholders. This process will create the starting point for the next Sustainability Dialog.

In May 2012, we conducted a stakeholder dialog for the third time in China. The event was held in Beijing for the second time after taking place in Shanghai in 2010. The subjects it focused on were air pollution and traffic congestion in urban areas, qualification measures for university graduates and corporate ethical standards with regard to suppliers and business partners. For the first time, Daimler Northeast Asia published a separate sustainability report for that region. With this report, Daimler reinforced its clear long-term commitment to China and underscored the importance of sustainable business practices in this important economic area.

First stakeholder survey conducted. In order to make a comparative analysis of the interests of our stakeholders and those of Daimler AG, we conducted the first international open stakeholder survey from November 15 to December 14, 2012. Daimler employees, shareholders, customers and suppliers as well as representatives of associations, environmental and human rights organizations, politicians, and interested members of the public all took part. This survey, which is new in terms of its scope and openness, serves to make the discourse with our stakeholders transparent and understandable.

Comprehensive reporting on sustainability. The year 2012 saw the publication of our eighth Group-wide Daimler sustainability report, which was prepared according to the guidelines set forth by the Global Reporting Initiative (GRI). It provides a detailed and comprehensive analysis of our sustainability performance for the previous financial year, and is enhanced by an interactive online sustainability report that contains more detailed and extensive information.
sustainability.daimler.com

The new Sustainability Report 2012, which will be presented at the Daimler Annual Shareholders' Meeting in early April 2013, already focuses on the future requirements of the GRI. In this context, important Daimler aspects are highlighted. This applies above all to key topics such as internationality or our cross-divisional mobility concepts. In addition, with the new report, we take the opportunity to report on other specific concerns such as generation management or our methods for reducing CO_2 emissions.

Innovation, Safety and the Environment

Innovations have always been the driving force at Daimler. Our goal is to offer our customers fascinating products and customized solutions for safe and sustainable mobility. During the year under review, we made substantial progress in reducing the CO_2 emissions of our vehicles. We also further expanded the range of vehicles we offer with alternative drive systems. In addition, our trend-setting innovations underscored our pioneering role in vehicle safety.

A tradition of innovation. Innovations have played a key role at our company ever since Carl Benz and Gottlieb Daimler invented the automobile. This is truer than ever today. After all, we must now reinvent the automobile if we are to cope with the accelerated pace of technological progress and the challenges posed by climate change and environmental protection measures. Our customers expect safe, comfortable and powerful vehicles that are increasingly fuel-efficient and environmentally friendly. In order to meet these requirements, we are forging ahead with the work in our research and development units.

At a total of €5.6 billion, Daimler's investment in research and development once again reached the very high level of the prior year in 2012. At the end of the year, approximately 21,100 men and women were employed at Group Research and the in development departments of Mercedes-Benz Cars, Daimler Trucks, Mercedes-Benz Vans and Daimler Buses. We were also able to offer interesting employment opportunities to highly qualified staff – particularly at our international research and development facilities.

Our company's innovative prowess is demonstrated by our extensive portfolio of intellectual property rights, which includes more than 21,000 patents and a broad range of trademarks and protected designs. Daimler registered 2,200 patents in 2012 (2011: 2,175), most of them for drive systems and safety. More than 1,000 of those patents involved emission-free mobility, especially in relation to electric drive systems with batteries or fuel cells.

On the road to emission-free mobility. Finite petroleum reserves, rising energy prices, a growing population – especially in cities – and the unabated demand for mobility require new solutions for all aspects of road transport. Our aim is to offer an intelligent mix of drive systems for every need. In this way, we want to significantly reduce the fuel consumption and pollutant emissions of our vehicles today, while striving to eliminate the use of fossil fuels and emissions entirely in the long term. We are now implementing this intelligent mix of drive systems for our cars and commercial vehicles as part of our "Road to Emission-free Driving" strategy. In doing so, we are focusing on the following areas:

1. We are continuing to develop and further optimize our vehicles with state-of-the-art combustion engines in order to achieve significantly lower fuel consumption and emissions.
2. We are achieving clear further increases in efficiency through customized hybridization, i.e. the combination of combustion engines and electric motors.
3. Our electric vehicles with battery or fuel cells are making locally emission-free driving possible.

Further reductions in fuel consumption and CO_2 emissions. We have significantly reduced the fuel consumption and CO_2 emissions of our cars in recent years. This reduction was largely due to our new and extremely efficient combustion engines, our downsizing/supercharging concepts, and our new transmissions. In 2012, we were able to further reduce the CO_2 emissions of our fleet of new vehicles in the European Union by 10 grams per kilometer to an average of 140 g/km. We thus achieved an above-average reduction in the CO_2 emissions of our vehicle fleet once again in 2012, while undercutting the EU targets for this year. The use of new engines and our 7 G-TRONIC PLUS automatic transmission enabled us to lower the fuel consumption of our new 2011 and 2012 models by up to 30% compared to their predecessors. This achievement underscores our determination to consistently implement fuel efficiency technologies in all our vehicle segments. Our goal now is to reduce our fleet consumption and CO_2 emissions in Europe to 125 g/km by 2016. Our new and highly fuel-efficient compact models and our rising volumes of vehicles with hybrid and electric drive systems will play a key role here.

Environmental certificate for the A-Class. The new A-Class from Mercedes-Benz uniquely combines driving pleasure, efficiency and environmental compatibility. Its low emissions – starting at 92 g CO_2/km –and a Cd value starting at 0.26 are leading the way in the compact segment. What's more, all gasoline-engine variants of the new A-Class already meet the EURO 6 emission standard that will not take effect until 2015. The direct-injection gasoline-engine models (A 180, A 200 and A 250) already boast particulate emissions per kilometer that are below the extremely stringent limit which will become compulsory when the second stage of EURO 6 goes into effect in 2017. The outstanding environmental compatibility of the new A-Class was confirmed in October 2012 by neutral auditors from the TÜV Süd technical inspection authority, which awarded the model an environmental certificate in accordance with ISO standard TR 14062. The certificate was awarded following a comprehensive evaluation of the car's environmental

The most economical large premium sedan in the world: The Mercedes-Benz E 300 BlueTEC HYBRID.

performance. This evaluation examined and documented every environmentally relevant detail. An analysis of the total lifecycle of the Mercedes-Benz A-Class – from its production and use to its disposal – reveals that the A 180 BlueEFFICIENCY version of the new model emits 16% less CO_2 (5.7 tons) than its predecessor.

The most economical large premium sedan in the world. Despite its higher torque and increased power, the new E 300 BlueTEC HYBRID boasts minimal fuel consumption values (combined consumption: 4.1 liters/100 km; combined CO_2 emissions: 107 g/km). The vehicle's modular hybrid concept, which includes a lithium-ion battery, places no restrictions on space while ensuring an impressive driving experience. The four-cylinder diesel engine in the E 300 BlueTEC HYBRID has an output of 150 kW (204 hp) and produces 500 Nm of torque. The engine is perfectly complemented by a 20 kW/250 Nm electric motor. The hybridization concept also enhances driving comfort, as the vehicle starts and begins accelerating almost noiselessly. The hybrid module dampens vibrations from the combustion engine and the vehicle's climate control system remains fully operational in the start/stop mode. The E 300 BlueTEC HYBRID has been available for delivery to customers in both a sedan and a station wagon version since June 2012.

Environmentally friendly drive systems for the B-Class. Our presentation of the Concept B-Class Electric Drive at the 2012 Paris Motor Show offered an initial preview of the electric future of the B-Class. The so-called ENERGY SPACE in the vehicle floor ensures that the space inside the model is generous and variable. The ENERGY SPACE accommodates the lithium-ion battery in a safe and space-saving manner and ensures a good center of gravity. The model's high-torque electric motor and powerful battery guarantee locally emission-free driving pleasure over a range of 200 kilometers on a single charge. The electric vehicle with the three-pointed star, which is particularly family-friendly, is almost ready for series production. Its market launch is scheduled for 2014.

The Mercedes B 200 Natural Gas Drive, which we also presented at the Paris Motor Show, has 16% lower CO_2 emissions, much cleaner exhaust gases than those produced by gasoline or diesel engines and around 50% lower fuel costs than a comparable gasoline-engine model. This vehicle, which is fitted with either a manual transmission or the 7G DCT dual clutch automatic transmission, has been available at dealerships since the beginning of 2013.

With the B-Class, Mercedes-Benz now has a versatile automobile that can be equipped with the most diverse types of drive systems, ranging from combustion engines to all-electric battery-powered drive and fuel cells.

Series-produced electric vehicles. With a total of nine models, we offer a range of battery and fuel cell-powered, locally emission-free vehicles that is unique in the automotive industry. Our lineup starts with the smart-brand ebike and extends to passenger cars, vans, light trucks and buses. As a result, we can meet almost all mobility requirements. In June 2012, we began manufacturing the new smart fortwo electric drive, which will be launched in various markets, including China and the United States. This vehicle is also being used for the innovative car2go urban mobility concept. see pages 58 f Our Mercedes-Benz B-Class F-CELL and the Mercedes-Benz Citaro FuelCELL Hybrid city bus are the most extensively tested fuel-cell vehicles in the world. The Mercedes-Benz A-Class E-CELL has been on the road since the fall of 2010, and the Mercedes-Benz Vito E-CELL van has been delivered to customers since the middle of 2010. We also supply the Fuso Canter E-CELL and the Freightliner Custom Chassis MT E-Cell light-duty trucks. The Mercedes-Benz SLS AMG Coupe Electric Drive will be delivered to its first customers in mid-2013. The model is geared toward super-sports car fans with a passion for state-of-the-art engineering and futuristic high-tech solutions. In 2013, we will also launch the first electric vehicle built by the new DENZA brand in the Chinese market. We jointly developed, and now produce, this innovative model with our Chinese partner BYD. Finally, smart will launch a new electric scooter for use in urban areas in 2014.

Our broad spectrum of electric vehicles now on the road is being supplemented by economical hybrid models that meet a range of demands. They include the new Mercedes-Benz E 300 BlueTEC HYBRID. Hybrid technology also offers major advantages for distribution transportation involving light trucks. For example, the new Fuso Canter Eco Hybrid, which is now also manufactured in Portugal for sale in Europe, requires about 25% less fuel than a comparable Canter model equipped with a conventional drive system. The Freightliner M2e Hybrid truck boasts up to 30% lower fuel consumption, and that figure for the Atego Bluetec Hybrid is between 10% and 15%. There are currently more than 3,000 Daimler hybrid light-duty trucks and walk-in vans on the road worldwide.

Economical heavy-duty trucks for Europe and North America. We have also continually reduced the fuel consumption of our heavy-duty commercial vehicles over the past few years. Our success here is due to engines that are even more efficient, improvements we have made to tires and aerodynamics, and the use of an axle drive ratio in line with vehicle requirements. Our BLUETEC technology has also made a major contribution to this development.

The new Actros is the world's first truck to comply with the future Euro VI emission limits. Extremely economical engines, a sophisticated aerodynamic concept and services such as the Fleetboard telematics system make our heavy-duty Actros and Antos trucks among the most efficient and environmentally friendly vehicles in their respective classes. For example, despite their sophisticated exhaust gas treatment systems, our new heavy-duty Euro V truck engines consume up to 7% less diesel fuel than their predecessors, while the fuel consumption of the Euro VI variants is as much as 4% lower. Our goal for the complete Daimler truck fleet in Europe is to reduce fuel consumption by an average of 20% per ton-kilometer for the period 2005–2020. We continue to work hard to develop the technological innovations that will allow us to achieve this reduction.

This year, we will also set a new benchmark for fuel efficiency in the North American truck market with the launch of our new heavy-duty Freightliner Cascadia Evolution, whose fuel consumption is up to 7% lower than that of the current model. This increase in fuel economy was measured in the course of a one-week real-life test drive across the United States and was confirmed by an independent agency. At the beginning of 2012, the Environmental Protection Agency (EPA) certified Daimler Trucks North America's (DTNA) complete range of Freightliner and Western Star trucks as fully compliant with the Greenhouse Gas 2014 (GHG14) regulations. DTNA is thus a pioneer in the US commercial-vehicle sector, since it already complies with the EPA and National Highway Traffic Safety Administration (NHTSA) standards that will go into effect at the beginning of 2014.

New buses with impressive fuel economy. In the Record Run Buses 2012, the new Mercedes-Benz Citaro urban regular-service bus and the new Setra ComfortClass 500 travel coach demonstrated that fuel consumption can be reduced in Euro VI-compliant buses and coaches as well. During the Record Run Buses, five buses were monitored by neutral parties over a distance of almost 18,000 kilometers in October 2012. As it turned out, the anticipated fuel savings of four to six percent were noticeably exceeded, with the new Euro VI-compliant Citaro consuming 8.5% less fuel than its certified fuel-efficient predecessor. The new Setra ComfortClass S 515 HD also performed outstandingly, consuming 21.0 liters/100 km on average over a distance of 7,000 km – 8.2% less than a comparison model. Development engineers achieved these reductions by closely examining not only the drive systems of the Mercedes-Benz Citaro and the Setra ComfortClass 500, but also their auxiliary components. Whether alternators, battery management systems, radiator fans or air compressors – these and other components significantly affect fuel consumption and were therefore optimized down to the last detail in both model series. Aerodynamics also plays a key role in fuel economy – particularly when it comes to travel coaches. That is why we further improved the aerodynamic properties of the new Setra ComfortClass 500. The result is an outstanding drag coefficient of just 0.33. The drag was also reduced by a technology that is without parallel in the bus industry and lowers the vehicle's height by 20 mm at speeds above 95 km/h.

Predictive Powertrain Control lowers fuel consumption. Predictive Powertrain Control, which has been available in the Mercedes-Benz Actros since May 2012, reduces the fuel consumption of our heavy-duty trucks by a further 3%. This new driver assistance system recognizes the topography of the road ahead and can then react in a manner that optimizes fuel consumption. It is particularly effective when a truck is traveling uphill. In such a situation, the world's first GPS-based cruise control system not only regulates vehicle speed and braking, but also intervenes in gear-shifting operations. The system thus increases the effectiveness of the fuel-saving EcoRoll function, which is standard in the Actros. It can also initiate a single or double downshift if it determines that such action is needed. All in all, this intelligent cruise control system helps to achieve the type of driving performance that could only be matched by an extremely motivated truck driver with an exceptional level of concentration.

Our Road to Accident-Free Driving. Vehicle safety is one of our core areas of expertise and a key component of our product strategy. For over 60 years, our engineers have been ahead of their time when it comes to developing new safety technologies. With our Road to Accident-Free Driving strategy, we are striving to make mobility as safe as possible for all road users.

The new S-Class with all-round vision. What began ten years ago with PRE-SAFE® and continued with DISTRONIC PLUS is now leading to a new dimension in driving at Mercedes-Benz that will open up new perspectives for both drivers and automobile developers. In the future, all of our fully networked and intelligent driver assistance systems will be combined into our Mercedes-Benz Intelligent Drive package, which will begin making driving safer and more comfortable in the new S-Class and already in the new E-Class, approaching the goal of autonomous driving. The features involved include the new DISTRONIC PLUS adaptive cruise control with Steering

The new "Active Brake Assist 3" now independently applies the full brakes if a stationary object is detected ahead.

Assist and the new BAS PLUS system with an intersection assistance function. The Adaptive Highbeam Assist PLUS system enables drivers to keep their high beams switched on continuously without blinding the drivers of other vehicles, which are kept out of the light cone. The new Traffic Sign Assist system now recognizes no-passing zones and can also alert drivers to road access restrictions. All of these new systems are based on an intelligent combination of multistage radar sensors and a new stereo camera whose two "eyes" enable it to monitor an area extending approximately 50 meters in front of the vehicle in 3D. The system can also maintain an overall view up to a distance of 500 meters ahead. The data provided by the camera is further processed by various systems with the help of intelligent algorithms that analyze the information. As a result, the system can detect and spatially localize oncoming vehicles, vehicles ahead and vehicles coming from the side. It can also recognize pedestrians, various types of traffic signs and road markings. Due to the simultaneous determination of position (three dimensions) and directional movement (an additional three dimensions) the system has been named "6D vision."

An airbag for seatbelts. The Beltbag is another innovation being launched with the new S-Class as standard equipment. The device – an inflatable seatbelt strap – can reduce the risk of injury to back-seat passengers in a head-on collision by lowering the strain placed on the rib cage. Once crash sensors detect a severe frontal impact, the airbag control unit triggers the inflation of the Beltbag. A gas generator then expands the multilayered belt strap with tear seams to as much as three times its normal width. The resulting larger surface area can better distribute the force acting on the occupants, thereby reducing the risk of injury.

Even greater safety in Mercedes-Benz trucks. Although the Mercedes-Benz Actros is already considered the world's safest truck, both it and the new Mercedes-Benz Antos for distribution transportation are now becoming even safer, thanks to the next generation of the unique Active Brake Assist 3 (ABA 3) system. Adaptive cruise control and emergency braking systems currently available on the market are able to recognize and react to moving objects such as vehicles moving or slowing down ahead. The new Mercedes-Benz ABA 3 system, which we presented in September 2012 at the IAA Commercial Vehicles show in Hanover, Germany, is also effective in situations involving stationary obstacles such as construction site safety vehicles or vehicles that have broken down. In such situations, the new system independently brakes the truck until it comes to a standstill. ABA 3 thus provides important support – especially when lapses in attention occur. As a result, it can play a major role in reducing the number of accidents on the road.

Digital vehicle networking. Automobiles are increasingly being transformed into intelligent and digitally networked companions that not only react to situations and think ahead, but also link drivers to their social networks and the surrounding environment. see pages 38 ff One of the world's biggest practical tests for car-to-X communication (C2X) is now demonstrating how networked vehicles can improve safety and efficiency. The trials – part of the simTD (Safe Intelligent Mobility – test field Germany) research project headed by Daimler AG – are examining 120 vehicles that have been on the road in the Rhine-Main region since mid-2012. These cars are linked to one another and to the traffic infrastructure, thereby enabling them to keep each other informed about the current traffic situation. Daimler is also researching and developing C2X communication systems in the United States, where the Group is equipping vehicles with C2X systems and carrying out tests at its site in Palo Alto, California. These activities in the USA enable Daimler, as a major global car maker, to take account of the American market's unique needs regarding C2X communication and to harmonize technologies as much as possible.

Human Resources

A motivated and committed workforce is a precondition for sustained business success. Our extensive range of training and continuing education programs supports the personal development of our employees and improves their qualifications and on-the-job performance. The use of flexible work models is becoming more and more important in today's environment of increasingly volatile markets. Daimler employs such models in order to meet the company's business requirements – and also to help employees balance their professional and private lives.

5.01
Human resources

	2012	2011	12/11
Employees (December 31)			% change
Daimler Group	275,087	271,370	+1
Mercedes-Benz Cars	98,020	99,091	-1
Daimler Trucks	80,519	77,295	+4
Mercedes-Benz Vans	14,916	14,889	+0
Daimler Buses	16,901	17,495	-3
Sales & Marketing Organization	50,683	49,699	+2
Daimler Financial Services	7,779	7,065	+10
Other	6,269	5,836	+7

Workforce development. As of December 31, 2012, Daimler AG employed 275,087 men and women worldwide, which represents an increase of 3,717 compared with the end of 2011. This increase in workforce numbers enabled us to expand our production capacities in line with the higher demand for our products. ↗ 5.01

The number of people employed in Germany at the end of 2012 was 166,363 (2011: 167,684). We also employed 21,720 people in the United States (2011: 20,702), 14,610 in Brazil (2011: 14,533) and 11,286 in Japan (2011: 11,479). Our consolidated subsidiaries in China had 2,730 employees at the end of last year (2011: 2,121). You can find further information about the development of our workforce in the individual divisions in the Management Report of this Annual Report. see page 101

Employee qualifications. "An investment in knowledge always pays the best interest." This motto of Benjamin Franklin serves as a guiding principle for the further development of our employees and the enhancement of their skills and qualifications. We therefore provide our staff with training and continuing education opportunities throughout their entire careers. Our range of qualification measures includes practical training courses, seminars, workshops, specialist conferences and instruction with digital media. In Germany alone, we spent €112 million on the training and qualification of our employees in 2012 (2011: €101 million). On average, every employee spent 4.0 days on qualification measures in 2012 (2011: 3.8 days).

Securing young talent. Daimler adopts a holistic approach when it comes to recruiting and promoting talented young people. For example, our Genius initiative provides children and teenagers with valuable insights into the technologies of the future and career opportunities in the automotive industry. genius-community.com. School leavers can apply to participate in a technical or commercial training program at one of our locations, or to study at the Cooperative State University. They can also apply directly to our company for an entry-level position via our CAReer program.

In 2012, CAReer once again enabled approximately 400 college graduates from around the world to begin a career. The program focuses on graduates in technical and commercial fields with above-average grades and initial practical experience. The proportion of women in CAReer is currently around 33% and our trainees come from approximately 30 different nations.

Within the framework of our "Training Abroad" strategic initiative, we are supporting the establishment and sustainable expansion of Daimler training centers around the world, with a focus on the BRIC countries. We intend to strengthen our production and sales activities, especially in growth markets, by securing highly skilled employees as needed.

We had 8,267 trainees worldwide at the end of 2012 (2011: 8,499). A total of 2,109 young people began traineeships at Daimler in Germany last year (2011: 2,067). The number of people we train and subsequently hire is based solely on our company's needs and its future development. In 2012, 91% of the apprentices and trainees in Germany were hired after completing their programs (2011: 91%).

Promoting talent and retaining expertise within the company. The Daimler Academic Programs are an important instrument when it comes to lifelong learning and promoting a holistic and forward-looking approach to human resources development. The programs offer employees with or without a college education the opportunity to obtain academic degrees and certificates through a full-time or part-time course of study. This ensures that talented employees and the company as a whole will be prepared for the challenges of the future.

Apprenticeships at Daimler include "green technology modular elements" on electric drive systems and lightweight construction.

Our new "FacTS" support program offers highly talented staff from technical fields the opportunity to further their careers. This pilot program was launched in 2012 with an initial group of 20 participants at four company locations in Germany.

Diversity management. We have launched a variety of activities as part of our diversity management initiative. They range from diversity workshops and mentoring programs to the establishment of employee networks. Our commitment to such activities underscores our determination to make diversity a value factor in our human resources processes and our corporate culture. Our main goals at the moment are to increase the proportion of women in managerial positions (gender diversity), raise intercultural awareness and promote effective generation management.

Our instruments for supporting the targeted promotion of women include flexible working-time models, childcare facilities close to work and special mentoring programs. Daimler has committed itself to increasing the proportion of women in senior management positions throughout the Group to 20% by 2020. The proportion of women in such positions has continually risen over recent years and reached almost 12% by the end of last year (2011: 10%). As a technologically oriented company, when we defined our targets we took into account industry-specific conditions as well as the current proportion of women at Daimler AG (14.4%) and at the Daimler Group (16.2%).

In order to enhance intercultural awareness, we organize special regional diversity conferences. In 2012, these events took place in South Africa; Portland, Oregon (USA); and Singapore. Additional measures in this context include training programs and workshops on intercultural cooperation, international job assignments and the targeted recruitment of employees and managers with an international background. Our networking efforts also make an important contribution to the further internationalization of our workforce.

Flexible working arrangements. Increasingly volatile markets are making it ever more important to establish flexible working arrangements that allow us to exploit market opportunities and reduce risks. Within the framework of our human resources and employment strategy, we utilize instruments such as flexible working-hour models, working-time account management systems, personnel rotations and temporary work programs. Working-time accounts in particular make it possible to variably distribute working time in line with workload fluctuations and the needs of individual employees. Temporary work enables the company to react quickly and flexibly to fluctuations in demand, and therefore to safeguard the core workforce.

A "thank you" to our workforce. This year too, the Daimler Board of Management would once again like to thank all the members of the workforce for their commitment. The performance and dedication of our employees enabled us to make 2012 a successful business year, even though the economy weakened as the year progressed. We can expect to face various business challenges in the future as well. However, we are convinced that our employees' motivation and expertise will remain the most important assets of our company. Building on this foundation, we will be able to achieve long-term success and cope with any difficult market conditions that we encounter.

We would also like to thank the employee representatives for their commitment and constructive cooperation in the past year.

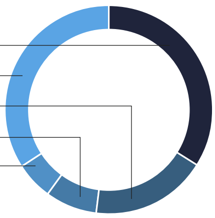
Social Responsibility

In 2012, we spent a total of €58 million supporting nonprofit institutions and socially beneficial projects. As a good corporate citizen, we want to go beyond our business operations and create socially beneficial added value in the communities near our company locations, while also helping to overcome social challenges and promoting intercultural dialog.

5.02

Donations and sponsoring in 2012

Charity/Community	34%
Arts & Culture	34%
Education	18%
Science/Technology/Environment	8%
Political Dialog	6%



Areas in which we promote socially beneficial causes. We support projects that promote the common good. By helping people help themselves, these projects have a long-term impact and contribute to sustainable development. We provide support in the form of donations, sponsorships, corporate volunteering, funding through foundations and projects that we have initiated ourselves. Our support focuses on areas connected to our role as a good corporate citizen. These activities enable us to put our special skills and key expertise as an automaker to good use in the communities in which we do business worldwide. Among other things, we promote science, technology, environmental protection, the arts and culture, education, charitable projects, community programs and political dialog. ↗ 5.02 In addition, we are involved in a variety of different initiatives for enhancing traffic safety. mobilekids.net; mbdrivingacademy.com

Requirements for receiving our support. Due to the worldwide scope of our activities, the selection and organization of social responsibility initiatives require a high level of transparency and in-depth knowledge of local conditions. In 2012, we therefore consolidated our donation and sponsorship guidelines and instituted more stringent selection criteria. The guidelines create a mandatory system for regulating the Group's entire support and funding process. They ensure that our support is provided according to verifiable criteria and that it meets legal requirements and ethical standards. To ensure transparent structures and clear areas of responsibility, we have also developed Group-wide guidelines for donations and sponsorships.

The Donations and Sponsorship Committee coordinates and assumes responsibility for the strategic focus of the various activities. The committee cooperates very closely with the Board of Management and our various sales and production locations throughout the world to define the areas in which action needs to be taken and to approve all of the major projects and funding activities. All of the Group's donations and sponsorships are registered in a database so that the activities can be systematically monitored with the help of regular analyses and reports. In-house campaigns and projects help raise our employees' awareness of social responsibility issues. Our compliance training program also teaches managers how they should deal with donations and sponsorships.

Donations to political parties must be expressly authorized by the Board of Management. In 2012, we supported political parties only in Germany, donating a total of €435,000 (2011: €435,000) to the CDU, the SPD, the FDP, the CSU and the Greens.

Funding through foundations. Because international knowledge sharing and the promotion of innovation are key conditions of sustainable development, we support universities, research institutes and interdisciplinary science projects throughout the world in the following areas: mankind, technology and the environment. We have consolidated these measures in foundations. A further focus of our work through foundations is the promotion of sports activities.

The Daimler and Benz Foundation daimler-benz-stiftung.de supports research projects in the areas of mobility, environmental protection and safe technology. Within the framework of the Founders' Association for German Science stifterverband.org, the Daimler Foundation is involved, among other things, in selecting the winners of the German Future Prize for Technology and Innovation.

Mercedes-Benz is a global partner of the Laureus Sport for Good Foundation laureus.com, which uses sports to promote social change. The foundation has collected more than €40 million since its inception and currently supports around 90 socially beneficial sports projects for helping disadvantaged children and teenagers around the world.

The arts and culture. As a promoter of creative change, we place high priority on the sponsorship of the arts and culture. Through a long-term partnership with the Staatsgalerie Stuttgart art museum, we are promoting the city's cultural

For the benefit of Laureus Sport for Good Foundation, Mercedes-Benz apprentices restored two 230 SL "pagoda-roof" cars from the 1960s.

life and also offering educational opportunities to our employees and their families. Last year, we also intensified our partnerships with leading art institutions and events at our international business locations. Examples include the Art Beijing trade show in China and the Villa Romana artists' residence in Italy. In addition, we support Germany's national youth orchestra and help with the Emerging Artist Award program in the United States.

Education. Improving access to education is one of the most long-lasting investments in society. That's why we are involved in numerous projects that support young people, as they will be the skilled employees of tomorrow. The most prominent example of this involvement is our Genius education initiative genius-community.com. The initiative is geared toward children and teenagers and combines various educational projects focusing on future technologies, mobility, and environmental issues.

With the support of the initiative Big Brothers Big Sisters in Germany bbbsi.org, we are also helping to expand mentoring activities for socially disadvantaged children and teenagers between the ages of six and 16. The mentors provide the young people with help, encouragement and new perspectives on the various situations they face in their lives.

Charitable projects. As a result of our global presence, we regard it as our mission to support aid projects that improve the communities in which we do business. In addition to offering effective disaster relief when necessary, we have initiated a number of projects for providing long-term assistance to enable people to help themselves. For example, through its SEED (Sustainability Education Empowerment Development) program, Daimler Financial Services assists slum inhabitants and street children in Chennai, India. Other initiatives include the microcredit program for women in need in Ethiopia, which we developed in cooperation with the Menschen für Menschen foundation, and our global partnership with the SOS Children's Villages organization. We also support the work of the German chapter of Doctors of the World, which organizes more than 350 healthcare programs in almost 80 countries.

As part of our national sponsorship program, we also donated money last year to charitable initiatives that focus on helping families and children in Germany. Among them is the brotZeit project brotzeitfuerkinder.com, which combines programs for supporting active senior citizens with the care of socially disadvantaged children. Needy children are served balanced breakfasts free of charge, and senior-citizen volunteers provide slow learners with individualized support.

Corporate volunteering. We are working together with our employees to improve living conditions in the communities in which we do business. Among other things, we further expanded our ProCent initiative in the year under review. In this initiative, Daimler employees voluntarily donate the cent amounts of their net salaries to nonprofit organizations. Every donated cent is matched by the company. The donations are collected in a fund and used to support environmentally and socially beneficial projects that are recommended and implemented by the company's employees. In 2012, ProCent began to support its first group of 100 projects.

On the Day of Caring, employees from Daimler Financial Services contribute a day of work to support the company's socially and environmentally beneficial projects. During this event, the employees help to build schools, construct housing for people in need, and renovate social welfare facilities. In 2012, the Day of Caring was held in 18 countries worldwide.

More details of projects promoted by the Group and activities related to our social commitment can be found in the Daimler Sustainability Report and on our website under "Sustainability." daimler.com/sustainability

Corporate Governance

The new Setra ComfortClass 500:
convincing in terms of economy, safety and comfort.

Daimler's Board of Management and Supervisory Board are committed to the principles of good corporate governance. All of our activities are based on the principles of responsible, transparent and sustainable management.

6 | Corporate Governance

Report of the Audit Committee

Dear Shareholders,

On the basis of the allocation of tasks laid down in the Rules of Procedure for the Supervisory Board and its committees, the Audit Committee deals primarily with questions of financial reporting. It also discusses the effectiveness and functional capabilities of the risk management system, the internal control system, the internal auditing system and compliance management. In addition, it deals with the annual audit and reviews the qualifications and independence of the external auditors.

After receiving the approval of the Annual Shareholders' Meeting, the Audit Committee engages the external auditors to conduct the annual audit and the auditors' review of interim financial statements, determines the important audit issues and negotiates the audit fee with the external auditors.

As independent members of the Audit Committee, both the Chairman of the Audit Committee, Dr. h. c. Bernhard Walter, and Dr. Clemens Börsig have expertise in the field of financial reporting, as well as special knowledge and experience in the application of accounting principles and internal methods of control.

The six meetings of the Audit Committee in 2012 were attended by, in addition to the members of the Audit Committee, the Chairman of the Supervisory Board, the Chairman of the Board of Management, the members of the Board of Management responsible for Finance and Controlling and for Integrity and Legal Affairs, and the external auditors. The heads of specialist departments and other experts were also present for the appropriate items of the agenda. In addition, the Chairman of the Audit Committee held regular individual discussions, for example with the external auditors, the members of the Board of Management responsible for Finance and Controlling and for Integrity and Legal Affairs, the Monitor and the external compliance advisor of the Audit Committee, and the heads of Corporate Accounting, Internal Auditing, Group Compliance and Legal Affairs. The Chairman of the Audit Committee informed the Audit Committee about the results of those bilateral discussions in each case at the next available opportunity. The Chairman of the Audit Committee also informed the Supervisory Board about the activities of the Committee and about its meetings and discussions in the following Supervisory Board meetings.

In a meeting in early February 2012 attended by the external auditors, the Audit Committee dealt with the preliminary figures of the annual company financial statements and the annual consolidated financial statements, as well as with the dividend proposal made by the Board of Management. The preliminary key figures were published at the Annual Press Conference on February 9, 2012.

At the end of February 2012, also in a meeting attended by the external auditors, who reported on the results of their audit and were available to answer supplementary questions and to provide additional information, the Audit Committee examined and discussed the annual company financial statements, the annual consolidated financial statements and the combined management report for Daimler AG and the Daimler Group for the year 2011, which had been issued with an unqualified audit opinion by the external auditors, as well as the proposal on the appropriation of profits. In preparation, the members of the Audit Committee were provided with comprehensive documentation, including the Annual Report with the consolidated financial statements according to IFRS and the combined management report for Daimler AG and the Daimler Group, the corporate governance report and the remuneration report, the annual financial statements of Daimler AG, the proposal made by the Board of Management on the appropriation of profits, the audit reports of KPMG on the annual company financial statements and the annual consolidated financial statements according to IFRS of Daimler AG, each including the combined management report, and the drafts of the reports of the Supervisory Board and of the Audit Committee. The audit reports and important issues related to financial reporting were discussed with the external auditors. In this context, the Audit Committee of Daimler AG also dealt with the monitoring of the financial reporting process, the effectiveness of the internal control system, the risk management system and the internal auditing system, as well as questions of compliance. Following an intensive review and discussion, the Audit Committee recommended that the Supervisory Board approve the annual financial statements and adopt the recommendation of the Board of Management to pay a dividend of €2.20 per share entitled to a dividend.

Dr. Bernhard Walter, Chairman of the Audit Committee.

Also in this meeting, the Audit Committee discussed the report on the fee paid to the external auditors in the year 2011 for auditing and non-auditing services, and – subject to the consenting vote of the shareholders in the Annual Shareholders' Meeting – the proposal on fees to be agreed for the year 2012.

Furthermore, the Audit Committee approved the Report of the Audit Committee for the year 2011. With due consideration of the results of the independence review and the discussion of the quality of the external audit, the Audit Committee decided to recommend to the Supervisory Board, and subsequently to the Annual Shareholders' Meeting, that KPMG be engaged to conduct the annual external audit and the external auditors' review of interim financial reports. Finally, on the basis of its responsibility, the Audit Committee dealt with the draft agenda for the 2012 Annual Shareholders' Meeting and the annual audit plan of the Internal Auditing department.

In the meetings during the year 2012 relating to the quarterly results, the Audit Committee discussed the interim financial reports before their publication with the Board of Management, dealt with the respective risk reports, and received activity reports from the Group Compliance and Corporate Audit departments. The Audit Committee regularly communicated with the independent Monitor. In this context, it was also involved in setting and evaluating the annual compliance targets for the Board of Management, and dealt on a quarterly basis with notifications received confidentially, and if desired anonymously, through the Group's own whistleblower system and processed internally by the Business Practices Office. The whistleblower system was expanded in February 2012 with an external, independent, neutral mediator as an additional contact person. Employees can personally approach the neutral mediator in confidence, without being recognized as a whistleblower within the Daimler Group.

The Audit Committee received the report on non-audit services provided by the external auditors in its meeting in June 2011. In this meeting, the important audit issues for the external audit of the year 2012 and the framework of approval for engaging the external auditors to provide non-audit services was determined. This meeting was also used to analyze the audit for the year 2011 and the performance of the Audit Committee's monitoring duties with regard to the financial reporting process and the functional capabilities of the internal control system, the risk management system and the internal auditing system. In this context, on the basis of the statements of the external auditors as assessed by the Audit Committee, the internal control system was also dealt with. As well as the area of financial reporting, the internal control system also includes internal control and risk management with the areas of internal auditing and compliance management. The Committee discussed the activity reports on the internal control system and dealt in particular detail with changes to the system and its further development.

Furthermore, the Audit Committee received information during this meeting on new developments in accounting and financial reporting and other relevant areas, on the status of legal risks, on the further development of the global treasury system, on the funding status of pension obligations and on other current topics.

In the meeting in July 2012, on the basis of the report by the Group's data protection executive, the Audit Committee dealt with key topics and current developments in the field of data protection. In its meeting in October 2012, the Audit Committee was also informed about the main contents of the Monitor's follow-up report, including the certification of the compliance program. In this context, the Audit Committee was once again convinced of the careful design and thorough implementation of compliance processes at Daimler. Subsequently, the Audit Committee was informed about the Group's ongoing activities with regard to integrity and about the newly created guidelines on behavior, the Integrity Code, which sets out the principles of behavior and guidelines for ethical conduct at Daimler.

In a meeting in early February 2013 attended by the external auditors, the Audit Committee dealt with the preliminary figures of the annual company financial statements and the annual consolidated financial statements and with the Board of Management's proposal on the appropriation of profits. The preliminary figures were published at the Annual Press Conference on February 7, 2013.

In another meeting in February 2013 attended by the external auditors, who reported on the results of their audit, the Audit Committee dealt with the annual company financial statements, the annual consolidated financial statements and the combined management report for Daimler AG and the Daimler Group for the year 2012, which had been issued with an unqualified audit opinion by the external auditors, as well as with the proposal on the appropriation of profits. In preparation, the members of the Audit Committee and the other members of the Supervisory Board were provided with comprehensive documentation, including the Annual Report with the consolidated financial statements according to IFRS and the combined management report for Daimler AG and the Daimler Group, the corporate governance report and the remuneration report, the annual financial statements of Daimler AG, the proposal made by the Board of Management on the appropriation of profits, the audit reports of KPMG on the annual financial statements and the annual consolidated financial statements according to IFRS of Daimler AG, each including the combined management report, and the drafts of the reports of the Supervisory Board and of the Audit Committee. The audit reports and important issues related to financial reporting were discussed with the external auditors. In this context, the Audit Committee of Daimler AG also dealt with the monitoring of the financial reporting process, the effectiveness of the internal control system, the risk management system and the internal auditing system, as well as with questions of compliance. This also included the further development and required adjustments of Group-wide compliance structures and activities, which had been decided upon by the Board of Management. Following an intensive review and discussion, the Audit Committee recommended that the Supervisory Board approve the annual financial statements and adopt the recommendation of the Board of Management on the payment of a dividend of €2.20 per share entitled to a dividend. Furthermore, the Audit Committee approved the Report of the Audit Committee in the current version.

Also in this meeting, the Audit Committee discussed the report on the fee paid to the external auditors in the year 2012 for auditing and non-auditing services, and – subject to the consenting vote of the shareholders in the Annual Shareholders' Meeting – the proposal on fees to be agreed for the year 2013. With due consideration of the results of the independence review, the Audit Committee decided to recommend to the Supervisory Board, and subsequently to the Annual Shareholders' Meeting, that KPMG be engaged to conduct the annual audit and the auditors' review of interim financial reports. The Audit Committee based its recommendation also on the very good results of the quality analysis carried out by the Audit Committee in May/June 2012 of the external audit in the previous year. Finally, on the basis of its responsibility, the Audit Committee dealt with the draft agenda for the 2012 Annual Shareholders' Meeting and the annual audit plan of the Internal Auditing department.

As in previous years, the Audit Committee once again conducted a self-evaluation of its own activities in 2012. This did not result in any need for action with regard to the Committee's tasks, or with regard to the content, frequency or procedure of its meetings.

Stuttgart, February 2013

The Audit Committee

Dr. h. c. Bernhard Walter
Chairman

Integrity and Compliance

Daimler wants to do decent business, and in both senses of the word: We aim to be financially successful – but not at any price. We want to achieve our business success with decency, in other words, by respectable means. Integrity is therefore one of our four corporate values, which form the foundation for our business activities. We are convinced that doing business decently brings us sustained success, and is also good for society as a whole. As a group with global operations, we accept responsibility and want to be a pioneer in terms of ethical business conduct.

UN Global Compact. We orient our business conduct towards the principles of the Global Compact of the United Nations. Daimler is a founding member of this initiative by Kofi Annan and is a member of the LEAD Group. see page 182

Group-wide "Integrity Dialog" and revision of the Integrity Code. Our goal is to permanently establish integrity in our corporate culture. But ethical principles cannot simply be dictated. They must be put into practice on the basis of an inner conviction. Daimler therefore promotes integrity through a variety of measures and through continuous dialog on the subject. see page 72 Our new "Integrity Code" that we created in 2012 reflects the results of our Group-wide "Integrity Dialog". The principles of behavior and guidelines for everyday conduct set out in the Integrity Code are therefore based on a shared understanding of values. see page 182

Creation of the Advisory Board . For the course we have set to achieve a culture of integrity at the Daimler Group, in addition to the numerous measures we have already taken, we also regard a view from outside as helpful. We have therefore established an "Advisory Board for Integrity and Corporate Responsibility" to support the integrity process at Daimler critically and constructively. We have been able to gain external personalities from various fields with valuable experience in questions of ethical conduct. see page 72

Integrity goes beyond what we at Daimler understand by compliance. Integrity is more than adherence to the law, internal rules and voluntary commitments. We understand integrity to include acting responsibly and in accordance with ethical standards, through which we not only secure our company's success for the long term, but also create benefits for society.

6.01

Members of Daimler AG's Advisory Board for Integrity and Corporate Responsibility

Name	Function
Stefan Aust	Journalist, publicist and author
Professor Kai Bussmann	Head of Economy & Crime Research Center, Martin-Luther-Universität, Halle-Wittenberg
Professor Helmut Holzapfel	Head of the Department for Integrated Traffic Planning and Mobility Development, University of Kassel
Renate Hornung-Draus	Managing Director of the German Employers' Association (BDA), Head of the Department of the European Union and European Social Policy
Professor Michael Kittner	Former Professor of Business, Labor and Social Law, University of Kassel and legal advisor for IG Metall
Professor Julian Nida-Rümelin	Professor for Philosophy, Ludwig Maximilian University, Munich
Pierre Sané	Board Member, UN Global Compact
Sylvia Schenk	Attorney in Frankfurt, Board Member of Transparency International Germany and German Olympic Academy
Professor Ernst Ulrich von Weizsäcker	Environmental scientist, Climate expert and former Member of the Bundestag

Compliance is the sustained establishment of conduct in conformance with rules. Our compliance-management system is intended to ensure that Daimler and its employees always conduct themselves in conformance with rules. Complying with anti-corruption regulations as well as maintaining and promoting fair competition have the highest priority for the Daimler Group and serve as a benchmark for our staff and management. To give further emphasis to this goal, compliance and integrity are taken into consideration in our executives' annual target agreements and assessments of target fulfillment. Particular attention is paid to individuals' correct conduct in conformance with rules and ethics.

Worldwide establishment of divisional compliance organization. In order to effectively counteract the risks of our divisions and markets, we have altered the structure of our compliance organization in line with our divisions. Each division is now supported by a compliance officer. In addition, a regional compliance office was established in China in 2012, reflecting the special importance of the Chinese market. Furthermore, local compliance managers are active worldwide, advising on matters of compliance and ensuring observance of our compliance standards.

In order to guarantee their independence of the divisions, the compliance officers for the divisions and the compliance manager for the region of China and Northeast Asia report to the Group Chief Compliance Officer. He is responsible for the entire global organization and reports directly to the Member of the Board of Management who is responsible for "Integrity and Legal Affairs".

Analysis of compliance risks. Dealing with risks responsibly and assessing them effectively is a precondition for sustained business success. We therefore evaluate and classify compliance risks in a systematic risk analysis. We apply qualitative indicators such as an assessment of the business environment as well as quantitative indicators such as relevant shares of revenue and the number of contractual partners. In line with the risk assessment carried out in this way, measures are then defined jointly with the business units to minimize the recognized risks. Against this backdrop, for example, our sales activities in countries with an increased risk of curruption are subject to particularly intensive risk management. Responsibility for implementing the individual measures and the monitoring duty lie with the management of each business unit. This is supported by the Group Compliance department.

Further development of the compliance processes. The focus of compliance activities in 2012 was on examining our business partners in the sales process (sales business partner due diligence). We apply high standards in the selection of our sales and business partners and expect them to act in accordance with our compliance rules and ethical principles. Based on a standardized risk assessment carried out in advance, the divisions decide, in addition to the specific risk factors, on the appropriate intensity for examining the respective business partner. The divisions carry out the examination in their own responsibility and with support from the Group Compliance department.

Stronger whistleblower system and Business Practices Office (BPO). A functioning whistleblower system is an important source for us to recognize risks and infringements of rules. Information on possible serious infringements by employees and external parties is passed on to the BPO. In 2012, the management and employee representatives reached a company agreement on the reorganization of the Daimler whistleblower system. This agreement sets out a fair, transparent process affording equal protection to whistleblowers and the other persons involved. Furthermore, in addition to the existing reporting channels, in Germany we have commissioned an independent lawyer as a neutral mediator, who also accepts information on violations of rules. Due to his professional obligation to maintain confidentiality, it is assured that the whistleblowers remain anonymous vis-à-vis Daimler.

Compliance training and communication. The regular provision of information and targeted training courses supplement and support the effective and sustained anchoring of correct conduct at Daimler. We carry out face-to-face trainings for specific groups of employees as well as web-based trainings. We also offer these trainings to our business partners and sales partners, so that they can familiarize themselves with our ideas of integrity and compliance. In those courses, we train participants for example on the principles of corruption prevention and on competition law. Since 2010, we have trained more than 100,000 employees in business units and departments with a special risk situation using web-based courses and presence events. The focus was on employees in sales and sales-related functions.

Declaration by the Board of Management and Supervisory Board of Daimler AG pursuant to Section 161 of the German Stock Corporation Act (AktG) regarding the German Corporate Governance Code

The Board of Management and Supervisory Board of Daimler AG declare that the recommendations of the German Corporate Governance Code Commission in the Code version dated May 26, 2010, published by the Federal Ministry of Justice in the official section of the Federal Gazette on July 2, 2010, have been and are being applied since the last declaration of compliance issued in December 2011, with the exception of Clause 3.8 paragraph 3 (D&O insurance deductible for the Supervisory Board) and Clause 5.4.6 paragraph 2 Sentence 1 (Performance-based compensation of Members of the Supervisory Board). The recommendations of the German Corporate Governance Code in the version dated May 15, 2012 have been observed by Daimler AG since the time of their publication in the official section of the Federal Gazette, with the exception of a deviation from Clause 3.8 paragraph 3 (Deductible for D&O Insurance for the Supervisory Board) and a deviation from Clause 5.4.1 paragraph 2 (Specific objectives for the composition of the Supervisory Board) which was declared as a precautionary measure. Daimler AG will continue to observe these recommendations in the future, with the aforementioned deviations.

D&O insurance deductible for the Supervisory Board (Clause 3.8, Paragraph 3). As in previous years, the Directors' & Officers' liability insurance (D&O insurance) also contains a provision for a deductible for the members of the Supervisory Board, which is appropriate in the view of Daimler AG. However, this deductible does not correspond to the legally required deductible for members of the Board of Management in the amount of at least 10% of the damage up to at least one and a half of the fixed annual remuneration. Since the remuneration structure of the Supervisory Board is limited to fixed remuneration without performance bonus components, setting a deductible for Supervisory Board members in the amount of 1.5 times the fixed annual remuneration would have a disproportionate economic impact when compared with the members of the Board of Management, whose compensation consists of fixed and performance bonus components.

Specific objectives for the composition of the Supervisory Board (Clause 5.4.1 para 2 German Corporate Governance Code in the version of May 15, 2012). In its meeting held on December 12, 2012, the Supervisory Board elaborated and confirmed the target objective for the number of independent shareholder representatives anchored in its Rules of Procedure prior to the effective date of the German Corporate Governance Code version of May 15, 2012, published after the amendment of the Code. In this meeting, the Supervisory Board also differentiated the target objective for consideration of potential conflicts of interest in its composition in conformity with the new version of the German Corporate Governance Code. In the absence of any influence on the appointments for the employee representatives' side, the Supervisory Board limited itself to the corresponding target objectives for the shareholder representatives.

Performance-based Compensation of Members of the Supervisory Board (Clause 5.4.6, Paragraph 2, Sentence 1 in the version of May 26, 2010). The members of the Daimler AG Supervisory Board receive suitable remuneration, which includes fixed and function-based components, as well as attendance fees, but does not include any performance-bonus components. A base annual fee is set for each member, with corresponding fixed increases for the Chair or Deputy Chair of the Supervisory Board and in the case of committee membership, and special consideration to the Chair in the Audit Committee in accordance with the respective area of responsibility. In our view, a function-based system of remuneration is also more appropriate for the supervisory role of the Supervisory Board than performance-based remuneration since it eliminates possible conflicts of interest arising from decisions of the Supervisory Board that could influence performance criteria. Therefore, there is no performance-based remuneration.

This deviation from the German Corporate Governance Code no longer applies since the recommendation regarding the performance-based remuneration of the Supervisory Board is no longer contained in the new version of the German Corporate Governance Code of May 15, 2012.

Stuttgart, December 2012

for the Supervisory Board Dr. Manfred Bischoff Chairman	for the Board of Management Dr. Dieter Zetsche Chairman

Corporate Governance Report

At Daimler, good corporate governance goes beyond the mere fulfillment of statutory provisions. The Board of Management and the Supervisory Board have the goal of aligning the Group's management and supervision with nationally and internationally recognized benchmarks of good and responsible corporate governance, in order to secure the success and sustained value creation of the Group with its strong traditions.

The main principles applied in our corporate governance

German Corporate Governance Code. The legal framework for the corporate governance of Daimler AG is provided by German law, in particular the Stock Corporation Act (AktG), the Codetermination Act (MitbestG) and legislation concerning capital markets, as well as the Company's Articles of Incorporation. The German Corporate Governance Code gives recommendations and makes suggestions for the details of this framework. There is no statutory duty to follow these standards. But according to the principle of comply or explain, the Board of Management and the Supervisory Board of Daimler AG are obliged by Section 161 of the German Stock Corporation Act (AktG) to make a declaration of compliance with regard to the recommendations – not with regard to the suggestions – of the German Corporate Governance Code and to disclose and justify any deviations from the Code's recommendations. With the exceptions disclosed and justified in the declaration of compliance of December 2012, Daimler AG has followed and continues to follow the recommendations of the German Corporate Governance Code. The Corporate Governance Code and the declaration of compliance can be accessed on our website at daimler.com/dai/gcgc. Previous, no longer applicable, declarations of compliance from the past five years are also available there.

Daimler AG has also followed and continues to follow the suggestions of the German Corporate Governance Code as amended on May 15, 2012 with just one exception:

Deviating from the suggestions in Clause 2.3.4 of the German Corporate Governance Code, the Annual Shareholders' Meeting is not transmitted in its entirety on the Internet, but only until the end of the report by the Board of Management. Continuing the broadcast after that point, particularly broadcasting comments made by individual shareholders, could be construed as an unjustified infringement of privacy rights. When considering this matter, the interests of transmission do not automatically take precedence over shareholders' privacy rights. This is reflected by the statutory requirement for the entire transmission to have a legal basis in the Company's Articles of Incorporation or in the rules of procedure for shareholders' meetings.

Standards of Business Conduct. Additional relevant principles of corporate governance that go beyond the legal requirements, but are applied throughout the Group are our Standards of Business Conduct. They are composed of several documents and policies and are based on the company values of passion, respect, integrity and discipline. Two key elements of our Standards of Business Conduct are the Integrity Code and our Business Partner Brochure.

Integrity Code. The Integrity Code came into effect in 2012 and replaced the guidelines that had previously been in effect since 1999. They define the principles of behavior and guidelines for everyday conduct at Daimler, and apply to interpersonal conduct within the company as well as conduct toward customers and business partners. Fairness, responsibility and compliance with legislation are key principles in this context. In addition to general principles of behavior, the Integrity Code includes requirements and regulations concerning the protection of human rights, dealing with conflicts of interest and preventing all forms of corruption.

The Principles of Social Responsibility also form part of the Integrity Code. They are binding for the entire Group. In the Principles of Social Responsibility, Daimler commits itself to the principles of the UN Global Compact and thus to internationally recognized human and workers' rights, such as the prohibition of child labor and forced labor, as well as freedom of association and sustainable protection of the environment. Daimler also commits itself to guaranteeing equal opportunity and adhering to the principle of "equal pay for equal work." The Integrity Code is available on the Internet at daimler.com/dai/guidelines.

Business Partner Brochure. In 2012, our brochure appeared under the heading "Ethical Business – Our Shared Responsibility," which shows with reference to the United Nations Global Compact principles the expectations that Daimler has with regard to ethical behavior in business. Since then, more than 63,000 external partners have received the brochure – for example all suppliers, joint-venture partners, dealers, and marketing and sponsoring partners. The Business Partner Brochure is also available on the Internet at daimler.com/dai/guidelines.

Composition and mode of operation of the Board of Management, the Supervisory Board and its committees ↗ 6.02

Daimler AG is obliged by the German Stock Corporation Act (AktG) to apply a dual management system featuring strict separation between the Board of Management and the Supervisory Board (two-tier board). Accordingly, the Board of Management manages the company while the Supervisory Board monitors and advises the Board of Management. No person may be a member of the two boards at the same time.

Board of Management. As of December 31, 2012, the Board of Management of Daimler AG comprised eight members. Information on their areas of responsibility and their curricula vitae are posted on our website at daimler.com/dai/bom. The members of the Board of Management and their areas of responsibility are also listed on pages 16 and 17 of this Annual Report. No member of the Board of Management is a member of more than three supervisory boards of listed companies outside the Daimler Group or of similar boards or committees with comparable requirements of companies outside the Daimler Group.

The Board of Management manages Daimler AG and the Daimler Group. With the consent of the Supervisory Board, the Board of Management determines the Group's strategic focus and decides on the corporate goals. The members of the Board of Management have joint responsibility for managing the Group's entire business. Irrespective of this overall responsibility, the individual members of the Board of Management manage their allocated areas within the framework of their instructions in their own responsibility. The Chairman of the Board of Management coordinates the work of the Board of Management.

The Board of Management prepares the consolidated interim reports, the annual company financial statements of Daimler AG, the annual consolidated financial statements and the management report of the Company and the Group. It is responsible for adherence to the provisions of applicable law, official regulations and the Group's internal guidelines, and works to secure compliance with those rules and regulations by the companies of the Group. The tasks of the Board of Management also include establishing and monitoring an appropriate and efficient risk management system.

The Board of Management requires the consent of the Supervisory Board for certain types of transaction of fundamental importance. At regular intervals, the Board of Management reports to the Supervisory Board on corporate strategy, corporate planning, profitability, business development and the situation of the Group, as well as on the internal control system, the risk management system and compliance. The Supervisory Board has specified the information and reporting duties of the Board of Management.

The Board of Management has also given itself a set of rules of procedure, which can be seen on our website at daimler.com/dai/rop. Those rules describe for example the procedure to be observed when passing resolutions and ways to avoid conflicts of interest.

The Board of Management has not formed any committees.

When making appointments to executive positions at the Group, the Board of Management gives due consideration to the issue of **diversity**, with regard for example to the criteria of age, internationality and gender. Diversity-management activities include diversity workshops, the development of internal networks, external cooperation with educational facilities, and membership of selected initiatives. A key area of action is the targeted promotion of women, by means for example of flexible working-time arrangements, setting up day nurseries close to workplaces, and a special mentoring program for women, The proportion of women in executive positions is currently 12% and is to be increased to 20% by the year 2020.

Supervisory Board. In accordance with the German Codetermination Act (MitbestG), the Supervisory Board of Daimler AG comprises 20 members. Half of them are elected by the shareholders at the Annual Meeting. The other half comprises members who are elected by the Company's employees who work in Germany. Information on the individual members of the Supervisory Board is available on the Internet at daimler.com/dai/supervisoryboard and on pages 24 and 25 of this Annual Report. The members representing the shareholders and the members representing the employees are equally obliged by law to act in the Company's best interests.

6.02
Governance Structure

Shareholders (Annual Meeting of shareholders)

Election of shareholder representatives to the Supervisory Board

Supervisory Board (10 shareholder and 10 employee representatives), Nomination Committee, Audit Committee, Presidential Committee, Mediation Committee

Appointments, monitoring, consulting

Board of Management (8 Board members)

The Supervisory Board monitors and advises the Board of Management with regard to its management of the Company. At regular intervals, the Supervisory Board receives reports from the Board of Management on the Group's strategy, corporate planning, revenue development, profitability, business development and general situation, as well as on the internal control system, the risk management system and compliance. The Supervisory Board has retained the right of approval for transactions of fundamental importance. Furthermore, the Supervisory Board has specified the information and reporting duties of the Board of Management to the Supervisory Board, the Audit Committee and – between the meetings of the Supervisory Board – to the Chairman of the Supervisory Board.

The Supervisory Board's duties include appointing and recalling the members of the Board of Management. Initial appointments are usually made for a period of three years. In connection with the composition of the Board of Management, the Supervisory Board pays attention not only to the members' appropriate specialist qualifications, with due consideration of the Group's international operations, but also to diversity. This applies in particular to age, nationality, gender and other personal characteristics. The Supervisory Board also decides on the system of remuneration for the Board of Management, reviews it regularly, and determines the individual remuneration of each member of the Board of Management.

The Supervisory Board has the task of reviewing the annual company financial statements, the annual consolidated financial statements and the management report of the Company and the Group, as well as the proposal for the appropriation of distributable profits. Following discussions with the external auditors and taking into consideration the audit reports of the external auditors and the results of the review by the Audit Committee, the Supervisory Board states whether, after the final results of its own review, any objections are to be raised. If that is not the case, the Supervisory Board approves the financial statements and the management report. Upon being approved, the annual company financial statements are adopted. The Supervisory Board reports to the Annual Shareholders' Meeting on the results of its own review and on the manner and scope of its supervision of the Board of Management during the previous financial year. The Report of the Supervisory Board for the year 2012 is available on pages 18 ff of this Annual Report and on the Internet at daimler.com/investor-relations/reports-and-key-figures/reports.

The Supervisory Board has given itself a set of rules of procedure, which regulate not only its duties and responsibilities and the personal requirements placed upon its members, but above all the convening and preparation of its meetings and the procedure of passing resolutions. The rules of procedure of the Supervisory Board can be seen on our website at daimler.com/dai/rop.

Meetings of the Supervisory Board are regularly prepared in separate discussions of the members representing the employees and of the members representing the shareholders with the members of the Board of Management. Each Supervisory Board meeting includes a so-called executive session for discussions of the Supervisory Board in the absence of the members of the Board of Management.

The Supervisory Board is to be composed so that its members together dispose of the knowledge, skills, and specialist experience required for the proper execution of their tasks. Proposals of candidates for election as members of the Supervisory Board representing the shareholders of Daimler AG, for which the Nomination Committee makes recommendations, take not only the requirements of applicable law, the Articles of Incorporation and the German Corporate Governance Code into consideration, but also a list of criteria of qualifications and experience. They include for example market knowledge in the regions important to Daimler, expertise in the management of technologies, and experience in certain management functions. An important condition for productive work in the Supervisory Board and for being able to properly supervise and advise the Board of Management is the members' personal individual diversity with regard to age, internationality, gender and other personal characteristics.

With regard to its own composition, the Supervisory Board has set the following goals, which, while considering the Group's specific situation, also consider the international activities of the Group, potential conflicts of interest, the number of independent Supervisory Board members, an age limit to be set, and diversity, and allow for the appropriate participation of women:

- With regard to ensuring sufficient internationality, for example by means of many years of international experience, a proportion of more than one third of non-German members, that is at least four, is deemed to be an appropriate target. With Dr. Paul Achleitner, Sari Baldauf, Petraea Heynike, Gerard Kleisterlee, Lloyd G. Trotter and Lynton R. Wilson, this target is currently exceeded. The Supervisory Board has no influence on the appointment of members representing the employees. Nonetheless, the proportion of Supervisory Board members with an international background is currently further increased due to a member representing the employees, Valter Sanches.
- In order to ensure the independent advice and supervision of the Board of Management by the Supervisory Board, the Supervisory Board has stipulated in its rules of procedure that more than half of the members of the Supervisory Board representing the shareholders are to be independent as defined by the German Corporate Governance Code and that no person may be a member of the Supervisory Board who is a member of a board of, or advises, a significant competitor of Daimler AG or its subsidiaries. At present, all members of the Supervisory Board are to be regarded as independent. No member of the Supervisory Board is a member of a board of, or advises, a significant competitor.
- At least half of the members of the Supervisory Board representing the shareholders should have
- neither an advisory nor a board function for a customer, supplier, creditor or other third party; nor
- a business or personal relationship to the company or its boards whose specific details could cause the occurrence of a conflict of interests.

  No potential conflict of interests currently exists for any member of the Supervisory Board.

- The rules of procedure of the Supervisory Board specify that candidates for election as representatives of the shareholders who are to hold the position for a full period of office should generally not be over the age of 68 at the time of the election. None of the members of the Supervisory Board currently in office who was proposed and elected for a full period of office exceeded this general age limit at the time of his or her election.
- With regard to the appropriate consideration of women, the Supervisory Board is guided by the Company's target of gradually increasing the proportion of women in executive positions to 20% by the year 2020. As of December 31, 2012, two of the members of the Supervisory Board are women: Sari Baldauf and Petraea Heynike. The proportion of women representing the shareholders has therefore already reached 20%, and will increase to 30% with Andrea Jung if the election proposal to be made by the Supervisory Board to the 2013 Annual Shareholders' Meeting is accepted.

The Chairman of the Supervisory Board, Dr. Manfred Bischoff, is a former member of the Board of Management. After stepping down from the Board of Management in December 2003, he was first elected to the Supervisory Board after a cooling-off period of more than two years in April 2006, and was first elected as the Chairman of the Supervisory Board after a cooling-off period of more than three years in April 2007. No member of the Supervisory Board is a member of the board of management of a listed company or has a board or advisory function for a significant competitor. The members of the Supervisory Board attend in their own responsibility such courses of training and further training as might be necessary for the performance of their tasks and are supported by the Company in doing so. Daimler AG offers courses of further training to the members of its Supervisory Board as required. Possible contents of such courses include subjects of technological and economic developments, accounting and financial reporting, internal control and risk management systems, compliance, new legislation and board of management remuneration.

Composition and mode of operation of the committees of the Supervisory Board. The Supervisory Board has formed four committees, which perform to the extent legally permissible the tasks assigned to them in the name of and on behalf of the entire Supervisory Board: the Presidential Committee, the Nomination Committee, the Audit Committee and the Mediation Committee. The committee chairpersons report to the entire Supervisory Board on the committees' work at the latest in the meeting of the Supervisory Board following each committee meeting. The Supervisory Board has issued rules of procedure for each of its committees. These rules of procedure can be seen on our website at daimler.com/dai/rop, as well as information on the current composition of these committees daimler.com/dai/sbc, which is also available on page 25 of this Annual Report.

Presidential Committee. The Presidential Committee is composed of the Chairman of the Supervisory Board, his Deputy and two other members, who are elected by a majority of the votes cast on the relevant resolution of the Supervisory Board. The Presidential Committee makes recommendations to the Supervisory Board on the appointment of members of the Board of Management and is responsible for their contractual affairs. It submits proposals to the Supervisory Board on the design of the remuneration system for the Board of Management and on the appropriate individual remuneration of its members, reports to the Supervisory Board regularly and without delay on consents it has issued, and once a year submits to the Supervisory Board for its approval a complete list of the sideline activities of each member of the Board of Management.

In addition, the Presidential Committee decides on questions of corporate governance, on which it also makes recommendations to the Supervisory Board. It supports and advises the Chairman of the Supervisory Board and his Deputy, and prepares the meetings of the Supervisory Board.

Nomination Committee. The Nomination Committee is composed of at least three members, who are elected by a majority of the votes cast by the members of the Supervisory Board representing the shareholders. It is the only Supervisory Board Committee comprised solely of members representing the shareholders. It makes recommendations to the Supervisory Board concerning persons to be proposed for election as members of the Supervisory Board representing the shareholders at the Annual Shareholders' Meeting. In doing so, the Nomination Committee takes into consideration the requirements of the German Corporate Governance Code and the rules of procedure of the Supervisory Board, as well as the specific goals that the Supervisory Board has set for its own composition. Furthermore, it defines the requirements for each specific position to be occupied.

Audit Committee. The Audit Committee is composed of four members, who are elected by a majority of the votes cast on the relevant resolution of the Supervisory Board. The Chairman of the Supervisory Board is not simultaneously the Chairman of the Audit Committee.

Both the Chairman of the Audit Committee, Dr. h. c. Bernhard Walter, and Dr. Clemens Börsig have expertise in the field of financial reporting, as well as special knowledge and experience in the application of accounting principles and internal methods of control.

The Audit Committee deals with the supervision of the accounting process, risk management, the effectiveness of the internal control system and of the internal auditing system, the annual external audit and compliance. At least once a year, it discusses with the Board of Management and the external auditors the effectiveness, functionality and appropriateness of the internal monitoring systems and the risk management system. Also at least once a year, it discusses with the Board of Management the effectiveness and appropriateness of the internal auditing system and compliance management. Furthermore, it regularly receives reports on the work of the Internal Auditing department and the compliance organization. At least four times a year, the Audit Committee receives a report from the Business Practices Office, which has been established to deal with complaints and information about any breaches of guidelines, criminal offences or dubious accounting, financial reporting or auditing. It regularly receives information about dealing with these complaints and information.

The Audit Committee discusses with the Board of Management the interim reports on the first quarter, first half and first nine months of the year before they are published. On the basis of the report of the external auditors, the Audit Committee reviews the annual company financial statements and the annual consolidated financial statements, as well as the management report of the Company and the Group, and discusses them with the external auditors. The responsible auditor at KPMG AG Wirtschaftsprüfungsgesellschaft, the company of auditors commissioned to carry out the external audit, is Mr. Mathieu Meyer. It makes a proposal to the Supervisory Board on the adoption of the annual company financial statements of Daimler AG, on the approval of the annual consolidated financial statements and on the appropriation of profits. The Committee also makes recommendations for the proposal on the election of external auditors, assesses those auditors' suitability and independence, and, after the external auditors are elected by the Annual Meeting, it commissions them to conduct the annual audit of the company and consolidated financial statements and to review the interim reports, negotiates an audit fee, and determines the focus of the annual audit. The external auditors report to the Audit Committee on all accounting matters that might be regarded as critical and on any material weaknesses of the internal monitoring and risk management system with regard to accounting.

Finally, the Audit Committee approves services that are not directly related to the annual audit provided by the firm of external auditors or its affiliates to Daimler AG or to companies of the Daimler Group.

Mediation Committee. The Mediation Committee is composed of the Chairman of the Supervisory Board and his Deputy, as well as one member of the Supervisory Board representing the employees and one member of the Supervisory Board representing the shareholders, each elected with a majority of the votes cast. It is formed solely to perform the functions laid down in Section 31 Subsection 3 of the German Codetermination Act (MitbestG). Accordingly, the Mediation Committee has the task of making proposals on the appointment of members of the Board of Management if in the first vote the majority required for the appointment of a Board of Management member of two thirds of the members of the Supervisory Board is not achieved.

Shareholders and Annual Shareholders' Meeting

The Company's shareholders exercise their membership rights, in particular their voting rights, at the Shareholders' Meeting. Each share in Daimler AG entitles its owner to one vote. There are no multiple voting rights, preferred stock, or maximum voting rights. Documents and information relating to the Shareholders' Meeting can be found on our website at daimler.com/ir/am.

The Annual Shareholders' Meeting is generally held within four months of the end of a financial year. The Company facilitates the personal exercise of the shareholders' rights and proxy voting among other things by appointing proxies who are strictly bound by the shareholders' voting instructions. Absentee voting is also possible. It is possible to authorize the Daimler-appointed proxies and give them voting instructions or to cast absentee votes by using the so-called e-service for shareholders.

Among other matters, the Annual Shareholders' Meeting decides on the appropriation of distributable profits, the ratification of the actions of the members of the Board of Management and the Supervisory Board, the election of the external auditors, the election of the members of the Supervisory Board representing the shareholders and the remuneration of the Supervisory Board. The Annual Meeting also makes other decisions, especially on amendments to the Articles of Incorporation, capital measures, and the approval of certain intercompany agreements. Shareholders can submit countermotions on resolutions proposed by the Board of Management and the Supervisory Board and can challenge resolutions passed by the Shareholders' Meeting in a court of law.

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

Deviating from the suggestions in Clause 2.3.4 of the German Corporate Governance Code, the Annual Shareholders' Meeting is not transmitted in its entirety on the Internet, but only until the end of the report by the Board of Management.

We maintain close contacts with our shareholders in the context of comprehensive investor relations and public relations. We regularly and comprehensively inform our shareholders, financial analysts, shareholder associations, the media and the interested public about the situation of the Group, and inform them without delay about any significant changes in its business.

In addition to other methods of communication, we also make intensive use of the Company's website. All of the important information disclosed in 2012, including annual and interim reports, press releases, voting rights notifications from major shareholders, presentations and audio recordings of analyst and investor events and conference calls, and the financial calendar, can be found at daimler.com/investors. All the dates of important disclosures such as annual reports and interim reports and the date of the Annual Shareholders' Meeting are announced in advance in the financial calendar. The financial calendar can also be seen inside the rear cover of this annual report. Information is published in English as well as in German.

Shares held by the Board of Management and the Supervisory Board, directors' dealings

At December 31, 2012, the members of the Board of Management held a total of 0.45 million shares or options of Daimler AG (0.042% of the shares issued). At the same date, members of the Supervisory Board held a total of 0.05 million shares or options of Daimler AG (0.004% of the shares issued).

In 2012, members of the Board of Management and the Supervisory Board and, pursuant to the provisions of Section 15a of the German Securities Trading Act (WpHG), persons in a close relationship with the aforementioned persons, conducted transactions with shares of Daimler AG or related financial instruments as listed in the table below. ↗ 6.03 Daimler AG discloses these transactions without delay after receiving notification of them. Current information is available on our website at daimler.com/dai/dd/en.

Risk management and financial reporting

Risk management at the Group. Daimler has a risk management system commensurate with its size and position as a company with global operations. see pages 125 ff The risk management system is one component of the overall planning, controlling and reporting process. Its goal is to enable the Company's management to recognize significant risks at an early stage and to initiate appropriate countermeasures in a timely manner. The Supervisory Board deals with the risk management system in particular with regard to the approval of the operational planning. The Audit Committee discusses at least once a year the effectiveness, functionality and appropriateness of the risk management system with the Board of Management and the external auditors. In addition, the Audit Committee deals with the risk report once each quarter. The Chairman of the Supervisory Board has regular contacts with the Board of Management to discuss not only the Group's strategy and business development, but also the issue of risk management. The Corporate Audit department monitors adherence to the legal framework and Group standards by means of targeted audits and initiates appropriate actions as required.

Accounting principles. The consolidated financial statements of the Daimler Group are prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union, and with the supplementary standards to be applied according to Section 315a Subsection 1 of the German Commercial Code (HGB). Details of the IFRS are provided in this Annual Report in the Notes to the Consolidated Financial Statements. see note 1 of the Consolidated Financial Statements. The annual financial statements of Daimler AG, which is the parent company, are prepared in accordance with the accounting standards of the German Commercial Code (HGB). Both sets of financial statements are audited by a firm of accountants elected by the Annual Shareholders' Meeting to conduct the external audit.

Interim reports for the Daimler Group are prepared in accordance with IFRS for interim reporting, as adopted by the European Union, as well as, with regard to the interim management reports, the applicable provisions of the German Securities Trading Act (WpHG). Interim financial reports are reviewed by the external auditors elected by the Annual Shareholders' Meeting.

Corporate governance statement

The corporate governance statement to be issued pursuant to Section 289a of the German Commercial Code (HGB) is simultaneously published along with the Annual Report including the Corporate Governance Report at daimler.com/corpgov/en and can be accessed there.

6.03

Directors' dealings (pursuant to Section 15a of the German Securities Trading Act (WpHG)) in the year 2012

Date	Name	Function	Type and place of transaction	Number	Price	Total volume
12/12/2012	Prof. Dr. Heinrich Flegel	Member of the Supervisory Board	Sale of new shares, Frankfurt	8,000	€39.78	€318,240
12/12/2012	Prof. Dr. Heinrich Flegel	Member of the Supervisory Board	Acquisition of shares through exercise of options (over the counter)	8,000	€34.40	€275,200
07/30/2012	Andreas Renschler	Member of the Board of Management	Acquisition of shares, Frankfurt	3,970	€39.54	€156,974
7/26/2012	Andreas Renschler	Member of the Board of Management	Sale of new shares, Frankfurt	37,000	€37.25	€1,378,250
7/26/2012	Andreas Renschler	Member of the Board of Management	Acquisition of shares through exercise of options (over the counter)	37,000	€34.40	€1,272,800
7/30/2012	Prof. Dr. Thomas Weber	Member of the Board of Management	Acquisition of shares, Frankfurt	12,290	€39.55	€486,070
7/26/2012	Prof. Dr. Thomas Weber	Member of the Board of Management	Sale of new shares, Frankfurt	115,000	€37.25	€4,283,750
7/26/2012	Prof. Dr. Thomas Weber	Member of the Board of Management	Acquisition of shares through exercise of options (over the counter)	115,000	€34.40	€3,956,000
7/26/2012	Dr. Dieter Zetsche	Chairman of the Board of Management	Acquisition of shares, Frankfurt	13,000	€37.91	€492,830
7/26/2012	Dr. Dieter Zetsche	Chairman of the Board of Management	Sale of new shares, Frankfurt	250,000	€37.25	€9,312,500
7/26/2012	Dr. Dieter Zetsche	Chairman of the Board of Management	Acquisition of shares through exercise of options (over the counter)	250,000	€34.40	€8,600,000

Consolidated Financial Statements

Sports car with baggage space. With the completely
new CLS Shooting Brake, Mercedes-Benz launches yet another
highlight in a long line of innovative luxury automobiles.

The Consolidated Financial Statements presented as follows have been prepared in accordance with the International Financial Reporting Standards (IFRS). They also include additional requirements set forth in Section 315a (1) of the German Commercial Code (HGB).

7 | Consolidated Financial Statements

Consolidated Statement of Income

7.01

	Note	Consolidated		Industrial Business (unaudited additional information)		Daimler Financial Services (unaudited additional information)	
		Year ended December 31,		Year ended December 31,		Year ended December 31,	
		2012	2011	2012	2011	2012	2011
In millions of euros							
Revenue	4	114,297	106,540	100,747	94,460	13,550	12,080
Cost of sales	5	-88,784	-81,023	-77,535	-71,152	-11,249	-9,871
Gross profit		25,513	25,517	23,212	23,308	2,301	2,209
Selling expenses	5	-10,451	-9,824	-10,056	-9,502	-395	-322
General administrative expenses	5	-3,973	-3,855	-3,335	-3,301	-638	-554
Research and non-capitalized development costs	5	-4,179	-4,174	-4,179	-4,174	–	–
Other operating income	6	1,507	1,381	1,446	1,313	61	68
Other operating expense	6	-291	-355	-276	-325	-15	-30
Share of profit/loss from investments accounted for using the equity method, net	13	990	273	1,006	286	-16	-13
Other financial income/expense, net	7	-501	-208	-495	-162	-6	-46
Earnings before interest and taxes (EBIT)[1]		8,615	8,755	7,323	7,443	1,292	1,312
Interest income	8	828	955	823	951	5	4
Interest expense	8	-1,725	-1,261	-1,708	-1,248	-17	-13
Profit before income taxes		7,718	8,449	6,438	7,146	1,280	1,303
Income taxes	9	-1,223	-2,420	-763	-1,929	-460	-491
Net profit		6,495	6,029	5,675	5,217	820	812
Thereof profit attributable to non-controlling interest		400	362				
Thereof profit attributable to shareholders of Daimler AG		6,095	5,667				
Earnings per share (in €) for profit attributable to shareholders of Daimler AG	34						
Basic		5.71	5.32				
Diluted		5.71	5.31				

1 EBIT includes expenses from compounding of provisions and effects of changes in discount rates (2012: minus €543 million; 2011: minus €225 million).

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income/Loss[1]

7.02

	Consolidated	
	2012	2011
In millions of euros		
Net profit	6,495	6,029
Unrealized gains/losses from currency translation adjustments	-540	153
Unrealized gains/losses from financial assets available for sale	164	-78
Unrealized gains/losses from derivative financial instruments	702	-435
Unrealized gains/losses from investments accounted for using the equity method	7	-27
Other comprehensive income/loss, net of taxes	333	-387
Thereof income/loss attributable to non-controlling interest	-39	36
Thereof income/loss attributable to shareholders of Daimler AG	372	-423
Total comprehensive income	6,828	5,642
Thereof income attributable to non-controlling interest	361	398
Thereof income attributable to shareholders of Daimler AG	6,467	5,244

1 For other information regarding comprehensive income/loss, see Note 20.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

7.03

	Note	Consolidated		Industrial Business (unaudited additional information)		Daimler Financial Services (unaudited additional information)	
		At December 31,		At December 31,		At December 31,	
		2012	2011	2012	2011	2012	2011
In millions of euros							
Assets							
Intangible assets	10	8,885	8,259	8,808	8,200	77	59
Property, plant and equipment	11	20,599	19,180	20,546	19,129	53	51
Equipment on operating leases	12	26,058	22,811	12,163	10,849	13,895	11,962
Investments accounted for using the equity method	13	4,646	4,661	4,633	4,631	13	30
Receivables from financial services	14	27,062	25,007	-33	-32	27,095	25,039
Marketable debt securities	15	1,539	947	9	14	1,530	933
Other financial assets	16	3,890	2,957	-216	-367	4,106	3,324
Deferred tax assets	9	2,274	2,772	1,745	2,244	529	528
Other assets	17	567	420	-1,725	-1,637	2,292	2,057
Total non-current assets		95,520	87,014	45,930	43,031	49,590	43,983
Inventories	18	17,720	17,081	17,075	16,575	645	506
Trade receivables	19	7,543	7,849	6,864	7,580	679	269
Receivables from financial services	14	21,998	20,560	-17	-52	22,015	20,612
Cash and cash equivalents		10,996	9,576	9,887	8,908	1,109	668
Marketable debt securities	15	4,059	1,334	3,832	1,157	227	177
Other financial assets	16	2,070	2,007	-6,625	-5,120	8,695	7,127
Other assets	17	3,072	2,711	536	429	2,536	2,282
Total current assets		67,458	61,118	31,552	29,477	35,906	31,641
Total assets		162,978	148,132	77,482	72,508	85,496	75,624
Equity and liabilities							
Share capital		3,063	3,060				
Capital reserve		12,026	11,895				
Retained earnings		27,977	24,228				
Other reserves		813	441				
Treasury shares		–	–				
Equity attributable to shareholders of Daimler AG		43,879	39,624				
Non-controlling interest		1,631	1,713				
Total equity	20	45,510	41,337	39,357	35,964	6,153	5,373
Provisions for pensions and similar obligations	22	3,035	3,184	2,975	2,985	60	199
Provisions for income taxes		727	2,498	726	2,496	1	2
Provisions for other risks	23	5,476	5,626	5,315	5,494	161	132
Financing liabilities	24	43,340	35,466	10,950	10,250	32,390	25,216
Other financial liabilities	25	1,711	1,911	1,574	1,840	137	71
Deferred tax liabilities	9	1,979	1,081	-97	-920	2,076	2,001
Deferred income		2,444	2,118	1,989	1,675	455	443
Other liabilities	26	38	56	32	50	6	6
Total non-current liabilities		58,750	51,940	23,464	23,870	35,286	28,070
Trade payables		8,832	9,515	8,515	9,233	317	282
Provisions for income taxes		1,006	1,030	900	921	106	109
Provisions for other risks	23	6,313	6,799	6,001	6,473	312	326
Financing liabilities	24	32,911	26,701	-8,067	-12,525	40,978	39,226
Other financial liabilities	25	6,680	7,782	5,004	6,276	1,676	1,506
Deferred income		1,640	1,548	1,153	1,064	487	484
Other liabilities	26	1,336	1,480	1,155	1,232	181	248
Total current liabilities		58,718	54,855	14,661	12,674	44,057	42,181
Total equity and liabilities		162,978	148,132	77,482	72,508	85,496	75,624

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity[1]

7.04

				Other reserves							
	Share capital	Capital reserves	Retained earnings	Currency translation adjustment	Financial assets available-for-sale	Derivative financial instruments	Share of investments accounted for using the equity method	Treasury shares	Equity attributable to share-holders of Daimler AG	Non-controlling interest	Total equity
In millions of euros											
Balance at January 1, 2011	3,058	11,905	20,553	939	149	-216	-8	-7	36,373	1,580	37,953
Net profit	–	–	5,667	–	–	–	–	–	5,667	362	6,029
Unrealized gains/losses	–	–	–	110	-75	-608	-45	–	-618	26	-592
Deferred taxes on unrealized gains/losses	–	–	–	-	-3	173	25	–	195	10	205
Total comprehensive income/loss	–	–	5,667	110	-78	-435	-20	–	5,244	398	5,642
Dividends	–	–	-1,971	–	–	–	–	–	-1,971	-278	-2,249
Share-based payment	–	-4	–	–	–	–	–	–	-4	–	-4
Capital increase/ Issue of new shares	2	25	–	–	–	–	–	–	27	16	43
Acquisition of treasury shares	–	–	–	–	–	–	–	-28	-28	–	-28
Issue and disposal of treasury shares	–	–	-21	–	–	–	–	35	14	–	14
Other	–	-31	–	–	–	–	–	–	-31	-3	-34
Balance at December 31, 2011	3,060	11,895	24,228	1,049	71	-651	-28	–	39,624	1,713	41,337
Net profit	–	–	6,095	–	–	–	–	–	6,095	400	6,495
Unrealized gains/losses	–	–	–	-519	163	988	56	–	688	-46	642
Deferred taxes on unrealized gains/losses	–	–	–	–	–	-287	-29	–	-316	7	-309
Total comprehensive income/loss	–	–	6,095	-519	163	701	27	–	6,467	361	6,828
Dividends	–	–	-2,346	–	–	–	–	–	-2,346	-387	-2,733
Share-based payment	–	1	–	–	–	–	–	–	1	–	1
Capital increase/ Issue of new shares	3	33	–	–	–	–	–	–	36	33	69
Acquisition of treasury shares	–	–	–	–	–	–	–	-25	-25	–	-25
Issue and disposal of treasury shares	–	–	–	–	–	–	–	25	25	–	25
Changes in ownership interests in subsidiaries without loss of control	–	102	–	–	–	–	–	–	102	-178	-76
Other	–	-5	–	–	–	–	–	–	-5	89	84
Balance at December 31, 2012	3,063	12,026	27,977	530	234	50	-1	–	43,879	1,631	45,510

1 For other information regarding changes in equity, see Note 20.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows[1]

7.05

	Consolidated		Industrial Business (unaudited additional information)		Daimler Financial Services (unaudited additional information)	
	2012	2011	2012	2011	2012	2011
In millions of euros						
Profit before income taxes	7,718	8,449	6,438	7,146	1,280	1,303
Depreciation and amortization	4,067	3,575	4,042	3,553	25	22
Other non-cash expense and income	-278	-122	-339	-184	61	62
Gains (-)/losses on disposals of assets	-768	-102	-768	-113	–	11
Change in operating assets and liabilities						
Inventories	-840	-2,328	-677	-2,350	-163	22
Trade receivables	138	-620	565	-570	-427	-50
Trade payables	-621	1,762	-662	1,705	41	57
Receivables from financial services	-4,395	-4,526	803	555	-5,198	-5,081
Vehicles on operating leases	-3,676	-2,874	-126	-390	-3,550	-2,484
Other operating assets and liabilities	-343	-1,093	-66	-1,102	-277	9
Income taxes paid	-2,102	-2,817	-1,683	-904	-419	-1,913
Cash provided by/used for operating activities	-1,100	-696	7,527	7,346	-8,627	-8,042
Additions to property, plant and equipment	-4,827	-4,158	-4,804	-4,137	-23	-21
Additions to intangible assets	-1,830	-1,718	-1,800	-1,702	-30	-16
Proceeds from disposals of property, plant and equipment and intangible assets	196	252	189	244	7	8
Investments in share property	-764	-899	-759	-899	-5	–
Proceeds from disposals of share property	1,767	203	1,766	201	1	2
Acquisition of marketable debt securities	-8,089	-5,478	-6,756	-4,711	-1,333	-767
Proceeds from sales of marketable debt securities	4,742	5,241	4,057	4,747	685	494
Other	-59	20	-59	-6	–	26
Cash used for investing activities	-8,864	-6,537	-8,166	-6,263	-698	-274
Change in short-term financing liabilities	-68	2,589	-373	-235	305	2,824
Additions to long-term financing liabilities	36,904	26,037	9,539	6,464	27,365	19,573
Repayment of long-term financing liabilities	-22,590	-20,560	-4,724	-7,069	-17,866	-13,491
Dividend paid to shareholders of Daimler AG	-2,346	-1,971	-2,346	-1,971	–	–
Dividends paid to non-controlling interests	-387	-278	-380	-270	-7	-8
Proceeds from issuance of share capital	65	71	60	64	5	7
Acquisition of treasury shares	-25	-28	-25	-28	–	–
Acquisition of non-controlling interests in subsidiaries	-47	-18	-47	-18	–	–
Internal equity transactions	–	–	11	1,278	-11	-1,278
Cash provided by/used for financing activities	11,506	5,842	1,715	-1,785	9,791	7,627
Effect of foreign exchange rate changes on cash and cash equivalents	-122	64	-97	75	-25	-11
Net increase/decrease in cash and cash equivalents	1,420	-1,327	979	-627	441	-700
Cash and cash equivalents at the beginning of the period	9,576	10,903	8,908	9,535	668	1,368
Cash and cash equivalents at the end of the period	10,996	9,576	9,887	8,908	1,109	668

1 For other information regarding consolidated statements of cash flows, see Note 27.

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. Significant accounting policies

General information

The consolidated financial statements of Daimler AG and its subsidiaries ("Daimler" or "the Group") have been prepared in accordance with Section 315a of the German Commercial Code (HGB) and comply with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

Daimler AG is a stock corporation organized under the laws of the Federal Republic of Germany. The company is entered in the Commercial Register of the Stuttgart District Court under No. HRB 19360 and its registered office is located at Mercedesstraße 137, 70327 Stuttgart, Germany.

The consolidated financial statements of Daimler AG are presented in euros (€). Unless otherwise stated, all amounts are stated in millions of euros. All figures shown are rounded in accordance with standard business rounding principles.

The Board of Management authorized the consolidated financial statements for publication on February 21, 2013.

Basis of preparation

Applied IFRSs. The accounting policies applied in the consolidated financial statements comply with the IFRSs required to be applied as of December 31, 2012. Initial application of accounting policies in 2012 did not result in any material effects on the consolidated financial statements.

IFRSs issued and EU endorsed but not yet adopted. In May 2011, the IASB issued three new standards that provide guidance with respect to accounting for investments of the reporting entity in other entities. IFRS 10 Consolidated Financial Statements establishes a single consolidation model based on control that applies to all entities irrespective of the type of controlled entity. IFRS 11 Joint Arrangements provides new guidance on accounting for joint arrangements. In the future, it has to be decided whether a joint operation or a joint venture exists. IFRS 12 Disclosure of Interests in Other Entities provides guidance on disclosure requirements for interests in other entities by combining existing disclosure requirements from several standards in one comprehensive disclosure standard. Daimler will apply the new consolidation standards as of the mandatory effective date for EU IFRS-users as of January 1, 2014 on a retrospective basis and will therefore not make use of the possibility of earlier application. Daimler is currently in the process of determining the effects of these new standards on the Group's consolidated financial statements.

In May 2011, the IASB also published IFRS 13 Fair Value Measurement. The new standard replaces the fair value measurement rules contained in individual IFRSs and combines them in one standard for a single source of fair value measurement guidance. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. Daimler will not make use of the possibility of earlier application of this standard. As a result of the application of IFRS 13, there will presumably be only minor effects on the consolidated financial statements.

In June 2011, the IASB issued an amendment to IAS 19 Employee Benefits. The amendment removes the corridor method. Actuarial gains and losses consequently have an immediate effect on the consolidated statement of financial position and have to be recognized exclusively in other comprehensive income/loss. In addition, currently at the beginning of the accounting period, the expected return on plan assets is determined based on the Company's expectations regarding the performance of the investment portfolio. With application of the revised IAS 19, only one return on plan assets equal to the discount rate for pension obligations is allowed at beginning of period. The amended standard generally has to be applied retrospectively with a few exceptions in financial statements for EU IFRS-users for annual periods beginning on or after January 1, 2013. Daimler will apply the amendments to IAS 19 as of January 1, 2013. Due to the mandatory retrospective application, the net profit of the year 2012 will increase by the amount of €0.1 billion. Another major effect of the amendments to IAS 19 will be the one-time offset of net actuarial losses, which were not recognized in the statement of financial position up to now, with total equity. As a result of this offset, the Group's equity decreased on December 31, 2012 by the amount of €6.4 billion.

Other IFRSs and interpretations issued are not expected to have a significant influence on the Group's financial position, cash flows or earnings. Daimler does not plan to apply these standards earlier.

IFRSs issued but neither EU endorsed nor yet adopted. In November 2009, the IASB published IFRS 9 Financial Instruments as part of its project of a revision of the accounting guidance for financial instruments. Requirements for financial liabilities were added to IFRS 9 in October 2010. The requirements for financial liabilities were carried forward unchanged from IAS 39, with the exception of certain changes to the fair value option for financial liabilities that address the consideration of own credit risk. The new standard provides guidance on the accounting of financial assets and financial liabilities as far as classification and measurement are concerned. The standard will be effective in general on a retrospective basis for annual periods beginning on or after January 1, 2015. Earlier application is permitted.

Other IFRSs issued are not expected to have a significant influence on the Group's financial position, cash flows or earnings, Subject to EU endorsement of these standards, which are to be adopted in future periods, Daimler does not plan to apply these standards earlier.

Presentation. Presentation in the statement of financial position differentiates between current and non-current assets and liabilities. Assets and liabilities are classified as current if they mature within one year or within a longer and normal operating cycle. Deferred tax assets and liabilities as well as assets and provisions for pensions and similar obligations are generally presented as non-current items.

The consolidated statement of income is presented using the cost-of-sales method.

Commercial practices with respect to certain products manufactured by the Group necessitate that sales financing, including leasing alternatives, be made available to the Group's customers. Accordingly, the Group's consolidated financial statements are significantly influenced by the activities of its financial services business.

To enhance readers' understanding of the Group's consolidated financial statements, unaudited information with respect to the results of operations and financial position of the Group's industrial and financial services business activities (Daimler Financial Services) is provided in addition to the audited consolidated financial statements. Such information, however, is not required by IFRS and is not intended to, and does not represent the separate IFRS results of operations and financial position of the Group's industrial or financial services business activities. Eliminations of the effects of transactions between the industrial and financial services businesses have generally been allocated to the industrial business columns.

Measurement. The consolidated financial statements have been prepared on the historical cost basis with the exception of certain items such as available-for-sale financial assets, derivative financial instruments, hedged items and pensions and similar obligations. The measurement models applied to those exceptions are described below.

Principles of consolidation. The consolidated financial statements include the financial statements of Daimler AG and, in general, the financial statements of Daimler AG's subsidiaries, including special purpose entities which are directly or indirectly controlled by Daimler AG. Control means the power, directly or indirectly, to govern the financial and operating policies of an entity so that the Group obtains benefits from its activities.

The financial statements of consolidated subsidiaries are generally prepared as of the reporting date of the consolidated financial statements. The previously existing time lag of one month concerning Mitsubishi Fuso Truck and Bus Corporation (MFTBC) was eliminated as of the year 2012. The effect of this adjustment on the consolidated financial statements was not significant. The financial statements of Daimler AG and its subsidiaries included in the consolidated financial statements are prepared using uniform recognition and measurement principles. All significant intercompany accounts and transactions relating to consolidated subsidiaries and consolidated special purpose entities are eliminated.

Equity investments in which Daimler has the ability to exercise significant influence over the financial and operating policies of the investee (associated companies) and entities over whose activities Daimler has joint control with a partner (joint ventures) are generally included in the consolidated financial statements using the equity method.

Subsidiaries and associated companies whose business is non-active or of low volume and that are not material for the Group and the fair presentation of financial position, liquidity and capital resources, and profitability are generally measured at amortized cost in the consolidated financial statements. The aggregate balance sheet totals of these subsidiaries would amount to approximately 1% of the Group's balance sheet total; the aggregate revenues and the aggregate profit/loss before income taxes amount to approximately 1% of Group revenue and profit before income taxes.

Table ↗ 7.06 shows the composition of the Group.

Business combinations are accounted for using the purchase method.

Changes in equity interests in Group subsidiaries that reduce or increase Daimler's percentage ownership without loss of control are accounted for as an equity transaction between owners.

As an additional funding source, Daimler transfers finance receivables, in particular receivables from the leasing and automotive business, to special purpose entities. Daimler thereby principally retains the significant risks of the transferred receivables. According to IAS 27 Consolidated and Separate Financial Statements and the Standing Interpretations Committee (SIC) Interpretation 12 Consolidation – Special Purpose Entities, these special purpose entities have to be consolidated by the transferor. The transferred financial assets remain in Daimler's consolidated statement of financial position.

Investments in associated companies and joint ventures. Associated companies and joint ventures are generally accounted for using the equity method.

At the acquisition date, the excess of the cost of Daimler's initial investment in an associate or joint venture and the share of the net fair value of the associate's or joint venture's identifiable assets and liabilities is recognized as investor level goodwill and is included in the carrying amount of the investment accounted for using the equity method. Step acquisitions, through which significant influence or joint control is obtained for the first time, are generally accounted for in accordance with IFRS 3 Business Combinations, which means the previously held equity interest is remeasured at its acquisition-date fair value; resulting gains and losses are recognized in profit or loss. In case an additional ownership interest in an existing associated company is acquired while significant influence is still maintained, goodwill is calculated only to the incremental interest acquired. The pre-existing investment is not measured anew at fair value.

Daimler assesses at each reporting date whether objective evidence of impairment is present with regard to its investments in associated companies and joint ventures. If such indication exists, the Group determines the impairment. If the carrying amount exceeds the recoverable amount of an investment, the carrying amount is reduced to the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. An impairment loss or the reversal of such a loss is recognized in the statement of income in the line item "Share of profit/loss from investments accounted for using the equity method, net." Income and expenses from the sale of investments accounted for using the equity method are shown in the same line item.

7.06

Composition of the Group

	2012	2011
Consolidated subsidiaries		
Germany	50	74
International	287	286
Subsidiaries accounted for at cost		
Germany	40	46
International	69	80
Subsidiaries accounted for using the equity method		
Germany	1	1
International	3	4
Associated companies and joint ventures		
Germany	22	20
International	41	46
	513	557

Profits and losses from transactions with associated companies and joint ventures are eliminated by adjusting the carrying amount of the investment accordingly.

Daimler's share of any dilution gains and losses resulting from capital increases by its investees accounted for using the equity method in which the Group or other shareholders do not participate are recognized in share of profit/loss from investments accounted for using the equity method, net.

In the special event that the financial statements of associated companies or joint ventures should not be available in good time, the Group's proportionate share of the results of operations is included in Daimler's consolidated financial statements with a one to three-month time lag. Adjustments are made for all significant events or transactions that occur during the time lag (see also Note 13).

Foreign currency translation. Transactions in foreign currency are translated at the relevant foreign exchange rates prevailing at the transaction date. In subsequent periods, assets and liabilities denominated in foreign currency are translated into euros using period-end exchange rates; gains and losses from this measurement are recognized in profit and loss (except for gains and losses resulting from the translation of available-for-sale equity instruments which are recognized in other comprehensive income/loss).

7.07

Exchange rates of the US dollar

	2012	2011
	€1 =	€1 =
Average exchange rate on December 31	1.3194	1.2939
Average exchange rates		
First quarter	1.3108	1.3680
Second quarter	1.2826	1.4391
Third quarter	1.2502	1.4127
Fourth quarter	1.2967	1.3482

Assets and liabilities of foreign companies for which the functional currency is not the euro are translated into euros using period-end exchange rates. The translation adjustments are presented in other comprehensive income/loss. The components of equity are translated using historical rates. The consolidated statements of income and cash flows are translated into euros using average exchange rates during the respective periods.

The exchange rates of the US dollar, the most significant foreign currency for Daimler, were as shown in table ↗ 7.07.

Accounting policies

Revenue recognition. Revenue from sales of vehicles, service parts and other related products is recognized when the risks and rewards of ownership of the goods are transferred to the customer, the amount of revenue can be estimated reliably and collectability is reasonably assured. Revenue is recognized net of sales reductions such as cash discounts and sales incentives granted.

Daimler uses sales incentives in response to a number of market and product factors, including pricing actions and incentives offered by competitors, the amount of excess industry production capacity, the intensity of market competition, and consumer demand for the product. The Group may offer a variety of sales incentive programs at a point in time, including cash offers to dealers and consumers, lease subsidies which reduce the consumers' monthly lease payment, or reduced financing rate programs offered to costumers.

Revenue from receivables from financial services is recognized using the effective interest method. When loans are issued below market rates, related receivables are recognized at present value and revenue is reduced for the interest incentive granted. If subsidized leasing fees are agreed upon in connection with finance leases, revenue from the sale of a vehicle is reduced by the amount of the interest incentive granted.

The Group offers an extended, separately priced warranty for certain products. Revenue from these contracts is deferred and recognized into income over the contract period in proportion to the costs expected to be incurred based on historical information. In circumstances in which there is insufficient historical information, income from extended warranty contracts is recognized on a straight-line basis. A loss on these contracts is recognized in the current period if the sum of the expected costs for services under the contract exceeds unearned revenue.

For transactions with multiple deliverables, such as when vehicles are sold with free or reduced-in-price service programs, the Group allocates revenue to the various elements based on their estimated fair values.

Sales in which the Group guarantees the minimum resale value of the product, such as sales to certain rental car companies, are accounted for similar to an operating lease. The guarantee of the resale value may take the form of an obligation by Daimler to pay any deficiency between the proceeds the customer receives upon resale and the guaranteed amount, or an obligation to reacquire the vehicle after a certain period of time at a set price. Gains or losses from the resale of these vehicles are included in gross profit.

Revenue from operating leases is recognized on a straight-line basis over the lease term. Among the assets subject to operating leases are Group products which are purchased by Daimler Financial Services from independent third-party dealers and leased to customers. After revenue recognition from the sale of the vehicles to independent third-party dealers, these vehicles create further revenue from leasing and remarketing as a result of lease contracts entered into. The Group estimates that the revenue recognized following the sale of vehicles to dealers equals approximately the additions to leased assets at Daimler Financial Services. Additions to leased assets at Daimler Financial Services were approximately €8 billion in 2012 (2011: approximately €6 billion).

Research and non-capitalized development costs. Expenditure for research and development that does not meet the conditions for capitalization according to IAS 38 Intangible Assets is expensed as incurred.

Borrowing costs. Borrowing costs are expensed as incurred unless they are directly attributable to the acquisition, construction or production of a qualifying asset and are therefore part of the cost of that asset.

Government grants. Government grants related to assets are deducted from the carrying amount of the asset and are recognized in profit or loss over the life of a depreciable asset as a reduced depreciation expense. Government grants which compensate the Group for expenses are recognized as other operating income in the same periods as the expenses themselves.

Interest income and interest expense. Interest income and interest expense includes interest income from investments in securities, cash and cash equivalents as well as interest expense from liabilities. Furthermore, interest and changes in fair values related to interest rate hedging activities as well as income and expense resulting from the allocation of premiums and discounts are included. The interest components of pensions and similar obligations are also presented in this line item.

An exception to the aforementioned principles is made for Daimler Financial Services. In this case, the interest income and expense and the result from derivative financial instruments are disclosed under revenue and cost of sales respectively.

Other financial income/expense, net. Other financial income/expense, net includes all income and expense from financial transactions which are not included in interest income and/or interest expense, and for Daimler Financial Services are not included in revenue and/or cost of sales. For example, expense from the compounding of interest on provisions for other risks is recorded in this line item.

Income taxes. Current income taxes are determined based on the respective local taxable income of the period and local tax rules. In addition, current income taxes include adjustments for uncertain tax payments or tax refunds for periods not yet assessed as well as interest expense and penalties on the underpayment of taxes. Changes in deferred tax assets and liabilities are included in income taxes except for changes recognized in other comprehensive income/loss or directly in equity.

Deferred tax assets or liabilities are determined based on temporary differences between financial reporting and the tax basis of assets and liabilities including differences from consolidation, loss carryforwards and tax credits. Measurement is based on the tax rates expected to be effective in the period in which an asset is realized or a liability is settled. For this purpose, the tax rates and tax rules are used which have been enacted or substantively enacted at the reporting date. Deferred tax assets are recognized to the extent that taxable profit at the level of the relevant tax authority will be available for the utilization of the deductible temporary differences. Daimler recognizes a valuation allowance for deferred tax assets when it is unlikely that a corresponding amount of future taxable profit will be available.

Tax benefits resulting from uncertain income tax positions are recognized at the best estimate of the tax amount expected to be paid.

Earnings per share. Basic earnings per share are calculated by dividing profit attributable to shareholders of Daimler AG by the weighted average number of shares outstanding. Diluted earnings per share additionally reflect the potential dilution that would occur if all stock option plans were exercised.

Goodwill. For acquisitions, goodwill represents the excess of the consideration transferred over the fair values assigned to the identifiable assets proportionally acquired and liabilities assumed. Goodwill is accounted for at the subsidiaries in the functional currency of those subsidiaries.

In connection with obtaining control, non-controlling interest in the acquiree is principally recognized at the proportionate share of the acquiree's identifiable assets, which are measured at fair value.

Other intangible assets. Intangible assets acquired are measured at cost less accumulated amortization. If necessary, accumulated impairment losses are recognized.

Intangible assets with indefinite lives are reviewed annually to determine whether indefinite-life assessment continues to be appropriate. If not, the change in the useful-life assessment from indefinite to finite is made on a prospective basis.

Intangible assets other than development costs with finite useful lives are generally amortized on a straight-line basis over their useful lives (3 to 10 years) and are tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period for intangible assets with finite useful lives is reviewed at least at each year-end. Changes in expected useful lives are treated as changes in accounting estimates. The amortization expense on intangible assets with finite useful lives is recorded in functional costs.

Development costs for vehicles and components are recognized if the conditions for capitalization according to IAS 38 are met. Subsequent to initial recognition, the asset is carried at cost less accumulated amortization and accumulated impairment losses. Capitalized development costs include all direct costs and allocable overheads and are amortized on a straight-line basis over the expected product life cycle (a maximum of 10 years). Amortization of capitalized development costs is an element of the manufacturing costs and is allocated to those vehicles and components by which they were generated and is included in cost of sales when the inventory (vehicles) is sold.

7.08

Useful lives of property, plant and equipment

Buildings and site improvements	10 to 50 years
Technical equipment and machinery	6 to 25 years
Other equipment, factory and office equipment	3 to 30 years

Property, plant and equipment. Property, plant and equipment are measured at acquisition or manufacturing costs less accumulated depreciation. If necessary, accumulated impairment losses are recognized.

The costs of internally produced equipment and facilities include all direct costs and allocable overheads. Acquisition or manufacturing costs include the estimated costs, if any, of dismantling and removing the item and restoring the site. Plant and equipment under finance leases are stated at the lower of present value of minimum lease payments or fair value less the respective accumulated depreciation and any accumulated impairment losses. Depreciation expense is recognized using the straight-line method. The residual value of the asset is considered. Property, plant and equipment are depreciated over the useful lives as shown in table ↗ 7.08.

Leasing. Leasing includes all arrangements that transfer the right to use a specified asset for a stated period of time in return for a payment, even if the right to use such asset is not explicitly described in an arrangement. The Group is a lessee of property, plant and equipment and a lessor of its products. It is evaluated on the basis of the risks and rewards of a leased asset whether the ownership of the leased asset is attributed to the lessee (finance lease) or to the lessor (operating lease). Rent expense on operating leases by which the Group is lessee is recognized over the respective lease terms on a straight-line basis. Equipment on operating leases by which the Group is lessor is carried initially at its acquisition or manufacturing cost and is depreciated to its expected residual value over the contractual term of the lease, on a straight-line basis. The same accounting principles apply to assets if Daimler sells such assets and leases them back from the buyer.

Impairment of non-current non-financial assets. Daimler assesses at each reporting date whether there is an indication that an asset may be impaired. If such indication exists, Daimler estimates the recoverable amount of the asset. The recoverable amount is determined for each individual asset unless the asset generates cash inflows that are not largely independent of those from other assets or groups of assets (cash generating units). In addition, goodwill and other intangible assets with indefinite useful lives are tested annually for impairment; this takes place at the level of the cash generating units. If the carrying amount of an asset or of a cash generating unit exceeds the recoverable amount, an impairment loss is recognized for the difference.

The recoverable amount is the higher of fair value less costs to sell and value in use. For cash generating units, which at Daimler correspond to the reportable segments, Daimler in a first step determines the respective recoverable amount as value in use and compares it with the respective carrying amounts (including goodwill). Value in use is measured by discounting expected future cash flows from the continuing use of the cash generating units using a risk-adjusted interest rate. Future cash flows are determined on the basis of the long-term planning, which is approved by the Board of Management and which is valid at the date of conduction of the impairment test. This planning is based on expectations regarding future market share, the growth of the respective markets as well as the products' profitability. The multi-year planning comprises a planning horizon until 2020 and therefore mainly covers the product lifecycles of our automotive business. The rounded risk-adjusted interest rates, which are calculated for each segment, used to discount cash flows currently are unchanged from the previous year at 8% after taxes for the cash generating units of the industrial business and 9% after taxes for Daimler Financial Services. Whereas the discount rate for Daimler Financial Services represents the cost of equity, the risk-adjusted interest rate for the cash generating units of the industrial business is based on the weighted average cost of capital (WACC). These are calculated based on the capital asset pricing model (CAPM) taking into account current market expectations. In calculating the risk-adjusted interest rate for impairment test purposes, specific peer group information for beta factors, capital structure data and for cost of debt are used. Periods not covered by the forecast are taken into account by recognizing a residual value (terminal value), which generally does not consider any growth rates. In addition, several sensitivity analyses are conducted. These show that even in case of more unfavorable premises for main influencing factors with respect to the original planning, no need for impairment exists. If value in use is lower than the carrying amount, fair value less costs to sell is additionally calculated to determine the recoverable amount.

An assessment for assets other than goodwill is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If this is the case, Daimler records a partial or entire reversal of the impairment; the carrying amount is thereby increased to its recoverable amount. However, the increased carrying amount may not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized in prior years.

Non-current assets held for sale and disposal groups. The Group classifies non-current assets or disposal groups as held for sale if the conditions of IFRS 5 Non-current assets held for sale and discontinued operations are fulfilled. In this case, the assets or disposal groups are no longer depreciated but measured at the lower of carrying amount and fair value less costs to sell. If fair value less costs to sell subsequently increases, any impairment loss previously recognized is reversed, this reversal is restricted to the impairment loss previously recognized for the assets or disposal group concerned. The Group generally discloses these assets or disposal groups separately in the statement of financial position.

Inventories. Inventories are measured at the lower of cost and net realizable value. The net realizable value is the estimated selling price less any remaining costs to sell. The cost of inventories is generally based on the specific identification method and includes costs incurred in acquiring the inventories and bringing them to their existing location and condition. Costs for large numbers of inventories that are interchangeable are allocated under the average cost formula. In the case of manufactured inventories and work in progress, cost also includes production overheads based on normal capacity.

Financial instruments. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments in the form of financial assets and financial liabilities are generally presented separately. Financial instruments are recognized as soon as Daimler becomes a party to the contractual provisions of the financial instrument.

Upon initial recognition, financial instruments are measured at fair value. For the purpose of subsequent measurement, financial instruments are allocated to one of the categories mentioned in IAS 39 Financial Instruments: Recognition and Measurement. Transaction costs directly attributable to acquisition or issuance are considered by determining the carrying amount if the financial instruments are not measured at fair value through profit or loss. If the transaction date and the settlement date (i.e. the date of delivery) differ, Daimler uses the transaction date for purposes of initial recognition or derecognition.

Financial assets. Financial assets primarily comprise receivables from financial services, trade receivables, receivables from banks, cash on hand, derivative financial assets and marketable securities and investments.

Financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss include those financial assets designated as held for trading.

Financial assets at fair value through profit or loss comprise derivatives, including embedded derivatives separated from the host contract, which are not classified as hedging instruments in hedge accounting. Shares and marketable debt securities acquired for the purpose of selling in the near term are classified as held for trading. Gains or losses on financial assets held for trading are recognized in profit or loss.

Loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, such as receivables from financial services or trade receivables. After initial recognition, loans and receivables are subsequently carried at amortized cost using the effective interest method less any impairment losses. Gains and losses are recognized in the statement of income when the loans and receivables are derecognized or impaired. Interest effects on the application of the effective interest method are also recognized in profit or loss.

Available-for-sale financial assets. Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or that are not classified in any of the preceding categories. This category includes equity instruments and debt instruments such as government bonds, corporate bonds and commercial paper.

After initial measurement, available-for-sale financial assets are measured at fair value, with unrealized gains or losses being recognized in other comprehensive income/loss. If objective evidence of impairment exists or if changes occur in the fair value of a debt instrument resulting from currency fluctuations, these changes are recognized in profit or loss. Upon disposal of financial assets, the accumulated gains and losses recognized in other comprehensive income/loss resulting from measurement at fair value are recognized in profit or loss. If a reliable estimate of the fair value of an unquoted equity instrument, such as an investment in a German limited liability company, cannot be made, this instrument is measured at cost (less any impairment losses). Interest earned on available-for-sale financial assets is generally reported as interest income using the effective interest method. Dividends are recognized in profit or loss when the right of payment has been established.

Cash and cash equivalents. Cash and cash equivalents consist primarily of cash on hand, checks and demand deposits at banks, as well as debt instruments and certificates of deposits with an original term of up to three months. Cash and cash equivalents correspond with the classification in the consolidated statement of cash flows.

Impairment of financial assets. At each reporting date, the carrying amounts of financial assets other than those to be measured at fair value through profit or loss are assessed to determine whether there is objective evidence of impairment. Objective evidence may exist for example if a debtor is facing serious financial difficulties or there is a substantial change in the debtor's technological, economic, legal or market environment. For quoted equity instruments, a significant or prolonged decline in fair value is additional objective evidence of possible impairment. Daimler has defined criteria for the significance and duration of a decline in fair value. A decline in fair value is deemed significant if it exceeds 20% of the carrying amount of the investment; a decline is deemed prolonged if the carrying amount exceeds the fair value for a period longer than nine months.

Loans and receivables. The amount of the impairment loss on loans and receivables is measured as the difference between the carrying amount of the asset and the present value of expected future cash flows (excluding expected future credit losses that have not been incurred), discounted at the original effective interest rate of the financial asset. The amount of the impairment loss is recognized in profit or loss.

If, in a subsequent reporting period, the amount of the impairment loss decreases and the decrease can be attributed objectively to an event occurring after the impairment was recognized, the impairment loss recorded in prior periods is reversed and recognized in profit or loss.

In most cases, an impairment loss on loans and receivables (e.g. receivables from financial services including finance lease receivables and trade receivables) is recorded using allowance accounts. The decision to account for credit risks using an allowance account or by directly reducing the receivable depends on the estimated probability of the loss of receivables. When receivables are assessed as uncollectible, the impaired asset is derecognized.

Available-for-sale financial assets. If an available-for-sale financial asset is impaired, the difference between its cost (net of any principal payment and amortization) and its current fair value (less any impairment loss previously recognized in the statement of income) is reclassified from other comprehensive income/loss to the statement of income. Reversals with respect to equity instruments classified as available for sale are recognized in other comprehensive income/loss. Reversals of impairment losses on debt instruments are reversed through the statement of income if the increase in fair value of the instrument can be objectively attributed to an event occurring after the impairment losses were recognized in the statement of income.

Financial liabilities. Financial liabilities primarily include trade payables, liabilities to banks, bonds, derivative financial liabilities and other liabilities.

Financial liabilities measured at amortized cost. After initial recognition, financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial liabilities at fair value through profit or loss. Financial liabilities at fair value through profit or loss include financial liabilities held for trading. Derivatives, including embedded derivatives separated from the host contract which are not used as hedging instruments in hedge accounting, are classified as held for trading. Gains or losses on liabilities held for trading are recognized in profit or loss.

Derivative financial instruments and hedge accounting. The Group uses derivative financial instruments exclusively for hedging of financial risks that arise from its commercial business or refinancing activities. These are mainly interest rate risks, currency risks and commodity price risks.

Embedded derivatives are separated from the host contract, which is not measured at fair value through profit or loss, if an analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

Derivative financial instruments are measured at fair value upon initial recognition and at each subsequent reporting date. The fair value of listed derivatives is equal to their positive or negative market value. If a market value is not available, fair value is calculated using standard financial valuation models such as discounted cash flow or option pricing models. Derivatives are presented as assets if their fair value is positive and as liabilities if the fair value is negative.

If the requirements for hedge accounting set out in IAS 39 are met, Daimler designates and documents the hedge relationship from the date a derivative contract is entered into as either a fair value hedge or a cash flow hedge. In a fair value hedge, the fair value of a recognized asset or liability or an unrecognized firm commitment is hedged. In a cash flow hedge, the variability of cash flows to be received or paid from expected transactions related to a recognized asset or liability or a highly probable forecast transaction are hedged. The documentation of the hedging relationship includes the objectives and strategy of risk management, the type of hedging relationship, the nature of risk being hedged, the identification of the hedging instrument and the hedged item, as well as a description of the method used to assess hedge effectiveness. The hedging transactions are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are regularly assessed to determine that they have actually been highly effective throughout the financial reporting periods for which they are designated.

Changes in the fair value of derivative financial instruments are recognized periodically in either profit or loss or other comprehensive income/loss, depending on whether the derivative is designated as a hedge of changes in fair value or cash flows. For fair value hedges, changes in the fair value of the hedged item and the derivative are recognized in profit or loss. For cash flow hedges, fair value changes in the effective portion of the hedging instrument are recognized in other comprehensive income/loss. Amounts recognized in other comprehensive income/loss are reclassified to the statement of income when the hedged transaction affects the statement of income. The ineffective portions of fair value changes are recognized in profit or loss.

If derivative financial instruments do not or no longer qualify for hedge accounting because the qualifying criteria for hedge accounting are not or are no longer met, the derivative financial instruments are classified as held for trading and are measured at fair value through profit or loss.

Pensions and similar obligations. The measurement of defined benefit plans for pensions and other post-employment benefits (medical care) in accordance with IAS 19 Employee Benefits is based on the projected unit credit method. For the valuation of defined post-employment benefit plans, differences between actuarial assumptions used and actual developments and changes in actuarial assumptions result in actuarial gains and losses, which generally have to be amortized in future periods in accordance with the corridor approach. This approach requires partial amortization of actuarial gains and losses in the following year with an effect on earnings if the unrecognized gains and losses exceed 10% of the greater of (1) the present value of the defined post-employment benefit obligation or (2) the fair value of the plan assets. In such cases, the amount of amortization recognized in profit or loss by the Group is the resulting excess divided by the average remaining service period of active employees expected to receive benefits under the plan.

Plan assets invested to cover defined pension benefit obligations and other post-employment benefit obligations (medical care) are measured at fair value and offset against the corresponding obligations. Plan assets are recognized in the consolidated statement of income with their expected returns with an effect on earnings (see also Note 22).

Expenses resulting from the compounding of pension benefit obligations and other post-employment benefit obligations as well as the expected returns on plan assets are presented within interest expense and interest income. The amortization of unrecognized actuarial gains and losses is also included in these line items. Other expenses resulting from providing pension benefits and other post-employment benefits are allocated to the functional costs in the consolidated statement of income. The discounting factors used to calculate the present values of defined benefit pension obligations are to be determined by reference to market yields at the end of the reporting period on high-quality corporate bonds in the respective markets. For long maturities, a significant reduction of the number of high-quality corporate bonds was to be observed. At December 31, 2012, selection criteria for the inclusion of high-quality corporate bonds with AA-rating were adjusted to increase the number of bonds included and to ensure reliable estimates of discounting factors in the future. For very long maturities, there are no high-quality corporate bonds as a benchmark available. The respective discounting factors are estimated by extrapolating current market rates along the yield curve. Due to the change in the method of determining the discounting factor, the pension benefit obligation decreased on December 31, 2012 by approximately €1.1 billion. There was no effect on the consolidated income statement. Effects on future periods are expected to be minor.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognized when the curtailment or settlement occurs.

Provisions for other risks and contingent liabilities. A provision is recognized when a liability to third parties has been incurred, an outflow of resources is probable and the amount of the obligation can be reasonably estimated. The amount recognized as a provision represents the best estimate of the obligation at the balance sheet date. Provisions with an original maturity of more than one year are discounted to the present value of the expenditures expected to settle the obligation at the end of the reporting period. Provisions are regularly reviewed and adjusted as further information becomes available or circumstances change.

The provision for expected warranty costs is recognized when a product is sold, upon lease inception, or when a new warranty program is initiated. Estimates for accrued warranty costs are primarily based on historical experience.

Daimler records the fair value of an asset retirement obligation from the period in which the obligation is incurred.

Restructuring provisions are set up in connection with programs that materially change the scope of business performed by a segment or business unit or the manner in which business is conducted. In most cases, restructuring expenses include termination benefits and compensation payments due to the termination of agreements with suppliers and dealers. Restructuring provisions are recognized when the Group has a detailed formal plan that has either commenced implementation or been announced.

Share-based payment. Share-based payment comprises cash-settled liability awards and equity-settled equity awards.

The fair value of equity awards is generally determined by using a modified Black-Scholes option pricing model at grant date and represents the total payment expense to be recognized during the service period with a corresponding increase in equity (paid-in capital).

Liability awards are measured at fair value at each balance sheet date until settlement and are classified as provisions. The expense of the period comprises the addition to and/or the reversal of the provision between two balance sheet dates and the dividend equivalent paid during the period, and is included in the functional costs.

Presentation in the consolidated statement of cash flows. Interest and taxes paid as well as interest and dividends received are classified as cash provided by/used for operating activities. Dividends paid are shown in cash provided by/used for financing activities.

2. Accounting estimates and assessments

In the consolidated financial statements, to a certain degree, estimates, assessments and assumptions have to be made which can affect the amounts and reporting of assets and liabilities, the reporting of contingent assets and liabilities on the balance sheet date and the amounts of income and expense reported for the period. The major items affected by such estimates, assessments and assumptions are described as follows. Actual amounts may differ from the estimates. Changes in the estimates, assessments and assumptions can have a material impact on the consolidated financial statements.

Recoverable amounts of cash-generating units and investments accounted for using the equity method. In the context of impairment tests for non-financial assets, estimates have to be made to determine the recoverable amounts of cash-generating units. Assumptions have to be made in particular with regard to future cash inflows and outflows for the planning period and the following periods. The estimates include assumptions regarding future market share and the growth of the respective markets as well as regarding the products' profitability. On the basis of the impairment tests carried out in 2012, the recoverable amounts are substantially larger than the net assets of the Group's cash-generating units.

When objective evidence of impairment is present, estimates and assessments also have to be made to determine the recoverable amount of an equity method financial investment. The determination of the recoverable amount is based on assumptions regarding future business developments for the determination of the expected future cash flows of that financial investment. See Note 13 for the presentation of carrying values and fair values of equity-method financial investments in listed companies.

Equipment on operating leases. Daimler regularly reviews the factors determining the values of its leased vehicles. In particular, it is necessary to estimate the residual values of vehicles at the end of their leases, which constitute a substantial part of the expected future cash flows from leased assets. In this context, assumptions have to be made regarding the future supply of and demand for vehicles, as well as the development of vehicle prices. Those assumptions are determined either by qualified estimates or by expertise provided by third parties; qualified estimates are based, as far as they are publicly available, on external data with consideration of internally available additional information such as historical experience of price developments and recent sale prices. The residual values thus determined serve as a basis for systematic depreciation; changes in residual values lead either to prospective adjustments to the systematic depreciation or, in the case of a significant drop in expected residual values, to impairment. If systematic depreciation is prospectively adjusted, changes in estimates of residual values do not have a direct effect but are equally distributed over the remaining periods of the lease contracts.

Collectability of receivables from financial services. The Group regularly estimates the risk of default on receivables from financial services. Many factors are taken into consideration in this context, including historical loss experience, the size and composition of certain portfolios, current economic events and conditions and the estimated fair values and adequacy of collateral. Changes in economic conditions can lead to changes in our customers' creditworthiness and to changes in used vehicle prices which would have a direct effect on the market values of the vehicles assigned as collateral. Changes to the estimation and assessment of these factors influence the allowance for credit losses with a resulting impact on the Group's net results. See also Notes 14 and 31 for further information.

Product warranties. The recognition and measurement of provisions for product warranties is generally connected with estimates.

The Group provides various types of product warranties depending on the type of product and market conditions. Provisions for product warranties are generally recognized when vehicles are sold, upon lease inception, or when new warranty programs are initiated. Based on historical warranty claim experience, assumptions have to be made on the type and extent of future warranty claims and customer goodwill, as well as on possible recall or buyback campaigns for each model series. In addition, the estimates also include assumptions on the amounts of potential repair costs per vehicle and the effects of possible time or mileage limits. The provisions are regularly adjusted to reflect new information.

Further information on provisions for other risks is provided in Note 23.

Legal proceedings. Various legal proceedings, claims and governmental investigations are pending against Daimler AG and its subsidiaries on a wide range of topics. Adverse decisions in one or more of those proceedings could require us to pay substantial compensatory and punitive damages or to undertake service actions, recall campaigns or other costly actions. Litigation and governmental investigations often involve complex legal issues and are connected with a high degree of uncertainty. Accordingly, the assessment of whether an obligation exists on the balance sheet date as a result of an event in the past, and whether a future cash outflow is likely and the obligation can be reliably estimated, largely depends on estimations by the management.

Daimler regularly evaluates the current stage of legal proceedings, also with the involvement of external legal counsel. It is therefore possible that the amounts of the provisions for pending or potential litigation will have to be adjusted due to future developments. Changes in estimates and premises can have a material effect on the Group's future profitability. The end of a legal dispute can result in Daimler having to make payments in excess of the provisions recognized for that purpose. It is also possible that the outcome of individual cases for which no provisions could be recognized might force the Group to make payments whose amounts or range of amounts could not be reliably estimated at December 31, 2012. Although the final outcome of such cases can have a material effect on Daimler's earnings or cash flows in a certain reporting period, in our assessment, any such resulting obligations will not have a sustained impact on the Group's financial position. Further information on legal proceedings is provided in Note 28.

Pension obligations. To calculate the present values of defined benefit pension obligations, it is necessary among other things to determine discounting factors. Discounting factors are to be determined by reference to market yields at the end of the reporting period on high-quality corporate bonds in the respective markets. A change in the discount rate by plus or minus 0.25% would result in a reduction or an increase of €0.8 billion or €0.8 billion in the present value of the defined benefit obligation for pensions of the major German companies. In addition, at the beginning of the financial year, Daimler has to estimate the expected returns on plan assets on the basis of market expectations for the types of investment included in the plan assets. The level of the discount rate has a material effect on the funded status of the pension plans. Furthermore, the discounting factors and the expected return on plan assets have a significant effect on net periodic pension costs. Due to the use of the corridor method, changes in the assumptions as well as deviations of actual developments compared to assumptions made will not directly affect the consolidated statement of financial position or the consolidated statement of income. Starting with the year 2013, however, these effects will be reflected directly in the consolidated statement of financial position and accordingly in the consolidated statement of comprehensive income. Further information in this context is provided in Notes 1 and 22.

Income taxes. The calculation of income taxes of Daimler AG and its subsidiaries is based on the legislation and regulations applicable in the various countries. Due to their complexity, the tax items presented in the financial statements are possibly subject to different interpretation by taxpayers on the one hand and local tax authorities on the other. For the calculation of deferred tax assets, assumptions have to be made regarding future taxable income and the time of realization of the deferred tax assets. In this context, we take into consideration, among other things, the projected earnings from business operations, the effects on earnings of the reversal of taxable temporary differences, and realizable tax strategies. As future business developments are uncertain and are sometimes beyond Daimler's control, the assumptions to be made in connection with accounting for deferred tax assets are connected with a substantial degree of uncertainty. On each balance sheet date, Daimler carries out impairment tests on deferred tax assets on the basis of the planned taxable income in future financial years; if Daimler assesses that the probability of future tax advantages being partially or fully unrealized is more than 50%, the deferred tax assets are impaired. Further information is provided in Note 9.

3. Significant acquisitions and dispositions of interests in companies and of other assets and liabilities

Significant acquisitions and dispositions of interests in companies and of other assets and liabilities in 2012 and 2011 especially relate to the investments in European Aeronautic Defence and Space Company EADS N.V., in Engine Holding GmbH and Tognum AG, and in Beijing Foton Daimler Automotive Co. Ltd. Information on these transactions is provided in Note 13.

MBtech Group. On December 7, 2011, Daimler and AKKA Technologies SA signed a contract on the sale of a 65% interest in the Daimler subsidiary MBtech Group GmbH & Co. KGaA (MBtech Group). The transaction was concluded on April 12, 2012 and resulted in a cash inflow of €48 million and a gain before income taxes of €10 million in 2012. These amounts are primarily allocated to the Mercedes-Benz Cars segment. Since conclusion of the transaction, the remaining equity interest in MBtech Group is accounted for using the equity method. The assets and liabilities of MBtech Group amounted to €85 million and €78 million as of the closing of the transaction (December 31, 2011: €90 million and €78 million); in the total amount of assets, €8 million of cash and cash equivalents are included. Due to the minor significance for the Daimler Group's financial position, cash flows and profitability, the disposal of these assets and liabilities is not presented separately in the consolidated statement of financial position for the year 2011.

4. Revenue

Table ↗ 7.09 shows the composition of revenue at Group level.

Revenue by segment ↗ 7.86 and region ↗ 7.88 is presented in Note 32.

5. Functional costs

Cost of sales. Items included in cost of sales are shown in table ↗ 7.10.

Selling expenses. In 2012, selling expenses amounted to €10,451 million (2011: €9,824 million). Selling expenses include direct selling costs as well as selling overhead expenses and consist of personnel expenses, material costs and other selling costs.

General administrative expenses. General administrative expenses amounted to €3,973 million in 2012 (2011: €3,855 million) and comprise expenses which were not attributable to production, sales, research and development functions, including personnel expenses, depreciation and amortization on fixed and intangible assets, and other administrative costs.

Research and non-capitalized development costs. Research- and non-capitalized development costs were €4,179 million in 2012 (2011: €4,174 million) and primarily comprise personnel expenses and material costs.

Amortization expense of capitalized development costs is recognized in cost of sales and amounted to €982 million in 2012 (2011: €829 million).

Optimization programs. Measures and programs with implementation costs that materially impacted EBIT of the segments are briefly described below:

Daimler Buses. Daimler Buses decided in the first quarter of 2012 to restructure some sections of its business system. The first step is to define measures to improve efficiency and generate growth in order to increase the market shares of buses in Western Europe, to adapt the product portfolios to changed market requirements and to reduce cost positions. Among other things, the production network will also be optimized. In March 2012, the Board of Management announced the reduction of up to 10% of the workforce of EvoBus GmbH and of some subsidiaries in Western Europe. This headcount reduction is to be solely achieved by means of socially acceptable measures. Furthermore, in the second quarter of 2012, the Board of Management decided to restructure the activities of Daimler Buses in North America. In this context, Daimler Buses sold the assets related to Setra to Motor Coach Industries International Inc. (MCI). MCI has taken over the general distribution of the Setra coach models S 407 and S 417 in the North American Market and Daimler Buses has received a share of 10% of the equity of MCI. Due to the decreasing investment volumes of public transportation companies, the ongoing reduced demand for city buses and the negative outlook, Daimler

7.09
Revenue

In millions of euros	2012	2011
Sales of goods	100,531	94,274
Rental and leasing business	10,166	9,014
Interest from the financial services business at Daimler Financial Services	3,224	2,893
Sales of other services	376	359
	114,297	106,540

7.10
Cost of sales

In millions of euros	2012	2011
Expense of goods sold	-80,580	-73,335
Depreciation of equipment on operating leases	-3,813	-3,370
Refinancing costs at Daimler Financial Services	-1,861	-1,849
Impairment losses on receivables from financial services	-390	-417
Other cost of sales	-2,140	-2,052
	-88,784	-81,023

7.11

Expenses and income associated with the optimization programs

	2012	2011
In millions of euros		
Cost of sales	-72	–
Selling expenses	-30	–
General administrative expenses	-17	–
Research and non-capitalized development costs	-19	–
Other operating expenses	-17	–
	-155	–

7.12

Personnel expenses and number of employees

	2012	2011
In millions of euros and number of people employed		
Personnel expenses	-17,970	-17,424
Average number of people employed		
Mercedes-Benz Cars	98,218	97,542
Daimler Trucks	80,503	76,039
Mercedes-Benz Vans	14,904	14,740
Daimler Buses	17,186	17,199
Daimler Financial Services	7,526	6,865
Sales and Marketing	50,154	49,240
Other	6,114	5,649
	274,605	267,274

Buses decided to discontinue the production of Orion city buses in the United States and Canada. For the buses already delivered, Daimler Buses will continue the aftersales and maintenance services in the future. These restructuring measures led to a staff reduction of 814 people in the United States and Canada.

Expenses recorded in 2012 for these measures amounted to €155 million.

These expenses primarily relate to personnel measures and are included in the line items within the consolidated statement of income as shown in table ↗ 7.11.

The measures initiated resulted in cash outflows of €28 million in 2012. The provisions recognized for these measures amounted to €77 million as of December 31, 2012.

Daimler Financial Services. In May 2010, the Board of Management decided to restructure the business activities of Daimler Financial Services AG and Mercedes-Benz Bank AG by the end of 2012. Among other effects, this repositioning will result in streamlined structures and harmonized processes. In 2012, cash outflows of €30 million resulted from these original measures (2011: €25 million). The provisions recognized for this program amounted to €22 million as of December 31, 2012 (2011: €56 million). Furthermore, ongoing expenses and income affected earnings in 2012 and in the previous year.

Cash outflows resulting from the optimization programs at Daimler Buses and Daimler Financial Services are expected until the end of 2017.

Personnel expenses and number of employees. Personnel expenses included in the consolidated statement of income as well as the average numbers of people employed are included in table ↗ 7.12.

Information on the remuneration of the current and former members of the Board of Management and the current members of the Supervisory Board is included in Note 36.

6. Other operating income and expense

For the composition of other operating income see table ↗ 7.13.

Other miscellaneous income includes income from services recharged to unrelated parties, reimbursements of non-income related taxes, income from employee canteens and other miscellaneous items.

Government grants and subsidies mainly comprise reimbursements relating to current partial retirement contracts and subsidies for alternative drive systems.

In 2011, other operating income included reimbursements under insurance policies relating to the natural disaster in Japan.

For the composition of other operating expense, see table ↗ 7.14.

Other miscellaneous expense includes losses from sales of current assets, changes in other provisions partially in connection with legal proceedings, and other miscellaneous items.

7. Other financial income/expense, net

In 2011, an impairment of €110 million of the equity interest in Renault SA is included in miscellaneous other financial income/expense, net.

8. Interest income and interest expense

Table ↗ 7.16 shows the components of interest income and interest expense

7.13
Other operating income

In millions of euros	2012	2011
Gains on sales of property, plant and equipment	122	115
Government grants and subsidies	90	108
Reimbursements under insurance policies	44	133
Rental income, other than income relating to financial services	44	41
Other miscellaneous income	1,207	984
	1,507	1,381

7.14
Other operating expense

In millions of euros	2012	2011
Loss on sales of property, plant and equipment	-67	-66
Other miscellaneous expense	-224	-289
	-291	-355

7.15
Other financial income/expense, net

In millions of euros	2012	2011
Expense from compounding of provisions and effects of changes in discount rates[1]	-543	-225
Miscellaneous other financial income/expense, net	42	17
	-501	-208

1 Excluding the expense from compounding provisions for pensions and similar obligations.

7.16
Interest income and interest expense

In millions of euros	2012	2011
Interest income		
Expected return on pension and other post-employment benefit plan assets	602	670
Interest and similar income	226	285
	828	955
Interest expense		
Interest cost for pension and other post-employment benefit plans	-1,134	-1,029
Interest and similar expense	-591	-232
	-1,725	-1,261

7.17

Profit before income taxes

In millions of euros	2012	2011
German companies	3,399	3,976
Non-German companies	4,319	4,473
	7,718	8,449

7.18

Components of income taxes

In millions of euros	2012	2011
Current taxes		
German companies	353	-731
Non-German companies	-540	-1,213
Deferred taxes		
German companies	-458	-468
Non-German companies	-578	-8
	-1,223	-2,420

7.19

Components of deferred tax expense

In millions of euros	2012	2011
Deferred taxes	-1,036	-476
due to temporary differences	-2,831	160
due to tax loss carryforwards and tax credits	1,795	-636

7.20

Reconciliation of expected income tax expense to actual income tax

In millions of euros	2012	2011
Expected income tax expense	-2,302	-2,520
Foreign tax rate differential	-127	-71
Trade tax rate differential	12	32
Tax law changes	-13	-35
Change of valuation allowance on deferred tax assets	283	182
Tax-free income and non-deductible expenses	945	56
Other	-21	-64
Actual income tax expense	-1,223	-2,420

9. Income taxes

Profit before income taxes is comprised as shown in table ↗ 7.17.

Profit before income taxes in Germany includes the income/loss from investments accounted for using the equity method if the shares of those companies are held by German companies.

Table ↗ 7.18 shows the components of income taxes.

The current tax expense includes tax benefits at German and foreign companies of €1,164 million (2011: €469 million) recognized for prior periods.

The deferred tax expense is comprised of the components in table ↗ 7.19.

For German companies, in 2012 and 2011, deferred taxes were calculated using a federal corporate tax rate of 15%, a solidarity tax surcharge of 5.5% on each year's federal corporate taxes, plus a trade tax of 14%. In total, the tax rate applied for the calculation of German deferred taxes in both years amounted to 29.825%. For non-German companies, the deferred taxes at period-end were calculated using the tax rates of the respective countries.

Table ↗ 7.20 includes a reconciliation of expected income tax expense to actual income tax expense determined using the applicable German combined statutory rate of 29.825% (2011: 29.825%).

In 2012 and 2011, the Group released valuation allowances on deferred tax assets of foreign subsidiaries. The resulting tax benefits are included in the line “Change of valuation allowance on deferred tax assets.”

Tax-free income and non-deductible expenses include all other effects at foreign and German companies relating to tax-free income and non-deductible expenses, for instance tax-free gains included in net periodic pension costs at the German companies and tax-free results of our equity method investments. Moreover in 2012, the line also includes tax free gains realized on the sale of EADS shares and tax benefits relating to tax assessments for prior years.

Deferred tax assets and deferred tax liabilities are offset if the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority and if there is the right to set off current tax assets against current tax liabilities. In the statement of financial position, the deferred tax assets and liabilities are presented as shown in table ↗ 7.21.

In respect of each type of temporary difference and in respect of each type of unutilized tax losses and unutilized tax credits, the deferred tax assets and liabilities before offset are summarized in table ↗ 7.22.

7.21
Deferred tax assets and liabilities

	2012	2011
In millions of euros		
Deferred tax assets	2,274	2,772
Deferred tax liabilities	-1,979	-1,081
Deferred tax assets, net	295	1,691

7.22
Split of tax assets and liabilities before offset

	At December 31, 2012	2011
In millions of euros		
Intangible assets	40	49
Property, plant and equipment	288	453
Equipment on operating leases	1,122	819
Inventories	729	762
Investments accounted for using the equity method	23	26
Receivables from financial services	280	209
Other financial assets	3,199	3,803
Tax loss and tax credit carryforwards	4,718	4,102
Provisions for pensions and similar obligations	601	642
Other provisions	1,865	2,043
Liabilities	1,402	1,543
Deferred income	836	1,011
Other	280	111
	15,383	15,573
Valuation allowances	-2,288	-3,516
Deferred tax assets, gross	13,095	12,057
Development costs	-2,141	-1,992
Other intangible assets	-135	-100
Property, plant and equipment	-1,301	-1,192
Equipment on operating leases	-4,294	-1,934
Inventories	-50	-53
Receivables from financial services	-672	-656
Other financial assets	-172	-169
Other assets	-125	-344
Provisions for pensions and similar obligations	-3,548	-3,458
Other provisions	-123	-202
Other	-239	-266
Deferred tax liabilities, gross	-12,800	-10,366
Deferred tax assets, net	295	1,691

In 2012, the development of deferred tax assets, net, is shown in table ↗ 7.23.

Including the items recognized in other comprehensive income/loss (including items from investments accounted for using the equity method), the expense for income taxes is composed as shown in table ↗ 7.24.

In the statement of financial position, the valuation allowances on deferred tax assets, which are mainly attributable to foreign companies, decreased by €1,228 million compared to December 31, 2011. On the one hand, this is a result of the reversal of valuation allowances of €283 million recorded in net profit. On the other hand, the capital losses resulting from the sale of the former investment in Chrysler were reduced. The deferred tax assets on those capital losses were in the past completely offset by a valuation allowance because the losses have a limited carryforward period and can only be offset by gains on disposal of capital. Additionally, a decrease of the valuation allowance was recognized in equity due to the expiration of tax losses which were already adjusted by a valuation allowance at December 31, 2011 and due to translation effects.

7.23
Change of deferred tax assets, net

	2012	2011
In millions of euros		
Deferred tax assets, net as of January 1	1,691	1,938
Deferred tax expense	-1,036	-476
Change in deferred tax expense/benefit on financial assets available-for-sale included in other comprehensive income/loss	.	-3
Change in deferred tax expense/benefit on derivative financial instruments included in other comprehensive income/loss	-287	173
Income tax expense for deduction in excess of compensation expense for equity-settled employee stock option plans	–	-1
Other changes[1]	-73	60
Deferred tax assets, net as of December 31	295	1,691

1 Primarily effects from currency translation.

7.24
Tax expense in equity

	2012	2011
In millions of euros		
Income tax expense	-1,223	-2,420
Income tax expense (benefit) recorded in other reserves	-309	205
Income tax expense for deduction in excess of remuneration expense for equity-settled employee stock option plans	–	-1
	-1,532	-2,216

At December 31, 2012, the valuation allowance on deferred tax assets relates, among other things, to tax loss carryforwards in connection with capital losses (€1,119 million), corporate income tax loss carryforwards (€530 million) and tax credits (€15 million). The deferred tax assets on loss carryforwards connected with capital losses were reduced to zero by valuation allowances because the carryforward periods of those losses are limited and can only be utilized with future capital gains. These are not expected to occur in the coming years. Of the total amount of deferred tax assets adjusted by valuation allowances, deferred tax assets in connection with capital losses amounting to €740 million expire in 2014, €98 million expire in 2015 and €281 million expire in 2016. Deferred tax assets for corporate income tax loss carryforwards amounting to €158 million expire in 2013, €5 million expire at various dates from 2015 through 2017, €244 million expire at various dates from 2018 through 2032 and €123 million can be carried forward indefinitely. Of the deferred tax assets for tax credit carryforwards adjusted by a valuation allowance, €7 million expire at various dates from 2013 through 2017 and €8 million expire at various dates from 2018 through 2032. Furthermore, the valuation allowance primarily relates to temporary differences and net operating losses for state and local taxes at the US companies. Daimler believes that it is more likely than not that those deferred tax assets cannot be utilized. In 2012 and prior years, the Group had tax losses at several subsidiaries in several countries. After offsetting the deferred tax assets with deferred tax liabilities, the deferred tax assets not subject to valuation allowances amounted to €270 million for those foreign subsidiaries. Daimler believes it is more likely than not that due to future taxable income, deferred tax assets which are not subject to valuation allowances can be utilized. In future periods, Daimler's estimate of the amount of deferred tax assets that is considered realizable may change, and hence the valuation allowances may increase or decrease.

The Group did not recognize deferred tax liabilities on retained earnings of non-German subsidiaries of €16,106 million (2011: €14,539 million) because these earnings are intended to be permanently reinvested in those operations. If the dividends are paid out an amount of 5% of the dividends will be taxed under the German taxation rules and, if applicable, with non-German withholding tax. Additionally, income tax consequences could arise if the dividends first had to be distributed by a non-German subsidiary to a non-German holding company. Normally, the distribution would lead to an additional income tax expense. It is not practicable to estimate the amount of taxable temporary differences for these undistributed foreign earnings.

The Group has various unresolved issues concerning open income tax years with the tax authorities in a number of jurisdictions. Daimler believes that it has recognized adequate provisions for any future income taxes that may be owed for all open tax years.

10. Intangible assets

Intangible assets developed as shown in table ↗ 7.25.

At December 31, 2012, goodwill of €429 million (2011: €435 million) relates to the Daimler Trucks segment and €197 million (2011: €197 million) relates to the Mercedes-Benz Cars segment.

Non-amortizable intangible assets primarily relate to goodwill and development costs for projects which have not yet been completed (carrying amount at December 31, 2012: €3,037 million; carrying amount at December 31, 2011: €2,402 million). In addition, other intangible assets with a carrying amount at December 31, 2012 of €155 million (2011: €173 million) are not amortizable. Other non-amortizable intangible assets mainly comprise trademarks, which relate to the Daimler Trucks segment and can be utilized without restrictions. The Group plans to continue to use these trademarks unchanged.

7.25
Intangible assets

	Goodwill (acquired)	Development costs (internally generated)	Other intangible assets (acquired)	Total
In millions of euros				
Acquisition or manufacturing costs				
Balance at January 1, 2011	934	9,184	2,156	12,274
Additions due to business combinations	–	–	–	–
Other additions	–	1,480	258	1,738
Reclassifications	–	–	–	–
Disposals	–	-249	-65	-314
Other changes[1]	80	11	52	143
Balance at December 31, 2011	1,014	10,426	2,401	13,841
Additions due to business combinations	–	–	–	–
Other additions	–	1,486	364	1,850
Reclassifications	–	–	–	–
Disposals	–	-568	-72	-640
Other changes[1]	-12	-25	-84	-121
Balance at December 31, 2012	1,002	11,319	2,609	14,930
Amortization				
Balance at January 1, 2011	205	3,175	1,390	4,770
Additions	–	829	174	1,003
Reclassifications	–	–	–	–
Disposals	–	-249	-62	-311
Other changes[1]	73	12	35	120
Balance at December 31, 2011	278	3,767	1,537	5,582
Additions	–	982	198	1,180
Reclassifications	–	–	–	–
Disposals	–	-565	-68	-633
Other changes[1]	-5	-25	-54	-84
Balance at December 31, 2012	273	4,159	1,613	6,045
Carrying amount at December 31, 2011	736	6,659	864	8,259
Carrying amount at December 31, 2012	729	7,160	996	8,885

1 Primarily changes from currency translation.

7.26

Amortization expense for intangible assets in the consolidated statement of income

	2012	2011
In millions of euros		
Cost of sales	1,117	935
Selling expenses	32	31
General administrative expenses	26	32
Research and non-capitalized development costs	5	5
	1,180	1,003

7.27

Property, plant and equipment

	Land, leasehold improvements and buildings including buildings on land owned by others	Technical equipment and machinery	Other equipment, factory and office equipment	Advance payments relating to plant and equipment and construction in progress	Total
In millions of euros					
Acquisition or manufacturing costs					
Balance at January 1, 2011	14,065	19,119	17,492	1,960	52,636
Additions due to business combinations	–	–	–	–	–
Other additions	313	906	1,411	1,589	4,219
Reclassifications	417	611	564	-1,592	–
Disposals	-176	-574	-556	-33	-1,339
Other changes[1]	133	8	90	-26	205
Balance at December 31, 2011	14,752	20,070	19,001	1,898	55,721
Additions due to business combinations	–	–	–	–	–
Other additions	312	944	1,656	1,913	4,825
Reclassifications	232	728	520	-1,480	-
Disposals	-267	-784	-640	-18	-1,709
Other changes[1]	-217	-198	-289	-53	-757
Balance at December 31, 2012	14,812	20,760	20,248	2,260	58,080
Depreciation					
Balance at January 1, 2011	7,666	13,858	13,513	6	35,043
Additions	277	842	1,453	–	2,572
Reclassifications	-1	1	-1	1	–
Disposals	-105	-542	-488	-5	-1,140
Other changes[1]	21	-11	57	-1	66
Balance at December 31, 2011	7,858	14,148	14,534	1	36,541
Additions	291	955	1,641	–	2,887
Reclassifications	1	1	-2	–	–
Disposals	-228	-744	-565	–	-1,537
Other changes[1]	-83	-123	-204	–	-410
Balance at December 31, 2012	7,839	14,237	15,404	1	37,481
Carrying amount at December 31, 2011	6,894	5,922	4,467	1,897	19,180
Carrying amount at December 31, 2012	6,973	6,523	4,844	2,259	20,599

1 Primarily changes from currency translation.

Table ↗ 7.26 shows the line items of the consolidated statement of income in which total amortization expense for intangible assets is included.

Intangible assets include capitalized borrowing costs on qualified assets according to IAS 23 which related only to capitalized development costs. In 2012, borrowing costs in the amount of €21 million (2011: €20 million) were capitalized. The base for the calculation of borrowing costs was an average cost of debt of 1.5% (2011: 2.8%).

11. Property, plant and equipment

Property, plant and equipment developed as shown in table ↗ 7.27.

In 2012, government grants of €75 million (2011: €57 million) were deducted from property, plant and equipment.

Property, plant and equipment include buildings, technical equipment and other equipment capitalized under finance lease arrangements with a carrying amount of €348 million (2011: €443 million). In 2012, additions to and depreciation expense on assets under finance lease arrangements amounted to €33 million (2011: €58 million) and €93 million (2011: €83 million), respectively.

12. Equipment on operating leases

The development of equipment on operating leases is included in table ↗ 7.28.

As of December 31, 2012, equipment on operating leases with a carrying amount of €3,803 million is pledged as security for liabilities from ABS transactions related to a securitization transaction of future lease payments on operating leases and related vehicles (December 31, 2011: €2,086 million) (see also Note 24).

Minimum lease payments. Non-cancelable future lease payments to Daimler for equipment on operating leases are due as presented in table ↗ 7.29.

7.28
Equipment on operating leases

In millions of euros	
Acquisition or manufacturing costs	
Balance at January 1, 2011	25,683
Additions due to business combinations	–
Other additions	12,687
Reclassifications	–
Disposals	-9,904
Other changes[1]	404
Balance at December 31, 2011	28,870
Additions due to business combinations	–
Other additions	14,700
Reclassifications	–
Disposals	-10,742
Other changes[1]	-22
Balance at December 31, 2012	**32,806**
Depreciation	
Balance at January 1, 2011	5,758
Additions	3,370
Reclassifications	–
Disposals	-3,123
Other changes[1]	54
Balance at December 31, 2011	6,059
Additions	3,813
Reclassifications	–
Disposals	-3,161
Other changes[1]	37
Balance at December 31, 2012	**6,748**
Carrying amount at December 31, 2011	22,811
Carrying amount at December 31, 2012	**26,058**

1 Primarily changes from currency translation.

7.29
Maturity of minimum lease payments for equipment on operating leases

	At December 31, 2012	2011
In millions of euros		
Maturity		
within one year	4,391	4,134
between one and five years	4,913	4,565
later than 5 years	156	154
	9,460	8,853

13. Investments accounted for using the equity method

Table ↗ 7.30 contains key financial figures of investments accounted for using the equity method.

Table ↗ 7.31 presents summarized IFRS financial information on investments accounted for using the equity method, which was the basis for applying the equity method in the Group's consolidated financial statements.

EADS. The Group reports its investment in and its proportionate share in the results of the European Aeronautic Defence and Space Company EADS N.V. (EADS) in the reconciliation of total segments' assets to Group assets and total segments' EBIT to Group EBIT, respectively, in the segment reporting. Daimler includes its investment and its proportionate share in the results of EADS with a time lag of three months in the consolidated financial statements.

At December 6, 2012, Daimler sold a 7.5% share in EADS by way of an accelerated book building. The share price was fixed at €27.23, which reflected the final share price at December 5, 2012 at the Paris Stock exchange. Daimler realized a cash inflow of approximately €1.7 billion. The sale resulted in a pre-tax gain of €709 million, included in the equity result. Since the transaction, Daimler holds a 14.9% equity interest in EADS. Because of the agreed participation rights on the Supervisory Board, Daimler may continue to exercise significant influence on EADS.

In 2007, a subsidiary of Daimler which holds Daimler's 14.9% (2011: 22.5%) interest in EADS issued equity interests to investors in exchange for cash. As a result of this transaction, the Group reports a non-controlling interest in its consolidated statement of financial position representing the investor's ownership in the consolidated subsidiary that issued the equity interest. The amount reported as non-controlling interest reflects the investor's 50% (2011: 33%) share in the net assets of that subsidiary.

Engine Holding/Tognum. Daimler AG and Rolls-Royce Holdings plc (Rolls-Royce) received all the relevant regulatory approvals for the acquisition of Tognum AG (Tognum) on August 25, 2011. The public tender offer by Engine Holding GmbH (Engine Holding) was concluded in September 2011. As of September 30, 2011, the assets of Engine Holding consisted almost solely of an equity interest in Tognum of approximately 98%. Through the 50% equity interest in Engine Holding therefore, approximately 49% of Tognum's shares are to be allocated to Daimler. Before making the voluntary public tender offer for Tognum together with Rolls-Royce, Daimler held 28.4% of Tognum's shares.

Daimler's participation in the public tender offer by Engine Holding – with regard to the existing 28.4% equity interest in Tognum – has been accounted for with no effect on profit and loss. From an economic perspective, Daimler has transferred the Tognum shares it already held to Engine Holding in return for an indirect holding in Tognum of similar nature and value. With the granting of all regulatory approvals, Daimler indirectly acquired another 20.5% of Tognum's shares in the third quarter of 2011; in this context, Daimler had a cash outflow of €0.7 billion in the third quarter of 2011.

In the context of this transaction, Rolls-Royce received without further financial compensation additional rights from Daimler which led to Engine Holding becoming a subsidiary company of the Rolls-Royce Group on January 1, 2013, after the control and profit transfer agreement between Engine Holding and Tognum came into effect.

In return, Rolls-Royce has granted Daimler the right to exercise a put option on the shares it holds in Engine Holding at a price which generally hedges Daimler's investment in Engine Holding. Starting on January 1, 2013, the put option has a duration of six years. Part of the cost for the indirect acquisition of shares in Tognum, which also includes a premium for the control of Tognum, has been allocated to this option. The initial measurement of this option resulted in a fair value of €171 million. The option has been recognized as an asset which is to be measured at fair value through profit or loss in the following periods. The carrying amount of this option and future changes in its fair value are recognized in segment reporting as corporate items in the reconciliation to Group figures.

On December 31, 2012, the value of this option was €178 million (2011: €177 million). The change in the fair value of the option during 2012 resulted in a gain of €1 million (2011: €6 million) which is recognized in other financial income/expense, net.

In the first half of 2012, the contribution by Rolls-Royce to Engine Holding of the reciprocating engine business that trades under the Bergen brand was completed. As compensation for the 50%-stake, Daimler made a cash contribution of €200 million to Engine Holding.

On September 25, 2012, the dependent company Tognum and the controlling company Engine Holding concluded a control and profit transfer agreement, resulting in Tognum subordinating the management of its company under the control of Engine Holding and committing to transfer its total profit to Engine Holding. The obligation to transfer profits is applicable for the first time for the entire profit of the financial year 2012, in which the agreement became effective.

On November 15, 2012, Tognum's shareholders' meeting approved the agreement and the approval become legally valid upon being entered in the commercial register in December 2012. Under the provisions of this agreement outside shareholders of Tognum can exchange their shares for a cash compensation amounting to €26.46 per Tognum share within an acceptance period. Those outside shareholders, who do not wish to accept this compensation offer, are entitled to a recurring monetary payment amounting to gross €1.85 per Tognum share that is due after the Annual General Meeting of Tognum. A court proceeding (Spruchstellenverfahren) has been initiated against Engine Holding requesting that the amount offered as cash compensation and as recurring monetary payment shall be reviewed by the court.

The squeeze-out procedure initiated in 2011 has not been finally decided upon.

As of January 1, 2013, Rolls-Royce controls Engine Holding after the control and profit transfer agreement entered into effect. Daimler continues to exercise significant influence on Tognum through its equity interest in Engine Holding.

With the completion of the public tender offer, the management of the Daimler Trucks segment assumed control of Daimler's equity interest in Engine Holding. Engine Holding was therefore allocated to the Daimler Trucks segment as of September 30, 2011. As a result, our equity interest in Tognum and our proportionate share of Tognum's profit or loss, which were previously presented in segment reporting in the reconciliation from the segments to the Group, are now also allocated to the Daimler Trucks segment.

7.30

Key financial figures of investments accounted for using the equity method

	EADS	Engine Holding	Tognum	BBAC	BFDA	Kamaz	Others[1]	Total
Amounts in millions of euros								
December 31, 2012								
Equity interest (in %)	14.9	50.0	–	50.0	50.0	15.0	–	–
Market value (based on listed share prices)[2]	3,606	–	–	–	–	99	–	–
Equity investment[3]	1,781	1,498	–	510	328	165	364	4,646
Equity result (2012)[3]	1,016	51	–	101	-13	22	-187	990
December 31, 2011								
Equity interest (in %)	22.5	50.0	–	50.0	50.0	15.0	–	–
Market value (based on listed share prices)[2]	4,428	–	–	–	–	89	–	–
Equity investment[3]	2,475	1,255	–	339	–	139	453	4,661
Equity result (2011)[3]	143	7	28	142	–	-35	-12	273

1 Also including joint ventures accounted for using the equity method.
2 Proportionate market values.
3 Including investor-level adjustments.

7.31

Summarized IFRS financial information on investments accounted for using the equity method

	EADS	Engine Holding	BBAC	BFDA	Kamaz	Others[1]	Total
In millions of euros							
Income statement information[2]							
2012							
Sales	53,680	3,015	3,670	376	3,062	5,269	69,072
Net profit/loss	1,475	54	232	-26	151	-325	1,561
2011							
Sales	46,871	1,132	3,202	–	2,291	4,194	57,690
Net profit/loss	710	-45	382	–	-1	-54	992
Balance sheet information[3]							
2012							
Total assets	86,151	6,058	3,035	1,951	1,902	4,371	103,468
Equity	11,850	3,562	1,105	656	895	899	18,967
Liabilities	74,301	2,496	1,930	1,295	1,007	3,472	84,501
2011							
Total assets	83,895	5,648	2,855	–	1,875	3,524	97,797
Equity	10,888	2,865	733	–	718	1,153	16,357
Liabilities	73,007	2,783	2,122	–	1,157	2,371	81,440

1 Also including joint ventures accounted for using the equity method.
2 Figures of EADS, BFDA and Kamaz relate to the period from October 1 to September 30. Figures of BBAC relate to the period from January 1 to December 31. Figures of Engine Holding relate for the year 2011 to the period from entry in the commercial register (March 4) to December 31; for the year 2012 to the period from January 1 to December 31.
3 Figures of EADS, BFDA and Kamaz as of September 30. Figures of BBAC and Engine Holding as of December 31.

BBAC. The investment and the proportionate share in the results of Beijing Benz Automotive Co., Ltd. (BBAC) are allocated to the Mercedes-Benz Cars segment.

BFDA. Beijing Foton Daimler Automotive Co. Ltd. was founded in December 2011 as a joint venture. In 2012, a capital contribution of €344 million was made. The investment and the proportionate share in the results of BFDA are included with a time lag of three months in the consolidated financial statements and are allocated to the Daimler Trucks segment.

Kamaz. Resulting from its representation on the board of directors of Kamaz OAO (Kamaz) and its significant contractual rights under the terms of a shareholder agreement, the Group can exercise significant influence on Kamaz. Therefore, the Group accounts for its equity interest in Kamaz using the equity method; the investment and the proportionate share in the results of Kamaz are allocated to the Daimler Trucks segment. In 2012, the three-month time lag in the reporting of Kamaz was abolished. The effect of this adjustment on the consolidated financial statements was not significant.

In 2011, the Group recorded an impairment loss of €32 million with respect to its investment in Kamaz. The loss is included in the equity result of Kamaz. The impairment is based on Kamaz's expectation of reduced cash inflows.

Others. The Group's investment in Fujian Benz Automotive Co., Ltd. (FBAC) is included in other investments and is allocated to the Mercedes-Benz Vans segment. In 2012, the Group recorded an impairment loss of €64 million with respect to its investment in FBAC. The loss is included in the equity result. The impairment is based on FBAC's expectation of reduced cash inflows.

Moreover, the investment in Li-Tec Battery GmbH is reported within other investments. In 2012, expenses of €83 million resulted from this investment and are included in equity result. The investment is allocated to the Mercedes-Benz Cars segment.

The Group's investment in Tesla Motors, Inc. (Tesla) is also included in other investments. The shares in Tesla are held by a 100%-consolidated Daimler subsidiary. At December 31, 2011, Daimler held 60% and Aabar Investments PJSC (Aabar) held 40% of that subsidiary. In June 2012, Aabar exchanged its 40% interest in the holding subsidiary for 3.2% of Tesla's shares. In October 2012, Tesla issued approximately 8 million new shares in the context of a capital increase in which Daimler did not participate. As a result, Daimler now holds a 4.3% equity interest in Tesla (2011: 7.8%). The fair value and the carrying amount of its investment were €125 million and €6 million as of December 31, 2012 respectively (December 31, 2011: €179 million and €32 million). Resulting from its representation on the board of directors of Tesla and its significant contractual rights under the terms of a shareholder agreement, the Group can exercise a significant influence on Tesla. Therefore, the Group accounts for its equity interest in Tesla using the equity method; the investment and the proportionate share in the results of Tesla are allocated to the Mercedes-Benz Cars segment.

Further information on investments accounted for using the equity method is included in Note 35.

14. Receivables from financial services

Table ↗ 7.32 shows the components of receivables from financial services.

Types of receivables. Retail receivables include loans and finance leases to end users of the Group's products who purchased their vehicle either from a dealer or directly from Daimler.

Wholesale receivables represent loans for floor financing programs for vehicles sold by the Group's automotive businesses to dealers or loans for assets purchased by dealers from third parties, primarily used vehicles traded in by dealers' customer or real estate such as dealer showrooms.

Other receivables mainly represent non-automotive assets from contracts of the financial services business with third parties.

All cash flow effects attributable to receivables from financial services are presented within cash provided by/used for operating activities in the consolidated statement of cash flows.

Allowances. Changes in the allowance account for receivables from financial services are included in table ↗ 7.33.

The total expense of impairment losses on receivables from financial services amounted to €390 million in 2012 (2011: €417 million).

Credit risks. Table ↗ 7.34 gives an overview of credit risks included in receivables from financial services.

Receivables not subject to an individual impairment assessment are grouped and subject to collective impairment allowances to cover credit losses.

Further information on financial risks and nature of risks is provided in Note 31.

7.32

Receivables from financial services

	At December 31, 2012			At December 31, 2011		
	Current	Non-current	Total	Current	Non-current	Total
In millions of euros						
Receivables from						
Retail	13,289	25,379	38,668	13,174	23,234	36,408
Wholesale	8,995	1,687	10,682	7,718	1,434	9,152
Other	102	546	648	115	838	953
Gross carrying amount	22,386	27,612	49,998	21,007	25,506	46,513
Allowances for doubtful accounts	-388	-550	-938	-447	-499	-946
Carrying amount, net	21,998	27,062	49,060	20,560	25,007	45,567

7.33

Changes in the allowance account for receivables from financial services

	2012	2011
In millions of euros		
Balance at January 1	946	1,084
Charged to costs and expenses	370	394
Amounts written off	-235	-213
Reversals	-132	-299
Currency translation and other changes	-11	-20
Balance at December 31	938	946

7.34

Credit risks included in receivables from financial services

	At December 31, 2012	2011
In millions of euros		
Receivables, neither past due nor impaired individually	45,411	42,496
Receivables past due, not impaired individually		
less than 30 days	1,478	1,101
30 to 59 days	293	305
60 to 89 days	78	62
90 to 119 days	56	35
120 days or more	158	156
Total	2,063	1,659
Receivables impaired individually	1,586	1,412
Carrying amount, net	49,060	45,567

Finance leases. Finance leases consist of leasing contracts for which all substantial risks and rewards incidental to the leasing objects are transferred to the lessee.

Maturities of the finance lease contracts are shown in table ↗ 7.35.

As of December 31, 2012, receivables from financial services with a carrying amount of €3,056 million (2011: €3,496 million) were pledged as collateral for liabilities from ABS transactions (see also Note 24).

15. Marketable debt securities

As of December 31, 2012, current and non-current marketable debt securities with a carrying amount of €5,598 million in total are presented separately in the consolidated statement of financial position (2011: €2,281 million).

The marketable debt securities are part of the Group's liquidity management and comprise debt instruments and are classified as available-for-sale.

As of December 31, 2012, a pool of marketable debt securities with a carrying amount of €200 million was pledged as collateral for liabilities to financial institutions.

Further information on marketable debt securities is provided in Note 30.

16. Other financial assets

The item "other financial assets" shown in the consolidated statement of financial position is comprised of the classes presented in table ↗ 7.36.

In 2012, equity instruments carried at cost with a carrying amount of €9 million were sold (2011: €74 million). The realized gains from the sales were €4 million in 2012 (2011: €16 million). As of December 31, 2012, the Group principally did not intend to dispose of any reported equity instruments carried at cost.

Financial liabilities recognized at fair value through profit or loss relate exclusively to derivative financial instruments which are not used in hedge accounting.

As of December 31, 2012, other receivables and financial assets include a loan and accumulated interest to Chrysler LLC of US$2.0 billion (December 31, 2011: US$1.9 billion). As in the previous year, the receivables were fully impaired.

Further information on other financial assets is provided in Note 30.

17. Other assets

Non-financial other assets are comprised as shown in table ↗ 7.37.

Other expected reimbursements predominantly relate to recovery claims from our suppliers in connection with issued product warranties.

7.35
Maturities of the finance lease contracts

	At December 31, 2012				At December 31, 2011			
	< 1 year	1 year up to 5 years	> 5 years	Total	< 1 year	1 year up to 5 years	> 5 years	Total
In millions of euros								
Contractual future lease payments	4,307	6,798	425	11,530	4,229	6,458	657	11,344
Unguaranteed residual values	485	1,665	71	2,221	558	1,207	90	1,855
Gross investment	4,792	8,463	496	13,751	4,787	7,665	747	13,199
Unearned finance income	-468	-861	-59	-1,388	-488	-853	-94	-1,435
Gross carrying amount	4,324	7,602	437	12,363	4,299	6,812	653	11,764
Allowances for doubtful accounts	-163	-205	-27	-395	-194	-225	-12	-431
Carrying amount, net	4,161	7,397	410	11,968	4,105	6,587	641	11,333

7.36
Other financial assets

	At December 31, 2012			At December 31, 2011		
	Current	Non-current	Total	Current	Non-current	Total
In millions of euros						
Available-for-sale financial assets	–	2,031	2,031	–	1,940	1,940
Thereof equity instruments recognized at fair value through profit or loss	–	1,440	1,440	–	1,300	1,300
Thereof equity instruments carried at cost	–	591	591	–	640	640
Derivative financial instruments used in hedge accounting	306	1,058	1,364	133	426	559
Financial assets recognized at fair value through profit or loss	103	238	341	88	262	350
Other receivables and financial assets	1,661	563	2,224	1,786	329	2,115
	2,070	3,890	5,960	2,007	2,957	4,964

7.37
Other assets

	At December 31, 2012			At December 31, 2011		
	Current	Non-current	Total	Current	Non-current	Total
In millions of euros						
Reimbursements due to income tax refunds	483	23	506	338	40	378
Reimbursements due to other tax refunds	1,678	36	1,714	1,357	6	1,363
Reimbursements due to the Medicare Act (USA)	.	160	160	.	142	142
Other expected reimbursements	169	132	301	331	13	344
Prepaid expenses	373	61	434	305	72	377
Others	369	155	524	380	147	527
	3,072	567	3,639	2,711	420	3,131

7.38
Inventories

	At December 31, 2012	2011
In millions of euros		
Raw materials and manufacturing supplies	2,137	1,802
Work in progress	2,292	2,451
Finished goods, parts and products held for resale	13,235	12,737
Advance payments to suppliers	56	91
	17,720	17,081

7.39
Trade receivables

	At December 31, 2012	2011
In millions of euros		
Gross carrying amount	7,945	8,316
Allowances for doubtful accounts	-402	-467
Carrying amount, net	7,543	7,849

7.40
Changes in the allowance account for trade receivables

	2012	2011
In millions of euros		
Balance at January 1	467	406
Charged to costs and expenses	61	117
Amounts written off	-123	-82
Currency translation and other changes	-3	26
Balance at December 31	402	467

7.41
Credit risks included in trade receivables

	At December 31, 2012	2011
In millions of euros		
Receivables neither past due nor impaired individually	5,137	5,083
Receivables past due, not impaired individually		
less than 30 days	631	668
30 to 59 days	132	106
60 to 89 days	47	36
90 to 119 days	22	21
120 days or more	53	84
Total	885	915
Receivables impaired individually	1,521	1,851
Carrying amount, net	7,543	7,849

18. Inventories

Inventories are comprised as shown in table ↗ 7.38.

The amount of write-down of inventories to net realizable value recognized as expense in cost of sales was €294 million in 2012 (2011: €317 million). Inventories that are expected to be turned over after more than twelve months amounted to €691 million at December 31, 2012 (2011: €726 million) and are primarily spare parts.

Based on the requirement to provide collateral for certain vested employee benefits in Germany, the value of company cars included in inventories at Daimler AG in an amount of €584 million (2011: €494 million) was pledged as collateral to the Daimler Pension Trust e. V.

The carrying amount of inventories recognized during the period by taking possession of collateral held as security amounted to €70 million in 2012 (2011: €89 million). The utilization of these assets occurs in the context of the normal business cycle.

19. Trade receivables

Trade receivables are comprised as shown in table ↗ 7.39.

As of December 31, 2012, €117 million of the trade receivables mature after more than one year (2011: €118 million).

Allowances. Table ↗ 7.40 includes changes in the allowance account for trade receivables.

The total expenses relating to the impairment losses of trade receivables amounted to €129 million in 2012 (2011: €165 million).

Credit risks. Table ↗ 7.41 gives an overview of credit risks included in trade receivables.

Receivables not subject to an individual impairment assessment are grouped and subject to collective impairment allowances to cover credit losses.

Further information on financial risk and types of risk is provided in Note 31.

20. Equity

See also the consolidated statement of changes in equity ↗ 7.04.

The share capital is divided into no-par value shares. All shares are fully paid up. Each share confers the right to one vote at the Annual Shareholders' Meeting of Daimler AG and, if applicable, with the exception of any new shares potentially not entitled to dividend, to an equal portion of the profits as defined by the dividend distribution resolved at the Annual Meeting. Each share represents a proportionate amount of approximately €2.87 of the share capital. For the development of shares issued or outstanding see ↗ 7.42.

Treasury shares. By resolution of the Annual Shareholders' Meeting on April 14, 2010, the Board of Management, with the consent of the Supervisory Board, was authorized until April 13, 2015 to acquire treasury shares for all legal purposes in a volume up to 10% of the share capital issued as of the day of the resolution. The authorization applies for example to the purchase of shares for the purpose of cancellation, for using them for business combinations or to acquire companies, or for disposal in other ways than through the stock exchange or by offering them to all shareholders. This authorization has not been exercised in the reporting period.

Through a final verdict reached by the higher regional court in Frankfurt am Main in November 2009, the exchange ratio specified in the domination and profit and loss transfer agreement between the former Daimler-Benz AG and the former AEG AG from 1988 as well as the compensation payment for unpaid AEG dividends determined in this agreement had been increased for the benefit of those AEG shareholders. In 2010, Daimler AG began to perform the claims of former AEG shareholders by using treasury shares held by the company at that time. The remaining 0.2 million treasury shares as of December 31, 2010 representing €0.6 million or 0.02% of the share capital were transferred to former AEG shareholders to satisfy their claims to additional Daimler shares. Furthermore in 2011, simultaneously to the continuing enforcement of claims of the former AEG shareholders to additional Daimler shares, a further 0.1 million treasury shares worth a total of €7 million were purchased and transferred to former AEG shareholders to satisfy their claims to additional Daimler shares. These treasury shares represented €0.4 million or 0.01% of the share capital.

In 2012, a further 0.005 million treasury shares worth a total of €0.21 million, representing €0.01 million or 0.0004% of the share capital, were purchased and transferred to former AEG shareholders. 0.017 million treasury shares worth a total of €0.63 million, representing €0.05 million or 0.002% of the share capital, were retransferred to Daimler AG as they could not be transferred to the authorized AEG shareholders. These shares were sold immediately for a total of €0.62 million on the stock exchange; the profit from the transaction was recognized within retained earnings.

As was the case at December 31, 2011, no treasury shares are held by Daimler AG at December 31, 2012.

Employee share purchase plan. In 2012, 0.5 million Daimler shares representing €1.5 million or 0.05% of the share capital were purchased for a price of €25 million and reissued to employees (2011: 0.6 million Daimler shares representing €2 million or 0.06% of the share capital were purchased for a price of €28 million).

7.42
Development of shares issued

	2012	2011
In millions of shares		
Shares issued on January 1	1,066	1,066
Reacquired shares not cancelled (share buyback program) previous years	.	.
Shares outstanding on January 1	1,066	1,066
Repurchase of treasury shares to settle obligations towards former AEG shareholders	.	.
Utilization of treasury shares due to the settlement of obligations towards former AEG shareholders	.	.
Shares repurchased in the share buyback program and not cancelled (previous years)	-1	-1
Reissued shares to employees in the employee share purchase plan	1	1
Creation of new shares by exercise of stock options	2	.
Shares outstanding/issued on December 31	1,068	1,066

Authorized capital. By resolution of the Annual Meeting on April 8, 2009, the Board of Management was authorized, with the consent of the Supervisory Board, to increase the share capital of Daimler AG in the period until April 7, 2014 by a total of €1.0 billion in one lump sum or by separate partial amounts at different times by issuing new, registered no-par-value shares in exchange for cash and/or non-cash contributions (Approved Capital 2009). Among other things, the Board of Management was authorized with the consent of the Supervisory Board to exclude shareholders' subscription rights under certain conditions and within defined limits. The resolution regarding Approved Capital 2009 has not yet been exercised.

Conditional capital. By resolution of the Annual Meeting on April 14, 2010, the Board of Management, was authorized with the consent of the Supervisory Board, until April 13, 2015 to issue once or several times convertible and/or warrant bonds or a combination of these instruments ("bonds") with a total face value of up to €10 billion and a maturity of no more than ten years. The Board of Management is allowed to grant the holders of these bonds conversion or warrant rights for new registered no-par-value shares in Daimler AG with an allocable portion of the share capital of up to €500 million in accordance with the details defined in the terms and conditions of the bonds. Among other things, the Board of Management was authorized with the consent of the Supervisory Board to exclude shareholders' subscription rights for the bonds with conversion or warrant rights for new registered no-par-value shares in Daimler AG under certain conditions and within defined limits. The bonds can also be issued by majority-owned direct or indirect subsidiaries of Daimler AG.

Accordingly, the share capital is conditionally increased by an amount of up to €500 million (Conditional Capital 2010). The authorization to issue convertible and/or warrant bonds has not yet been exercised.

Stock option plans. As of December 31, 2012, 3 million options from stock option plans initiated until and including 2004 granting subscription rights to new shares representing €8 million of the share capital had not yet been exercised (December 31, 2011: 6 million options from stock option plans granting subscription rights to new shares representing €16 million of the share capital).

Dividends. Under the German Stock Corporation Act (AktG), the dividend is paid out of the distributable profit reported in the annual financial statements of Daimler AG (parent company only) in accordance with the German Commercial Code (HGB). For the year ended December 31, 2012, the Daimler management will propose to the shareholders at the Annual Meeting to pay out €2,349 million of the distributable profit of Daimler AG as a dividend to the shareholders, equivalent to €2.20 per no-par-value share entitled to dividend (2011: €2,346 million and €2.20 per no-par-value share entitled to dividend respectively).

Table ↗ 7.43 shows the details of changes in other reserves from other comprehensive income/loss.

In the line item "Unrealized gains/losses from investments accounted for using the equity method," the amounts for 2012 include the following components (amounts attributable to shareholders of Daimler AG only): unrealized gains from currency translation adjustments before taxes and net of taxes of €12 million (2011: unrealized gains before taxes and net of taxes of €5 million), unrealized losses from financial assets available for sale before taxes of €45 million and net of taxes of €45 million (2011: unrealized gains before taxes of €15 million and net of taxes of €19 million) and unrealized gains from derivative financial instruments before taxes of €89 million and net of taxes of €60 million (2011: unrealized losses before taxes of €65 million and net of taxes of €44 million).

The changes in other reserves directly recognized in equity that are attributable to non-controlling interest are shown in table ↗ 7.44.

Changes in ownership interests in subsidiaries. The changes in ownership interests in subsidiaries shown in the consolidated statement of changes in equity primarily result from an increase in ownership interest in Mercedes-Benz (China) Ltd. from 51% to 75%; the minority shareholder did not participate in this capital increase.

21. Share-based payment

As of December 31, 2012, the Group has the 2009-2012 Performance Phantom Share Plans (PPSP) and the Stock Option Plans 2003-2004 outstanding. The unexercised rights from Stock Option Plan 2002 expired on March 31, 2012. The exercisable stock options of 2003 and 2004 are equity-settled share-based payment instruments and are measured at fair value at the date of grant. The PPSP are cash-settled share-based payment instruments and are measured at their respective fair values at the balance sheet date.

The PPSP are paid out at the end of the stipulated holding period; earlier, pro-rated payoff is possible only if certain defined conditions are met. PPSP 2008 was paid out as planned in the first quarter of 2012.

Moreover, starting with the annual bonus for 2011, 50% of the annual bonus of the members of the Board of Management will be paid out after a waiting period of one year. The actual payout is determined by the development of the Daimler share compared to an automobile related index (Auto-STOXX). The fair value of this medium-term annual bonus, which depends from this development, is measured by using the intrinsic value at the reporting date.

The pre-tax effects of share-based payment arrangements for the executive managers of the Group and the members of the Board of Management of Daimler AG on the consolidated statement of income and statement of financial position are presented in table ↗ 7.45.

7.43
Changes in other reserves

In millions of euros	2012 Before taxes	2012 Taxes	2012 Net of taxes	2011 Before taxes	2011 Taxes	2011 Net of taxes
Unrealized gains/losses from currency translation adjustments	-540	–	-540	153	–	153
Financial assets available for sale						
Unrealized gains/losses	165	.	165	-74	-3	-77
Income (-)/expense reclassified through profit or loss	-1	.	-1	-1	.	-1
Unrealized gains/losses from financial assets available for sale	164	.	164	-75	-3	-78
Derivative financial instruments						
Unrealized gains/losses	151	-43	108	-547	165	-382
Income (-)/expense reclassified through profit or loss	838	-244	594	-61	8	-53
Unrealized gains/losses from derivative financial instruments	989	-287	702	-608	173	-435
Investments accounted for using the equity method						
Unrealized gains/losses	112	-26	86	-60	28	-32
Income (-)/expense reclassified through profit or loss	-83	4	-79	-2	7	5
Unrealized gains/losses from investments accounted for using the equity method	29	-22	7	-62	35	-27
Other comprehensive income/loss	642	-309	333	-592	205	-387

7.44
Changes in other reserves directly recognized in equity attributable to non-controlling interest

In millions of euros	2012 Before taxes	2012 Taxes	2012 Net of taxes	2011 Before taxes	2011 Taxes	2011 Net of taxes
Unrealized gains/losses from currency translation adjustments	-21	–	-21	43	–	43
Unrealized gains/losses from financial assets available for sale	1	.	1	.	.	.
Unrealized gains/losses from derivative financial instruments	1	.	1	.	.	.
Unrealized gains/losses from investments accounted for using the equity method	-27	7	-20	-17	10	-7
Other comprehensive income/loss	-46	7	-39	26	10	36

7.45
Effects of share-based payment

In millions of euros	Remuneration expense 2012	Remuneration expense 2011	Provision at December 31, 2012	Provision at December 31, 2011
PPSP	-121	-85	214	141
SOP	-1	4	–	–
Medium-term component of annual bonus of the members of the Board of Management	-4	-6	10	6
	-126	-87	224	147

Table ↗ **7.46** includes expenses in the consolidated statement of income resulting from rights of current members of the Board of Management.

The details shown in the overview do not represent any paid or committed remuneration, but refer to expense which has been calculated according to IFRS. Details of the remuneration of the members of the Board of Management in 2012 can be found in the Remuneration Report.
Management Report from page 119

Performance Phantom Share Plans. In 2012, the Group adopted a Performance Phantom Share Plan (PPSP), similar to that used from 2005 to 2011, under which eligible employees are granted phantom shares entitling them to receive cash payments after four years. The amount of cash paid to eligible employees is based on the number of vested phantom shares (determined over a three-year performance period) multiplied by the quoted price of Daimler's ordinary shares (calculated as an average price over a specified period at the end of the four-year plan period). The vesting period is therefore four years. For the plans granted as of 2009, the quoted price of Daimler's ordinary shares to be used for the payout is limited to 2.5 times the Daimler share price at the date of grant. For the plans granted as of 2012, the payout for the board members is limited to 2.5 times the allotment value, used for the preliminary number of phantom shares.

The number of phantom shares that vest will be orientated on the achievement of the corporate performance goals return on net assets, derived from internal targets, and return on sales, based on competitive and internal benchmarks.

The Group recognizes a provision for awarding the PPSP. Since payment per vested phantom share depends on the quoted price of one Daimler ordinary share, the quoted price almost completely represents the fair value of each phantom share. The proportionate remuneration expenses for the individual years are determined on the basis of the year-end quoted price of Daimler ordinary shares and the estimated target achievement.

Stock Option Plans. In April 2000, the Group's shareholders approved the Daimler Stock Option Plan (SOP), which grants stock options for the purchase of Daimler ordinary shares to eligible employees. Options granted under the SOP are exercisable at a reference price per Daimler ordinary share, which is determined in advance, plus a 20% premium. The options become exercisable in equal installments at the earliest on the second and third anniversaries of the date of grant. All unexercised options expire ten years after the date of grant. If the market price per Daimler ordinary share on the date of exercise is at least 20% higher than the reference price, the holder is entitled to receive a cash payment equal to the original exercise premium of 20%. No new stock options were granted after 2004.

In the event of exercise, the Group has generally issued ordinary shares so far.

Table ↗ **7.47** shows the basic terms of the SOP (in millions).

Options granted to the Board of Management in 2004 for which – according to the recommendations of the German Corporate Governance Code – the Presidential Committee can impose a limit, or reserve the right to impose a limit in the event of exceptional and unpredictable developments, are measured at their intrinsic values as of December 31.

Table ↗ **7.48** shows an analysis of the stock options issued.

The weighted average share price of Daimler ordinary shares during the exercise period was €38.27 (2011: €50.53). As of December 31, 2012, the weighted average remaining contractual life of outstanding stock options was 1.1 years (2011: 1.5 years).

7.46

Expenses in the consolidated statement of income resulting from share-based payments of current members of the Board of Management

	Dr. Dieter Zetsche		Dr. Wolfgang Bernhard		Dr. Christine Hohmann-Dennhardt		Wilfried Porth	
	2012	2011	2012	2011	2012	2011	2012	2011
In millions of euros								
PPSP	-5.8	-4.0	-1.7	-0.9	-0.8	-0.3	-2.2	-1.4
SOP	-0.8	2.2	–	–	–	–	–	–
Medium-term component of the annual bonus	-1.2	-2.0	-0.4	-0.7	-0.5	-0.6	-0.4	-0.7

	Andreas Renschler		Hubertus Troska		Bodo Uebber		Prof. Dr. Thomas Weber	
	2012	2011	2012	2011	2012	2011	2012	2011
In millions of euros								
PPSP	-2.6	-1.8	-0.9	–	-2.8	-1.9	-2.4	-1.7
SOP	–	–	–	–	–	–	-0.3	0.9
Medium-term component of the annual bonus	-0.5	-0.8	.	–	-0.6	-0.9	-0.4	-0.7

7.47

Basic terms of the SOP

	Reference price euros per share	Exercise price euros per share	Options granted in millions	Options outstanding in millions	Options exercisable in millions
				At December 31, 2012	
Year of grant					
2003	28.67	34.40	20.5	0.4	0.4
2004	36.31	43.57	18.0	2.3	2.3

7.48

Analysis of the stock options issued

	2012		2011	
	Number of stock options in millions	Average exercise price euros per share	Number of stock options in millions	Average exercise price euros per share
Balance at beginning of the year	5.5	42.80	11.1	52.90
Exercised	-1.2	34.62	-0.7	45.22
Disposals/Forfeited	-1.6	49.88	-4.9	65.21
Outstanding at year-end	2.7	42.24	5.5	42.80
Exercisable at year-end	2.7	42.24	5.5	42.80

Table ↗ 7.49 includes an analysis of the stock options issued to the current members of the Board of Management.

The members of the Board of Management Dr. Wolfgang Bernhard, Dr. Christine Hohmann-Dennhardt and Hubertus Troska had no exercisable or outstanding option rights, neither in 2012 nor in the prior year.

With regard to the figures shown in the table ↗ 7.49, it has to be considered that benefits from the stock option plans only arise if the Daimler share price exceeds the hurdle which has been individually defined for each stock option plan and if the owner of the stock options realizes an exercise. As variable compensation, only the difference between the reference and exercise price of the respective stock option plan is paid out. The following average exercise price is only a statistical factor, which results from the weighted average of the exercise prices shown in the table for the basic terms of the SOP. The sum of rights shown here is calculated from the addition of the different amounts of options that were granted in the years 2000 to 2004.

7.49

Analysis of the stock options issued to the current members of the Board of Management

Dr. Dieter Zetsche

	2012		2011	
	Number of stock options in millions	Average exercise price euros per share	Number of stock options in millions	Average exercise price euros per share
Balance at beginning of year	0.4	37.84	0.6	49.04
Exercised	-0.3	34.40	–	–
Disposals/Forfeited	–	–	-0.2	66.96
Outstanding at year-end	0.1	43.57	0.4	37.84
Exercisable at year-end	0.1	43.57	0.4	37.84
Weighted maturity		1.3 years		1.4 years

Wilfried Porth

	2012		2011	
	Number of stock options in millions	Average exercise price euros per share	Number of stock options in millions[1]	Average exercise price euros per share
Balance at beginning of year	–	–	.	66.96
Exercised	–	–	–	–
Disposals/Forfeited	–	–	.	66.96
Outstanding at year-end	–	–	–	–
Exercisable at year-end	–	–	–	–
Weighted maturity		–		–

1 For number of stock options partially no disclosure due to rounding.

Andreas Renschler

	2012 Number of stock options in millions[1]	2012 Average exercise price euros per share	2011 Number of stock options in millions[1]	2011 Average exercise price euros per share
Balance at beginning of year	0.1	39.43	0.1	48.46
Exercised	.	34.40	–	–
Disposals/Forfeited	–	–	.	66.96
Outstanding at year-end	.	43.57	0.1	39.43
Exercisable at year-end	.	43.57	0.1	39.43
Weighted maturity		1.3 years		1.5 years

1 For number of stock options partially no disclosure due to rounding.

Bodo Uebber

	2012 Number of stock options in millions	2012 Average exercise price euros per share	2011 Number of stock options in millions[1]	2011 Average exercise price euros per share
Balance at beginning of year	–	–	.	66.96
Exercised	–	–	–	–
Disposals/Forfeited	–	–	.	66.96
Outstanding at year-end	–	–	–	–
Exercisable at year-end	–	–	–	–
Weighted maturity		–		–

1 For number of stock options partially no disclosure due to rounding.

Prof. Dr. Thomas Weber

	2012 Number of stock options in millions	2012 Average exercise price euros per share	2011 Number of stock options in millions[1]	2011 Average exercise price euros per share
Balance at beginning of year	0.2	37.54	0.2	40.56
Exercised	-0.1	34.40	–	–
Disposals/Forfeited	–	–	.	66.96
Outstanding at year-end	0.1	43.57	0.2	37.54
Exercisable at year-end	0.1	43.57	0.2	37.54
Weighted maturity		1.3 years		1.3 years

1 For number of stock options partially no disclosure due to rounding.

7.50

Compositions of provisions for pension benefit plans and similar obligations

	At December 31, 2012	2011
In millions of euros		
Provision for pension benefits	1,911	2,151
Provision for other post-employment benefits	1,124	1,033
	3,035	3,184

7.51

Key data for other post-employment benefits

	2012	2011
In millions of euros		
Present value of defined benefit obligations	1,520	1,355
Fair value of plan assets and reimbursement rights	168	153
Funded status	-1,352	-1,202
Net periodic cost/income for other post-employment benefits	-133	-104

22. Pensions and similar obligations

Table ↗ 7.50 shows how provisions for pension benefit plans and similar obligations are comprised.

Defined benefit pension plans. Provisions for pension benefits were solely made for defined entitlements to active or former employees. Under a defined benefit pension plan, beneficiaries obtain an entitlement to a defined benefit when retirement occurs. Daimler primarily provides pension benefits with defined entitlements to its employees. The majority of the active employees are entitled to pay-related defined pension benefits. Under these plans, employees earn benefits for each year of service. The benefits earned per year of service are dependent on the salary level and age of the respective employees. Principally, the defined benefit pension plans provided by Daimler vary according to the economic, tax and legal circumstances of the country concerned. Generally, defined benefit pension plans also provide benefits for invalidity and death. The defined benefit obligations are funded in large part with assets in pension funds.

Defined contribution pension plans. To a minor degree, Daimler also maintains defined contribution plans. Under these plans, Daimler makes defined contributions to external insurances or funds. Basically, there are no further contractual obligations or risks for Daimler in excess of the defined contributions. The Group also pays contributions to governmental pension schemes. In 2012, the total cost from payments made under defined contribution plans amounted to €1.4 billion (2011: €1.3 billion). These payments are primarily related to governmental pension plans.

Other post-employment benefits. Certain foreign subsidiaries of Daimler, mainly in the United States, provide their employees with post-employment health care benefits with defined entitlements, which have to be accounted for as defined benefit plans. These obligations are funded to a small extent through reimbursement rights and plan assets. Table ↗ 7.51 provides key data for other post-employment benefits.

Details of defined pension benefit plans

Funded status. The following information with respect to the funded status of the Group's defined pension benefit plans is presented separately for German plans and non-German plans.

The development of the funded status since 2008 is presented in table ↗ 7.52.

Table ↗ 7.53 shows the reconciliation of the funded status to the net amounts recognized in the consolidated statement of financial position for defined benefit pension plans.

7.52
Development of the funded status

	At December 31, 2012			At December 31, 2011			At December 31, 2010		
	Total	German plans	Non-German plans	Total	German plans	Non-German plans	Total	German plans	Non-German plans
In millions of euros									
Present value of defined benefit obligations	23,933	20,693	3,240	19,067	16,053	3,014	17,684	15,040	2,644
Less fair value of plan assets	14,207	12,143	2,064	12,597	10,726	1,871	11,177	9,542	1,635
Funded status	-9,726	-8,550	-1,176	-6,470	-5,327	-1,143	-6,507	-5,498	-1,009

	At December 31, 2009			At December 31, 2008		
	Total	German plans	Non-German plans	Total	German plans	Non-German plans
In millions of euros						
Present value of defined benefit obligations	16,529	14,183	2,346	15,044	12,780	2,264
Less fair value of plan assets	10,624	9,197	1,427	10,110	8,796	1,314
Funded status	-5,905	-4,986	-919	-4,934	-3,984	-950

7.53
Reconciliation of the funded status to the net amounts of defined benefit pension plans

	At December 31, 2012			At December 31, 2011		
	Total	German plans	Non-German plans	Total	German plans	Non-German plans
In millions of euros						
Funded status	-9,726	-8,550	-1,176	-6,470	-5,327	-1,143
Unrecognized actuarial net losses	7,899	7,239	660	4,393	3,853	540
Unrecognized past service cost	1	–	1	2	–	2
Net amounts recognized	-1,826	-1,311	-515	-2,075	-1,474	-601
Thereof recognized in: Other assets	85	–	85	76	–	76
Thereof recognized in: Provisions for pensions and similar obligations	-1,911	-1,311	-600	-2,151	-1,474	-677

Present value of defined pension benefit obligations and fair value of plan assets. The development of these metrics in the reported periods is shown in table ↗ 7.54.

Experience adjustments. The experience related adjustments, which are the differences between the earlier actuarial assumptions applied and actual developments, are as shown in table ↗ 7.55 (based on the pension benefit plans and plan assets at December 31).

Composition of plan assets. At December 31, 2012, plan assets were invested in diversified portfolios that consisted primarily of debt and equity securities. Plan assets and income from plan assets are used solely to pay pension benefits and to administer the plans. The Group's plan asset allocations are presented in table ↗ 7.56.

Alternative investments consist of private equity and debt investments as well as investments in commodities and hedge funds.

7.54

Present value of defined pension benefit obligations and fair value of plan assets

	2012 Total	2012 German plans	2012 Non-German plans	2011 Total	2011 German plans	2011 Non-German plans
In millions of euros						
Present value of the defined benefit obligation at January 1	19,067	16,053	3,014	17,684	15,040	2,644
Current service cost	404	320	84	354	282	72
Interest cost	864	734	130	849	730	119
Contributions by plan participants	116	114	2	103	100	3
Actuarial losses	4,380	4,144	236	744	564	180
Past service cost/income (-)	1	–	1	3	–	3
Curtailments	2	–	2	3	–	3
Settlements	–	–	–	-40	–	-40
Pension benefits paid	-822	-680	-142	-761	-666	-95
Currency exchange-rate and other changes	-79	8	-87	128	3	125
Present value of the defined benefit obligation at December 31	23,933	20,693	3,240	19,067	16,053	3,014
Thereof pension plans financed with plan assets	23,171	20,072	3,099	17,741	14,851	2,890
Thereof pension plans financed without plan assets	762	621	141	1,326	1,202	124
Fair value of plan assets at January 1	12,597	10,726	1,871	11,177	9,542	1,635
Expected return on plan assets	589	470	119	653	546	107
Actuarial gains/losses	719	644	75	-611	-626	15
Actual return/losses on plan assets	1,308	1,114	194	42	-80	122
Contributions by the employer	1,067	911	156	2,041	1,858	183
Contributions by plan participants	3	–	3	2	–	2
Settlements	–	–	–	-40	–	-40
Benefits paid	-736	-608	-128	-672	-594	-78
Currency exchange-rate and other changes	-32	–	-32	47	–	47
Fair value of plan assets at December 31	14,207	12,143	2,064	12,597	10,726	1,871

Assumptions. The measurement date for the Group's defined benefit pension obligations and plan assets is generally December 31. The measurement date for the Group's net periodic pension cost is generally January 1. The assumptions used to calculate the projected benefit obligations together with the expectations regarding long-term rates of return on plan assets vary according to the economic conditions of the country in which the pension plans are situated.

Table ↗ 7.57 shows the weighted average assumptions which the Group used to determine pension benefit obligations.

7.55
Experience adjustments

					At December 31,
	2012	2011	2010	2009	2008
In millions of euros					
Present value of defined benefit obligation	165	140	550	-43	-194
Fair value of plan assets	719	-611	226	-32	-3,970

7.56
Composition of plan assets

	Plan assets German plans At December 31,		Plan assets Non-German plans At December 31,	
	2012	2011	2012	2011
In % of plan assets				
Equity securities	29	30	37	31
Debt securities	51	51	51	53
Alternative investments	8	9	4	4
Real estate	3	3	3	3
Liquidity and other plan assets	9	7	5	9

7.57
Assumptions used to determine pension benefit obligations

	German plans At December 31,		Non-German plans At December 31,	
	2012	2011	2012	2011
In %				
Discount rates	3.1	4.7	3.8	4.3
Expected long-term remuneration increases[1]	–	–	3.0	3.6
Expected increase in cost of living[2]	1.8	1.7	–	–

1 For most German plans, expected increases in long-term remuneration are not a part of the benefit formula.
2 For most non-German plans, expected increases in cost of living are not a part of the benefit formula.

Table ↗ 7.58 shows the weighted average assumptions which the Group used to determine net periodic pension cost.

Discount rates. The discount rates for German and non-German pension plans are determined annually as of December 31 on the basis of high-quality corporate bonds with maturities and values matching those of the pension payments.

Expected return on plan assets. The expected long-term rates of return for German and non-German plan assets are primarily derived from the asset allocations of plan assets and expected future returns for the various asset classes in the portfolios. Temporary variability in the asset allocations of plan assets does not result in adjustments of the expected long-term rates of return. For the determination of the expected long-term rates of return, our investment committees survey banks and large asset portfolio managers about their expectations for future returns for the relevant market indices. The allocation-weighted average return expectations serve as an initial indicator for the expected rate of return on plan assets for each pension fund.

In addition, Daimler considers long-term actual plan assets' results and historical market returns in its evaluation in order to reflect the long-term character of the plan assets.

Multi-employer plans. Daimler participates in some collectively bargained defined benefit pension plans maintained by more than one employer. The Group accounts for several of these plans in its consolidated financial statements as defined contribution plans because the information required to use defined benefit accounting is not available in a timely manner and in sufficient detail. The Group cannot exercise direct control over such plans and the plan-trustees have no legal obligation to share information directly with participating employers. Higher contributions by the Group to such a pension plan could result in particular when an underfunded status exceeds a specific level.

Net periodic pension cost. The components of net periodic pension cost included in the consolidated statement of income are presented in table ↗ 7.59.

Table ↗ 7.60 presents the line items within the consolidated statement of income in which the net periodic pension cost are included.

Expected payments. In 2013, at present Daimler expects to make cash contributions of €0.6 billion to its pension plans; the fixing of the final height is usually in the fourth Quarter of a financial year. In addition, the Group expects to make pension benefit payments of €0.1 billion under pension benefit schemes without plan assets in 2013.

23. Provisions for other risks

The development of provisions for other risks is summarized in table ↗ 7.61.

Product warranties. Daimler issues various types of product warranties, under which it generally guarantees the performance of products delivered and services rendered for a certain period. The provision for these product warranties covers expected costs for legal and contractual warranty claims, as well as expected costs for policy coverage, recall campaigns and buyback commitments. The provision for buyback commitments represents the expected costs related to the Group's obligation, under certain conditions, to repurchase a vehicle from a customer. Buybacks may occur for a number of reasons including litigation, compliance with laws and regulations in a particular region and customer satisfaction issues. The utilization date of product warranties depends on the incidence of the warranty claims and can span the entire term of the product warranties. The cash outflow for non-current product warranties is principally expected within a period until 2015.

Personnel and social costs. Provisions for personnel and social costs primarily comprise expected expenses of the Group for employee anniversary bonuses, profit sharing arrangements and management bonuses, as well as early retirement and partial retirement plans. The additions recorded to the provisions for profit sharing and management bonuses in the reporting year usually result in cash outflows in the following year. The expected maturity of non-current provisions for personnel and social costs is primarily a period of more than 5 years.

Other. Provisions for other risks include obligations for expected reductions in revenue already recognized such as bonuses, discounts and other price reduction commitments. They also include expected costs in connection with liability and litigation risks, provisions for optimization programs, obligations under the EU End-of-Life Vehicles Directive and environmental protection risks, as well as provisions for other taxes and various other risks.

Further information on other provisions for other risks is provided in Notes 5 and 28.

7.58
Assumptions used to determine net periodic pension cost

	German plans		Non-German plans	
	2012	2011	2012	2011
In %				
Discount rates	4.7	5.0	4.3	4.7
Expected long-term returns on plan assets	4.4	5.4	6.3	6.5
Expected long-term remuneration increases[1]	–	–	3.6	4.1
Expected increase in cost of living[2]	1.7	1.7	–	–

1 For most German plans, expected increases in long-term remuneration are not a part of the benefit formula.
2 For most non-German plans, expected increases in cost of living are not a part of the benefit formula.

7.59
Components of net period pension cost

	2012			2011		
	Total	German plans	Non-German plans	Total	German plans	Non-German plans
In millions of euros						
Current service cost	-404	-320	-84	-354	-282	-72
Interest cost	-864	-734	-130	-849	-730	-119
Expected return on plan assets	589	470	119	653	546	107
Amortization of net actuarial losses	-162	-136	-26	-97	-77	-20
Past service cost/income	-2	–	-2	–	–	–
Curtailments and settlements	-2	–	-2	-9	–	-9
	-845	-720	-125	-656	-543	-113

7.60
Net period pension cost within the consolidated statement of income

	2012	2011
In millions of euros		
Cost of sales	-264	-218
Selling expenses	-42	-71
General administrative expenses	-68	-33
Research and non-capitalized development costs	-34	-41
Interest income	589	653
Interest expense	-1,026	-946
	-845	-656

7.61
Provisions for other risks

	Product warranties	Personnel and social costs	Other	Total
In millions of euros				
Balance at December 31, 2011	5,608	3,110	3,707	12,425
Thereof current	2,694	1,679	2,426	6,799
Thereof non-current	2,914	1,431	1,281	5,626
Additions	2,221	1,371	2,171	5,763
Utilizations	-2,582	-1,394	-1,764	-5,740
Reversals	-319	-170	-489	-978
Addition of accrued interest and effects of changes in discount rates	203	236	104	543
Currency translation and other changes	-41	-148	-35	-224
Balance at December 31, 2012	5,090	3,005	3,694	11,789
Thereof current	2,562	1,323	2,428	6,313
Thereof non-current	2,528	1,682	1,266	5,476

24. Financing liabilities

The composition of financing liabilities is presented in table ↗ 7.62.

Liabilities from finance leases relate primarily to leases of property, plant and equipment which transfer substantially all risks and rewards to the Group as lessee. Future minimum lease payments under finance leases at December 31, 2012 amounted to €576 million (2011: €712 million). The reconciliation of future minimum lease payments from finance lease arrangements to the corresponding liabilities is included in table ↗ 7.63.

25. Other financial liabilities

The composition of other financial liabilities is presented in table ↗ 7.64.

Financial liabilities recognized at fair value through profit or loss relate exclusively to derivative financial instruments which are not used in hedge accounting.

Further information on other financial liabilities is provided in Note 30.

7.62
Financing liabilities

		At December 31, 2012			At December 31, 2011	
	Current	Non-current	Total	Current	Non-current	Total
In millions of euros						
Notes/bonds	7,770	27,926	35,696	5,594	20,725	26,319
Commercial paper	1,768	–	1,768	1,233	–	1,233
Liabilities to financial institutions	11,629	8,581	20,210	10,574	8,601	19,175
Deposits in the direct banking business	8,481	3,640	12,121	7,012	4,023	11,035
Liabilities from ABS transactions	2,505	2,644	5,149	1,534	1,654	3,188
Liabilities from finance leases	55	320	375	91	373	464
Loans, other financing liabilities	703	229	932	663	90	753
	32,911	43,340	76,251	26,701	35,466	62,167

7.63
Minimum lease payments from finance lease arrangements

	Future minimum lease payments At December 31,		Interest included in future minimum lease payments At December 31,		Liabilities from finance lease arrangements At December 31,	
	2012	2011	2012	2011	2012	2011
In millions of euros						
Maturity						
within one year	69	111	14	20	55	91
between one and five years	191	219	69	78	122	141
later than five years	316	382	118	150	198	232
	576	712	201	248	375	464

7.64
Other financial liabilities

		At December 31, 2012			At December 31, 2011	
	Current	Non-current	Total	Current	Non-current	Total
In millions of euros						
Derivative financial instruments used in hedge accounting	447	173	620	691	594	1,285
Financial liabilities recognized at fair value through profit or loss	163	90	253	613	253	866
Liabilities from residual value guarantees	790	874	1,664	1,046	779	1,825
Liabilities from wages and salaries	790	208	998	999	–	999
Other	4,490	366	4,856	4,433	285	4,718
Miscellaneous other financial liabilities	6,070	1,448	7,518	6,478	1,064	7,542
	6,680	1,711	8,391	7,782	1,911	9,693

26. Other liabilities

Table ↗ 7.65 shows the composition of other liabilities.

27. Consolidated statement of cash flows

Calculating funds. As of December 31, 2012 cash and cash equivalents include restricted funds of €75 million (2011: €4 million). The restricted funds of the reporting period primarily resulted from subsidiaries where exchange controls only apply when the funds are not available for general use by the Group.

Cash provided by/used for operating activities. The changes in other operating assets and liabilities are presented in table ↗ 7.66.

The decrease in provisions in 2011 mainly resulted from provisions for pensions and similar obligations due to the high contributions to the Group's pension plans.

Table ↗ 7.67 shows cash flows included in cash provided by/used for operating activities.

The line item other non-cash expense and income within the reconciliation of profit before income taxes to cash provided by/used for operating activities primarily comprises the Group's share in the profit/loss of companies accounted for using the equity method.

Cash provided by/used for financing activities. Cash provided by/used for financing activities includes cash flows from hedging the currency risks of financial liabilities. In 2012, cash used for financing activities includes payments for the reduction of the outstanding finance lease liabilities of €105 million (2011: €109 million).

7.65
Other liabilities

	At December 31, 2012			At December 31, 2011		
	Current	Non-current	Total	Current	Non-current	Total
In millions of euros						
Income tax liabilities	122	30	152	118	47	165
Miscellaneous other liabilities	1,214	8	1,222	1,362	9	1,371
	1,336	38	1,374	1,480	56	1,536

7.66
Changes in other operating assets and liabilities

	2012	2011
In millions of euros		
Provisions	-605	-1,332
Financial instruments	-188	294
Miscellaneous other assets and liabilities	450	-55
	-343	-1,093

7.67
Cash flows included in cash provided by/used for operating activities

	2012	2011
In millions of euros		
Interest paid	-561	-489
Interest received	192	234
Dividends received	192	140

28. Legal proceedings

Various legal proceedings, claims and governmental investigations (legal proceedings) are pending against Daimler AG and its subsidiaries on a wide range of topics, including vehicle safety, emissions, fuel economy, financial services, dealer, supplier and other contractual relationships, intellectual property rights, product warranties, environmental matters, and shareholder matters. Some of these proceedings allege defects in various components in several different vehicle models or allege design defects relating to vehicle stability, pedal misapplication, brakes or crashworthiness. Some of the claims asserted by way of class action suits seek repair or replacement of the vehicles or compensation for their alleged reduction in value, while others seek recovery for damage to property, personal injuries or wrongful death. Adverse decisions in one or more of these proceedings could require us to pay substantial compensatory and punitive damages or undertake service actions, recall campaigns or other costly actions.

In mid-January 2011, the European Commission carried out antitrust investigations of European commercial vehicle manufacturers, including Daimler AG. Daimler is taking the Commission's initial suspicion very seriously and is also – parallel to the Commission's investigations – carrying out its own extensive internal investigation to clarify the underlying circumstances. If antitrust infringements are discovered, the European Commission can impose considerable fines depending on the gravity of the infringement. In accordance with IAS 37.92 the Group does not provide further information on this antitrust investigation and the associated risk for the Group, especially with regard to the measures taken in this context, in order not to impair the outcome of the proceeding.

On April 1, 2010, Daimler announced a settlement of the previously disclosed US Securities and Exchange Commission (SEC) and US Department of Justice (DOJ) investigations into possible violations by Daimler of the anti-bribery, record-keeping, and internal-controls provisions of the US Foreign Corrupt Practices Act (FCPA).

Pursuant to the settlement reached with the SEC, the SEC filed a civil complaint against Daimler AG in the US District Court for the District of Columbia (the Court). Without admitting or denying the allegations in the complaint, Daimler AG consented to the entry by the Court of a final judgment. Pursuant to the Court's judgment: (i) Daimler AG disgorged US$91.4 million in profits, (ii) Daimler AG is enjoined from violating the anti-bribery, record-keeping and internal-controls provisions of the FCPA, and (iii) the Honorable Louis J. Freeh is Daimler AG's post-settlement monitor for a three-year period.

Pursuant to the settlement reached with the DOJ, Daimler AG entered into a deferred-prosecution agreement with a two-year term under which the DOJ filed with the Court a two-count criminal information against Daimler AG charging it with: (i) conspiracy to violate the record-keeping provisions of the FCPA, and (ii) violating the record-keeping provisions of the FCPA. Herewith, Daimler AG agreed to pay a maximum criminal fine of US$93.6 million, to engage the Honorable Louis J. Freeh as post-settlement monitor for a three-year period, and to continue to implement a compliance and ethics program designed to prevent and detect violations of the FCPA and other applicable anti-corruption laws. In addition, a China-based subsidiary, Daimler North East Asia, Ltd. (DNEA), entered into a deferred-prosecution agreement with the same term with the DOJ under which the DOJ filed with the Court a two-count criminal information against DNEA.

In addition, a Russia-based subsidiary, Mercedes-Benz Russia SRO (MB Russia), and a Germany-based subsidiary, Daimler Export and Trade Finance GmbH (ETF), each entered into plea agreements with the DOJ with a three-year probation period under which they pleaded guilty to: (i) conspiracy to violate the anti-bribery provisions of the FCPA, and (ii) violating the anti-bribery provisions of the FCPA. Under their respective plea agreements, the Court sentenced MB Russia to pay a criminal fine of US$27.36 million and sentenced ETF to pay a criminal fine of US$29.12 million. These amounts were deducted from the maximum fine Daimler AG agreed to pay (US$93.6 million).

As a result of the SEC and DOJ settlements, Daimler paid a total of US$185 million in fines and civil disgorgement. Daimler previously recognized sufficient provisions to cover these fines. In addition, Daimler has taken personnel and remedial actions to ensure that its conduct going forward complies with the FCPA and similar applicable laws, including establishing a company-wide compliance organization and evaluating and revising Daimler's governance policies and internal-control procedures.

Failure to comply with the terms and conditions of either the SEC or the DOJ settlement, including the terms of the deferred-prosecution agreements, could result in resumed prosecution and other regulatory sanctions.

Communications with and provision of documents to the offices of German public prosecutors regarding the matters that have been under investigation by the DOJ and SEC have taken place.

As already reported in Annual Report 2011 the DOJ and Daimler AG have discussed a possible extension of the term of the deferred-prosecution agreement to align the deferred-prosecution agreements' provisions more closely with the Monitor's review period and to provide Daimler with additional time to improve the sustainability of its compliance systems. Based on these discussions, the DOJ, Daimler AG and Daimler North East Asia, Ltd. mutually agreed on March 30, 2012 to extend the terms of their respective deferred-prosecution agreement until December 31, 2012. On December 31, 2012, both deferred-prosecution agreements expired.

On August 17, 2009, the Official Committee of Unsecured Creditors of OldCarCo LLC (formerly Chrysler LLC) filed a lawsuit with the United States Bankruptcy Court, Southern District of New York, against Daimler AG, Daimler North America Corporation and others. The Committee has been substituted by the Liquidation Trust, which claims unspecified damages based on theories of constructive fraudulent transfer and other legal theories, alleging that the consideration received in certain transactions effected in connection with the investment by Cerberus in Chrysler LLC was not fair consideration. Daimler has successfully submitted miscellaneous legal defense arguments, so that the Bankruptcy Court dismissed all claims with prejudice as of May 12, 2011. The appeal of the Liquidation Trust led to a confirmation of the Bankruptcy Court's decision by the United States District Court of the Southern District of New York. A second appeal by the Liquidation Trust to the United States Court of Appeals for the Second Circuit, New York as of December 19, 2011 was unsuccessful. As of January 30, 2013, the US Court of Appeals unanimously affirmed the judgement of the Bankruptcy Court. Daimler still considers these claims and allegations of the Liquidation Trust to be without merit and will continue to defend itself vigorously.

The Federal Republic of Germany initiated arbitration proceedings against Daimler Financial Services AG, Deutsche Telekom AG and Toll Collect GbR and submitted its statement of claims in August 2005. It seeks damages, contractual penalties and the transfer of intellectual property rights to Toll Collect GmbH. In particular, the Federal Republic of Germany is claiming

- lost revenue of €3.33 billion for the period September 1, 2003 through December 31, 2004 plus interest at 5% per annum over the respective base rate since submission of claims (amount as of November 21, 2010 at €1.4 billion),

- and contractual penalties of approximately €1.65 billion through July 31, 2005 plus interest at 5% per annum over the respective base rate since submission of claims (amount as of November 21, 2010 at €282 million),

- plus refinancing costs of €115 million.

Since, among other things, some of the contractual penalties are dependent on time and further claims for contractual penalties have been asserted by the Federal Republic of Germany, the amount claimed as contractual penalties may increase.

Defendants submitted their response to the statement of claims on June 30, 2006. The Federal Republic of Germany delivered its reply to the arbitrators on February 15, 2007, and the defendants delivered their rebuttal on October 1, 2007 (see also Note 29). The arbitrators held the first hearing on June 16 and 17, 2008. Additional briefs from the claimant and the defendants were filed since then. A hearing of witnesses and experts took place between December 6 and 14, 2010. The parties submitted further written statements on July 15 and November 15, 2011. After the Tribunal's President resigned as of March 30, 2012, the new President was determined by the Administrative Court as of October 29, 2012. Daimler believes the claims are without merit and will continue to defend itself vigorously.

Legal proceedings are subject to many uncertainties and Daimler cannot predict the outcome of individual matters with assurance. The Group establishes provisions in connection with pending or threatened proceedings if a loss is probable and can be reasonably estimated. Since these provisions, which are reflected in the Group's consolidated financial statements, represent estimates, it is reasonably possible that the resolution of some of these proceedings could require us to make payments in excess of the amounts accrued in an amount or range of amounts that could not be reasonably estimated on December 31, 2012. It is also reasonably possible that the resolution of some of the proceedings for which provisions could not be made may require the Group to make payments in an amount or range of amounts that could not be reasonably estimated on December 31, 2012. Although the final resolution of any such proceedings could have a material effect on Daimler's operating results and cash flows for a particular reporting period, Daimler believes that it should not materially affect the Group's financial position.

29. Guarantees and other financial commitments

Guarantees. Table ↗ 7.68 shows the amounts of provisions and liabilities at December 31 which have been established by the Group in connection with its issued guarantees (excluding product warranties).

Financial guarantees. Financial guarantees principally represent contractual arrangements. These guarantees generally provide that in the event of default or non-payment by the primary debtor, the Group will be required to settle such financial obligations. The maximum potential obligation resulting from these guarantees amounted to €968 million at December 31, 2012 (December 31, 2011: €1,367 million). The previous year's figure includes a guarantee of payment to the Chrysler pension plans, whose term expired in August 2012. These amounts include guarantees, which the Group issued for the benefit of Chrysler in connection with the Chrysler transactions entered into in 2007 and 2009. At December 31, 2012, these guarantees amounted to €0.3 billion. For a portion of these financial guarantees, Chrysler provided collateral of €0.2 billion to an escrow account.

7.68

Provisions and liabilities recognized in connection with guarantees

	At December 31, 2012	2011
In millions of euros		
Financial guarantees	111	249
Guarantees under buyback commitments	115	44
Other guarantees	141	132
	367	425

Guarantees under buyback commitments. Guarantees under buyback commitments represent arrangements whereby the Group guarantees specified trade-in or resale values for sold vehicles. Such guarantees provide the holder with the right to return purchased vehicles to the Group, the right being primarily contingent on the future purchase of vehicles or services. Residual value guarantees related to arrangements for which revenue recognition is precluded due to the Group's obligation to repurchase assets sold to unrelated guaranteed parties are not included in those amounts.

Other guarantees. Other guarantees principally comprise pledges or indemnifications related to the quality or timing of performance by third parties or participations in performance guarantees of consortiums. As of December 31, 2012, the best estimate for obligations under other guarantees for which no provisions had yet been recorded was €35 million (2011: €41 million).

In 2002, our subsidiary Daimler Financial Services AG, Deutsche Telekom AG and Compagnie Financière et Industrielle des Autoroutes S.A. (Cofiroute) entered into a consortium agreement in order to jointly develop, install, and operate under a contract with the Federal Republic of Germany (operating agreement) a system for the electronic collection of tolls for all commercial vehicles over 12 tons GVW using German highways. Daimler Financial Services AG and Deutsche Telekom AG each hold a 45% equity interest and Cofiroute holds the remaining 10% equity interest in both the consortium (Toll Collect GbR) and the joint venture company (Toll Collect GmbH) (together Toll Collect).

According to the operating agreement, the toll collection system had to be operational no later than August 31, 2003. After a delay of the launch date of the toll collection system, which resulted in a loss of revenue for Toll Collect and in payments of contractual penalties for delays, the toll collection system was introduced on January 1, 2005 with on-board units that allowed for slightly less than full technical performance in accordance with the technical specification (phase 1). On January 1, 2006, the toll collection system was installed and started to operate with full effectiveness as specified in the operating agreement (phase 2). On December 20, 2005, Toll Collect GmbH received a preliminary operating permit as specified in the operating agreement. Toll Collect GmbH expects to receive the final operating permit, and continues to operate the toll collection system under the preliminary operating permit in the interim.

Failure to perform various obligations under the operating agreement may result in penalties, additional revenue reductions and damage claims that could become significant over time. However, penalties and revenue reductions are capped at €150 million per year until the final operating permit has been issued and at €100 million per year following the issuance of the final operating permit. These cap amounts are subject to a 3% increase for every year of operation.

Beginning in June 2006, the Federal Republic of Germany began reducing monthly payments to Toll Collect GmbH by €8 million in partial set-off against amounts claimed in the arbitration proceeding referred to below. This offsetting may require the consortium members to provide additional operating funds to Toll Collect GmbH.

The operating agreement calls for the submission of all disputes related to the toll collection system to arbitration. The Federal Republic of Germany has initiated arbitration proceedings against Daimler Financial Services AG, Deutsche Telekom AG and the consortium. According to the statement of claims received in August 2005, the Federal Republic of Germany is seeking damages including contractual penalties and reimbursement of lost revenue that allegedly arose from delays in the operability of the toll collection system. See Note 28 for additional information.

Each of the consortium members (including Daimler Financial Services AG) has provided guarantees supporting the obligations of Toll Collect GmbH towards the Federal Republic of Germany relating to the completion and operation of the toll collection system, which are subject to specific triggering events. In addition, Daimler AG has guaranteed bank loans obtained by Toll Collect GmbH. The guarantees are described in detail below:

- *Guarantee of bank loans.* Daimler AG issued a guarantee to third parties up to a maximum amount of €110 million for bank loans which could be obtained by Toll Collect GmbH. This amount represents the Group's 50% share of Toll Collect GmbH's external financing guaranteed by its shareholders.

- *Equity maintenance undertaking.* The consortium members have the obligation to contribute, on a joint and several basis, additional funds to Toll Collect GmbH as may be necessary for Toll Collect GmbH to maintain a minimum equity (based on German Commercial Code accounting principles) of 15% of total assets (a so-called "equity maintenance undertaking"). This obligation will terminate on August 31, 2015, when the operating agreement expires, or earlier if the agreement is terminated. Such obligation may arise if Toll Collect GmbH is subject to revenue reductions caused by underperformance, if the Federal Republic of Germany is successful in claiming lost revenue against Toll Collect GmbH for any period the system was not fully operational, or if Toll Collect GmbH incurs penalties that may become payable under the above mentioned agreements. If such penalties, revenue reductions or other events reduce Toll Collect GmbH's equity to a level below the minimum equity percentage agreed upon, the consortium members are obligated to fund Toll Collect GmbH's operations to the extent necessary to reach the required minimum equity.

Cofiroute's risks and obligations are limited to €70 million. Daimler Financial Services AG and Deutsche Telekom AG are jointly obliged to indemnify Cofiroute for amounts exceeding this limitation.

While Daimler's maximum future obligation resulting from the guarantee of the bank loan can be determined (2012: €110 million), the Group is unable to reasonably estimate the amount or range of amounts of possible loss resulting from the financial guarantee in form of the equity maintenance undertaking due to the various uncertainties described above, although it could be material. Only the guarantee for the bank loan is included in the above disclosures for financial guarantees.

Obligations associated with product warranties are also not included in the above disclosures. See Note 23 for provisions relating to such obligations.

Other financial commitments. In connection with its production programs, Daimler has committed to purchase various volumes of parts and components over extended periods. The Group also has entered into service arrangements for the provision of future services. In addition, the Group has committed to purchase or invest in the construction, maintenance of production facilities and other agreements. Amounts under the latter arrangements represent commitments to purchase plant or equipment in the future. As of December 31, 2012, total other financial commitments amounted to €10.2 billion (2011: €9.4 billion).

The Group has also entered into operating leases for property, plant and equipment. In 2012, Daimler recognized as expense rental payments of €528 million (2011: €495 million). Table ↗ 7.69 provides an overview of when future minimum lease payments under long-term lease agreements fall due (nominal amounts).

In addition, the Group issued loan commitments for a total of €1.0 billion and €2.0 billion as of December 31, 2012 and 2011 respectively. These loan commitments are unused as of those dates.

7.69

Future minimum lease payments under long-term lease agreements

	At December 31,	
	2012	2011
In millions of euros		
Maturity		
within one year	360	401
between one and three years	575	632
between four and five years	437	490
later than five years	767	957
	2,139	2,480

30. Financial instruments

Carrying amounts and fair values of financial instruments

Table ↗ 7.70 shows the carrying amounts and fair values of the Group's financial instruments. The fair value of a financial instrument is the price at which a party would accept the rights and/or obligations of that financial instrument from another independent party. Given the varying influencing factors, the reported fair values can only be viewed as indicators of the prices that may actually be achieved on the market.

The fair values of financial instruments were calculated on the basis of market information available on the balance sheet date. The following methods and premises were used:

7.70

Carrying amounts and fair values of financial instruments

	At December 31, 2012		At December 31, 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
In millions of euros				
Financial assets				
Receivables from financial services	49,060	49,722	45,567	45,786
Trade receivables	7,543	7,543	7,849	7,849
Cash and cash equivalents	10,996	10,996	9,576	9,576
Marketable debt securities				
Available-for-sale financial assets	5,598	5,598	2,281	2,281
Other financial assets				
Available-for-sale financial assets[1]	2,031	2,031	1,940	1,940
Financial assets recognized at fair value through profit or loss	341	341	350	350
Derivative financial instruments used in hedge accounting	1,364	1,364	559	559
Other receivables and assets	2,224	2,224	2,115	2,115
	79,157	79,819	70,237	70,456
Financial liabilities				
Financing liabilities	76,251	77,661	62,167	63,494
Trade payables	8,832	8,832	9,515	9,515
Other financial liabilities				
Financial liabilities recognized at fair value through profit or loss	253	253	866	866
Derivative financial instruments used in hedge accounting	620	620	1,285	1,285
Miscellaneous other financial liabilities	7,518	7,518	7,542	7,542
	93,474	94,884	81,375	82,702

1 Includes equity interests measured at cost whose fair value can not be determined with sufficient reliability (2012: €591 million; 2011: €640 million).

Receivables from financial services. The fair values of receivables from financial services with variable interest rates are estimated to be equal to the respective carrying amounts because the interest rates agreed and those available on the market do not significantly differ. The fair values of receivables from financial services with fixed interest rates are determined on the basis of discounted expected future cash flows. The discounting is based on the current interest rates at which similar loans with identical terms could have been borrowed as of December 31, 2012 and December 31, 2011.

Trade receivables and cash and cash equivalents. Due to the short terms of these financial instruments, it is assumed that their fair values are equal to the carrying amounts.

Marketable debt securities and other financial assets.
Financial assets available for sale include:
- debt and equity instruments measured at fair value; these instruments were measured using quoted market prices at December 31. Otherwise, the fair value measurement of these debt and equity instruments is based on inputs that are either directly or indirectly observable on active markets. Equity instruments measured at fair value predominantly comprise the investments in Renault and Nissan.
- equity interests measured at cost; for these financial instruments fair values could not be determined because market prices or fair values are not available. These equity interests comprise investments in non-listed companies for which no objective evidence existed at the balance sheet date that these assets are impaired and whose fair values cannot be determined with sufficient reliability. It is assumed that the fair values approximate the carrying amounts.

Financial assets recognized at fair value through profit or loss include derivative financial instruments not used in hedge accounting. These financial instruments as well as *derivative financial instruments used in hedge accounting comprise:*
- derivative currency hedging contracts; the fair values of currency forwards and cross currency interest rate swaps are determined on the basis of the discounted estimated future cash flows using market interest rates appropriate to the remaining terms of the financial instruments. Currency options were measured using price quotations or option pricing models using market data.
- derivative interest rate hedging contracts; the fair values of interest rate hedging instruments (e.g. interest rate swaps) are calculated on the basis of the discounted estimated future cash flows using the market interest rates appropriate to the remaining terms of the financial instruments.
- derivative commodity hedging contracts; the fair values of commodity hedging contracts (e.g. commodity forwards) are determined on the basis of current reference prices in consideration of forward premiums and discounts.

Financial assets recognized at fair value through profit and loss also include the option held by Daimler to sell shares in Engine Holding to Rolls-Royce (see also Note 13). The fair value of this option has been determined with the use of an option pricing model; estimated future cash flows and, to the extent available, market parameters were applied.

Other receivables and assets are carried at amortized cost. Because of the predominantly short maturities of these financial instruments, it is assumed that the fair values approximate the carrying amounts.

Financing liabilities. The fair values of bonds, loans, commercial papers, deposits in the direct banking business and liabilities from ABS transactions are calculated as the present values of the estimated future cash flows. Market interest rates for the appropriate terms are used for discounting.

Trade payables. Due to the short maturities of these financial instruments, it is assumed that their fair values are equal to the carrying amounts.

Other financial liabilities. *Financial liabilities recognized at fair value through profit or loss* comprise derivative financial instruments not used in hedge accounting. For information regarding these financial instruments as well as *derivative financial instruments used in hedge accounting* see the notes above under “Marketable debt securities and other financial assets.”

Miscellaneous other financial liabilities are carried at amortized cost. Because of the predominantly short maturities of these financial instruments, it is assumed that the fair values approximate the carrying amounts.

7.71

Fair value hierarchy of financial assets and liabilities measured at fair value

	At December 31, 2012				At December 31, 2011			
	Total	Level 1[1]	Level 2[2]	Level 3[3]	Total	Level 1[1]	Level 2[2]	Level 3[3]
In millions of euros								
Assets measured at fair value								
Financial assets available for sale	7,038	3,902	3,136	–	3,581	2,070	1,511	–
Financial assets recognized at fair value through profit or loss	341	–	163	178	350	–	173	177
Derivative financial instruments used in hedge accounting	1,364	–	1,364	–	559	–	559	–
	8,743	3,902	4,663	178	4,490	2,070	2,243	177
Liabilities measured at fair value								
Financial liabilities recognized at fair value through profit or loss	253	–	253	–	866	–	866	–
Derivative financial instruments used in hedge accounting	620	–	620	–	1,285	–	1,285	–
	873	–	873	–	2,151	–	2,151	–

1 Fair value measurement based on quoted prices (unadjusted) in active markets for these or identical assets or liabilities.
2 Fair value measurement for the asset or liability based on inputs that are observable on active markets either directly (i.e. as prices) or indirectly (i.e. derived from prices).
3 Fair value measurement for the asset or liability based on inputs that are not observable market data.

7.72

Development of financial assets recognized at fair value through profit or loss classified as level 3

	2012	2011
In millions of euros		
Balance at January 1	177	–
Gains recognized in other financial income/expense, net	1	6
Purchases	–	171
Balance at December 31	178	177
Gains of period relating to financial assets held at December 31	1	6

Table ↗ 7.71 provides an overview of the classification of financial assets and liabilities measured at fair value in the fair value hierarchy (according to IFRS 7).

The development of financial assets recognized at fair value through profit or loss and classified as level 3 can be seen in table ↗ 7.72.

The financial assets shown as classified as level 3 and presented in the table ↗ 7.72 consist solely of Daimler's option to sell the shares it holds in Engine Holding to Rolls-Royce.

Parameters with a significant influence on the measurement of the option are the value of Engine Holding as determined with the use of a discounted cash flow method and the expected volatility of that value. A sensitivity analysis shows that a 10% increase in the value of Engine Holding would lead to a reduction in the value of the option of €37 million. On the other hand, a 10% decrease in the value of Engine Holding would increase the value of the option by €47 million. A 10% increase in the expected volatility of the value of Engine Holding would lead to an increase in the value of the option of €40 million. However, a 10% decrease in the expected volatility of the value of Engine Holding would reduce the value of the option by €41 million.

The carrying amounts of financial instruments presented according to IAS 39 measurement categories are shown in table ↗ 7.73.

Net gains or losses

Table ↗ 7.74 shows the net gains or losses of financial instruments included in the consolidated statement of income (not including derivative financial instruments used in hedge accounting):

Net gains and losses of financial assets and liabilities recognized at fair value through profit or loss primarily include gains and losses attributable to changes in fair value.

Net gains and losses on financial assets available for sale include realized income from equity instruments and gains or losses from their disposal.

Net gains and losses on loans and receivables mainly comprise impairment losses and recoveries that are charged to cost of sales, selling expenses and other financial income/expense, net.

Net gains and losses on financial liabilities measured at cost mainly comprise gains and losses from the valuation of liabilities denominated in foreign currencies.

7.73

Carrying amounts of financial instruments presented according to IAS 39 measurement categories

	At December 31, 2012	2011
In millions of euros		
Assets		
Receivables from financial services[1]	37,092	34,234
Trade receivables	7,543	7,849
Other receivables and assets	2,224	2,115
Loans and receivables	46,859	44,198
Marketable debt securities	5,598	2,281
Other financial assets	2,031	1,940
Available-for-sale financial assets	7,629	4,221
Financial assets recognized at fair value through profit or loss[2]	341	350
Liabilities		
Trade payables	8,832	9,515
Financing liabilities[3]	75,876	61,703
Other financial liabilities[4]	7,407	7,293
Financial liabilities measured at cost	92,115	78,511
Financial liabilities recognized at fair value through profit or loss[2]	253	866

The table above does not include cash and cash equivalents or the carrying amounts of derivative financial instruments used in hedge accounting as these financial instruments are not assigned to an IAS 39 measurement category.

1 This does not include lease receivables of €11,968 million (2011: €11,333 million) as these are not assigned to an IAS 39 measurement category.
2 Financial instruments classified as held for trading purposes. These figures comprise financial instruments that are not used in hedge accounting.
3 This does not include liabilities from finance leases of €375 million (2011: €464 million) as these are not assigned to an IAS 39 measurement category.
4 This does not include liabilities from financial guarantees of €111 million (2011: €249 million) as these are not assigned to an IAS 39 measurement category.

7.74

Net gains/losses

	2012	2011
In millions of euros		
Financial assets and liabilities recognized at fair value through profit or loss[1]	274	-140
Financial assets available for sale	122	-9
Loans and receivables	-304	-188
Financial liabilities measured at cost	-305	29

1 Financial instruments classified as held for trading purposes. These figures comprise financial instruments that are not used in hedge accounting.

7.75

Total interest income and total interest expense

In millions of euros	2012	2011
Total interest income	3,235	2,969
Total interest expense	-2,244	-2,150

7.76

Fair values of hedging instruments

	At December 31,	
In millions of euros	2012	2011
Fair value hedges	648	321
Cash flow hedges	96	-1,047

7.77

Net gains/losses from fair value hedges

In millions of euros	2012	2011
Net gains/losses from hedging instruments	285	317
Net gains/losses from underlying transactions	-344	-398

7.78

Unrealized gains/losses from cash flow hedges

In millions of euros	2012	2011
Unrealized gains/losses	151	-547

7.79

Reclassifications of pre-tax gains/losses from equity to the statement of income

In millions of euros	2012	2011
Revenue	-824	6
Cost of sales	-16	69
Interest income	2	–
Interest expense	.	-14
	-838	61

Total interest income and total interest expense

Total interest income and total interest expense for financial assets or financial liabilities that are not measured at fair value through profit or loss are presented in table ↗ 7.75.

Please refer to Note 1 for qualitative descriptions of accounting for financial instruments (including derivative financial instruments).

Information on derivative financial instruments

Use of derivatives. The Group uses derivative financial instruments exclusively for hedging financial risks that arise from its commercial business or refinancing activities. These are mainly interest rate risks, currency risks and commodity price risks. For these hedging purposes, the Group mainly uses currency forward transactions, cross currency interest rate swaps, interest rate swaps, options and commodity forwards.

Fair values of hedging instruments. Table ↗ 7.76 shows the fair values of hedging instruments at the end of the reporting period.

Fair value hedges. The Group uses fair value hedges primarily for hedging interest rate risks.

Net gains and losses from these hedging instruments and the changes in the value of the underlying transactions are presented in table ↗ 7.77.

Cash flow hedges. The Group uses cash flow hedges for hedging currency risks, interest rate risks and commodity price risks.

Unrealized pre-tax gains and losses on the measurement of derivatives, which are recognized during the period in other comprehensive income, are shown in table ↗ 7.78.

Table ↗ 7.79 gives an overview of the reclassifications of pre-tax gains/losses from equity to the statement of income for the period.

The unrealized pre-tax gains and losses on the measurement of derivatives as well as reclassifications of pre-tax gains and losses from equity to the statement of income do not include gains and losses from derivatives entered into by our equity-method investments (see Note 20 for further information).

The consolidated net profit for 2012 includes net losses (before income taxes) of €17 million (2011: net losses of €42 million) attributable to the ineffectiveness of derivative financial instruments entered into for hedging purposes.

In 2012, the discontinuation of cash flow hedges as a result of non-realizable hedged items resulted in losses of €11 million (2011: gains of €3 million).

The maturities of the interest rate hedges and cross currency interest rate hedges as well as of the commodity hedges correspond with those of the underlying transactions. The realization of the underlying transactions of the cash flow hedges is expected to correspond with the maturities of the hedging transactions shown in table ↗ 7.80. As of December 31, 2012, Daimler utilized derivative instruments with a maximum maturity of 37 months (2011: 39 months) as hedges for currency risks arising from future transactions.

Nominal values of derivative financial instruments. Table ↗ 7.80 shows the nominal values of derivative financial instruments entered into for the purpose of hedging currency risks, interest rate risks and commodity price risks that arise from the Group's operating and/or financing activities.

Most of the hedging transactions for which the effects from the mark-to-market valuation of the hedging instrument and the underlying transaction to a large extent offset each other in the consolidated statement of income/loss are not classified for hedge accounting treatment.

Even if derivative financial instruments do not or no longer qualify for hedge accounting, these instruments are still hedging financial risks from the operative business. If the hedged item does not exist anymore or is not expected to occur anymore, the hedging instrument will be terminated.

Explanations regarding the hedging of exchange rate risks, interest rate risks and commodity price risks can be found in Note 31 in the sub-item "Finance market risk."

7.80

Nominal values of derivative financial instruments

	December 31, 2012			December 31, 2011
	Nominal values	Maturity ≤ 1 Jahr	Maturity > 1 Jahr	Nominal values
In millions of euros				
Hedging of currency risks from receivables/liabilities				
Forward exchange contracts	5,624	5,622	2	5,033
thereof cash flow hedges	–	–	–	–
thereof fair value hedges	–	–	–	–
Cross currency interest rate swaps	7,047	3,245	3,802	6,929
thereof cash flow hedges	1,046	126	920	1,333
thereof fair value hedges	2,472	208	2,264	492
Hedging of currency risks from forecasted transactions				
Forward exchange contracts and currency options	31,794	19,067	12,727	28,394
thereof cash flow hedges	30,421	17,723	12,698	27,372
thereof fair value hedges	–	–	–	–
Hedging of interest rate risks from receivables/liabilities				
Interest rate swaps	26,249	3,768	22,481	20,313
thereof cash flow hedges	2,295	965	1,330	1,897
thereof fair value hedges	22,717	2,484	20,233	16,939
Hedging of commodity price risks from forecasted transactions				
Forward commodity contracts	1,598	823	775	2,014
thereof cash flow hedges	1,111	415	696	1,484
Total volume of derivative financial instruments	72,312	32,525	39,787	62,683
thereof cash flow hedges	34,873	19,229	15,644	32,086
thereof fair value hedges	25,189	2,692	22,497	17,431

31. Risk management

General information on financial risk

As a result of its businesses and the global nature of operations, Daimler is exposed in particular to market risks from changes in foreign currency exchange rates and interest rates, while commodity price risks arise from procurement. An equity price risk results from investments in listed companies (including EADS, Kamaz, Renault and Nissan). In addition, the Group is exposed to credit risks from its lease and financing activities and from its operating business (trade receivables). With regard to the lease and financing activities credit risks arise from operating lease contracts, finance lease contracts and financing contracts. Furthermore, the Group is exposed to liquidity risks relating to its credit and market risks or a deterioration of its operating business or financial market disturbances. If these financial risks materialize, they could adversely affect Daimler's financial position, cash flows and profitability.

Daimler has established guidelines for risk controlling procedures and for the use of financial instruments, including a clear segregation of duties with regard to financial activities, settlement, accounting and the related controlling. The guidelines upon which the Group's risk management processes are based are designed to identify and analyze these risks throughout the Group, to set appropriate risk limits and controls and to monitor the risks by means of reliable and up-to-date administrative and information systems. The guidelines and systems are regularly reviewed and adjusted to changes in markets and products.

The Group manages and monitors these risks primarily through its operating and financing activities and, if required, through the use of derivative financial instruments. Daimler uses derivative financial instruments exclusively for hedging of financial risks that arise from its commercial business or refinancing activities. Without these derivative financial instruments, the Group would be exposed to higher financial risks (additional information on financial instruments and especially on the nominal values of the derivative financial instruments used is included in Note 30). Daimler regularly evaluates its financial risks with due consideration of changes in key economic indicators and up-to-date market information.

Any market sensitive instruments including equity and debt securities that the funds hold to finance pension and other post-employment health care benefits are not included in the following quantitative and qualitative analysis. Please refer to Note 22 for additional information regarding Daimler's pension and other post-employment benefits.

Credit risk

Credit risk is the risk of economic loss arising from counterparty's failure to repay or service debt in accordance with the contractual terms. Credit risk encompasses both the direct risk of default and the risk of a deterioration of creditworthiness as well as concentration risks.

The maximum risk positions of financial assets which are generally subject to credit risk are equal to their carrying amounts (without consideration of collateral, if available). Table ↗ 7.81 shows the maximum risk positions.

Liquid assets. Liquid assets consist of cash and cash equivalents and marketable debt securities classified as available for sale. With the investment of liquid assets, banks and issuers of securities are selected very carefully and diversified in accordance with a limit system. In the past years, the limit methodology was continuously enhanced to oppose the increasing decline of the creditworthiness of the banking sector and most counterparty limits were reduced. Additionally, under consideration of the European sovereign debt crisis, the liquid assets are increasingly also held at financial institutions outside of Europe with high creditworthiness. At the same time, the Group increased the number of financial institutions with which investments are made. In connection with investment decisions, priority is placed on the borrower's very high creditworthiness and on balanced risk diversification. The limits and their utilizations are reassessed continuously. In this assessment Daimler also considers the credit risk assessment of its counterparties by the capital markets. In line with the Group's risk policy, the principal portion of liquid assets is held in investments with an external rating of "A" or better.

Receivables from financial services. Daimler's financing and leasing activities are primarily focused on supporting sales of the Group's automotive products. As a consequence of these activities, the Group is exposed to credit risk, which is monitored and managed based on defined standards, guidelines and procedures. Daimler Financial Services manages its credit risk irrespective of whether it is related to a financing contract or to an operating lease or a finance lease contract. For this reason, statements concerning the credit risk of Daimler Financial Services refer to the entire financing and leasing business, unless specified otherwise.

Exposure to credit risk from financing and lease activities is monitored based on the portfolio subject to credit risk. The portfolio subject to credit risk is an internal control quantity that consists of wholesale and retail receivables from financial services and the portion of the operating lease portfolio that is subject to credit risk. Receivables from financial services comprise claims arising from finance lease contracts and repayment claims from financing loans. The operating lease portfolio is reported under "equipment on operating leases" in the Group's consolidated financial statements. Overdue lease payments from operating lease contracts are recognized in trade receivable.

In addition, the Daimler Financial Services segment is exposed to credit risk from irrevocable loan commitments to retailers and end customers. At December 31, 2012, irrevocable loan commitments of Daimler Financial Services amounted to €990 million (2011: €1,921 million), of which €640 million had a maturity of less than one year (2011: €1,603 million), €176 million had maturities between one and three years (2011: €135 million), €133 million had maturities between three and four years (2011: €27 million) and €41 million had maturities between four and five years (2011: €156 million).

The Daimler Financial Services segment has guidelines at a global as well as at a local level which set the framework for effective risk management. In particular, these rules deal with minimum requirements for all risk-relevant credit processes, the evaluation of customer quality, requests for collateral as well as the treatment of unsecured loans and non-performing claims. The limitation of concentration risks is implemented primarily by means of global limits, which refer to single customer exposures. As of December 31, 2012, exposure to the top 15 customers did not exceed 3.9% (2011: 4.0%) of the total portfolio.

With respect to its financing and lease activities, the Group holds collateral for customer transactions. The value of collateral generally depends on the amount of the financed assets. Usually, the financed vehicles serve as collateral. Furthermore, Daimler Financial Services mitigates the credit risk from financing and lease activities, for example through advance payments from customers.

Scoring systems are applied for the assessment of the default risk of retail and small business customers. Corporate customers are evaluated using internal rating instruments. Both evaluation processes use external credit bureau data if available. The scoring and rating results as well as the availability of security and other risk mitigation instruments, such as pre-payments, guarantees and, to a lower extent, residual debt insurances, are essential elements for credit decisions.

Significant financing loans and finance leases to corporate customers are tested individually for impairment. An individual loan or finance lease is considered impaired when there is objective evidence that the Group will be unable to collect all amounts due as specified by the contractual terms. Examples of objective evidence that loans or finance lease receivables maybe impaired include the following factors: significant financial difficulty of the borrower, a rising probability that the borrower will become bankrupt, delinquency in his installment payments, and restructured or renegotiated contracts to avoid immediate delinquency.

The vast majority of loans and finance lease receivables related to retail or small business customers are grouped into homogeneous pools and collectively assessed for impairment. Objective evidence that loans and finance lease receivables are impaired includes adverse changes in the payment status of the borrowers included in the pool and an unfavorable change in the economic conditions affecting the portfolio with similar risk characteristics.

Within the framework of testing for impairment, existing collateral is generally given due consideration. In that context, any excess collateral of individual customers is not netted of with insufficient collateral of other customers. The maximum credit risk is limited by the fair value of collateral (e.g. financed vehicles).

If single loans and lease receivables are identified to be individually impaired, procedures are initiated to take possession of the asset financed or leased or, alternatively, to renegotiate the impaired contract. Restructuring policies and practices are based on the indicators or criteria which, in the judgment of local management, indicate that repayment will probably continue and that the total proceeds expected to be derived from the renegotiated contract exceed the expected proceeds to be derived from repossession and remarketing.

7.81

Maximum risk positions of financial assets and loan commitments

	See also Note	Maximum risk position 2012	Maximum risk position 2011
In millions of euros			
Liquid assets		16,594	11,857
Receivables from financial services	14	49,060	45,567
Trade receivables	19	7,543	7,849
Derivative financial instruments used in hedge accounting (assets only)	16	1,364	559
Derivative financial instruments not used in hedge accounting (assets only)	16	341	350
Loan commitments	29	1,022	1,960
Other receivables and financial assets	16	2,224	2,115

In southern European countries affected by the developments in the Eurozone, special attention was placed on permanent close monitoring of the risk situation and the adaptation of credit and collection processes to the ongoing developments. Further details on receivables from financial services and the balance of the recorded impairments are also provided in Note 14.

Costs of credit risk have developed to a normal level in a globally stable risk situation. The increase compared to the previous year, when costs of credit risk were extraordinary low, is caused by the fact that in 2011 the development of costs of credit risk was still influenced by the effects of the financial crisis.

Trade receivables. Trade receivables are mostly receivables from worldwide sales activities of vehicles and spare parts. The credit risk from trade receivables encompasses the default risk of customers, e.g. dealers and general distribution companies, as well as other corporate and private customers. Daimler manages its credit risk from trade receivables using appropriate IT applications and databases on the basis of internal guidelines which have to be followed globally.

A significant part of the trade receivables from each country's domestic business is secured by various country-specific types of collateral. This collateral includes conditional sales, guarantees and sureties as well as mortgages and cash deposits. In addition, Group companies guard against credit risk via credit assessments.

For trade receivables from export business, Daimler also evaluates each general distribution company's creditworthiness by means of an internal rating process and its country risk. In this context, the year-end financial statements and other relevant information on the general distribution companies such as payment history are used and assessed.

Depending on the creditworthiness of the general distribution companies, Daimler usually establishes credit limits and limits credit risks with the following types of collateral:

- credit insurances,
- first-class bank guarantees and
- letters of credit.

These procedures are defined in the export credit guidelines, which have Group-wide validity.

Appropriate provisions are recognized for the risks inherent in trade receivables. For this purpose, all receivables are regularly reviewed and impairments are recognized if there is any objective indication of non-performance or other contractual violations. In general, substantial individual receivables and receivables whose realizability is jeopardized are assessed individually. In addition, taking country-specific risks and any collateral into consideration, the other receivables are grouped by similarity of contract and tested for impairment collectively. One important factor for the definition of the provision's level is the immanent country risk.

The immanent country risk of a receivable is an important factor for the determination of the impairment to be recognized.

Further information on trade receivables and the status of impairments recognized is provided in Note 19.

Derivative financial instruments. The Group uses derivative financial instruments exclusively for hedging of financial risks that arise from its commercial business or refinancing activities. Daimler manages the credit risk exposure in connection with derivative financial instruments through a limit system, which is based on the review of each counterparty's financial strength. This system limits and diversifies the credit risk. As a result, Daimler is exposed to credit risk only to a small extent with respect to its derivative financial instruments. In accordance with the Group's risk policy, most derivatives are contracted with counterparties which have an external rating of "A" or better.

Other receivables and financial assets. With respect to other receivables and financial assets in 2012 and 2011, Daimler is exposed to credit risk only to a small extent.

Liquidity risk

Liquidity risk comprises the risk that a company cannot meet its financial obligations in full.

Daimler manages its liquidity by holding adequate volumes of liquid assets and by maintaining syndicated credit facilities in addition to the cash inflows generated by its operating business. Additionally, the possibility to securitize receivables of financial services business (ABS transactions) also reduces the Group's liquidity risk. Liquid assets comprise cash and cash equivalents as well as debt instruments classified as held for sale. The Group can dispose of these liquid assets at short notice.

In general, Daimler makes use of a broad spectrum of financial instruments to cover its funding requirements. Depending on funding requirements and market conditions, Daimler issues commercial paper, bonds and financial instruments secured by receivables in various currencies. In 2012, Daimler had good access to the money and capital markets. Credit lines are also used to cover financing requirements.

In addition, customer deposits at Mercedes-Benz Bank have been used as a further source of refinancing.

The funds raised are primarily used to finance the cash needs of the lease and financing business as well as working capital and capital expenditure requirements. In accordance with internal guidelines, the refunding of the lease and financing business is generally carried out with matching maturities so that financing liabilities have the same maturity profile as the leased assets and the receivables from financial services.

At year-end 2012 liquidity amounted to €16.6 billion (2011: €11.9 billion). In 2012, significant cash outflows resulted from contributions to pension plan assets (see Note 22) and capital contributions to Engine Holding and the joint venture of Daimler Trucks in China. Cash inflows resulted from selling shares of the European Aeronautic Defence and Space Company EADS N.V. (EADS) (see Note 13).

At year-end 2012 the Group had short-term and long-term credit lines totaling €33.7 billion, of which €12.2 billion was not utilized. These credit lines include a syndicated €7.0 billion credit facility of Daimler AG with 5 year tenor which was signed in 2010. This syndicated facility serves as a back-up for commercial paper drawings and provides funds for general corporate purposes. At the end of 2012, this facility was unused.

From an operating point of view, the management of the Group's liquidity exposures is centralized by a daily cash pooling process. This process enables Daimler to manage its liquidity surplus and liquidity requirements according to the actual needs of the Group and each subsidiary. The Group's short-term and mid-term liquidity management takes into account the maturities of financial assets and financial liabilities and estimates of cash flows from the operating business.

Information on the Group's financing liabilities is also provided in Note 24.

Table ↗ 7.82 provides an insight into how the future liquidity situation of the Group is affected by the cash flows from liabilities and financial guarantees as of December 31, 2012.

7.82

Liquidity runoff for liabilities and financial guarantees[1]

In millions of euros	Total	2013	2014	2015	2016	2017	≥ 2018
Financing liabilities[2]	82,109	34,720	18,719	11,847	4,709	3,886	8,228
Derivative financial instruments[3]	1,398	881	322	111	19	16	49
Trade payables[4]	8,832	8,787	43	2	–	–	–
Other financial liabilities excluding derivatives	7,518	6,070	435	542	226	89	156
Irrevocable loan commitments of the Daimler Financial Services segment and of Daimler AG[5]	1,022	672	–	176	133	41	–
Financial guarantees[6]	968	968	–	–	–	–	–
	101,847	52,098	19,519	12,678	5,087	4,032	8,433

1 The values were calculated as follows:
(a) If the counterparty can request payment at different dates, the liability is included on the basis of the earliest date on which Daimler can be required to pay. The customer deposits of Mercedes-Benz Bank are considered in this analysis to mature within the first year.
(b) The cash flows of floating interest financial instruments are estimated on the basis of forward rates.
2 The stated cash flows of financing liabilities consist of their undiscounted principal and interest payments.
3 The undiscounted sum of the net cash outflows of the derivative financial instruments are shown for the respective year. For single time bands, this may also include negative cash flows from derivatives with an overall positive fair value.
4 The cash outflows of trade payables are undiscounted.
5 The maximum available amounts are stated.
6 The maximum potential obligations under the issued guarantees are stated. It is assumed that the amounts are due within the first year.

Finance market risks

The global nature of its businesses exposes Daimler to significant market risks resulting from fluctuations in foreign currency exchange rates and interest rates. In addition, the Group is exposed to market risks in terms of commodity price risk associated with its business operations, which the Group hedges partially through derivative financial instruments. The Group is also exposed to equity price risk in connection with its investments in listed companies (including EADS, Kamaz, Renault and Nissan). If these market risks materialize, they will adversely affect the Group's financial position, cash flows and profitability.

Daimler manages market risks to minimize the impact of fluctuations in foreign exchange rates, interest rates and commodity prices on the results of the Group and its segments. The Group calculates its overall exposure to these market risks to provide the basis for hedging decisions, which include the selection of hedging instruments and the determination of hedging volumes and the corresponding periods. Decisions regarding the management of market risks resulting from fluctuations in foreign exchange rates, interest rates (asset-/liability management) and commodity prices are regularly made by the relevant Daimler risk management committees.

As part of its risk management system, Daimler employs value at risk. In performing these analyses, Daimler quantifies its market risk exposure to changes in foreign currency exchange rates and interest rates on a regular basis by predicting the maximum loss over a target time horizon (holding period) and confidence level.

The value at risk calculations employed:

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

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

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

The Monte Carlo simulation uses random numbers to generate possible changes in market risk factors over the holding period. The changes in market risk factors indicate a possible change in the portfolio value. Running multiple repetitions of this simulation leads to a distribution of portfolio value changes.

The value at risk can be determined based on this distribution as the portfolio value loss which is reached or exceeded with a probability of 1%.

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

Exchange rate risk. *Transaction risk and currency risk management.* The global nature of Daimler's businesses exposes cash flows and earnings to risks arising from fluctuations in exchange rates. These risks primarily relate to fluctuations between the US dollar and the euro, which also apply to the export of vehicles to China and between the British pound and the Euro.

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

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

In order to mitigate the impact of currency exchange rate fluctuations for the operating business (future transactions), Daimler continually assesses its exposure to exchange rate risks and hedges a portion of those risks by using derivative financial instruments. Daimler's Foreign Exchange Committee (FXCo) manages the Group's exchange rate risk and its hedging transactions through currency derivatives. The FXCo consists of representatives of the relevant segments and central functions. The Corporate Treasury department aggregate foreign currency exposures from Daimler's subsidiaries and operative units and carries out the FXCo's decisions concerning foreign currency hedging through transactions with international financial institutions. Risk Controlling regularly informs the Board of Management of the actions taken by Corporate Treasury based on the FXCo's decisions.

The Group's targeted hedge ratios for forecasted operating cash flows in foreign currency are indicated by a reference model. On the one hand, the hedging horizon is naturally limited by uncertainty related to cash flows that lie far in the future; on the other hand, it may also be limited by the fact that appropriate currency contracts are not available. This reference model aims to protect the Group from unfavorable movements in exchange rates while preserving some flexibility to participate in favorable developments. Based on this reference model and depending on the market outlook, the FXCo determines the hedging horizon, which usually varies from one to three years, as well as the average hedge ratios. Reflecting the character of the underlying risks, the hedge ratios decrease with increasing maturities. At year-end 2012, the centralized foreign exchange management showed an unhedged position in the automotive business for the underlying forecasted cash flows in US dollars in calendar year 2013 of 27% and for the underlying forecasted cash flows in British pounds in calendar year 2013 of 26%. The corresponding figures at year-end 2011 for calendar year 2012 were 25% for US dollars and 15% for British pounds. The higher unhedged position compared to last year contributes to a higher exposure of cash flows to currency risk with respect to the US dollar and British pound.

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

Table ↗ 7.83 shows the period-end, high, low and average value at risk figures for the 2012 and 2011 portfolios of derivative financial instruments, which were entered into primarily in connection with the operative vehicle businesses. Average exposure has been computed on an end-of-quarter basis. The offsetting transactions underlying the derivative financial instruments are not included in the following value at risk presentation. See also table ↗ 7.80 for the nominal volumes on the balance sheet date of derivative currency instruments entered into to hedge the currency risk from forecasted transactions.

In 2012, the development of the value at risk from foreign currency hedging was mainly driven by the changes of the nominal values and foreign currency volatilities.

The Group's investments in liquid assets or refinancing activities generally are not allowed to result in currency risk. Transaction risks arising from liquid assets or payables in foreign currencies that result from the Group's investment or refinancing on money and capital markets are generally hedged against currency risks at the time of investing or refinancing in accordance with Daimler's internal guidelines. The Group uses appropriate derivative financial instruments (e.g. cross currency interest rate swaps) to hedge against currency risk.

Since currency risks arising from the Group's investment refinancing in foreign currencies and the respective hedging transactions principally offset each other these financial instruments are not included in the value at risk calculation above presented.

Effects of currency translation. For purposes of Daimler's consolidated financial statements, the income and expenses and the assets and liabilities of subsidiaries located outside the euro zone are converted into euros. Therefore, period-to-period changes in average exchange rates may cause translation effects that have a significant impact on, for example, revenue, segment results (earnings before interest and taxes – EBIT) and assets and liabilities of the Group. Unlike exchange rate transaction risk, exchange rate translation risk does not necessarily affect future cash flows. The Group's equity position reflects changes in book values caused by exchange rates. Daimler does not generally hedge against exchange rate translation risk.

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

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

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

Table ↗ 7.84 shows the period-end, high, low and average value at risk figures for the 2012 and 2011 portfolio of interest rate sensitive financial instruments and derivative financial instruments of the Group, including the derivative financial instruments of the leasing and sales financing business. In this respect, the table shows the interest rate risk regarding the unhedged position of interest rate sensitive financial instruments. The average values have been computed on an end-of-quarter basis.

In the course of last year the development of the value at risk for interest rate sensitive financial instruments was primarily determined by the development of interest rate volatilities for the euro and US dollar currency areas.

Commodity price risk. Daimler is exposed to the risk of changes in commodity prices in connection with procuring raw materials and manufacturing supplies used in production. A not insignificant share of the raw material price risk, primarily relating to forecasted procurement of certain metals, is mitigated with the use of derivative financial instruments.

For precious metals, central commodity management shows an unhedged position of 29% of the forecasted commodity purchases at year-end 2012 for calendar year 2013. The corresponding figure at year-end 2011 was 24% for calendar year 2012.

Table ↗ 7.85 shows the period-end, high, low and average value at risk figures for the 2012 and 2011 portfolio of derivative financial instruments used to hedge raw material price risk. Average exposure has been computed on an end-of-quarter basis. The offsetting transactions underlying the derivative financial instruments are not included in the following value at risk presentation. See also table ↗ 7.80 for the nominal volumes on the balance sheet date of derivative commodity price hedges.

Compared to the previous year the value at risk has been reduced. The main reason for this development was the declining volatility in the respective commodities.

Equity price risk. Daimler predominantly holds investments in shares of companies, such as EADS, Kamaz, Renault and Nissan, which are classified as long-term investments or which are accounted for using the equity method. Therefore, the Group does not include these investments in its equity price risk assessment.

In connection with the takeover of Tognum AG by Engine Holding GmbH (Engine Holding), Rolls-Royce has granted Daimler AG the right to exercise a put option on the shares it holds in Engine Holding (see also Note 13). As this option hedges the value of Daimler's investment in Engine Holding, this derivative financial instrument is also excluded from the analysis of market risk.

7.83

Value at risk for exchange rate risk

	2012				2011			
	Period-end	High	Low	Average	Period-end	High	Low	Average
In millions of euros								
Exchange rate risk (from derivative financial instruments)	510	821	510	652	651	651	385	563

7.84

Value at risk for interest rate risk

	2012				2011			
	Period-end	High	Low	Average	Period-end	High	Low	Average
In millions of euros								
Interest rate risk	33	53	33	43	60	78	29	50

7.85

Value at risk for commodity price risk

	2012				2011			
	Period-end	High	Low	Average	Period-end	High	Low	Average
In millions of euros								
Commodity price risk (from derivative financial instruments)	53	60	53	56	94	115	45	79

32. Segment reporting

Reportable segments. The reportable segments of the Group are Mercedes-Benz Cars, Daimler Trucks, Mercedes-Benz Vans, Daimler Buses and Daimler Financial Services. The segments are largely organized and managed separately according to nature of products and services provided, brands, distribution channels and profile of customers.

The vehicle segments develop and manufacture passenger cars and off-road vehicles, trucks, vans and buses. Mercedes-Benz Cars sells its passenger cars and off-road vehicles under the brand names Mercedes-Benz, smart and Maybach. Daimler Trucks distributes its trucks under the brand names Mercedes-Benz, Freightliner, Western Star, BharatBenz, Thomas Built Buses and Fuso. The vans of the Mercedes-Benz Vans segment are primarily sold under the brand name Mercedes-Benz. Daimler Buses sells completely built-up buses under the brand names Mercedes-Benz and Setra. In addition, Daimler Buses produces and sells bus chassis. The vehicle segments also sell related spare parts and accessories.

The Daimler Financial Services segment supports the sales of the Group's vehicle segments worldwide. Its product portfolio mainly comprises tailored financing and leasing packages for customers and dealers. The segment also provides services such as insurance, fleet management, investment products and credit cards.

Management reporting and controlling systems. The Group's management reporting and controlling systems principally use accounting policies that are the same as those described in Note 1 in the summary of significant accounting policies under IFRS.

The Group measures the performance of its operating segments through a measure of segment profit or loss which is referred to as "EBIT" in our management and reporting system.

EBIT is the measure of segment profit/loss used in segment reporting and comprises gross profit, selling and general administrative expenses, research and non-capitalized development costs, other operating income and expense, and our share of profit/loss from investments accounted for using the equity method, net, as well as other financial income/expense, net.

Intersegment revenue is generally recorded at values that approximate third-party selling prices.

Segment assets principally comprise all assets. The industrial business segments' assets exclude income tax assets, assets from defined pension benefit plans and other post-employment benefit plans and certain financial assets (including liquidity).

Segment liabilities principally comprise all liabilities. The industrial business segments' liabilities exclude income tax liabilities, liabilities from defined pension benefit plans and other post-employment benefit plans and certain financial liabilities (including financing liabilities).

Pursuant to risk sharing agreements between Daimler Financial Services and the respective vehicle segments the residual value risks associated with the Group's operating leases and its finance lease receivables are primarily borne by the vehicle segments that manufactured the leased equipment. The terms of the risk sharing arrangement vary by segment and geographic region.

Non-current assets comprise of intangible assets, property, plant and equipment and equipment on operating leases.

Capital expenditures for property, plant and equipment and intangible assets reflect the cash effective additions to these property, plant and equipment and intangible assets as far as they do not relate to capitalized borrowing costs or goodwill and finance leases.

The effects of certain legal proceedings are excluded from the operative results and liabilities of the segments, if such items are not indicative of the segments' performance, since their related results of operations may be distorted by the amount and the irregular nature of such events. This may also be the case for items that refer to more than one reportable segment.

If the Group hedges investments in associated companies for strategic reasons, the related financial assets and earnings effects are generally not allocated to the segments. They are included in the reconciliation to Group figures as corporate items.

With respect to information about geographical regions, revenue is allocated to countries based on the location of the customer; non-current assets are disclosed according to the physical location of these assets.

Table ↗ 7.86 presents segment information as of and for the years ended December 31, 2012 and 2011.

7.86
Segment information

	Mercedes-Benz Cars	Daimler Trucks	Mercedes-Benz Vans	Daimler Buses	Daimler Financial Services	Total Segments	Recon-ciliation	Consoli-dated
In millions of euros								
2012								
Revenue	59,829	29,085	8,731	3,866	12,786	114,297	–	114,297
Intersegment revenue	1,831	2,304	339	63	764	5,301	-5,301	–
Total revenue	61,660	31,389	9,070	3,929	13,550	119,598	-5,301	114,297
Segment profit (EBIT)	4,389	1,714	541	-232	1,292	7,704	911	8,615
thereof share of profit/loss from investments accounted for using the equity method	-4	72	-79	1	-16	-26	1,016	990
thereof expenses from compounding of provisions and changes in discount rates	-342	-120	-46	-14	-4	-526	-17	-543
Segment assets	43,628	21,371	5,129	3,230	85,496	158,854	4,124	162,978
thereof investments accounted for using the equity method	662	2,185	1	5	13	2,866	1,780	4,646
Segment liabilities	28,138	10,612	3,833	2,255	79,343	124,181	-6,713	117,468
Additions to non-current assets	10,254	2,236	988	365	7,564	21,407	-32	21,375
thereof capital expenditures for intangible assets	1,334	265	173	27	30	1,829	1	1,830
thereof capital expenditures for property, plant and equipment	3,495	989	223	82	23	4,812	15	4,827
Depreciation and amortization of non-current assets	3,490	1,356	387	178	2,474	7,885	-5	7,880
thereof amortization of intangible assets	835	245	78	12	11	1,181	-1	1,180
thereof depreciation of property, plant and equipment	1,860	799	141	75	14	2,889	-2	2,887

	Mercedes-Benz Cars	Daimler Trucks	Mercedes-Benz Vans	Daimler Buses	Daimler Financial Services	Total Segments	Recon-ciliation	Consoli-dated
In millions of euros								
2011								
Revenue	55,565	26,405	8,835	4,347	11,388	106,540	–	106,540
Intersegment revenue	1,845	2,346	344	71	692	5,298	-5,298	–
Total revenue	57,410	28,751	9,179	4,418	12,080	111,838	-5,298	106,540
Segment profit (EBIT)	5,192	1,876	835	162	1,312	9,377	-622	8,755
thereof share of profit/loss from investments accounted for using the equity method	87	32	-8	1	-13	99	174	273
thereof expenses from compounding of provisions and changes in discount rates	-135	-51	-21	-7	-3	-217	-8	-225
Segment assets	39,888	20,977	4,918	3,271	75,624	144,678	3,454	148,132
thereof investments accounted for using the equity method	482	1,603	66	4	30	2,185	2,476	4,661
Segment liabilities	28,113	10,978	3,890	2,111	70,251	115,343	-8,548	106,795
Additions to non-current assets	8,850	2,358	864	367	6,252	18,691	-47	18,644
thereof capital expenditures for intangible assets	1,174	344	148	37	16	1,719	-1	1,718
thereof capital expenditures for property, plant and equipment	2,724	1,201	109	103	21	4,158	–	4,158
Depreciation and amortization of non-current assets	3,142	1,097	391	155	2,095	6,880	65	6,945
thereof amortization of intangible assets	737	171	74	10	10	1,002	1	1,003
thereof depreciation of property, plant and equipment	1,685	657	151	67	12	2,572	–	2,572

7.87

Reconciliation to Group figures

	2012	2011
In millions of euros		
Total segments' profit/loss (EBIT)	7,704	9,377
Share of profit/loss from investments accounted for using the equity method[1]	1,016	174
Other corporate items	-113	-619
Eliminations	8	-177
Group EBIT	8,615	8,755
Interest income	828	955
Interest expense	-1,725	-1,261
Profit/loss before income taxes	7,718	8,449
Total segments' assets	158,854	144,678
Investments accounted for using the equity method[1]	1,780	2,476
Income tax assets[2]	2,200	2,575
Unallocated financial assets (including liquidity) and assets from defined benefit plans[2]	13,843	10,459
Other corporate items and eliminations	-13,699	-12,056
Group assets	162,978	148,132
Total segments' liabilities	124,181	115,343
Income tax liabilities[2]	1,627	2,551
Unallocated financial liabilities and liabilities from defined benefit plans[2]	6,173	1,672
Other corporate items and eliminations	-14,513	-12,771
Group liabilities	117,468	106,795

1 Includes mainly the Group's proportionate share in the investment and results of EADS. For further information see Note 13.
2 Industrial business

Daimler Trucks. In 2011, the Group recorded an impairment loss of €32 million with respect to its investment in Kamaz. The loss is included in the Daimler Trucks segment's EBIT.

Mercedes-Benz Vans. In 2012, the Group recognized an impairment charge on the equity investment in FBAC in the amount of €64 million: the loss is included in Mercedes-Benz Vans segment's EBIT.

Daimler Buses. In the first half of 2012, Daimler Buses decided to restructure some sections of its business system in Europe and North America. Expenses recorded in this regard amounted to €155 million in 2012, of which €28 million was already cash effective (see also Note 5).

Daimler Financial Services. In 2010, the Board of Management decided to restructure the business activities of Daimler Financial Services AG and Mercedes-Benz Bank AG in Germany by the end of 2012. In 2012, cash outflows of €30 million resulted from these original measures (2011: €25 million). Furthermore, ongoing expenses and income affected earnings in 2012 and in the previous year (see also Note 5).

Reconciliations. Reconciliations of the total segment amounts to respective items included in financial statements are presented in table ↗ 7.87.

The reconciliation includes corporate items for which headquarters are responsible. Transactions between the segments are eliminated in the context of consolidation and the eliminated amounts are included in the reconciliation.

In 2012, the reconciliation to Group EBIT includes in the line item "Share of profit/loss from investments accounted for using the equity method" mainly profit from the sale of EADS shares in the amount of €709 million.

In 2011, the line item "Other corporate items" within the reconciliation to Group EBIT mainly comprises an impairment charge on the equity investment in Renault (€110 million) and expenses in connection with legal proceedings. In addition, in 2011, further expenses were incurred at corporate level some of which relate to IT projects and compliance activities.

Revenue and non-current assets by region. Revenue from external customers by region is shown in table ↗ 7.88.

The split of non-current assets by region is included in table ↗ 7.89.

33. Capital management

"Net assets" and "value added" represent the basis for capital management at Daimler. The assets and liabilities of the segments in accordance with IFRS provide the basis for the determination of net assets at Group level. The industrial segments are accountable for the operational net assets; all assets, liabilities and provisions which they are responsible for in day-to-day operations are therefore allocated to them. Performance measurement at Daimler Financial Services is on an equity basis, in line with the usual practice in the banking business. Net assets at Group level additionally include assets and liabilities from income taxes as well as other corporate items and eliminations.

The average annual net assets are calculated from the average quarterly net assets. The average quarterly net assets are calculated as an average of the net assets at the beginning and the end of the quarter and are shown in table ↗ 7.90.

The cost of capital of the Group's average net assets is reflected in "value added." Value added shows to which extent the Group achieves or exceeds the minimum return requirements of the shareholders and creditors, thus creating additional value. The required rate of return on net assets, and thus the cost of capital, are derived from the minimum rates of return that investors expect on their invested capital. The Group's cost of capital comprises the cost of equity as well as the costs of debt and pension obligations of the industrial business; in addition, the expected returns on liquidity and on the plan assets of the pension funds of the industrial business are considered with the opposite sign. In the reporting period, the cost of capital used for our internal capital management amounted to 8% after taxes.

The objective of capital management is to increase value added among other things by optimizing the cost of capital. This is achieved on the one hand by the management of the net assets, for instance by optimizing working capital, which is in the operational responsibility of the segments. In addition, taking into account legal regulations, Daimler strives to optimize the capital structure and, consequently, the cost of capital under cost and risk aspects. Examples for this include a balanced relationship between equity and financial liabilities as well as an appropriate level of liquidity, oriented towards the operational requirements.

7.88
Revenue by region

	2012	2011
In millions of euros		
Western Europe	39,377	39,387
thereof Germany	19,722	19,753
United States	27,233	22,222
Other American countries	9,734	10,232
Asia	25,126	22,643
thereof China	10,782	11,093
Other countries	12,827	12,056
	114,297	106,540

7.89
Non-current assets by region

	2012	2011
In millions of euros		
Germany	29,889	27,272
United States	13,889	12,168
Other countries	11,764	10,810
	55,542	50,250

7.90
Average net assets

	2012	2011
In millions of euros		
Mercedes-Benz Cars	13,947	11,814
Daimler Trucks	10,987	9,000
Mercedes-Benz Vans	1,284	1,212
Daimler Buses	1,141	1,161
Daimler Financial Services[1]	5,890	5,147
Net assets of the segments	33,249	28,334
Investments accounted for using the equity method[2]	2,408	2,643
Assets and liabilities from income taxes[3]	-80	-385
Other corporate items and eliminations[3]	808	834
Net assets Daimler Group	36,385	31,426

1 Equity
2 Unless allocated to segments
3 Industrial business

34. Earnings per share

The computation of basic and diluted earnings per share for net profit attributable to shareholders of Daimler AG is included in table ↗ 7.91.

The computations of diluted earnings per share for 2012 and 2011 do not include stock options for the acquisition of 2.3 million and 1.4 million Daimler ordinary shares, respectively, that were issued in connection with the stock option plan, because the options' underlying exercise prices were higher than the average market prices of Daimler ordinary shares in those periods.

7.91

Earnings per share

	2012	2011
In millions of euros		
Profit attributable to shareholders of Daimler AG – basic	6,095	5,667
Diluting effects in net profit	–	–
Profit attributable to shareholders of Daimler AG – diluted	6,095	5,667
In millions of shares		
Weighted average number of shares outstanding – basic	1,066.8	1,066.0
Dilutive effect of stock options	0.3	1.1
Weighted average number of shares outstanding – diluted	1,067.1	1,067.1

35. Related party relationships

Associated companies and joint ventures. Most of the goods and services supplied within the ordinary course of business between the Group and related parties comprise transactions with associated companies and joint ventures and are included in table ↗ 7.92.

A large proportion of the sales and purchases of goods and services with associated companies results from business relations with MBtech Group GmbH & Co. KGaA (MBtech Group), Engine Holding GmbH (Engine Holding) and/or Tognum AG (Tognum), which is a subsidiary of Engine Holding. Tognum purchases engines, parts and services from the Group.

After the sale of 65% shares of MBtech Group, the company is reported as an associated company as of December 31, 2012. MBtech Group develops, integrates and tests components, systems, modules and vehicles worldwide.

In June 2011, Daimler closed the sale of its equity interest in DADC Luft- und Raumfahrt Beteiligungs AG (DADC) to EADS for €110 million in cash. DADC is a holding company which primarily holds the shares in Dornier GmbH. This sale resulted in a gain of €29 million in 2011, which is included in table ↗ 7.92.

Transactions with joint ventures predominantly comprise the business relationship with Beijing Benz Automotive Co., Ltd. (BBAC). BBAC assembles and distributes Mercedes-Benz vehicles for the Group in China. To enable the Group to fully exploit the huge growth potential of the Chinese market and to intensify the cooperation with its local partner, Beijing Automotive Group Co., Ltd., Daimler has invested €0.3 billion in the joint venture BBAC and plans to additionally invest approximately €1.4 billion.

In December 2012, the joint venture company Beijing Mercedes-Benz Sales Services Co., Ltd. (BMBS) was established by Daimler and its strategic partner Beijing Automotive Group (BAIC). The new car sales company bundles as a Management-Company all sales activities for imported and locally produced Mercedes-Benz cars in China.

In December 2011, the joint venture company Beijing Foton Daimler Automotive Co., Ltd. was established by Daimler and the Chinese truck manufacturer Beiqi Foton Motor Co., Ltd. (BFDA). Daimler has committed to making a cash contribution to the joint venture company and to establishing the production of a truck engine at BFDA. In 2012, capital of €344 million was injected.

Further significant sales and purchases of goods and services relate to a joint venture in Austria, which distributes cars and spare parts of the Group. The Group also has substantial business relations with the Chinese joint venture Fujian Benz Automotive Co., Ltd. (FBAC). FBAC produces and distributes vans under the Mercedes-Benz brand name in China.

The joint ventures Mercedes-Benz Trucks Vostok OAO and Fuso Kamaz Trucks Rus Ltd., which have been established with Kamaz OAO, another of the Group's associated companies, commenced most of their business activities in 2010. These joint ventures produce and distribute trucks of the Mercedes-Benz and Fuso brands in Russia. Furthermore, buses of the Mercedes-Benz and Setra brands are sold in Russia. In addition, at the end of 2010, Daimler signed a memorandum of understanding with Kamaz to produce axles in a joint venture in Russia.

As part of their strategic partnership, Daimler and Russian truck manufacturer Kamaz signed a contract in November 2012 covering the supply of engines and axles for the Russian company's trucks and buses. In this way, the Group plans to expand its component network in Russia.

In connection with the Group's 45% equity interest in Toll Collect GmbH, Daimler has provided a number of guarantees for Toll Collect, which are not included in table ↗ 7.92 (€110 million as of December 31, 2012 and €105 million as of December 31, 2011). See Note 29 for further information.

Board members. Throughout the world, the Group has business relationships with numerous entities that are customers and/or suppliers of the Group. Those customers and/or suppliers include companies that have a connection with some of the members of the Board of Management or of the Supervisory Board and close family members of these board members of Daimler AG or its subsidiaries.

Board of Management and Supervisory Board members and close family members of these board members may also purchase goods and services from Daimler AG or its subsidiaries as customers. When such business relationships exist, transactions are concluded on the basis of customary market conditions.

For information on the remuneration of board members, see Note 36.

Contributions to plan assets. In 2012 and 2011, the Group made contributions of €1,084 million (2011: €2,053 million) to its external funds to cover pension and other post-employment benefits. For further information, see also Note 22.

7.92

Transactions with associated companies and joint ventures

	Sales of goods and services and other income		Purchases of goods and services and other expense		Receivables At December 31,		Payables At December 31,	
	2012	2011	2012	2011	2012	2011	2012	2011
In millions of euros								
Associated companies	811	789	425	197	212	239	69	46
Joint ventures	2,695	2,825	360	418	627	526	21	24

36. Remuneration of the members of the Board of Management and the Supervisory Board

Remuneration granted to the members of the Board of Management and the Supervisory Board affecting net profit for the year ended December 31 was as presented in table ↗ 7.93.

7.93
Remuneration of the members of the Board of Management and the Supervisory Board

	2012	2011
In millions of euros		
Remuneration granted to the members of the Board of Management		
Fixed remuneration	7.5	7.4
Short-term variable remuneration	4.7	6.4
Mid-term variable remuneration	4.0	6.4
Variable remuneration with a long-term incentive effect	20.2	8.9
Post-employment benefits (service cost)	2.4	2.2
Termination benefits	–	–
	38.8	31.3
Remuneration granted to the members of the Supervisory Board	3.0	3.0
	41.8	34.3

7.94
Principal accountant fees

	2012	2011
In millions of euros		
Annual audit	24	27
thereof in Germany	10	12
Other attestation services	15	18
thereof in Germany	9	12
Tax consulting services	.	.
thereof in Germany	.	.
Other services	4	4
thereof in Germany	3	3
	43	49

Expenses for variable remuneration with long-term incentive effect, as shown in table ↗ 7.93, result from the ongoing measurement at fair value at each balance sheet date of all rights granted and not yet forfeited under the Performance Phantom Share Plans (PPSP). In addition, the measurement at their intrinsic values of the stock options granted in 2004 is included. In 2012, the active members of the Board of Management were granted 242,332 (2011: 176,064) phantom shares in connection with the PPSP; the fair value of these phantom shares at the grant date was €11.4 million (2011: €8.8 million). According to Section 314 Subsection 1 Number 6a of the German Commercial Code (HGB) the overall remuneration granted to the members of the Board of Management, excluding service cost resulting from entitlements to post-employment benefits, amounted to €28.2 million (2011: €29.0 million). For additional information on share-based payment of the members of the Board of Management see Note 21.

The members of the Supervisory Board are solely granted short-term benefits for their board and committee activities, except for remuneration and other benefits paid to those members representing the employees in accordance with their contracts of employment. No remuneration was paid for services provided personally beyond board and committee activities, in particular for advisory or agency services, in 2012 or 2011.

No advances or loans were made to members of the Board of Management or members of the Supervisory Board of Daimler AG.

The payments made in 2012 to former members of the Board of Management of Daimler AG and their survivors amounted to €15.4 million (2011: €13.9 million). The pension provisions for former members of the Board of Management and their survivors amounted to €225.9 million as of December 31, 2012 (2011: €195.9 million).

Information regarding the remuneration of the members of the Board of Management and of the Supervisory Board is disclosed on an individual basis in the Remuneration Report, which is part of the Management Report.
Management Report from page 119

37. Principal accountant fees

The components of principal accountant fees for services of KPMG are included in table ↗ 7.94.

The annual audit fees are for the audit of the consolidated financial statements and the company financial statements of Daimler AG and all subsidiaries included in the Group's consolidated financial statements. Fees for other attestation services relate in particular to the review of the interim IFRS financial statements. This item also includes audits of the internal-control system as well as project-related audits performed in the context of the introduction of IT systems and other voluntary audits.

38. Subsequent events

On February 1, 2013, Daimler, Beijing Automotive Group Co., Ltd. (BAIC Group) and BAIC Motor Corporation Ltd. (BAIC Motor) signed a binding agreement according to which Daimler will to invest approximately €0.6 billion in BAIC Motor. BAIC Motor is the passenger car unit of BAIC Group, one of the leading automotive companies in China. The investment will take place through the issuance of new shares to Daimler representing a twelve percent stake in BAIC Motor. Daimler's shareholding in BAIC Motor is subject to the approval of the relevant authorities. The approvals for the closing of the transaction will require at least nine months. The agreement includes the stipulation that Daimler will receive two seats on the board of directors of BAIC Motor. Furthermore, the two companies agreed that BAIC Motor will increase its stake in the joint venture Beijing Benz Automotive Co., Ltd. (BBAC) by 1% to 51%. At the same time, Daimler will increase its stake in the integrated sales joint venture Beijing Mercedes-Benz Sales Service Co., Ltd. by 1% to 51%. Daimler will determine the effects on the Group's consolidated financial statements; a reliable estimate of the effects cannot be made at present.

The Group has announced workforce adjustments for the Daimler Trucks segment in Germany, the United States and Brazil. It is assumed that approximately up to 1,300 employees will be laid off in the area of production in the United States, while approximately 1,400 production employees in Brazil will be reemployed following in the current layoff. In non-productive areas, reductions of approximately 800 jobs are expected in Germany and of approximately 850 jobs in Brazil. Discussions with employee representatives are continuing. The effects on the consolidated financial statements can only be calculated after the relevant decisions have been made.

39. Additional information

German Corporate Governance Code. The Board of Management and the Supervisory Board of Daimler AG have issued a declaration pursuant to Section 161 of the German Stock Corporation Act and have made it permanent available to their shareholders on Daimler's website at http://www.daimler.com/company/organization-and-management/corporate-governance/declaration.

Third-party companies. At December 31, 2012, the Group was a shareholder of the companies included in table ↗ 7.95 that meet the criteria of a significant third-party company as defined by the German Corporate Governance Code.

7.95
Third-party companies

Name of the company	Renault SA[2]	Nissan Motor Company Ltd.[3]
Headquarters of the company	Boulogne-Billancourt, France	Tokyo, Japan
Equity interest in %[1]	3.1	3.1
Total equity in millions of euros	24,292	28,721
Net profit in millions of euros	1,772	3,137

1 As of December 31, 2012.
2 Based on IFRS consolidated financial statements for the year ended December 31, 2012.
3 Based on national consolidated financial statements for the year ended March 31, 2012.

Information on investments. The statement of investments of Daimler AG pursuant to Sections 285 and 313 of the German Commercial Code (HGB) is presented on pages 266 ff. ↗ 7.96 Information on equity and earnings is omitted pursuant to Section 286 Subsection 3 Sentence 1 No. 1 of the HGB if such information is of minor relevance for a fair presentation of the financial position, cash flows and profitability of Daimler AG. In addition, it is indicated in the statement of investments (footnote 7) which consolidated companies are exempt pursuant to Section 264 Subsection 3 or Section 264b of the HGB from the requirement to disclose their financial statements or to prepare a management report or notes to their financial statements. The consolidated financial statements of Daimler AG releases those subsidiaries from those requirements.

7.96
Statement of investments of Daimler AG

Name of the Company	Domicile, Country	Capital share in %[1]	Equity in millions of €	Net income (loss) in millions of €	Footnote
A. Subsidiaries					
I. Consolidated companies					
Anlagenverwaltung Daimler AG & Co. OHG Berlin	Schönefeld, Germany	100.00	307	20	7
Atlantic Detroit Diesel Allison, LLC	Detroit, USA	100.00	–	–	
Atlantis Foundries (Pty.) Ltd.	Atlantis Industria, Republic of South Africa	100.00	–	–	
Axle Alliance Company LLC	Detroit, USA	100.00	–	–	
Banco Mercedes-Benz do Brasil S.A.	São Paulo, Brazil	100.00	449	40	10
Belerofonte Empreendimentos Imobiliários Ltda.	São Paulo, Brazil	100.00	–	–	
BlackStar InvestCo LLC	Wilmington, USA	100.00	–	–	
Brooklands Estates Management Limited	Milton Keynes, United Kingdom	100.00	–	–	
car2go Canada Ltd.	Vancouver, Canada	100.00	–	–	
car2go Deutschland GmbH	Esslingen, Germany	100.00	–	–	
car2go Europe GmbH	Esslingen, Germany	75.00	–	–	
car2go Italia S.r.L.	Milan, Italy	100.00	–	–	
car2go N.A. LLC	Austin, USA	100.00	5	16	
car2go Nederland B.V.	Amsterdam, Netherlands	100.00	–	–	
car2go Österreich GmbH	Vienna, Austria	100.00	–	–	
car2go UK Ltd.	Birmingham, United Kingdom	100.00	–	–	
CARS Technik & Logistik GmbH	Wiedemar, Germany	100.00	–	–	7, 8
Chrysler do Brasil Ltda.	São Bernardo do Campo, Brazil	100.00	–	–	
CLIDET NO 1048 (Proprietary) Limited	Centurion, Republic of South Africa	100.00	–	–	
Comercial Mercedes-Benz, S.A.	Madrid, Spain	100.00	–	–	
Commercial Vehicles of South Florida Inc.	Pompano Beach, USA	100.00	–	–	
Conemaugh Hydroelectric Projects, Inc.	Farmington Hills, USA	100.00	–	–	
Coventry Lane Holdings, L.L.C.	Farmington Hills, USA	100.00	–	–	
DAF Investments, Ltd.	Farmington Hills, USA	100.00	–	–	
Daimler AC Leasing, d.o.o.	Ljubljana, Slovenia	52.00	–	–	
Daimler Aerospace GmbH & Co. KG	Stuttgart, Germany	50.00	1,699	82	16
Daimler AG & Co. Wertpapierhandel OHG	Schönefeld, Germany	100.00	2,845	14	7, 9
Daimler Australia/Pacific Pty. Ltd.	Mulgrave, Australia	100.00	115	42	12
Daimler Automotive de Venezuela C.A.	Valencia, Venezuela	100.00	–	–	
Daimler Aviation South Africa (Pty) Ltd.	Pretoria, Republic of South Africa	100.00	–	–	
Daimler Belgium Financial Company S.A.	Brussels, Belgium	100.00	–	–	4
Daimler Buses North America Inc.	Oriskany, USA	100.00	22	-10	
Daimler Buses North America Ltd.	Mississauga, Canada	100.00	-9	-55	
Daimler Buses North Carolina LLC	Greensboro, USA	100.00	–	–	
Daimler Canada Finance Inc.	Montreal, Canada	100.00	222	12	12
Daimler Canada Investments Company	Halifax, Canada	100.00	–	–	
Daimler Capital Services LLC	Farmington Hills, USA	100.00	–	–	
Daimler Colombia S. A.	Bogota, Colombia	100.00	–	–	
Daimler Coordination Center SCS	Brussels, Belgium	100.00	650	3	4, 14
Daimler Credit Realvest, Inc.	Farmington Hills, USA	100.00	–	–	
Daimler Export and Trade Finance GmbH	Berlin, Germany	100.00	–	–	7, 8
Daimler Finance North America LLC	Montvale, USA	100.00	–	–	
Daimler Financial Services AG	Stuttgart, Germany	100.00	1,215	–	7, 8, 10
Daimler Financial Services India Private Limited	Perungudi, India	100.00	–	–	
Daimler Financial Services Japan Co., Ltd.	Tokyo, Japan	100.00	–	–	
Daimler Financial Services México, S. de R.L. de C.V.	Mexico City, Mexico	100.00	141	33	12
Daimler Financial Services, S.A. de C.V., S.O.F.O.M., E.N.R.	Mexico City, Mexico	100.00	–	–	
Daimler Fleet Management GmbH	Stuttgart, Germany	100.00	1	–	7, 8, 10
Daimler Fleet Management Singapore Pte. Ltd.	Singapore, Singapore	100.00	–	–	
Daimler Fleet Management South Africa (Pty.) Ltd.	Centurion, Republic of South Africa	65.00	17	13	10
Daimler Fleet Management UK Limited	Milton Keynes, United Kingdom	100.00	–	–	
Daimler Fleet Services A.S.	Esenyurt Istanbul, Turkey	100.00	–	–	
Daimler India Commercial Vehicles Private Limited	Chennai, India	100.00	219	-23	17
Daimler Insurance Agency LLC	Farmington Hills, USA	100.00	–	–	
Daimler Insurance Services GmbH	Berlin, Germany	100.00	–	–	7, 8

Name of the Company	Domicile, Country	Capital share in %[1]	Equity in millions of €	Net income (loss) in millions of €	Footnote
Daimler Insurance Services UK Limited	Milton Keynes, United Kingdom	100.00	–	–	
Daimler International Finance B.V.	Utrecht, Netherlands	100.00	42	-12	10
Daimler Investments US Corporation	Montvale, USA	100.00	12,038	206	12
Daimler Luft- und Raumfahrt Holding AG	Ottobrunn, Germany	100.00	3,445	–	8
Daimler Manufactura, S.A. de C.V.	Mexico City, Mexico	100.00	–	–	
Daimler Meridian Corporation	Farmington Hills, USA	100.00	–	–	
Daimler Mexico, S.A. de C.V.	Mexico City, Mexico	100.00	401	88	
Daimler Middle East & Levant FZE	Dubai, Dubai U.A.E.	100.00	–	–	
Daimler Mobility Services GmbH	Ulm, Germany	100.00	8	–	7, 8, 12
Daimler Motors Investments LLC	Farmington Hills, USA	100.00	–	–	
Daimler North America Corporation	Montvale, USA	100.00	4,859	176	12
Daimler North America Finance Corporation	Newark, USA	100.00	33,291	406	12
Daimler Northeast Asia Ltd.	Beijing, PR China	100.00	203	31	10
Daimler Northeast Asia Parts Trading and Services Co., Ltd.	Beijing, PR China	100.00	66	29	10
Daimler Re Brokers GmbH	Berlin, Germany	74.90	–	–	7, 8
Daimler Re Insurance S.A. Luxembourg	Luxembourg, Luxembourg	100.00	–	–	
Daimler Real Estate GmbH	Berlin, Germany	100.00	–	–	7, 8
Daimler Retail Receivables LLC	Farmington Hills, USA	100.00	–	–	
Daimler Servicios Corporativos Mexico S. de R.L. de C.V.	Mexico City, Mexico	100.00	–	–	
Daimler South East Asia Pte. Ltd.	Singapore, Singapore	100.00	96	85	12
Daimler Tractocamiones S. de R.L. de C.V.	Mexico City, Mexico	100.00	–	–	
Daimler Trucks Canada Ltd.	Mississauga, Canada	100.00	–	–	
Daimler Trucks Korea Ltd.	Seoul, Republic of Korea	100.00	–	–	
Daimler Trucks North America LLC	Portland, USA	100.00	888	615	11
Daimler Trucks Remarketing Corporation	Portland, USA	100.00	–	–	
Daimler Trust Holdings LLC	Farmington Hills, USA	100.00	–	–	
Daimler Trust Leasing Conduit LLC	Farmington Hills, USA	100.00	–	–	
Daimler Trust Leasing LLC	Farmington Hills, USA	100.00	–	–	
Daimler UK Ltd.	Milton Keynes, United Kingdom	100.00	416	4	
Daimler Vans Hong Kong Limited	Hong Kong, PR China	67.55	–	–	
Daimler Vans Manufacturing, LLC	Ladson, USA	100.00	–	–	
Daimler Vans USA, LLC	Montvale, USA	100.00	–	–	
Daimler Vehicle Innovations USA, LLC	Montvale, USA	100.00	-73	-21	12
Daimler Vehículos Comerciales Mexico S. de R.L. de C.V.	Mexico City, Mexico	100.00	214	39	10
Daimler Vermögens- und Beteiligungsgesellschaft mbH	Stuttgart, Germany	100.00	8,687	–	7, 8
Daimler Verwaltungsgesellschaft für Grundbesitz mbH	Schönefeld, Germany	100.00	3,697	–	7, 8
Daimler Vorsorge und Versicherungsdienst GmbH	Berlin, Germany	100.00	–	–	7, 8
Daimspain S.L.	Alcobendas, Spain	100.00	1,414	38	
Daiprodco Mexico S. de R.L. de C.V.	Mexico City, Mexico	100.00	–	–	
Dalmatian Corporation	Ladson, USA	100.00	–	–	
DCS UTI LLC, Mercedes Series	Farmington Hills, USA	100.00	–	–	
debis Financial Services Co., Ltd.	Tokyo, Japan	100.00	–	–	
Detroit Diesel Corporation	Detroit, USA	100.00	–	–	
Detroit Diesel Overseas Corporation	Detroit, USA	100.00	–	–	
Detroit Diesel Realty, Inc.	Detroit, USA	100.00	–	–	
Detroit Diesel Remanufacturing LLC	Detroit, USA	100.00	–	–	
Detroit Diesel Remanufacturing Mexicana, S. de R.L. de C.V.	Toluca, Mexico	100.00	–	–	
Detroit Diesel-Allison de Mexico, S.A. de C.V.	San Juan Ixtacala, Mexico	100.00	–	–	
Deutsche Accumotive GmbH & Co. KG	Kirchheim unter Teck, Germany	90.00	60	-12	
DLRH Zwischenholding GmbH & Co. KG	Stuttgart, Germany	100.00	–	–	
EHG Elektroholding GmbH	Stuttgart, Germany	100.00	1,130	–	7, 8
EvoBus (Schweiz) AG	Kloten, Switzerland	100.00	–	–	
EvoBus (UK) Ltd.	Coventry, United Kingdom	100.00	–	–	
EvoBus Austria GmbH	Wiener Neudorf, Austria	100.00	–	–	
EvoBus Belgium N.V.	Kobbegem-Asse, Belgium	100.00	–	–	
EvoBus Bohemia s.r.o.	Prague, Czech Republic	100.00	–	–	
EvoBus Danmark A/S	Koege, Denmark	100.00	–	–	

Name of the Company	Domicile, Country	Capital share in %[1]	Equity in millions of €	Net income (loss) in millions of €	Footnote
EvoBus France S.A.S.	Sarcelles, France	100.00	–	–	
EvoBus GmbH	Kirchheim unter Teck, Germany	100.00	293	–	7, 8
EvoBus Hellas A.E.B.E.	Thessaloniki, Greece	100.00	–	–	
EvoBus Ibérica, S. A.	Sámano, Spain	100.00	–	–	
EvoBus Italia S.p.A.	Bomporto, Italy	100.00	–	–	
EvoBus Nederland B.V.	Nijkerk, Netherlands	100.00	–	–	
EvoBus Polska Sp. z o.o.	Wolica, Poland	100.00	–	–	
EvoBus Portugal, S.A.	Abrunheira, Portugal	100.00	–	–	
EvoBus Sverige AB	Spanga, Sweden	100.00	–	–	
Florida Detroit Diesel-Allison, Inc.	Miami, USA	100.00	–	–	
Freightliner Custom Chassis Corporation	Gaffney, USA	100.00	–	–	
Freightliner Holding Ltd.	Calgary, Canada	100.00	–	–	
Freightliner Ltd.	Mississauga, Canada	100.00	–	–	
Grundstücksverwaltungsgesellschaft Daimler AG & Co. OHG	Schönefeld, Germany	100.00	452	7	7
Grundstücksverwaltungsgesellschaft EvoBus GmbH & Co. OHG	Schönefeld, Germany	100.00	144	15	7, 9
Grundstücksverwaltungsgesellschaft Henne-Unimog GmbH & Co. OHG	Schönefeld, Germany	100.00	–	–	7
Grundstücksverwaltungsgesellschaft Mercedes-Benz AG & Co. OHG	Schönefeld, Germany	100.00	5,557	492	7, 10
Henne-Unimog GmbH	Kirchheim-Heimstetten, Germany	100.00	–	–	7, 8
Intrepid Insurance Company	Farmington Hills, USA	100.00	–	–	
INVEMA ASSESSORIA EMPRESARIAL LTDA.	São Paulo, Brazil	100.00	–	–	
Inversora Privada Compania de Comercializacion Internacional S.A.	Buenos Aires, Argentina	99.00	–	–	4
Koppieview Property (Pty) Ltd.	Zwartkop, Republic of South Africa	100.00	–	–	
Masterdrive Commercial Ltd.	Milton Keynes, United Kingdom	100.00	–	–	
Masterdrive Group Unlimited	Milton Keynes, United Kingdom	100.00	–	–	
Masterdrive Ltd.	Milton Keynes, United Kingdom	100.00	–	–	
Masterdrive Management Ltd.	Milton Keynes, United Kingdom	100.00	–	–	
MBarc Credit Canada Inc.	Mississauga, Canada	100.00	–	–	
MDC Power GmbH	Kölleda, Germany	100.00	8	–	7, 8
MDC Technology GmbH	Kölleda, Germany	100.00	–	–	7, 8
Mercedes AMG High Performance Powertrains Ltd.	Brixworth, United Kingdom	100.00	–	–	
Mercedes-AMG GmbH	Affalterbach, Germany	100.00	21	–	7, 8
Mercedes-Benz – Aluguer de Veículos, Unipessoal Lda.	Mem Martins, Portugal	100.00	–	–	
Mercedes-Benz (China) Ltd.	Beijing, PR China	75.00	605	305	
Mercedes-Benz (Thailand) Limited	Bangkok, Thailand	100.00	37	25	
Mercedes-Benz (Yangzhou) Parts Distribution Co., Ltd.	Yangzhou, PR China	100.00	–	–	
Mercedes-Benz Accessories GmbH	Stuttgart, Germany	100.00	5	–	7, 8
Mercedes-Benz AG & Co. Grundstücksvermietung Objekt Franken KG	Schönefeld, Germany	99.00	–	–	3
Mercedes-Benz AG & Co. Grundstücksvermietung Objekt Germersheim Betriebsvorrichtungen OHG	Schönefeld, Germany	99.00	–	–	3, 9
Mercedes-Benz AG & Co. Grundstücksvermietung Objekt Germersheim KG	Schönefeld, Germany	99.00	–	–	3
Mercedes-Benz AG & Co. Grundstücksvermietung Objekt Rhein-Main OHG	Schönefeld, Germany	99.00	–	–	3, 9
Mercedes-Benz AG & Co. Grundstücksvermietung Objekt Südwest KG	Schönefeld, Germany	99.00	–	–	3
Mercedes-Benz AG & Co. Grundstücksvermietung Objekte Baden-Baden und Dresden OHG	Düsseldorf, Germany	100.00	–	–	3, 9
Mercedes-Benz AG & Co. Grundstücksvermietung Objekte Leipzig und Magdeburg KG	Schönefeld, Germany	100.00	–	–	3
Mercedes-Benz Antwerpen N.V.	Antwerp, Belgium	100.00	–	–	
Mercedes-Benz Argentina S.A.	Buenos Aires, Argentina	100.00	158	57	10
Mercedes-Benz Asia GmbH	Stuttgart, Germany	100.00	–	–	7, 8
Mercedes-Benz Australia/Pacific Pty Ltd.	Mulgrave, Australia	100.00	376	49	
Mercedes-Benz Auto Finance Ltd.	Beijing, PR China	100.00	377	16	
Mercedes-Benz Auto Lease Trust 2011-A	Wilmington, USA	0.00	–	–	3

Name of the Company	Domicile, Country	Capital share in %[1]	Equity in millions of €	Net income (loss) in millions of €	Footnote
Mercedes-Benz Auto Lease Trust 2011-B	Wilmington, USA	0.00	–	–	3
Mercedes-Benz Auto Lease Trust 2012-1	Wilmington, USA	0.00	–	–	3
Mercedes-Benz Auto Lease Trust 2012-A	Wilmington, USA	0.00	–	–	3
Mercedes-Benz Auto Receivables Trust 2009-1	Wilmington, USA	0.00	–	–	3
Mercedes-Benz Auto Receivables Trust 2010-1	Wilmington, USA	0.00	–	–	3
Mercedes-Benz Auto Receivables Trust 2011-1	Wilmington, USA	0.00	–	–	3
Mercedes-Benz Auto Receivables Trust 2012-1	Wilmington, USA	0.00	–	–	3
Mercedes-Benz Bank AG	Stuttgart, Germany	100.00	916	–	8, 10
Mercedes-Benz Bank Polska S.A.	Warsaw, Poland	100.00	–	–	
Mercedes-Benz Bank Rus OOO	Moscow, Russia	100.00	–	–	
Mercedes-Benz Bank Service Center GmbH	Berlin, Germany	100.00	–	–	
Mercedes-Benz Banking Service GmbH	Saarbrücken, Germany	100.00	–	–	7, 8
Mercedes-Benz Belgium Luxembourg S.A.	Brussels, Belgium	100.00	–	–	
Mercedes-Benz Bordeaux S.A.S.	Begles, France	100.00	–	–	
Mercedes-Benz Broker Biztositási Alkusz Hungary Kft.	Budapest, Hungary	100.00	–	–	
Mercedes-Benz Brooklands Limited	Milton Keynes, United Kingdom	100.00	–	–	
Mercedes-Benz Canada Inc.	Toronto, Canada	100.00	116	39	
Mercedes-Benz Ceská republika s.r.o.	Prague, Czech Republic	100.00	–	–	
Mercedes-Benz CharterWay España, S.A.	Alcobendas, Spain	100.00	–	–	
Mercedes-Benz CharterWay Gesellschaft mit beschränkter Haftung	Berlin, Germany	100.00	–	–	7, 8
Mercedes-Benz CharterWay S.A.S.	Le Chesnay Cedex, France	100.00	–	–	
Mercedes-Benz CharterWay S.p.A.	Rome, Italy	100.00	–	–	
Mercedes-Benz Comercial Valencia, S.A.	Massanassa, Spain	100.00	–	–	
Mercedes-Benz Comercial, Unipessoal Lda.	Mem Martins, Portugal	100.00	–	–	
Mercedes-Benz Compañia Financiera Argentina S.A.	Buenos Aires, Argentina	100.00	–	–	
Mercedes-Benz Corretora de Seguros Ltda.	São Paulo, Brazil	99.98	–	–	
Mercedes-Benz Côte d'Azur SAS	Villeneuve-Loubet, France	100.00	–	–	
Mercedes-Benz CPH A/S	Herlev, Denmark	100.00	–	–	
Mercedes-Benz Credit Pénzügyi Szolgáltató Hungary Zrt.	Budapest, Hungary	90.00	–	–	
Mercedes-Benz Danmark A/S	Copenhagen, Denmark	100.00	–	–	
Mercedes-Benz Dealer Bedrijven B.V.	The Hague, Netherlands	100.00	–	–	
Mercedes-Benz Desarrollo de Mercados, S. de R.L. de C.V.	Mexico City, Mexico	100.00	–	–	
Mercedes-Benz do Brasil Assessoria Comercial Ltda.	São Paulo, Brazil	100.00	–	–	
Mercedes-Benz do Brasil Ltda.	São Bernardo do Campo, Brazil	100.00	1,323	70	
Mercedes-Benz Drogenbos N.V.	Drogenbos, Belgium	100.00	–	–	
Mercedes-Benz Espana, S.A.	Alcobendas, Spain	99.96	298	65	
Mercedes-Benz Finance China Ltd.	Hong Kong, PR China	100.00	–	–	
Mercedes-Benz Finance Co., Ltd.	Tokyo, Japan	90.00	–	–	
Mercedes-Benz Financial Services Australia Pty. Ltd.	Mulgrave, Australia	100.00	142	23	
Mercedes-Benz Financial Services Austria GmbH	Salzburg, Austria	51.00	–	–	
Mercedes-Benz Financial Services BeLux N.V.	Brussels, Belgium	100.00	–	–	
Mercedes-Benz Financial Services Canada Corporation	Mississauga, Canada	100.00	308	63	12
Mercedes-Benz Financial Services Ceská republika s.r.o.	Prague, Czech Republic	100.00	69	26	
Mercedes-Benz Financial Services España, E.F.C., S.A.	Alcobendas, Spain	100.00	–	–	
Mercedes-Benz Financial Services France S.A.	Bailly, France	100.00	218	18	
Mercedes-Benz Financial Services Hellas Vehicle Sales and Rental SA	Kifissia, Greece	100.00	–	–	
Mercedes-Benz Financial Services Hong Kong Ltd.	Hong Kong, PR China	80.00	–	–	
Mercedes-Benz Financial Services Italia S.p.A.	Rome, Italy	100.00	122	-14	10
Mercedes-Benz Financial Services Korea Ltd.	Seoul, Republic of Korea	80.00	–	–	
Mercedes-Benz Financial Services Nederland B.V.	Utrecht, Netherlands	100.00	93	25	
Mercedes-Benz Financial Services New Zealand Ltd.	Auckland, New Zealand	100.00	–	–	
Mercedes-Benz Financial Services Portugal – Instituição Financeira de Crédito S.A.	Mem Martins, Portugal	100.00	–	–	
Mercedes-Benz Financial Services Rus OOO	Moscow, Russia	100.00	117	14	
Mercedes-Benz Financial Services Schweiz AG	Schlieren, Switzerland	100.00	–	–	
Mercedes-Benz Financial Services Singapore Ltd.	Singapore, Singapore	85.00	–	–	
Mercedes-Benz Financial Services Slovakia s.r.o.	Bratislava, Slovakia	75.00	–	–	

Name of the Company	Domicile, Country	Capital share in %[1]	Equity in millions of €	Net income (loss) in millions of €	Footnote
Mercedes-Benz Financial Services South Africa (Pty) Ltd.	Centurion, Republic of South Africa	100.00	107	24	10
Mercedes-Benz Financial Services Taiwan Ltd.	Taipei, Taiwan	100.00	–	–	
Mercedes-Benz Financial Services UK Limited	Milton Keynes, United Kingdom	100.00	378	50	
Mercedes-Benz Financial Services USA LLC	Farmington Hills, USA	100.00	656	512	10, 11
Mercedes-Benz Finans Danmark A/S	Hvidovre, Denmark	100.00	–	–	
Mercedes-Benz Finans Sverige AB	Malmö, Sweden	100.00	–	–	
Mercedes-Benz Finansal Kiralama Türk A.S.	Esenyurt Istanbul, Turkey	100.00	–	–	
Mercedes-Benz Finansman Türk A.S.	Esenyurt Istanbul, Turkey	100.00	62	17	
Mercedes-Benz Försäljnings AB	Malmö, Sweden	100.00	–	–	
Mercedes-Benz France S.A.S.	Rocquencourt, France	100.00	434	71	10
Mercedes-Benz Gent N.V.	Gent, Belgium	100.00	–	–	
Mercedes-Benz Grand Prix Ltd.	Brackley, United Kingdom	100.00	50	-26	
Mercedes-Benz Hellas S.A.	Kifissia, Greece	100.00	–	–	
Mercedes-Benz Hong Kong Limited	Hong Kong, PR China	100.00	31	17	
Mercedes-Benz India Private Limited	Pune, India	100.00	–	–	
Mercedes-Benz Insurance Broker SRL	Bucharest, Romania	100.00	–	–	
Mercedes-Benz Insurance Services Nederland B.V.	Utrecht, Netherlands	100.00	–	–	
Mercedes-Benz Insurance Services Taiwan Ltd.	Taipei, Taiwan	100.00	–	–	
Mercedes-Benz Italia S.p.A.	Rome, Italy	100.00	238	-12	10
Mercedes-Benz Japan Co., Ltd.	Tokyo, Japan	100.00	548	40	10
Mercedes-Benz Korea Limited	Seoul, Republic of Korea	51.00	67	24	
Mercedes-Benz Leasing (Thailand) Co., Ltd.	Bangkok, Thailand	100.00	–	–	
Mercedes-Benz Leasing Co., Ltd.	Beijing, PR China	100.00	–	–	
Mercedes-Benz Leasing do Brasil Arrendamento Mercantil S.A.	Barueri, Brazil	100.00	–	–	
Mercedes-Benz Leasing GmbH	Stuttgart, Germany	100.00	36	–	7, 8, 10
Mercedes-Benz Leasing Hrvatska d.o.o.	Zagreb, Croatia	100.00	–	–	
Mercedes-Benz Leasing IFN SA	Bucharest, Romania	100.00	–	–	
Mercedes-Benz Leasing Kft.	Budapest, Hungary	90.00	–	–	
Mercedes-Benz Leasing Polska Sp. z o.o.	Warsaw, Poland	100.00	–	–	
Mercedes-Benz Leasing Taiwan Ltd.	Taipei, Taiwan	100.00	–	–	
Mercedes-Benz Leasing Treuhand GmbH	Stuttgart, Germany	100.00	–	–	7, 8
Mercedes-Benz Lille SAS	Villeneuve d'Ascq, France	100.00	–	–	
Mercedes-Benz Ludwigsfelde GmbH	Ludwigsfelde, Germany	100.00	–	–	7, 8
Mercedes-Benz Luxembourg S.A.	Luxembourg, Luxembourg	90.00	–	–	
Mercedes-Benz Lyon S.A.S.	Lyon, France	100.00	–	–	
Mercedes-Benz Malaysia Sdn. Bhd.	Kuala Lumpur, Malaysia	51.00	69	32	
Mercedes-Benz Manhattan, Inc.	New York, USA	100.00	–	–	
Mercedes-Benz Manufacturing (Thailand) Limited	Bangkok, Thailand	100.00	–	–	
Mercedes-Benz Manufacturing Hungary Kft.	Kecskemét, Hungary	100.00	15	-25	10
Mercedes-Benz Manufacturing South Africa (Pty) Ltd.	East London, Republic of South Africa	100.00	–	–	
Mercedes-Benz Master Owner Trust	Wilmington, USA	0.00	–	–	3
Mercedes-Benz Mexico, S. de R.L. de C.V.	Mexico City, Mexico	100.00	28	23	10
Mercedes-Benz Milano S.p.A.	Milan, Italy	100.00	1	-18	10
Mercedes-Benz Minibus GmbH	Dortmund, Germany	100.00	–	–	7, 8
Mercedes-Benz Mitarbeiter-Fahrzeuge Leasing GmbH	Stuttgart, Germany	100.00	–	–	7, 8
Mercedes-Benz Molsheim S.A.S.	Molsheim, France	100.00	–	–	
Mercedes-Benz Nederland B.V.	Utrecht, Netherlands	100.00	230	37	10
Mercedes-Benz New Zealand Ltd.	Auckland, New Zealand	100.00	–	–	
Mercedes-Benz Ninove N.V.	Ninove, Belgium	100.00	–	–	
Mercedes-Benz Paris SAS	Le Port-Marly, France	100.00	–	–	
Mercedes-Benz Polska Sp. z.o.o	Warsaw, Poland	100.00	–	–	
Mercedes-Benz Portugal, S.A.	Mem Martins, Portugal	100.00	–	–	
Mercedes-Benz Renting, S.A.	Alcobendas, Spain	100.00	–	–	
Mercedes-Benz Research & Development North America, Inc.	Palo Alto, USA	100.00	–	–	
Mercedes-Benz Retail Group UK Limited	Milton Keynes, United Kingdom	100.00	–	–	
Mercedes-Benz Risk Solutions South Africa (Pty.) Ltd.	Centurion, Republic of South Africa	100.00	–	–	
Mercedes-Benz Roma S.p.A.	Rome, Italy	100.00	1	-13	10
Mercedes-Benz Romania S.R.L.	Bucharest, Romania	100.00	–	–	

Name of the Company	Domicile, Country	Capital share in %[1]	Equity in millions of €	Net income (loss) in millions of €	Footnote
Mercedes-Benz Russia SAO	Moscow, Russia	100.00	251	170	10
Mercedes-Benz Schweiz AG	Schlieren, Switzerland	100.00	107	41	
Mercedes-Benz Service Leasing SRL	Bucharest, Romania	100.00	–	–	
Mercedes-Benz Services Correduria de Seguros, S.A.	Alcobendas, Spain	100.00	–	–	
Mercedes-Benz Services Malaysia Sdn Bhd	Petaling Jaya, Malaysia	100.00	–	–	
Mercedes-Benz Servizi Assicurativi Italia S.p.A.	Rome, Italy	100.00	–	–	
Mercedes-Benz Sigorta Aracilik Hizmetleri A.S.	Esenyurt Istanbul, Turkey	100.00	–	–	
Mercedes-Benz Sosnowiec Sp. z o.o.	Sosnowiec, Poland	100.00	–	–	
Mercedes-Benz South Africa (Pty) Ltd.	Pretoria, Republic of South Africa	100.00	609	103	11, 12
Mercedes-Benz Srbija i Crna Gora d.o.o.	Belgrade, Serbia	100.00	–	–	
Mercedes-Benz Sverige AB	Malmö, Sweden	100.00	–	–	
Mercedes-Benz Taiwan Ltd.	Taipei, Taiwan	51.00	80	28	10
Mercedes-Benz Technical Center Nederland B.V.	Nijkerk, Netherlands	100.00	–	–	
Mercedes-Benz Türk A.S.	Istanbul, Turkey	66.91	557	150	
Mercedes-Benz U.S. International, Inc.	Vance, USA	100.00	115	15	12
Mercedes-Benz UK Limited	Milton Keynes, United Kingdom	100.00	220	46	10
Mercedes-Benz USA, LLC	Montvale, USA	100.00	592	365	12
Mercedes-Benz V.I. Lille SAS	Vendeville, France	100.00	–	–	
Mercedes-Benz V.I. Lyon SAS	Genas, France	100.00	–	–	
Mercedes-Benz V.I. Paris Ile de France SAS	Wissous, France	100.00	–	–	
Mercedes-Benz V.I. Toulouse SAS	Fenouillet, France	100.00	–	–	
Mercedes-Benz Vietnam Ltd.	Ho Chi Minh City, Vietnam	70.00	–	–	
Mercedes-Benz Warszawa Sp. z o.o.	Warsaw, Poland	100.00	–	–	
Mercedes-Benz Waterloo S.A.	Waterloo, Belgium	100.00	–	–	
Mercedes-Benz Wavre S.A.	Wavre, Belgium	100.00	–	–	
Mercedes-Benz Wemmel N.V.	Wemmel, Belgium	100.00	–	–	
Mercedes-Benz Wholesale Receivables LLC	Wilmington, USA	100.00	–	–	
MFTA Canada, Inc.	Mississauga, Canada	100.00	–	–	
Micro Compact Car smart North N.V./S.A.	Drogenbos, Belgium	100.00	–	–	
Mitsubishi Fuso Truck and Bus Corporation	Kawasaki, Japan	89.29	235	35	10
Mitsubishi Fuso Truck Europe – Sociedade Europeia de Automòveis, S. A.	Tramagal, Portugal	100.00	–	–	
Mitsubishi Fuso Truck of America, Inc.	New Jersey, USA	100.00	–	–	
Multistate LIHTC Holdings III Limited Partnership	Farmington Hills, USA	100.00	–	–	
MVSA COMPANY, INC.	Jacksonville, USA	100.00	–	–	
N.V. Mercedes-Benz Aalst	Erembodegem, Belgium	100.00	–	–	
N.V. Mercedes-Benz Mechelen	Mechelen, Belgium	100.00	–	–	
NuCellSys GmbH	Kirchheim unter Teck, Germany	100.00	–	–	
ogotrac France S.A.S.	Paris, France	100.00	–	–	
Outer Drive Holdings LLC	Detroit, USA	100.00	–	–	
P.T. Mercedes-Benz Distribution Indonesia	Jakarta, Indonesia	95.00	39	12	
P.T. Mercedes-Benz Indonesia	Bogor, Indonesia	100.00	–	–	
P.T. Star Engines Indonesia	Bogor, Indonesia	100.00	–	–	
Renting del Pacifico S.A.C.	Lima, Peru	0.00	–	–	3
Sandown Motor Holdings (Pty) Ltd.	Johannesburg, Republic of South Africa	50.10	–	–	
SelecTrucks of America LLC	Portland, USA	100.00	–	–	
SelecTrucks of Toronto, Inc.	Mississauga, Canada	100.00	–	–	
Setra of North America, Inc.	Greensboro, USA	100.00	-19	-11	
smart France S.A.S.	Hambach, France	100.00	–	–	
smart Vertriebs gmbh	Berlin, Germany	100.00	–	–	7, 8
Starexport Trading S.A.	São Bernardo do Campo, Brazil	100.00	479	43	
Sterling Truck Corporation	Redford, USA	100.00	–	–	
Suffolk Leasing, Inc.	Farmington Hills, USA	100.00	–	–	
Sumperská správa majetku k.s.	Holysov, Czech Republic	100.00	–	–	
Taunus-Auto-Verkaufs GmbH	Wiesbaden, Germany	100.00	–	–	7, 8
Thomas Built Buses of Canada Limited	Woodstock, Canada	100.00	–	–	
Thomas Built Buses, Inc.	High Point, USA	100.00	–	–	
Trona Cogeneration Corporation	Farmington Hills, USA	100.00	–	–	
Vision Securitization Trust 2004-1	Mulgrave, Australia	0.00	–	–	3

Name of the Company	Domicile, Country	Capital share in %[1]	Equity in millions of €	Net income (loss) in millions of €	Footnote
Western Star Trucks Sales, Inc	Redford, USA	100.00	–	–	
1145820 Ontario Limited	Mississauga, Canada	100.00	–	–	
3218095 Nova Scotia Company	Mississauga, Canada	100.00	–	–	
6353 Sunset Boulevard, Inc.	Hollywood, USA	100.00	–	–	
II. Non-consolidated companies[5]					
ACN 094 979 316	Baulkham Hills, Australia	100.00	–	–	4
AEG do Brasil Produtos Eletricos e Eletronicos Ltda.	São Paulo, Brazil	100.00	–	–	
AEG India Limited	Bangalore, India	100.00	–	–	
AEG Olympia Office GmbH	Stuttgart, Germany	100.00	–	–	8
Anota Fahrzeug Service- und Vertriebsgesellschaft mbH	Berlin, Germany	100.00	–	–	8
Atlanta Freightliner Truck Sales & Service, Inc.	Forest Park, USA	100.00	–	–	
Automotive Training & Consulting GmbH	Stuttgart, Germany	100.00	–	–	8
Brefa Bremsen- und Fahrzeugdienst AG (in Liquidation)	Niederzier, Germany	100.00	–	–	4
Circulo Cerrado S.A. de ahorro para fines determinados	Buenos Aires, Argentina	70.62	–	–	
Columbia Freightliner, LLC	Columbia, USA	100.00	–	–	
Cúspide GmbH	Stuttgart, Germany	100.00	–	–	
Daimler AG & Co. Anlagenverwaltung OHG	Ludwigsfelde, Germany	100.00	–	–	9
Daimler Capital Services Asia Pacific Pte. Ltd.	Singapore, Singapore	100.00	–	–	
Daimler Culture Development Co., Ltd.	Beijing, PR China	50.00	–	–	3
Daimler Espana Gestión Inmobiliaria, S.L.	Alcobendas, Spain	100.00	–	–	
Daimler Financial Services UK Trustees Ltd.	Milton Keynes, United Kingdom	100.00	–	–	
Daimler Fleet Management Polska Sp. z o.o.	Warsaw, Poland	100.00	–	–	
Daimler FleetBoard UK Ltd.	Tamworth, United Kingdom	100.00	–	–	
Daimler Group Services Berlin GmbH	Berlin, Germany	100.00	–	–	8
Daimler Group Services Madrid, S.A.	San Sebastián de los Reyes, Spain	100.00	–	–	
Daimler Group Services Philippines, Inc.	Cebu City, Philippines	99.99	–	–	
Daimler International Assignment Services USA, LLC	Farmington Hills, USA	100.00	–	–	
Daimler IT Retail GmbH	Böblingen, Germany	100.00	–	–	8
Daimler Mitarbeiter Wohnfinanz GmbH	Stuttgart, Germany	100.00	–	–	8
Daimler Parts Brand GmbH	Stuttgart, Germany	100.00	–	–	8
Daimler Protics GmbH	Stuttgart, Germany	100.00	–	–	8
Daimler Purchasing Coordination Corp.	Farmington Hills, USA	100.00	–	–	
Daimler Services GmbH i.L.	Stuttgart, Germany	100.00	–	–	4
Daimler Starmark A/S	Horsholm, Denmark	100.00	–	–	
Daimler Trucks and Buses (China) Ltd.	Beijing, PR China	100.00	–	–	
Daimler TSS GmbH	Ulm, Germany	100.00	–	–	8
Daimler UK Share Trustee Ltd.	Milton Keynes, United Kingdom	100.00	–	–	
Daimler UK Trustees Limited	Milton Keynes, United Kingdom	100.00	–	–	
Daimler Unterstützungskasse GmbH	Stuttgart, Germany	100.00	1,248	-70	15, 19
Daiya Shoji Co., Ltd.	Maebashi, Japan	100.00	–	–	4
Dasa Aircraft Finance XV B.V.	Amsterdam, Netherlands	100.00	–	–	
Dasa Verwaltungs GmbH	Stuttgart, Germany	100.00	–	–	
Dedalus VV GmbH	Stuttgart, Germany	100.00	–	–	
Deméter Empreendimentos Imobiliários Ltda.	São Paulo, Brazil	100.00	–	–	
Deutsche Accumotive Verwaltungs-GmbH	Kirchheim unter Teck, Germany	90.00	–	–	
DLI Corporation	Farmington Hills, USA	100.00	–	–	
DLRH Verwaltungs GmbH	Stuttgart, Germany	100.00	–	–	
Eishin Jidosha Kogyo Co., Ltd.	Iwakuni, Japan	100.00	–	–	
EvoBus Reunion S. A.	Le Port, Reunion	94.33	–	–	
EvoBus Romania SRL	Bucharest, Romania	100.00	–	–	
EvoBus Russland OOO	Moscow, Russia	100.00	–	–	
France Aircraft Finance III B.V.	Amsterdam, Netherlands	100.00	–	–	
France Aircraft Finance V B.V.	Amsterdam, Netherlands	100.00	–	–	
Fünfte Vermögensverwaltungsgesellschaft Zeus mbH	Stuttgart, Germany	100.00	–	–	
Gemini-Tur Excursoes Passagens e Turismo Ltda.	São Paulo, Brazil	100.00	–	–	
Grundstücksverwaltungsgesellschaft Daimler Wohnungsbau GmbH & Co. OHG	Schönefeld, Germany	100.00	–	–	

Name of the Company	Domicile, Country	Capital share in %[1]	Equity in millions of €	Net income (loss) in millions of €	Footnote
Grundstücksverwaltungsgesellschaft Porcher & Meffert GmbH & Co. OHG	Schönefeld, Germany	100.00	–	–	
Grundstücksverwaltungsgesellschaft Taunus-Auto-Verkaufs-GmbH & Co. OHG	Schönefeld, Germany	100.00	–	–	9
Jidosha Yuso Kogyo Co., Ltd.	Sapporo, Japan	100.00	–	–	
Kyushu Fuso Bipros Co., Ltd.	Shime, Japan	100.00	–	–	
Lapland Car Test Aktiebolag	Arvidsjaur, Sweden	100.00	–	–	
Legend Investments Ltd.	Milton Keynes, United Kingdom	100.00	–	–	
MB GTC GmbH Mercedes-Benz Gebrauchtteile Center	Neuhausen, Germany	100.00	–	–	8
MB Relationship Marketing Roma S.r.l.	Rome, Italy	100.00	–	–	
MB Relationship Marketing S.r.l.	Milan, Italy	84.00	–	–	
Mercedes-Benz Adm. Consorcios Ltda.	São Bernardo do Campo, Brazil	100.00	–	–	
Mercedes-Benz Capital Services (debis) UK Ltd.	Milton Keynes, United Kingdom	100.00	–	–	
Mercedes-Benz Capital Services N.V.	Brussels, Belgium	100.00	–	–	
Mercedes-Benz CharterWay Ltd.	Milton Keynes, United Kingdom	100.00	–	–	
Mercedes-Benz Consult Graz GmbH	Raaba, Austria	100.00	–	–	
Mercedes-Benz Customer Assistance Center Maastricht N.V.	Maastricht, Netherlands	100.00	–	–	
Mercedes-Benz Egypt S.A.E.	Cairo, Egypt	99.97	–	–	
Mercedes-Benz GastroService GmbH	Gaggenau, Germany	100.00	–	–	8
Mercedes-Benz Insurance Services Korea Ltd.	Seoul, Republic of Korea	100.00	–	–	
Mercedes-Benz Museum GmbH	Stuttgart, Germany	100.00	–	–	8
Mercedes-Benz Project Consult GmbH	Stuttgart, Germany	100.00	–	–	8
Mercedes-Benz Research and Development India Private Limited	Bangalore, India	100.00	–	–	
Mercedes-Benz Slovakia s.r.o.	Bratislava, Slovakia	51.00	–	–	
Mercedes-Benz Solihull Ltd.	Milton Keynes, United Kingdom	100.00	–	–	
Mercedes-Benz TrailerAxleSystems Southern Europe S.A.S.	Rocquencourt, France	100.00	–	–	
Mercedes-Benz Venezuela S.A.	Valencia, Venezuela	100.00	–	–	4
Mercedes-Benz Vertriebsgesellschaft mbH	Berlin, Germany	100.00	–	–	8
MercedesService Card Beteiligungsgesellschaft mbH	Kleinostheim, Germany	51.00	–	–	
MercedesService Card GmbH & Co. KG	Kleinostheim, Germany	51.00	–	–	
MILON Grundstücks-Verwaltungsgesellschaft mbH & Co. KG	Grünwald, Germany	95.00	–	–	3
Mitsubishi Fuso Bus Manufacturing Co., Ltd.	Toyama, Japan	100.00	–	–	
Monarch Cars (Tamworth) Ltd.	Milton Keynes, United Kingdom	100.00	–	–	
Montajes y Estampaciones Metálicas, S.L.	Esparraguera, Spain	51.00	–	–	
MORA Grundstücks-Verwaltungsgesellschaft mbH & Co. KG	Grünwald, Germany	100.00	–	–	3
NAG Nationale Automobil-Gesellschaft Aktiengesellschaft	Stuttgart, Germany	100.00	–	–	
Nankyu Butsuryu Support Co., Ltd.	Kagoshima, Japan	100.00	–	–	4
PABCO Co., Ltd.	Ebina-City, Japan	100.00	–	–	
PABCO Kinki Co., Ltd.	Yamatokoriyama, Japan	90.00	–	–	
PABCO Sendai Co., Ltd.	Sendai, Japan	100.00	–	–	
Porcher & Meffert Grundstücksgesellschaft mbH & Co. Stuttgart OHG	Schönefeld, Germany	100.00	–	–	
R.T.C. Management Company Limited	Bicester, United Kingdom	88.89	–	–	
Ring Garage AG Chur	Chur, Switzerland	100.00	–	–	
Russ & Janot GmbH	Erfurt, Germany	100.00	–	–	8
Ruth Verwaltungsgesellschaft mbH	Stuttgart, Germany	100.00	–	–	
Saitama Rikuso Co., Ltd.	Saitama City, Japan	50.00	–	–	
Sechste Vermögensverwaltungsgesellschaft DVB mbH	Stuttgart, Germany	100.00	–	–	8
SelecTrucks Comércio de Veículos Ltda.	Mauá, Brazil	100.00	–	–	
Siebte Vermögensverwaltungsgesellschaft DVB mbH	Stuttgart, Germany	100.00	–	–	8
Star Egypt For Import LLC	Cairo, Egypt	99.50	–	–	
Star Transmission Cugir s.r.l.	Cugir, Romania	78.28	–	–	
STARKOM d.o.o.	Maribor, Slovenia	100.00	–	–	

Name of the Company	Domicile, Country	Capital share in %[1]	Equity in millions of €	Net income (loss) in millions of €	Footnote
SteloTec GmbH	Stuttgart, Germany	100.00	–	–	
T.O.C. (Schweiz) AG	Schlieren, Switzerland	51.00	–	–	
Tar Heel Truck Center Inc.	Charlotte, USA	100.00	–	–	
Tróia Empreendimentos Imobiliários Ltda.	São Paulo, Brazil	100.00	–	–	
Vermögensverwaltungsgesellschaft Daimler Atlanta mbH	Stuttgart, Germany	100.00	–	–	
Wings Aircraft Finance Inc.	Wilmington, USA	100.00	–	–	
Working Motors Limited	Milton Keynes, United Kingdom	100.00	–	–	
Zweite Vermögensverwaltungsgesellschaft Zeus mbH	Stuttgart, Germany	100.00	–	–	8
III. Companies accounted for at-equity					
Auto Testing Company, Inc.	Vance, USA	100.00	–	–	
Daimler FleetBoard GmbH	Stuttgart, Germany	100.00	–	–	8
DriveTest LLC	Laredo, USA	100.00	–	–	
MBtech Auto Testing Properties L.L.C.	Laredo, USA	100.00	–	–	
B. Associated companies and joint ventures					
I. Companies accounted for at-equity					
AFCC Automotive Fuel Cell Cooperation Corp.	Burnaby, Canada	50.10	–	–	2
Beijing Benz Automotive Co., Ltd.	Beijing, PR China	50.00	1,105	226	2
Beijing Foton Daimler Automotive Co., Ltd.	Beijing, PR China	50.00	–	–	2, 18
EM-motive GmbH	Hildesheim, Germany	50.00	–	–	2
Engine Holding GmbH	Friedrichshafen, Germany	50.00	3,954	243	
Euro Advanced Carbon Fiber Composites GmbH	Esslingen, Germany	44.90	–	–	2
European Aeronautic Defence and Space Company EADS N.V.	Leiden, Netherlands	14.87	8,850	1,033	10
FKT Holding GmbH	Vienna, Austria	50.00	–	–	2
Fujian Benz Automotive Co., Ltd.	Fuzhou, PR China	50.00	130	-16	2, 10
FUSO LAND TRANSPORT Co., Ltd.	Kawasaki, Japan	21.67	–	–	
Kamaz OAO	Naberezhnye Chelny, Russia	11.00	–	–	6
Kanagawa Mitsubishi Fuso Truck & Bus Sales Co., Ltd.	Yokohama, Japan	43.83	–	–	
Li-Tec Battery GmbH	Kamenz, Germany	49.90	13	-26	10
MBtech Group GmbH & Co. KGaA	Sindelfingen, Germany	35.00	–	–	
Mercedes-Benz Buses Central Asia GmbH	Stuttgart, Germany	50.00	–	–	2
Mercedes-Benz Trucks Vostok Holding GmbH	Vienna, Austria	50.00	–	–	2
MTU Detroit Diesel Australia Pty. Ltd.	Sydney, Australia	50.00	–	–	2
North America Fuel Systems Remanufacturing LLC	Kentwood, USA	50.00	–	–	2
Okayama Mitsubishi Fuso Truck & Bus Sales Co., Ltd.	Okayama City, Japan	50.00	–	–	
P.T. Krama Yudha Tiga Berlian Motors	Jakarta, Indonesia	18.00	247	107	17
P.T. Mitsubishi Krama Yudha Motors and Manufacturing	Jakarta, Indonesia	32.28	–	–	
Polomex, S.A. de C.V.	Garcia, Mexico	26.00	–	–	2
SelecTrucks of Atlanta LLC	McDonough, USA	50.00	–	–	2
SelecTrucks of Houston LLC	Houston, USA	50.00	–	–	2
SelecTrucks of Los Angeles LLC	Fontana, USA	50.00	–	–	2
SelecTrucks of Omaha LLC	Council Bluffs, USA	50.00	–	–	2
Shenzen BYD Daimler New Technology Co. Ltd.	Shenzhen, PR China	50.00	–	–	2
TASIAP GmbH	Stuttgart, Germany	60.00	–	–	2
Tesla Motors, Inc.	Palo Alto, USA	4.28	173	-183	10
Toll Collect GbR (Variable Interest Entity)	Berlin, Germany	45.00	–	–	2
Toll Collect GmbH	Berlin, Germany	45.00	696	82	2, 13
II. Companies not accounted for at-equity[5]					
BDF IP Holdings Ltd.	Burnaby, Canada	33.00	–	–	
Beijing Mercedes-Benz Sales Service Co., Ltd.	Beijing, PR China	50.00	–	–	2
Bishop Technology Group Ltd. (Australia)	Armidale, Australia	30.00	–	–	4
car2go Hamburg GmbH	Hamburg, Germany	25.00	–	–	
carpooling.com GmbH	Munich, Germany	16.67	–	–	
CONTRAC GmbH Maschinen und Anlagen	Wiesbaden, Germany	33.33	–	–	

Name of the Company	Domicile, Country	Capital share in %[1]	Equity in millions of €	Net income (loss) in millions of €	Footnote
EADS Participations B.V.	Amsterdam, Netherlands	45.75	–	–	2
Egyptian-German Automotive Co. (EGA) S.A.E.	6th of October City, Egypt	26.00	–	–	2
European Center for Information and Communication Technologies – EICT GmbH	Berlin, Germany	20.00	–	–	
EvoBus Hungária Kereskedelmi Kft.	Budapest, Hungary	33.33	–	–	
Grundstücksgesellschaft Schlossplatz 1 mbH & Co. KG	Berlin, Germany	18.37	–	–	
IHI Charging Systems International GmbH	Heidelberg, Germany	49.00	–	–	2
INPRO Innovationsgesellschaft für fortgeschrittene Produktionssysteme in der Fahrzeugindustrie mbH	Berlin, Germany	14.29	–	–	
Institut für angewandte Systemtechnik Bremen GmbH	Bremen, Germany	26.25	–	–	
Lackzentrum Bielefeld GmbH	Bielefeld, Germany	33.33	–	–	
Laureus World Sports Awards Limited	London, United Kingdom	50.00	–	–	2
MBtech Verwaltungs-GmbH	Sindelfingen, Germany	35.00	–	–	
Mercedes-Benz Finance Middle East LLC	Dubai, Dubai U.A.E.	40.00	–	–	2
Mercedes-Benz Hungária Kft.	Budapest, Hungary	50.00	–	–	2
Mercedes-Benz Lackzentrum Dresden GmbH	Dresden, Germany	36.00	–	–	
Mercedes-Benz Leasing Middle East LLC	Dubai, Dubai U.A.E.	40.00	–	–	2
Mercedes-Benz Österreich Vertriebsgesellschaft m.b.H.	Salzburg, Austria	50.00	–	–	2
Mercedes-Benz Starmark I/S	Vejle, Denmark	50.00	–	–	2
MFTB Taiwan Co., Ltd.	Tao-tuan, Taiwan	33.40	–	–	2
Motor Coach Holdings, LLC	New York, USA	10.00	–	–	
National Automobile Industry Company Ltd.	Jeddah, Saudi Arabia	26.00	–	–	
Omuta Unso Co., Ltd.	Omuta, Japan	33.51	–	–	
Reva SAS	Cunac, France	34.00	–	–	
smart-Brabus GmbH	Bottrop, Germany	50.00	–	–	2
STARCAM s.r.o.	Most, Czech Republic	51.00	–	–	2
tiramizoo GmbH	Munich, Germany	20.41	–	–	
Toyo Kotsu Co., Ltd.	Kurokawa-gun, Japan	28.20	–	–	

1 Share pursuant to Section 16 of the German Stock Corporation Act (AktG)
2 Joint venture
3 Control due to economic circumstances
4 In liquidation
5 As the impact of these companies is not material for the consolidated financial statements, they were not accounted for using the equity method of accounting or not consolidated
6 EBRD holds 4% of the shares. Due to the contractual situation, Daimler is deemed to be the economic owner of the shares held by the EBRD pursuant to IFRS
7 Qualification for Section 264 Subsection 3 and Section 264b of the German Commercial Code (HGB)
8 Profit and loss transfer agreement with Daimler AG (direct or indirect)
9 Daimler AG is unlimited partner
10 Financial statements 2011
11 Consolidated group financial statements
12 Financial statements according to IFRS
13 Financial statements September 1, 2011 – August 31, 2012
14 Financial statements December 1, 2011 – November 30, 2012
15 Financial statements November 1, 2010 – October 31, 2011
16 Financial statements June 1, 2011 – May 31, 2012
17 Financial statements April 1, 2011 – March 31, 2012
18 Short business year December 16, 2011 – December 31, 2011
19 Control of the investment of the assets. No consolidation of the assets due to the contractual situation.

Further Information

Hybrid nation Japan: Playing a pioneering role with green innovations is a strategic cornerstone of the “Fuso 2015” program for the future.

Responsibility Statement

in accordance with Section 37y (1) of the WpHG (German Securities Trading Act) in conjunction with Section 297 (2), 4 and Section 315 (1), 6 of the HGB (German Commercial Law)

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report, which has been combined with the management report for DAG, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Stuttgart, February 21, 2013

Dieter Zetsche

Wolfgang Bernhard

Christine Hohmann-Dennhardt

Wilfried Porth

Andreas Renschler

Hubertus Troska

Bodo Uebber

Thomas Weber

Independent Auditor's Report

Report on the Consolidated Financial Statements. We have audited the accompanying consolidated financial statements of Daimler AG, Stuttgart, and its subsidiaries, which comprise the consolidated statement of income/loss, the consolidated statement of comprehensive income/loss, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows, and notes to the consolidated financial statements for the business year from January 1 to December 31, 2012.

Management's Responsibility for the Consolidated Financial Statements. The management of Daimler AG is responsible for the preparation of these consolidated financial statements. This responsibility includes preparing these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and the supplementary requirements of German law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB (Handelsgesetzbuch: "German Commercial Code"), to give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The company's management is also responsible for the internal controls that management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) as well as in supplementary compliance with International Standards on Auditing (ISA). Accordingly, we are required to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The selection of audit procedures depends on the auditor's professional judgment. This includes the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In assessing those risks, the auditor considers the internal control system relevant to the entity's preparation of the consolidated financial statements that give a true and fair view. The aim of this is to plan and perform audit procedures that are appropriate in the given circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion. Pursuant to § 322 Abs. 3 Satz (sentence) 1 HGB, we state that our audit of the consolidated financial statements has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply in all material respects with IFRSs as adopted by the EU and the supplementary requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets and financial position of the Group as at December 31, 2012 as well as the results of operations for the business year then ended, in accordance with these requirements.

Report on the Combined Management Report. We have audited the accompanying group management report of Daimler AG, which is combined with the management report of the company for the business year from January 1 to December 31, 2012. The management of Daimler AG is responsible for the preparation of this combined management report in compliance with the applicable requirements of German commercial law pursuant to § 315a Abs. 1 HGB (Handelsgesetzbuch: German Commercial Code). We conducted our audit in accordance with § 317 Abs. 2 HGB and German generally accepted standards for the audit of the combined management report promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Accordingly, we are required to plan and perform the audit of the combined management report to obtain reasonable assurance about whether the combined management report is consistent with the consolidated financial statements and the audit findings, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Pursuant to § 322 Abs. 3 Satz 1 HGB, we state that our audit of the combined management report has not led to any reservations.

In our opinion, based on the findings of our audit of the consolidated financial statements and combined management report, the combined management report is consistent with the consolidated financial statements, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Stuttgart, February 21, 2013

KPMG AG Wirtschaftsprüfungsgesellschaft

Becker
Wirtschaftsprüfer

Meyer
Wirtschaftsprüfer

Ten Year Summary[1]

8.01

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Amounts in millions of euros										
From the statements of income										
Revenue	136,437	142,059	95,209	99,222	101,569	98,469	78,924	97,761	106,540	114,297
Personnel expenses[2]	24,287	24,216	24,650	23,574	20,256	15,066	13,928	16,454	17,424	17,970
Research and development expenditure	5,571	5,658	3,928	3,733	4,148	4,442	4,181	4,849	5,634	5,644
thereof capitalized	–	–	591	715	990	1,387	1,285	1,373	1,460	1,465
Operating profit/EBIT	5,686	5,754	2,873	4,992	8,710	2,730	-1,513	7,274	8,755	8,615
Operating margin (%)	4.2	4.1	3.0	5.0	8.6	2.8	-1.9	7.4	8.2	7.5
Income (loss) before income taxes and extraordinary items	596	3,535	2,426	4,902	9,181	2,795	-2,298	6,628	8,449	7,718
Net operating income/ Net operating profit (loss)	1,467	3,165	4,834	4,032	4,123	1,370	-2,102	5,120	6,240	7,096
as % of net assets (RONA)	2.5	5.7	10.0	8.3	10.5	4.4	-6.6	17.5	19.9	19.5
Net income/Net profit (loss)	448	2,466	4,215	3,783	3,985	1,414	-2,644	4,674	6,029	6,495
Net income per share (€)/ Net profit (loss) per share (€)	0.44	2.43	4.09	3.66	3.83	1.41	-2.63	4.28	5.32	5.71
Diluted net income per share (€)/ Diluted net profit (loss) per share (€)	0.44	2.43	4.08	3.64	3.80	1.40	-2.63	4.28	5.31	5.71
Total dividend	1,519	1,519	1,527	1,542	1,928	556	0	1,971	2,346	2,349
Dividend per share (€)	1.50	1.50	1.50	1.50	2.00	0.60	0.00	1.85	2.20	2.20
From the balance sheets										
Property, plant and equipment	32,933	34,017	35,295	32,747	14,650	16,087	15,965	17,593	19,180	20,599
Leased equipment	24,385	26,711	34,236	36,949	19,638	18,672	18,532	19,925	22,811	26,058
Other non-current assets	–	–	76,200	67,507	39,686	42,077	40,044	41,309	45,023	48,863
Inventories	14,948	16,805	19,699	18,396	14,086	16,805	12,845	14,544	17,081	17,720
Liquid assets	14,296	11,666	8,063	8,409	15,631	6,912	9,800	10,903	9,576	10,996
Other current assets	–	–	54,519	53,626	31,403	31,672	31,635	31,556	34,461	38,742
Total assets	178,450	182,872	228,012	217,634	135,094	132,225	128,821	135,830	148,132	162,978
Shareholders' equity	34,486	33,522	35,957	37,346	38,230	32,730	31,827	37,953	41,337	45,510
thereof share capital	2,633	2,633	2,647	2,673	2,766	2,768	3,045	3,058	3,060	3,063
Equity ratio Group (%)	18.5	17.5	15.1	16.5	26.9	24.3	24.7	26.5	26.3	26.5
Equity ratio industrial business (%)	26.1	25.2	23.7	27.1	43.7	42.7	42.6	45.8	46.4	47.8
Non-current liabilities	–	–	96,823	90,452	47,998	47,313	49,456	44,738	51,940	58,750
Current liabilities	–	–	95,232	89,836	48,866	52,182	47,538	53,139	54,855	58,718
Net liquidity industrial business	1,774	2,193	8,016	9,861	12,912	3,106	7,285	11,938	11,981	11,508
Net assets (average)	59,572	55,885	48,313	48,584	39,187	31,466	31,778	29,338	31,426	36,385

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Amounts in millions of euros										
From the statements of cash flows[2]										
Investments in property, plant and equipment	6,614	6,386	6,480	5,874	4,247	3,559	2,423	3,653	4,158	**4,827**
Depreciation and amortization	–	–	7,363	7,169	4,146	3,023	3,264	3,364	3,575	**4,067**
Cash provided by (used for) operating activities	13,826	11,060	11,032	14,337	7,146	-786	10,961	8,544	-696	**-1,100**
investing activities	-13,608	-16,682	-10,237	-15,857	26,479	-4,812	-8,950	-313	-6,537	**-8,864**
financing activities	2,518	2,549	-1,284	2,396	-25,204	-2,915	1,057	-7,551	5,842	**11,506**
Free cash flow of the industrial business	3,877	1,757	2,423	2,679	7,637	-3,915	2,706	5,432	989	**1,452**
From the stock exchanges										
Share price at year-end (€)	37.00	35.26	43.14	46.80	66.50	26.70	37.23	50.73	33.92	**41.32**
Average shares outstanding (in millions)	1,012.7	1,012.8	1,014.7	1,022.1	1,037.8	957.7	1,003.8	1,050.8	1,066.0	**1,066.8**
Average diluted shares outstanding (in millions)	1,012.7	1,014.5	1,017.7	1,027.3	1,047.3	959.9	1,003.8	1,051.5	1,067.1	**1,067.1**
Ratings										
Credit rating, long-term										
Standard & Poor's	BBB	BBB	BBB	BBB	BBB+	A-	BBB+	BBB+	BBB+	**A-**
Moody's	A3	A3	A3	Baa1	A3	A3	A3	A3	A3	**A3**
Fitch	BBB+	BBB+	BBB+	BBB+	A-	A-	BBB+	BBB+	A-	**A-**
DBRS	A (low)	A (low)	A (low)	A (low)	A (low)	A (low)	A (low)	A (low)	A (low)	**A (low)**
Average annual number of employees	370,684	379,019	296,109	277,771	271,704	274,330	258,628	258,120	267,274	**274,605**

1 For the years 2003 and 2004, figures according to US GAAP, since 2005 according to IFRS.
2 Until August 3, 2007, including Chrysler.

Glossary

BlueEFFICIENCY. Efficiency packages for saving fuel. They include measures taken inside engines, bodywork weight reductions, tires with low roll resistance, aerodynamic improvements, the ECO start-stop function etc. As a result, fuel consumption can be reduced by more than 20%.

BLUETEC. A combination of inner-engine measures to reduce emissions and the treatment of exhaust gases. It improves diesel engines' efficiency for cars and commercial vehicles by optimizing their combustion, and reduces their emissions with SCR catalysts.

BRIC. This abbreviation stands for the four countries of Brazil, Russia, India and China.

Compliance. By the term compliance, we understand adherence to all laws, rules, regulations and voluntary commitments, as well as the related internal policies and guidelines of the Daimler Group.

Consolidated Group. The consolidated Group is the total of all those companies that are included in the consolidated financial statements.

Corporate governance. The term corporate governance applies to the proper management and supervision of a company. The structure of corporate governance at Daimler AG is determined by Germany's Stock Corporation Act (AktG), Codetermination Act (MitbestG) and capital-market legislation.

Cost of capital. The cost of capital is the product of the average amount of capital employed and the cost-of-capital rate. The cost-of-capital rate is derived from the investors' required rate of return. see pages 95 f

CSR – corporate social responsibility. A collective term for the social responsibility assumed by companies, including economic, environmental and social aspects.

EBIT. Earnings before interest and taxes are the measure of operating profit before taxes. see pages 92 f

Equity method. Accounting and valuation method for shareholdings in associated companies and joint ventures, as well as for subsidiaries that are not fully consolidated.

Fair value. The amount for which an asset or liability could be exchanged in an arm's length transaction between knowledgeable and willing parties who are independent of each other.

Goodwill. Goodwill represents the excess of the cost of an acquired business over the fair values assigned to the separately identifiable assets acquired and liabilities assumed.

Hybrid drive. Hybrid drive systems combine internal-combustion engines with electric motors, which can be operated separately or together depending on the type of vehicle and driving situation.

IFRS – International Financial Reporting Standards. The IFRS are a set of standards and interpretations for companies' external accounting and financial reporting developed by an independent private-sector committee, the International Accounting Standards Board (IASB).

Integrity. Integrity is a matter of one's inner attitude and basic values, according to which one's actions are oriented. It means behaving towards others in a fair, open and friendly way, and doing the right thing out of conviction. Behaving with integrity necessitates adherence to rules as well as calibrating one's actions against one's inner attitude.

Integrity Code. The new "Integrity Code" has been in effect since November 2012. It defines the principles of behavior and guidelines for everyday conduct that are applicable at Daimler. Fairness, responsibility and compliance with legislation are key principles in this context.

Lithium-ion batteries. They are at the heart of future electric drive systems. Compared with conventional batteries, lithium-ion batteries are considerably smaller and feature significantly higher power density, short charging times and long lives.

Net assets. Net assets represent the capital employed by the Group and the industrial divisions. The relevant capital basis for Daimler Financial Services is equity capital. see pages 95 f

NEDC – New European Driving Cycle. A measuring method used in Europe for the objective assessment of vehicles' fuel consumption.

Index

Net operating profit. Net operating profit is the relevant parameter for measuring the Group's operating performance after taxes.

Rating. An assessment of a company's creditworthiness issued by a rating agency.

ROE – return on equity. The profitability of Daimler Financial Services is measured by return on equity. ROE is defined as the quotient of EBIT and shareholders' equity.

ROS – return on sales. The profitability of the industrial divisions is measured by return on sales. ROS is defined as the quotient of EBIT and revenue.

Sustainability. Sustainability means using natural resources in such a way that they continue to be available to fulfill the needs of future generations. In the view of the Daimler Group, sustainable business operations have to give due consideration to economic, environmental and social aspects.

Value added. Value added indicates the extent to which operating profit exceeds the cost of capital. When value added is positive, return on net assets is higher than the cost of capital.
see pages 94 f

Value at risk. This measures the potential future loss (related to market value) for a given portfolio in a certain period and for which there is a certain probability that it will not be exceeded.

List of Charts and Tables

Cover

Daimler Shares

Business and General Conditions

Profitability

Liquidity and Capital Resources

Financial Position

Daimler AG

Remuneration Report

Outlook

The Divisions

Sustainability

Corporate Governance

Consolidated Financial Statements

Tables 7.06 to 7.93 in the Notes to the Consolidated Financial Statements, see contents on page 191

Further Information

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Information on the Internet. Special information on our shares and earnings development can be found in the "Investor Relations" section of our website. daimler.com It includes the Group's annual and interim reports and the company financial statements of Daimler AG. You can also find topical reports, presentations, an overview of various key figures, information on our share price and other services.

daimler.com/investors

Publications for our shareholders:
- Annual Report (German, English)
- Interim Reports for the 1st, 2nd and 3rd quarters (German, English)
- Sustainability Report (German, English)
- Brochure: The Road to Emission-free Mobility (German, English)
- Brochure: The Vision of Accident-free Driving (German, English)
- Brochure: Company Profile 2013 (German, English)

daimler.com/ir/reports
daimler.com/downloads/en

The company financial statements of Daimler AG were prepared in accordance with German accounting principles; the consolidated financial statements and the combined management report for Daimler AG and the Daimler Group were prepared in accordance with the International Financial Reporting Standards (IFRS). Both sets of financial statements and the management report were audited by KPMG AG Wirtschaftsprüfungsgesellschaft and an unqualified audit opinion was issued thereon.

The aforementioned publications can be requested from:
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Daimler Worldwide

	Mercedes-Benz Cars	Daimler Trucks	Mercedes-Benz Vans	Daimler Buses	Sales Organization Automotive Businesses	Daimler Financial Services
Europe						
Production locations	11	7	3	7	–	–
Sales outlets	–	–	–	–	3,904	29
Revenue (in millions of euros)	26,669	9,064	7,093	2,218	–	5,769
Employees	89,738	32,567	13,246	14,752	41,178	4,516
NAFTA						
Production locations	1	14	1	3	–	–
Sales outlets	–	–	–	–	1,452	5
Revenue (in millions of euros)	14,358	10,469	881	430	–	6,121
Employees	3,258	20,609	99	660	3,586	1,373
Latin America (excluding Mexico)						
Production locations	–	2	1	2	–	–
Sales outlets	–	–	–	–	555	5
Revenue (in millions of euros)	614	2,952	441	974	–	435
Employees	–	13,537	1,571	1,482	–	419
Africa						
Production locations	1	1	–	1	–	–
Sales outlets	–	–	–	–	349	1
Revenue (in millions of euros)	1,691	1,031	196	51	–	262
Employees	5,024	1,170	–	–	–	288
Asia						
Production locations	2	3	–	2	–	–
Sales outlets	–	–	–	–	1,661	9
Revenue (in millions of euros)	16,987	6,967	284	221	–	692
Employees	–	12,636	–	7	4,958	1,016
Australia/Oceania						
Production locations	–	–	–	–	–	–
Sales outlets	–	–	–	–	280	2
Revenue (in millions of euros)	1,201	897	169	34	–	270
Employees	–	–	–	–	961	167

Note: Unconsolidated revenue of each division (segment revenue).

Financial Calendar 2013

Annual Press Conference
February 7, 2013

Analysts' and Investors' Conference Call
February 7, 2013

Presentation of the Annual Report 2012
February 25, 2013

Annual Meeting
April 10, 2013
10:00 a.m. CEST | 4:00 a.m. EST
Messe Berlin

Interim Report Q1 2013
April 24, 2013

Interim Report Q2 2013
July 24, 2013

Interim Report Q3 2013
October 24, 2013

As we cannot rule out changes of dates, we recommend checking them on the Internet at daimler.com/ir/calendar.

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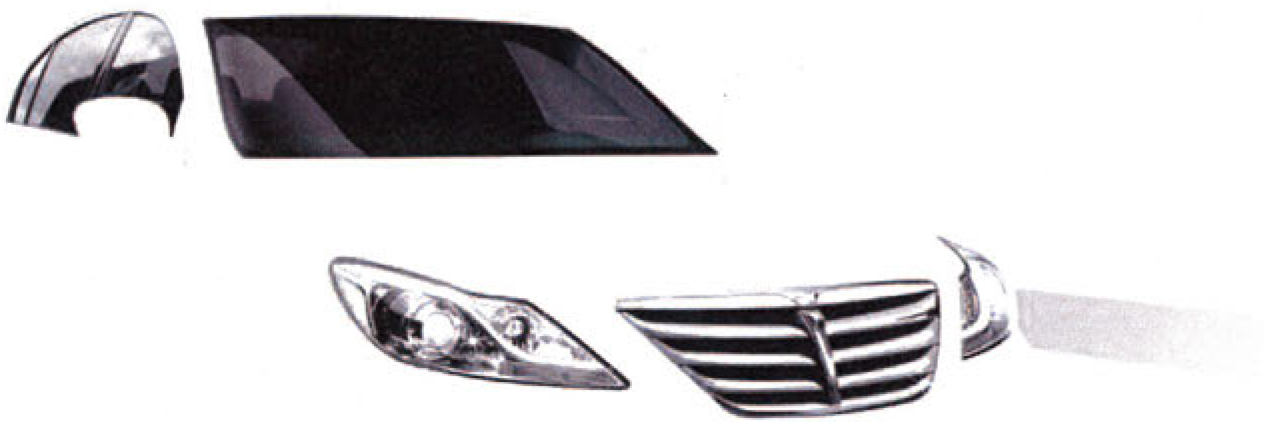
NEW THINKING.
NEW POSSIBILITIES.

HYUNDAI MOTOR COMPANY

ANNUAL REPORT 2012



2012 HYUNDAI ANNUAL REPORT

TABLE OF CONTENTS

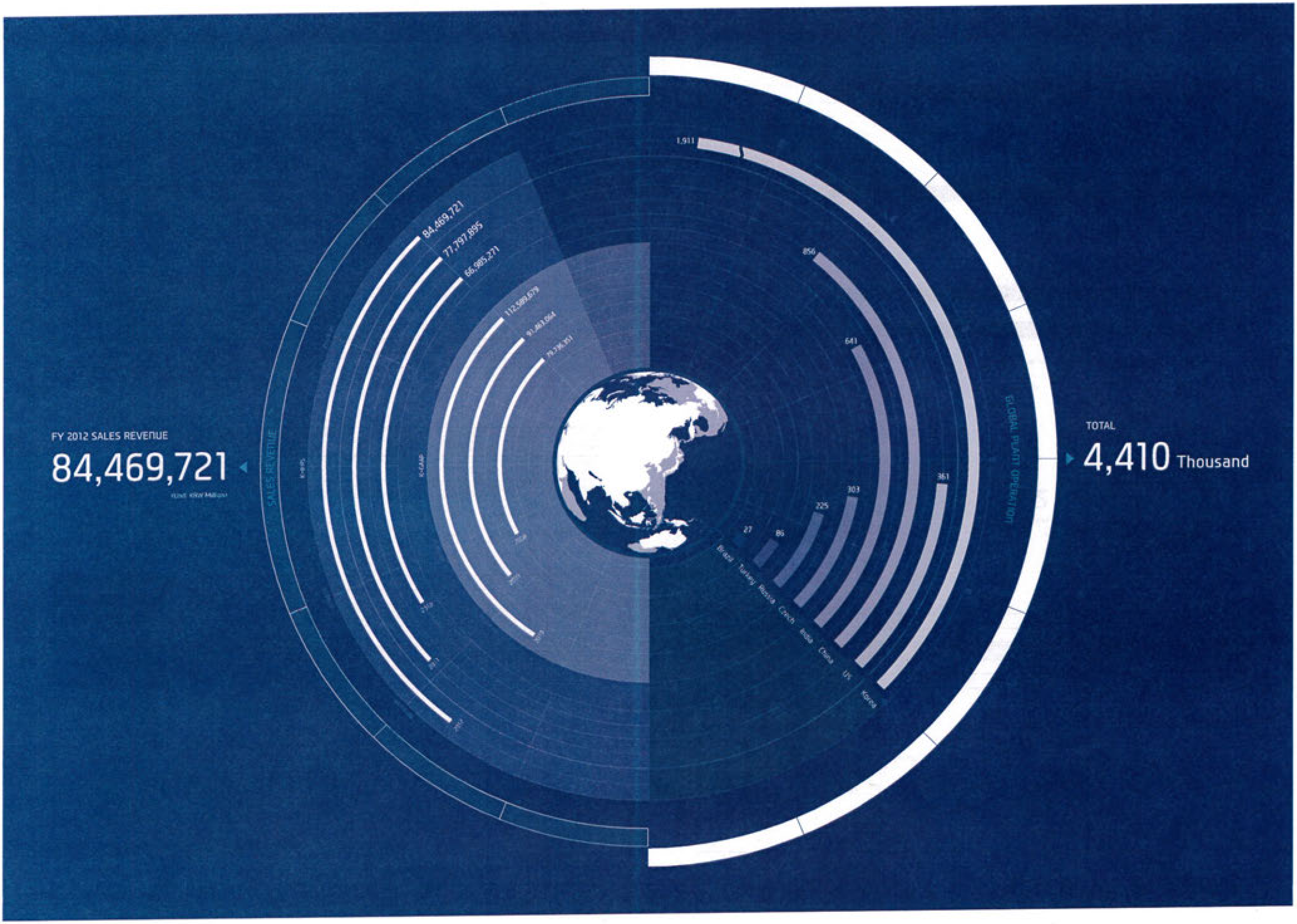
BLUE WAVES, A NEW BEGINNING

Challenging preconceptions,
overcoming purported limitations
and changing the minds of our customers.

"Making the best cars"
is the cornerstone of Hyundai's belief.
New thinking and sheer determination
have opened up new possibilities.

The fresh and energetic waves that
Hyundai is stirring up
penetrate our lives today and in the future.

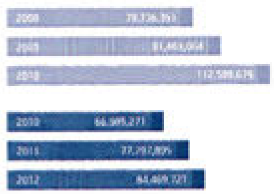

THE MOST BELOVED AUTO BRAND
Hyundai Motor Company's brand direction 'Modern Premium' is all about providing new values and experiences to even more customers through ways that are unique to the brand and which go beyond what customers expect. Hyundai's brand slogan 'New Thinking. New Possibilities.' reflects the will of Hyundai Motor Company to move forward in its effort to create the 'Modern Premium' values and experiences through innovative thinking. The 'live brilliant' global campaign embodying the brand direction features moving stories about people's life experiences shared with Hyundai cars. Hyundai Motor Company will continue to strive to make the brand the most trusted and loved by customers worldwide.



FY 2012 SALES REVENUE
84,469,721
SALES REVENUE
K-IFRS
K-GAAP
84,469,721
77,797,895
66,985,271
112,589,679
91,463,064
79,736,351
GLOBAL PLANT OPERATION
TOTAL
4,410 Thousand
1,911
850
641
361
303
225
86
27
Brazil
Turkey
Russia
Czech
India
China
US
Korea

FINANCIAL HIGHLIGHTS

SALES REVENUE



CONSOLIDATED STATEMENTS OF INCOME

For the Year	K-GAAP			K-IFRS*		
	2008	2009	2010	2010	2011	2012
Sales Revenue**	79,736,351	91,463,064	112,589,679	66,985,271	77,797,895	84,469,721
Operating Income	3,072,043	5,620,241	9,117,742	5,918,492	8,020,829	8,436,947
Margin (%)	3.9%	6.1%	8.1%	8.8%	10.3%	10.0%
Net Income***	1,092,552	4,043,436	7,982,924	6,001,182	8,104,863	9,056,277
Margin (%)	1.4%	4.4%	7.1%	9.0%	10.4%	10.7%
Basic EPS (KRW)****	2,499	10,947	20,052	20,516	28,200	31,515

Net Revenue 84,469,721

Operating Income 8,436,947

FY 2012 FINANCIAL SUMMARY BY DIVISION

FY 2012	Vehicle	Finance	Other	Consolidation Adjustments
Net Revenue	103,878,092	8,799,513	5,348,113	-33,555,998
Operating Income	6,711,118	1,177,513	254,552	-293,765

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

At Year End	K-GAAP			K-IFRS		
	2008	2009	2010	2010	2011	2012
Assets	103,205,783	102,324,934	118,077,818	94,714,131	109,479,975	121,537,814
Liabilities	77,853,886	73,363,274	81,342,217	61,826,158	69,152,273	73,620,239
Shareholder's Equity	25,351,897	28,961,660	36,735,601	32,887,973	40,327,702	47,917,575
Liab. to Eqt. Ratio(%)	307.1%	253.3%	221.4%	188.0%	171.5%	153.6%

R&D EXPENSE

For the Year	K-GAAP			K-IFRS		
	2008	2009	2010	2010	2011	2012
R&D Expense	2,190,476	2,239,471	2,416,204	1,388,776	1,445,268	1,631,670

CREDIT RATING

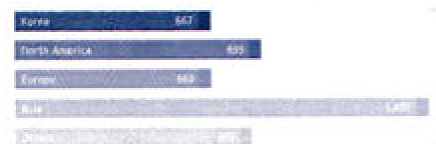
		2008	2009	2010	2011	2012
Domestic	KIS	AA	AA	AA+	AA+	AAA
	NICE	AA	AA	AA+	AA+	AAA
	Korea Rating	AA	AA	AA+	AA+	AAA
Overseas	S&P	BBB-	BBB-	BBB	BBB	BBB+
	Moody's	Baa3	Baa3	Baa2	Baa2	Baa1

BUSINESS HIGHLIGHTS

GLOBAL RETAIL SALES

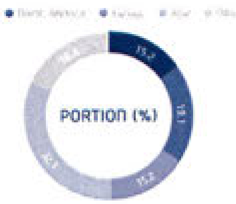
SALES BY REGION	Korea	North America	Europe	Asia	Others	Total
FY 2011	682	775	599	1,288	755	4,099
FY 2012	667	839	669	1,409	807	4,392
Portion (%)	15.2%	19.1%	15.2%	32.1%	18.4%	100.0%
YoY Chg (%)	-2.1%	8.3%	11.7%	9.4%	6.9%	7.1%

SALES BY REGION



Global Retail Sales

4,392

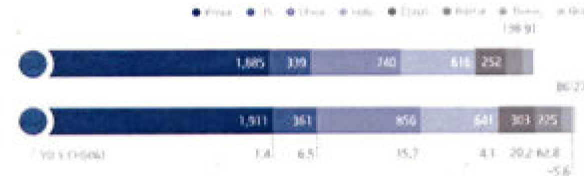


GLOBAL PLANT OPERATION

SALES BY PLANT

4,059

4,410



SALES BY SEGMENT

4,410

PRODUCTION BY PLANT

4,403

WE WILL FORTIFY OUR POSITION AS A GLOBAL LEADER THROUGH QUALITY-DRIVEN BRAND INNOVATION.

May 2013

M. K. Chung

CHUNG, MONG-KOO
Chairman and CEO

In 2012, Hyundai Motor Company maintained growth and development despite an extremely competitive market environment, selling 4.41 million vehicles worldwide, an 8.6% increase from the previous year.

In 2013, the domestic and overseas market environments are expected to remain challenging due to the effects of the ongoing European debt crisis and global recession. As a result, competition among automakers is expected to intensify exponentially. However, Hyundai Motor has historically shown an indomitable spirit of challenge and passion to overcome hardships and deliver a brilliant performance. Likewise, we will overcome challenges expected in 2013 by strengthening internal capabilities that will lead to qualitative growth and by developing competitiveness that will drive future growth.

To this end, Hyundai Motor will first and foremost pursue a strategy of brand innovation based on quality. Throughout the years, quality has always been at the very heart of Hyundai Motor's philosophy of putting customers first. We will continue to strive for the highest quality and to not just satisfy, but exceed customers' expectations so that they may feel an even greater pride in the Hyundai brand.

Hyundai Motor will expand its presence in the Chinese market, a key market that is expected to continue to grow. Moreover, it will step up efforts to stabilize quality in global production bases and in factories in markets such as Brazil, where the company is pursuing aggressive growth.

Hyundai Motor will enhance our brand image, which will in turn lead to improved profitability, creating a virtuous cycle that will lay down the groundwork for long-term qualitative growth. We will continuously invest in research and development in areas such as eco-friendly vehicles to secure technological competitiveness and solidify our global leadership. We will also pursue investment and employment to secure future growth engines.

Implementation of a globalized, organic, cross-functional communication and cooperation system across the organization will be undertaken to respond more actively to changing market conditions and achieve sales targets. Moreover, we will reinforce close cooperation between sales and production and promote better communication and collaboration with partner affiliates, including part suppliers and sales dealers.

Finally, despite of the difficult times, Hyundai Motor will continue to care for the underprivileged and play a leading role promoting mutual growth with partner companies. It will fulfill its responsibilities as a model corporate citizen by reaching out to the most neglected areas of society through diverse social contribution activities.

May 2013

Choong Ho Kim
President and CEO

Although the worldwide recession in the automotive market is expected to continue in 2013, Hyundai Motor's goal is to outdo our impressive performance last year by strengthening competitiveness through quality-driven brand innovation.

Dear honorable shareholders,

With no end in sight for the worldwide recession, 2012 was a difficult year for all of us at home and abroad. As a result of the financial crisis, car sales in Europe continued on a downward trend, and the growth momentum in emerging markets was further dampened. For the first time since 2008, the Korean domestic market recorded negative growth, driven by an increase in household debt and a decline in consumption.

Nevertheless, Hyundai Motor continued to grow last year, selling 4.41 million units or 120,000 units more than its 4.29 million unit business target. It inaugurated a plant in Brazil, securing production bases in all major markets around the world, and began operations at its third China plant, establishing a system to produce and sell one million vehicles in China.

This remarkable performance can be attributed to the steadfast support and encouragement of our shareholders. This year, Hyundai Motor will do our best to repay shareholders with an even better performance.

Prospects are grim for the automotive industry this year. In line with the ongoing financial crisis, car sales in Europe are expected to hit the lowest levels since 2007, and in emerging markets such as China and India, Japanese and American automakers are expected step up their game, presenting fierce competition. Moreover, the appreciation of the Korean won and protectionist policies aimed at promoting the development of local industries worldwide are even more items to be added to the ever-growing list of concerns for management.

Despite the many difficulties expected this year, Hyundai Motor will continue to focus on strengthening competitiveness and pursuing qualitative growth through brand innovation based on quality. To this end, Hyundai will undertake the following strategies:

First, Hyundai Motor will address and overcome foreign exchange risks arising from the appreciation of the Korean won. Strategic steps will be taken to navigate through drops in price competitiveness by ongoing cost savings and managing our business portfolio by adjusting expansion into overseas markets.

In addition, Hyundai Motor will strengthen our customized, country-specific strategies in both advanced and emerging markets. In the United States, which is beginning to show some signs of economic recovery, Hyundai will enhance customer service and continue to draw customers to the brand. Moreover, we will boost sales in Brazil and China, where there are new plants with even greater capacity, and we will reinforce sales of luxury cars in the Middle East and Russia.

Hyundai Motor will also promote sales of compact cars, which remain customer favorites even in economic downturns. We will also promote sales of the company's worldwide bestsellers, Accent and Elantra, and the i-series (i10, i20, i30), which is gradually replacing older models.

In order to secure future growth, Hyundai Motor will increase investment in research and development in the field of eco-friendly cars and electronic controls. We will also focus on nurturing talent to continuously build technological competitiveness. Through these measures, Hyundai Motor expects to achieve our 4.66 million unit sales target and contribute to the national economy, laying the foundation for employment expansion and growth with partner companies.
As a global automotive leader in the forefront of new technologies and trends, Hyundai Motor will not settle with the status quo. We will continue to undertake challenges to improve ourselves, to outperform ourselves.

I ask for your continued interest in Hyundai Motor this year and assure you that we will do our best to maximize shareholder value and reward you for your support.

Thank you.

HYUNDAI MOTOR GROUP

HYUNDAI MOTOR GROUP MANAGEMENT CONCEPT

Hyundai Motor Group's Beliefs and Passion
Hyundai Motor Group has continued in its path of success by upholding and practicing the spirit and values handed down from the company's founders. As such, the Management Concept, which reflects the company's future-oriented values and the direction of its evolution, serves to bring everyone together in the making of new history. By sharing its management philosophy, vision, and core values with everyone involved, Hyundai promises to deliver concrete results.

Hyundai, Realizing the Dreams of Humanity
The management philosophy is what guides all our management activities and the reason for Hyundai's existence. Hyundai is spreading its management philosophy of "realizing the dream of humanity by creating a new future through ingenuity and continuous challenge new frontiers" in order to become a great company that is respected worldwide and contributes to society.

Five Core Values, the DNA That Will Ensure Hyundai's Continued Legendary Success
The core values are the DNA of success inherent in the organizations and the employees of Hyundai Motor Group. They are also concrete expressions of the strategy that the Group is developing for a better future. The core values—customer, challenge, collaboration, people, and globality—will drive the Group to achieve its vision with more passion by fostering an advanced corporate culture befitting a global company.

CUSTOMER

CHALLENGE

COLLABORATION

PEOPLE

GLOBALITY

CUSTOMER FIRST
We promote a customer-driven corporate culture by providing the best quality and impeccable service with all our efforts aimed at the satisfaction of our customers.

CHALLENGING PERFORMANCE
We refuse to be complacent, embrace every opportunity for greater challenge, and are confident in achieving our goals with unwavering passion and ingenuity.

COMMUNICATION AND COOPERATION
We create synergy though a sense of "togetherness" that is fostered by mutual communication and cooperation within the company and with our business partners.

RESPECT FOR TALENT
We believe that the future of our organization lies in the hearts and capabilities of individual members, and will help them develop their potential by creating a corporate culture that respects talent.

GLOBAL ORIENTATION
We respect the diversity of cultures and customs, aspire to be the world's best at what we do, and strive to become a respected global corporate citizen.

New Vision for the Future: "Lifetime Partner in Automobiles and Beyond"
Hyundai Motor Group established a new vision, "Together for a better future," in order to fulfill its role and responsibility as a trusted global firm. Hyundai Motor Company defined its vision of being a "Lifetime partner in automobiles and beyond" to come one step closer to its customers and become their beloved brand. The car is no longer simply a means of transportation that links people to people; it has become a life space that occupies a central role in people's lives. As such, Hyundai seeks to become a lifetime partner in the everyday lives of customers. At this very moment, Hyundai is developing eco-friendly and human-oriented technologies for the future and setting up optimized global management systems in order to provide the best experience to its customers.

HYUNDAI MOTOR GROUP MAIN AFFILIATE COMPANIES

HYUNDAI MOTOR GROUP

AUTOMOBILE
HYUNDAI · KIA MOTORS

STEEL
HYUNDAI STEEL · HYUNDAI HYSCO · HYUNDAI BNG STEEL

CONSTRUCTION
HYUNDAI · HYUNDAI amco · HYUNDAI · HYUNDAI · HYUNDAI

PARTS
HYUNDAI MOBIS · HYUNDAI WIA · HYUNDAI POWERTECH · HYUNDAI DYMOS · HYUNDAI KEFICO · HYUNDAI AUTRON
HYUNDAI MnSOFT · HYUNDAI WISCO · HYUNDAI MSEAT · HYUNDAI METIA · HYUNDAI IHL · HYUNDAI PARTECS

FINANCE
HMC

OTHER
HYUNDAI GLOVIS · HYUNDAI Rotem · INNOCEAN · Haevichi · HYUNDAI AutoEver · HYUNDAI NGV

HISTORY

WITH PASSION AND UNYIELDING SPIRIT,
HYUNDAI MOTOR COMPANY OF TODAY CAME TO BE.
WITH AMAZING AND GROUNDBREAKING
INNOVATIONS, HYUNDAI MOTOR COMPANY OF
TOMORROW WILL COME TO BE.

1967~1989

1967 • Incorporation of Hyundai Motor Company
1968 • Mass production of Cortina
1976 • Launch of Hyundai Pony, the first Korean passenger car
1983 • Incorporation of the Canadian subsidiary HMC
1984 • Launch of Excel
1985 • Incorporation of the U.S. subsidiary HMA
1986 • Launch of Grandeur, Hyundai's large-sized luxury car; first export of Excel to the U.S.
1987 • Best sales of Excel in U.S. compact car category for the 3rd consecutive year
1988 • Launch of Sonata, Hyundai's mid-sized luxury sedan
1989 • Excel exceeds 1 million units in overseas exports

HYUNDAI 'PONY' – THE FIRST PASSENGER CAR DEVELOPED IN KOREA

Developed entirely in Korea for the first time and launched in 1976, Pony enhanced the international standing of Korea's automotive industry.

1990~1996

1990 • Launch of Elantra, Scoupe
1991 • Release of the first Korean-developed Alpha engine
• Development of electric car; launch of Galloper
1992 • Development of HCD-I, Korea's first concept car
1993 • Launch of Sonata II; development of concept car HCD-II
1994 • Hyundai exceeds 1 million units in annual production; launch of Accent
• Development of solar-powered and hydrogen fuel cell vehicles
1995 • Launch of Avante; development of concept car HCD-III
1996 • Hyundai exceeds 10 million units in cumulative production (all models combined)
• Completion of Namyang Technical Research Centre
• Launch of Dynasty, Tiburon

HIGH PERFORMANCE ENGINE DEVELOPMENT

The development of world-class high performance engines such as Alpha (1991), Epsilon (1997), V6 Delta (1998), etc., demonstrated the engineering prowess of Hyundai Motor Company to the world.

1997~1999

1997 • Completion of Turkey plant; independent development Epsilon engine
1998 • Acquisition of Kia Motors; completion of India plant
• Launch of Grandeur XG, EF Sonata; development of 2nd solar-powered vehicle
• Independent development of world-class high performance V6 Delta engine
1999 • Development of Korea's first automotive fuel cell battery
• Launch of ultra-large sedan Equus, Verna, Trajet XG

LAUNCHING PLANTS IN TURKEY AND INDIA

Hyundai launched a plant in Turkey, a strategic location connecting Europe, Africa, and the Middle East and a plant in India, which integrates a vertical pipeline of production and sales.

2000~2001

2000 • Development of Korea's first passenger diesel engine and large commercial engine
• Development of Korea's first fuel cell vehicle
• Launch of Santa Fe, Avante XD
• Incorporation as Korea's first automotive group
• Official sponsor of Euro 2000 Football Championship
2001 • Launch of sports coupe Tuscani, Terracan, Lavita
• Santa Fe selected as No. 1 in U.S. customer satisfaction survey
• HMA receives J.D. Power's presidential award
• Unveiling of Korea's first fuel cell-powered Santa Fe
• Unveiling of concept car HCD-VI

2002~2003

2002 • Launch of Chinese-produced Elantra model
• Sonata selected as No. 1 by J.D. Power in performance, driving, and design research
• Completion of California Design & Technical Centre
2003 • Hyundai exceeds 1 million units and USD 10 billion in exports
• Completion of Europe Technical Centre
• Hyundai is the first to rank No. 1 in Korean Industry Customer Satisfaction for the 10th consecutive year
• Hyundai is the first in the automotive industry to officially proclaim "Global Environmental Management"
• Elantra (Avante) exceeds 2 million units in production; Sonata exceeds 2.5 million units in production
• Completion of U.S. Design Centre and ground breaking of proving ground
• Development of world's first ultra high pressure hydrogen storage system for fuel cell vehicles

EXPANDING GLOBAL NETWORK

Hyundai has been expanding its global network through the launches of the California Design & Technical Research Centre (2002) and the Europe Technical Research Centre (2003) as well as the U.S. Technical Centre and manufacturing plant in Alabama (2005).

2004~2005

2004 • Hyundai breaks national record by exceeding 10 million units in exports
• Establishment of joint venture plant for commercial vehicles in China
• Development of 2nd generation Tucson fuel cell vehicle
• President Mong-Koo Chung named as Best CEO of 2004 by Business Week
2005 • Click is selected as India's Best Car of 2005
• Completion of U.S. proving ground, Technical Centre and plant in Alabama
• Unveiling of the New Grandeur, HED-1 at the Geneva Motor Show
• Hyundai is selected as the Official Partner of FIFA from 2007 to 2014
• Hyundai exceeds 1 million units in exports to Africa and the Middle East
• President Mong-Koo Chung named Best CEO in the automotive sector by Automotive
• Hyundai enters 100 Best Global Brands
• Completion of eco-friendly Vehicle Recycling Centre

HISTORY

2006~2007

2006
- Hyundai Motor Group exceeds KW 1 trillion in sales
- Hyundai Motor Group selected as the top Chinese automotive brand
- Launch of construction of 2nd Hyundai plant in Beijing
- Hyundai ranks No. 1 in the general brand category of J.D. Power's Initial Quality Study (IQS) index
- Hyundai Motor Group reaches 6th worldwide in total production
- Hyundai exceeds 1 million units in cumulative exports to Central and South Americas
- Independent development of world-class V6 diesel S-engine
- Unveiling of concept cars Helion, Arneys, Genus, Talus
- Hyundai selected among 100 Best Global Brands for 2nd consecutive year

2007
- Verna awarded Best Car of the Year by the Indian auto magazine Overdrive
- Unveiling of concept cars HED-IV (QarmaQ), HND-III (Veloster)
- Azera (Grandeur) ranks No. 1 in J.D. Power's customer satisfaction survey for 2nd consecutive year
- Hyundai exceeds 5 million units in cumulative sales in U.S.; completion of Brazil plant CKD
- Unveiling of the 3rd generation fuel cell concept car i-Blue at the Frankfurt Motor Show
- Launch of the next-generation compact car i10 by Hyundai Motor India Limited (HMIL)
- i30 selected as Australia's Best Car of the Year
- Launch of Korea's first global CSR website
- Hyundai awarded President's Medal by Korean government for environmental management

2008

2008
- Launch of Genesis, Genesis Coupe, i30cw
- Hyundai Beijing breaks record of 1 million units in cumulative production in the shortest time
- World premiere of the eco-friendly concept car i-Mode at the Geneva Motor Show
- Completion of the 2nd plant in Beijing with annual production capacity of 3 million units
- Hyundai achieves No. 1 in National Customer Satisfaction Index for 8th consecutive year
- Development of next-generation eco-friendly passenger diesel R-engine
- Tau engine selected among Ward's Auto 10 Best Engines in U.S.

INTRODUCTION OF HYUNDAI MOTOR COMPANY'S STATE-OF-THE-ART CONCEPT CARS IN WORLD-CLASS MOTOR SHOWS

Presentation of innovative concept cars such as i-Blue and i-Mode with 3rd-generation fuel cell technologies.

2009

2009
- Main sponsor of U.S. Super Bowl
- Unveiling of i20 3-door and concept car ix-onic at the Geneva Motor Show
- Genesis awarded North American Car of the Year
- Hyundai selected as best automotive company in China's warranty service satisfaction survey
- Hyundai exceeds 1 million units in cumulative exports to Africa
- Hyundai ranks No. 1 in the general brand category by J.D. Power's 2009 new car quality survey; Elantra (Avante) ranks No. 1 in the mid-sized car category; Genesis ranks No. 1 in the new models category
- Unveiling of ix-Metro and ix35 at the Frankfurt Motor Show
- Hyundai reaches 69th in global brand value as published by Business Week
- Completion of Czech plant with annual production capacity of 300,000 units
- First unveiling of independently developed, next-generation high performance Theta GDI engine
- Tau engine selected among Ward's Auto 10 Best Engines for 2nd consecutive year and receives 2009 Korean Technology Award's Presidential Prize

2010

2010
- Unveiling of hybrid concept car HED-VII at the Geneva Motor Show
- Hyundai selected as No. 1 Asian brand in customer service satisfaction and No. 1 in durability for 3rd consecutive year by J.D. Power
- World premiere of Sonata Hybrid at the New York Motor Show
- Genesis and Tucson (ix35) selected as "safest car" by U.S. IIHS and No. 1 in U.S. customer satisfaction
- Sonata exceeds 5 million units in cumulative sales
- Official sponsor of the 2010 South Africa World Cup
- President Mong-Koo Chung selected as top CEO in Asia in the automotive industry
- World premiere of eco-friendly electric car BlueOn
- Completion of Russia plant
- World premiere of small minivan ix20 at the Paris Motor Show
- Debut of the independently-developed Nu·Tau GDi engine, RWD 8-speed automatic transmission
- Official car sponsor of G20 Summit
- Development of Korea's first CNG hybrid bus Blue City
- Tau engine selected among Ward's Auto 10 Best Engines in U.S. for 3rd consecutive year
- Hyundai exceeds 500,000 units in annual sales in U.S.
- Development of hydrogen fuel cell vehicle Tucson ix

DEVELOPMENT OF HYDROGEN FUEL CELL CAR, TUCSON ix

Hyundai Motor Company has completed development of the next generation eco-friendly Fuel Cell Electric Vehicle (FCEV), Tucson ix. Its hydrogen fuel cell system has world-leading efficiency and performance, and is built with more than 90% of domestic components.

2011

2011
- Introduction of Blue Link at the 2011 Consumer Electronics Show (CES) in U.S.
- World premiere of HCD-XII Curb concept vehicle at the Detroit International Auto Show
- World debut of Veloster at the North American International Auto Show
- Official announcement of Hyundai's new brand direction and slogan 'New Thinking, New Possibilities' at the North American International Auto Show
- Launch of 5th generation Azera (Grandeur)
- Launch of production at the Russia plant HMMR in Saint Petersburg
- Signing of deal to become the first official car partner of the International Cricket Council (ICC) from 2011 to 2015
- World premiere of i40 wagon
- ix20 awarded highest five-star Euro NCAP rating
- Launch of construction of Brazil plant in Piracicaba
- Unveiling of D-segment i40 sedan at the Barcelona Motor Show
- Hyundai begins sales of Genesis Prada
- Hyundai exceeds 5 million units in cumulative sales in Europe
- Hyundai ranks 11th among Interbrand's 50 Best Global Green Brands
- World debut of EON by Indian subsidiary HMIL
- i40 awarded 2011 EuroCarBody Golden Award
- Hyundai exceeds 2 million units in sales in cumulative exports to Central and South Americas
- Unveiling of Genesis Coupe
- Hyundai ranks No. 1 in AutoBild's Qualitätsreport for 2nd consecutive year
- Elantra awarded North American Car of the Year
- Gamma engine selected among Ward's Auto 10 Best Engines in U.S.

NEW BRAND SLOGAN OF HYUNDAI MOTOR COMPANY

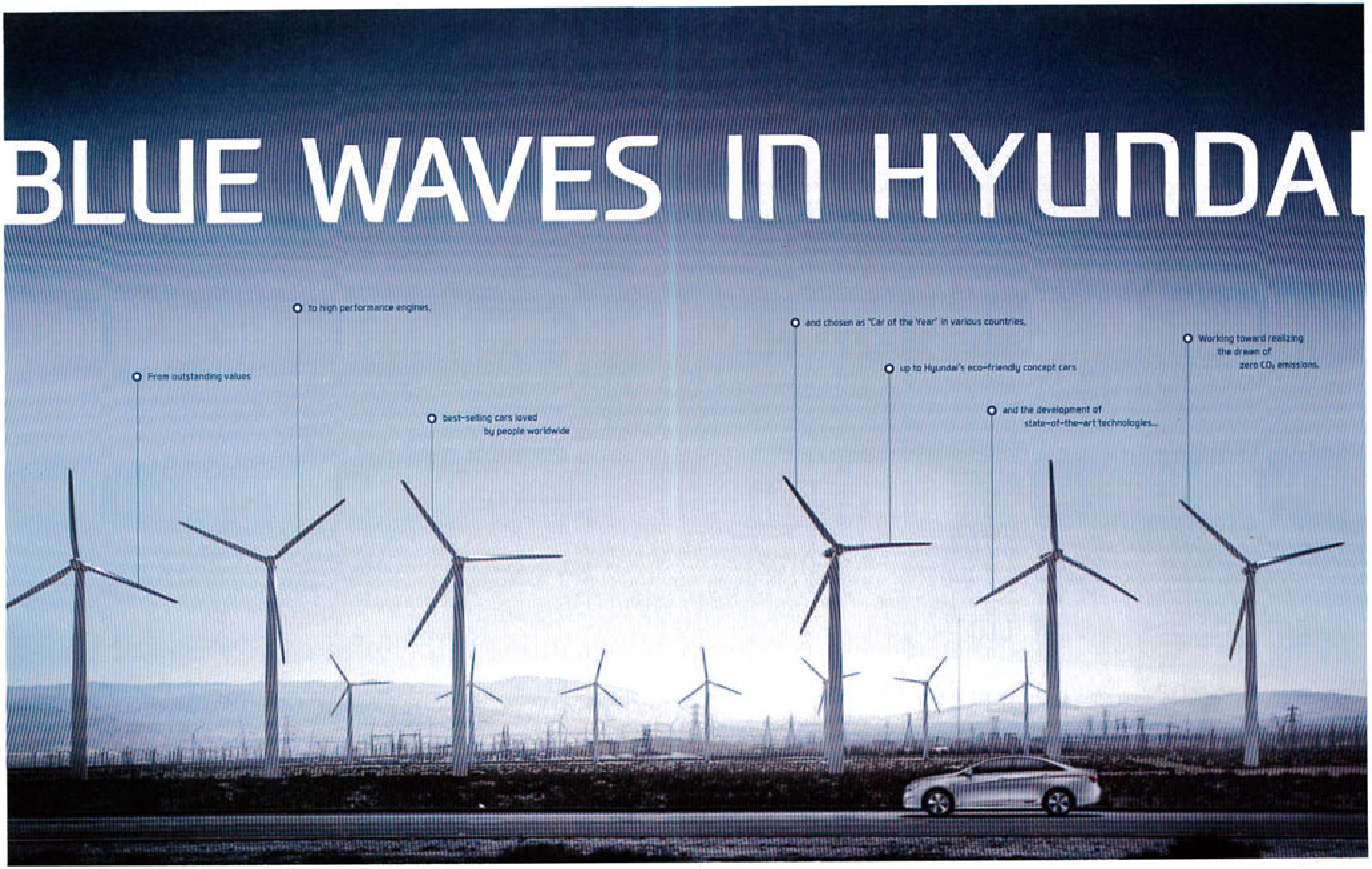
New brand slogan, "New Thinking, New Possibilities," embodies the new direction and determination of Hyundai Motor Company.

2012

2012
- Launch of New Santa Fe, i40 Saloon, and Veloster Turbo
- Santa Fe awarded First Prize by New Car Safety Evaluation Board of Korea
- Launch of manufacturing plant in Brazil
- World premiere unveiling of CUV HB20X
- Santa Fe tops in-class residual value ranking of 56.8% in the U.S.
- Tucson ix fuel cell model delivered to Denmark
- Hydrogen fuel cell car exported to Norway
- Sonata Hybrid tops U.S. consumer satisfaction survey
- President Mong-Koo Chung named 2011 Top Manager in the World by the authoritative Italian car magazine, Interautonews
- World premiere of the electric concept car i-oniq at the Geneva Motor Show
- Hyundai selected as the most fuel efficient and least CO_2 emitting brand by the Environment Protection Agency of the U.S.
- Sonata selected as 2012 Top Picks in the medium-sized car segment by Consumer Reports magazine
- Azera (Grandeur) selected as top residual value retainer after three years of ownership in the Full Size Segment by ALG
- Solaris (Accent) awarded "Best New Car in 2012" and "Best Small Car in 2012" awards in Russia
- Hyundai launched "live brilliant" campaign
- Genesis tops J.D. Power's Vehicle Dependability Study (VDS) in the premium car segment in the U.S.
- Elantra (Avante) awarded North American Car of the Year
- Hyundai ranks No.1 in J.D. Power's Customer Retention Award

LAUNCH OF BRAZIL FACTORY

From factory opening to mass-manufacturing three models simultaneously in record time, Hyundai's new Brazil factory has been achieving notable success already with the strategic compact car model, HB20, winning the "Car of the Year, Brazil" award.

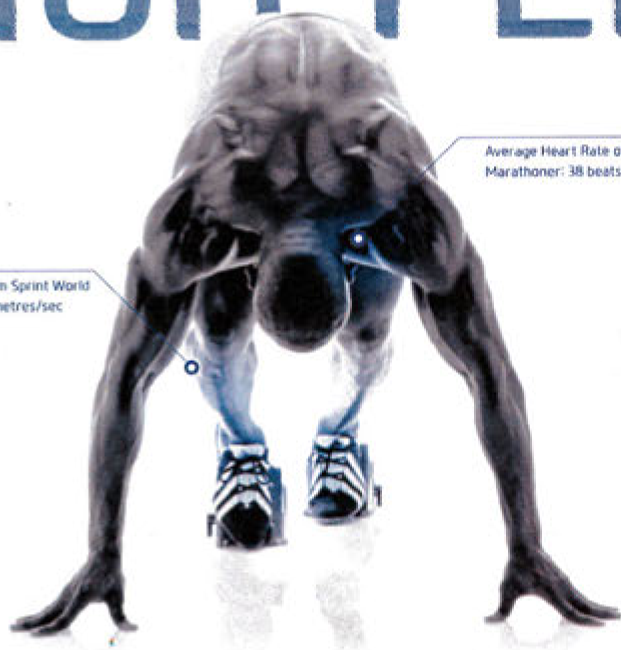

BLUE WAVES IN HYUNDAI
From outstanding values
to high performance engines,
best-selling cars loved
by people worldwide
and chosen as "Car of the Year" in various countries,
up to Hyundai's eco-friendly concept cars
and the development of
state-of-the-art technologies...
Working toward realizing
the dream of
zero CO_2 emissions.

BEST VALUE

BEST QUALITIES AND VALUES ONLY BY HYUNDAI MOTOR COMPANY

Hyundai's brand image has grown from 'dependable quality' to 'providing utmost satisfaction.' In 2012, the Hyundai brand attained the rank of 53rd (7th among car companies) among the top 100 global brands by Interbrand reflecting a 24% rise in brand value from the previous year ($7,473 million). Centennial (Equus) winning awards such as 'Most Valuable Car' of the Total Value Awards (Strategic Vision) and the Genesis winning the 'Top Picks' award in the mid-sized car segment (Consumer Reports) confirm the premium status of the Hyundai brand. In addition, the new Santa Fe won the 'ALG Residual Value Award' proving the high satisfaction level of the quality of Hyundai cars. Hyundai's unique combination of the best quality and values will continue into the future.

HIGH PERFORMANCE



Average Heart Rate of World Champion Marathoner: 38 beats/min

Average Speed of 100m Sprint World Record Holder: 10.43 metres/sec

1.6 Gamma GDi Engine
Max. Power: 140 ps/6,300 rpm

1.6 Gamma GDi Engine
Max. Torque: 17.1 kg-m/4,850 rpm

TAU ENGINE AND GAMMA ENGINE, LISTED IN '10 BEST ENGINES IN THE WORLD' BY WARD'S AUTOWORLD MAGAZINE

Hyundai Motor Company is already a leader in automotive engine technologies. Hyundai's Tau engine, primarily powering large-sized cars, has won a place in Ward's '10 Best Engines in the World' for three consecutive years up to 2011. Hyundai's 1.6 Gamma GDi engine also earned a place for compact-sized cars in 2012. Hyundai's comprehensive world-class portfolio of large to small engines testifies to the engineering [illegible] of Hyundai Motor Company. With passion for challenge, Hyundai will continue to develop innovative engine technologies that will lead to the ultimate dream engine.

HYUNDAI ELANTRA (AVANTE) RACING TOWARD A MILLION SALES IN 2013, AND HYUNDAI SONATA, THE BEST-SELLING CUSTOMER FAVORITE.



AWARDS DEMONSTRATING CUSTOMER SATISFACTION IN QUALITY

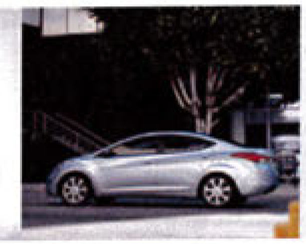
Total Value Awards of the American auto analysis specialist Strategic Vision assess the overall value of newly-purchased vehicles with respect to consumer satisfaction in terms of dependability, resale value, warranty policies, etc. Hyundai Sonata and Elantra (Avante) topped the assessments in the mid-sized and compact-sized car segments respectively.



SONATA TOPS VDS IN MID-SIZED CAR SEGMENT IN 2013

In 2013, J.D. Power awarded Hyundai Sonata the top place in the Vehicle Dependability Study (VDS) in the mid-sized car segment. This award reflects the overall quality of a vehicle by measuring the dissatisfaction rate per 100 vehicles three years after purchase based on a detailed list of 202 items, including engine, transmissions, driving, and steering performances.



ELANTRA (AVANTE), CAR OF THE YEAR IN SEVERAL COUNTRIES

In 2012, Elantra had the honor of receiving 'North American Car of the Year,' 'Canadian Car of the Year,' and various other 'Car of the Year' awards from countries including the Philippines, South Africa, and Nigeria. This would not have been possible without the support of our customers and their love for our Elantra. We will repay them by delivering improvements upon improvements for future Elantra models.

ELANTRA (AVANTE), RACING TOWARD A MILLION IN SALES

Elantra, first introduced in 1990, is now in its fifth generation, and has accumulated sales of eight million units. In 2013, it aims to earn the title of 'million seller' by achieving sales of one million cars a year. The secret to its popularity is its economic value and efficiency, which appeal to a wide range of countries and age groups. Soon, Elantra will be able to replace its reputation of being a 'people's car' with that of a 'global car.'


TOWARD A MILLION SALES

THE NAME FOR SATISFACTION

'BEST LOVED CARS' BY HYUNDAI THAT HAVE TOUCHED THE HEARTS OF CUSTOMERS WORLDWIDE.

CENTENNIAL (EQUUS), HYUNDAI'S FLAGSHIP SEDAN

As the flagship sedan of Hyundai Motor Company, Centennial carries all the state-of-the-art convenience features, high performance engine, and a premium design. Centennial has proven its own value by winning first place in J.D. Power's Automotive Performance, Execution and Layout Study (APEAL) in the luxury car segment and the Top Safety Pick by America's Insurance Institute for Highway Safety (IIHS). Also in 2012, Centennial attained first place in Strategic Vision's Total Value Awards assessment, firmly solidifying its reputation for prestige.

AZERA (GRANDEUR), FROM PREMIUM SEDAN OF KOREA TO PREMIUM SEDAN OF THE WORLD

Azera has been recognized for its premium design with the Good Design Award in the U.S. As a back-to-back winner of the ALG Residual Value Award and the IIHS's Top Safety Pick award, Azera has proven its steadfast quality and safety.

GENESIS, REDEFINING THE STANDARD OF PREMIUM SEDANS

Hyundai Genesis has expanded the premium image of Hyundai cars with numerous, outstanding achievements. Starting with winning the title of North America Car of the Year in 2009, it went on to win the top spot in Strategic Vision's Total Quality Index (TQI) in the near-luxury car segment in 2010 and also the Best Value Luxury Sedan award by Consumer Reports in 2011. In 2012, Genesis won the Top Picks award by Consumer Reports and Most Dependable Mid-sized Premium Car award by J.D. Power.

THE MEANING OF THE CONSUMER SATISFACTION AWARDS

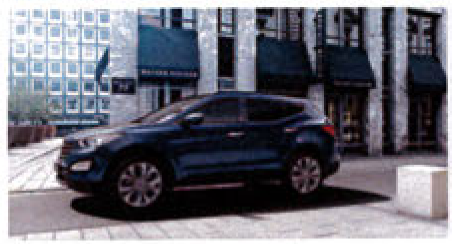
Each and every year, many new and facelift car models flood the global automotive market. And customers judge new models with ever more stringent criteria. That is why the various automotive awards, which reflect the judgement of customers, have special meaning. These awards provide valuable information about how much the car affects the lives of customers. In that regard, 2012 was a very prolific year for Hyundai as customers' positive views of Hyundai cars came to light with numerous awards.

THE REASON WHY HYUNDAI HAS SO MANY CAR OF THE YEAR AWARDS UNDER ITS BELT

Modern Premium, Hyundai Motor Company's brand direction, underlies Hyundai's efforts to provide premium values to as many customers as possible. To achieve this aim of satisfying the needs of customers, Hyundai Motor Company strives for ever more attractive price points and impeccable quality. That so many Hyundai car models have won the Car of the Year 2012 awards from such a variety of countries, including the U.S., Australia, Chile, and Brazil is a testament to our efforts and our will to march forward with the Modern Premium ideal.

VELOSTER, UNIQUE DESIGN AND UNIQUE PERFORMANCE

The Veloster embodies Hyundai's imagination. It shows off innovative and novel concepts such as the asymmetric door configuration that transcends its class. Veloster was recognized for its creative design and overall excellence with numerous awards, including Canadian Car of the Year in 2011 and North America's Urban Car of the Year in 2012.



THE NEW SANTA FE, NOW WITH MORE URBAN CHARM

The New Santa Fe is the first model revamp from the original seven years ago. It has captured the hearts of the global customers with a new design reflecting the new Hyundai family look and improved performance. As proof, Santa Fe won the Car of the Year award in Canada, Chile, and Australia and top places in ALG's Residual Value Award and the IIHS's Top Safety Pick in 2012, etc. The Santa Fe will continue to awe and inspire Hyundai customers worldwide.

i30, TAILOR-MADE FOR EUROPEANS

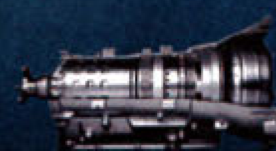
Hyundai i30 was born with the kind of design rationality and practicality favored by European lifestyle. It won the Car of the Year 2012 awards in England, Chile, Scotland, and Australia. In safety evaluations, i30 earned five stars in the Euro NCAP and Australia's ANCAP safety ratings, demonstrating the high performance and universal appeal of i30.

TOUCH

BELIEF

STATE-OF-THE-ART TECHNOLOGIES FOR THE BEST DRIVING EXPERIENCE

Lighter car frame created by incorporating new types of materials, best possible aerodynamic drag coefficient attained by optimal shape, a safety system that protects the passengers under all circumstances, eight-speed RWD auto transmission that maximizes driving performance... The list goes on, but there is one ultimate goal that drives the efforts put into developing the most cutting-edge technologies: to create the best driving experience ever. Hyundai Motor Company will be the first to make this dream a reality through our continued efforts and passion for innovative ideas and overcoming challenges.



FUTURE CARS

MEETING THE CARS OF THE FUTURE TODAY

Hyundai concept cars are born with names reflecting their birthplaces: HED for Europe Design Centre, HCD for California Design Centre, and HND for Namyang Design Centre. These concept cars incorporate different regional characteristics and needs, but there is one common underlying theme consisting of two elements: 'eco-friendly' and 'smart.' At this very moment, various concept cars by Hyundai are being showcased in prestigious motor shows worldwide demonstrating Hyundai's futuristic technologies.

CLEAN MOBILITY

'BLUE DRIVE,' OUR STRATEGY FOR GREEN TECHNOLOGY, SPEARHEADS THE DEVELOPMENT OF LOW-POLLUTION, HIGHLY FUEL-EFFICIENT CARS.

1 ENHANCING OVERALL EFFICIENCY

Hyundai uses three methods to enhance the fuel economy of new cars: (1) maximization of fuel efficiency in powertrain, (2) minimization of the loss of energy, and (3) use of recycled energy sources. Some examples include the development of the Double-Clutch Transmission (DCT), used in Veloster with 5-6 percent better fuel economy than the conventional automatic transmission model, and the Continuously Variable Transmission (CVT).

2 WEIGHT REDUCTION

Hyundai makes lighter cars by using new materials and new production techniques. Replacing steel materials with aluminum, enhancing tensile strength, and the use of magnesium carbon fiber are just some of Hyundai's innovative methods of making lightweight materials. Also, reducing the thickness of steel-based components by up to 30 percent, implementing hollow inner structures, and developing Multi-Material Mix car bodies are some examples of improved production techniques for weight reduction.

3 MEETING VARIOUS FUEL ECONOMY REGULATIONS

One way to develop green technology is to continuously strive to meet the ever more stringent fuel economy requirements legislated by different countries. To this end, Hyundai has been producing cars with remarkable fuel economy. In 2011, in addition to the launch of the new Accent, Hyundai introduced to the U.S. fuel efficient models such as the Elantra (Avante), Veloster, and Sonata Hybrid. In Europe, Hyundai sells low CO_2 emission and clean diesel models ranging from compact-to medium-sized sedans including i20, i30, and i40, demonstrating Hyundai's commitment to a clean environment.

4 UTILIZING ALTERNATIVE FUEL SOURCES

Hyundai is developing engines and car models that can utilize diverse types of alternative fuels such as biofuels. In Brazil and North America, where there is a regular supply of ethanol as a fuel source, the sales of Flexible Fuel Vehicles (FFV) that use both ethanol and gasoline are on the rise. In Europe where diesel cars are preferred, Hyundai cars that can use BDS fuel, a mixture of conventional diesel with 5 percent bio-diesel, are promoted. Also, in India, where Compressed Natural Gas (CNG) is relatively abundant, Hyundai has released cars utilizing CNG as well as a bi-fuel model, i10, that can use both gasoline and LPG.

ZERO CO_2 EMISSIONS, HYUNDAI'S DREAM

Zero CO_2 emissions is a dream every car company should ultimately aspire to fulfill, because our future depends on it. Hyundai has come a step closer to this dream with the Blue Drive strategy which aims to improve the fuel economy of mass production models and to develop a variety of new eco-friendly models.

HYBRID CARS WITH SUPERIOR POWER AND LOWER FUEL CONSUMPTION

Development of LPi and Gasoline Hybrid Systems

Since Hyundai's first hybrid concept car, FGV-1, in 1995, Hyundai has been developing several hybrid vehicles such as Click Hybrid in 2004 and Verna Hybrid in 2005. In 2009, Avante LPi Hybrid, with the world's first LPi hybrid system, was launched in the Korean market, and soon the Sonata gasoline hybrid model followed suit and was launched in the U.S. market in 2011. The 'Parallel Hybrid System' and the lithium-ion polymer battery pack found in the Sonata gasoline hybrid model were the first of their kind and showed both superior performance and high fuel economy. The 2013 model, with 40 mpg on highway and 36 mpg in city driving, has already won numerous awards, demonstrating high customer satisfaction.

Plug-in Hybrid

The plug-in hybrid technology to be implemented into mid-sized production cars from 2015 enables powering of next generation hybrid vehicles by simply plugging them into electric power outlets. The chief characteristic of this vehicle is its ability to run on battery power when there is enough of it left, but once below a certain level, both the electric motor and conventional engine run together.

FROM CONCEPTION TO COMMERCIALIZATION

BlueOn Electric Vehicle

Hyundai debuted the BlueOn electric vehicle in September 2010 developed with the experiences it acquired from producing previous electric vehicles starting from Sonata in 1991. The BlueOn electric vehicle can go 140 km on a single charge and has a maximum speed of 130 km/h and a zero-to-100 km/h acceleration of 15.7 seconds. In addition, the key parts are all produced in Korea, laying foundation for future technological development of electric vehicles.

Developing Near Mid-sized Electric Vehicle

In response to a task given by the Korean government under the national policy of Green Transport Systems based on Next Generation Electric Cars, Hyundai is pushing ahead with the plan to develop a near mid-sized electric car by 2016, which can be driven over 200 km on a single charge, has a zero-to-100 km/h acceleration in 11.5 seconds, and which can be fully charged within five hours and speed charged in less than 23 minutes.

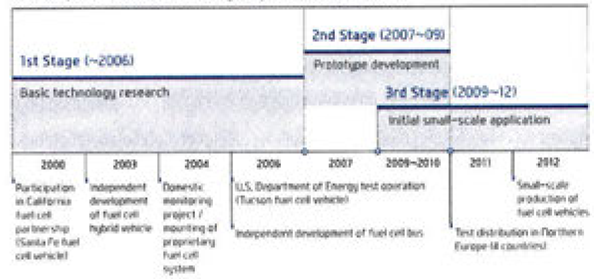
Hybrid car development and future plans

HYDROGEN FUEL CELL VEHICLES – COMBINING ZERO POLLUTANT EMISSIONS AND GOOD DRIVING PERFORMANCE

Exploring the Possibility of Mass Production and Demonstration Operations

Hydrogen fuel cell vehicles are similar to electric vehicles in that they emit no harmful substances whatsoever. However, they provide higher driving performance. Hyundai has applied its hydrogen fuel cell technology to SUV vehicles, which achieve about 3.75 times better fuel economy than gasoline models. In addition, by developing the technique of stamping thin sheets of stainless steel to produce fuel cells, Hyundai has proven the possibility for cost-effective mass production by cutting the fuel cell stack price by a sixth. The Tucson ix hydrogen fuel cell vehicle can travel up to 635 km (UDDS) on one charge, boasts a fuel efficiency of 30.2 km/ℓ (UDDS) and a top speed of 160 km/h, and it can be started at -25℃. From 2009 to 2011, 48 of them were used in Seoul and the surrounding metropolitan area for road testing.

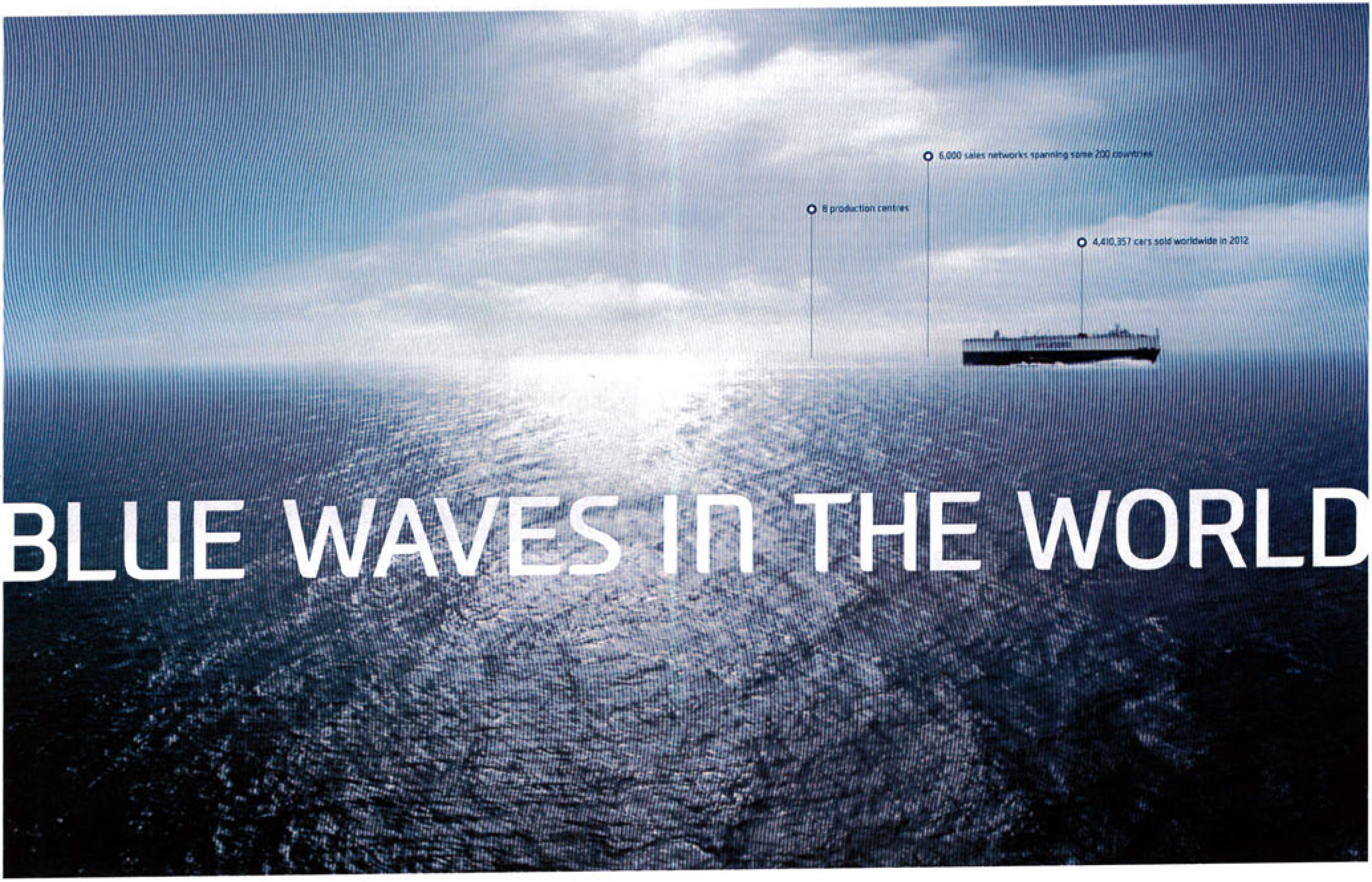
Roadmap for development of hydrogen fuel cell vehicles



Participation in European Green Projects

From 2011, Hyundai has been participating in various European regional environmental projects, providing demonstration hydrogen fuel cell vehicles to four North European countries, entering into Germany's Clean Energy Partnership (CEP) and signing an MOU on supplying vehicles to the Copenhagen municipal government in Denmark. In addition, Hyundai was selected by the E.U. as the exclusive provider of hydrogen fuel cell vehicles for test driving by European Parliament Commissioners and E.U. officials, and was once again selected as the provider of demonstration vehicles in two Northern European countries (Denmark, Norway). Third-generation Tucson ix hydrogen fuel cell vehicles were given to the Danish government and are currently being tested in a real-world environment. Test drive of Hyundai vehicles in a Northern European country with an advanced hydrogen fuel cell infrastructure has served as an occasion to promote the company's eco-friendly technology to the European market and to establish a foothold in the region's hydrogen fuel cell vehicle market.

CO_2 ZERO


6,000 sales networks spanning some 200 countries
8 production centres
4,410,357 cars sold worldwide in 2012
BLUE WAVES IN THE WORLD

AT THE CENTRE OF OUR 'CUSTOMER FIRST' PRINCIPLE IS HYUNDAI'S DEVOTION TO QUALITY AND SERVICE THAT CONNECTS WITH PEOPLE ON AN EMOTIONAL LEVEL.

The foremost contributor to the success of Hyundai Motor Company today is its devotion to quality. In addition, it is Hyundai's genuine attention to detail and devotion to customer satisfaction that enabled Hyundai to grow into a premium brand. We will continue to pass on our devotion to each and every one of our customers by providing the best quality and services that transcend expectations.

QUALITY MANAGEMENT, THE FIRST STEP IN BECOMING THE MOST DESIRED BRAND

The philosophy of Hyundai Motor Company is to offer the best quality possible as a promise to our customers. In order to keep this promise, Hyundai is determined to become the most desired brand by continued innovations and propagation of a high quality image. We are not content with recent gains in quality measures, and will continue to pursue the best quality through a company-wide effort for zero defects and enhancement of the premium feel. Through this devotion to quality, Hyundai Motor Company will march forward to become one of the premier companies in the world.

MAXIMIZING CUSTOMER SATISFACTION THROUGH SPECIAL SERVICES THAT SURPASS EXPECTATIONS

Hyundai Motor Company touches the hearts of customers with diverse services that go beyond their expectations through the company's state-of-the-art global service network. The Before Service program, introduced in the industry for the first time by Hyundai Motor Company, ensures the safety of Hyundai cars by providing free inspection services to 4 million customers worldwide. Also, in order to maximize the convenience of customers who wish to have their Hyundai cars serviced, we have expanded the Home-to-Home Service, which provides pick-up and delivery services to customers at the time and place of their choice for extra convenience. Additionally, we have overhauled the Hyundai Customer Care Centre (H.C.C.C.) process in order to listen and respond to customers' demands better. As a result of this, we have initiated several highly regarded service offerings such as car renting to customers whose cars are in prolonged service care and other diverse location-specific service programs.

OFFERING HIGHEST QUALITY SERVICES THROUGH EXPERT KNOWLEDGE AND TRUE DEVOTION

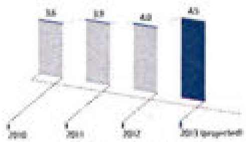
Hyundai Motor Company strives to provide satisfaction to customers by training first-class service personnel and state-of-the-art remote technical support services. In order to enhance vehicle maintenance capability, the most basic form of service, we operate a Global Service Support Centre (G.S.S.C.) that supports perfect maintenance with remote diagnosis capability for solving various types of difficult problems. Since 1995, the company has been holding a bi-annual maintenance service competition among our global mechanics in order to enhance their skills, and in 2012, we held the first Global Service Advisor Championship to enhance the expertise of our service advisors, who are at the forefront of customer relations. Also, in 2013, we are launching an all-out workshop automation that uses a comprehensive digital operating system that takes care of all the processes to maximize customer trust and operating efficiency. All of this is a manifestation of our 'Customer First' management principle.

TECHNICAL RESEARCH AND DESIGN CENTRES WITH FIRST-CLASS TALENT AND STATE-OF-THE-ART FACILITIES TO DEVELOP LOCALLY TAILORED TECHNOLOGIES TO ENSURE FUTURE COMPETITIVENESS.

One of the essential competitive assets of a global company is the ability to capture the needs of the local custumers as well as trends in the market and incorporate them into products quickly. Hyundai Motor Company's technical research and design centres are situated in strategic locations worldwide. They contribute to attracting new customers by analyzing future trends in the automotive industry, and develop car models tailored to the needs of the specific regions. Hyundai does not spare resources when it comes to developing new technologies that will, in the future, lead to better automotive experiences by customers worldwide.

+10%

Investment spending in R&D compared to previous year (projected)



Annual R&D investment spending

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TECHNICAL RESEARCH CENTRES, THE BASE CAMP FOR GLOBAL LEADERSHIP

Namyang Technical Research Centre, Korea
Hyundai's Namyang Technical Research Centre in Hwaseong City, Gyeonggi Province, is a world-class integrated research complex equipped with a planning centre, design centre, power-train centre, wide tunnel facilities, collision testing facilities, and a comprehensive proving ground. Over 10,000 researchers are working to develop the world's best vehicles in performance, quality, and eco-friendliness.

Korea Central Research Institute
The Korea Central Research Institute in Uiwang City, Gyeonggi Province, focuses on fundamental research in cutting-edge materials and new analytical technologies as well as studies in the fields of environment and energy, intelligent safety, and human engineering for the purpose of developing new frontiers for future growth.

Mabuk Environmental Technology Centre, Korea
The Mabuk Environmental Technology Centre in Yongin City, Gyeonggi Province, is pushing forward the research of technologies that will lead the eco-friendly automobile industry. Projects include the development of next-generation eco-friendly vehicles, including hydrogen fuel cell cars, automotive recycling technologies, and eco-friendly clean production technologies.

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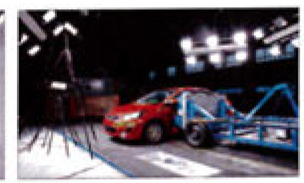


China Technical Research Centre
The Technical Research Centre located in Haejung district in Beijing, China, serves as the Technical Research Centre for the Chinese market, which is rapidly emerging as the biggest automotive market in the world. The research centre not only develops high quality cars tailored to local needs, but also strengthens the overall competitiveness of the Hyundai brand by developing eco-friendly technologies.

Japan Technical Research Centre
Located in Yokohama, the Japan Technical Research Centre concentrates on developing cutting-edge electronic and hybrid technologies.

Europe Technical Research Centre
Located near Frankfurt, Germany, the Europe Technical Research Centre situated on a land area of 33,058 square metres is a high-tech multifunctional building that includes engineering centres for developing quality automobiles as well as engines that meet European environmental regulations.

India Technical Research Centre
Located in Hyderabad, India's 'IT city,' the India Technical Research Centre actively supports the design and analytic research of automobiles as well as the development of products suited to the local market.

U.S. Technical Research Centre
With headquarters in Ann Arbor, Michigan, and a Technical Research Centre and proving ground in California, the U.S. Technical Research Centre is a cutting-edge institute that oversees automotive research and development focused on meeting American driving expectations.

DESIGN CENTRES, CREATORS OF GLOBAL TRENDS

Namyang Design Centre
With a video evaluation area, interior evaluation area, CAVE system, supercomputers, and other cutting-edge design facilities, over 400 top designers create global trends at this centre through vehicle interior and exterior styling, computer-assisted digital simulations, and production of new colours for coating Hyundai vehicles.

U.S. Design Centre
Located in Irvine, California, the U.S. Design Centre sprawls across 33,058 square metres where top designers gather to swiftly analyze market preferences and create designs that cater to the tastes of local customers.

Europe Design Centre
In collaboration with the Europe Technical Research Centre in Frankfurt, Germany, this centre plays a central role in the development of designs that are suited to the needs and lifestyles of European customers as well as the development of quality vehicles.

PROVING GROUNDS, ENSURING STRICT TESTING WITH CUTTING-EDGE EQUIPMENT

Ulsan Proving Ground, Korea
The comprehensive proving ground in Ulsan, the first of its kind in Korea, has 19 tracks and high speed circuits on an area of 660,000 square metres.

Namyang Technical Research Centre Proving Ground, Korea
The Namyang Technical Research Centre proving ground is a facility of world-class scale with 34 tracks, including Belgian, low friction routes, and a proving road totaling 70 km including a high speed circuit track spread over a 1,650,000 square metre area.

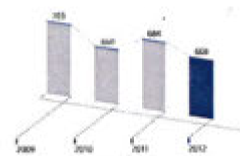
California Proving Ground, U.S.
The California proving ground is 10 times the size of the Namyang facility, sprawling over 17,520,740 square metres with more than 116 km of track, located in the Mohave Desert. The largest high speed circuit has a 10.4 km long elliptical thee-lane track, on which cars can be driven at speeds of up to 250 km/h. It is used for various high speed and durability tests including maximum speed testing.

OFFERING 'MODERN PREMIUM' TO CUSTOMERS BY STRENGTHENING ITS SALES NETWORK.

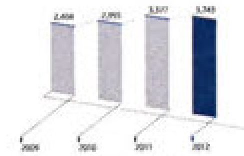
Hyundai Motor Company strives to strengthen its global sales network in addition to producing region-specific models. In order to expand the sales of premium luxury cars such as Centennial (Equus) and Genesis, Hyundai has opened showroom spaces in key commercial cities, including New York, London, Beijing, and Moscow. Also, since 2009, Hyundai has been remodeling dealer showrooms worldwide based on the new company design standard and has implemented several education programs such as the Total Dealer Education Program. To enhance customer experiences at every contact point, Hyundai will continue the process of opening up more direct retail shops and upgrading existing dealerships.

4.41 million

Total sales



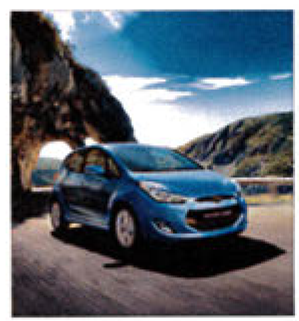
Domestic sales

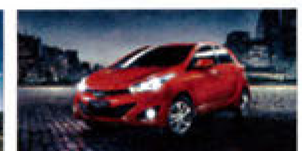


Oversea sales

A GLOBAL SALES NETWORK REACHING THE FOUR CORNERS OF THE WORLD

Hyundai introduces a diverse product lineup armed with world-class competitiveness to customers in 200 countries through some 6,000 dealers and overseas regional sales and production subsidiaries. In addition, by establishing production bases in the central areas of each region, Hyundai actively targets the local markets. Hyundai has been responding to the needs of each market by operating production facilities in the emerging markets of India and China (both have three factories), Turkey, the Czech Republic, and Russia. Hyundai will expand its global market presence by continuing to establish and strengthen the company's R&D, sales, and production networks.



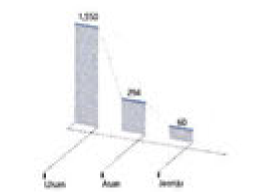


ELEVATING CUSTOMER SATISFACTION WITH CARS DEVELOPED AND PRODUCED TO MEET LOCAL NEEDS

Hyundai Motor Company is strategically establishing state-of-the-art global production systems around the world to accurately understand and swiftly reflect the lifestyles and preferences of local customers. This not only enhances customer satisfaction, but also contributes to regional development. Hyundai's localization strategy of producing and supplying high quality cars in physical proximity to the target market will continue on into the future.

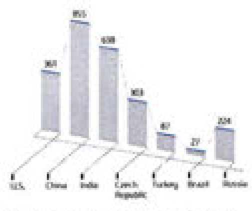
+8%

Units produced compared to the previous year



2012 productions (Korea factories)

*Unit : 1,000 vehicles



2012 productions (overseas factories)

*Unit : 1,000 vehicles

WORLD'S BEST WORKING ENVIRONMENT, RIGHT HERE IN KOREA

Ulsan Factory, the World's Largest Single Factory

Ulsan is Hyundai's main factory with an annual capacity of 1.5 million units, made up of five independent manufacturing facilities on a 5,050,000 square metre site where over 34,000 employees produce an average of 6,000 vehicles per day. In addition, it has a dedicated pier where three 50,000 ton ships can dock at once. With some 590,000 planted trees and state-of-the-art environmental protection facilities, it is widely known to locals as the 'forest factory.'

Asan Factory, Where Good Working Conditions Translate to Good Cars

Asan is a fully self-sufficient factory that produces 300,000 units of mid- and large-sized cars annually for strategic export. With a bright and pleasant working environment centred on people and nature, this factory proves that the quality of the working environment translates directly to the quality of the products.

Jeonju Factory, the World's Biggest Production Centre for Commercial Vehicles

The Jeonju factory, with an annual production capacity of 100,000 vehicles, is a plant specializing in commercial vehicles. It produces trucks that weigh 2.5 tons or more, mid- and large-sized buses seating 25 passengers or more, and specially equipped vehicles.

LOCAL FACTORIES OPERATING IN THE MAJOR CENTRES OF THE WORLD

Alabama Factory, Playing a Leading Role in Opening Up the U.S. Market

Inaugurated in May 2005 in the heart of the U.S. market, the biggest battleground of global automakers, the Alabama factory boasts improved productivity and quality. After reaching the 10th place among 37 North American factories in its first year of operations, the press factory, for four years in a row since 2009, and the engine factory and the Sonata model factory, for three years in a row since 2010, have topped Harbor Report's North American automaker productivity survey. Elantra, one of the models produced in Alabama, received the honor of being selected as the 2012 North American Car of the Year. After reaching the 300,000 unit threshold in 2010, the Alabama factory in 2011 surpassed 1 million units in cumulative production for the Sonata model, and in 2012, set an annual production record of 361,348 units with a cumulative production figure of 2 million units, proving its critical role in Hyundai's global success.

China Factories, Optimized Production Systems to Prepare for the Chinese Market

In 2012, the Chinese factories recorded 856,000 units in production and sales, making China the biggest market for Hyundai. Currently, the first and second factories in Beijing produce 300,000 units each, and to keep pace with the steadily growing Chinese market, in July 2012, a third factory with an annual capacity of 400,000 units began operations, bringing the total Chinese production capacity to 1 million vehicles per year and serving as a firm foothold for Hyundai's long-term expansion into the Chinese automotive market.

India Factories, World-class Centre for the Production and Sales of Compact Cars

Hyundai's Indian factories are comprehensive production facilities that can independently handle functions ranging from R&D to testing, manufacturing, and sales of products adapted to local needs. A second factory was built in 2008, raising the annual capacity to 600,000 units. India is the production base for the exclusive overseas small-sized models EON, i10, and the i20 targeting the European market, which are exported to 120 countries around the world. Through a variety of programs aimed at raising Hyundai's presence in India such as sponsoring the International Cricket Council (ICC) World Cup and strict adherence to the policy of localization, the factories in India achieved the remarkable feat of producing 641,281 vehicles and selling 638,775 in 2012.

Czech Factory, Expanding Market Share in Europe through Superior Quality

The Czech factory produces 300,000 units of high quality cars, contributing to the dynamic expansion of Hyundai's market share in Europe. As a special note, i30 produced in this factory was nominated for Car of the Year, Europe proving the superior build-quality of Hyundai cars. The Czech factory now serves as the base for expanding into markets not only in Europe, but also in the Middle East, Australia, and South Africa.

Turkey Factory, Bridge into the European Market

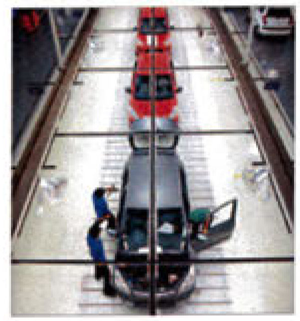
The Turkey factory, which is expanding its annual production capacity from 100,000 units to 200,000 units, is in a strategic location that links Europe, Africa, and the Middle East. Through localized manufacturing of i20 and new compact models to come, the plant contributes greatly to the expansion of exports in the region.

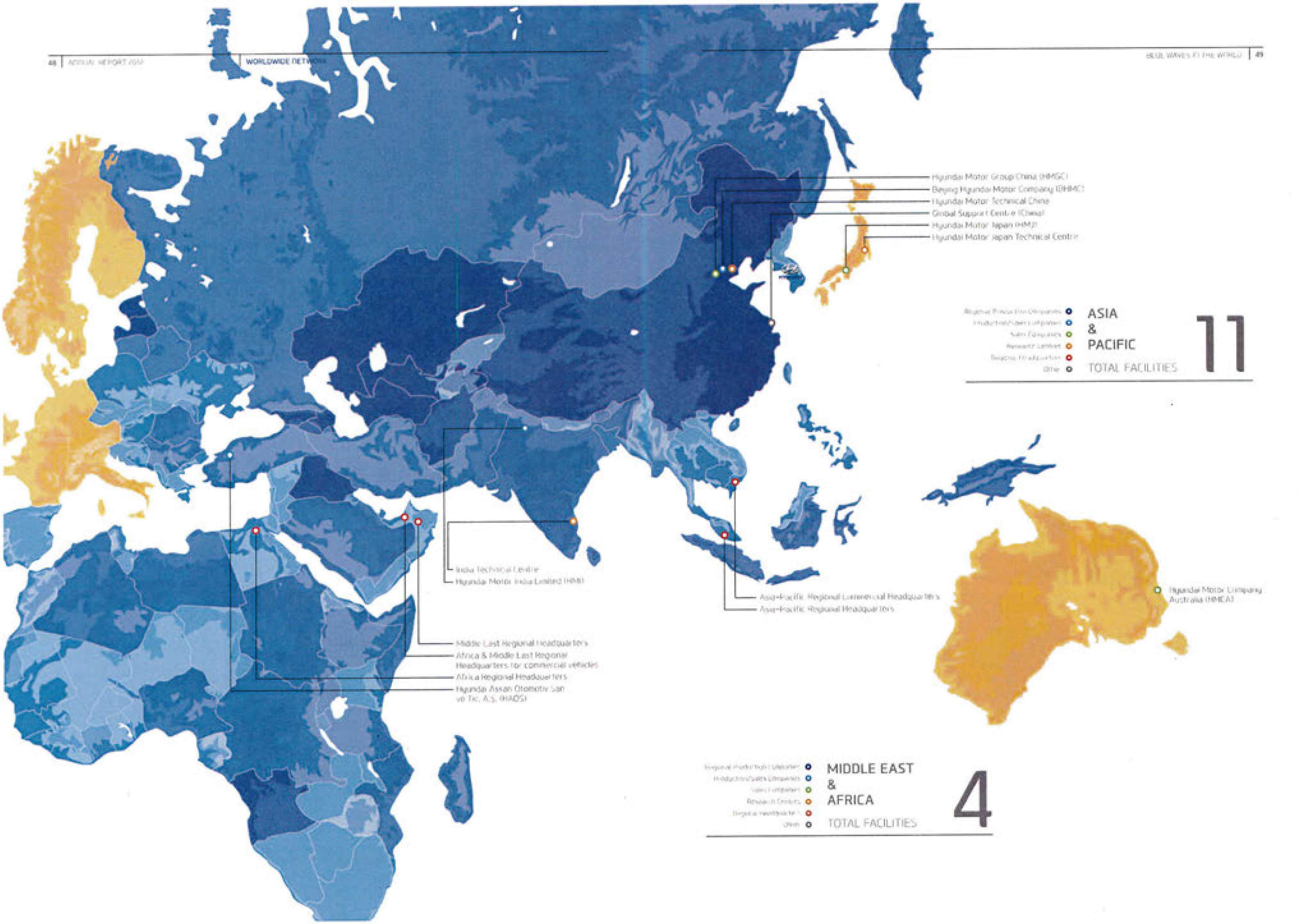
Brazil Factory, the New Standard-bearer of the Brazilian Market

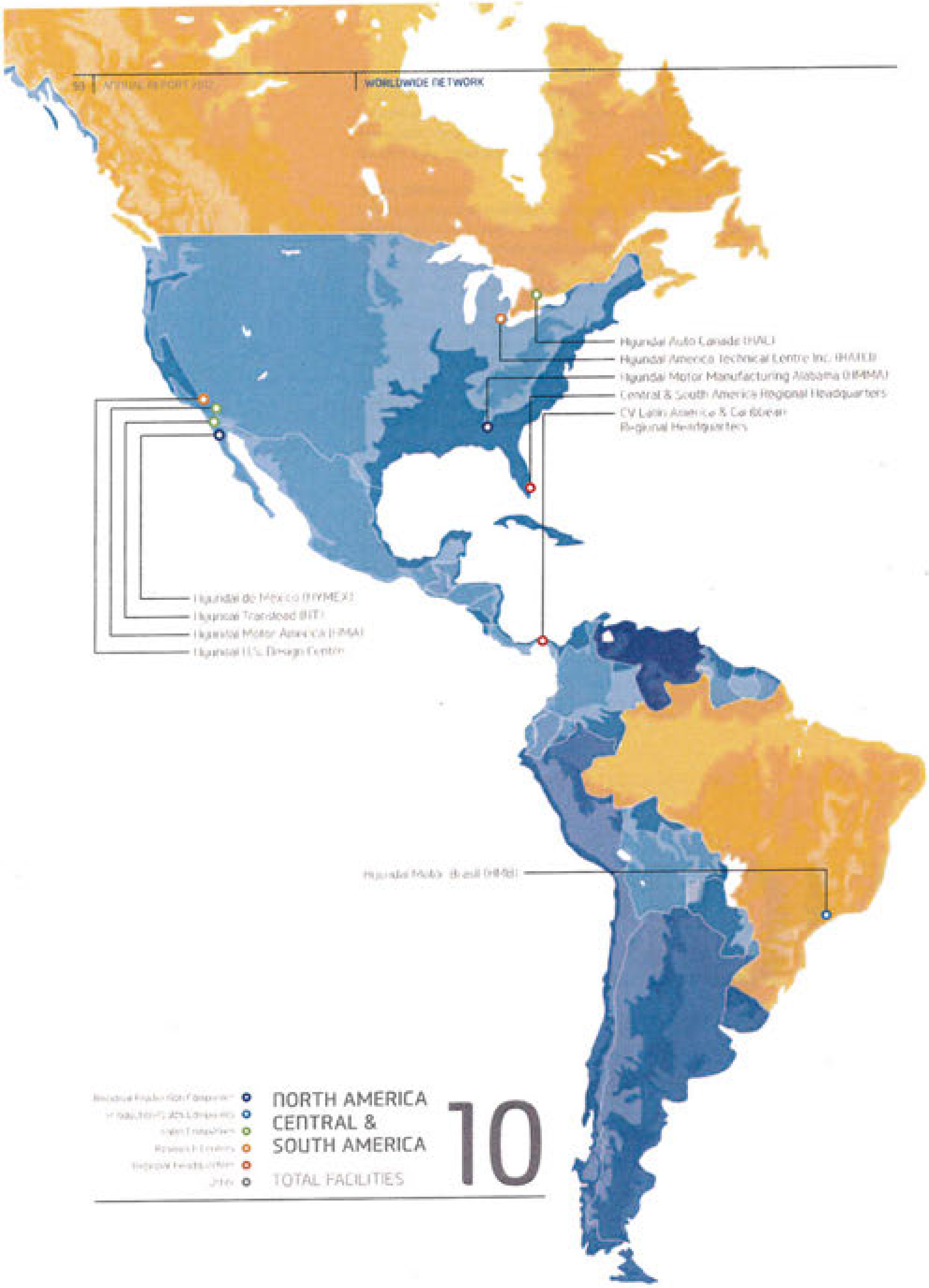
The Brazil factory, which began mass production in September 2012 and selling cars from October, is setting a new standard in the compact car segment of Brazil's automotive market offering innovative styling, high performance, and five years of unlimited warranty. The factory expanded its model offerings from one hatchback model in 2012 to a cross-over model in February 2013, and a sedan model in March. Such record time expansion of new models exemplifies Hyundai's Modern Premium through which the Brazil factory contributes to make Hyundai one of the most loved automotive brands in the world.

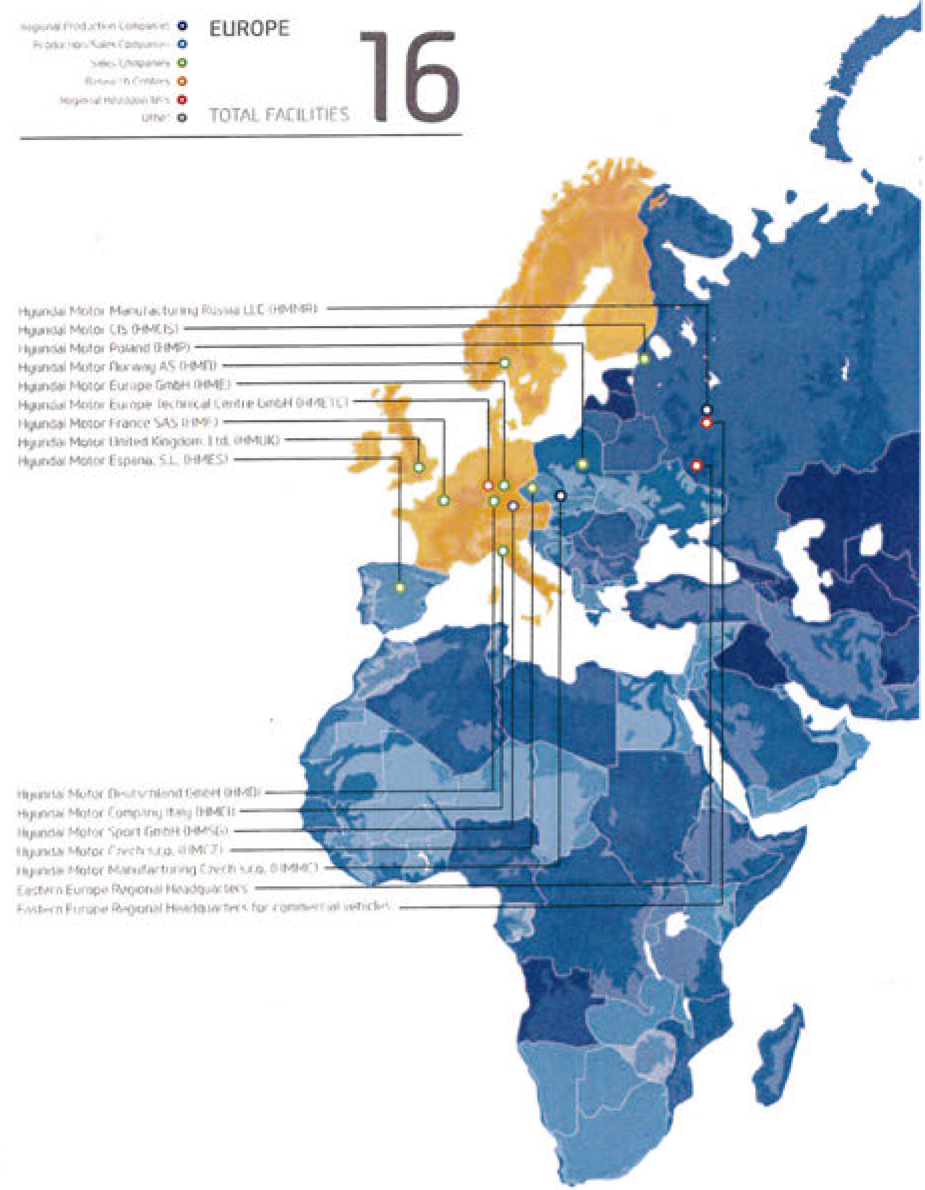
Russia Factory, the Fastest Growing Car Plant in Russia

Hyundai Motor Manufacturing Russia plant, which began operations in January 2011 with an annual production capacity of 150,000 units to mass-produce the Solaris (Accent) model, has now increased its capacity to 200,000 units to meet ever increasing demands. In 2012, the factory emerged as the largest car manufacturing plant in the northwest region of Russia, operating 10 percent above its stated capacity. Also, with respect to production efficiency and quality, it was recognized in 2012 as the best plant within Hyundai Motor Company. At present, this factory produces four models specifically developed to meet the needs and demands of Russian customers. The Solaris (Accent) model, in particular, has sold more than 200,000 units in the past two years to become the most loved foreign brand car in the country, and was also chosen as the Russia Car of the Year recipient in 2012.




Hyundai Motor Group China (HMGC)
Beijing Hyundai Motor Company (BHMC)
Hyundai Motor Technical China
Global Support Centre (China)
Hyundai Motor Japan (HMJ)
Hyundai Motor Japan Technical Centre
India Technical Centre
Hyundai Motor India Limited (HMI)
Asia-Pacific Regional Commercial Headquarters
Asia-Pacific Regional Headquarters
Hyundai Motor Company Australia (HMCA)
Middle East Regional Headquarters
Africa & Middle East Regional Headquarters for commercial vehicles
Africa Regional Headquarters
Hyundai Assan Otomotiv San ve Tic. A.S. (HAOS)
Regional Production Companies
Production/Sales Companies
Sales Companies
Research Centres
Regional Headquarters
Other
ASIA & PACIFIC
TOTAL FACILITIES
11
Regional Production Companies
Production/Sales Companies
Sales Companies
Research Centres
Regional Headquarters
Other
MIDDLE EAST & AFRICA
TOTAL FACILITIES
4


Hyundai Auto Canada (HAC)
Hyundai America Technical Centre Inc. (HATCI)
Hyundai Motor Manufacturing Alabama (HMMA)
Central & South America Regional Headquarters
CV Latin America & Caribbean Regional Headquarters
Hyundai de México (HYMEX)
Hyundai Translead (HT)
Hyundai Motor America (HMA)
Hyundai U.S. Design Centre
Hyundai Motor Brasil (HMB)
NORTH AMERICA
CENTRAL &
SOUTH AMERICA
TOTAL FACILITIES
10


EUROPE
TOTAL FACILITIES
16
Hyundai Motor Manufacturing Russia LLC (HMMR)
Hyundai Motor CIS (HMCIS)
Hyundai Motor Poland (HMP)
Hyundai Motor Norway AS (HMN)
Hyundai Motor Europe GmbH (HME)
Hyundai Motor Europe Technical Centre GmbH (HMETC)
Hyundai Motor France SAS (HMF)
Hyundai Motor United Kingdom Ltd. (HMUK)
Hyundai Motor España, S.L. (HMES)
Hyundai Motor Deutschland GmbH (HMD)
Hyundai Motor Company Italy (HMCI)
Hyundai Motor Sport GmbH (HMSG)
Hyundai Motor Czech s.r.o. (HMCZ)
Hyundai Motor Manufacturing Czech s.r.o. (HMMC)
Eastern Europe Regional Headquarters
Eastern Europe Regional Headquarters for commercial vehicles

SUPPORT A PASSION

SUPPORTING THE PASSION OF PEOPLE WORLDWIDE WITH DIVERSE SPORTS SPONSORSHIPS. MEETING CUSTOMERS IN NEW PLACES AND IN NEW WAYS.

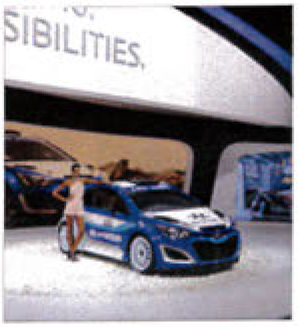
As a global player, Hyundai Motor Company will go where people of the world gather together and grow closer to one another. That is why we sponsor diverse sports such as football, golf, cricket, and ski jumping. Going beyond sports, we also support diverse art performances, new media events, and motor shows. Through our contribution and support, we wish to enrich the lives of our customers and to inspire them.

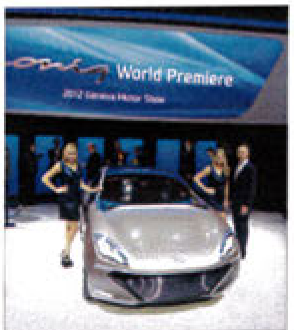
SPONSORING INTERNATIONAL FOOTBALL EVENTS

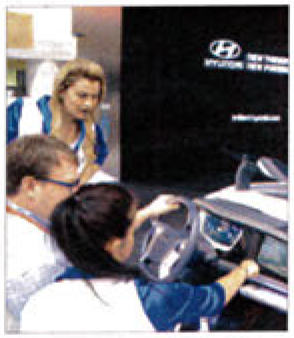
Hyundai began to forge connections with the European football league UEFA and the international football league FIFA in 1999. Starting with the 2002 Korea-Japan World Cup, it went on to officially sponsor the 2006 Germany World Cup, Euro 2008, and the 2010 South Africa World Cup. Following our participation in Euro 2012, this year we will participate in the Confederations Cup to be held in Brazil. We will support fun events for audiences such as street cheering. In addition, we will run a nationwide road show program featuring the popular Goodwill Ball.

DIVERSIFYING SPORTS SPONSORSHIPS: FROM GOLF, CRICKET TO SKI JUMPING

Recently, Hyundai Motor Company has expanded its sports sponsorships to include golf, cricket, and ski jumping in order to broaden the customer base. From 2011, Hyundai has been sponsoring the Hyundai Tournament of Champions, which is a U.S. PGA-affiliated preseason competition where the previous year's winners of the PGA Tour compete against one another. Starting with the India Cricket World Cup in 2011, we have continued to support the International Cricket Council (ICC) by sponsoring Sri Lanka World T20 and Australia Under-19 Championship in 2012, India Women's Cricket World Cup in 2013, and also the Wales Champions Trophy in the U.K. in 2013. In addition, Hyundai began to support ski jumping by sponsoring the 2012 Ski Flying Championships and participating in the 2012-2013 Ski Jumping World Cup season. Hyundai will continue its support by sponsoring the 2013 Nordic Championships and participating again in the 2013-2014 Ski Jumping World Cup season. Through these activities, Hyundai Motor Company will actively promote its esteemed SUV models.







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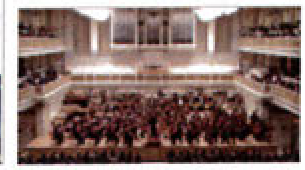
MOTOR SHOWS, AUTOMOTIVE FESTIVALS FOR CAR-LOVING CUSTOMERS

In 2012, Hyundai Motor Company participated in major international motor shows not only in Europe, America, and China, but also in key emerging markets. Through these shows, Hyundai changed the way people look at the company's cars by innovatively communicating the Modern Premium brand image that Hyundai aspires to. For example, the novel booth designs presented at the motor shows in Paris and Geneva expressed the new brand identity of Hyundai in a clear and creative fashion. Also, the premiere launches of Hyundai's new mass-market model i20 World Rally Car and the ix35 hydrogen fuel cell vehicle showcased to the world the company's "New Thinking, New Possibilities." approach unique to Hyundai. The participation in the San Paulo Motor Show in Brazil marked the launch of a new factory in Brazil and Hyundai's strong commitment to the Brazilian market as the official sponsor of 2014 Brazil World Cup. Global motor shows also served as venues to meet and engage with customers by displaying new car models and concept cars, projecting brand images in creative brand rooms and interactive presentations, and holding compelling events such as robot-arm performances. As a leading automotive company, Hyundai will continue to strive to connect with customers worldwide.

EVERY SECOND IS A 'BRILLIANT MOMENT' FROM HYUNDAI

In 2013, Hyundai Motor Company's plan is to introduce various interactive presentations that combine new ideas and IT technologies together to enhance the experience of our brand by customers. The first venue was the 2013 Consumer Electronics Show (CES) where Hyundai showcased its information technology with a cockpit containing the 3rd generation 'Blue Link' telematics system. And at the Seoul Motor Show, Hyundai plans to unveil, for the first time, the 3rd generation of 'MyBaby,' which embodies future transportation concepts. Unlike the previous generations focused on visual designs, this model maximizes the experience aspect and will demonstrate the creative capacity of Hyundai to imagine the future. Hyundai Motor Company will continue to focus on providing new kinds of experiences to our customers using creative and novel exhibition techniques to deliver brilliant moments.



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HYUNDAI AND NEW MEDIA

As customers' lifestyle trends change rapidly, Hyundai Motor Company is actively seeking for new ways to connect with people through new media.

As a part of the campaign to promote the New Santa Fe, a teaser trailer of the ad movie, The Chaser, was released on Facebook. The Chaser was produced as an interactive 360-degree Virtual Reality (VR) movie so that users could not only watch the video, but also have an interactive 360-degree view of the car's interior space. This movie also featured an engaging 007-like storyline that, along with the interactive technology, made a lasting impression on viewers.

In addition, in 2011, Hyundai Motor Company, with the partnership of Microsoft Advertising, introduced the New Thinker's Index campaign that offered revolutionary bi-directional digital content experiences. In this campaign, various intellectual aptitudes including those required in learning vocabulary and mathematics were presented to the user with videos featuring 22 celebrities. The users then participated in an interactive bi-directional online quiz, and the result told them which celebrity had the most similar intellectual aptitude as them.

Make a Pledge was a EURO 2012 fundraising campaign where five Team Hyundai players and their fans were asked to pledge for their countries to win the tournament, and Hyundai promised to donate a euro for every pledge to the youth football club Street Football World. This campaign resulted in the donation of a total of 25,000 euros and fulfilled Hyundai's mission of contributing to the society and enhancing its brand image at the same time.

SPREADING BRAND VALUES THROUGH CULTURAL MARKETING

Good cultural content is an effective way to get customers to experience the brand values of Hyundai Motor Company. From 2010 to 2012, Hyundai sponsored Seoul Philharmonic Orchestra's performances, led by Maestro Chung Myung-Hoon, in select cities in Europe and America. Through these performances, Hyundai customers will come to remember Hyundai, not only as a car manufacturer, but as a lifestyle brand.

WORLD RALLY CHAMPIONSHIP

World Rally Championship (WRC)

WRC is a competition where mainstream car companies compete with mass production cars converted into racing cars. It is one of two most important car racing competitions along with Formula 1. Because the races span 13 countries, starting in Monaco (the Monte Carlo Race), the championship is an important opportunity to promote global brand recognition and boost sales.

1 2 3

I20 RALLY CAR FOR THE WORLD RALLY CHAMPIONSHIP

With the plan to participate in the 2014 WRC, Hyundai has already developed and presented an i20-based rally car model at the Paris Motor Show and established Hyundai Motor Sports GmbH in Bayern, Germany to direct the affairs related to car development, testing, team formation, and operations. The i20 is Hyundai's strategic model for the European market, which meets all the specifications laid out by the WRC. The i20 Rally Car based on this production model features best-in-class powertrain performance with a 1,600 cc engine with turbo-charger producing 300 ps, special 6-speed race optimized transmission and 4-wheel drive system, and also features a special suspension system that provides optimal drive performance in any road surface conditions. The engineers from Namyang Technical Research Centre and Europe's rally car specialists banded together to develop extreme durability with best performance and enhanced aerodynamics. By participating in the WRC, Hyundai expects to enhance its brand image of not only high quality, but also high performance.

HYUNDAI WILL DO ITS BEST TO TOUCH PEOPLE'S HEARTS WITH ITS CORPORATE SOCIAL RESPONSIBILITY PROGRAMS ALL AROUND THE WORLD

MOVING THE WORLD TOGETHER

The role of Hyundai Motor Company as a global automotive leader is not only to develop cars of best quality and eco-friendliness, but also to study ways to improve the overall well-being of the people in our society. Hyundai will strive to do its best to facilitate the well-being of our global society by contributing in the ways that best match the character and strengths of Hyundai Motor Company.

SOCIAL CONTRIBUTION SYMBOL AND SLOGAN

SAFE MOVE

1
2 | 3

HYUNDAI'S EFFORTS TO PROMOTE TRAFFIC SAFETY FOR KIDS

In 2012, Hyundai Motor Company concentrated on the Safe Move campaign of its four 'Move' corporate social responsibility (CSR) programs. Under the motto "Making Safe Streets Together," Safe Move's first and foremost task was to establish a culture of traffic safety among children. To achieve this goal, Hyundai produced the Robo-car Poli Road Safety Season 1 animation based on the popular cartoon character Robo-car Poli. This animation, which communicates essential road safety information to children, has succeeded in educating many children in a fun and easy-to-understand method. A second season has also been produced, this time in collaboration with the National Police Agency of Korea. Hyundai continues its effort to educate children on road safety by supporting character-licensing fairs and running special exhibition centres related to safety education. In addition, Hyundai also works to support children who have been orphaned by car accidents with its Three-leaf Clover Worldwide program. The program aims to grant the wishes of orphaned children in order to inspire them with a renewed sense of hope.

HYUNDAI INVESTING IN CHILDREN FOR A BETTER FUTURE

Hyundai Motor Company ran a mentoring program for orphaned children with the participation of more than 10,000 company employees. The program, which aims to give orphaned children motivation and hope for a better future, gave 530 boys and girls recommended by local schools, welfare centres, and NGO organizations, the opportunity to visit Yeosu Expo 2012, participate in career counseling, and receive house refurbishment for better living conditions. Globally, Hyundai opened a mechanics training school called the Hyundai-Koica Dream Centre in Ghana. By training young people with useful skills, this school helps them get better jobs. Hyundai will continue to expand these types of technical schools into other African and Asian countries. Hyundai believes that its specialty in the automotive industry can prove to be beneficial in training future technicians.

4
5 | 6

VOLUNTEER ACTIVITIES

The year 2012 was when Hyundai Motor Company's volunteer programs developed into a more mature form. Volunteer activities by company employees took on many shapes and forms but were united under the overall goal of delivering real benefits to people in need. The company set up the H-Volunteer Designer system that actively aids and facilitates the volunteering activities of employees to further encourage volunteerism among Hyundai employees. This systems allows employees to 'design' their own activity plans and goals. In 2012, H-Volunteer Designers participated in a wide range of activities, including teaching the Korean alphabet Hangul to foreign workers and taking portrait photos of the elderly for them to use at their funerals when they pass away, as it is customary in Korea.

Also, through the "One Village per Company" program, employee volunteers helped improve the living conditions of rural villages by making flower beds for local schools or tearing down safety-hazard facilities in abandoned schools. Through these activities, Hyundai strove to give real, practical benefits to people living in rural villages and fulfill its social responsibilities as a global corporation.

MOVING THE WORLD TOGETHER WITH MID-TO LONG-TERM PLANS FOR SOCIAL CONTRIBUTION

Hyundai Motor Company's main focus in 2013 for social contribution is to first establish a mid-to long-term strategy and plan and to start implementation right away. The theme of these programs is Safe Move (traffic safety), and various programs will be developed in accordance to this plan. One domestic program is the prevention of traffic accidents involving children through after-school education sessions utilizing the Robo-Car Poli traffic safety animations. Hyundai will also qualitatively expand the successful Three-leaf Clover Worldwide program, adding a mentoring program that can continue to support orphaned children for a longer period of time.


HYUNDAI, WITH YOU NOW AND ALWAYS
Hyundai's endless efforts to become "the best-loved automotive brand by customers" have been translated into cars that carry many different names, which have been accompanying the lives of customers and receiving their love from all over the world. for some, Hyundai is a source of pride; for others, it stands for style or is synonymous with eco-friendliness. Hyundai will continue to be a "lifetime partner" of customers in the future, standing by their side every moment of their lives.

CORPORATE GOVERNANCE AND BOARD OF DIRECTORS

HMC has Board of Directors and two subcommittees including Audit Committee and External Director Candidate Recommendation Committee under the Board of Direcotrs. Additionally, an independent Ethics Committee was established in 2007.

THE BOARD OF DIRECTORS

The BOD makes decisions on matters stipulated by law and the Articles of Incorporation, as well as issues delegated to it through shareholders' meetings. The BOD sets guidelines for the company's management and makes important decisions related to the execution of projects. The BOD supervises the work of executives and management. The BOD consists of four internal and five external directors. The BOD convenes regular board meetings as well as extraordinary meetings whenever necessary.

	Name	Title/Affiliation	Joint Positions Held: External Director Candidate Recommendation Committee	Audit Committee	Ethics Committee
Internal	CHUNG, MONG-KOO	Chairman & CEO	o	-	-
	Choong Ho Kim	President & CEO	o	-	o
	Gap Han Yoon	President & CEO	-	-	-
	Eui Sun Chung	Vice Chairman	-	-	-
External	Il Hyung Kang	Representative Tax Accountant, Daeun Tax Corporation	o	o	-
	Se Bin Oh	Lawyer, Dong In Law Group	o	o	o
	Young Chul Yim	Lawyer, Shin & Kim	-	o	o
	Sung Il Nam	Professor of Economics, Sogang University	o	o	-
	You Jae Yi	Professor of Business Administration, Seoul National University	-	-	o

Meetings	Date	Agenda	Resolution
1st General	Jan. 26, 2012	• Approval of financial statements for the 44th fiscal year and 8 other items	Original Draft Passed
Extraordinary	Feb. 22, 2012	• Approval of agenda items for the 44th General Shareholders' meeting and 1 other item	Original Draft Passed
Extraordinary	Mar. 16, 2012	• Approval of an appointment of the President and CEO and 7 other items	Original Draft Passed
2nd General	Apr. 26, 2012	• Approval of an appointment of the compliance officer and 3 other items	Original Draft Passed
Extraordinary	Jun. 25, 2012	• Approval of a transaction with a company featuring the same major shareholder	Original Draft Passed
3rd General	Jul. 26, 2012	• Approval of a transaction with a company featuring the same major shareholder and 2 other items	Original Draft Passed
Extraordinary	Sep. 15, 2012	• Approval of a transaction with a part-material investment related subsidiary and 1 other item	Original Draft Passed
4th General	Oct. 25, 2012	• Approval of a transaction with a company featuring the same major shareholder and 2 other items	Original Draft Passed

THE AUDIT COMMITTEE AND THE EXTERNAL DIRECTOR CANDIDATE RECOMMENDATION COMMITTEE

The Audit Committee consists of four external directors. Its duties include auditing the company's management and accounting, requesting business reports from executives, and monitoring the company's financial status. The Audit Committee can raise discussions on matters related to general shareholder meetings, directors and the BOD, and auditing issues. Internal systems to enable members' access to management information necessary for proper auditing are in place.

The External Director Candidate Recommendation Committee consists of 2 internal directors and 3 external directors. All external directors are appointed after being recommended by the Recommendation Committee. Compensation for directors was capped at KRW 15 billion at the 2012 General Shareholders Meeting. Total compensation for internal and external directors from 1 January to 31 December 2012 amounted to KRW 9.6 billion. Average compensation for internal directors was KRW 2.3 billion and KRW 84 million for external directors.

Meetings	Date	Agenda	Resolution
1st General	Jan. 26, 2012	• Approval of financial statements for the 44th fiscal year and 2 other items	Original draft passed
Extraordinary	Feb. 22, 2012	• Approval of agenda items for the 44th General Shareholders' meeting	Original draft passed
Extraordinary	Mar. 16, 2012	• Approval of an appointment of the Chairman of the Audit Committee	Original draft passed
2nd General	Apr. 26, 2012	-	-
3rd General	Jul. 26, 2012	-	-
4th General	Oct. 25, 2012	-	-

CORPORATE GOVERNANCE AND BOARD OF DIRECTORS

THE ETHICS COMMITTEE

Hyundai Motor Company established the Ethics Committee in 2007 to improve transparency of internal transactions and to ensure ethical management of the company. Ethical management and internal transaction restrictions were further reinforced in 2012 when the Committee was reorganized as a sub-committee of the BOD. The Ethics Committee consists of three external directors and one internal director. The chairmanship is held by an external director. Key agenda items in 2011 dealt with insider trading with subsidiaries and social contribution activities.

Meetings	Date	Agenda	Resolution
1st General	Jan. 26, 2012	· Review of 2012 social contribution plans and 2 other items	Original draft passed
2nd General	Apr. 16, 2012	· Approval of an amendment to the Work Ethics Code	Original draft passed
3rd General	Jul. 26, 2012	-	-
4th General	Oct. 25, 2012	· Approval of a transaction with a company featuring the same major shareholder and 1 other item	Original draft passed

FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF
HYUNDAI MOTOR COMPANY:

We have audited the accompanying consolidated financial statements of Hyundai Motor Company (the "Company") and its subsidiaries. The financial statements consist of the consolidated statements of financial position as of December 31, 2012 and 2011, respectively, and the related consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows, all expressed in Korean won, for the years then ended, respectively. The Company's management is responsible for the preparation and fair presentation of the consolidated financial statements and our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of certain subsidiaries, including Hyundai Capital Services, Inc., whose statements reflect 42.3% and 43.5% of the consolidated total assets as of December 31, 2012 and 2011, respectively, and 49.9% and 44.4% of the consolidated total sales for the years then ended, respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2012 and 2011, respectively, and the results of its operations and its cash flows for the years then ended, respectively, in conformity with Korean International Financial Reporting Standards ("K-IFRS").

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying consolidated financial statements are for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice.

Deloitte Anjin LLC

March 7, 2013

NOTICE TO READERS

This report is effective as of March 7, 2013, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

HYUNDAI MOTOR COMPANY AND ITS SUBSIDIARIES (THE "GROUP")

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

The accompanying consolidated financial statements including all footnote disclosures were prepared by and are the responsibility of the Group.

Choong Ho Kim
CEO, HYUNDAI MOTOR COMPANY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

In millions of Korean Won

Assets	December 31, 2012	December 31, 2011
Current assets:		
Cash and cash equivalents (Note 19)	W 6,759,338	W 6,231,946
Short-term financial instruments (Note 19)	12,384,057	9,182,575
Trade notes and accounts receivable (Note 3,19)	3,686,824	3,845,517
Other receivables (Note 4,19)	2,304,410	2,240,482
Other financial assets (Note 5,19)	109,299	356,444
Inventories (Note 6)	6,772,864	6,237,752
Other assets (Note 7,19)	1,905,445	1,137,862
Current tax assets	34,575	36,084
Financial services receivables (Note 13,19)	20,867,467	19,657,688
Non-current assets held for sale (Note 8)	23,307	-
Total current assets	54,847,586	48,926,350
Non-current assets:		
Long-term financial instruments (Note 19)	1,359	211,540
Long-term trade notes and accounts receivable (Note 3,19)	43,801	76,843
Other receivables (Note 4,19)	1,036,609	987,207
Other financial assets (Note 5,19)	1,594,464	1,897,943
Other assets (Note 7,19)	44,424	1,288
Property, plant and equipment (Note 9)	20,739,858	19,548,048
Investment property (Note 10)	282,832	282,427
Intangible assets (Note 11)	2,883,218	2,660,109
Investments in joint ventures and associates (Note 12)	13,117,731	11,709,238
Deferred tax assets (Note 32)	489,080	458,287
Financial services receivables (Note 13,19)	18,626,764	17,452,441
Operating lease assets (Note 14)	7,830,088	5,268,254
Total non-current assets	66,690,228	60,553,625
Total assets	**W 121,537,814**	**W 109,479,975**

(Continued)

In millions of Korean Won

Liabilities and shareholders' equity	December 31, 2012	December 31, 2011
Current liabilities:		
Trade notes and accounts payable (Note 19)	W 6,841,326	W 6,666,406
Other payables (Note 19)	4,542,007	3,752,684
Short-term borrowings (Note 15,19)	6,781,749	7,880,014
Current portion of long-term debt and debentures (Note 15,19)	7,912,341	8,320,194
Income tax payable	550,847	925,519
Provisions (Note 16)	1,768,014	1,686,161
Other financial liabilities (Note 17,19)	148,311	455,914
Other liabilities (Note 18,19)	4,291,104	3,476,616
Total current liabilities	32,835,699	33,163,508
Non-current liabilities:		
Long-term other payables (Note 19)	8,271	29,471
Debentures (Note 15,19)	26,370,689	23,654,325
Long-term debt (Note 15,19)	4,142,473	3,484,127
Defined benefit obligations (Note 33)	821,749	648,639
Provisions (Note 16)	5,240,744	4,960,992
Other financial liabilities (Note 17,19)	356,193	200,197
Other liabilities (Note 18,19)	1,482,358	1,537,003
Deferred tax liabilities (Note 32)	2,362,063	1,474,011
Total non-current liabilities	40,784,540	35,988,765
Total liabilities	73,620,239	69,152,273
Shareholders' equity:		
Capital stock (Note 20)	1,488,993	1,488,993
Capital surplus (Note 21)	4,158,988	4,114,010
Other capital items (Note 22)	(1,128,779)	(1,128,779)
Accumulated other comprehensive income (Note 23)	(473,373)	375,281
Retained earnings (Note 24)	39,993,230	32,263,528
Equity attributable to the owners of the Parent Company	44,039,059	37,113,033
Non-controlling interests	3,878,516	3,214,669
Total shareholders' equity	47,917,575	40,327,702
Total liabilities and shareholders' equity	**W 121,537,814**	**W 109,479,975**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

	2012	2011
Sales (Note 25,38)	₩ 84,469,721	₩ 77,797,895
Cost of sales (Note 30)	64,972,145	58,902,023
Gross profit	19,497,576	18,895,872
Selling and administrative expenses (Note 26,30)	11,060,629	10,867,043
Operating income	8,436,947	8,028,829
Gain on investments in joint ventures and associates, net (Note 27)	2,579,906	2,403,753
Finance income (Note 28)	969,726	747,546
Finance expenses (Note 28)	624,473	779,666
Other income (Note 29)	1,231,360	1,030,593
Other expenses (Note 29,30)	988,336	983,945
Income before income tax	11,605,130	10,447,110
Income tax expense (Note 32)	2,548,853	2,342,247
Profit for the year	**₩ 9,056,277**	**₩ 8,104,863**
Profit attributable to:		
Owners of the Parent Company	8,561,825	7,655,871
Non-controlling interests	494,452	448,992
Earnings per share attributable to the owners of the Parent Company: (Note 31)		
Basic earnings per common share	**₩ 31,515**	**₩ 28,200**
Diluted earnings per common share	**₩ 31,515**	**₩ 28,200**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	2012	2011
Profit for the year	₩ 9,056,277	₩ 8,104,863
Other comprehensive income (expenses):		
Loss on valuation of available-for-sale financial assets, net	(80,693)	(91,860)
Gain on valuation of cash flow hedge derivatives, net	55,471	4,004
Changes in valuation of equity-accounted investees, net	(293,487)	158,977
Actuarial loss on defined benefit obligations, net	(247,197)	(175,500)
Loss on foreign operations translation, net	(636,824)	(147,280)
Total other comprehensive expenses	(1,202,730)	(251,659)
Total comprehensive income	**₩ 7,853,547**	**₩ 7,853,204**
Comprehensive income attributable to:		
Owners of the Parent Company	7,378,454	7,415,551
Non-controlling interests	475,093	437,653
Total comprehensive income	**₩ 7,853,547**	**₩ 7,853,204**

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Capital stock	Capital surplus	Other capital items	Accumulated other comprehensive income	Retained earnings	Total	Non-controlling interests	Total equity
Balance at January 1, 2011	₩ 1,488,993	₩ 3,900,935	₩ (918,214)	₩ 409,914	₩ 25,216,163	₩ 30,097,791	₩ 2,790,182	₩ 32,887,973
Comprehensive income:								
Profit for the year	-	-	-	-	7,655,871	7,655,871	448,992	8,104,863
Loss on valuation of available-for-sale financial assets, net	-	-	-	(91,493)	-	(91,493)	(367)	(91,860)
Gain on valuation of cash flow hedge derivatives, net	-	-	-	2,891	-	2,891	1,113	4,004
Changes in valuation of equity-accounted investees, net	-	-	-	199,216	(40,249)	158,967	10	158,977
Actuarial loss on defined benefit obligations, net	-	-	-	-	(165,438)	(165,438)	(10,062)	(175,500)
Loss on foreign operations translation, net	-	-	-	(145,247)	-	(145,247)	(2,033)	(147,280)
Total comprehensive income	-	-	-	(34,633)	7,450,184	7,415,551	437,653	7,853,204
Transactions with owners, recorded directly in equity:								
Payment of cash dividends	-	-	-	-	(412,227)	(412,227)	(45,423)	(457,650)
Purchase of treasury stock	-	-	(400,137)	-	-	(400,137)	-	(400,137)
Disposal of treasury stock	-	194,959	189,572	-	-	384,531	-	384,531
Increase in subsidiaries' stock	-	-	-	-	-	-	12,871	12,871
Disposal of subsidiaries' stock	-	18,116	-	-	-	18,116	-	18,116
Other	-	-	-	-	9,408	9,408	19,386	28,794
Total transactions with owners, recorded directly in equity	-	213,075	(210,565)	-	(402,819)	(400,309)	(13,166)	(413,475)
Balance at December 31, 2011	**₩ 1,488,993**	**₩ 4,114,010**	**₩ (1,128,779)**	**₩ 375,281**	**₩ 32,263,528**	**₩ 37,113,033**	**₩ 3,214,669**	**₩ 40,327,702**

Continued

	Capital stock	Capital surplus	Other capital items	Accumulated other comprehensive income	Retained earnings	Total	Non-controlling interests	Total equity
Balance at January 1, 2012	₩ 1,488,993	₩ 4,114,010	₩ (1,128,779)	₩ 375,281	₩ 32,263,528	₩ 37,113,033	₩ 3,214,669	₩ 40,327,702
Comprehensive income:								
Profit for the year	-	-	-	-	8,561,825	8,561,825	494,452	9,056,277
Gain (Loss) on valuation of available-for-sale financial assets, net	-	-	-	(81,330)	-	(81,330)	637	(80,693)
Gain on valuation of cash flow hedge derivatives, net	-	-	-	29,746	-	29,746	25,725	55,471
Changes in valuation of equity-accounted investees, net	-	-	-	(189,602)	(102,759)	(292,361)	(1,126)	(293,487)
Actuarial loss on defined benefit obligations, net	-	-	-	-	(231,958)	(231,958)	(15,239)	(247,197)
Loss on foreign operations translation, net	-	-	-	(607,468)	-	(607,468)	(29,356)	(636,824)
Total comprehensive income	-	-	-	(848,654)	8,227,108	7,378,454	475,093	7,853,547
Transactions with owners, recorded directly in equity:								
Payment of cash dividends	-	-	-	-	(480,105)	(480,105)	(43,262)	(523,367)
Increase in subsidiaries' stock	-	42,866	-	-	-	42,866	232,050	274,916
Disposal of subsidiaries' stock	-	2,112	-	-	-	2,112	(10)	2,102
Other	-	-	-	-	(17,301)	(17,301)	(24)	(17,325)
Total transactions with owners, recorded directly in equity	-	44,978	-	-	(497,406)	(452,428)	188,754	(263,674)
Balance at December 31, 2012	**₩ 1,488,993**	**₩ 4,158,988**	**₩ (1,128,779)**	**₩ (473,373)**	**₩ 39,993,230**	**₩ 44,039,059**	**₩ 3,878,516**	**₩ 47,917,575**

CONSOLIDATED STATEMENTS OF CASH FLOWS

In millions of Korean Won

	2012	2011
Cash flows from operating activities:		
Cash generated from operations: (Note 34)		
Profit for the year	₩ 9,056,277	₩ 8,104,863
Adjustments	7,123,391	6,918,040
Changes in operating assets and liabilities	(8,311,579)	(8,596,090)
	7,868,089	6,426,813
Interest received	617,736	550,026
Interest paid	(1,660,401)	(1,722,736)
Dividend received	744,132	605,273
Income tax paid	(2,229,870)	(1,727,257)
Net cash provided by operating activities	**5,339,686**	**4,132,119**
Cash flows from investing activities:		
Purchase of short-term financial instruments, net	(1,900,099)	(337,862)
Proceeds from disposal of other financial assets	448,109	764,699
Proceeds from disposal of other receivables	93,261	412,462
Proceeds from withdrawal of long-term financial instruments	-	5
Proceeds from disposal of property, plant and equipment	69,230	108,727
Proceeds from disposal of intangible assets	1,935	11,047
Proceeds from disposal of investments in joint ventures and associates	241,806	355,584
Acquisition of other financial assets	(539,551)	(764,965)
Acquisition of other receivables	(97,098)	(394,144)
Purchase of long-term financial instruments	(1,160,000)	(500,000)
Acquisition of property, plant and equipment	(3,000,038)	(2,899,177)
Acquisition of intangible assets	(798,607)	(763,234)
Acquisition of investments in subsidiaries	(290,989)	-
Acquisition of investments in joint ventures and associates	(275,104)	(3,105,180)
Other cash receipts (payments) from investing activities, net	8,012	(4,057)
Net cash used in investing activities	**(7,199,133)**	**(7,116,095)**

Continued

In millions of Korean Won

	2012	2011
Cash flows from financing activities:		
Repayment of short-term borrowings, net	₩ (1,363,213)	₩ (1,084,499)
Proceeds from long-term debt and debentures	23,448,538	15,501,739
Paid in capital increase in subsidiaries	277,476	10,618
Repayment of long-term debt and debentures	(18,890,467)	(10,436,527)
Repayment of other financial liabilities	(341,484)	-
Purchase of treasury stock	-	(400,137)
Dividends paid	(523,367)	(457,650)
Other cash payments from financing activities, net	(34,652)	(24,740)
Net cash provided by financing activities	**2,572,831**	**3,108,804**
Effect of exchange rate changes on cash and cash equivalents	(185,992)	(108,697)
Net increase in cash and cash equivalents	527,392	16,131
Cash and cash equivalents, beginning of the year	6,231,946	6,215,815
Cash and cash equivalents, end of the year	**₩ 6,759,338**	**₩ 6,231,946**

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL:

Hyundai Motor Company (the "Company" or "Parent Company") was incorporated in 1967, under the laws of the Republic of Korea. The Company and its subsidiaries (the "Group") manufactures and distributes motor vehicles and parts, operates vehicle financing and credit card processing, and manufactures trains.

The shares of the Company have been listed on the Korea Exchange since 1974 and the Global Depositary Receipts issued by the Company have been listed on the London Stock Exchange and Luxemburg Stock Exchange.

As of December 31, 2012, the major shareholders of the Company are Hyundai MOBIS (20.78%) and Chung, Mong Koo (5.17%).

(1) THE COMPANY'S CONSOLIDATED SUBSIDIARIES AS OF DECEMBER 31, 2012 ARE AS FOLLOWS:

Subsidiaries	Nature of business	Location	Ownership percentage	Indirect ownership
Hyundai Capital Services, Inc.	Financing	Korea	56.47%	
Hyundai Card Co., Ltd. (*)	-	-	31.52%	
Hyundai Rotem Company	Manufacturing	-	57.64%	
Hyundai KEFICO Corporation	-	-	100.00%	
Green Air Co., Ltd.	-	-	51.00%	Hyundai Rotem 51.00%
Hyundai Autron Co., Ltd. (Formerly, Hyundai Carnes Co., Ltd.)	R&D	-	60.00%	
Hyundai Partecs Co., Ltd.	Manufacturing	-	56.00%	
Hyundai NGV Tech Co., Ltd.	Engineering	-	53.66%	
Maintrans Co., Ltd.	Services	-	80.00%	Hyundai Rotem 80.00%
Jeonbuk Hyundai Motors FC Co., Ltd.	Football Club	-	100.00%	
Hyundai Motor America (HMA)	Sales	USA	100.00%	
Hyundai Capital America (HCA)	Financing	-	85.00%	HMA 85.00%
Hyundai Motor Manufacturing Alabama, LLC (HMMA)	Manufacturing	-	100.00%	HMA 100.00%
Hyundai Translead, Inc. (HT)	-	-	100.00%	
Stamped Metal American Research Technology, Inc. (SMARTI)	Holding company	-	72.45%	HMA 72.45%
Stamped Metal American Research Technology LLC	Manufacturing	-	100.00%	SMARTI 100.00%
Hyundai America Technical Center Inc. (HATCI)	R&D	-	100.00%	
Rotem USA Corporation	Manufacturing	-	100.00%	Hyundai Rotem 100.00%
Hyundai Auto Canada Corp. (HAC)	Sales	Canada	100.00%	HMA 100.00%
Hyundai Auto Canada Captive Insurance Inc. (HACCI)	Insurance	-	100.00%	HAC 100.00%
Hyundai Motor India Limited (HMI)	Manufacturing	India	100.00%	
Hyundai Motor India Engineering Private Limited (HMIE)	R&D	-	100.00%	HMI 100.00%
Hyundai Capital India Private Limited (HCI)	Financing	-	100.00%	Hyundai Capital Services 100.00%
Hyundai Motor Japan Co., Ltd. (HMJ)	Sales	Japan	100.00%	

(continued)

Subsidiaries	Nature of business	Location	Ownership percentage	Indirect ownership
Hyundai Motor Japan R&D Center Inc. (HMJ R&D)	R&D	-	100.00%	
Beijing Jingxian Motor Safeguard Service Co., Ltd. (BJMSS)	Sales	China	100.00%	
Beijing Jingxianronghua Motor Sale Co., Ltd.	-	-	100.00%	BJMSS 100.00%
Beijing Xinhuaxiaqiyuetong Motor Chain Co., Ltd.	-	-	100.00%	BJMSS 100.00%
Beijing Hines Millennium Real Estate Development	Real estate development	-	99.00%	CMEs 99.00%
Rotem Equipments (Beijing) Co., Ltd.	Manufacturing	China	100.00%	Hyundai Rotem 100.00%
KEFICO Automotive Systems (Beijing) Co., Ltd.	-	-	100.00%	Hyundai KEFICO 100.00%
KEFICO VIETNAM COMPANY LIMITED	-	Vietnam	100.00%	-
Hyundai Motor Company Australia Pty Limited (HMCA)	Sales	Australia	100.00%	
Hyundai Motor Manufacturing Czech, s.r.o. (HMMC)	Manufacturing	Czech	100.00%	
Hyundai Motor Czech s.r.o (HMCZ)	Sales	-	100.00%	
Hyundai Motor Europe GmbH (HME)	Marketing and Sales	Germany	100.00%	
Hyundai Motor Deutschland GmbH (HMD)	Sales	-	100.00%	
Hyundai Motor Europe Technical Center GmbH (HMETC)	R&D	-	100.00%	
Hyundai Motor Sport GmbH (HMSG)	Marketing	-	100.00%	HME 100%
Hyundai Capital Europe GmbH	Financing	-	100.00%	Hyundai Capital Services 100.00%
Hyundai Motor Manufacturing Rus LLC (HMMR)	Manufacturing	Russia	70.00%	
Hyundai Motor Commonwealth of Independent States B.V (HMCIS B.V)	Holding company	Netherlands	100.00%	HMMR 1.4%
Hyundai Motor Commonwealth of Independent States (HMCIS)	Sales	Russia	100.00%	HMCIS B.V 100.00%
Hyundai Capital Services Limited Liability Company	Financing	-	100.00%	Hyundai Capital Europe 100.00%
Hyundai Assan Otomotiv Sanayi Ve Ticaret A.S. (HAOSVT)	Manufacturing	Turkey	89.29%	
Eurotem DEMIRYOLU ARACLARI SAN. VE TIC A.S	-	-	50.50%	Hyundai Rotem 50.50%
Hyundai Motor UK Limited (HMUK)	Sales	UK	100.00%	
Hyundai Motor Company Italy S.r.l (HMCI)	-	Italy	100.00%	
Hyundai Motor Espana, S.L (HMES)	-	Spain	100.00%	
Hyundai Motor France SAS (HMF)	-	France	100.00%	
Hyundai Motor Poland Sp. Zo.O (HMP)	-	Poland	100.00%	
Hyundai Motor Norway AS (HMN)	-	Norway	100.00%	
Hyundai de Mexico, SA DE C.V., (HYMEX)	Manufacturing	Mexico	99.99%	HT 99.99%
Hyundai Motor Hungary (HMH)	Sales	Hungary	100.00%	

(continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subsidiaries	Nature of business	Location	Ownership percentage	Indirect ownership
Hyundai Motor Brasil Montadora de Automoveis LTDA (HMB)	Manufacturing	Brazil	100.00%	
China Millennium Corporations (CMEs)	Holding company	Cayman Islands	59.60%	
Autopia Thirty-Fifth ~ Thirty-Seventh Asset Securitization Specialty Company (*)	Financing	Korea	0.90%	Hyundai Capital Services 0.90%
Autopia Thirty-Ninth ~ Fortieth Asset Securitization Specialty Company (*)	"	"	0.90%	"
Autopia Forty-Second ~ Forty- Seventh Asset Securitization Specialty Company (*)	"	"	0.90%	"
Autopia Forty-Ninth Asset Securitization SpecialtyCompany (*)	"	"	0.90%	"
HB the Third Securitization Specialty Company (*)	"	"	0.90%	"
Privia the Second ~ Third Securitization Specialty Co., Ltd. (*)	"	"	0.90%	Hyundai Card 0.90%
Hyundai BC Funding Corporation	"	USA	100.00%	HCA 100.00%
Hyundai CHA Funding Corporation	"	"	100.00%	"
Hyundai Lease Titling Trust	Financing	USA	100.00%	HCA 100.00%
Hyundai HK Funding, LLC	"	"	100.00%	"
Hyundai HK Funding One, LLC	"	"	100.00%	"
Hyundai HK Funding Two, LLC	"	"	100.00%	"
Hyundai Auto Lease Funding, LLC	"	"	100.00%	"
Hyundai ABS Funding Corporation	"	"	100.00%	"
Hyundai Capital Insurance Services, LLC	"	"	100.00%	"
HK Real Properties, LLC	"	"	100.00%	"
Hyundai Auto Lease Offering, LLC	"	"	100.00%	"
Hyundai HK Lease, LLC	"	"	100.00%	"
Hyundai Protection Plan, Inc.	Insurance	"	100.00%	"
Hyundai Protection Plan Florida, Inc.	"	"	100.00%	"
Hyundai Capital Insurance Company	"	"	100.00%	"

(*) The Group is considered to have substantial control over the entities by virtue of an agreement with other investors or relationship with special purpose entities.

(2) CONDENSED FINANCIAL INFORMATION OF THE COMPANY'S MAJOR CONSOLIDATED SUBSIDIARIES AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012 IS AS FOLLOWS:

In millions of Korean Won

Name of subsidiaries	Assets	Liabilities	Sales(*2)	Net income(*2)
Hyundai Capital Services, Inc. (*1)	W 21,907,264	W 18,867,513	W 3,541,681	W 432,014
Hyundai Card Co., Ltd. (*1)	11,252,264	9,059,973	2,525,635	191,329
Hyundai Rotem Company (*1)	3,670,360	2,487,134	3,116,629	99,384
Hyundai KEFICO Corporation (*1)	946,741	631,845	1,524,399	71,950
HCA (*1)	20,262,576	18,485,874	2,817,208	256,454
HMA	6,062,965	3,478,837	17,106,517	469,676
HMMC	2,743,127	1,548,297	5,310,664	399,834
HMMA	2,640,184	1,186,305	6,992,135	420,798
HMI (*1)	2,233,585	1,253,787	5,096,544	226,660
HMCIS	876,788	601,754	3,900,218	219,958
HAC (*1)	895,104	468,638	3,426,476	87,167
HMCA	742,880	590,751	2,325,213	28,334
HAOSVT	767,940	528,930	1,575,678	21,331
HMUK	422,809	378,326	1,290,656	7,418

(*1) Based on the subsidiary's consolidated financial statements.
(*2) Accumulated amounts for the year ended December 31, 2012.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Condensed financial information of the Company's major consolidated subsidiaries as of and for the year ended December 31, 2011 is as follows:

In millions of Korean Won

Name of subsidiaries	Assets	Liabilities	Sales	Net income (loss)
Hyundai Capital Services, Inc. (*)	₩ 21,918,910	₩ 19,262,421	₩ 3,331,479	₩ 507,404
Hyundai Card Co., Ltd. (*)	10,851,934	8,855,251	2,408,325	238,648
Hyundai Rotem Company (*)	3,585,340	2,480,259	2,769,856	68,474
HCA (*)	15,788,141	14,368,216	1,481,226	145,639
HMA	5,712,084	3,006,242	14,229,624	494,472
HMMC	2,490,710	1,642,716	4,350,894	207,294
HMMA	2,555,982	1,248,197	6,199,652	314,284
HMI (*)	2,262,319	1,278,787	5,051,549	181,956
HMCIS	1,016,579	954,235	3,373,468	126,317
HAC (*)	790,649	430,263	3,122,086	64,913
HMCA	785,249	551,751	2,197,141	55,811
HAOSVT	672,550	552,360	1,477,433	(18,194)
HMUK	521,556	483,267	955,774	6,189

(*) Based on the subsidiary's consolidated financial statements.

(3) THE FINANCIAL STATEMENTS OF ALL SUBSIDIARIES, WHICH ARE USED IN THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS, ARE PREPARED FOR THE SAME REPORTING PERIODS AS THE COMPANY'S.

(4) CHANGES IN CONSOLIDATED SUBSIDIARIES

Subsidiaries newly included in or excluded from consolidation for the year ended December 31, 2012 are as follows:

Changes	Name of subsidiaries	Description
Included	Hyundai Motor Deutschland GmbH	Acquisition
	Hyundai Motor France SAS	
	Hyundai Automobiles Services SAS (HAS)	
	Hyundai Accessories & Parts SARL (HAAP)	
	GE Capital Korea, Ltd.	
	Hyundai Protection Plan, Inc.	
	Privia the Third Securitization Specialty Co., Ltd.	
	Hyundai Protection Plan Florida, Inc.	
	Hyundai Capital Insurance Company	
	Hyundai Capital India Private Limited (HCI)	
	Hyundai Motor Sport GmbH (HMSG)	
	Autopia Forty-Ninth Asset Securitization Specialty Company	
	HB the Third Securitization Specialty Company	
	Hyundai KEFICO Corporation	Capital reduction
	KEFICO Automotive Systems (Beijing) Co., Ltd.	
	KEFICO VIETNAM COMPANY LIMITED	
Excluded	Hyundai Automobiles Services SAS	Merger
	Hyundai Accessories & Parts SARL	
	GE Capital Korea, Ltd.	
	Privia the First Securitization Specialty Co., Ltd.	Dissolution

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Company maintains its official accounting records in Korean Won and prepares its consolidated financial statements in conformity with Korean statutory requirements and Korean International Financial Reporting Standards ("K-IFRS"), in Korean language (Hangul). Accordingly, these consolidated financial statements are intended for use by those who are informed about K-IFRS and Korean practices. The accompanying consolidated financial statements have been condensed, restructured and translated into English with certain expanded descriptions from Korean language consolidated financial statements. Certain information included in Korean language consolidated financial statements, but not required for a fair presentation of the Group's consolidated statements of financial position, income, comprehensive income, changes in shareholders' equity or cash flows, is not presented in the accompanying consolidated financial statements.

(1) BASIS OF CONSOLIDATED FINANCIAL STATEMENTS PRESENTATION

The Group has prepared the consolidated financial statements in accordance with K-IFRS for the annual periods beginning on January 1, 2011.

The significant accounting policies used for the preparation of the consolidated financial statements are summarized below. These accounting policies are consistent with those applied to the consolidated financial statements for the year ended December 31, 2011, except for the adoption effect of K-IFRS 1107 and K-IFRS 1001.

1) NEW STANDARDS THAT HAVE BEEN APPLIED FROM THE YEAR BEGINNING ON JANUARY 1, 2012 ARE AS FOLLOWS:

- K-IFRS 1107(Amendment): 'Financial Instruments: Disclosures'
  The Group discloses the nature of the transferred assets, the nature of the risks and rewards of ownership to which the Group is exposed, the carrying amounts of the transferred assets and the associated liabilities and other requirements for each class of transferred financial assets that are not derecognized in their entirety in accordance with the amendment to K-IFRS 1107.

- K-IFRS 1001(Amendment): 'Presentation of Financial Statements'
  The Group changed the presentation of the operating income by deducting cost of sales and selling and administrative expenses from sales in accordance with the amendment to K-IFRS 1001. The Group was required to apply the impact of the amendment retrospectively, and hence the consolidated statement of income for the year ended December 31, 2011 is restated accordingly.

2) NEW STANDARDS THAT HAVE BEEN ISSUED BUT ARE NOT YET EFFECTIVE FOR THE YEAR BEGINNING ON JANUARY 1, 2012 AND THAT HAVE NOT BEEN APPLIED EARLIER BY THE GROUP ARE AS FOLLOWS:

- K-IFRS 1001(Amendment): 'Presentation of Financial Statements'
  The amendments to K-IFRS 1001 require that other comprehensive income shall be presented and classified by "items not to be reclassified subsequently to profit or loss" and "items to be reclassified subsequently to profit or loss". The amendments to K-IFRS 1001 are effective for annual periods beginning on or after July 1, 2012.

- K-IFRS 1019(Amendment): 'Employee Benefits'
  The amendments to K-IFRS 1019 require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of K-IFRS 1019 and accelerate the recognition of past service costs. Interest income on plan assets is calculated using the rate used to discount the defined benefit obligation. The amendments to K-IFRS 1019 are effective for annual periods beginning on or after January 1, 2013.

- K-IFRS 1032(Amendment): 'Financial Instruments: Presentation'
  The amendments to K-IFRS 1032 clarify existing application issue relating to the offset of financial assets and financial liabilities requirements. The Group's right of set-off must not be contingent upon any future events but enforceable anytime during the contract period in all of the circumstances: in the event of default, insolvency or bankruptcy of the entity or the counterparties as well as in the ordinary course of business. The amendments to K-IFRS 1032 are effective for annual periods beginning on or after January 1, 2014.

- K-IFRS 1107(Amendment): 'Financial Instruments: Disclosures'
  The amendments to K-IFRS 1107 require disclosures about offsetting financial assets and financial liabilities. The amendments to K-IFRS 1107 are effective for annual periods beginning on or after January 1, 2013.

- K-IFRS 1110(Enactment): 'Consolidated Financial Statements'
  K-IFRS 1110 provides a single basis to determine control with three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's return. K-IFRS 1110 is effective for annual periods beginning on or after January 1, 2013.

- K-IFRS 1111(Enactment): 'Joint Arrangements'
  K-IFRS 1111 classifies joint arrangements of which two or more parties have joint control into two types, joint operations and joint ventures depending on the rights and obligations of the parties to the arrangements. If the Group is a joint operator, the Group is to recognize assets, liabilities, revenues and expenses proportionally to its investment and if the Group is a joint ventures, the Group is to account for that investment using the equity method accounting. K-IFRS 1111 is effective for annual periods beginning on or after January 1, 2013.

- K-IFRS 1112(Enactment): 'Disclosure of Interests in Other Entities'
  K-IFRS 1112 is the standard which requires disclosures of entities that have an interest in a subsidiary, an associate, a joint arrangement or an unconsolidated structured entity. K-IFRS 1112 is effective for annual periods beginning on or after January 1, 2013.

- K-IFRS 1113(Enactment): 'Fair Value Measurement'
  K-IFRS 1113 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. K-IFRS 1113 is effective for annual periods beginning on or after January 1, 2013.

The Group does not anticipate that the standards referred above will have any significant effect on the Group's consolidated financial statements and accompanying notes.

3) PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Group changed the presentation of operating income in accordance with the amendments to K-IFRS 1001 and restated its accompanying consolidated statement of income for the year ended December 31, 2011 to provide comparative information for the presentation and disclosure. As a result of the change in accounting policies, other income of ₩1,231,360 million and other expenses of ₩988,336 million for the year ended December 31, 2012 and other income of ₩1,030,593 million and other expenses of ₩983,945 million for the year ended December 31, 2011, which included in the operating income according to the standard before amendments, excluded from the operating income. The operating income for the years ended December 31, 2012 and 2011 decreased by ₩243,024 million and ₩46,648 million, respectively. In addition, certain cash flows arising from investing and financing activities are presented on a net basis in accordance with K-IFRS 1007. The accompanying consolidated statement of cash flows for the year ended December 31, 2011was restated to provide comparative information.

Such changes in presentation of consolidated financial statements have no effect on the net assets as of December 31, 2012 and 2011, profits and cash flows for the years then ended.

(2) BASIS OF MEASUREMENT

The consolidated financial statements have been prepared on the historical cost basis except otherwise stated in the accounting policies below. Historical cost is usually measured at the fair value of the consideration given to acquire the assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(3) BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (or its subsidiaries). Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the Company. The carrying amount of non-controlling interests consists of the amount of those non-controlling interests at the initial recognition and the changes in shares of the non-controlling interests in equity since the date of the acquisition. Total comprehensive income is attributed to the owners of the Company and to the non-controlling interests even if the non-controlling interest has a deficit balance.

Changes in the Group's ownership interests in subsidiaries, without a loss of control, are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Group.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable K-IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under K-IFRS 1039 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

(4) BUSINESS COMBINATION

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. The consideration includes any asset or liability resulting from a contingent consideration arrangement and is measured at fair value. Acquisition-related costs are recognized in profit or loss as incurred. When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured at its fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Prior to the acquisition date, the amount resulting from changes in the value of its equity interest in the acquiree that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were directly disposed of.

(5) REVENUE RECOGNITION

1) SALE OF GOODS

The Group recognizes revenue from sale of goods when all of the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods; the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group

The Group grants award credits which the customers can redeem for awards such as free or discounted goods or services. The fair value of the award credits is estimated by considering the fair value of the goods granted, the expected rate and period of collection. The fair value of the consideration received or receivable from the customer is allocated to award credits and sales transaction. The consideration allocated to the award credits is deferred and recognized as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.

2) RENDERING OF SERVICES

The Group recognizes revenue from rendering of services based on the percentage of completion when the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group.

3) ROYALTIES

The Group recognizes revenue from royalties on an accrual basis in accordance with the substance of the relevant agreement.

4) DIVIDEND AND INTEREST INCOME

Revenues arising from dividends are recognized when the right to receive payment is established. Interest income is recognized using the effective interest method as time passes.

5) CONSTRUCTION CONTRACTS

Where the outcome of a construction contract can be estimated reliably, the contract revenue and contract costs associated with the construction contract are recognized as revenue and expenses, respectively by reference to the stage of completion of the contract activity at the end of reporting period.

The percentage of completion of a contract activity is reliably measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, by surveys of work performed or by completion of a physical proportion of the contract work. Variations in contract work, claim and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable. Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

(6) FOREIGN CURRENCY TRANSLATION

The individual financial statements of each entity in the Group are measured and presented in the currency of the primary economic environment in which the entity operates (its functional currency).

In preparing the financial statements of the individual entities, transactions occurring in currencies other than their functional currency (foreign currencies) are recorded using the exchange rate on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated using the exchange rate at the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Exchange differences resulting from settlement of assets or liabilities and translation of monetary items denominated in foreign currencies are recognized in profit or loss in the period in which they arise except for some exceptions.

For the purpose of presenting the consolidated financial statements, assets and liabilities in the Group's foreign operations are translated into Won, using the exchange rates at the end of reporting period. Income and expense items are translated at the average exchange rate for the period, unless the exchange rate during the period has significantly fluctuated, in which case the exchange rates at the dates of the transactions are used. The exchange differences arising, if any, are recognized in equity as other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation and translated at the exchange rate at the end of reporting period.

Foreign exchange gains or losses are classified in other operating income (expense) or finance income (expense) by the nature of the transaction or event.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(7) FINANCIAL ASSETS

The Group classifies financial assets into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity ("HTM") financial assets, loans and receivables and available-for-sale ("AFS") financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

1) FINANCIAL ASSETS AT FVTPL

FVTPL includes financial assets classified as held for trading and financial assets designated at FVTPL upon initial recognition. A financial asset is classified as FVTPL, if it has been acquired principally for the purpose of selling or repurchasing in near term. All derivative assets, except for derivatives that are designated and effective hedging instruments, are classified as held for trading financial assets which are measured at fair value through profit or loss. Financial assets at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

2) HTM FINANCIAL ASSETS

HTM financial assets are non-derivative financial instruments with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity. HTM financial assets are presented at amortized cost using the effective interest rate less accumulated impairment loss, and interest income is recognized using the effective interest rate method.

3) LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and measured at amortized cost. Interest income is recognized using the effective interest rate method except for short-term receivables for which the discount effect is not material.

4) AFS FINANCIAL ASSETS

AFS financial assets are those non-derivative financial assets that are designated as AFS or are not classified as loans and receivables, HTM financial assets nor financial assets at FVTPL. AFS financial assets are measured at fair value. However, investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

A gain or loss on changes in fair value of AFS financial assets is recognized in other comprehensive income, except for impairment loss, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets. Accumulated other comprehensive income is reclassified to profit or loss from equity at the time of impairment recognition or elimination of related financial assets. Dividends on an AFS equity instrument are recognized in profit or loss when the Group's right to receive payment is established.

(8) IMPAIRMENT OF FINANCIAL ASSETS

1) FINANCIAL ASSETS CARRIED AT AMORTIZED COST

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Group determines the amount of any impairment loss. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the financial asset's original effective interest rate computed at initial recognition. The carrying amount of the asset is reduced either directly or through use of an allowance account and the amount of the loss is recognized in profit or loss.

Certain financial assets such as trade receivables and financial services receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. The objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and recognized in profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

2) FINANCIAL ASSETS CARRIED AT COST

The amount of the impairment loss on financial assets that are carried at cost because their fair value cannot be reliably measured is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

3) AVAILABLE-FOR-SALE FINANCIAL ASSETS

If there is objective evidence of impairment on available-for-sale financial assets, the cumulative loss that has been recognized in other comprehensive income less any impairment loss previously recognized in profit or loss is reclassified from equity to profit or loss. Impairment losses recognized in profit or loss for investments in equity instruments classified as AFS are not reversed through profit or loss. Meanwhile, if, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

(9) DERECOGNITION OF FINANCIAL ASSETS

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither retains substantially all the risks and rewards of ownership nor transfers and continues to control the transferred asset, the Group recognizes its retained interest in the asset and associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

(10) INVENTORY

Inventory is measured at the lower of cost or net realizable value. Inventory cost including the fixed and variable manufacturing overhead cost, is calculated, using the moving average method except for the cost for inventory in transit which is determined by the identified cost method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(11) INVESTMENTS IN ASSOCIATES

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over its policies.

The investment is initially recognized at cost and accounted for using the equity method. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. The entire carrying amount of the investment including goodwill is tested for impairment and presented at the amount less accumulated impairment losses. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Unrealized gains from transactions between the Group and its associates are eliminated up to the shares in associate stocks. Unrealized losses are also eliminated unless evidence of impairment in assets transferred is produced. If the accounting policy of associates differs from the Group, financial statements are adjusted accordingly before applying equity method of accounting. If the Group's ownership interest in an associate is reduced, but the significant influence is continued, the Group reclassifies to profit or loss only a proportionate amount of the gain or loss previously recognized in other comprehensive income.

(12) INTERESTS IN JOINT VENTURES

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control). Investments in joint ventures are initially recognized at acquisition cost and accounted for using the equity method. The carrying amount of the investments contains goodwill arising on the acquisition of the Group's interest in a jointly controlled entity and presented at the amount less accumulated impairment losses.

(13) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is to be recognized if, and only if it is probable that future economic benefits associated with the asset will flow to the Group, and the cost of the asset to the company can be measured reliably. After the initial recognition, property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The cost includes any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. In addition, in case the recognition criteria are met, the subsequent costs will be added to the carrying amount of the asset or recognized as a separate asset, and the carrying amount of what was replaced is derecognized.

Depreciation is computed using the straight-line method based on the estimated useful lives of the assets as follows:

	Estimated useful lives (years)
Buildings and structures	5 - 50
Machinery and equipment	2 - 25
Vehicles	3 - 15
Dies, molds and tools	2 - 15
Office equipment	2 - 15
Other	2 - 20

The Group reviews the depreciation method, the estimated useful lives and residual values of property, plant and equipment at the end of each reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in accounting estimate.

(14) INVESTMENT PROPERTY

Investment property is property held to earn rentals or for capital appreciation or both. An investment property is measured initially at its cost and transaction costs are included in the initial measurement. After initial recognition, the book value of investment property is presented at the cost less accumulated depreciation and accumulated impairment.

Subsequent costs are recognized as the carrying amount of the asset when, and only when it is probable that future economic benefits associated with the asset will flow to the company, and the cost of the asset can be measured reliably, or recognized as a separate asset if appropriate. The carrying amount of what was replaced is derecognized.

Land is not depreciated, and other investment properties are depreciated using the straight-line method over the period from 20 to 50 years. The Group reviews the depreciation method, the estimated useful lives and residual values at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in accounting estimate.

(15) INTANGIBLE ASSET

1) GOODWIL

Goodwill arising from a business combination is recognized as an asset at the time of obtaining control (the acquisition-date). Goodwill is measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of the Group's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed exceeds the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of the Group's previously held equity interest in the acquiree, the excess is recognized immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortized but tested for impairment at least annually. For purposes of impairment tests, goodwill is allocated to those cash generating units ("CGU") of the Group expected to have synergy effect from the business combination. CGU that goodwill has been allocated is tested for impairment every year or when an event occurs that indicates impairment. If recoverable amount of a CGU is less than its carrying amount, the impairment will first decrease the goodwill allocated to that CGU and the remaining impairment will be allocated among other assets relative to its carrying value. Impairment recognized for goodwill may not be reversed. When disposing a subsidiary, related goodwill will be included in gain or loss from disposal.

2) DEVELOPMENT COSTS

The expenditure on research is recognized as an expense when it is incurred. The expenditure on development is recognized as an intangible asset if, and only if, all of the following can be demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The cost of an internally generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria above and the carrying amount of intangible assets is presented as the acquisition cost less accumulated amortization and accumulated impairment losses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3) INTANGIBLE ASSETS ACQUIRED SEPARATELY
Intangible assets that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized using the straight-line method based on the estimated useful lives. The Group reviews the estimated useful life and amortization method at the end of each reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in accounting estimate.

Amortization is computed using the straight line method based on the estimated useful lives of the assets as follows:

	Estimated useful lives (years)
Development costs	3 - 5
Industrial property rights	5 - 10
Software	2 - 6
Other	2 - 40

Club membership included in other intangible assets is deemed to have an indefinite useful life as there is no foreseeable limit on the period over which the membership is expected to generate economic benefit for the Group, therefore the Group does not amortize it.

(16) IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

The Group assesses at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset to determine the extent of the impairment loss. Recoverable amount is the higher of fair value less costs to sell and value in use.

If the cash inflow of individual asset occurs separately from other assets or group of assets, the recoverable amount is measured for that individual asset; otherwise, it is measured for each CGU to which the asset belongs. Except for goodwill, all non-financial assets that have incurred impairment are tested for reversal of impairment at the end of each reporting period.

Intangible assets with indefinite useful lives or intangible assets not yet available for use are not amortized but tested for impairment at least annually.

(17) NON-CURRENT ASSETS HELD FOR SALE

The Group classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The criteria is considered to be met only if the asset (or disposal group) is available for immediate sale in its present condition and its sale is highly probable. The management must be committed to a plan to sell the asset (or disposal group), and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (or disposal group) as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

(18) LEASE

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1) THE GROUP AS LESSOR
Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease interest income is allocated to accounting periods so as to reflect an effective interest rate on the Group's net investment outstanding in respect of the leases. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as expense on a straight-line basis over the lease term.

2) THE GROUP AS LESSEE
Assets held under finance leases are initially recognized as assets and liabilities of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. Minimum lease payments are apportioned between the finance expenses and the reduction of the outstanding liability. The finance expenses are allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rents for operating lease are recognized as expenses in the periods in which they are incurred.

(19) BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalized to the cost of those assets, until they are ready for their intended use or sale. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(20) RETIREMENT BENEFIT COSTS

Contributions to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

The retirement benefit obligation recognized in the consolidated statements of financial position represents the present value of the defined benefit obligation, less the fair value of plan assets and an adjustment for unrecognized past service cost. Defined benefit obligations are calculated by an actuary using the Projected Unit Credit Method. The present value of the defined benefit obligation are measured by discounting estimated future cash outflows by the interest rate of high-quality corporate bonds with similar maturity as the expected post-employment benefit payment date. In countries where there is no deep market in such bonds, the market yields at the end of the reporting period on government bonds are used. Actuarial gain or loss from changes in actuarial assumptions or differences between actuarial assumptions and actual results are recognized in other comprehensive income of the statement of comprehensive income, which is immediately recognized as retained earnings. Those recognized in retained earnings will not be reclassified in profit and loss of the current period. Past service costs are recognized in profit and loss of the period, but if the changes in pension plans require a vesting period, the past service costs are expensed over the vesting period using the straight-line method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(21) PROVISIONS

A provision is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. A provision is measured using the present value of the cash flows estimated to settle the present obligation. The increase in provision due to passage of time is recognized as interest expense.

The Group generally provides a warranty to the ultimate consumer for each product sold and accrues warranty expense at the time of sale based on actual claims history. Also, the Group accrues probable expenses, which may occur due to product liability suit, voluntary recall campaign and other obligations at the end of the reporting period. In addition, the Group recognizes provisions for the probable losses of unused loan commitment, construction contracts, pre-contract sale or service contract due to legal or constructive obligations.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(22) TAXATION

Income tax expense is composed of current and deferred tax.

1) CURRENT TAX

The current tax is computed based on the taxable profit for the current year. The taxable profit differs from the income before income tax as reported in the consolidated statements of income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax expense is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2) DEFERRED TAX

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets shall be generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities shall not be recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except when the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that taxable profit will be available against which the temporary difference can be utilized and they are expected to be reversed in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied in the period in which the liability is settled or the asset is realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects to recover or settle the carrying amount of its assets and liabilities at the end of the reporting period.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income tax levied by the same taxation authority. Also, they are offset when different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

3) CURRENT AND DEFERRED TAX FOR THE YEAR

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, or items arising from initial accounting treatments of a business combination. The tax effect arising from a business combination is included in the accounting for the business combination.

(23) TREASURY STOCK

When the Group repurchases its equity instruments (treasury stock), the incremental costs and net of tax effect are deducted from shareholders' equity and recognized as other capital item deducted from the total equity in the consolidated statements of financial position. In addition, profits or losses from purchase, sale or retirement of treasury stocks are directly recognized in shareholders' equity and not in current profit or loss.

(24) FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS

Debt instruments and equity instruments issued by the Group are recognized as financial liabilities or equity depending on the contract and the definitions of financial liability and equity instrument.

1) EQUITY INSTRUMENTS

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at issuance amount net of direct issuance costs.

2) FINANCIAL GUARANTEE LIABILITIES

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee liabilities are initially measured at fair value and are subsequently measured at higher amount between obligated amount of the contract and the initial cost less accumulated amortization according to profit recognition principles.

3) FINANCIAL LIABILITIES AT FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated at FVTPL. FVTPL is stated at fair value and the gains and losses arising on remeasurement and the interest expenses paid in financial liabilities are recognized in profit and loss.

4) OTHER FINANCIAL LIABILITIES

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective-yield basis.

5) DERECOGNITION OF FINANCIAL LIABILITIES

The Group derecognizes financial liabilities only when the Group's obligations are discharged, cancelled or expired.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(25) DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as hedging instruments to hedge the risk of changes in fair value of a recognized asset or liability or an unrecognized firm commitment (fair value hedges) and the risk of changes in cash flow of a highly probable forecast transaction and the risk of changes in foreign currency exchange rates of firm commitment (cash flow hedge).

1) FAIR VALUE HEDGES

The Group recognizes the changes in the fair value of derivatives that are designated and qualified as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument is expired, sold, terminated, or exercised, or when it is no longer qualified for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

2) CASH FLOW HEDGES

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss. Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss. If the forecast transaction results in the recognition of a non-financial asset or liability, the related gain and loss recognized in other comprehensive income and accumulated in equity is transferred from equity to the initial cost of related non-financial asset or liability.

Cash flow hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedge instrument is extinguished, disposed, redeemed, exercised, or when it is no longer qualified for the criteria of hedging. Any gain or loss accumulated in equity at that time remains in equity and is recognized as profit or loss when the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

(26) SIGNIFICANT ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTIES

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that cannot be identified from other sources. The estimation and assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may be different from those estimations. The estimates and underlying assumptions are continually evaluated. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The main accounting estimates and assumptions related to the significant risks that may make significant changes to the carrying amounts of assets and liabilities after the reporting period are as follows:

1) GOODWILL

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

2) WARRANTY PROVISION

The Group recognizes provisions for the warranties of its products as described in Note 2.(21). The amounts are recognized based on the best estimate of amounts necessary to settle the present and future warranty obligation.

3) POST-EMPLOYMENT BENEFIT OBLIGATIONS

The Group operates defined retirement benefit plans. Defined benefit obligations are determined at the end of each reporting period using an actuarial valuation method that requires management assumptions on discount rates, expected rate of return on plan assets and expected rate of salary increase. The estimation of post-employment benefit obligation includes significant uncertainties due to its long-term characteristic and assumptions used. The characteristic of post-employment benefit plan which serves for the long term period causes significant uncertainties when the post-employment benefit obligation is estimated.

4) TAXATION

The Group recognizes current tax and deferred tax based on the best estimates of income tax effect to be charged in the future as the result of operating activities until the end of the reporting period. However, actual final income tax to be charged in the future may differ from the relevant assets and liabilities recognized at the end of the reporting period and the difference may affect income tax charged or credited, or deferred tax assets and liabilities in the period in which the final income tax determined.

5) FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain type of financial instruments. The Group makes judgements on the choice of various valuation methods and assumptions based on the condition of the principal market at the end of the reporting period.

6) MEASUREMENT AND USEFUL LIVES OF PROPERTY, PLANT, EQUIPMENT OR INTANGIBLE ASSETS

If the Group acquires property, plant, equipment or intangible assets from business combination, it is required to estimate the fair value of the assets at the acquisition date and determine the useful lives of such assets for depreciation and amortization.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. TRADE NOTES AND ACCOUNTS RECEIVABLE:

(1) TRADE NOTES AND ACCOUNTS RECEIVABLE AS OF DECEMBER 31, 2012 AND 2011 CONSIST OF THE FOLLOWING:

Description	December 31, 2012		December 31, 2011	
	Current	Non-current	Current	Non-current
Trade notes and accounts receivable	₩ 3,716,367	₩ 48,513	₩ 3,885,863	₩ 82,628
Allowance for doubtful accounts	(29,543)	-	(40,346)	-
Present value discount accounts	-	(4,712)	-	(5,785)
	₩ 3,686,824	₩ 43,801	₩ 3,845,517	₩ 76,843

(2) AGING ANALYSIS OF TRADE RECEIVABLES

As of December 31, 2012 and 2011, total trade notes and accounts receivable that are past due but not impaired are ₩390,632 million and ₩293,025 million, respectively, of which trade notes and accounts receivable that are past due less than 90 days but not impaired are ₩335,898 million and ₩235,267 million, respectively. As of December 31, 2012 and 2011, the impaired trade notes and accounts receivable are ₩29,543 million and ₩40,853 million, respectively.

(3) TRANSFERRED TRADE NOTES AND ACCOUNTS RECEIVABLE THAT ARE NOT DERECOGNIZED

As of December 31, 2012, total trade notes and accounts receivable which the Group transferred to financial institutions but did not qualify for derecognition, are ₩1,889,307 million. The Group recognize the carrying amount of the trade notes and accounts receivable continuously due to the fact that the risks and rewards were not transferred substantially, and cash and cash equivalents received as consideration for the transfer are recognized as short-term borrowings.

(4) THE CHANGES IN ALLOWANCE FOR DOUBTFUL ACCOUNTS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 ARE AS FOLLOWS:

Description	2012	2011
Beginning of year	₩ 40,346	₩ 30,355
Impairment loss	10,161	9,986
Write-off	(25,246)	(174)
Effect of foreign exchange differences	(1,075)	179
Changes in scope of consolidation	5,357	-
End of year	₩ 29,543	₩ 40,346

4. OTHER RECEIVABLES:

OTHER RECEIVABLES AS OF DECEMBER 31, 2012 AND 2011 CONSIST OF THE FOLLOWING:

Description	December 31, 2012		December 31, 2011	
	Current	Non-current	Current	Non-current
Accounts receivables-other	₩ 1,458,809	₩ 761,943	₩ 1,405,249	₩ 707,051
Due from customers for contract work	781,136	-	762,263	-
Lease and rental deposits	54,924	259,040	64,474	236,347
Deposits	11,293	23,594	8,283	29,354
Other	3,489	-	4,389	18,728
Allowance for doubtful accounts	(5,241)	-	(4,176)	-
Present value discount accounts	-	(7,968)	-	(4,273)
	₩ 2,304,410	₩ 1,036,609	₩ 2,240,482	₩ 987,207

5. OTHER FINANCIAL ASSETS:

(1) OTHER FINANCIAL ASSETS AS OF DECEMBER 31, 2012 AND 2011 CONSIST OF THE FOLLOWING:

Description	December 31, 2012		December 31, 2011	
	Current	Non-current	Current	Non-current
Financial assets at FVTPL	₩ 67,666	₩ 19,486	₩ 18,645	₩ 72,448
Derivative assets that are effective hedging instruments	15,060	20,745	306,791	171,142
AFS financial assets	12,394	1,544,141	22,960	1,642,632
HTM financial assets	27	35	-	-
Loans	14,152	10,057	8,048	11,721
	₩ 109,299	₩ 1,594,464	₩ 356,444	₩ 1,897,943

(2) AVAILABLE FOR SALE FINANCIAL ASSETS WHICH ARE MEASURED AT FAIR VALUE AS OF DECEMBER 31, 2012 AND 2011 CONSIST OF THE FOLLOWING:

Description	December 31, 2012			December 31, 2011
	Acquisition cost	Valuation difference	Book value	Book value
Debt instruments	₩ 14,872	₩ 202	₩ 15,074	₩ 24,739
Equity instruments	676,781	864,680	1,541,461	1,640,853
	₩ 691,653	₩ 864,882	₩ 1,556,535	₩ 1,665,592

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(3) EQUITY INSTRUMENTS CLASSIFIED INTO AFS FINANCIAL ASSETS AS OF DECEMBER 31, 2012 AND 2011 CONSIST OF THE FOLLOWING:

Name of company	December 31, 2012 Ownership percentage	Acquisition cost	Valuation difference	Book value	December 31, 2011 Book value
Hyundai Heavy Industries Co., Ltd.	2.88	W 56,924	W 473,056	W 529,980	W 562,830
Hyundai Glovis Co., Ltd.	4.88	210,688	194,865	405,553	351,540
Korea Aerospace Industries, Co., Ltd.	10.00	151,086	100,887	251,973	385,514
Hyundai Oil Refinery Co., Ltd.	4.35	53,734	83,756	137,490	130,097
Seoul Metro Line Nine Corporation (*)	25.00	41,779	-	41,779	41,779
Hyundai Green Food Co., Ltd.	2.36	15,005	24,226	39,231	37,270
Hyundai Merchant Marine Co., Ltd.	0.45	9,161	7,194	16,355	17,394
Doosan Capital Co., Ltd.	7.14	10,000	3,508	13,508	16,406
Hyundai Finance Corporation	9.29	9,888	1,177	11,065	10,427
Hyundai Development Company	0.60	9,025	718	9,743	7,560
KT Corporation	0.09	8,655	(132)	8,523	8,559
Ubivelox Co., Ltd.	5.20	1,710	6,150	7,860	9,310
NICE Information Service Co., Ltd.	2.25	3,312	417	3,729	3,189
NICE Holdings Co., Ltd.	1.42	3,491	(364)	3,127	2,497
Hyundai Asan Corporation	2.07	22,500	(20,383)	2,117	4,239
NESSCAP, Inc.	4.53	1,997	(798)	1,199	2,804
Other		67,826	(9,597)	58,229	49,438
		W 676,781	W 864,680	W 1,541,461	W 1,640,853

As of December 31, 2012, the valuation difference between the book value and the acquisition cost of AFS equity instruments includes the cumulative impairment loss of W27,680 million.

6. INVENTORIES:

INVENTORIES AS OF DECEMBER 31, 2012 AND 2011 CONSIST OF THE FOLLOWING:

Description	December 31, 2012	December 31, 2011
Finished goods	W 3,476,869	W 3,293,273
Merchandise	294,875	242,583
Semi-finished goods	382,434	332,892
Work in progress	367,896	304,958
Raw materials	1,110,764	1,050,361
Supplies	170,736	173,195
Materials in transit	544,688	420,601
Other	424,602	419,889
	W 6,772,864	W 6,237,752

7. OTHER ASSETS:

OTHER ASSETS AS OF DECEMBER 31, 2012 AND 2011 CONSIST OF THE FOLLOWING:

Description	December 31, 2012 Current	December 31, 2012 Non-current	December 31, 2011 Current	December 31, 2011 Non-current
Accrued income	W 403,645	W 329	W 310,286	W -
Advanced payments	517,543	-	387,116	-
Prepaid expenses	247,320	44,095	230,561	1,288
Prepaid value added tax and other	736,937	-	209,899	-
	W 1,905,445	W 44,424	W 1,137,862	W 1,288

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. NON-CURRENT ASSETS HELD FOR SALE:

NON-CURRENT ASSETS HELD FOR SALE AS OF DECEMBER 31, 2012 AND 2011 CONSIST OF THE FOLLOWING:

Description	December 31, 2012	December 31, 2011
Land	W 19,995	W -
Buildings	3,312	-
	W 23,307	W -

As of December 31, 2012, the Group entered into a contract for disposal of land and buildings classified as non-current assets held for sale and the assets will be disposed within 12 months. No impairment loss on non-current assets held for sale is recognized for the year ended December 31, 2012.

9. PROPERTY, PLANT AND EQUIPMENT:

(1) PROPERTY, PLANT AND EQUIPMENT AS OF DECEMBER 31, 2012 AND 2011 CONSIST OF THE FOLLOWING:

	December 31, 2012			December 31, 2011		
Description	Acquisition cost	Accumulated depreciation (*)	Book value	Acquisition cost	Accumulated depreciation (*)	Book value
Land	W 5,799,466	W -	W 5,799,466	W 5,637,917	W -	W 5,637,917
Buildings	6,407,132	(1,819,636)	4,587,496	5,935,208	(1,665,627)	4,269,581
Structures	945,595	(401,122)	544,473	889,454	(346,082)	543,372
Machinery and equipment	11,634,177	(5,801,023)	5,833,154	10,737,165	(5,294,546)	5,442,619
Vehicles	301,304	(119,340)	181,964	266,248	(102,961)	163,287
Dies, molds and tools	5,625,044	(4,139,372)	1,485,672	5,215,788	(3,790,600)	1,425,188
Office equipment	1,434,032	(1,063,004)	371,028	1,353,668	(998,755)	354,913
Other	55,519	(21,226)	34,293	83,167	(30,755)	52,412
Construction in progress	1,902,312	-	1,902,312	1,658,759	-	1,658,759
	W 34,104,581	W (13,364,723)	W 20,739,858	W 31,777,374	W (12,229,326)	W 19,548,048

The changes in property, plant and equipment("PP&E") for the year ended December 31, 2012 are as follows:

Description	Beginning of year	Acquisition	Acquisition from business combinations	Transfer within PP&E	Disposal	Depreciation	Other (*)	End of year
Land	W 5,637,917	W 68,809	W 36,189	W 78,717	W (14,386)	W -	W (7,780)	W 5,799,466
Buildings	4,269,581	51,471	46,892	528,634	(8,207)	(195,561)	(105,314)	4,587,496
Structures	543,372	5,541	1,712	61,022	(1,143)	(54,579)	(11,452)	544,473
Machinery and equipment	5,442,619	18,010	159,058	1,141,672	(37,977)	(734,094)	(156,134)	5,833,154
Vehicles	163,287	46,389	12,525	27,112	(16,878)	(38,500)	(11,971)	181,964
Dies, molds and tools	1,425,188	8,278	7,421	607,580	(8,813)	(508,605)	(45,377)	1,485,672
Office equipment	354,913	61,840	2,844	113,323	(8,289)	(148,294)	(5,309)	371,028
Other	52,412	3,858	4,112	(10,817)	(1,796)	(9,489)	(3,987)	34,293
Construction in progress	1,658,759	2,735,842	29,213	(2,547,243)	(3,406)	-	29,147	1,902,312
	W 19,548,048	W 3,000,038	W 299,966	W -	W (100,895)	W (1,689,122)	W (318,177)	W 20,739,858

The changes in property, plant and equipment for the year ended December 31, 2011 are as follows:

Description	Beginning of year	Acquisition	Transfer within PP&E	Disposal	Depreciation	Other (*)	End of year
Land	W 5,667,851	W 17,891	W 13,961	W (45,438)	W -	W (16,348)	W 5,637,917
Buildings	4,335,818	37,722	131,264	(8,493)	(184,226)	(42,504)	4,269,581
Structures	546,936	12,917	33,571	(1,810)	(40,056)	(8,186)	543,372
Machinery and equipment	5,107,741	48,304	1,137,570	(61,912)	(682,775)	(106,309)	5,442,619
Vehicles	160,430	26,038	39,738	(24,990)	(34,462)	(2,967)	163,287
Dies, molds and tools	1,364,502	110,449	502,829	(25,690)	(502,695)	(24,207)	1,425,188
Office equipment	319,988	91,913	75,797	(2,150)	(132,646)	2,011	354,913
Other	6,985	8,763	50,700	(1,597)	(7,841)	(4,598)	52,412
Construction in progress	1,003,958	2,545,180	(1,984,930)	(6,778)	-	101,329	1,658,759
	W 18,514,209	W 2,899,177	W -	W (178,858)	W (1,584,701)	W (101,779)	W 19,548,048

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. INVESTMENT PROPERTY:

(1) INVESTMENT PROPERTY AS OF DECEMBER 31, 2012 AND 2011 CONSIST OF THE FOLLOWING:

In millions of Korean Won

Description	December 31, 2012			December 31, 2011		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 62,874	₩ -	₩ 62,874	₩ 46,757	₩ -	₩ 46,757
Buildings	330,853	(124,830)	206,023	339,065	(117,731)	221,334
Structures	18,303	(4,368)	13,935	18,303	(3,967)	14,336
	₩ 412,030	₩ (129,198)	₩ 282,832	₩ 404,125	₩ (121,698)	₩ 282,427

(2) THE CHANGES IN INVESTMENT PROPERTY FOR THE YEAR ENDED DECEMBER 31, 2012 ARE AS FOLLOWS:

In millions of Korean Won

Description	Beginning of year	Transfer	Depreciation	Effect of exchange differences	End of year
Land	₩ 46,757	₩ 16,117	₩ -	₩ -	₩ 62,874
Buildings	221,334	-	(11,252)	(4,059)	206,023
Structures	14,336	-	(401)	-	13,935
	₩ 282,427	₩ 16,117	₩ (11,653)	₩ (4,059)	₩ 282,832

The changes in investment property for the year ended December 31, 2011 are as follows:

In millions of Korean Won

Description	Beginning of year	Transfer	Depreciation	Effect of exchange differences	End of year
Land	₩ 32,159	₩ 14,598	₩ -	₩ -	₩ 46,757
Buildings	220,771	7,546	(10,982)	3,999	221,334
Structures	14,186	548	(398)	-	14,336
	₩ 267,116	₩ 22,692	₩ (11,380)	₩ 3,999	₩ 282,427

(3) THE FAIR VALUE OF INVESTMENT PROPERTY AS OF DECEMBER 31, 2012 AND 2011 CONSIST OF THE FOLLOWING:

In millions of Korean Won

Description	December 31, 2012	December 31, 2011
Land	₩ 62,874	₩ 46,757
Buildings	367,472	380,249
Structures	15,223	15,223
	₩ 445,569	₩ 442,229

On January 1, 2010, K-IFRS transition date, the Group remeasured the fair value of its investment property through an independent third party. As of December 31, 2012, no fair value remeasurement was performed, as the change in fair value is considered not to be material.

(4) INCOME AND EXPENSES RELATED TO INVESTMENT PROPERTY FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 ARE AS FOLLOWS:

In millions of Korean Won

Description	2012	2011
Rental income	₩ 30,683	₩ 26,093
Operating and maintenance expenses	12,862	11,308

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. INTANGIBLE ASSETS:

(1) INTANGIBLE ASSETS AS OF DECEMBER 31, 2012 AND 2011 CONSIST OF THE FOLLOWING:

Description	December 31, 2012			December 31, 2011		
	Acquisition cost	Accumulated amortization (*)	Book value	Acquisition cost	Accumulated amortization (*)	Book value
Goodwill	₩ 303,444	₩ (2,433)	₩ 301,011	₩ 179,652	₩ (2,498)	₩ 177,154
Development costs	5,135,038	(3,280,432)	1,854,606	4,922,873	(3,074,841)	1,848,032
Industrial property rights	104,100	(71,659)	32,441	89,334	(66,557)	22,777
Software	419,119	(188,446)	230,673	308,234	(126,518)	181,716
Other	447,223	(131,356)	315,867	404,030	(113,931)	290,099
Construction in progress	148,620	-	148,620	140,331	-	140,331
	₩ 6,557,544	₩ (3,674,326)	₩ 2,883,218	₩ 6,044,454	₩ (3,384,345)	₩ 2,660,109

(2) THE CHANGES IN INTANGIBLE ASSETS FOR THE YEAR ENDED DECEMBER 31, 2012 ARE AS FOLLOWS:

Description	Beginning of year	Internal development and separate acquisition	Acquisition from business combinations	Transfer within intangible assets	Disposal	Amortization	Impairment	Other (*)	End of year
Goodwill	₩ 177,154	₩ -	₩ 125,721	₩ -	₩ -	₩ -	₩ -	₩ (1,864)	₩ 301,011
Development costs	1,848,032	632,776	74,776	23,555	-	(725,716)	(153)	1,336	1,854,606
Industrial property rights	22,777	292	455	9,638	-	(6,071)	-	5,350	32,441
Software	181,716	29,430	4,212	22,740	(553)	(60,837)	-	53,965	230,673
Other	290,099	38,512	1,940	22,024	(1,549)	(30,520)	(513)	(4,126)	315,867
Construction in progress	140,331	97,597	-	(77,957)	(32)	-	-	(11,319)	148,620
	₩ 2,660,109	₩ 798,607	₩ 207,104	₩ -	₩ (2,134)	₩ (823,144)	₩ (666)	₩ 43,342	₩ 2,883,218

The changes in intangible assets for the year ended December 31, 2011 are as follows:

Description	Beginning of year	Internal development and separate acquisition	Transfer within intangible assets	Disposal	Amortization	Impairment	Other (*)	End of year
Goodwill	₩ 177,607	₩ -	₩ -	₩ -	₩ -	₩ -	₩ (453)	₩ 177,154
Development costs	1,943,466	621,313	28,492	(786)	(665,117)	(79,204)	(132)	1,848,032
Industrial property rights	21,027	117	6,937	-	(5,314)	-	10	22,777
Software	137,533	17,413	17,036	(4)	(45,905)	-	55,643	181,716
Other	273,778	30,165	13,333	(10,395)	(22,340)	-	5,558	290,099
Construction in progress	98,157	94,226	(65,798)	-	-	-	13,746	140,331
	₩ 2,651,568	₩ 763,234	₩ -	₩ (11,185)	₩ (738,676)	₩ (79,204)	₩ 74,372	₩ 2,660,109

(3) RESEARCH AND DEVELOPMENT EXPENDITURE FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 ARE AS FOLLOWS:

Description	December 31, 2012	December 31, 2011
Development costs	₩ 632,776	₩ 621,313
Ordinary development (manufacturing cost)	312,288	191,952
Research costs (administrative expenses)	686,606	632,003
	₩ 1,631,670	₩ 1,445,268

(4) IMPAIRMENT TEST OF GOODWILL

Goodwill allocated amongst the Group's cash-generating units as of December 31, 2012 and 2011 is as follows:

Description	December 31, 2012	December 31, 2011
Vehicle	₩ 199,130	₩ 96,327
Finance	1,911	482
Other	99,970	80,345
	₩ 301,011	₩ 177,154

The recoverable amount of the Group's CGU are measured at its value-in-use calculated based on cash flow projections of financial budgets for the next five years approved by management and the pre-tax discount rates applied to the cash flow projections is 17.2%. Cash flows projection beyond the next five-year period are extrapolated by using the estimated growth rate which does not exceed the long-term average growth rate of the region and industry to which the CGU belongs. No impairment loss is recognized based on the impairment test for the years ended December 31, 2012 and 2011, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES:

(1) INVESTMENTS IN JOINT VENTURES AND ASSOCIATES AS OF DECEMBER 31, 2012 CONSIST OF THE FOLLOWING:

Name of company	Nature of business	Location	Ownership Percentage (%)	Book value
Beijing-Hyundai Motor Company (BHMC) (*1)	Manufacturing	China	50.00%	₩ 1,657,185
Hyundai WIA Automotive Engine (Shandong) Company (WAE)	"	"	22.00%	107,253
Hyundai Motor Group China, Ltd. (HMGC) (*1)	Investment	"	50.00%	103,450
Kia Motors Corporation	Manufacturing	Korea	33.88%	5,638,238
Hyundai engineering & construction Co., Ltd.	Construction	"	20.95%	3,023,813
Hyundai HYSCO Co., Ltd.	Manufacturing	"	29.37%	615,271
Hyundai WIA Corporation	"	"	26.79%	484,518
Hyundai Powertech Co., Ltd.	"	"	37.58%	299,075
HMC Investment Securities Co., Ltd.	Securities brokerage	"	26.27%	217,187
Hyundai Dymos Inc.	Manufacturing	"	47.27%	233,660
Eukor Car Carriers Inc. (*2)	Transportation	"	12.00%	127,881
Hyundai Commercial Inc.	Financing	"	50.00%	121,597
Other				498,603
				₩ 13,117,731

Investments in joint ventures and associates as of December 31, 2011 consist of the following:

Name of company	Nature of business	Location	Ownership Percentage (%)	Book value
Beijing-Hyundai Motor Company (BHMC) (*1)	Manufacturing	China	50.00%	₩ 1,553,871
Hyundai WIA Automotive Engine (Shandong) Company (WAE)	"	"	22.00%	81,260
Hyundai Motor Group China, Ltd. (HMGC) (*1)	Investment	"	50.00%	128,318
Kia Motors Corporation	Manufacturing	Korea	33.99%	4,565,683
Hyundai engineering & construction Co., Ltd.	Construction	"	20.95%	3,011,421
Hyundai HYSCO Co., Ltd.	Manufacturing	"	26.13%	449,438
Hyundai WIA Corporation	"	"	33.33%	482,996
Hyundai Powertech Co., Ltd.	"	"	37.58%	254,066
HMC Investment Securities Co., Ltd.	Securities brokerage	"	26.27%	210,511
Hyundai Dymos Inc.	Manufacturing	"	47.27%	194,332
Eukor Car Carriers Inc. (*2)	Transportation	"	12.00%	111,312
Hyundai Commercial Inc.	Financing	"	50.00%	122,364
Other				543,666
				₩ 11,709,238

(2) THE CHANGES IN INVESTMENTS IN JOINT VENTURES AND ASSOCIATES FOR THE YEAR ENDED DECEMBER 31, 2012 ARE AS FOLLOWS:

Name of company	Beginning of year	Acquisition/(Disposition)	Gain on valuation	Other (*)	End of year
BHMC	₩ 1,553,871	₩ -	₩ 672,287	₩ (568,973)	₩ 1,657,185
WAE	81,260	14,606	17,448	(6,061)	107,253
HMGC	128,318	-	59,980	(84,848)	103,450
Kia Motors Corporation	4,565,683	-	1,255,166	(182,611)	5,638,238
Hyundai engineering & construction Co., Ltd	3,011,421	-	46,798	(34,406)	3,023,813
Hyundai HYSCO Co., Ltd.	449,438	101,711	73,663	(9,541)	615,271
Hyundai WIA Corporation	482,996	(98,597)	112,285	(12,166)	484,518
Hyundai Powertech Co., Ltd.	254,066	-	47,652	(2,643)	299,075
HMC Investment Securities Co., Ltd.	210,511	-	7,298	(622)	217,187
Hyundai Dymos Inc.	194,332	-	38,616	712	233,660
Eukor Car Carriers Inc.	111,312	-	32,153	(15,584)	127,881
Hyundai Commercial Inc.	122,364	-	23,275	(24,042)	121,597
Other	543,666	139,927	57,145	(252,135)	488,603
	₩ 11,709,238	₩ 157,647	₩ 2,443,766	₩ (1,192,920)	₩ 13,117,731

The changes in investments in joint ventures and associates for the year ended December 31, 2011 are as follows:

Name of company	Beginning of year	Acquisition/(Disposition)	Gain on valuation	Other (*)	End of year
BHMC	₩ 1,231,700	₩ 86,569	₩ 579,016	₩ (343,414)	₩ 1,553,871
WAE	66,215	-	11,366	3,679	81,260
HMGC	93,822	-	77,518	(43,022)	128,318
Kia Motors Corporation	3,242,033	204,408	1,107,807	11,435	4,565,683
Hyundai engineering & construction Co., Ltd	-	2,984,937	57,910	(31,426)	3,011,421
Hyundai HYSCO Co., Ltd.	376,298	-	77,951	(4,811)	449,438
Hyundai WIA Corporation	377,072	-	79,258	26,666	482,996
Hyundai Powertech Co., Ltd.	216,242	-	38,356	(532)	254,066
HMC Investment Securities Co., Ltd.	198,317	-	10,282	1,912	210,511
Hyundai Dymos Inc.	159,887	-	27,958	6,487	194,332
Eukor Car Carriers Inc.	82,259	-	32,413	(3,360)	111,312
Hyundai Commercial Inc.	90,043	-	35,234	(2,913)	122,364
Other	775,563	(333,720)	137,536	(35,713)	543,666
	₩ 6,909,451	₩ 2,942,194	₩ 2,272,605	₩ (415,012)	₩ 11,709,238

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(3) CONDENSED FINANCIAL INFORMATION OF THE GROUP'S MAJOR JOINT VENTURES AND ASSOCIATES AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012 IS AS FOLLOWS:

Name of company	Assets	Liabilities	Sales	Net income
BHMC	W 7,650,248	W 4,293,581	W 14,519,399	W 1,344,871
WAE	1,282,756	795,244	1,168,745	78,737
HMGC	466,786	243,563	2,024,745	103,915
Kia Motors Corporation	32,398,314	15,550,252	47,242,933	3,864,704
Hyundai engineering & construction Co., Ltd.	12,746,829	7,990,893	13,324,821	566,960
Hyundai HYSCO Co., Ltd.	5,403,067	3,549,366	8,405,083	260,155
Hyundai WIA Corporation	4,573,489	2,691,371	7,021,086	424,564
Hyundai Powertech Co., Ltd.	2,013,016	1,188,248	2,954,852	121,410
HMC Investment Securities Co., Ltd. (*)	4,257,135	3,582,773	1,104,413	21,511
Hyundai Dymos Inc.	1,308,385	879,442	1,926,637	76,404
Eukor Car Carriers Inc.	2,497,136	1,432,406	2,867,224	323,517
Hyundai Commercial Inc.	3,932,124	3,583,222	347,735	52,327

Condensed financial information of the Group's major joint ventures and associates as of and for the year ended December 31, 2011 is as follows:

Name of company	Assets	Liabilities	Sales	Net income
BHMC	W 6,692,470	W 3,547,238	W 12,405,949	W 1,177,038
WAE	995,381	626,017	926,476	51,664
HMGC	622,038	333,536	2,336,190	165,184
Kia Motors Corporation	30,255,179	16,745,469	43,190,942	3,519,236
Hyundai engineering & construction Co., Ltd.	11,871,889	7,508,415	11,920,167	685,139
Hyundai HYSCO Co., Ltd.	4,720,646	3,087,008	8,170,343	297,785
Hyundai WIA Corporation	4,252,849	2,757,406	6,392,708	240,884
Hyundai Powertech Co., Ltd.	1,791,495	1,081,452	2,803,987	98,750
HMC Investment Securities Co., Ltd. (*)	3,485,634	2,836,685	703,424	44,333
Hyundai Dymos Inc.	1,155,459	722,679	1,799,714	69,941
Eukor Car Carriers Inc.	2,671,900	1,744,300	2,558,996	270,115
Hyundai Commercial Inc.	3,465,237	3,114,580	325,819	76,247

(4) THE MARKET PRICE OF LISTED EQUITY SECURITIES AS OF DECEMBER 31, 2012 IS AS FOLLOWS:

Name of company	Price per share	Number of shares	Market value
Kia Motors Corporation	W 56,500	137,318,251	W 7,758,481
Hyundai engineering & construction Co., Ltd.	70,000	23,327,400	1,632,918
Hyundai HYSCO Co., Ltd.	45,450	23,554,188	1,070,538
Hyundai WIA Corporation	173,000	6,893,596	1,192,592
HMC Investment Securities Co., Ltd.	14,200	7,705,980	109,425

13. FINANCIAL SERVICES RECEIVABLES:

(1) FINANCIAL SERVICES RECEIVABLES AS OF DECEMBER 31, 2012 AND 2011 CONSIST OF THE FOLLOWING:

Description	December 31, 2012	December 31, 2011
Loans	W 27,922,539	W 26,478,053
Card receivables	9,744,711	9,394,236
Financial lease receivables	2,836,499	2,307,352
Other lease receivables	6,951	4,656
	40,510,700	38,184,297
Allowance of doubtful accounts	(749,166)	(729,047)
Loan origination fee	(259,716)	(333,573)
Present value discount accounts	(7,587)	(11,548)
	W 39,494,231	W 37,110,129

(2) AGING ANALYSIS OF FINANCIAL SERVICES RECEIVABLES

As of December 31, 2012 and 2011, total financial services receivables that are past due but not impaired are W1,384,125 million and W1,098,415 million, respectively of which financial services receivables that are past due less than 90 days but not impaired are W1,384,125 million and W1,098,415 million, respectively. As of December 31, 2012 and 2011, the impaired financial services receivables are W631,406 million and W347,906 million, respectively.

(3) TRANSFERRED FINANCIAL SERVICES RECEIVABLES THAT ARE NOT DERECOGNIZED

As of December 31, 2012, the Group issued asset backed securities, which have recourse to the underlying assets, based on loans, card receivables and others. As of December 31, 2012, the carrying amounts of the transferred financial assets that are not derecognized and the associated liabilities are W13,186,895 million and W9,912,680 million, respectively. In addition, as of December 31, 2012, the fair values of the transferred financial assets and the associated liabilities are W13,156,258 million and W10,007,119 million, respectively, and the net position is W3,149,139 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) THE CHANGES IN ALLOWANCE FOR DOUBTFUL ACCOUNTS OF FINANCIAL SERVICES RECEIVABLES FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 ARE AS FOLLOWS:

In millions of Korean Won

Description	December 31, 2012	December 31, 2011
Beginning of year	₩ 729,047	₩ 615,599
Impairment loss	498,823	494,526
Write-off	(398,137)	(322,469)
Effect of foreign exchange differences	(14,359)	3,262
Transfer and other	(77,150)	(61,871)
Changes in scope of consolidation	10,942	-
End of year	**₩ 749,166**	**₩ 729,047**

(5) GROSS INVESTMENTS IN FINANCIAL LEASE AND ITS PRESENT VALUE OF MINIMUM LEASE RECEIPTS AS OF DECEMBER 31, 2012 AND 2011 ARE AS FOLLOWS:

In millions of Korean Won

Description	December 31, 2012		December 31, 2011	
	Gross investments in financial lease	Present value of minimum lease receipts	Gross investments in financial lease	Present value of minimum lease receipts
Within 1 year	₩ 1,366,499	₩ 1,093,879	₩ 986,287	₩ 810,018
Within 5 years more than 1 year	1,812,227	1,742,481	1,617,005	1,482,345
More than 5 years	140	139	77	76
	₩ 3,178,866	**₩ 2,836,499**	**₩ 2,603,369**	**₩ 2,292,439**

(6) UNEARNED INTEREST INCOME OF FINANCIAL LEASE AS OF DECEMBER 31, 2012 AND 2011 ARE AS FOLLOWS:

In millions of Korean Won

Description	December 31, 2012	December 31, 2011
Gross investments in financial lease	₩ 3,178,866	₩ 2,603,369
Net lease investments		
Present value of minimum lease receipts	2,836,499	2,292,439
Present value of unguaranteed residual value	-	14,913
	2,836,499	2,307,352
Unearned interest income	**₩ 342,367**	**₩ 296,017**

14. OPERATING LEASE ASSETS:

(1) OPERATING LEASE ASSETS AS OF DECEMBER 31, 2012 AND 2011 CONSIST OF THE FOLLOWING:

In millions of Korean Won

Description	December 31, 2012	December 31, 2011
Acquisition cost	₩ 9,008,006	₩ 5,922,955
Accumulated depreciation	(1,121,592)	(618,093)
Accumulated impairment loss	(56,326)	(36,608)
	₩ 7,830,088	**₩ 5,268,254**

(2) FUTURE MINIMUM LEASE RECEIPTS RELATED TO OPERATING LEASE ASSETS AS OF DECEMBER 31, 2012 AND 2011 ARE AS FOLLOWS:

In millions of Korean Won

Description	December 31, 2012	December 31, 2011
Within 1 year	₩ 1,643,559	₩ 1,232,216
Within 5 years more than 1 year	1,842,246	1,339,767
More than 5 years	2	4
	₩ 3,485,807	**₩ 2,571,987**

15. BORROWINGS AND DEBENTURES:

(1) SHORT-TERM BORROWINGS AS OF DECEMBER 31, 2012 AND 2011 CONSIST OF THE FOLLOWING:

In millions of Korean Won

Description	Lender	Annual interest rate December 31, 2012 (%)	December 31, 2012	December 31, 2011
Overdrafts	Citi Bank and other	0.51~4.40	₩ 198,630	₩ 107,616
General loans	Kookmin Bank and other	0.31~4.97	2,361,415	3,779,392
Loans on trade receivables collateral	Korea Exchange Bank and other	LIBOR+0.35~0.60	1,889,307	2,034,557
Banker's Usance	Kookmin Bank and other	LIBOR+0.70~0.85	596,229	714,299
Short-term debentures	Daewoo Securities and other	2.91~3.84	879,630	229,930
Commercial paper	Shinhan Bank and other	2.90~3.96	730,000	920,000
Other	Citi Bank and other	0.31~2.21	126,538	94,220
			₩ 6,781,749	**₩ 7,880,014**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) LONG-TERM DEBT AS OF DECEMBER 31, 2012 AND 2011 CONSISTS OF THE FOLLOWING:

In millions of Korean Won

Description	Lender	Annual interest rate December 31, 2012 (%)	December 31, 2012	December 31, 2011
General loans	Shinhan Bank and other	0.20~5.80	₩ 2,265,859	₩ 1,369,128
Facility loan	Korea Development Bank and other	1.26~5.85	796,486	1,206,574
Commercial paper	SK Securities and other	3.07~4.15	343,000	320,000
Asset backed securities	JP Morgan and other	0.53~0.95	3,369,345	1,050,777
Other	Kookmin Bank and other	0.10~3.00	290,324	640,620
			7,065,014	4,587,099
Less: present value discounts			158,398	180,259
Less: current maturities			2,764,143	922,713
			₩ 4,142,473	₩ 3,484,127

(3) DEBENTURES AS OF DECEMBER 31, 2012 AND 2011 CONSIST OF THE FOLLOWING:

In millions of Korean Won

Description	Latest maturity date	Annual interest rate December 31, 2012 (%)	December 31, 2012	December 31, 2011
Guaranteed public debentures	June 8, 2017	3.75~4.50	₩ 1,604,827	₩ 1,726,687
Guaranteed private debentures	April 25, 2015	5.68	80,333	86,498
Non-guaranteed public debentures	July 31, 2019	2.72~8.76	17,434,701	20,903,643
Non-guaranteed private debentures	October 2, 2017	1.63~5.15	2,613,559	2,910,714
Asset backed securities	February 15, 2019	0.23~3.15	9,880,999	5,494,645
			31,614,419	31,122,187
Less: discount on debentures			95,532	70,381
Less: current maturities			5,148,198	7,397,481
			₩ 26,370,689	₩ 23,654,325

16. PROVISIONS:

(1) PROVISIONS AS OF DECEMBER 31, 2012 AND 2011 CONSIST OF THE FOLLOWINGS:

In millions of Korean Won

Description	December 31, 2012	December 31, 2011
Warranty	₩ 5,908,719	₩ 5,850,285
Other long-term employee benefit	609,589	586,628
Other	490,450	210,240
	₩ 7,008,758	₩ 6,647,153

(2) THE CHANGES IN PROVISIONS FOR THE YEAR ENDED DECEMBER 31, 2012 ARE AS FOLLOWS:

In millions of Korean Won

Description	Warranty	Other long-term employee benefit	Other
Beginning of year	₩ 5,850,285	₩ 586,628	₩ 210,240
Charged	712,587	66,354	452,907
Utilized	(795,880)	(46,574)	(154,684)
Amortization of present value discounts	144,566	-	-
Changes in expected reimbursements by third parties	2,343	-	-
Effect of foreign exchange differences	(72,024)	(6)	(28,189)
Changes in scope of consolidation	66,842	3,187	10,176
End of year	₩ 5,908,719	₩ 609,589	₩ 490,450

The changes in provisions for the year ended December 31, 2011 are as follows:

In millions of Korean Won

Description	Warranty	Other long-term employee benefit	Other
Beginning of year	₩ 5,252,340	₩ 431,518	₩ 301,720
Charged (reversed)	1,169,889	214,622	(25,353)
Utilized	(728,419)	(59,370)	(63,115)
Amortization of present value discounts	164,071	-	-
Changes in expected reimbursements by third parties	(2,550)	-	-
Effect of foreign exchange differences	(5,046)	(142)	(3,012)
End of year	₩ 5,850,285	₩ 586,628	₩ 210,240

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. OTHER FINANCIAL LIABILITIES:

OTHER FINANCIAL LIABILITIES AS OF DECEMBER 31, 2012 AND 2011 CONSIST OF THE FOLLOWING:

Description	December 31, 2012		December 31, 2011	
	Current	Non-current	Current	Non-current
Financial liabilities at FVTPL (*)	W 1	W 4,161	W 426,897	W 16,004
Derivative liabilities that are effective hedging instruments	24,604	331,699	20,482	43,058
Financial lease liabilities	8,458	20,333	8,535	31,390
Other	115,248	-	-	109,745
	W 148,311	W 356,193	W 455,914	W 200,197

18. OTHER LIABILITIES:

OTHER LIABILITIES AS OF DECEMBER 31, 2012 AND 2011 CONSIST OF THE FOLLOWING:

Description	December 31, 2012		December 31, 2011	
	Current	Non-current	Current	Non-current
Advance received	W 412,792	W 51,549	W 482,899	W 84,173
Withholdings	1,402,652	554,677	963,451	626,011
Accrued expenses	1,288,105	-	1,102,940	-
Unearned income	482,160	339,549	374,175	299,210
Accrued dividends	77	-	77	-
Due to customers for contract work	497,948	-	467,868	-
Other	207,370	536,583	85,206	527,609
	W 4,291,104	W 1,482,358	W 3,476,616	W 1,537,003

19. FINANCIAL INSTRUMENTS:

(1) CATEGORIES OF FINANCIAL ASSETS AS OF DECEMBER 31, 2012 CONSIST OF THE FOLLOWING:

Description	Financial assets at FVTPL	Loans and receivables	AFS financial assets	HTM financial assets	Derivatives designated as hedging instruments	Book value	Fair value
Cash and cash equivalents	W -	W 6,759,338	W -	W -	W -	W 6,759,338	W 6,759,338
Short-term and long-term financial instruments	-	12,385,416	-	-	-	12,385,416	12,385,416
Trade notes and accounts receivable	-	3,730,625	-	-	-	3,730,625	3,730,625
Other receivables	-	2,559,883	-	-	-	2,559,883	2,559,883
Other financial assets	87,152	24,209	1,556,535	62	35,805	1,703,763	1,703,763
Other assets	-	403,974	-	-	-	403,974	403,974
Financial services receivables	-	39,494,231	-	-	-	39,494,231	39,894,670
	W 87,152	W 65,357,676	W 1,556,535	W 62	W 35,805	W 67,037,230	W 67,437,669

Categories of financial assets as of December 31, 2011 consist of the following:

Description	Financial assets at FVTPL	Loans and receivables	AFS financial assets	Derivatives designated as hedging instruments	Book value	Fair value
Cash and cash equivalents	W -	W 6,231,946	W -	W -	W 6,231,946	W 6,231,946
Short-term and long-term financial instruments	-	9,394,115	-	-	9,394,115	9,394,115
Trade notes and accounts receivable	-	3,922,360	-	-	3,922,360	3,922,360
Other receivables	-	2,465,426	-	-	2,465,426	2,465,426
Other financial assets	91,093	19,769	1,665,592	477,933	2,254,387	2,254,387
Other assets	-	310,286	-	-	310,286	310,286
Financial services receivables	-	37,110,129	-	-	37,110,129	37,859,530
	W 91,093	W 59,454,031	W 1,665,592	W 477,933	W 61,688,649	W 62,438,050

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) CATEGORIES OF FINANCIAL LIABILITIES AS OF DECEMBER 31, 2012 CONSIST OF THE FOLLOWING:

Description	Financial liabilities at FVTPL	Financial liabilities carried at amortized cost	Derivatives designated as hedging instruments	Book value	Fair value
Trade notes and accounts payable	W -	W 6,841,326	W -	W 6,841,326	W 6,841,326
Other payables	-	4,550,278	-	4,550,278	4,550,278
Borrowings and debentures	-	45,207,252	-	45,207,252	46,237,968
Other financial liabilities	4,162	144,039	356,303	504,504	504,504
Other liabilities	-	1,288,182	-	1,288,182	1,288,182
	W 4,162	W 58,031,077	W 356,303	W 58,391,542	W 59,422,258

Categories of financial liabilities as of December 31, 2011 consist of the following:

Description	Financial liabilities at FVTPL	Financial liabilities carried at amortized cost	Derivatives designated as hedging instruments	Book value	Fair value
Trade notes and accounts payable	W -	W 6,666,406	W -	W 6,666,406	W6,666,406
Other payables	-	3,782,155	-	3,782,155	3,782,155
Borrowings and debentures	-	43,338,660	-	43,338,660	43,931,435
Other financial liabilities	442,901	149,670	63,540	656,111	656,111
Other liabilities	-	1,103,017	-	1,103,017	1,103,017
	W 442,901	W 55,039,908	W 63,540	W 55,546,349	W 56,139,124

(3) FAIR VALUE ESTIMATION

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into Level 1 to Level 3, based on the degree to which the fair value is observable, as described below:

- Level 1 : Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 : Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 : Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value measurements of financial instruments by fair-value hierarchy levels as of December 31, 2012 are as follows:

Description	December 31, 2012 Level 1	Level 2	Level 3	Total
Financial Assets:				
Financial assets at FVTPL	W -	W 87,152	W -	W 87,152
Derivatives designated as hedging instruments	-	35,805	-	35,805
AFS financial assets	1,287,409	5,023	264,103	1,556,535
HTM financial assets	-	62	-	62
	W 1,287,409	W 128,042	W 264,103	W 1,679,554
Financial Liabilities:				
Financial liabilities at FVTPL	W -	W 4,162	W -	W 4,162
Derivatives designated as hedging instruments	-	356,303	-	356,303
	W -	W 360,465	W -	W 360,465

Fair value measurements of financial instruments by fair-value hierarchy levels as of December 31, 2011 are as follows:

Description	December 31, 2011 Level 1	Level 2	Level 3	Total
Financial Assets:				
Financial assets at FVTPL	W -	W 91,093	W -	W 91,093
Derivatives designated as hedging instruments	-	477,933	-	477,933
AFS financial assets	1,388,503	4,019	273,070	1,665,592
	W 1,388,503	W 573,045	W 273,070	W 2,234,618
Financial Liabilities:				
Financial liabilities at FVTPL	W 404,666	W 38,235	W -	W 442,901
Derivatives designated as hedging instruments	-	63,540	-	63,540
	W 404,666	W 101,775	W -	W 506,441

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The changes in financial instruments classified as Level 3 for the year ended December 31, 2012 are as follows:

In millions of Korean Won

Description	Beginning of year	Purchases	Disposals	Valuation	Transfer	End of year
AFS financial assets	₩ 273,070	₩ 9,042	₩ (21,162)	₩ 3,153	₩ -	₩ 264,103

The changes in financial instruments classified as Level 3 for the year ended December 31, 2011 are as follows:

In millions of Korean Won

Description	Beginning of year	Purchases	Disposals	Valuation	Transfer	End of year
AFS financial assets	₩ 262,373	₩ 8,222	₩ (318)	₩ 4,790	₩ (1,997)	₩ 273,070

(4) INTEREST INCOME, DIVIDEND INCOME AND INTEREST EXPENSES BY CATEGORIES OF FINANCIAL INSTRUMENTS FOR YEARS ENDED DECEMBER 31, 2012 AND 2011 CONSIST OF THE FOLLOWING:

In millions of Korean Won

	2012			2011		
Description	Interest income	Dividend income	Interest expenses	Interest income	Dividend income	Interest expenses
Non-financial services:						
Loans and receivables	₩ 586,507	₩ -	₩ -	₩ 461,359	₩ -	₩ -
Financial assets at FVTPL	-	-	-	11,198	-	-
AFS financial assets	3,769	15,024	-	3,071	17,584	-
HTM financial assets	1	-	-	-	-	-
Financial liabilities at FVTPL	-	-	-	-	-	30,794
Financial liabilities carried at amortized cost	-	-	311,113	-	-	353,426
	₩ 590,277	₩ 15,024	₩ 311,113	₩ 475,628	₩ 17,584	₩ 384,220
Financial services:						
Loans and receivables	2,757,278	-	-	2,775,731	-	-
Financial liabilities at FVTPL	-	-	14,464	-	-	24,822
Financial liabilities carried at amortized cost	-	-	1,430,910	-	-	1,454,303
	₩ 2,757,278	₩ -	₩ 1,445,374	₩2,775,731	₩ -	₩ 1,479,125

(5) THE COMMISSION INCOME (FINANCIAL SERVICES REVENUE) ARISING FROM FINANCIAL ASSETS OR LIABILITIES OTHER THAN FINANCIAL ASSETS OR LIABILITIES AT FVTPL FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 ARE ₩1,616,825 MILLION AND ₩1,615,068 MILLION, RESPECTIVELY. IN ADDITION, THE FEE EXPENSES (COST OF SALES FROM FINANCIAL SERVICES) OCCURRING FROM FINANCIAL ASSETS OR LIABILITIES OTHER THAN FINANCIAL ASSETS OR LIABILITIES AT FVTPL FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 ARE ₩808,147 MILLION AND ₩687,019 MILLION, RESPECTIVELY.

20. CAPITAL STOCK:

The Company's number of shares authorized is 600,000,000 shares. Common stock and preferred stock as of December 31, 2012 and 2011 consist of the following:

(1) COMMON STOCK

In millions of Korean Won, except par value

Description	December 31, 2012	December 31, 2011
Issued	220,276,479 shares	220,276,479 shares
Par value	₩ 5,000	₩ 5,000
Capital stock	1,157,982	1,157,982

The Company completed stock retirement of 10,000,000 common shares and 1,320,000 common shares as of March 5, 2001 and May 4, 2004, respectively. Due to these stock retirements, the total face value of outstanding stock differs from the capital stock amount.

(2) PREFERRED STOCK

In millions of Korean Won

Description	Par value	Issued	Korean Won	Dividend rate
1st preferred stock	₩ 5,000	25,109,982 shares	₩ 125,550	Dividend rate of common stock + 1%
2nd preferred stock	-	37,613,865 shares	193,069	Dividend rate of common stock + 2%
3rd preferred stock	-	2,478,299 shares	12,392	Dividend rate of common stock + 1%
Total		65,202,146 shares	₩ 331,011	

As of March 5, 2001, the Company retired 1,000,000 second preferred shares. Due to the stock retirement, the total face value of outstanding stock differs from the capital stock amount. The preferred shares are non-cumulative, participating and non-voting.

21. CAPITAL SURPLUS:

CAPITAL SURPLUS AS OF DECEMBER 31, 2012 AND 2011 CONSISTS OF THE FOLLOWING:

In millions of Korean Won

Description	December 31, 2012	December 31, 2011
Stock paid-in capital in excess of par value	₩ 3,321,334	₩ 3,321,334
Other	837,654	792,676
	₩ 4,158,988	₩ 4,114,010

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22. OTHER CAPITAL ITEMS:

OTHER CAPITAL ITEMS CONSIST OF TREASURY STOCKS PURCHASED FOR THE STABILIZATION OF STOCK PRICE. NUMBER OF TREASURY STOCKS AS OF DECEMBER 31, 2012 AND 2011 ARE AS FOLLOWS:

(Number of shares)

Description	December 31, 2012	December 31, 2011
Common stock	11,006,710	11,006,710
1st preferred stock	1,950,960	1,950,960
2nd preferred stock	1,000,000	1,000,000

23. ACCUMULATED OTHER COMPREHENSIVE INCOME:

ACCUMULATED OTHER COMPREHENSIVE INCOME AS OF DECEMBER 31, 2012 AND 2011 CONSIST OF THE FOLLOWING:

(In millions of Korean Won)

Description	December 31, 2012	December 31, 2011
Gain on valuation of AFS financial assets	₩ 678,559	₩ 760,361
Loss on valuation of AFS financial assets	(2,372)	(2,844)
Gain on valuation of cash flow hedge derivatives	4,614	4,722
Loss on valuation of cash flow hedge derivatives	(5,726)	(35,580)
Gain on valuation of equity-accounted investees	21,532	154,623
Loss on valuation of equity-accounted investees	(287,108)	(230,597)
Loss on foreign operations translation, net	(882,872)	(275,404)
	₩ (473,373)	₩ 375,281

24. RETAINED EARNINGS AND DIVIDENDS:

(1) RETAINED EARNINGS AS OF DECEMBER 31, 2012 AND 2011 CONSIST OF THE FOLLOWING:

(In millions of Korean Won)

Description	December 31, 2012	December 31, 2011
Legal reserve (*)	₩ 423,124	₩ 375,113
Discretionary reserve	26,531,647	19,046,647
Unappropriated	13,038,459	12,841,768
	₩ 39,993,230	₩ 32,263,528

Appraisal gains, amounting to ₩1,852,871 million, derived from asset revaluation by the Asset Revaluation Law of Korea are included in retained earnings. It may be only transferred to capital stock or used to reduce accumulated deficit, if any.

(2) THE COMPUTATION OF THE PROPOSED DIVIDENDS FOR THE YEAR ENDED DECEMBER 31, 2012 IS AS FOLLOWS:

(In millions of Korean Won, except per share amounts)

Description	Common shares	1st Preferred shares	2nd Preferred shares	3rd Preferred shares
Number of shares issued	220,276,479	25,109,982	37,613,865	2,478,299
Treasury shares	(11,006,710)	(1,950,960)	(1,000,000)	-
Shares, net of treasury stocks	209,269,769	23,159,022	36,613,865	2,478,299
Par value per share	₩ 5,000	₩ 5,000	₩ 5,000	₩ 5,000
Dividend rate	38%	39%	40%	39%
Dividends declared	397,612	45,160	73,228	4,833
Dividends per share	₩ 1,900	₩ 1,950	₩ 2,000	₩ 1,950
Market price per share	218,500	69,300	75,600	54,500
Dividend yield ratio	0.9%	2.8%	2.6%	3.6%

The computation of the dividends for the year ended December 31, 2011 is as follows:

(In millions of Korean Won, except per share amounts)

Description	Common shares	1st Preferred shares	2nd Preferred shares	3rd Preferred shares
Number of shares issued	220,276,479	25,109,982	37,613,865	2,478,299
Treasury shares	(11,006,710)	(1,950,960)	(1,000,000)	-
Shares, net of treasury stocks	209,269,769	23,159,022	36,613,865	2,478,299
Par value per share	₩ 5,000	₩ 5,000	₩ 5,000	₩ 5,000
Dividend rate	35%	36%	37%	36%
Dividends declared	366,222	41,687	67,736	4,460
Dividends per share	₩ 1,750	₩ 1,800	₩ 1,850	₩ 1,800
Market price per share	213,000	63,500	67,100	49,350
Dividend yield ratio	0.8%	2.8%	2.8%	3.6%

25. SALES:

SALES FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 CONSIST OF THE FOLLOWING:

(In millions of Korean Won)

Description	2012	2011
Sales of goods	₩ 75,002,314	₩ 69,345,485
Rendering of services	1,238,936	954,521
Royalties	151,770	179,857
Other	176,141	234,333
Financial services revenue	7,900,560	7,083,699
	₩ 84,469,721	₩ 77,797,895

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

26. SELLING AND ADMINISTRATIVE EXPENSES:

SELLING AND ADMINISTRATIVE EXPENSES FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 CONSIST OF THE FOLLOWING:

In millions of Korean Won

Description	2012	2011
Selling expenses:		
Export expenses	₩ 994,234	₩ 930,114
Overseas market expenses	385,112	518,060
Advertisements and sales promotion	2,163,739	2,205,031
Sales commissions	531,536	676,161
Expenses for warranties	954,764	1,326,365
Transportation expenses	283,515	226,067
	5,312,900	5,881,798
Administrative expenses :		
Payroll	2,163,291	2,069,589
Post-employment benefits	143,241	125,026
Welfare expenses	313,181	278,140
Service charges	1,116,815	896,874
Research	686,606	632,003
Other	1,324,595	983,613
	5,747,729	4,985,245
	₩ 11,060,629	₩ 10,867,043

27. GAIN ON INVESTMENTS IN JOINT VENTURES AND ASSOCIATES:

GAIN ON INVESTMENTS IN JOINT VENTURES AND ASSOCIATES FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 CONSISTS OF THE FOLLOWING:

In millions of Korean Won

Description	2012	2011
Gain on valuation of equity-accounted investees, net	₩ 2,443,766	₩ 2,272,605
Gain on disposal of investments in associates, net	136,140	131,148
	₩ 2,579,906	₩ 2,403,753

28. FINANCIAL INCOME AND EXPENSES:

(1) FINANCIAL INCOME FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 CONSISTS OF THE FOLLOWING:

In millions of Korean Won

Description	2012	2011
Interest income	₩ 590,277	₩ 475,628
Gain on foreign exchange transaction	89,945	44,360
Gain on foreign currency translation	147,653	112,751
Dividend income	15,024	17,584
Income on financial guarantee	3,673	5,949
Gain on valuation of financial liabilities at FVTPL	53,920	16,537
Gain on disposal of AFS financial assets	-	2,182
Gain on valuation of derivatives	67,655	69,683
Other	1,579	2,872
	₩ 969,726	₩ 747,546

(2) FINANCIAL EXPENSES FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 CONSIST OF THE FOLLOWING:

In millions of Korean Won

Description	2012	2011
Interest expenses	₩ 426,698	₩ 511,617
Loss on foreign exchange transaction	45,809	58,475
Loss on foreign currency translation	122,943	173,406
Loss on disposal of trade notes and accounts receivable	15,330	12,318
Loss on disposal of AFS financial assets	100	27
Impairment loss on AFS financial assets	2,123	-
Loss on valuation of derivatives	11,470	23,823
	₩ 624,473	₩ 779,666

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

29. OTHER INCOME AND EXPENSES:

(1) OTHER INCOME FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 CONSISTS OF THE FOLLOWING:

In millions of Korean Won

Description	2012	2011
Gain on foreign exchange transaction	₩ 420,252	₩ 269,418
Gain on foreign currency translation	204,726	157,766
Gain on disposal of property, plant and equipment	31,366	13,681
Commission income	36,586	45,165
Rental income	86,280	69,839
Other	452,150	474,724
	₩ 1,231,360	₩ 1,030,593

(2) OTHER EXPENSES FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 CONSIST OF THE FOLLOWING:

In millions of Korean Won

Description	2012	2011
Loss on foreign exchange transaction	₩ 394,426	₩ 323,553
Loss on foreign currency translation	180,835	194,662
Loss on disposal of property, plant and equipment	62,983	83,779
Donations	70,301	69,847
Other	279,791	312,104
	₩ 988,336	₩ 983,945

30. EXPENSES BY NATURE:

EXPENSES BY NATURE FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 CONSIST OF THE FOLLOWING:

In millions of Korean Won

Description	2012	2011
Changes in inventories	₩ (206,076)	₩ (565,926)
Raw materials and merchandise used	47,306,979	43,996,939
Employee benefits	7,397,554	6,659,791
Depreciation	1,700,775	1,596,081
Amortization	873,144	738,676
Other	20,088,734	18,327,450
Total (*)	₩ 77,021,110	₩ 70,753,011

(*) [illegible]

31. EARNINGS PER COMMON SHARE:

Basic earnings per common share are computed by dividing profit available to common shares by the weighted average number of common shares outstanding during the year. The Group does not compute diluted earnings per common share for the years ended December 31, 2012 and 2011 as there are no dilutive items during the periods.

BASIC EARNINGS PER COMMON SHARE FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 ARE COMPUTED AS FOLLOWS:

In millions of Korean Won, except per share amounts

Description	2012	2011
Profit attributable to owners of the Parent Company	₩ 8,561,825	₩ 7,655,871
Profit available to preferred stock	(1,966,766)	(1,759,059)
Profit available to common share	6,595,059	5,896,812
Weighted average number of common shares outstanding (*)	209,269,769 shares	209,104,580 shares
Basic earnings per common share	₩ 31,515	₩ 28,200

(*) [illegible]

32. INCOME TAX EXPENSE:

(1) INCOME TAX EXPENSE FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 CONSISTS OF THE FOLLOWING:

In millions of Korean Won

Description	2012	2011
Income tax currently payable	₩ 1,576,461	₩ 1,687,332
Adjustments recognized in the current year in relation to the prior years	(39,836)	(16,380)
Changes in deferred taxes due to:		
Temporary differences	694,868	1,304,792
Tax credits and deficits	162,391	(613,795)
Items directly charged to equity	96,957	54,352
Current tax directly charged to equity	-	(62,243)
Effect of foreign exchange differences	61,644	(11,811)
Changes in scope of consolidation	(3,632)	-
Income tax expense	₩ 2,548,853	₩ 2,342,247

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) THE CHANGES IN DEFERRED TAX ASSETS (LIABILITIES) FOR THE YEAR ENDED DECEMBER 31, 2012 ARE AS FOLLOWS:

In millions of Korean Won

Description	Beginning of year	Changes	End of year
Provisions	₩ 1,569,408	₩ 103,132	₩ 1,672,540
AFS financial assets	(253,238)	23,267	(229,971)
Subsidiaries, associates and joint ventures	(521,821)	(332,354)	(854,175)
Reserve for research and manpower development	(169,400)	(70,777)	(240,177)
Derivatives	(75,379)	18,951	(56,428)
Property, plant and equipment	(2,754,400)	(477,624)	(3,232,024)
Accrued income	(50,970)	18,536	(32,434)
Loss (gain) on foreign currency translation	41,275	(40,660)	615
Other	232,173	62,661	294,834
	(1,982,352)	(694,868)	(2,677,220)
Accumulated deficit and tax credit carryforward	966,628	(162,391)	804,237
	₩ (1,015,724)	₩ (857,259)	₩ (1,872,983)

The changes in deferred tax assets (liabilities) for the year ended December 31, 2011 are as follows:

In millions of Korean Won

Description	Beginning of year	Changes	End of year
Provisions	₩ 1,347,859	₩ 221,549	₩ 1,569,408
AFS financial assets	(230,441)	(22,797)	(253,238)
Subsidiaries, associates and joint ventures	(334,751)	(187,070)	(521,821)
Reserve for research and manpower development	(112,200)	(57,200)	(169,400)
Derivatives	(67,767)	(7,612)	(75,379)
Property, plant and equipment	(1,577,158)	(1,177,242)	(2,754,400)
Accrued income	(41,122)	(9,848)	(50,970)
Loss (gain) on foreign currency translation	52,986	(11,711)	41,275
Other	285,034	(52,861)	232,173
	(677,560)	(1,304,792)	(1,982,352)
Accumulated deficit and tax credit carryforward	352,833	613,795	966,628
	₩ (324,727)	₩ (690,997)	₩ (1,015,724)

(3) THE COMPONENTS OF ITEMS CHARGED TO EQUITY AS OF DECEMBER 31, 2012 AND 2011 ARE AS FOLLOWS:

In millions of Korean Won

Description	2012	2011
Income tax charged or credited to:		
Gain on disposal of treasury stock	₩ -	₩ (62,243)
Deferred tax charged or credited to:		
Loss (gain) on valuation of AFS financial assets, net	₩ 25,818	₩ (2,297)
Gain on valuation of derivatives, net	(7,599)	(10,392)
Actuarial loss on defined benefit obligations, net	69,330	67,041
Changes in retained earnings of equity-accounted investees	9,408	-
	₩ 96,957	₩ 54,352

(4) THE TEMPORARY DIFFERENCES NOT RECOGNIZED AS DEFERRED TAX LIABILITIES RELATED TO SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES ARE ₩4,793,848 MILLION AND ₩3,946,606 MILLION AS OF DECEMBER 31, 2012 AND 2011.

33. RETIREMENT BENEFIT PLAN:

(1) EXPENSES RECOGNIZED IN RELATION TO DEFINED CONTRIBUTION PLANS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 ARE AS FOLLOWS:

In millions of Korean Won

Description	2012	2011
Paid in cash	₩ 6,049	₩ 6,190
Recognized liability	957	916
	₩ 7,006	₩ 7,106

(2) ACTUARIAL ASSUMPTIONS USED BY THE COMPANY AND ITS SUBSIDIARIES, RESPECTIVELY, AS OF DECEMBER 31, 2012 AND 2011 ARE AS FOLLOWS:

Description	December 31, 2012	December 31, 2011
Discount rate	3.39~8.25%	4.21~8.00%
Expected return on plan assets	2.78~8.00%	4.08~8.25%
Expected rate of salary increase	1.50~6.00%	1.50~5.60%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(3) PROFIT AND LOSSES IN RELATION TO DEFINED BENEFIT PLANS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 ARE AS FOLLOWS:

In millions of Korean Won

Description	2012	2011
Current service cost	₩ 399,983	₩ 329,122
Interest expense	106,189	96,293
Expected return on plan assets	(72,906)	(59,788)
	₩ 433,266	₩ 365,627
Cost of sales (Manufacturing cost)	₩ 234,341	₩ 195,882
Selling and administrative expenses	139,440	122,063
Other	59,485	47,682
	₩ 433,266	₩ 365,627

(4) THE AMOUNTS RECOGNIZED IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION RELATED TO DEFINED BENEFIT PLANS AS OF DECEMBER 31, 2012 AND 2011 CONSIST OF THE FOLLOWING:

In millions of Korean Won

Description	December 31, 2012	December 31, 2011
Present value of defined benefit obligations	₩ 2,975,771	₩ 2,249,240
Fair value of plan assets	(2,154,022)	(1,600,601)
Defined benefit obligations	₩ 821,749	₩ 648,639

(5) CHANGES IN PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATIONS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 ARE AS FOLLOWS:

In millions of Korean Won

Description	2012	2011
Beginning of year	₩ 2,249,240	₩ 1,808,027
Current service cost	399,983	329,122
Interest expenses	106,189	96,293
Transfer in (out)	979	9,976
Actuarial loss	328,491	247,029
Benefits paid	(127,710)	(259,737)
Changes in scope of consolidation	28,402	-
Effect of foreign exchange differences and other	(9,803)	18,530
End of year	₩ 2,975,771	₩ 2,249,240

(6) CHANGES IN FAIR VALUE OF THE PLAN ASSETS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 ARE AS FOLLOWS:

In millions of Korean Won

Description	2012	2011
Beginning of year	₩ 1,600,601	₩ 1,318,430
Expected return on plan assets	72,906	59,788
Actuarial gain	12,333	4,146
Transfer in (out)	(1,126)	4,050
Contributions from plan participants	531,609	330,420
Benefits paid	(68,292)	(122,230)
Changes in scope of consolidation	16,945	-
Effect of foreign exchange differences and other	(10,954)	5,997
End of year	₩ 2,154,022	₩ 1,600,601

The actual returns on plan assets for the years ended December 31, 2012 and 2011 were ₩85,239 million and ₩63,934 million, respectively.

(7) FAIR VALUE OF THE PLAN ASSETS AS OF DECEMBER 31, 2012 AND 2011 CONSIST OF THE FOLLOWING:

In millions of Korean Won

Description	December 31, 2012	December 31, 2011
Insurance instruments	₩ 1,948,010	₩ 1,428,546
Debt instruments	50,859	29,346
Other	155,153	142,709
	₩ 2,154,022	₩ 1,600,601

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

34. CASH GENERATED FROM OPERATIONS:

CASH GENERATED FROM OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 IS AS FOLLOWS:

In millions of Korean Won

Description	2012	2011
Profit for the year	₩ 9,056,277	₩ 8,104,863
Adjustments:		
Post-employment benefits	433,266	365,827
Depreciation	1,700,775	1,596,081
Amortization of intangible assets	823,144	738,676
Provision for warranties	712,587	1,169,889
Income tax expense	2,548,853	2,342,247
Loss (gain) on foreign currency translation, net	(48,601)	97,551
Loss on disposal of property, plant and equipment, net	31,617	70,098
Interest expenses (income), net	(163,579)	35,989
Gain on valuation of equity-accounted investees, net	(2,443,766)	(2,272,605)
Gain on disposal of investments in associates, net	(136,140)	(131,148)
Cost of sales (revenue) from financial services, net	3,300,405	2,775,142
Other	364,830	130,493
	7,123,391	6,918,040
Changes in operating assets and liabilities:		
Decrease (increase) in trade notes and accounts receivable	297,742	(813,966)
Decrease in other receivables	371,695	235,836
Decrease in other financial assets	155,604	7,459
Increase in inventories	(538,355)	(961,690)
Decrease (increase) in other assets	(710,477)	56,187
Increase in trade notes and accounts payable	16,971	342,451
Increase in other payables	1,415,433	1,747,476
Increase in other liabilities	945,772	186,666
Decrease in other financial liabilities	(168,904)	(52,370)
Changes in retirement benefit obligation	(529,504)	(311,961)
Payment of severance benefits	(59,418)	(137,507)
Decrease in provisions	(997,138)	(850,904)
Changes in financial services receivables	(4,160,902)	(4,475,606)
Increase in operating lease assets	(4,415,826)	(3,548,013)
Other	65,728	(20,148)
	(8,311,579)	(8,596,090)
Cash generated from operations	**₩ 7,868,089**	**₩ 6,426,813**

Meanwhile, the Group changed the presentation of increase or decrease in short-term financial instruments and short-term borrowings arising from investing and financing activities on the consolidated statements of cash flows from a gross basis to a net basis, and proceeds from and repayment of long-term debt and debentures which had been separately presented was combined as described in Note 2.(1).

35. RISK MANAGEMENT:

(1) CAPITAL RISK MANAGEMENT

The Group manages its capital to maintain an optimal capital structure for maximizing profit of its shareholder and reducing the cost of capital. Debt to equity ratio calculated as total liabilities divided by total equity is used as an index to manage the Group's capital. The overall capital risk management policy is consistent with that of the prior period. Debt to equity ratios as of December 31, 2012 and 2011 are as follows:

In millions of Korean Won

Description	December 31, 2012	December 31, 2011
Total liabilities	₩ 73,620,239	₩ 69,152,273
Total equity	47,917,575	40,327,702
Debt to equity ratio	153.6%	171.5%

(2) FINANCIAL RISK MANAGEMENT

The Group is exposed to various financial risks such as market risk (foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk related to its financial instruments. The purpose of risk management of the Group is to identify potential risks related to financial performance and reduce, eliminate and evade those risks to an acceptable level of risks to the Group. Overall, the Group's financial risk management policy is consistent with the prior period policy.

1) MARKET RISK

The Group is mainly exposed to financial risks arising from changes in foreign exchange rates and interest rates. Accordingly, the Group uses financial derivative contracts to hedge and to manage its interest rate risk and foreign currency risk.

a) Foreign exchange risk management

The Group is exposed to various foreign exchange risk by making transactions in foreign currencies. The Group is mainly exposed to foreign exchange risk in USD, EUR and JPY.

The Group manages foreign exchange risk by matching the inflow and the outflow of foreign currencies according to each currency and maturity, and by adjusting the foreign currency settlement date based on its the exchange rate forecast. The Group uses foreign exchange derivatives: such as currency forward, currency swap, and currency option: as hedging instruments. However, speculative foreign exchange trade on derivative financial instruments is basically prohibited.

The Group's sensitivity to a 5% change in exchange rate of the functional currency against each foreign currencies on income before income tax as of December 31, 2012, is as follows:

In millions of Korean Won

Foreign Currency	Foreign Exchange Rate Sensitivity	
	Increase by 5%	Decrease by 5%
USD	₩ 1,198	₩ (1,198)
EUR	(47,176)	47,176
JPY	(7,549)	7,549

The sensitivity analysis includes the Group's monetary assets, liabilities and derivative assets, liabilities but excludes items of income statements such as changes of sales and cost of sales due to exchange rate fluctuation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

b) Interest rate risk management

The Group has borrowings with fixed or variable interest rates. Also, the Group is exposed to interest rate risk arising from financial instruments with variable interest rates. To manage the interest rate risk, the Group maintains an appropriate balance between borrowings with fixed and variable interest rates for short-term borrowings and has a policy to borrow funds with fixed interest rates to avoid the future cash flow fluctuation risk for long-term debt if possible. The Group manages its interest rate risk through regular assessments of the change in markets conditions and the adjustments in nature of its interest rates.

The Group's sensitivity to a 1% change in interest rates on income before income tax as of December 31, 2012 is as follows:

Accounts	Interest Rate Sensitivity	
	Increase by 1%	Decrease by 1%
Cash and cash equivalents	₩ 5,752	₩ (5,752)
Short-term financial instruments and other financial assets	807	(807)
Borrowings and debentures	(55,614)	55,614

c) Equity price risk

The Group is exposed to market price fluctuation risk arising from AFS equity instruments. As of December 31, 2012, the amount of AFS equity instruments measured at fair value is ₩1,541,461 million.

2) CREDIT RISK

The Group is exposed to credit risk when a counterparty defaults on its contractual obligation resulting in financial loss to the Group. The Group operates a policy to transact with counterparties who only meet a certain level of credit rating which was evaluated based on the counterparty's financial conditions, default history, and other factors. The credit risk in the liquid funds and derivative financial instruments is limited as the Group transacts only with financial institutions with high credit-ratings assigned by international credit-rating agencies. Except for the guarantee of indebtedness discussed in Note 37, the book value of financial assets on the financial statements represents the maximum amounts of exposure to credit risk.

3) LIQUIDITY RISK

The Group manages liquidity risk based on maturity profile of its funding. The Group analyses and reviews actual cash outflow and its budget to match the maturity of its financial liabilities to that of its financial assets.

Due to the inherent nature of the industry, the Group requires continuous R&D investment and is sensitive to economic fluctuations. The Group minimizes its credit risk in cash equivalents by investing in risk-free assets. In addition, the Group has agreements in place with financial institutions with respect to trade financing and overdraft to mitigate any significant unexpected market deterioration. The Group, also, continues to strengthen its credit rates to secure a stable financing capability.

The Group's maturity analysis of its non-derivative liabilities according to their remaining contract period before expiration as of December 31, 2012 is as follows:

Description	Remaining contract period			
	Within 1 year	Within 5 years more than 1 year	More than 5 years	Total
Non interest-bearing liabilities	₩ 12,786,763	₩ 8,019	₩ 252	₩ 12,795,034
Interest-bearing liabilities	15,938,536	30,473,960	1,794,305	48,206,801
Financial guarantee	754,952	72,215	179,655	1,006,822

The maturity analysis is based on the non-discounted cash flows and the earliest maturity date that payments including both principal and interest, which should be made.

(3) DERIVATIVE INSTRUMENT

The Group enters into derivative instrument contracts such as forwards, options and swaps to hedge its exposure to changes in foreign exchange rate.

As of December 31, 2012 and 2011, the Group deferred a net loss of ₩1,112 million and ₩30,858 million, respectively, in accumulated other comprehensive loss, on its effective cash flow hedging instruments.

The longest period in which the forecasted transactions are expected to occur is within 57 months as of December 31, 2012.

For the years ended December 31, 2012 and 2011, the Group recognized a net loss of ₩410,510 million and a net gain of ₩171,847 million in profit or loss(before tax), respectively, which resulted from the ineffective portion of its cash flow hedging instruments and changes in the valuation of its other non-hedging derivative instruments.

36. RELATED PARTY TRANSACTIONS:

The transactions and balances of receivables and payables within the Group are wholly eliminated in the preparation of consolidated financial statements of the Group.

(1) SIGNIFICANT TRANSACTIONS ARISING FROM OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 BETWEEN THE GROUP AND RELATED PARTIES OR AFFILIATES BY MONOPOLY REGULATION AND FAIR TRADE ACT OF THE REPUBLIC OF KOREA ("ACT") ARE AS FOLLOWS:

Description	2012		2011	
	Sales/proceeds	Purchases/expense	Sales/proceeds	Purchases/expense
Related parties:				
Entity with significant influence over the Company	₩ 630,445	₩ 8,785,788	₩ 511,319	₩ 7,907,032
Joint ventures and associates	4,609,762	8,722,623	5,116,055	8,952,433
Other related parties	15,677	1,341,143	12,970	1,111,019
Affiliates by Act	1,164,960	6,182,864	519,911	4,796,922

(2) AS OF DECEMBER 31, 2012 AND 2011 SIGNIFICANT BALANCES ARISING FROM OPERATIONS RELATED TO THE TRANSACTIONS BETWEEN THE GROUP AND RELATED PARTIES OR AFFILIATES BY ACT ARE AS FOLLOWS:

Description	December 31, 2012		December 31, 2011	
	Receivables	Payables	Receivables	Payables
Related parties:				
Entity with significant influence over the Company	₩ 227,839	₩ 1,370,080	₩ 146,745	₩ 1,238,695
Joint ventures and associates	1,044,898	1,394,439	923,052	1,282,713
Other related parties	4,415	368,329	7,504	329,323
Affiliates by Act	383,874	923,755	76,273	866,699

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(3) COMPENSATION OF REGISTERED AND UNREGISTERED DIRECTORS, WHO ARE CONSIDERED TO BE THE KEY MANAGEMENT PERSONNEL FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 ARE AS FOLLOWS:

In millions of Korean Won

Description	2012	2011
Short-term employee salaries	W 163,126	W 143,201
Post-employment benefits	29,000	26,840
Other long-term benefits	504	550
	W 192,630	W 170,591

37. COMMITMENTS AND CONTINGENCIES:

(1) AS OF DECEMBER 31, 2012, THE DEBT GUARANTEES PROVIDED BY THE GROUP, EXCLUDING THE COMPANY'S SUBSIDIARIES, ARE AS FOLLOWS:

In millions of Korean Won

Description	Domestic	Overseas (*)
Associates	W -	W 103,897
Others	143,776	973,338
Customer financing and lease financing	42,876	-
	W 186,652	W 1,077,235

(2) AS OF DECEMBER 31, 2012, THE GROUP IS INVOLVED IN DOMESTIC AND FOREIGN LAWSUITS AS A DEFENDANT. IN ADDITION, THE GROUP IS INVOLVED IN LAWSUITS FOR PRODUCT LIABILITIES AND OTHER. THE GROUP OBTAINS INSURANCES FOR POTENTIAL LOSSES WHICH MAY RESULT FROM PRODUCT LIABILITIES AND OTHER LAWSUITS. THE GROUP IS CURRENTLY UNABLE TO ESTIMATE THE OUTCOME OR THE POTENTIAL FINANCIAL IMPACT OF SUCH LAWSUITS BUT EXPECTS IT WILL NOT HAVE A MATERIAL EFFECT ON ITS CONSOLIDATED FINANCIAL STATEMENTS.

(3) AS OF DECEMBER 31, 2012, THE GROUP'S PROPERTY, PLANT AND EQUIPMENT ARE PLEDGED AS COLLATERAL FOR VARIOUS LOANS UP TO W859,007 MILLION. IN ADDITION, THE GROUP PLEDGED CERTAIN BANK DEPOSITS, CHECKS, PROMISSORY NOTES AND INVESTMENT SECURITIES, INCLUDING 213,466 SHARES OF KIA MOTORS CORPORATION, AS COLLATERAL TO FINANCIAL INSTITUTIONS AND OTHERS. CERTAIN RECEIVABLES HELD BY THE COMPANY'S FOREIGN SUBSIDIARIES SUCH AS FINANCIAL SERVICES RECEIVABLES ARE PLEDGED AS COLLATERAL FOR THEIR BORROWINGS.

(4) IN 2006, THE GROUP SOLD 10,658,367 SHARES OF HYUNDAI ROTEM COMPANY, A SUBSIDIARY OF THE COMPANY, TO MSPE METRO INVESTMENT AB AND ENTERED INTO A SHAREHOLDERS' AGREEMENT. MSPE METRO INVESTMENT AB IS ENTITLED TO A PUT OPTION TO SELL THOSE SHARES BACK TO THE GROUP IN CERTAIN EVENTS (AS DEFINED) IN ACCORDANCE WITH THE AGREEMENT. IN RELATION TO THE AGREEMENT, THE PRESENT VALUE OF EXERCISE PRICE OF THE PUT OPTION IS RECOGNIZED AS A LIABILITY (OTHER FINANCIAL LIABILITY) BY THE GROUP.

(5) HYUNDAI CAPITAL SERVICES, INC., A SUBSIDIARY OF THE COMPANY, HAS A REVOLVING CREDIT FACILITY AGREEMENT WITH THE FOLLOWING FINANCIAL INSTITUTIONS:

Financial institutions	Credit line	
GE Capital Corporation	Euro worth of USD	1,000 million
Citi Bank, N.A.	USD	200 million
The Bank of Tokyo Mitsubishi UFJ, LTD.	USD	200 million
Mizuho Corporate Bank, Seoul Branch	KRW	65,000 million
JP Morgan, Seoul Branch	KRW	110,000 million
Citi Bank, Seoul	KRW	50,000 million
Standard Chartered, Seoul Branch	KRW	50,000 million
Societe Generale, Seoul Branch	KRW	55,000 million
Bank of China, Seoul	KRW	30,000 million
DBS Bank, Seoul	KRW	100,000 million
Credit Agricole, Seoul	KRW	100,000 million
RBS, Seoul	KRW	110,000 million
Kookmin Bank	KRW	200,000 million
Korea Development Bank	KRW	60,000 million
Kyobo life insurance co., ltd.	KRW	50,000 million

(6) HYUNDAI CARD CO., LTD, A SUBSIDIARY OF THE COMPANY, HAS A REVOLVING CREDIT FACILITY AGREEMENT WITH THE FOLLOWING FINANCIAL INSTITUTIONS:

Financial institutions	Credit line	
GE Capital Corporation	Euro worth of USD	200 million
Woori Bank	KRW	200,000 million
Kookmin Bank	KRW	160,000 million
Shinhan Bank	KRW	100,000 million
NH bank	KRW	100,000 million
Citibank, Seoul	KRW	50,000 million

(7) HYUNDAI CARD CO., LTD., A SUBSIDIARY OF THE COMPANY, HAS AN ASSET BACKED SECURITIZATION AGREEMENT, WHICH PROVIDES EARLY REDEMPTION CLAUSES WHEN CERTAIN TRIGGERING EVENTS OCCUR. SUCH CLAUSES ARE IN PLACE TO LIMIT THE RISK THAT THE INVESTORS MAY INCUR DUE TO CHANGES IN ASSET QUALITY OF THE SUBSIDIARY IN THE FUTURE. IN THE EVENT THE ASSET-BACKED SECURITIZATION TRIGGERS SUCH EVENTS, HYUNDAI CARD CO., LTD. IS OBLIGATED TO MAKE EARLY REDEMPTION OF ITS ASSET-BACKED SECURITIES.

(8) THE SHARES OF HYUNDAI ENGINEERING & CONSTRUCTION CO., LTD, AN EQUITY METHOD INVESTEE ACQUIRED DURING 2011, ARE RESTRICTED TO BE TRANSFERRED OR PLEDGED AS COLLATERAL IN WHOLE OR IN PART TO THIRD PARTY WITHOUT PRIOR WRITTEN CONSENT OF THE SELLER FOR THE FOLLOWING TWO YEARS FROM THE ACQUISITION. ON THE PURPOSE OF ASSURING THIS RESTRICTION, THE SHARES OF THE ASSOCIATE WORTH OF 10% OF THE TOTAL ACQUISITION PRICE ARE HELD BY THE DESIGNATED ESCROW AGENT.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

38. SEGMENT INFORMATION:

(1) THE GROUP HAS A VEHICLE SEGMENT, A FINANCE SEGMENT AND OTHER. THE VEHICLE SEGMENT IS ENGAGED IN THE MANUFACTURING AND SALE OF MOTOR VEHICLES. THE FINANCE SEGMENT OPERATES VEHICLE FINANCING, CREDIT CARD PROCESSING AND OTHER FINANCING ACTIVITIES. OTHER INCLUDES THE R&D, TRAIN MANUFACTURING AND OTHER ACTIVITIES WHICH CANNOT BE CLASSIFIED AS THE VEHICLE SEGMENT OR THE FINANCE SEGMENT.

(2) SALES AND OPERATING INCOME BY OPERATING SEGMENTS ARE AS FOLLOWS:

in millions of Korean Won

	For the year ended December 31, 2012				
	Vehicle	Finance	Other	Consolidation adjustments	Total
Total sales	W 103,878,093	W 8,799,513	W 5,348,113	W (33,555,998)	W 84,469,721
Inter-company sales	(32,571,552)	(136,556)	(847,890)	33,555,998	-
Net sales	71,306,541	8,662,957	4,500,223	-	84,469,721
Operating income	6,711,117	1,177,513	254,552	293,765	8,436,947

in millions of Korean Won

	For the year ended December 31, 2011				
	Vehicle	Finance	Other	Consolidation adjustments	Total
Sales	W 94,381,955	W 7,401,809	W 3,895,091	W (27,880,960)	W 77,797,895
Inter-company sales	(27,253,897)	(113,783)	(513,280)	27,880,960	-
Net sales	67,128,058	7,288,026	3,381,811	-	77,797,895
Operating income	6,633,588	1,203,430	146,324	45,487	8,028,829

(3) ASSETS AND LIABILITIES BY OPERATING SEGMENTS ARE AS FOLLOWS:

in millions of Korean Won

	As of December 31, 2012				
	Vehicle	Finance	Other	Consolidation adjustments	Total
Total assets	W 77,264,305	W 53,424,342	W 5,742,620	W (14,893,453)	W 121,537,814
Total liabilities	31,596,447	46,410,502	3,729,628	(8,116,338)	73,620,239
Borrowings and debentures	5,424,506	40,721,836	1,875,225	(2,814,315)	45,207,252

in millions of Korean Won

	As of December 31, 2011				
	Vehicle	Finance	Other	Consolidation adjustments	Total
Total assets	W 71,314,560	W 48,539,075	W 4,441,339	W (14,814,999)	W 109,479,975
Total liabilities	31,209,912	42,476,276	3,013,981	(7,547,896)	69,152,273
Borrowings and debentures	6,330,586	36,683,570	1,544,696	(1,220,192)	43,338,660

(4) SALES BY REGION WHERE THE GROUP'S ENTITIES ARE LOCATED IN ARE AS FOLLOWS:

in millions of Korean Won

	For the year ended December 31, 2012						
	Korea	North America	Asia	Europe	Other	Consolidation adjustments	Total
Total sales	W 53,231,743	W 31,515,158	W 7,576,598	W 25,287,990	W 414,230	W (33,555,998)	W 84,469,721
Inter-company sales	(14,576,806)	(6,802,632)	(737,897)	(11,438,663)	-	33,555,998	-
Net sales	38,654,937	24,712,526	6,838,701	13,849,327	414,230	-	84,469,721

in millions of Korean Won

	For the year ended December 31, 2011						
	Korea	North America	Asia	Europe	Other	Consolidation adjustments	Total
Total sales	W 51,565,160	W 26,029,355	W 7,387,760	W 20,696,366	W -	W(27,880,746)	W 77,797,895
Inter-company sales	(12,866,279)	(6,199,585)	(364,463)	(8,450,419)	-	27,880,746	-
Net sales	38,698,881	19,829,770	7,023,297	12,245,947	-	-	77,797,895

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(5) NON-CURRENT ASSETS BY REGION WHERE THE GROUP'S ENTITIES ARE LOCATED IN AS OF DECEMBER 31, 2012 AND 2011 ARE AS FOLLOWS:

In millions of Korean Won

	December 31, 2012	December 31, 2011
Korea	₩ 18,596,981	₩ 17,143,139
North America	1,598,120	1,724,270
Asia	1,127,336	1,111,898
Europe	2,132,063	2,175,648
Other	491,205	365,926
	23,945,705	22,520,881
Consolidation adjustments	(39,797)	(30,297)
Total (*)	**₩ 23,905,908**	**₩ 22,490,584**

(6) THERE IS NO SINGLE EXTERNAL CUSTOMER WHO HAS 10% OR MORE OF THE GROUP'S REVENUES FOR THE YEAR ENDED DECEMBER 31, 2012 AND 2011.

39. CONSTRUCTION CONTRACTS:

COST, INCOME AND LOSS AND CLAIMED CONSTRUCTION FROM CONSTRUCTION IN PROGRESS AS OF DECEMBER 31, 2012, AND 2011 ARE AS FOLLOWS:

In millions of Korean Won

Description	December 31, 2012	December 31, 2011
Accumulated accrual cost	₩ 5,980,499	₩ 7,356,916
Accumulated income	660,495	1,286,987
Accumulated loss	-	(164,938)
Accumulated construction in process	6,640,994	8,478,965
Progress billing	(6,357,806)	(8,184,570)
Due from customers	781,136	762,263
Due to customers	(497,948)	(467,868)

40. BUSINESS COMBINATIONS:

(1) THE COMPANY ACQUIRED 100% OF THE SHARES IN HMF, HAS AND HAAP, RESPECTIVELY, AS OF JANUARY 3, 2012 TO IMPROVE SALES NETWORKS IN EUROPE MARKET, AND HMF HAS MERGED WITH HAS AND HAAP AS OF AUGUST 31, 2012. IN ADDITION, THE COMPANY HAS OBTAINED CONTROL OVER HMD TO IMPROVE SALES NETWORKS BY ACQUIRING ADDITIONAL SHARES (THE COMPANY HAS OWNED 100% OF SHARES AFTER ACQUISITION) AS OF JANUARY 3, 2012. NONE OF THE GOODWILL RECOGNIZED IS EXPECTED TO DEDUCTIBLE FOR TAX PURPOSES.

1) CONSIDERATIONS FOR ACQUISITION AND THE FAIR VALUE OF THE ASSETS ACQUIRED AND LIABILITIES ASSUMED AT THE ACQUISITION DATE ARE AS FOLLOWS:

In millions of Korean Won

Description	HMF	HAS	HAAP	HMD
Considerations transferred	₩ 112,379	₩ 23,904	₩ 7,275	₩ 136,463
Assets acquired and liabilities assumed				
Cash and cash equivalent	57,994	32	1,724	24
Other current assets	156,136	13,899	4,837	363,377
Non-current assets	5,518	27	-	24,460
Current liabilities	(142,917)	(5,141)	(2,511)	(238,075)
Non-current liabilities	(8,812)	(69)	(114)	(55,035)
Fair value of identifiable net assets	67,919	8,748	3,936	94,751
Goodwill	**₩ 44,460**	**₩ 15,156**	**₩ 3,339**	**₩ 41,712**

2) SALES AND NET INCOME (LOSS) FOR THE YEAR ENDED DECEMBER 31, 2012 AFTER THE ACQUISITION DATE INCLUDED IN THE CONSOLIDATED STATEMENTS OF INCOME ARE AS FOLLOWS:

In millions of Korean Won

Description	HMF	HAS	HAAP	HMD
Sales	₩ 634,045	₩ 18,093	₩ 7,365	₩ 1,490,908
Net income (loss)	(3,221)	2,102	257	(12,083)

3) CONTRACTUAL GROSS AMOUNTS FOR TRADE RECEIVABLES AND EXPECTED UNCOLLECTABLE AMOUNTS ASSUMED AT ACQUISITION DATE ARE AS FOLLOWS:

In millions of Korean Won

Description	HMF	HAS	HAAP	HMD
Contractual gross amounts	₩ 63,740	₩ 13,638	₩ 4,133	₩ 18,306
Expected uncollectable amounts	(4,704)	(1)	(114)	(652)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) HYUNDAI KEFICO CORPORATION REDUCED THE CAPITAL THROUGH THE COMPENSATIONAL CANCELLATION OF 1,670,000 SHARES AMONG ITS COMMON SHARES AS OF AUGUST 1, 2012. AS A RESULT OF THE CAPITAL REDUCTION, THE COMPANY HAS OWNED 100% OF SHARES AND OBTAINED CONTROL OVER HYUNDAI KEFICO CORPORATION AFTER THE CAPITAL REDUCTION. THE COMPANY MEASURED GOODWILL BY USING THE ACQUISITION-DATE FAIR VALUE OF ITS INTERESTS.

1) CONSIDERATIONS FOR ACQUISITION AND THE AMOUNTS OF THE ASSETS ACQUIRED AND LIABILITIES ASSUMED AT THE ACQUISITION DATE ARE AS FOLLOWS:

In millions of Korean Won

Description	Amounts
Acquisition-date fair value of the interests	₩ 185,451
Assets acquired and liabilities assumed:	
Cash and cash equivalent	53,548
Other current assets	414,762
Non-current assets	430,290
Current liabilities	(582,640)
Non-current liabilities	(150,134)
Fair value of identifiable net assets	165,826
Goodwill	₩ 19,625

2) SALES OF ₩643,567 MILLION AND NET INCOME OF ₩36,040 MILLION ARISING AFTER THE ACQUISITION DATE ARE INCLUDED IN THE CONSOLIDATED STATEMENT OF INCOME. HAD THE ACQUISITION DATE BEEN AS OF JANUARY 1, 2012, SALES AND NET INCOME INCLUDED IN THE CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2012 WOULD BE ₩1,524,399 MILLION AND ₩71,950 MILLION, RESPECTIVELY. CONTRACTUAL GROSS AMOUNTS FOR TRADE RECEIVABLES ARE ₩266,577 MILLION AND THE CONTRACTUAL AMOUNTS NOT EXPECTED TO BE COLLECTED ARE ₩50 MILLION AT THE ACQUISITION DATE.

(3) HYUNDAI CAPITAL SERVICES, INC., A SUBSIDIARY OF THE COMPANY, OBTAINED CONTROL OF GE CAPITAL KOREA, CO., LTD. BY ACQUIRING 100% OF ITS SHARES AS OF JULY 3, 2012.

1) CONSIDERATIONS FOR ACQUISITION AND THE AMOUNTS OF THE ASSETS ACQUIRED AND LIABILITIES ASSUMED AT THE ACQUISITION DATE ARE AS FOLLOWS:

In millions of Korean Won

Description	Amounts
Considerations transferred	₩ 193,625
Assets acquired and liabilities assumed:	
Cash and cash equivalent	31,985
Loans	120,143
Financial lease receivables	225,014
Operating lease assets	15,996
Borrowings	(168,654)
Other	(32,288)
Fair value of identifiable net assets	192,196
Goodwill	₩ 1,429

2) HYUNDAI CAPITAL SERVICES, INC. SHOULD ADJUST THE DIFFERENCE WHICH WILL OCCUR FROM THE IMPAIRMENT OF THE FINANCIAL RECEIVABLES AND CHANGES IN THE REMAINING VALUE OF THE LEASED ASSETS FOR THE TERM OF GUARANTEE OF LOSS OF THREE YEARS IN ACCORDANCE WITH CONTRACT OF COMPENSATION FOR LOSS WITH GE CAPITAL ASIA INVESTMENTS, INC. NO INDEMNIFICATION ASSETS BASED ON THE TERM ARE RECOGNIZED AT THE ACQUISITION DATE.

3) SALES OF ₩20,554 MILLION ARISING AFTER THE ACQUISITION DATE ARE INCLUDED IN THE CONSOLIDATED STATEMENTS OF INCOME. HAD THE ACQUISITION DATE BEEN AS OF JANUARY 1, 2012, SALES INCLUDED IN THE CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2012 WOULD BE ₩49,486 MILLION.

41. AUTHORIZATION FOR ISSUE OF FINANCIAL STATEMENTS:

The accompanying consolidated financial statements for the year ended December 31, 2012 were authorized for issue by the Board of Directors on January 24, 2013.

PRODUCT LINEUP

CENTENNIAL (EQUUS)

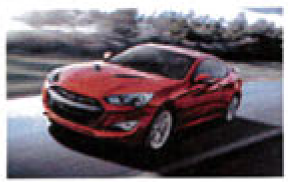
The essence of Hyundai's advanced engine technology is found on the Centennial, with its Lambda 3.8 GDi and Tau 5.0 GDi engines. Flowing with the times and at the same time leading it, it is Korea's most prestigious luxury sedan.

GENESIS

Placing first in J.D. Power's 2012 Vehicle Dependability Study (VDS), Genesis continues to be recognized by the world over as Hyundai's most representative luxury sedan.

GENESIS COUPE

The newly introduced Genesis Coupe sports a more dynamic and individualistic design and exceptional power to offer a faster-paced, exciting ride.



AZERA (GRANDEUR)

Inspired by the magnificent descent of a soaring eagle, the Azera is synonymous with the history of the luxury sedan in Korea. It has always fulfilled the desires of leaders looking for driving pleasure by featuring Hyundai's latest technologies.

SONATA HYBRID

Style, dynamic performance, and eco-friendly technologies for a better tomorrow. Hyundai's Sonata Hybrid lets drivers experience the new tomorrow of hybrid vehicles.

SONATA

With 28 years of history and renown under its name, Sonata, Hyundai's most famous mid-sized sedan, is back with a design inspired by the fluid dynamism of an orchid and high performance engines.

ELANTRA (AVANTE)

Elantra, beloved by the world over, conveys the very essence of a compact sedan through a dynamic performance. It was named as 2012 North American Car of the Year, the most exclusive award in North America.

ELANTRA (AVANTE) COUPE

Elantra Coupe is a 2-door model of Elantra with dynamic coupe styling. It provides dynamic driving performance with the high-performance Nu 1.8 MPi engine with maximum of 150 ps power output and 18.2 kg·m torque.

VELOSTER / VELOSTER TURBO

Veloster was born as Hyundai's communication brand incorporating the innovative cultural and emotional values of the new generation. With one door on the driver's side and two doors on the passenger's side, Veloster's refreshing take on style has captivated the hearts of young people all over the world.

ACCENT 4DOOR / 5DOOR

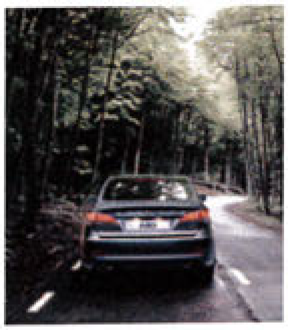
New concept near mid-sized sedan equipped with dynamic style and cutting-edge features for the "Style Guy" living the most passionate and energetic period of his life.

* The images in this brochure may differ from the actual cars for sale.

PRODUCT LINEUP

i40 / i40 SEDAN

European sensibility and premium exemplified in a new concept CUV that marries style with utility.



i20

Beloved by Europeans looking for style and efficiency, the all-new i20 is now eco-friendly, too, with a newly developed eco-friendly U2 diesel engine.

i30

The i30 inspires with its sporty style that appeals to the senses, a truly luxurious interior space, and high performance engines.
Stylish and smart, the i30 is always in fashion.

i10

Whizzing through the backstreets of Europe, the i10 is exactly what Europeans have been waiting for in style, utility, and eco-friendliness.

ix20

Dynamic style and versatile functionality, on top of a Euro NCAP five-star safety performance, make the ix20 the latest big player in the small MVP category.

VERACRUZ (ix55)

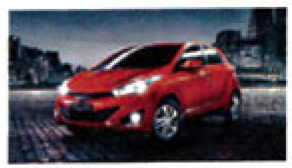
Veracruz created a new genre in automobiles —the Luxury Utility Vehicle.
A majestic and dignified style fused with eco-friendly performance has created Hyundai's most advanced SUV.

TUCSON ix (ix35)

Just like its slogan, Tucson ix is the sexiest thing to move. From the SUV's attractive design to the smallest details, Tucson ix is style itself.

EON

Eon is an Indian market-specific sub-compact model embodying the concept of "Suburban City Car." The 5-passenger hatchback features a front-wheel drive system with an 814 cc engine that has a maximum power output of 56 ps with 20.8 km/ℓ fuel economy.



HB20

HB, standing for Hyundai Brasil, and 20, designating the compact class, is a bi-fuel vehicle that can utilize both bio-ethanol and gasoline. Named car of the year in 2012, HB20 captivates the hearts of Brazilian people with style and economy.

SANTA FE

Santa Fe sets the standard for the family SUV, at home, offroad or in the suburbs.

GRAND SANTA FE

Grand Santa Fe offers best-in-class amenity features and plentiful space through the widened roof-line. It is a premium SUV born for the family enjoying the outdoor leisure life.

* The images in this brochure may differ from the actual cars for sale.

PRODUCT LINEUP

H-1 (GRAND STAREX)

A dynamic and urban design, thoughtful consideration of user convenience such as the seat variation feature, maximum five-star EURO NCAP rating, efficient technologies, and robust stability make the H-1 simply perfect for both business and pleasure.

UNIVERSE

Sophisticated style, powerful performance ensured by the independently developed Powertech engine, comfortable ride, and easy maintenance make the Universe first class all the way.

AEROTOWN

The redesigned front bumper absorbs low impact forces better while stylish headlamps add a note of sophistication. Passenger comfort is maximized with ergonomically contoured seats. On top of it all, Aero Town is easy to drive thanks to the advanced steering system.

SUPER AERO CITY

Super Aero City provides a superb exterior and an ergonomic driver's seat and instrument panel that offer a comfortable passenger car-like driving experience. Expanded wind shield and vertical-type MFR headlamps not only ensure safe driving, but also offer a luxurious feeling.

COUNTY

Futuristic and unique, County's style beautifully harmonizes with its practical personality. Rounded edges and flush fitting surfaces contribute to a clean, simple image.

H-100

The stronger and quieter H100, with its relaxed character lines and a new quality of comfort, comes with an efficient cargo space that allows convenient cargo loading and unloading up to 1 ton, a high performance diesel engine, and a safer and more powerful brake system.

HD65 / HD72 / HD78

The Hyundai HD series bring a new dynamism and capability to light and medium duty trucks. Tough but stylish, comfortable and dependable, the HD series offer the perfect vehicle to meet the demands of the trucking business.

HD45

Ideal for heavy traffic operation, the narrow 1,760 mm width of the Hyundai HD45 also fits it to city streets. A clean exterior style and integrated details such as the driver's step and rear cab protection make it look good as well.

HD120

The Hyundai HD120 sets the standard in the medium duty truck category by combining top performance, reliability, and economy.

DUMP TRUCK

The newly reinforced heavy-duty Hyundai dump truck provides greater durability and superior performance, responding exactly to customer needs.

CARGO TRUCK

With an unbeatable top performance, the Hyundai cargo truck is built tough to run reliably and economically, working around the clock to carry maximum payloads often under extreme road conditions.

TRACTOR TRUCK

The Hyundai tractor truck delivers more cost-effectiveness, high payload, and maximum vehicle performance in long-distance transport.

MIXER TRUCK

The Hyundai mixer truck offers the best value for money today. Built for construction and ready to take on heavy loads, it offers the perfect "mix" of performance, price, and reliability with top mixing and pouring performance and ruggedized construction for a long service life.

* The images in this brochure may differ from the actual cars for sale.

THROUGH NEW THINKING, WE WILL DISCOVER NEW POSSIBILITIES
THAT OUR CUSTOMERS, THE WORLD, AND THE TIMES WE LIVE IN NEVER EXPECTED.
AND WE WILL MAKE SURE THAT THE POSSIBILITIES BECOME A REALITY,
THAT THEY BECOME NEW VALUES THAT CUSTOMERS CAN EXPERIENCE AND ENJOY.
HYUNDAI IS 'NEW THINKING, NEW POSSIBILITIES.'

HYUNDAI Official Partner

FIFA WORLD CUP Brasil

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Annual Report. 1305 English. KM-SW

ANNUAL REPORT
2012

KIA MOTORS

CONTENTS

Despite challenging market conditions, Kia Motors delivered strong operating performance in 2012, driving to **A Different Beat** for the future of mobility. We have achieved *Vibrant Growth* Page 12, further differentiated ourselves from our competitors through *Distinctive Creativity* Page 22, and made a *Reliable Move* Page 34 toward a better tomorrow.

In the following pages, we report on the year 2012 in more detail, and show how our spirit of **A Different Beat** has translated into financial returns and other tangible results for our stakeholders.

FINANCIAL HIGHLIGHTS

	2012	2011	2010	2009	2008
Consolidated Statement of Financial Position* (KRW in millions)					
Total Assets	32,398,314	30,255,179	26,275,144	25,962,876	25,583,550
Cash Items (Liquidity)	4,270,539	3,934,169	2,914,146	2,792,286	1,408,847
Current Assets	11,139,430	11,075,187	9,763,671	11,208,990	11,709,967
Total Liabilities	15,550,252	16,745,469	16,027,027	18,658,782	19,763,966
Short-term Debt	1,404,947	3,104,071	3,585,210	3,752,210	6,751,183
Current Liabilities	10,000,239	11,421,924	11,627,539	12,910,209	13,692,654
Long-term Debt	2,471,132	2,503,230	2,755,446	6,192,950	5,586,300
Total Debt	3,876,079	5,607,300	6,340,656	9,945,160	12,337,483
Net Debt	(394,460)	1,673,132	3,426,510	7,152,874	10,928,636
Total Stockholders' Equity	16,848,062	13,509,709	10,248,117	7,304,094	5,819,584
Total Liabilities & Stockholders' Equity	32,398,314	30,255,179	26,275,144	25,962,876	25,583,550
Liability-to-Equity Ratio	92.3%	124.0%	156.4%	255.5%	339.6%
Debt-to-Equity Ratio	23.0%	41.5%	61.9%	136.2%	212.0%
Net Debt-to-Equity Ratio	(2.3%)	12.4%	33.4%	97.9%	187.8%
Consolidated Statement of Income* (KRW in millions)					
Revenue	47,242,933	43,190,942	35,826,955	29,257,392	22,217,661
Cost of Sales	36,536,005	33,138,961	27,905,367	22,769,058	17,560,181
Cost of Sales (%)	77.3%	76.7%	77.9%	77.8%	79.0%
Gross Profit	10,706,928	10,051,981	7,921,588	6,676,148	4,657,480
Operating Profit	3,522,251	3,499,088	2,369,852	1,195,206	664
Margin (%)	7.5%	8.1%	6.6%	4.1%	0.0%
Pretax Profit	5,164,056	4,721,650	3,323,048	1,220,714	(297,044)
Net Profit	3,864,704	3,519,236	2,698,331	1,020,632	(105,966)
Margin (%)	8.2%	8.1%	7.5%	3.5%	(0.5%)
Consolidated Statement of Cash Flows* (KRW in millions)					
Cash Flows from Operating Activities	4,345,425	4,745,189	5,272,537	4,306,926	(408,449)
Cash Flows from Investing Activities	(2,842,577)	(2,630,548)	(2,296,053)	(1,739,819)	(1,958,906)
Cash Flows from Financing Activities	(1,810,114)	(1,440,956)	(3,343,298)	(1,796,307)	2,494,448
Cash and Cash Equivalents, Beginning of Year	2,304,169	1,615,879	2,001,225	1,268,631	1,036,288
Net Increase (Decrease)	(400,860)	688,290	(385,346)	1,032,510	232,343
Cash and Cash Equivalents, End of Year	1,903,309	2,304,169	1,615,879	2,301,141	1,268,631
Credit Rating					
Korea Ratings	AA+	AA	AA	AA-	AA-
Moody's	Baa1	Baa2	Baa3	Ba1	Baa3
S&P	BBB+	BBB	BBB	BBB-	BBB-

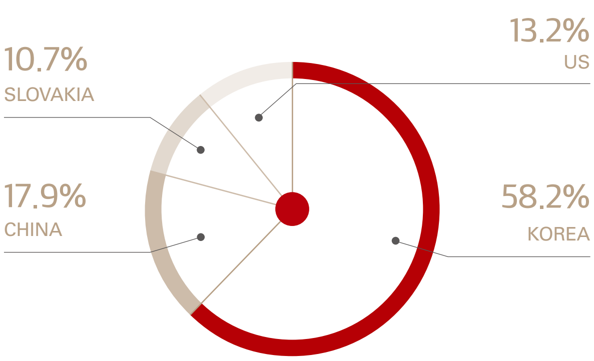
* Consolidated data based on K-GAAP for 2008~2009 and K-IFRS for 2010~2012

2012 AT A GLANCE

	2012	2011	2010	2009	2008
Production (Unit: Thousand units)					
Total	2,724	2,542	2,139	1,531	1,395
Korea	1,586	1,584	1,417	1,137	1,055
Overseas	1,138	959	722	394	340
Global Retail Sales (Unit: Thousand units)					
Total	2,709	2,478	2,088	1,651	1,375
Korea	481	492	483	411	315
Overseas	2,228	1,986	1,605	1,239	1,059

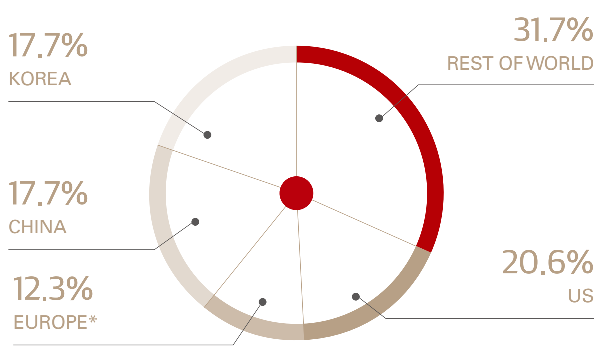
Production Breakdown by Region

(Unit: %)



Retail Sales Breakdown by Region

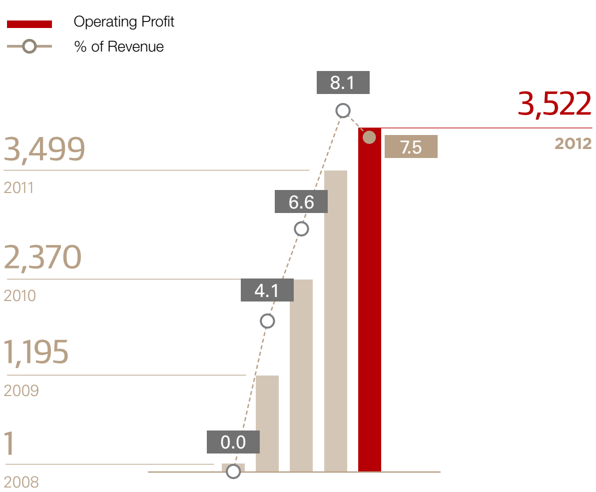
(Unit: %)



* Europe = EU+EFTA countries

Operating Profit*

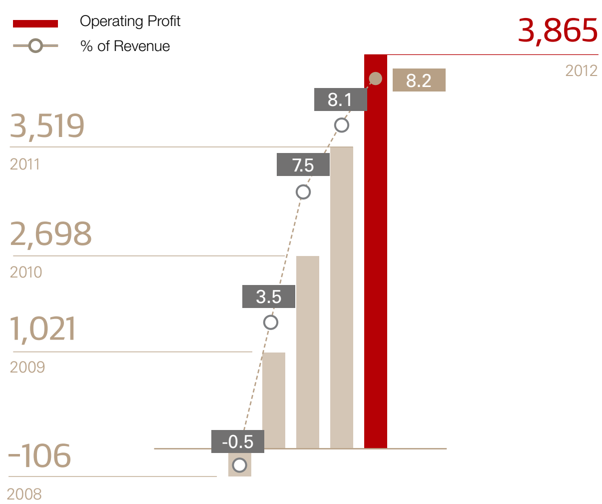
(Unit: KRW in billions)



* Consolidated data based on K-GAAP for 2008~2009 and K-IFRS for 2010~2012

Net Profit*

(Unit: KRW in billions)



* Consolidated data based on K-GAAP for 2008~2009 and K-IFRS for 2010~2012

CHAIRMAN'S MESSAGE

"We will achieve sustainable growth with unyielding commitment and a spirit of challenge."

Despite the challenging business environment in 2012, Kia Motors achieved growth and development at home and abroad. With global sales of 2.72 million units, up about 7% from the previous year, we entered the ranks of the world's top 100 global brands and cemented our presence as a world-class automaker.

In 2013, we expect to face an even more severe environment at home and abroad due to the ongoing European financial crisis and the impact of the global economic slowdown.

To counter these difficult circumstances, we will initiate "quality-driven brand innovation." Quality has been at the center of our business and will continue to be our top priority, as we aim to offer unsurpassed satisfaction to customers and touch their hearts at all points of contact. By doing so, we will imbue a strong sense of confidence and pride in our brand.

In addition, we will secure growth engines for the future and expand our scale of investment. By increasing R&D investment in eco-friendly vehicles and electronic controls, and by intensively fostering a culture of excellence, we will strive to strengthen our competitiveness in advanced technologies.

We will also push ourselves further to increase our brand value in domestic and global markets by continuously expanding our social contribution activities so that we make a real difference in people's lives.

Based on our belief that obstacles can be turned into opportunities, we will exercise unyielding commitment and embrace a spirit of challenge that will lighten our path toward sustainable growth in these difficult times.

Thank you.

M. K. Chung

Mong-Koo Chung
Chairman

VICE CHAIRMAN'S MESSAGE

"We will make a leap forward as a true global automaker through relentless innovation."

Dear distinguished shareholders,

I would like to extend my heartfelt gratitude to all of our share holders for extending their tireless support and encouragement in 2012.

Having recorded all-time best performance every year since the turnaround in 2008, Kia Motors once again achieved best-ever results in 2012. Thanks to the passion and challenging spirit of all our staff, we achieved excellent performance despite the difficult economic conditions last year. New growth engines for the future were put in place under our mid-to long-term strategy – "Kia Vision 2016" – based on the motto "innovation in customer value."

To this end, we have improved production capacity at all our plants around the world by introducing seamless horizontal exchanges between domestic and overseas factories. In other words, productivity and quality competitiveness have steadily improved through knowledge-sharing between our various operations, while our capability to manage our global network of plants has been strengthened.

Meanwhile, the Kia brand has been enhanced with the launch of the flagship Kia Quoris (K9) luxury sedan, while the new Cerato/Forte (K3) saw a successful landing in the competitive compact car market, thereby continuing the K-series' reputation of excellence. In the domestic market, new programs have been continuously rolled-out to make Kia's sales and service hubs more sophisticated and larger in scale, with 'Smart Q Service' and other programs offered for superior customer convenience. In overseas markets, we are continuing to boost our global reputation through 'K-DEP', a program aimed at improving the competency of overseas Kia dealers.

Moreover, the Rio (Pride) won all of the world's top three design awards – the red dot Design Award, iF Design Award, and IDEA – while the mobile application for the Rio earned the 'Best of the Best' award in the Communication Design category of the red dot Design Award. All these feats have reaffirmed Kia Motor's competitiveness in design, not only in terms of product but also in how we interact with our customers.

Equipped with a new brand identity system in 2012, Kia Motors has unfolded a variety of marketing activities at home and abroad, enhancing communication with customers as well as our corporate prestige. As a result, our brand value reached USD 4.1 billion, up 50% from the previous year. This is a historic achievement for Kia Motors, as we joined the top 100 global brands for the first time in our corporate history.

Driven by these outstanding achievements, we sold a total of 2.72 million units in the domestic and overseas markets, achieving revenues of KRW 47,242.9 billion, operating income of KRW 3,522.3 billion, and net income of KRW 3,864.7 billion.

All the results we achieved last year can be attributed to your encouragement and support, and I sincerely thank you once again.

Distinguished shareholders,

The management environment we confront today is ever-more challenging. We are still not out of the shadow of the global economic slowdown, and global demand for automobiles is expected to remain sluggish as competition among automobile manufacturers is intensifying. Adding to this are protective trade measures in some countries as well as the strong Korean won and weak Japanese yen.

Nevertheless, we will overcome these obstacles with strong commitment to turn them into opportunities for even further growth. To this end, we have earmarked 2013 as the "year to secure global competitiveness through qualitative growth." Accordingly, unsparing efforts will be made to achieve our goals of systematizing customer-centric management, establishing a high-efficiency, high-profit management system, and securing new growth potential for the future.

We will continue to provide Kia's unique customer value through continuous innovation at our sales and production sites. We will strengthen our global competitiveness by developing new customer-centric sales and service programs, conducting consistent marketing activities, and initiating quality innovation at all production sites.

We also plan to secure a firm basis for management to maintain profitability under any circumstances through the sales expansion of the K- and R-series, stronger production cost competitiveness for each car type, and efficient and systematic investment management. Moreover, productivity will be enhanced and a new corporate culture will be established through the successful launch of a two-shift work system this year, which will further contribute to sustainable success.

Meanwhile, new growth engines will be created as we establish strategies to expand sales in new markets with high growth potential, and develop strategic cars accordingly. Moreover, we will solidify our reputation as a global corporate citizen by expanding and developing our worldwide social contribution activities.

Through all of these endeavors, we will achieve our target of producing and selling 2.75 million units this year.

Distinguished shareholders,

2013 will be one of the most significant years for Kia Motors as it will be a starting point to build on our core competencies and become a truly world-class global automaker, producing and selling over three million units annually.

We will do the utmost to return your steadfast support by working tirelessly toward achieving our targets in 2013.

I ask for your continued consideration and encouragement, and wish you and your family good health and happiness.

Thank you.

Hyoung-Keun Lee
Vice Chairman

GROUP CORE VALUES

Core values lie at the forefront of our code of conduct for employees and the organization as a whole. They represent the corporate culture we strive for and the promise we make to ourselves and stakeholders. Guided by our core values, all members of the Hyundai Motor Group strive to achieve our vision of 'together for a better future' in order to offer the highest levels of satisfaction to customers.

Customers

We promote a customer-driven corporate culture by providing the best quality and impeccable service with all values centered on our customers.

Collaboration

We create synergy through a sense of "togetherness" that is fostered by mutual communication and cooperation within the company and with our business partners.

Globality

We respect the diversity of cultures and customs, aspire to be the world's best at what we do, and strive to become a respected global corporate citizen.

Challenge

We refuse to be complacent, embrace every opportunity for greater challenge, and are confident in achieving our goals with unwavering passion and ingenious thinking.

People

We believe the future of our organization lies in the hearts and capabilities of individual members, and will help them develop their potential by creating a corporate culture that respects talent.

All members of the Hyundai Motor Group must follow our 5 core values when carrying out their professional duties and decision-making. The Group's goal is to build a highly-creative corporate culture based on challenge, cooperation, and respect for customers and workers. This goal will only be reached through the sharing and internalization of our core values. We become one by sharing values and applying them consistently in our decision-making. Kia Motors will tackle challenges head on through mutual cooperation and respect while fulfilling our promises and embracing talent and diversity to build a distinct corporate culture.

COMPANY VISION

The overarching goals of our Vision 2016 are to create a distinct Kia identity and to realize value innovation - providing customers with new and innovative value and experiences. To this end, we have been setting forth our objectives and detailed tasks while harnessing our employee experience and knowledge-base.

KIA VISION 2016

Enhance Global Competitiveness through Qualitative Growth

Systemize customer-oriented management

- Innovate customer experience
- Improve brand competitiveness
- Secure superior global quality
- Focus on customer satisfaction management

Optimize business structure for high efficiency & profit

- Optimize production/sales to increase profit
- Stabilize daytime double shift at manufacturing sites
- Manage efficient & systematic investment
- Strengthen on-site capabilities

Expand future growth potential

- Create new business opportunities
- Improve organizational capability
- Strengthen corporate social responsibility management
- Develop global human resources

In 2012, Kia Motors established Kia Vision 2016 to meet its mid- to long-term business goals and secure future growth engines. The main goal is to enhance global competitiveness through qualitative growth. In line with this, Kia Motors laid out its 2013 management principles in order to systematize customer-oriented management, optimize business structure for high efficiency and profit, and expand future growth potential. All staff members will practice innovation in customer value and will strengthen their execution capability in strategic tasks, thereby ensuring sustainable growth and realizing our vision.

Vibrant Growth towards Globality

Kia Motors has been increasingly recognized at home and abroad as a renowned global player selling over 2.7 million vehicles per year in 168 countries across the globe. We have confirmed our presence as one of the most beloved automakers throughout the world by closely engaging our customers, and we will continue to do so, growing into a leading global player.

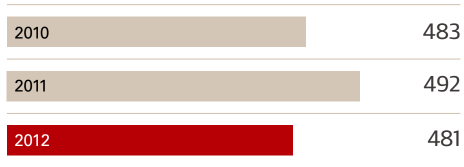

KIA
Global Sales Volume 2709 (Unit: Thousand units)
CADENZA
V6

DOMESTIC BUSINESS PERFORMANCE

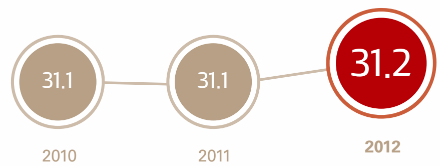
In 2012, we focused on expanding sales with the completion of the K-series and enhancing market competitiveness despite continuing challenges facing the domestic market. We will overcome the current difficulties and will achieve new growth by strengthening our sales competency and implementing fundamentals-oriented management.

Domestic Sales (Unit: Thousand units)

481



Domestic Market Share (Unit: %)



Strong Results despite Challenges

The domestic auto market was unable to shake off the economic slowdown in 2012 despite the reduction of the individual consumption tax. Of particular note, the GDP growth rate hovered around 2.0%, its lowest level since the 1999 Asian financial crisis, thereby restricting consumption growth. As a result, demand for domestic automobiles stood at a mere 481,000 units, down 2.2% from the previous year.

In a bid to overcome this challenging business environment, Kia Motors strived to expand its sales with a focus on new cars including the K3 (Cerato/Forte) and K9 (Kia Quoris), and flagship cars such as the Morning (Picanto), Pride (Rio) and K5 (Optima). The K-series range, consisting of K3, K5, K7 (Cadenza) and K9, covers compact to large-size cars and has shown a consistent upswing in sales. In particular, sales of K3 – a model that has set a new standard for compact cars – reached 3,616 units within 9 days of its launch, confirming its status as a raising star in the market. The K9, a premium luxury large-size sedan launched last May, aggressively competed against imported cars. The debut of the refreshed K7 with superior product quality in November also served to strengthen Kia Motors' premium brand image.

Despite this progress brought about through our unyielding efforts, Kia Motors posted domestic sales of 481,000 units, down 2.2% year-on-year. This decline was primarily due to a drop in domestic demand a result of economic uncertainties at home. Specifically, sales of sedans and RVs stood at 302,680 and 126,856 units, respectively. The volume of sedan sales increased by 5.6% but RVs saw their sales volume decline by 14.6% year-on-year. The popularity of the K-series gained momentum thanks to K5 and K7, with 76,910 and 19,957 units sold, respectively. Meanwhile, 25,842 units of the K3 and 7,516 units of the K9 were sold. Overall, Kia's domestic market share stood at 31.2%, which is slightly up from the previous year.

Turning Obstacles into Opportunities

In 2013, the gloomy outlook for the domestic auto market is likely continue with a shrinkage in consumption due to inflation arising from market uncertainty, in addition to the end of the individual consumption tax cuts. Kia Motors, however, will overcome the current difficult environment by continuously intensifying its sales competency and introducing fundamentals-oriented management. To this end, we plan to intensively focus on fostering Kia Motors as a premium brand through distinctive marketing, boosting our corporate image through innovation in customer services, enhancing staff confidence at business sites, and strengthening our competitiveness. This will enable us to gain a 32% share of the domestic market and solidify our presence as a top player.

OVERSEAS BUSINESS PERFORMANCE

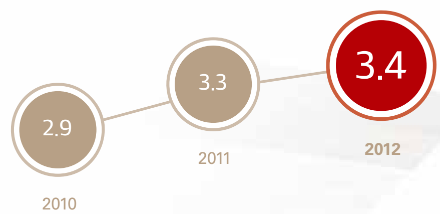
Kia's dash towards success in the global market was not hampered by the many challenges in 2012. Our share of the global auto market is consistently increasing, enabling us to claim the title of a true global player. This success can be attributed to our product quality, design management, and global management with a focus on localization strategies.

Overseas Retail Sales (Unit: Thousand units)

2,228

2008	1,059
2009	1,239
2010	1,605
2011	1,986
2012	2,228

Overseas Market Share (Unit: %)



Driving Our Global Growth

In 2012, Kia Motors maintained its growth in overseas markets despite the global economic downturn due to the European fiscal crisis, the economic slowdown in advanced countries, and sluggish growth in emerging countries. Brand recognition increased, driven by competitive products and their reliable quality. Profitability also improved thanks to fundamentals-based management with products sold at full price. As a result, overseas sales made up 80% of Kia Motors total sales volume, driving our corporate growth and enabling Kia to achieve KRW 3,522.3 billion in operating income.

Kia Motors' sales volume in 2012 reached 2,709,000 units, up 9.3% year-on-year. By region, we saw sales of 481,000 units in Korea, 558,000 in the U.S., 332,000 in Europe, 481,000 in China and 858,000 in other regions. Global sales by car type can be broken down as follows: 332,000 units for the Optima (K5), 483,000 for the Rio (Pride), 404,000 for the Sportage, and 53,000 for the new Cerato/Forte (K3).

The 558,000 units sold in the U.S. market represents an increase of 14.9% from the previous year thanks to aggressive localized marketing strategies and brand value enhancement. The U.S. recorded the highest sales growth rate among our key markets. Overall, our share of the US market stood at 3.8%. In the European market, despite the ongoing economic turmoil, 332,000 units were sold for an increase of 14.5% year-on-year, reflecting our continued growth momentum.

Our market share in Europe reached 2.6%, up 0.5 percentage point. In China, the K3 garnered high acclaim, and combined with K2 (localized version of Pride/Rio), K5 and Sportage, drove sales to new highs. As a result, our sales volume stood at 481,000 units in 2012, an increase of 11.1% year-on-year, and our market share reached 3.8%, up 0.2 percentage point year-on-year. In other markets, our sales volume recorded 858,000 units, up 10.3% from the previous year.

Working Globally, Acting Locally

The biggest driver of Kia Motors' sustained growth in the global market is our successful localization strategy. We develop strategic models befitting the needs and consumption trends for each region of the world. As of the end of 2012, we sold strategic models in three regions – Europe, Russia and China.

We began the introduction of localized models in 2007 with the launch of the cee'd, a model created specifically to target European consumers. Sales volume for the first generation cee'd manufactured at our plant in Slovakia totaled 708,000 units, driving the performance of Kia Motors in Europe. In 2012, the second generation cee'd with a dynamic and stylish vibe was launched. The original cee'd contributed to promoting Kia Motors' brand recognition, while the new model is likely to enhance sales volume in the region by upgrading our product line-up in Europe.

In China, our marketing focus was on attaching styling favored by Chinese consumers to high performance products befitting of our dynamic brand image. Of particular note, the K3 (Cerato/Forte), a model designed to suit the taste of Chinese consumers with luxurious and dramatic exterior design, has gained popularity. Thanks to its specialized design and localized marketing, Kia's average annual sales volume growth in China for the last four years posted 37%.

Kia Motors seeks localization not only in sales but also in production. Local production systems are in place in the U.S., China and Slovakia, and the monthly sales volume of overseas plants surpassed 100,000 units for the first time in September last year. Kia Motors' Georgia plant in the U.S. produced 272,000 units, up 31.5% year-on-year, while the Slovakia plant manufactured 292,000 units, up 15.8% from the previous year. Our plants in China produced 481,000 units, up 11.1% year-on-year. Furthermore, construction of Kia Motors' third plant in Jiangsu Province, China began last June. This new plant will have an annual production capacity of 300,000 units and will be completed in the first half of 2014. It will bring Kia Motors' total annual production capacity in China to 740,000 units, by adding to the 140,000 units at the first plant and 300,000 units at the second plant.

Kia Motors has equipped itself with the systems required to make prompt responses to market needs through the localization of all areas of the business. From design, R&D, production, sales and services, we have established a robust foundation to grow as a world-class automaker in the world's three major markets – China, Europe and the U.S.

Enhancing Our Corporate Value

In 2012, our strong performance was reaffirmed not only in terms of quantitative growth in sales volume and revenue, but also by winning various awards at home and abroad. In particular, we won the bronze prize in Transportation Design at the 2012 IDEA Award with the Rio (Pride) last July. This was the first IDEA Award in our corporate history. The Rio (Pride) was also awarded the 2012 red dot Design Award along with the Picanto (Morning) last March. In November, the pro_cee'd was designated a winner in Transportation Design of the 2012 iF Design Award. As a result, we won a 'grand slam' of the world's top three design awards – the red dot Design Award, iF Design Award and IDEA Award.

Moreover, the Soul ranked first in the Compact Multi-Purpose Vehicle category of the 2012 Initial Quality Study released by J.D. Power & Associates, a market intelligence agency in the U.S. In Russia, a localized model of the Rio (Pride) won first prize in the compact car field at the Golden Klaxon Award 2011. As all of the above demonstrate, our models are being highly recognized across the world for their outstanding designs and quality.

Advancing Our Global Momentum

At a time when the global economic outlook is uncertain, 2013 will bring greater challenges to the business environment at home and abroad. In particular, the stronger Korean won and other factors are projected to prolong these current setbacks. Nevertheless, we will turn these challenging scenarios into opportunities to fundamentally improve ourselves and strengthen our competitiveness. The current obstacles will be transformed into opportunities to improve our brand recognition, intensify our competency in sales, and provide momentum for our launch of competitive new products. Profitability will continue to be strengthened through fundamentals-oriented management by selling our products at full price.

Furthermore, we will seek continued growth by setting specific sales strategies for each market including the U.S., Europe and China, while targeting emerging markets where our brand recognition is still weak, with the focus on our K-series. This will enable us to become a renowned global automaker driven by a strong market dominance and expansion of sales in emerging markets.

GLOBAL AWARDS LIST

RIO • PRIDE

- red dot Design Award
  red dot, Germany, March 2012
- IDEA Design Award
  Industrial Design Society of America, USA, July 2012
- People's Choice Winner
  carsales.au.com, Australia, November 2012
- Motoring Car of the Year
  Independent Newspapers South Africa, South Africa, December 2012
- Best Small Sedan
  Middle East Motor Awards, Middle East, December 2012

OPTIMA • K5

- Sedan of the Year
  Autobytel, USA, January 2012
- Drivers' Choice Awards
  Motor Week, USA, February 2012

SOUL

- Segment Winner (Initial Quality Study)
  J.D. Power and Associates, USA, June 2012
- Highest In Class (APEAL)
  J.D. Power and Associates, USA, July 2012

CERATO • FORTE

- Top Cars For College Grads
  Total Car, USA, May 2012

cee'd

- **Best Exterior Design**
  Automotive Brand Contest, Germany, August 2012
- **Northern Car of the Year**
  Northern Group of Motoring Writers, UK, October 2012
- **Transportation Design Award**
  iF Design Awards, Germany, December 2012

SPORTAGE

- **Best Car of the Year**
  Automail, Russia, March 2012

SORENTO

- **10 Best Family Cars of 2012**
  Kelly Blue Book, USA, February 2012
- **Best SUV over $40,000**
  Drive Magazine, Australia, November 2012

picanto • morning

- **red dot Design Award**
  red dot, Germany, March 2012
- **Five Star ANCAP Safety Rating**
  Australasian New Car Assessment Program, Australia, October 2012

Distinctive
Creativity to the Core

Creativity is the DNA of Kia Motors. For Kia Motors, design is a mindset of change and innovation that identifies who we really are. Backed by our unique and advanced design management, Kia Motors is creating new and pleasant experiences for the world's consumers. And as a result, we proved our 'power to surprise' by being selected as one of top 100 global brands in 2012 by Interbrand.


Kia Brand Value
4089
(Unit: USD million)

DESIGN MANAGEMENT

Design is our competitive edge, and represents a unique aspect of Kia Motors' culture. Ranging from product design, production and sales, through to communication with customers, we think and act with a design-oriented mindset in order to better promote our design prowess to the world and boost our brand image.

Design Kia, Our Core Strength

Kia Motors set 'design' as the core competency for the future in 2005, and declared design management a priority in 2007, making a commitment to target the global market with Kia's unique and excellent designs. Through our design philosophy, 'the simplicity of the straight line', and by pursuing enterprise-wide design management, we have established an exclusive family look that makes Kia vehicles instantly recognizable with a mere glimpse. We continue to refine this family look by focusing on our premium image through highly sophisticated designs and fine details.

The first new models with our innovative family-look, including the Cerato (Forte) and Soul, helped turn Kia Motors into the world's fastest growing automaker. Following the launch of the Kia Quoris (K9) in the first half of 2012 and the new Cerato/Forte (K3) in the latter half of 2012, a refreshed version of the Cadenza (K7) made its debut. The Cadenza is an improved version of our premium large-size sedan that embodies Kia Motors' new design philosophy and marks the completion of the 'K-series.'

Global Accolades for Design Kia

Kia Motors' models are increasingly recognized for their global design competitiveness after a winning spree of prestigious design awards at home and abroad. In 2009, the Soul was named Honorable Mention in the Product Design category at the red dot Design Award. This was the first time a Korean model received recognition at the red dot Design Award, marking a starting point for global recognition of Kia's design. In 2010, the Venga was selected as a red dot Winner, while the Optima (K5) and the Sportage received Best of the Best and Winner distinctions, respectively, in 2011. The Picanto (Morning) and Rio (Pride) were both Winners of the 2012 red dot Design Award. As such, Kia Motors has had a winning vehicle at the red dot Design Award for four straight years.

After the Venga received an iF Design Award in 2009, the Optima (K5) and Sportage received recognition in 2010, the Picanto (Morning) in 2011, and the pro_cee'd in 2012 – marking a four consecutive-year winning spree at the iF Design Award. Not only that, the Rio (Pride) won the IDEA Design Award in 2012 for the first time in our corporate history. In fact, we have been on a compelling winning streak with 14 awards from the world's top three design awards over the past four years.

Aside from global awards for our product quality and design, we are also being recognized for our innovative marketing activities. The mobile application for the Optima (K5) was selected as the Winner in the Mobile Application category in Communication Design at the 2012 iF Design Award. The mobile application for the Rio (Pride) won the Best of the Best prize in Communication Design at the 2012 red dot Design Award. These accolades have reaffirmed that Kia Motors effectively communicates with customers in today's rapidly changing digital landscape.

'Design Kia' is Our Mindset

The design we have in mind is not limited to product design. We are pursuing design management in order to instill a design-centric mindset within our corporate culture. Thus, while striving to strengthen creativity and capacity building for designers on multiple fronts, we have established a Kia-exclusive culture that nurtures creative thinking by all staff members.

The concept of design at Kia Motors is not just about cars, but about making a difference in culture. We will open a new chapter in design management by continuing to practice this belief in all our management activities.

Design Management Timeline

2007
Thinking of Design
Creating interest and excitement for Design Kia

2008
Acting on Design
Adopting specific images embodying Design Kia

2009
Experiencing Design
Sharing the results by launching representative new cars

DESIGN AWARDS

DESIGN 2.0

July 2012

Rio (Pride)

- 2012 IDEA Awards

  Bronze (Transportation)

June 2012

Rio (Pride) iPad App

- 2012 red dot Design Award

  Best of the Best (Communication)

March 2012

Picanto (Morning)

- 2012 red dot Design Award

  Winner (Product Design)

Rio (Pride)

- 2012 red dot Design Award

  Winner (Transportation)

December 2011

Picanto (Morning) E-catalogue

- iF Design Award

  Winner (Communication Design)

November 2011

Picanto (Morning)

- iF Product Design Award

  Winner (Transportation)

July 2011

Kia Motors

- 2011 Automotive Brand Contest by German Design Council

  Best of Best Award in Brand Design

Rio (Pride)

- 2011 Automotive Brand Contest by German Design Council

  Winner (Exterior Design)

Optima (K5)

- 2011 Automotive Brand Contest by German Design Council

  Winner (Exterior Design)

Sportage

- 2011 Automotive Brand Contest by German Design Council

  Winner (Exterior Design)

March 2011

Optima (K5)

- 2011 red dot Design Award

  The first Best of the Best designation for a Korean automotive brand

Sportage

- 2011 red dot Design Award

  Winner in Product Design (Transportation)

December 2010

Sportage

- iF Product Design Award

  Winner (Transportation)

Optima (K5)

- iF Product Design Award

  Winner (Transportation)

Sportage

- Good Design Award, the most prestigious design award in the US

  Winner

Optima (K5)

- Good Design Award

  Winner
- Prime Ministerial Award
- Good Design Award awarded by online consumers

Sportage

- Good Design Award

  Winner (Transportation)

Optima (K5)

- Good Design Award

  Winner (Transportation)

March 2010

Venga

- 2010 red dot Design Award

  Winner (Transportation)

December 2009

Venga

- iF Product Design Award

  Winner (Transportation)

Soul

- Good Design

  Presidential Award

March 2009

Soul

- 2009 red dot Design Award

  Honorable Mention (Transportation)

November 2008

Kia Motors

- Korea Design Award, Korea's most prestigious design award

  Presidential Award (Corporate Sector)

Cerato (Forte)

- Pin Up Design Award

  Gold Award (Transportation)

BRANDING

Kia Motors drives sustainable growth through steady innovation in its brand value, while creating emotional ties with customers. With our new Brand Identity System (BIS) established in 2012, 'A Different Beat' will be offered to more customers across the globe.

Setting a New Direction

For Kia Motors, elevating our brand is a long-term commitment toward ensuring sustainable growth. In line with this, we have remained true to who we are: a young and dynamic brand. We redefined our brand as one that is vibrant, distinctive and reliable, and will continue to provide industry-leading product designs that have played a strategic role in the recent evolution of the Kia brand. We are engaging in distinctive brand activities, such as the Kia Cinema, and collaborations with brands in different industries, all with the goal of giving people a positive impression of the Kia brand.

Thanks to these efforts, Kia successfully completed its mid- to long-term growth plan, entitled 'Kia Vision 2012,' and we have set a new goal of becoming a tier 1 automotive brand by 2016. Our mission is to become the most desirable brand among our target customers by providing a new type of driving experience. Under the philosophy of 'value innovation', we plan to deliver differentiated value to our customers and achieve brand value of USD 6.0 billion by 2016.

New Brand Identity System

In order to build a more concrete brand image on the way to realizing our 'Vision 2016', Kia has established a new Brand Identity System (BIS). It consists of a Brand Essence, the expression of company's values and characteristics; Core Identities which support the Brand Essence and form the foundation of how to work and communicate; and a Brand Slogan which expresses the brand identity to external audiences.

With our brand identity reflected in all areas of the business, Kia will consistently deliver a unique brand image at every customer contact point. For example, in order to promote our brand identity more effectively, Kia has set up a global brand communication strategy and has been carrying out a global brand campaign since 2011.

A Winning Global Reputation

Kia Motors was selected as one of the world's top 100 brands in the 2012 Best Global Brands ranking by Interbrand, the world's top brand consulting company. Coming in 87th place with brand value of USD 4.089 billion, up 50% from 2011, Kia Motors has made its first entry into the world's top 100 brands. Kia Motors is the third Korean brand, following Samsung Electronics and Hyundai Motor Company, to enter this prestigious list of companies.

Kia's brand value stood at a mere USD 1.1 billion in 2007, but since then it has skyrocketed by about 273% over the last five years despite the sluggish performance of other automotive brands. This exponential growth is attributable to our quality and design management, as well as our brand management which we have focused on since 2005 in order to strengthen our brand recognition and corporate image. We will continue to improve our brand value by effectively and consistently implementing the Kia Motors brand identity at all customer contact points throughout the world.

MARKETING

Kia Motors' communication with customers is creative and dynamic through diverse online and offline channels. In particular, we do our utmost to move closer toward global customers and promote the competitiveness of Kia by sponsoring some of the world's most prestigious sporting events.

Sportsmanship and Leadership

Kia Motors promotes its young and dynamic brand to sports lovers across the world through various sports marketing activities. As an official sponsor of premiere sporting organizations and competitions such as FIFA, UEFA and the Australian Open Tennis Championships, we have strengthened our presence as a global player and enhanced our brand image.

Having served as the major sponsor of the Australian Open for 12 years from 2002, Kia Motors signed an agreement to extend our sponsorship for the next five years until 2018. In doing so, Kia Motors has become the longest-running major sponsor in the history of this prestigious event. As a result, Kia Motors can expect to further receive promotional benefits from this sponsorship. In terms of brand exposure in 2012, Kia enjoyed 6,463 hours of television exposure and media value worth USD 355 million, up 54% and 105%, respectively, from 2009.

During the 2013 Australian Open, we conducted various programs along with the official provisioning of Kia cars, including the 'Kia Lucky Drive to Australia' for 53 Kia customers from 26 countries around the world, as well as the 'Kia Amateur Australian Open' and 'Ball Kids Program.' We also promoted the young and dynamic Kia brand to consumers across the globe through diverse online channels such as the official website of the Australian Open, Kia Motors' Facebook fan page and YouTube channel.

As an official FIFA Partner from 2007 to 2022, we are sponsoring many international football competitions organized by FIFA including the 2014 FIFA World Cup Brazil™, the 2018 FIFA World Cup Russia™, and the 2022 World Cup Qatar™.

As an official UEFA EUROTOP Partner from 2006 to 2017, we have conducted various marketing activities, and exposed the Kia brand to the global media. In particular, through the installation of stadium A-boards, we achieved advertising equivalent exposure of KRW 1.57 trillion.

Moreover, through our participation as an official sponsor of the Copa America 2011, the world's longest running soccer tournament, we paved the way to be recognized as a leading global brand in Latin America. The title sponsorship for the Kia World Extreme Games, which began in 2005 and signaled the start of our China-targeted marketing strategy, was recently extended until 2015. Kia Motors is also the exclusive automobile sponsor of the National Basketball Association (NBA) in the U.S. while our subsidiary in the Netherlands sponsors professional speed skaters. As such, our aggressive marketing aligned with popular sports in each region is maximizing our overall marketing impact.

New Ways to Win the Market

Kia's digital marketing is continuously breaking into new territories with diverse digital channels enabling interactions that seek to bring us to closer our customers. We offer consumers distinctive joy and deep engagement through various channels including mobile applications, YouTube and SNS, all the while promoting Kia's young and dynamic brand image. For instance, we strive to communicate with consumers across the globe through our Kia Buzz official blog as well as Twitter and Facebook accounts.

Kia's launches interactive mobile applications when new cars are introduced that reflect specific vehicle features and have garnered favorable consumer feedback and prestigious awards at home and abroad. For instance, the mobile application for the Kia Quoris (K9) won the gold prize in the technology category of the '2012 Korea Mobile Awards' and grand prize in the innovation category of the 'Smart App Awards.' The Rio (Pride) and Picanto (Morning) mobile applications took home the Best of the Best prize at the red dot Design Award and Winner distinction at the iF Design Award, respectively. Moreover, we were the first Korean company to receive the mobile marketing gold prize for our UEFA EURO 2012 activities in the global mobile campaign category of the '2012 SMARTIES™ Award', presented by the world-renowned Mobile Marketing Association.

2012 NEW MODELS

Kia Quoris (K9)

Experience New Luxury

The Kia Quoris (K9) is a state-of-the-art luxury large-size sedan, and is our flagship model. The result of Kia Motors' proven design competency and cutting-edge technology, the Kia Quoris will compete with other prestigious global brands in the growing luxury car segment.
The Kia Quoris was launched after four years and five months of intensive R&D with a development cost of KRW 520 billion. Under the design concept 'Distinctive Modern & Classic', luxurious touches and details reflect Kia Motors' design philosophy – 'the simplicity of the straight line'. Equipped with a rear wheel drive platform and advanced, high-performance technologies, this model has everything expected from a large-size luxury sedan. The V6 3.3 GDI engine touts powerful performance and efficiency that rival its more expensive counterparts.

Sorento

Prestige Reborn

The Sorento mid-size CUV has been drastically upgraded with a new platform, improved fuel efficiency, and state-of-the-art technologies. The model's design places more emphasis on a sophisticated and premium image on top of its existing robustness and dynamism, giving the Sorento the image of a 'world-class premium CUV'. Sorento is now equipped with various new technologies and convenient features including AWS (Advance Warning System) for the first time in a domestic SUV. And with dramatically improved fuel efficiency, it offers distinctive customer value.

Cadenza (K7)

Dynamic Intelligence

The Cadenza (K7), which made a stir in the sub large-size market as the first in the K-series in 2009, was reborn with numerous refinements. The refreshed Cadenza was designed to retain its existing innovativeness and dynamism while adding a more premium image. The Cadenza features AWS, the UVO system for cutting-edge telematics services, around-view monitoring system, and many other new technologies. With design changes inside and out befitting a new model and the addition of many new features, it is sure to be a force to be reckoned with in the premium sedan segment.

New Cerato/Forte (K3)

A Gift of True Innovation

The new Cerato/Forte (K3) is a compact car imbued with the DNA of the K-series. The model implements three distinctive values: style that can effectively express a young spirit; strong performance and fuel efficiency for the joy of driving; and convenience thanks to numerous high-tech features. The exterior styling concept of ‘dynamic muscularity’ has given new Cerato a sophisticated design and dynamic feel. The balance from its stable proportions offers an elegance that goes beyond your typical compact car. It delivers impressive driving performance thanks to its sporty 1.6 GDI engine. Superb fuel efficiency has been achieved thanks to the rear and center undercovers along with wheel deflectors that control air flow.

New Carens (Rondo)

The Stylish Family Car for Modern Life

The new Carens (Rondo) is outfitted with better product features to offer differentiated value with dynamic European styling and excellent utilization of space. It was designed to offer sophisticated and sporty appeal thanks to the radiator grille that encapsulates Kia’s unique design identity. Its space has been cleverly utilized, offering a vast amount of cabin and storage space. Refined driving performance is guaranteed by the 1.7 VGT diesel engine with greater quietness achieved via measures to reduce the combustion noise, while the 2.0 LPI engine offers outstanding fuel efficiency in these times of high oil prices.

Reliable *Mobility for a Better Tomorrow*

At Kia Motors, the concept of sustainability is deeply ingrained in everything we do. We are moving toward our goal to make sustainability a firmly integrated aspect of our business by promoting a strong sense of responsibility toward sustainable operations. As such, we consider CSR to be an integral part of a successful business strategy, as it creates a better place to live and work.

CORPORATE SOCIAL RESPONSIBILITY

The goal of Kia Motors' social contribution activities is to realize the values of mobility and challenging spirit. We will make a happier tomorrow by enabling universal mobility, and through a challenging spirit that offers opportunities for a better life.

Green Light Project

In 2012, Kia Motors launched our representative social contribution activity – the 'Green Light Project'. Through this project, we are actively engaged in charity works in Tanzania and Malawi. Schools and community centers have been built in key areas to act as gathering places, while cars were donated for educational and health programs, and to assist residents with better mobility. Kia Motors supplies food, water and medicine to local residents and children suffering from diseases and malnutrition, and conducts training and education to enhance their self-sufficiency.

We will continue to adopt more programs to help improve the self-sufficiency of communities in need, and will work to increase the number of recipient countries and regions for these charity projects.

Green Trip Program

The number of disabled persons in Korea was approximately 2.68 million in 2011, making up 5.4% of the total population. However, the percentage of welfare budget for the disabled remains at the bottom of OECD countries, recording around 0.12%. Against this backdrop, we have adopted the 'Green Trip' program to narrow the physical and psychological gap between the disabled and others through social awareness, infrastructure improvements, and institutional support.

The 'Green Trip' program was launched in June 2012 and is not a one-time event but an ongoing project whereby the disabled can travel with whomever, and whenever, they desire. If selected, the Grand Carnival Easy Move vehicle is provided. The car is equipped with a hand controller to allow the disabled to operate the vehicle themselves, and an electronic wheelchair lift to allow easy access to the vehicle. Moreover, gas fees and travel expenses are subsidized, and a driver service is offered if self-driving is too challenging. As such, measures for specific assistance are classified according to the types of disability and income level. As a result, we were able to offer unforgettable memories to 1,341 people from 310 families in 2012.

Educational Support Programs

Kia is involved in diverse social contribution projects to assist the communities where Kia's major business sites are located at home and abroad. In the U.S., we selected training support programs based on feedback from local staff as well as a survey of 219 local car dealers. And we donated a million-dollar fund to Donorschoose.org, a U.S. agency that donates educational equipment and materials to help out public schools struggling with budget cuts. In China, we take part in 'Project Hope,' organized by the Chinese government, in order to educate children in impoverished areas, and build elementary schools for them.

Easy Move

Easy Move is Korea's first social enterprise which provides aid and rehabilitation equipment for the disabled. It was established in 2010 by the Hyundai Motor Group to secure mobility for the disabled through new technology. The company develops and produces driving-assistance devices for the disabled and the elderly, while seeking to become an exporting enterprise by tapping into overseas markets. Over two-thirds of the operating income is re-invested in job expansion and technology development.

For the past three years, the Group extended KRW 2.9 billion in support, while doing its utmost for Easy Move to grow as a self-sufficient player by transferring management know-how and forming a purchase alliance. Easy Move operates independently, and it achieved sales of KRW 5 billion in 2012, demonstrating a prosperous future.

Mobility / Challenge   Mobility   Challenge   Mobility

RESEARCH & DEVELOPMENT

Kia Motors not only doubles the joy of driving but has also opened a new chapter in the era of eco-friendly cars that protect our beautiful environment. EcoDynamics is the path toward sustainable mobility, as well as Kia's promise to achieve this goal.

R&D Investment (Unit: KRW in billions)

1,135

2010	1,011
2011	1,440
2012	1,135

Investing in Sustainable Mobility

Determined to maintain its position as a major transport mobility supplier to customers around the world in the years ahead, Kia invests 6% of its annual revenue in research and development. The company operates five international R&D centers which have a combined staff of more than 10,000 individuals, and annual operating budgets of approximately USD 3 billion. In Korea, the Hyundai-Kia Eco-Technology Research Institute near Seoul is a unique establishment dedicated to spearheading the development of cleaner, greener future transportation.

The Way to 'EcoDynamics'

Kia Motors launched its EcoDynamics green brand in 2009. 'Eco', a combined term for ecology and economy, and 'Dynamics', implying the brand identity of Kia Motors, form the term 'EcoDynamics.' The concept adds sustainable mobility to the value of cars, and shows Kia's commitment to contributing to mankind and the earth.

We released the Forte LPi Hybrid, our first hybrid model, in 2009 in conjunction with the launch of EcoDynamics, and produced the Optima (K5) Hybrid and the Ray, a full-electric car on a test basis. Since 2008, we have been running test fleets of the Mohave FCEV, a hydrogen fuel cell vehicle. As such, our path toward sustainable mobility aiming for zero emissions never stops as we continue to develop eco-friendly models and technologies.

HEV (Hybrid Electric Vehicle)

An HEV is a car with two sources of power – one traditional internal combustion engine and one battery-powered electric motor. Its fuel efficiency and power performance are significantly enhanced with lower levels of CO_2 emissions compared to vehicles powered solely by an internal combustion engine. The electric motor operates (EV mode) when starting and during low-speed driving. During acceleration, the electric motor assists the engine, and upon steady-speed driving the car is driven by its combustion engine and/or electric motor. The electricity consumed upon starting and/or during acceleration is recharged using regenerative braking energy that is produced upon speed reduction. When the car stops, the engine is automatically shut off, thus saving unnecessary fuel consumption. As a result, a hybrid car has higher fuel efficiency in city driving where the car is subject to many starts and stops. And thanks to higher fuel efficiency and driving in EV mode, CO_2 emissions are reduced.

Kia Motors launched the Forte LPi Hybrid in 2009 and the Optima (K5) Hybrid in 2011 based on technologies secured through the pilot project for the Rio (Pride) Hybrid conducted with the Ministry of Environment in 2005. Of particular note, we applied an in-house developed 'parallel hard-type' hybrid system to the Optima (K5) Hybrid to make it a truly distinctive model.

EV (Electric Vehicle)

An electric vehicle is powered by an electric motor alone. It can be recharged within six hours with slow charging equipment, and within 25 minutes with fast charging equipment. An EV runs on energy supplied to the motor from high-pressure batteries that store electric energy. Since only electric energy is used, the model has zero emissions as it emits no direct CO_2. However, EVs have some setbacks including the presence of CO_2 within its fuel cycle as most domestic electricity is produced from fossil fuels, long recharging hours compared to internal combustion-powered cars, and a lack of recharging infrastructure.

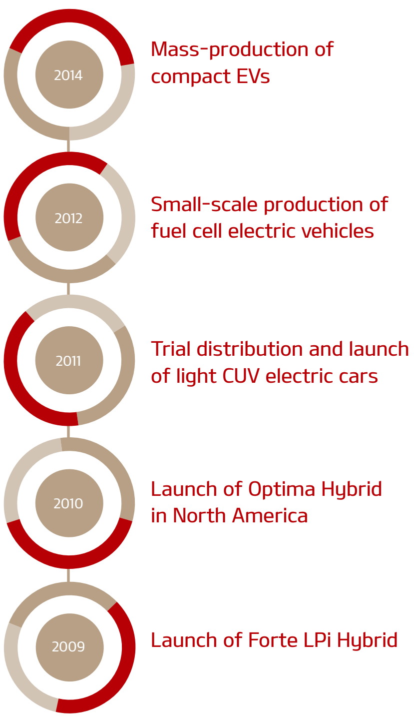
Driven by consistent investment in order to commercialize electric vehicles, we developed the Besta EV in 1986 and Sportage EV in 1999. We also launched the Ray EV, our first commercialized full-electric vehicle, in 2011 in the Korean market. Guided by the goal of mass producing compact electric vehicles for ordinary customers in 2014, we plan to test 2,500 Ray EVs to verify their performance and establish the basis for an EV market.

FCEV (Fuel Cell Electric Vehicle)

One fundamental approach to environmental protection is to develop cars powered by alternatives to fossil fuels. An FCEV is powered by fuel cells that produce electricity through the combination of oxygen found in the air and hydrogen. An FCEV emits no emissions except for water, making it a genuinely eco-friendly car and a solution to environmental concerns.

FCEVs are an area of strength for Kia Motors. Since our development of fuel cell technologies in 1998, we have participated in a pilot project for fuel cell cars organized by the Department of Energy in the U.S. since 2004. In 2009, we successfully developed the Mohave FCEV model that provides the world's highest level of propulsion power at 115kW, and is equipped with a Supercapacitor – a next-generation energy storage device. After a single charge, it can be driven up to 690 km at a speed of up to 160km/h. Its durability, technological prowess and practicality were proven by the successful completion of the 'Hydrogen Road Tour 2009', a 2,655 km practical road test from San Diego, U.S. to Vancouver, Canada.

• EcoDynamics Roadmap



• Acquisition of Green Vehicle Footprint Verification

2009.11	Cadenza (K7)	2011. 01	Picanto (Moring)
2010. 06	Optima (K5)	2011. 04	Optima (K5) Hybrid
2010. 07	Sportage	2011. 12	Ray EV
		2013(E)	Optima (K5)

Greener Future with Greater Energy Efficiency

Kia Motors has developed technologies to increase fuel efficiency through continuous R&D and innovation, and applies the results to its line-up. Engines are smaller, transmission performance has been improved, the coefficient of friction of hundreds of moving parts has been decreased, and cars are lighter with the application of composite materials and design technologies. Furthermore, we are putting in place a system to implement better aerodynamic design and have equipped many of our cars with the idle-stop function.

In particular, we have focused on the continuity of multiple gear ratios based on high-efficiency while striving to make vehicle bodies lighter. With multiple gear ratios where the power from engines is transferred to wheels, both fuel efficiency and accelerating power are enhanced along with the comfort factor. As for the clutch-less Continuously Variable Transmission (CVT), the accelerating power and driving feel are weakened, but fuel efficiency is improved and the transmission operation feels softer compared to automatic transmissions. We have completed the development of CVT in 2012 and have applied it to light cars and compact cars where fuel efficiency is most critical. The KAPPA transmission developed in 2012 was equipped in the Picanto (Morning) and Ray, increasing fuel efficiency by 7 to 8% compared to previous models.

To make vehicles lighter we have put in place a mid- to long-term roadmap through cooperation in different research fields including materials, power train and finished vehicles. Our plan is to reduce the vehicle body weight by over 10 kg by increasing the portion of ultra high-strength steel plates to over 50% by 2015. The portion for mid-size cars in 2012 was around 20%. The plates are over twice as strong and 10% lighter than ordinary steel plates, so a higher portion of the plates would reduce total vehicle weight while enhancing durability by over 20%. To this end, we have implemented a joint project with a steel subsidiary within the Hyundai Motor Group to make our car bodies lighter.

Kia Motors also seeks to achieve downsizing of its engines, that is, to reduce or maintain engine size while raising fuel efficiency, reducing emissions and improving performance. Accordingly, in 2012, Kia Motors succeeded in the exclusive development of CVVL technologies, enabling high efficiency with the same engine displacement. As a result, we launched the Optima (K5) equipped with the Nu CVVL engine. By downsizing from 4-cylinder to 3-cylinder engines for compact cars like the Picanto (Morning) and Ray, fuel efficiency has been dramatically improved with reduced CO_2 emissions.

Catering to market needs, the Idle Stop and Go (ISG) system has been applied to our flagship models in Europe. These include the cee'd, Venga, Picanto (Morning) and Sportage. In the domestic market, ISG systems for the automatic transmission and CVT were first applied to the Cerato (Forte) in 2011. They are currently applied to the Picanto (Morning), Ray, Rio (Pride), Soul, Cerato (K3) and Optima (K5), as well.

GLOBAL R&D NETWORK

01 EUROPE TECHNICAL CENTER/ HYUNDAI DESIGN CENTER EUROPE

Working with our local subsidiary that oversees product planning, sales and marketing in Europe, the Europe Technical Center is strengthening our regional sales capabilities.

- Location: Russelsheim, Germany
- Facility: Technical Center

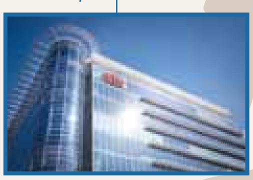
02 KIA DESIGN CENTER EUROPE

Situated within Kia Motors' European headquarters, the Kia Design Center Europe is boosting Kia's design management on the continent.

- Location: Frankfurt, Germany
- Facility: Design Center

01 Europe Technical Center/ Hyundai Design Center Europe

02 Kia Design Center Europe



05 Japan R&D Center

03 Hyundai·Kia Motors R&D Center

04 Eco-Technology Research Institute

03 HYUNDAI·KIA MOTORS R&D CENTER

- Location: Hwaseong, Gyeonggi-do
- Size: Ground area - 3,470,000m^2 (857 acres)
- Facilities: Engineering Design Building, Design Center, Powertrain R&D Center, Wind Tunnel, Proving Ground, etc.

04 ECO-TECHNOLOGY RESEARCH INSTITUTE

- Location: Yongin, Gyeonggi-do
- Facilities: Hydrogen Fueling Station, Fuel Cell Endurance Tester, ELV Dismantling System, etc.

05 JAPAN R&D CENTER

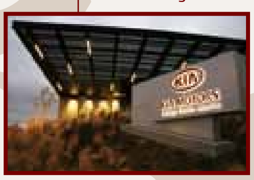
Located close to Tokyo, the Japan R&D Center focuses on developing the latest electronic and hybrid technologies.

- Location: Chiba, Japan
- Facilities: R&D Center and Design Center

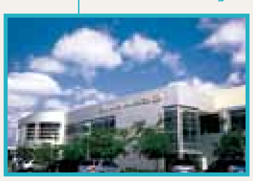
06 California Proving Ground

07 America Technical Center

09 Kia Design Center America



08 America Design & Technical Center



06 CALIFORNIA PROVING GROUND

Playing a key role in developing vehicles for the North American market, the California Proving Ground is where performance and endurance tests are conducted on all Kia vehicles sold in the US and locally developed parts.

- Location: Mojave Desert, California
- Size: Ground area - 17.52 million m^2 (4,329 acres) / 8 test tracks / Total length - 116 km (72 miles)

07 AMERICA TECHNICAL CENTER

The America Technical Center plays a central role in R&D within the US and is connected with the America Design & Technical Center and Proving Ground in California.

- Location: Superior Township, Michigan, US

08 AMERICA DESIGN & TECHNICAL CENTER

The America Design & Technical Center undertakes research into concept cars and development of mass-production cars suitable for the US market.

- Location: Irvine, California, US
- Facilities: Design Studio

09 KIA DESIGN CENTER AMERICA

Boasting world-class facilities and quality personnel, Kia Design Center America is the birthplace of innovative models under the Kia label.

- Location: Irvine, California, US
- Facilities: Design & Modeling Studio, Painting Facilities, New Model Presentation Room, Visual Presentation Room, etc.

ECO-FRIENDLY MODELS & CONCEPT CARS

Eco-friendly Models

16.8 km/ℓ

Optima Hybrid / K5 Hybrid

The Optima (K5) Hybrid is Kia's first gasoline hybrid mid-size sedan. Its fuel efficiency is as outstanding as a sub-compact car, and it also guarantees a sophisticated and distinctive style, with excellent acceleration and quietness, as well as top-notch eco-friendliness. Its fuel efficiency is maximized thanks to the 'parallel hard type hybrid system' exclusively developed by Kia Motors. Fuel efficiency is further improved and driving dynamics are guaranteed by applying a 6-speed transmission exclusive for hybrid cars, while the electronic components are 100% domestically produced. As such, we have laid the foundation for continued technological development and stronger competitiveness of our partner companies.

- 16.8km/l, 100g/km (Grade 1 according to 2.0 HEV standard)

5.0 km/kWh

Ray Electric Vehicle

Ray EV is an urban-style vehicle that has zero emissions through the use of batteries and electric motors alone. Starting with the Besta EV in 1986, we launched the Ray EV in 2011 after 20 years of research. The Ray EV secures maximum distance per recharge with its regenerative braking system – a system to recharge batteries by converting the kinetic energy that occurs during braking or deceleration into electric energy.

This technology was selected as one of the top ten technologies of excellence in the green energy field at the 'Top Ten Green Awards' organized by the Ministry of Knowledge Economy and the Korea Institute of Energy Technology Evaluation and Planning in June 2012. It won the Green Innovation Award, a Minister of the Environment Award, at the '3rd Green Car Awards' organized by the Asia Economic Daily in January 2013. The Ray EV is currently mainly supplied to public agencies. A total of 2,500 Ray EVs will be evaluated in 2013 to verify their performance as we pave the way to fully establish an EV market.

- Driving distance of 139km per recharge
- Energy consumption efficiency of 5.0km/kWh

Concept Cars

Track'ster Concept Car

Unveiled at the 2012 Chicago Auto Show, Kia Track'ster concept is a performance-oriented three-door coupé based on the all-new Soul. Track'ster is a bold interpretation of the Soul with a bold attitude, such as the eye-catching Whiteout and Inferno Orange paint scheme. Kia's signature grille features an air intake slit and is trimmed in lightweight carbon fiber. Most striking, up front is the Track'ster's lower intake grille. Flanked by immense LED driving lights with billet aluminum surrounds, the Track'ster is capable of devouring prodigious amounts of air to keep the engine running cool even under the most grueling conditions. The lower valance, trimmed in carbon fiber and accented with Inferno Orange, rides just inches off the ground and lends to the car's menacing stance.

Track'ster features not only distinctive design but also excellent performance. A 2.0-litre turbocharged in-line-four engine puts 250 horsepower to the road, a 66% increase over that of the production Soul. Power is routed to all four wheels via an electronically controlled four-wheel-drive system. The short-throw six-speed manual transmission is capped with a stubby spherical shift lever. The Track'ster rides on a lowered sport suspension tuned for track performance.

Kia GT Concept

The Kia GT, a first-of-its-kind concept car, is a four-door luxury sports sedan with rear wheel drive. Kia's exclusive design identity was reinterpreted to give a dynamic and progressive style to the model. Its design ergonomics offer passengers a wide and pleasant interior space, while its gasoline Lamda 3.3 Turbo GDi engine and 8-speed transmission boast strong power performance, guaranteeing dynamic driving performance.

Financial Review

Independent Auditors' Report

Based on a report originally issued in Korean

The Board of Directors and Stockholders
Kia Motors Corporation:

We have audited the accompanying consolidated statements of financial position of Kia Motors Corporation and its subsidiaries (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of income and comprehensive income, changes in equity and cash flows for the years than ended. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2012 and 2011, and its financial performance and its cash flows for the years than ended, in accordance with Korean International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to the following:

The procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying consolidated financial statements are for use by those knowledgeable about Korean auditing standards and their application in practice.

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
February 26, 2013

This report is effective as of February 26, 2013, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

Consolidated Statements of Financial Position

KIA MOTORS CORPORATION AND SUBSIDIARIES

As of December 31, 2012 and 2011

(In millions of won)

	Note		2012	2011
ASSETS				
Cash and cash equivalents	5, 31	₩	1,903,309	2,304,169
Short-term financial instruments	5, 31		2,367,230	1,630,000
Accounts and notes receivable - trade	31, 32		1,801,731	2,178,699
Accounts and notes receivable - other	31		562,767	432,453
Advance payments			67,542	54,493
Prepaid income taxes			5,444	14,675
Inventories	6		4,222,950	4,302,865
Other current assets	13, 31		208,457	157,833
Total current assets			11,139,430	11,075,187
Long-term financial instruments	5, 31		58,990	21,033
Long-term available-for-sale financial assets	7, 31		1,606,358	1,229,673
Long-term accounts and notes receivable - trade	31		2,675	2,322
Investments in associates	8, 18		7,876,179	6,809,391
Property, plant and equipment, net	4, 9, 14, 32		9,721,198	9,184,385
Intangible assets, net	4, 11, 12		1,524,001	1,517,277
Investment property	4, 10		51,434	56,100
Guarantee deposits	31		166,463	173,156
Deferred tax assets	27		123,622	61,905
Other non-current assets	13, 31		127,964	124,750
Total non-current assets			21,258,884	19,179,992
Total assets		₩	32,398,314	30,255,179

See accompanying notes to the consolidated financial statements.

(In millions of won)

	Note		2012	2011
LIABILITIES				
Accounts and notes payable - trade	31, 32	₩	4,998,445	4,825,992
Short-term borrowings	14, 31		1,109,825	1,588,410
Accounts and notes payable - other	31		1,713,988	1,744,387
Advances received			240,015	148,243
Accrued expenses	31		921,097	799,220
Income taxes payable			144,767	244,515
Current portion of long-term debt and bonds	14, 31		289,412	1,509,886
Provisions - current	17		531,838	502,985
Finance lease liabilities - current	31		5,710	5,775
Other current liabilities	15, 31		45,142	52,511
Total current liabilities			10,000,239	11,421,924
Bonds	14, 31		1,520,811	1,696,312
Long-term debt	14, 18, 31		934,160	783,898
Finance lease liabilities	31		16,161	23,020
Long-term advances received			41,447	128,950
Defined benefit liabilities	16		21,451	274,600
Provision for other long-term employee benefits			224,864	199,587
Provisions	17		1,302,510	1,172,176
Deferred tax liabilities	27		1,380,163	1,024,275
Other non-current liabilities	15, 31		108,446	20,727
Total non-current liabilities			5,550,013	5,323,545
Total liabilities			15,550,252	16,745,469
EQUITY				
Common stock	20		2,139,317	2,132,452
Capital surplus			1,560,650	1,557,966
Retained earnings	21		12,663,024	9,224,715
Accumulated other comprehensive income	20		334,031	443,254
Other	20		151,040	151,334
Total equity attributable to owners of the Company			16,848,062	13,509,721
Non-controlling interests			-	(11)
Total equity			16,848,062	13,509,710
Total liabilities and equity		₩	32,398,314	30,255,179

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Income

KIA MOTORS CORPORATION AND SUBSIDIARIES

For the years ended December 31, 2012 and 2011

(In millions of won, except earnings per share information)

	Note		2012	2011
Sales	4, 32	₩	47,242,933	43,190,942
Cost of sales	28, 32		(36,536,005)	(33,138,961)
GROSS PROFIT			10,706,928	10,051,981
Selling expenses	24, 28		(4,845,860)	(4,451,317)
General and administrative expenses	24, 28		(2,338,817)	(2,101,576)
OPERATING INCOME	2		3,522,251	3,499,088
Share of profits of associates and, gain on disposal, and impairment loss	8		1,414,080	1,336,618
Finance income	25, 31		402,795	180,102
Finance expenses	25, 31		(211,145)	(320,216)
Other income	2, 26		417,339	457,378
Other expenses	2, 26		(381,264)	(431,320)
PROFIT BEFORE INCOME TAXES			5,164,056	4,721,650
Income tax expense	27		(1,299,352)	(1,202,414)
PROFIT FOR THE YEAR		₩	3,864,704	3,519,236
Profit attributable to owners of the Parent Company			3,864,687	3,415,577
Profit attributable to non-controlling interests			17	103,659
EARNINGS PER SHARE				
Basic earnings per share in won	22	₩	9,546	8,573
Diluted earnings per share in won	22	₩	9,545	8,457

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

KIA MOTORS CORPORATION AND SUBSIDIARIES

For the years ended December 31, 2012 and 2011

(In millions of won)

		2012	2011
Profit for the year	₩	3,864,704	3,519,236
Other comprehensive income (net of tax):			
Change in fair unrealized value of available-for-sale financial assets		179,405	342,338
Change in fair value of available-for-sale financial assets reclassified to profits or loss		(52,363)	-
Effective portion of changes in fair value of cash flow hedges		5,543	(4,157)
Effective portion of changes resulting from the changes in currency exchange rate of non-derivative financial instrument		-	6,664
Change in capital adjustments - increase (decrease) in gain of equity method accounted investments		(50,526)	39,813
Change in capital adjustments - increase in loss of equity method accounted investments		(41,224)	(13,812)
Defined benefit plan actuarial losses		(155,817)	(90,867)
Change in defined benefit plan actuarial losses of associates		(28,394)	(14,439)
Foreign currency translation difference		(150,058)	9,599
	₩	(293,434)	275,139
Total comprehensive income for the year	₩	3,571,270	3,794,375
Income attributable to owners of the Parent Company		3,571,253	3,683,174
Income attributable to non-controlling interests		17	111,201

See accompanying notes to the consolidated financial statements.

Consolidated Consolidated Statements of Changes in Equity

KIA MOTORS CORPORATION AND SUBSIDIARIES

For the years ended December 31, 2012 and 2011

(In millions of won)

	Attributable to owners of Parent Company							
		Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income (loss)	Other	Non-controlling interests	Total
Balance at January 1, 2011	₩	2,101,772	1,546,603	6,113,182	70,351	151,330	264,879	10,248,117
Comprehensive income (net of tax):								
Profit for the year		-	-	3,415,577	-	-	103,659	3,519,236
Change in fair value of available-for-sale financial assets		-	-	-	342,338	-	-	342,338
Effective portion of changes in fair value of cash flow hedges		-	-	-	(4,157)	-	-	(4,157)
Effective portion of changes resulting from the changes in currency exchange rate of non-derivative financial instrument		-	-	-	6,664	-	-	6,664
Change in capital adjustments - increase in gain of equity method accounted investments		-	-	-	39,813	-	-	39,813
Change in capital adjustments - increase in loss of equity method accounted investments		-	-	-	(13,812)	-	-	(13,812)
Defined benefit plan actuarial losses		-	-	(90,867)	-	-	-	(90,867)
Change in defined benefit plan actuarial losses of associates		-	-	(14,439)	-	-	-	(14,439)
Foreign currency translation difference		-	-	-	2,057	-	7,542	9,599
Total comprehensive income (net of tax)		-	-	3,310,271	372,903	-	111,201	3,794,375
Transactions with owners and other, recorded directly in equity:								
Dividends		-	-	(198,738)	-	-	-	(198,738)
Acquisition of treasury stock		-	-	-	-	(178,789)	-	(178,789)
Sales of treasury stock		-	-	-	-	183,381	-	183,381
Exercise of stock warrants		30,680	11,363	-	-	(1,317)	-	40,726
Acquisition of non-controlling interests		-	-	-	-	(3,271)	(376,091)	(379,362)
Total transactions with owners and other, recorded directly in equity		30,680	11,363	(198,738)	-	4	(376,091)	(532,782)
Balance at December 31, 2011	₩	2,132,452	1,557,966	9,224,715	443,254	151,334	(11)	13,509,710

See accompanying notes to the consolidated financial statements.

(In millions of won)

		Attributable to owners of Parent Company					
	Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income (loss)	Other	Non-controlling interests	Total
Balance at January 1, 2012	₩ 2,132,452	1,557,966	9,224,715	443,254	151,334	(11)	13,509,710
Comprehensive income (net of tax):							
Profit for the year	-	-	3,864,687	-	-	17	3,864,704
Change in fair value of available-for-sale financial assets	-	-	-	179,405	-	-	179,405
Change in fair value of available-for-sale financial assets reclassified to profit or loss	-	-	-	(52,363)	-	-	(52,363)
Effective portion of changes in fair value of cash flow hedges	-	-	-	5,543	-	-	5,543
Change in capital adjustments - decrease in gain of equity method accounted investments	-	-	-	(50,526)	-	-	(50,526)
Change in capital adjustments - increase in loss of equity method accounted investments	-	-	-	(41,224)	-	-	(41,224)
Defined benefit plan actuarial losses	-	-	(155,817)	-	-	-	(155,817)
Change in defined benefit plan actuarial losses of associates	-	-	(28,394)	-	-	-	(28,394)
Foreign currency translation difference	-	-	-	(150,058)	-	-	(150,058)
Total comprehensive income (net of tax)	-	-	3,680,476	(109,223)	-	17	3,571,270
Transactions with owners and other, recorded directly in equity:							
Dividends	-	-	(242,167)	-	-	-	(242,167)
Exercise of stock warrants	6,865	2,684	-	-	(294)	-	9,255
Acquisition of non-controlling interests	-	-	-	-	-	(6)	(6)
Total transactions with owners and other, recorded directly in equity	6,865	2,684	(242,167)	-	(294)	(6)	(232,918)
Balance at December 31, 2012	₩ 2,139,317	1,560,650	12,663,024	334,031	151,040	-	16,848,062

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

KIA MOTORS CORPORATION AND SUBSIDIARIES

For the years ended December 31, 2012 and 2011

(In millions of won)

	Note		2012	2011
Cash flows from operating activities				
Cash generated from operations	29	₩	5,153,910	4,997,468
Interest received			136,171	118,136
Interest paid			(156,640)	(185,779)
Dividends received			377,337	306,261
Income tax paid			(1,165,353)	(490,897)
Net cash provided by operating activities			4,345,425	4,745,189
Cash flows from investing activities				
Proceeds from sale of investments in associates			-	254,939
Proceeds from sale of long-term available-for-sale financial assets			123,397	652
Proceeds from sale of property, plant and equipment			122,050	120,936
Proceeds from sale of intangible assets			2,877	997
Purchase of short-term financial instruments, net			(737,230)	(331,732)
Acquisition of investments in associates			(147,299)	(755,243)
Cash paid for business combination, net of cash acquired			-	(25,540)
Acquisition of long-term available-for-sale financial assets			(273,669)	(4,728)
Acquisition of property, plant and equipment			(1,574,649)	(1,433,806)
Acquisition of intangible assets			(326,768)	(435,744)
Purchase of long-term financial instruments			(37,957)	(17,020)
Cash flows from other investing activities			6,671	(4,259)
Net cash used in investing activities			(2,842,577)	(2,630,548)
Cash flows from financing activities				
Proceeds from issuance of bonds			-	1,340,699
Paid-in-capital increase			9,407	42,075
Dividends paid			(242,167)	(198,735)
Repayment of short-term borrowings and long-term debt, net			(464,822)	(1,483,561)
Repayment of bonds			(1,108,143)	(779,807)
Acquisition of treasury stock			-	(178,789)
Proceeds from sales of treasury stock			-	168,873
Proceeds from financial lease liabilities			-	28,795
Repayment of current portion of financial lease liabilities			(5,546)	-
Acquisition of non-controlling interests			(6)	(379,362)
Cash flows from other financing activities			1,163	(1,144)
Net cash used in financing activities			(1,810,114)	(1,440,956)
Impact on foreign currency exchange rates on cash and cash equivalents			(93,594)	14,605
Net increase (decrease) in cash and cash equivalents			(400,860)	688,290
Cash and cash equivalents at January 1			2,304,169	1,615,879
Cash and cash equivalents at December 31		₩	1,903,309	2,304,169

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

KIA MOTORS CORPORATION AND SUBSIDIARIES

For the years ended December 31, 2012 and 2011

1. General Description of Parent Company and Subsidiaries

(a) Organization and description of the Company

Kia Motors Corporation (the "Parent Company"), one of the leading motor vehicle manufacturers in Korea, was established in December 1944 under the laws of the Republic of Korea to manufacture and sell a range of passenger cars, recreational vehicles and other commercial vehicles in the domestic and international markets. The Parent Company owns and operates three principal automobile production sites: the Sohari factory, the Hwasung factory and the Kwangju factory.

The shares of the Parent Company have been listed on the Korea Exchange since 1973. As of December 31, 2012, the Parent Company's largest shareholder is Hyundai Motor Company, which holds 33.88 percent of the Parent Company's stock.

The consolidated financial statements comprise the Parent Company and its subsidiaries (together referred to as the "Company") and the Company's interest in associates and jointly controlled entities.

(b) Consolidated subsidiaries

Details of consolidated subsidiaries as of December 31, 2012 are summarized as follows:

Subsidiary	Location	Business	Reporting of ownership
Kia Motors America, Inc. (KMA)	U.S.A.	Exclusive importer and distributor of motor vehicles and parts	100.00%
Kia Motors Manufacturing Georgia, Inc. (KMMG)(*1)	U.S.A.	Manufacturing and sale of vehicles and parts	100.00%
Kia Canada Inc. (KCI)(*2)	Canada	Exclusive importer and distributor of motor vehicles and parts	100.00%
Kia Motors Deutschland GmbH (KMD)	Germany	〃	
Kia Motors Europe GmbH (KME)	Germany	Holding company	100.00%
Kia Motors Polska Sp.z.o.o. (KMP)(*3)	Poland	Exclusive importer and distributor of motor vehicles and parts	100.00%
Kia Motors Slovakia s.r.o. (KMS)	Slovakia	Manufacturing and sale of vehicles and parts	100.00%
Kia Motors Sales Slovensko s.r.o. (KMSs)(*4)	Slovakia	Exclusive importer and distributor of motor vehicles and parts	100.00%
Kia Motors Belgium (KMB)(*4)	Belgium	〃	100.00%
Kia Motors Czech s.r.o. (KMCZ)(*4)	Czech	〃	100.00%
Kia Motors UK Ltd. (KMUK)(*4)	England	〃	100.00%
Kia Motors Austria GmbH (KMAS)(*4)	Austria	〃	100.00%
Kia Motors Hungary K.f.t (KMH)(*4)	Hungary	〃	100.00%
Kia Motors Iberia (KMIB)(*4)	Spain	〃	100.00%
Kia Motors Sweden AB (KMSW)(*4)	Sweden	〃	100.00%
Kia Motors France SAS (KMF)(*4)	France	〃	100.00%
Kia Motors Russia LLC (KMR)(*5)	Russia	〃	100.00%
Kia Motors Nederland BV (KMNL)(*4)	Nederland	〃	100.00%
Kia Motors Australia Pty Ltd. (KMAU)	Australia	〃	100.00%
Kia Motors New Zealand Pty Ltd. (KMNZ)(*6)	New Zealand	〃	100.00%
Kia Motors Company Italy S.r.l (KMIT)(*4)	Italy	〃	100.00%

(*1) 100.00% owned by KMA
(*2) 17.47% owned by KMA
(*3) 100.00% owned by KMD, additional 0.40% of ownership acquired during 2012
(*4) 100.00% owned by KME
(*5) 80.00% owned by KME and 20.00% owned by KMD
(*6) 100.00% owned by KMAU

(c) Financial information of subsidiaries

Financial information of significant subsidiaries (before eliminating intra-group transaction) as of and for the years ended December 31, 2012 and 2011 are summarized as follows:

(i) Financial information as of and for the year ended December 31, 2012

(In millions of won)

Company		Total assets	Total liabilities	Sales	Net income
KMA	₩	2,847,423	2,275,194	12,699,059	386,712
KMMG		2,077,148	1,345,709	7,771,212	206,090
KMS		2,636,049	1,591,732	5,675,685	225,141
KMR		815,037	310,153	4,268,189	295,920

(ii) Financial information as of and for the year ended December 31, 2011

(In millions of won)

Company		Total assets	Total liabilities	Sales	Net income
KMA	₩	2,564,774	2,002,720	10,301,589	295,984
KMMG		2,265,763	1,513,581	5,749,450	204,682
KMS		2,807,296	1,937,858	5,130,433	105,789
KMR		562,163	320,505	3,361,773	195,373

2. Basis of Preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS") as prescribed in *the Act on External Audit of Corporations in the Republic of Korea*.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the consolidated statements of financial position:

- Derivative financial instruments are measured at fair value
- Available-for-sale financial assets are measured at fair value
- Liabilities for defined benefit plans are recognized at the net of total present value of defined benefit obligations less the fair value of plan assets

(c) Functional and presentation currency

The consolidated financial statements are presented in Korean won, which is the Parent Company's functional currency and the currency of the primary economic environment in which the Company operates.

(d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next fiscal year are included in the following notes:

- Note 16 : Employee Benefits
- Note 17 : Provisions
- Note 18 : Commitments and Contingencies
- Note 27 : Income Taxes

(e) Changes in accounting policies

(i) Changes in accounting policies

① Financial Instruments: Disclosures

The Company has applied the amendments to K-IFRS No.1107, 'Financial Instruments: Disclosures' since January 1, 2012. The amendments require disclosing the nature of transferred assets, their carrying amount, and the description of risks and rewards for each class of transferred financial assets that are not derecognized in their entirety. If the Company derecognizes transferred financial assets but still retains their specific risks and rewards, the amendments require additional disclosures of their risks.

② Presentation of financial statements

The Company adopted the amendments to K-IFRS No. 1001, 'Presentation of Financial Statements' from the annual period ended December 31, 2012. The Company's operating profit is calculated as revenue less: (1) cost of goods sold, and (2) selling, general and administrative expenses, and is presented separately in the consolidated statement of income.

(ii) Impact of change in accounting policy

The Company retrospectively applied the amendment to K-IFRS No. 1001, for which the impact is as follows:

(In millions of won)

		2012	2011
Operating profit before adoption of the amendments	₩	3,558,326	3,525,146
Changes :			
Other income (Note 26)		(417,339)	(457,378)
Other expense (Note 26)		381,264	431,320
Operating profit after adoption of the amendments	₩	3,522,251	3,499,088

Notes to Consolidated Financial Statements

KIA MOTORS CORPORATION AND SUBSIDIARIES

For the years ended December 31, 2012 and 2011

3. Significant Accounting Policies

The significant accounting policies applied by the Company in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except those as disclosed in note 2(e).

(a) Basis of consolidation

SUBSIDIARIES Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of the other entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

If a member of the Company uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

INTRA-GROUP TRANSACTIONS Intra-group balances and transactions, and any unrealized income and expenses arising from intra- group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses are recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

NON-CONTROLLING INTERESTS Non-controlling interests in a subsidiary are accounted for separately from the Company's ownership interests in a subsidiary. Each component of net profit or loss and other comprehensive income is attributed to the owners of the Company and non-controlling interest holders, even when the allocation reduces the non-controlling interest balance below zero.

CHANGES IN THE COMPANY'S OWNERSHIP INTEREST IN A SUBSIDIARY Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. The difference between the consideration and the adjustments made to non-controlling interest is recognized directly in equity attributable to the owners of the Company.

(b) Business Combination

BUSINESS COMBINATION A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.

Each identifiable asset and liability is measured at its acquisition-date fair value except for below:

- Only those contingent liabilities assumed in a business combination that are a present obligation and can be measured reliably are recognized
- Deferred tax assets or liabilities are recognized and measured in accordance with K-IFRS No. 1012 *Income Taxes*
- Employee benefit arrangements are recognized and measured in accordance with K-IFRS No.1019 *Employee Benefits*

As of the acquisition date, non-controlling interests in the acquiree are measured as the non-controlling interests' proportionate share of the acquiree's identifiable net assets.

The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. However, any portion of the acquirer's share-based payment awards exchanged for awards held by the acquiree's employees that is included in consideration transferred in the business combination shall be measured in accordance with the method described above rather than at fair value.

Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. Acquisition-related costs, other than those associated with the issue of debt or equity securities, are expensed in the periods in which the costs are incurred and the services are received. The costs to issue debt or equity securities are recognized in accordance with K-IFRS No.1032 *Financial Instruments: Presentation and K-IFRS No.1039 Financial Instruments: Recognition and Measurement*.

GOODWILL Goodwill derived from business combinations occurred is as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognised amount of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, bargain purchase gain is immediately recognize in statements of income for the period. Goodwill is subsequently measured at cost less accumulated impairment losses.

Acquisition of non-controlling interests is accounted for intercompany transaction, and related goodwill is not recognized.

(c) Associates and jointly controlled entities

An associate is an entity in which the Company has significant influence, but not control, over the entity's financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity.

Joint ventures are those entities over whose activities the Company has joint control, established by contractual agreement, and require unanimous consent for strategic financial and operating decisions.

The investment in an associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the Company's share of the profit or loss and changes in equity of the associate after the date of acquisition. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

If an associate uses accounting policies different from those of the Company for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in applying the equity method.

When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has to make payments on behalf of the investee for further losses.

(d) Cash and cash equivalents

Cash and cash equivalents comprised of cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(e) Inventories

Inventories are measured at the lower of cost or net realizable value. The cost of inventories is determined based on the specific identification method for materials-in-transit and moving-average method for all other inventories, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

When inventories are sold, the carrying amount of those inventories is recognized as cost of goods sold in same period as the related revenue. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, are recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

Notes to Consolidated Financial Statements

KIA MOTORS CORPORATION AND SUBSIDIARIES

For the years ended December 31, 2012 and 2011

(f) Non-derivative financial assets

The Company recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Company recognizes financial assets in the consolidated statements of financial position when the Company becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition or issuance.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS A financial asset is classified as financial assets are classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

HELD-TO-MATURITY INVESTMENTS A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Company has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

LOANS AND RECEIVABLES Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method except for loans and receivables of which the effect of discounting is immaterial.

AVAILABLE-FOR-SALE FINANCIAL ASSETS Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, with changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost. When a financial asset is derecognized are recognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Dividends on an available-for-sale equity instrument are recognized in profit or loss when the Company's right to receive payment is established.

DERECOGNITION OF FINANCIAL ASSETS The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

If the Company retains substantially all the risks and rewards of ownership of the transferred financial assets, the Company continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

OFFSETTING BETWEEN FINANCIAL ASSETS AND FINANCIAL LIABILITIES Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statements of financial position only when the Company currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

(g) Non-derivative financial liabilities

The Company classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Company recognizes financial liabilities in the consolidated statements of financial position when the Company becomes a party to the contractual provisions of the financial liability.

FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

OTHER FINANCIAL LIABILITIES Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Company derecognizes a financial liability from the consolidated statements of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

(h) Derivative financial instruments, including hedge accounting

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are either recognized in profit or loss or, when the derivatives are designated in a hedging relationship and the hedge is determined to be an effective hedge, other comprehensive income.

(i) Hedge accounting

The Company holds forward exchange contracts, currency options and other derivative contracts to manage foreign exchange risk. The Company designated derivatives as hedging instruments to hedge the foreign currency risk of highly probable forecasted transactions(a cash flow hedge).

On initial designation of the hedge, the Company formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Company makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the cash flows of the respective hedged items during the period for which the hedge is designated.

CASH FLOW HEDGE When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

(ii) Other derivative financial instruments

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

(i) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If financial assets have objective evidence that they are impaired, impairment losses should be measured and recognized.

Notes to Consolidated Financial Statements

KIA MOTORS CORPORATION AND SUBSIDIARIES

For the years ended December 31, 2012 and 2011

FINANCIAL ASSETS MEASURED AT AMORTIZED COST An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses would be measured by using prices from any observable current market transactions. The Company can recognize impairment losses directly or establish a provision to cover impairment losses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account.

FINANCIAL ASSETS CARRIED AT COST If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

AVAILABLE-FOR-SALE FINANCIAL ASSETS When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale is not be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

(j) Property, plant and equipment

Property, plant and equipment are initially measured at cost. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent to initial recognition, an item of property, plant and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of property, plant and equipment at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed. A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in profit or loss.

	Useful lives (years)
Buildings and structures	20 - 40
Machinery and equipment	3 - 15
Dies, molds and tools	5
Vehicles	5
Other equipment	5

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

(k) Borrowing costs

The Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

(l) Intangible assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for intented use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which memberships are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

The estimated useful lives for the current and comparative periods are as follows:

	Estimated useful lives (years)
Intellectual property rights	5, 10
Software	5
Development costs	(*)
Country club membership and golf club membership	Indefinite

(*) Capitalized development costs are amortized over the useful life considering the life cycle of the developed products.

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

RESEARCH AND DEVELOPMENT Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

SUBSEQUENT EXPENDITURES Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

(m) Investment property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is measured initially at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

Notes to Consolidated Financial Statements

KIA MOTORS CORPORATION AND SUBSIDIARIES

For the years ended December 31, 2012 and 2011

(n) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than assets arising from employee benefits, inventories, deferred tax assets and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Company estimates the recoverable amount of an individual asset. If it is impossible to measure the individual recoverable amount of an asset, then the Company estimates the recoverable amount of cash-generating unit ("CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or a CGU.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(o) Leases

The Company classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases. In case of financial leases, at the commencement of the lease term, the Company recognizes as finance assets and finance liabilities in its consolidated statements of financial position, the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset. Also, minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life. The Company reviews to determine whether the leased asset may be impaired.

(p) Government grants

Government grants are not recognized unless there is reasonable assurance that the Company will comply with the grant's conditions and that the grant will be received. Government grants whose primary condition is that the Company purchase, construct or otherwise acquire long-term assets are deducted in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the life of a depreciable asset as a reduction to depreciation expense.

Other government grants which are intended to compensate the Company for expenses incurred are deducted from related costs over the periods in which the Company recognizes the related costs as expenses. Government grants which are intended to give immediate financial support to the Company with no future related costs are recognized as government grant income in profit or loss.

(q) Employee benefits

SHORT-TERM EMPLOYEE BENEFITS Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Company during an accounting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

OTHER LONG-TERM EMPLOYEE BENEFITS Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, less the fair value of any related assets. The present value is determined by discounting the expected future cash flows using the interest rate of corporate bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

RETIREMENT BENEFITS: DEFINED BENEFIT PLANS A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, which is discounted to its present value, less fair value of plan assets is deducted. The calculation is performed annually by an independent actuary using the projected unit credit method.

The discount rate is the yield at the reporting date on corporate bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Company recognizes all actuarial gains and losses arising from actuarial assumption changes and experiential adjustments in other comprehensive income when incurred.

When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Company recognizes an asset, to the extent of the total of cumulative unrecognized past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Past service costs which are the change in the present value of the defined benefits obligation for employee service in prior periods, resulting in the current period from the introduction of, or change to post-employment benefits, is recognized as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, the Company recognizes the past service cost immediately.

In addition, employees of KMA are eligible to participate, upon meeting certain service requirement, in the profit sharing retirement plan and defined benefit pension plan under the Internal Revenue Code 401(k) in the United States. KMA and employees of KMA paid each contributions during the period in which the employees render the related service.

(r) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

A provision shall be used only for expenditures for which the provision was originally recognized.

Notes to Consolidated Financial Statements

KIA MOTORS CORPORATION AND SUBSIDIARIES

For the years ended December 31, 2012 and 2011

(s) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the Company entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income. Also, foreign currency differences arising on settlement of Monetary assets and liabilities are recognized in profit or loss.

The assets and liabilities of foreign operations are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to presentation currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income

(t) Equity capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Company repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Company acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

(u) Revenue

Revenue from sale of goods or the use by others of the Company assets is measured at the fair value of the consideration received or receivable, net of trade discounts, volume rebates and cash incentives to the customers.

Revenue from sales of vehicles, service parts and other related products is recognized when the Company has transferred to the buyer the significant risk and rewards of ownership of the goods, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Company accounts for sales of goods and services under Q Point Program as transactions multiple revenue generation activities or deliverables. The fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits ("Q Points") and the other components of the sale. The amount allocated to the Q Points is estimated by reference to the fair value of the points for which they could be sold separately. Such amount is deferred and revenue is recognized only when the Q Points are redeemed and the Company has fulfilled its obligations rather than the initial point of sales of goods and services.

Rental income from investment property is recognized in profit or loss on straight-line basis over the term of the lease.

(v) Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income except for dividend from investment in associates, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and losses on hedging instruments that are recognized in profit or loss. Interest expense of borrowings is recognized as it accrues in profit or loss, using the effective interest method.

(w) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

CURRENT TAX Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

DEFERRED TAX Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized. However, deferred tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

The Company recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Company recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

(x) Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all potential dilutive ordinary shares.

Notes to Consolidated Financial Statements

KIA MOTORS CORPORATION AND SUBSIDIARIES

For the years ended December 31, 2012 and 2011

(y) Operating segments

An operating segment is a component of the Company that: 1) engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with other components of the Company, 2) whose operating results are reviewed regularly by the Company's chief operating decision maker ('CODM') in order to allocate resources and assess its performance, and 3) for which discrete financial information is available.

Management has determined that the CODM of the Company is the CEO. The CODM does not receive and therefore does not review discrete financial information for any component of the Company. Consequently, no operating segment information is included in these consolidated financial statements. Entity wide disclosures of geographic and product revenue information are provided in note 4 to the consolidated financial statements.

(z) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Company for annual periods beginning after January 1, 2012, and the Company has not early adopted them. Management believes the impact of the amendments on the Company's consolidated financial statements is not significant.

(i) K-IFRS No.1110, 'Consolidated Financial Statements'

The standard introduces a single control model to determine whether an investee should be consolidated. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

(ii) K-IFRS No.1111, 'Joint Arrangements'

The standard classifies joint arrangements into two types - joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. The standard requires a joint operator to recognize and measure the assets and liabilities (and recognize the related revenues and expenses) in relation to its interest in the arrangement in accordance with relevant IFRSs applicable to the particular assets, liabilities, revenues and expenses. The standard requires a joint venturer to recognize an investment and to account for that investment using the equity method. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

(iii) K-IFRS No.1112, 'Disclosure of Interests in Other Entities'

The standard brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Company is currently assessing the disclosure requirements for interests in subsidiaries, interests in joint arrangements and associates and unconsolidated structured entities in comparison with the existing disclosures. The standard requires the disclosure of information about the nature, risks and financial effects of these interests. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

(iv) Amendments to K-IFRS No. 1019, 'Employee Benefits'

The standard requires recognition of actuarial gains and losses immediately in other comprehensive income and to calculate expected return on plan assets based on the rate used to discount the defined benefit obligation. The standard will be applied retrospectively for the Company's annual periods beginning on or after January 1, 2013.

(vi) Amendments to K-IFRS No. 1001, 'Presentation of Financial Statements'

The amendments require presenting in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment is mandatorily effective for annual periods beginning on or after July 1, 2012.

4. Geographic and Other Information

The Company is engaged in manufacturing and sales of vehicles and parts, leasing of vehicles and rendering vehicle maintenance services. Leasing income and maintenance services are insignificant to total sales. Revenue information for each product and service is not available and management believes the cost to develop such information would be excessive. Consequently revenue amounts for each product and service is not disclosed.

(a) The following tables provide information of sales by region based on the location of customers and non-current assets as of and for the year ended December 31, 2012:

(In millions of won)

	Domestic	North America	Europe	Other region	Consolidation adjustment	Consolidation amount
Net sales	₩ 17,734,873	16,799,524	11,797,175	911,361	-	47,242,933
Property, plant and equipment, intangible asset and other	8,745,685	1,297,834	1,214,199	6,362	32,553	11,296,633

(b) The following tables provide information of sales by geographic locations based on the location of customers and non-current assets as of and for the year ended December 31, 2011:

(In millions of won)

	Domestic	North America	Europe	Other region	Consolidation adjustment	Consolidation amount
Net sales	₩ 17,678,511	13,754,969	11,026,858	730,604	-	43,190,942
Property, plant and equipment, intangible asset and other	8,170,218	1,337,992	1,211,511	5,604	32,437	10,757,762

5. Cash, Cash Equivalents and Restricted Financial Instrument

(a) Cash and cash equivalents as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012	2011
Cash on hand	₩	321	350
Deposits with financial institutions		1,902,988	2,303,819
	₩	1,903,309	2,304,169

(b) Financial instruments which are restricted in use for as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012	2011
Win-Win cooperation deposits	₩	27,000	16,000
Guarantee deposits		13	13
Green mold fund		20,000	-
Other deposits		3,384	18,899
	₩	50,397	34,912

Notes to Consolidated Financial Statements

KIA MOTORS CORPORATION AND SUBSIDIARIES

For the years ended December 31, 2012 and 2011

6. Inventories

Inventories as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012	2011
Finished goods	₩	2,744,556	2,912,829
Merchandise		190,924	176,226
Semi-finished goods		468,067	430,417
Work-in-process		161,086	165,939
Raw materials		441,756	446,756
Supplies		105,165	89,938
Materials-in-transit		111,396	80,760
	₩	4,222,950	4,302,865

7. Long-term Available-for-sale Financial Assets

(a) Long-term available-for-sales financial assets as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

Company	Percentage of ownership		Acquisition Cost	2012	2011
Marketable securities					
Hyundai WIA Corporation	14.20%	₩	237,510	632,143	647,716
Hyundai Hysco Co., Ltd.	15.65%		224,319	570,610	392,087
HMC Investment Securities Co., Ltd.	3.68%		25,939	15,319	13,809
SeAH Besteel Corp.	0.00%		20	50	80
			487,788	1,218,122	1,053,692
Non-marketable securities(*)					
WIA Automotive Engine (Shang-dong) Company	18.00%		47,332	47,332	35,382
Hyundai Capital America	15.00%		321,330	321,330	115,330
Other			19,574	19,574	25,269
			388,236	388,236	175,981
		₩	876,024	1,606,358	1,229,673

(*) Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured are measured at cost.

(b) Changes in fair value of available-for-sale financial assets for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012	2011
Balance at January 1	₩	562,732	107,965
Changes in unrealized gain		236,683	454,767
Realized in profit or loss upon disposal		(69,081)	-
Balance at December 31 before taxes		730,334	562,732
Income tax effect		(176,741)	(136,181)
Balance at December 31	₩	553,593	426,551

(c) The Company has provided 1,500 units (carrying amount: ₩ 569 million) of the Korea Defense Industry Association ("KDIA"), which are included in available-for-sale financial assets for a performance guarantee on a contract.

8. Investment in Associates

(a) Details of investment in associates as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

Company	Percentage of ownership		2012 Acquisition cost	2012 Carrying amount	2011 Acquisition cost	2011 Carrying amount
Hyundai Mobis Co., Ltd.(*1)	16.88%	₩	215,012	2,775,505	215,012	2,286,137
Hyundai Steel Company	21.29%		245,153	2,092,416	245,153	1,940,532
Hyundai Engineering & Construction Co., Ltd.(*1)	5.23%		746,234	755,953	746,234	752,578
Hyundai Powertech Co., Ltd.	37.58%		172,576	310,230	172,576	266,352
Hyundai Card Co., Ltd.(*1)	11.48%		147,960	251,943	147,960	224,501
Hyundai Dymos Inc.	45.37%		89,438	225,631	89,438	188,148
EUKOR Car Carriers Inc.(*1)	8.00%		19,565	85,178	19,565	74,208
Hyundai AMCO Co., Ltd.(*1)	19.99%		10,067	112,375	10,067	88,023
Hyundai Partecs Co., Ltd.	31.00%		12,400	19,952	12,400	18,714
Hyundai Autoever Systems Co., Ltd.	20.00%		1,000	37,134	1,000	31,582
Donghee Auto Co., Ltd.	35.10%		10,530	12,950	10,530	11,674
TRW Steering Co., Ltd.	29.00%		8,952	2,215	8,952	3,213
Kia Tigers Co., Ltd(*2)	100.00%		20,300	-	20,300	-
Hyundai NGV Co., Ltd.	24.39%		250	250	250	250
Haevichi Hotel & Resort	40.00%		8,520	19,852	8,520	2,868
Hyundai Autron Co., Ltd.	20.00%		20,116	18,690	-	-
Beijing Dymos Transmission Co., Ltd.	24.08%		22,790	58,334	22,790	64,575
China Millennium Corporations	30.30%		27,185	19,505	27,185	18,921
Hyundai Motor Group China Ltd.	30.00%		9,211	60,391	9,211	84,248

Notes to Consolidated Financial Statements

KIA MOTORS CORPORATION AND SUBSIDIARIES

For the years ended December 31, 2012 and 2011

(In millions of won)

Company	Percentage of ownership	2012 Acquisition cost	2012 Carrying amount	2011 Acquisition cost	2011 Carrying amount
Yanji Kia Motors A/S and Repair(*2)	100.00%	₩ 1,792	1,792	1,792	1,792
Hyundai Powertech (Shangdong) Co., Ltd.	25.00%	28,894	29,179	17,935	19,552
Dongfeng Yueda Kia Motors Co., Ltd.(*3)	50.00%	274,134	751,146	161,372	546,535
Hyundai Motor Manufacturing Russia LLC	30.00%	129,229	208,581	129,229	133,293
Kia Japan Co., Ltd.(*2)	100.00%	33,197	7,831	33,197	34,128
Innocean Worldwide Americas, LLC	30.00%	557	5,619	557	4,278
Hyundai Information System North America	30.00%	1,911	2,476	1,911	2,521
Sewon America, Inc.	40.00%	15,090	8,985	15,090	10,768
Hyundai Capital Services UK Ltd(*3).	10.00%	3,462	2,066	-	-
		₩ 2,275,525	7,876,179	2,128,226	6,809,391

(*1) Though the Company's ownership is below 20%, the Company has significant influence on the financial and operating policy decisions.
(*2) Though the Company has 100% of the ownership, applied equity method because management believes that difference between consolidation and applying equity method is immaterial.
(*3) Dongfeng Yueda Kia motors Co., Ltd. And Hyundai Capital Services UK Ltd. are jointly controlled entities established by contractual agreement.

(b) Fair value of marketable securities of associates companies as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

	2012	2011
Hyundai Mobis Co., Ltd.	₩ 4,730,997	4,796,706
Hyundai Steel Company	1,594,406	1,737,866
Hyundai Engineering & Construction Co., Ltd.	₩ 408,230	410,562

(c) Changes in investment in associates for the year ended December 31, 2012 are summarized as follows:

(In millions of won)

Company	Beginning balance	Acquisition	Equity profit or loss on investment	Other capital movement	Dividends received	Other Increase (decrease)	Ending balance
Hyundai Mobis Co., Ltd.	₩ 2,286,137	-	562,022	(43,907)	(28,747)	-	2,775,505
Hyundai Steel Company	1,940,532	-	169,888	(8,924)	(9,080)	-	2,092,416
Hyundai Engineering & Construction Co., Ltd.	752,578	-	11,696	(5,405)	(2,916)	-	755,953
Hyundai Powertech Co., Ltd.	266,352	-	46,538	(2,660)	-	-	310,230
Hyundai Card Co., Ltd.	224,501	-	27,291	151	-	-	251,943
Hyundai Dymos Inc.	188,148	-	40,359	(2,876)	-	-	225,631

(In millions of won)

Company		Beginning balance	Acquisition	Equity profit or loss on investment	Other capital movement	Dividends received	Other Increase (decrease)	Ending balance
EUKOR Car Carriers Inc.	₩	74,208	-	21,360	(5,000)	(5,390)	-	85,178
Hyundai AMCO Co., Ltd.		88,023	-	32,537	1,809	(9,994)	-	112,375
Hyundai Partecs Co., Ltd.		18,714	-	1,238	-	-	-	19,952
Hyundai Autoever Systems Co., Ltd.		31,582	-	8,613	(1,061)	(2,000)	-	37,134
Donghee Auto Co., Ltd.		11,674	-	1,276	-	-	-	12,950
TRW Steering Co., Ltd.		3,213	-	(1,006)	8	-	-	2,215
Kia Tigers Co., Ltd(*1)		-	-	-	-	-	-	-
Hyundai NGV Co., Ltd.(*2)		250	-	-	-	-	-	250
Haevichi Resort Co., Ltd.		2,868	-	16,976	8	-	-	19,852
Hyundai Autron Co., Ltd.		-	20,116	(1,109)	(317)	-	-	18,690
Beijing Dymos Transmission Co., Ltd.		64,575	-	8,260	(3,233)	(11,268)	-	58,334
China Millennium Corporations		18,921	-	1,768	(1,184)	-	-	19,505
Hyundai Motor Group China Ltd.		84,248	-	27,051	(2,963)	(47,945)	-	60,391
Yanji Kia Motors A/S and Repair(*2)		1,792	-	-	-	-	-	1,792
Hyundai Powertech (Shangdong) Co., Ltd.		19,552	10,959	238	(1,570)	-	-	29,179
Dongfeng Yueda Kia Motors Co., Ltd.		546,535	112,762	381,169	(36,056)	(253,264)	-	751,146
Hyundai Motor Manufacturing Russia LLC		133,293	-	79,556	(4,268)	-	-	208,581
Kia Japan Co., Ltd.(*3)		34,128	-	(2,652)	(2,694)	-	(20,951)	7,831
Innocean Worldwide Americas, LLC		4,278	-	2,456	-	(688)	(427)	5,619
Hyundai Information System North America		2,521	-	574	(2)	(411)	(206)	2,476
Sewon America, Inc.		10,768	-	(1,068)	-	-	(715)	8,985
Hyundai Capital Services UK Ltd.		-	3,462	-	-	-	(1,396)	2,066
	₩	6,809,391	147,299	1,435,031	(120,144)	(371,703)	(23,695)	7,876,179

(*1) The Company discontinued the application of the equity method for investment in Kia Tigers Co., Ltd. due to the carrying amount of Company's share being reduced to zero as of December 31, 2012.

(*2) These investments in associates are recorded at cost as management believe that the effect of applying the equity method of accounting for investments is immaterial.

(*3) The Company recognized impairment loss of investment in Kia Japan Co., Ltd., amounting to ₩ 20,951 million for the year ended December 31, 2012.

Notes to Consolidated Financial Statements

KIA MOTORS CORPORATION AND SUBSIDIARIES

For the years ended December 31, 2012 and 2011

(d) Changes in investment in associates for the year ended December 31, 2011 are summarized as follows:

(In millions of won)

Company		Beginning balance	Acquisition (disposal)	Equity profit or loss on investment	Other capital movement	Dividends received	Other decrease	Ending balance
Hyundai Mobis Co., Ltd.	₩	1,833,016	-	484,827	(7,065)	(24,641)	-	2,286,137
Hyundai Steel Company		1,794,125	-	158,686	(3,199)	(9,080)	-	1,940,532
Hyundai Engineering & Construction Co., Ltd.		-	746,234	14,482	(8,138)	-	-	752,578
Hyundai Powertech Co., Ltd.		229,912	-	36,973	(533)	-	-	266,352
Hyundai WIA Corporation(*1)		374,088	(78,445)	-	(194)	-	(295,449)	-
Hyundai Card Co., Ltd.		199,426	-	26,474	(1,399)	-	-	224,501
Hyundai Dymos Inc.		154,562	-	35,429	(1,843)	-	-	188,148
EUKOR Car Carriers Inc.		54,715	-	23,556	1,287	(5,350)	-	74,208
Hyundai AMCO Co., Ltd.		81,373	-	18,381	(1,737)	(9,994)	-	88,023
Hyundai Partecs Co., Ltd.		16,433	-	2,281	-	-	-	18,714
Hyundai Autoever Systems Co., Ltd.		26,735	-	7,369	(522)	(2,000)	-	31,582
Donghee Auto Co., Ltd.		11,175	-	499	-	-	-	11,674
TRW Steering Co., Ltd.		4,132	-	(919)	-	-	-	3,213
Kia Tigers Co., Ltd.		-	-	-	-	-	-	-
Hyundai NGV Co., Ltd.		250	-	-	-	-	-	250
Haevichi Resort Co., Ltd.		-	-	2,868	-	-	-	2,868
Beijing Dymos Transmission Co., Ltd.		52,340	-	8,643	3,592	-	-	64,575
China Millennium Corporations		16,487	-	1,402	1,032	-	-	18,921
Hyundai Motor Group China Ltd.		59,997	-	50,393	3,629	(29,771)	-	84,248
Yanji Kia Motors A/S and Repair		1,792	-	-	-	-	-	1,792
Hyundai Powertech (Shangdong) Co., Ltd.		8,926	9,009	1,032	585	-	-	19,552
Dongfeng Yueda Kia Motors Co., Ltd.		463,879	-	274,475	28,499	(220,318)	-	546,535
Hyundai Motor Manufacturing Russia LLC		126,545	-	11,204	(4,456)	-	-	133,293
Kia Japan Co., Ltd.		31,984	-	120	2,024	-	-	34,128
Innocean Worldwide Americas, LLC		3,561	-	1,975	-	(1,329)	71	4,278
Hyundai Information System North America		2,239	-	425	-	(181)	38	2,521
Sewon America, Inc.		11,096	-	(451)	-	-	123	10,768
	₩	5,558,788	676,798	1,160,124	11,562	(302,664)	(295,217)	6,809,391

(*1) The Company disposed of a portion of its investment in Hyundai WIA Corporation in 2011, and recognized gain on sale of investment in associates of ₩ 176,494 million. The Company reclassified its remaining investment from investment in associates to available-for-sale financial assets, as a result of lost of significant influence upon disposal of shares.

(e) Financial information of associates as of and for the year ended December 31, 2012 are summarized as follows:

(In millions of won)

Company		Total assets	Total liabilities	Sales	Net income (loss)
Hyundai Mobis Co., Ltd.	₩	30,046,996	13,007,282	30,789,019	3,542,013
Hyundai Steel Company		22,951,387	13,120,460	14,146,369	796,397
Hyundai Engineering & Construction Co.,Ltd.		12,734,943	7,989,596	13,324,821	556,372
Hyundai Powertech Co., Ltd.		2,018,579	1,192,978	2,954,852	122,786
Hyundai Card Co., Ltd.		11,254,564	9,060,022	2,477,968	208,125
Hyundai Dymos Inc.		1,173,305	675,284	1,403,474	75,162
EUKOR Car Carriers Inc.		2,497,136	1,432,406	2,867,224	323,517
Hyundai AMCO Co., Ltd.		1,885,523	1,322,056	3,346,079	164,566
Hyundai Partecs Co., Ltd.		115,893	51,531	51,464	5,174
Hyundai Autoever Systems Co., Ltd.		447,411	261,499	921,057	43,391
Donghee Auto Co., Ltd.		155,055	118,161	203,066	3,397
TRW Steering Co., Ltd.		42,585	34,944	97,431	(2,901)
Kia Tigers Co., Ltd		4,048	4,618	27,522	118
Haevichi Resort Co., Ltd.		344,943	295,313	59,814	9,617
Hyundai Autron Co., Ltd		159,428	66,073	234,608	(5,695)
Beijing Dymos Transmission Co., Ltd.		389,012	146,763	402,184	34,301
China Millennium Corporations		90,745	26,373	2,175	5,837
Hyundai Motor Group China Ltd.		466,286	243,563	2,083,624	103,914
Hyundai Powertech (Shangdong) Co., Ltd.		511,393	390,329	474,358	3,018
Dongfeng Yueda Kia Motors Co., Ltd.		3,336,008	1,836,893	7,832,537	720,158
Hyundai Motor Manufacturing Russia LLC		1,438,402	799,564	2,854,941	263,066
Kia Japan Co., Ltd.		7,951	120	125	(23,643)
Innocean Worldwide Americas, LLC		149,330	126,600	233,213	13,927
Hyundai Information System North America		34,269	24,489	144,422	2,818
Sewon America, Inc.		302,898	280,474	326,763	(2,670)
Hyundai Capital Services UK Ltd.		596,671	576,006	11,639	(14,393)

Notes to Consolidated Financial Statements

KIA MOTORS CORPORATION AND SUBSIDIARIES

For the years ended December 31, 2012 and 2011

(f) Financial information of associates as of and for the year ended December 31, 2011 are summarized as follows:

(In millions of won)

Company		Total assets	Total liabilities	Sales	Net income (loss)
Hyundai Mobis Co., Ltd.	₩	22,575,648	8,781,092	26,294,579	3,026,845
Hyundai Steel Company		21,779,478	12,662,333	15,259,549	745,930
Hyundai Engineering & Construction Co.,Ltd.		11,871,992	7,508,517	11,920,167	685,139
Hyundai Powertech Co., Ltd.		1,791,495	1,081,452	2,803,987	98,750
Hyundai Card Co., Ltd.		10,843,751	8,888,243	2,408,325	225,892
Hyundai Dymos Inc.		951,588	536,066	1,399,985	60,475
EUKOR Car Carriers Inc.		2,671,900	1,744,300	2,558,996	270,115
Hyundai AMCO Co., Ltd.		1,479,777	1,039,383	2,303,963	90,447
Hyundai Partecs Co., Ltd.		93,190	32,824	55,793	8,420
Hyundai Autoever Systems Co., Ltd.		395,279	237,368	734,088	36,924
Donghee Auto Co., Ltd.		145,697	112,437	174,415	2,245
TRW Steering Co., Ltd.		57,119	46,037	131,697	(305)
Kia Tigers Co., Ltd		3,577	4,237	27,752	(17)
Haevichi Resort Co., Ltd.		328,196	321,025	59,940	11,305
Beijing Dymos Transmission Co., Ltd.		407,098	138,931	350,150	35,893
China Millennium Corporations		90,410	27,964	20,812	4,630
Hyundai Motor Group China Ltd.		622,038	333,536	2,363,745	165,179
Hyundai Powertech (Shangdong) Co., Ltd.		186,944	108,737	8,599	3,098
Dongfeng Yueda Kia Motors Co., Ltd.		3,602,673	2,509,602	6,881,579	548,936
Hyundai Motor Manufacturing Russia LLC		1,308,359	918,357	1,806,225	65,952
Kia Japan Co., Ltd.		34,289	160	1,364	120
Innocean Worldwide Americas, LLC		162,522	148,262	191,581	12,673
Hyundai Information System North America		24,188	15,786	98,967	2,209
Sewon America, Inc.		267,580	240,662	271,647	(1,126)

9. Property, Plant and Equipment

(a) Details of property, plant and equipment as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

	2012			2011		
	Acquisition cost	Accumulated depreciation and impairment losses	Carrying amount	Acquisition cost	Accumulated depreciation and impairment losses	Carrying amount
Land	₩ 2,873,184	-	2,873,184	2,907,187	-	2,907,187
Buildings	2,446,751	(656,698)	1,790,053	2,341,508	(577,601)	1,763,907
Structures	554,877	(278,734)	276,143	525,280	(260,379)	264,901
Machinery and equipment	5,554,954	(2,403,385)	3,151,569	4,908,105	(2,106,272)	2,801,833
Dies, molds and tools	2,808,557	(2,128,296)	680,261	2,616,691	(2,069,016)	547,675
Vehicles	147,822	(43,322)	104,500	127,399	(43,085)	84,314
Other equipment	378,456	(226,693)	151,763	311,255	(195,804)	115,451
Construction-in-progress	693,725	-	693,725	699,117	-	699,117
	₩ 15,458,326	(5,737,128)	9,721,198	14,436,542	(5,252,157)	9,184,385

(b) Details of changes in property, plant and equipment for the year ended December 31, 2012 are summarized as follows:

(In millions of won)

	Beginning balance	Acquisition	Disposal (*1)	Depreciation	Reclassification	Other	Ending balance (*2)
Land	₩ 2,907,187	-	(77,257)	-	54,465	(11,211)	2,873,184
Buildings	1,763,907	17,889	(10,284)	(86,499)	148,058	(43,018)	1,790,053
Structures	264,901	3,011	(468)	(24,451)	36,662	(3,512)	276,143
Machinery and equipment (*3)	2,801,833	48,875	(21,136)	(356,188)	733,569	(55,384)	3,151,569
Dies, molds and tools	547,675	86,192	(344)	(215,373)	289,851	(27,740)	680,261
Vehicles	84,314	17,721	(26,243)	(26,120)	56,997	(2,169)	104,500
Other equipment	115,451	42,792	(3,013)	(42,366)	44,913	(6,014)	151,763
Construction-in-progress	699,117	1,365,596	-	-	(1,364,515)	(6,473)	693,725
	₩ 9,184,385	1,582,076	(138,745)	(750,997)	-	(155,521)	9,721,198

(*1) TThe net amount of loss on sale of property, plant and equipment is ₩ 16,695 million for the year ended December 31, 2012.

(*2) The Company cumulatively received ₩ 232,477 million government grants as of December 31, 2012 through investment agreement with Slovakia government. The grants are deducted in calculating the carrying amount of the asset.

(*3) Capital lease assets are included.

(c) Details of changes in property, plant and equipment for the year ended December 31, 2011 are summarized as follows:

(In millions of won)

		Beginning balance	Acquisition	Disposal	Depreciation	Reclassification	Other	Ending balance
Land	₩	2,895,143	5,802	(18,816)	-	23,941	1,117	2,907,187
Buildings		1,699,567	45,642	(10,588)	(72,334)	99,273	2,347	1,763,907
Structures		260,842	5,211	(1,387)	(23,968)	24,558	(355)	264,901
Machinery and equipment		2,548,349	133,438	(41,664)	(307,260)	471,206	(2,236)	2,801,833
Dies, molds and tools		591,614	81,876	(60,137)	(238,948)	170,903	2,367	547,675
Vehicles		82,753	5,838	(21,835)	(23,703)	41,429	(168)	84,314
Other equipment		76,558	38,109	(339)	(28,251)	29,100	274	115,451
Construction-in-progress		408,715	1,152,993	-	-	(860,410)	(2,181)	699,117
	₩	8,563,541	1,468,909	(154,766)	(694,464)	-	1,165	9,184,385

(d) As of December 31, 2012, KMS has a purchase commitment for plant expansion in connection of which, KMS acquired property, plant, and equipment amounting EUR 9,474 for the year ended December 31, 2012.

(e) The capitalized borrowing costs and capitalization interest rate for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012	2011
Capitalized borrowing costs	₩	8,820	24,436
Capitalization interest rate		1.44%	4.47%

10. Investment Property

(a) Details of investment property as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012			2011		
		Acquisition cost	Accumulated depreciation and impairment loss	Carrying amount	Acquisition cost	Accumulated depreciation and impairment loss	Carrying amount
Land	₩	20,828	-	20,828	21,995	-	21,995
Buildings		34,951	(4,345)	30,606	37,634	3,529	34,105
	₩	55,779	(4,345)	51,434	59,629	3,529	56,100

(b) Changes in investment property for the year ended December 31, 2012 are summarized as follows:

(In millions of won)

		Beginning balance	Depreciation	Other	Ending balance
Land	₩	21,995	-	(1,167)	20,828
Buildings		34,105	(1,123)	(2,376)	30,606
	₩	56,100	(1,123)	(3,543)	51,434

(c) Changes in investment property for the year ended December 31, 2011 are summarized as follows:

(In millions of won)

		Beginning balance	Depreciation	Other	Ending balance
Land	₩	21,720	-	275	21,995
Buildings		35,043	(1,105)	167	34,105
	₩	56,763	(1,105)	442	56,100

(d) The amount recognized in profit or loss from investment property for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012	2011
Rental income	₩	5,770	3,779
Operating expense		1,930	1,894

(e) Land and buildings held for the purpose of earning rentals are classified as investment property. In addition, the fair value of investment property doesn't differ from its book value significantly as of December 31, 2012.

11. Goodwill

(a) Changes in goodwill for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012	2011
Balance at January 1	₩	36,287	23,320
Increase due to business combination		-	14,045
Other decrease		(99)	(1,078)
Balance at December 31	₩	36,188	36,287

(b) Goodwill is allocated to each CGU(Cash Generating Unit) that is expected to benefit from each operating unit. The Company estimated the recoverable amount of CGU as its value in use calculated by discounting the future cash flows to be generated on the basis of business plan approved by CEO in five years. Cash flows expected to be generated after five years were estimated within the scope of not to exceed long term average growth rate of industry.

Notes to Consolidated Financial Statements

KIA MOTORS CORPORATION AND SUBSIDIARIES

For the years ended December 31, 2012 and 2011

12. Intangible Assets

(a) Details of intangible assets except for goodwill as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

	2012			2011		
	Acquisition cost	Accumulated depreciation and impairment losses	Carrying amount	Acquisition cost	Accumulated depreciation and impairment losses	Carrying amount
Development costs	₩ 2,523,333	(1,179,776)	1,343,557	2,517,198	(1,189,923)	1,327,275
Industrial property rights	68,582	(38,558)	30,024	69,696	(26,947)	42,749
Software	167,305	(113,439)	53,866	144,691	(94,253)	50,438
Membership(*)	64,127	(8,322)	55,805	65,080	(6,096)	58,984
Other	5,980	(1,419)	4,561	2,745	(1,201)	1,544
	₩ 2,829,327	(1,341,514)	1,487,813	2,799,410	(1,318,420)	1,480,990

(*) Membership has indefinite useful lives and it has been tested for impairment annually by comparing its recoverable amount to its carrying amount.

(b) Details of changes in intangible assets for the year ended December 31, 2012 are summarized as follows:

(In millions of won)

	Beginning balance	Acquisition	Disposals	Amortization	Impairment losses	Other	Ending balance
Development costs	₩ 1,327,275	293,340	-	(276,414)	-	(644)	1,343,557
Industrial property rights	42,749	2,412	-	(13,117)	-	(2,020)	30,024
Software	50,438	27,312	(188)	(21,857)	-	(1,839)	53,866
Other	60,528	5,097	(2,812)	(336)	(2,910)	799	60,366
	₩ 1,480,990	328,161	(3,000)	(311,724)	(2,910)	(3,704)	1,487,813

The net amount of loss on sale of intangible assets is ₩ 123 million for the year ended December 31, 2012.

(c) Details of changes in intangible assets for the year ended December 31, 2011 are summarized as follows:

(In millions of won)

	Beginning balance	Acquisition	Disposals	Amortization	Impairment losses	Other	Ending balance
Development costs	₩ 1,219,341	375,459	-	(267,593)	-	68	1,327,275
Industrial property rights	22,709	28,553	-	(9,488)	-	975	42,749
Software	41,829	25,963	(161)	(17,775)	-	582	50,438
Other	54,380	7,517	(353)	(375)	(935)	294	60,528
	₩ 1,338,259	437,492	(514)	(295,231)	(935)	1,919	1,480,990

(d) Details of research and development expenses expenditures for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012	2011
Capitalized development costs	₩	293,340	375,459
Test expenses (manufacturing costs)		173,689	156,959
Test expenses (selling and administrative expenses)		560,070	459,811
	₩	1,027,099	992,229

13. Other Assets

Other assets as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012	2011
Other current assets:			
Accrued income	₩	100,636	63,942
Prepaid expenses		56,367	62,462
Deposits provided		6,275	25,595
Short-term loans		43,311	715
Derivative financial assets		-	3,520
Held-to-maturity investments		1,706	446
Other		162	1,153
	₩	208,457	157,833
Other non-current assets:			
Held-to-maturity investments	₩	17,049	16,934
Long-term accounts and notes receivable - other		105,887	103,854
Long-term prepaid expenses		2,657	3,962
Long-term advanced payments		2,371	-
	₩	127,964	124,750

Notes to Consolidated Financial Statements

KIA MOTORS CORPORATION AND SUBSIDIARIES

For the years ended December 31, 2012 and 2011

14. Borrowings

(a) Short-term borrowings

Short-term borrowings as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

	Lender	Annual interest rate		2012	2011
Usance bills	Korea Exchange Bank and others	0.68~2.63%		166,900	122,418
Trade bills(*)	Korea Development Bank and others	0.45~3.95%		942,925	1,353,375
General loan and others	Citi Bank Slovakia and others	-		-	112,617
			₩	1,109,825	1,588,410

(*) The Company didn't derecognize outstanding trade accounts and notes receivable transferred to the financial institutions and recognized the cash received from financial institution as borrowings.

(b) Long-term debt

Long-term debt in local currency as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

	Lender	Annual interest rate		2012	2011
Facility loans	Korea Development Bank and others	4.09~4.23%	₩	200,000	12,500
Other	Korea Development Bank and others	-		-	6,239
				200,000	18,739
Less : current portion of long-term borrowing				-	(13,246)
			₩	200,000	5,493

Long-term debt in foreign currency as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

	Lender	Annual interest rate		2012	2011
General loans	Korea Export and Import Bank and others	1.11~2.75%	₩	369,884	528,677
Facility loans and others	Deutsche Bank Slovakia and others	0.47~3.57%		357,260	631,368
	Citi Bank Korea	2.24~2.36%		196,532	-
				923,676	1,160,045
Less : current portion of long-term borrowing				(189,516)	(381,640)
			₩	734,160	778,405

(c) The Company has pledged its land, buildings, machinery and equipments in the amount of ₩ 427,119 million in aggregate as of December 31, 2012 as assessed by lenders as collateral for long-term debt in local currency.

(d) Bonds

Bonds as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

	Due	Annual interest rate		2012	2011
Unsecured public debentures	2013.8.24~ 2017.11.24	4.02~6.80%	₩	610,000	1,060,000
Secured private debentures	-	-		-	345,990
Unsecured foreign debentures	2014.2.25~ 2016.2.25	1.91~2.21%		481,995	518,985
Foreign public debentures	2016.6.14	3.63%		535,550	576,650
Bond with warrants (*)	-	-		-	279,376
Redemption premium				-	40,704
Stock warrant adjustments				-	(134)
				1,627,545	2,821,571
Less : discounts on debentures				(6,838)	(10,259)
Less : current portion of long-term borrowing				(99,896)	(1,115,000)
			₩	1,520,811	1,696,312

(*) The number of shares issued upon the exercise of stock warrants for the year ended December 31, 2012 is 1,372,891 shares.

15. Other Liabilities

Other liabilities as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012	2011
Other current liabilities:			
Unearned income	₩	7,482	2,048
Dividends payable		24	24
Guarantee received		3,113	2,256
Derivative financial liabilities		-	17,402
Others		34,523	30,781
	₩	45,142	52,511
Other non-current liabilities:			
Leasehold deposits received	₩	19,693	18,533
Long-term accounts and notes payable - other		1,928	2,076
Liability for payment guarantee		124	118
Long-term accrued expenses		86,701	-
	₩	108,446	20,727

Notes to Consolidated Financial Statements

KIA MOTORS CORPORATION AND SUBSIDIARIES

For the years ended December 31, 2012 and 2011

16. Employee Benefits

(a) Details of defined benefit plan as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012	2011
Defined benefit plan:			
Present value of defined benefit obligations	₩	961,535	948,871
Fair value of plan assets		(940,084)	(674,271)
Defined benefit liabilities	₩	21,451	274,600

(b) The components of plan assets as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012	2011
Time deposits and others	₩	940,084	674,271

(c) The components of retirement benefit costs for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012	2011
Current service costs	₩	201,105	191,916
Interest costs		37,737	48,177
Expected returns on plan assets		(26,516)	(32,685)
	₩	212,326	207,408

(d) The principal actuarial assumptions used as of December 31, 2012 and 2011 are summarized as follows:

	2012	2011
Discount rate	3.94%	4.86%
Rate of inflation	3.00%	3.00%
Rate of expected return on plan assets (*)	3.78%	4.06%
Rate of future salary increases (Including rate of inflation)	5.00%	4.50%

(*) The rate of expected return on plan assets is determined based on historical experience of returns on plan assets.

(e) Changes in present value of defined benefit obligations for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012	2011
Balance at January 1	₩	948,871	1,037,965
Current service costs		201,105	191,916
Interest costs		37,737	48,177
Increase (decrease) due to transference between affiliates		214	(6,176)
Benefit paid by the plan		(423,445)	(426,226)
Actuarial losses in other comprehensive income		197,053	103,215
Balance at December 31	₩	961,535	948,871

(f) Changes in fair value of plan assets for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012	2011
Balance at January 1	₩	674,271	973,230
Expected returns on plan assets		26,516	32,685
Contribution paid into the plan		470,000	-
Transference between affiliates, net		129	-
Benefit paid by the plan		(231,132)	(325,597)
Actuarial losses in other comprehensive income		300	(6,047)
Balance at December 31	₩	940,084	674,271

17. Provisions

The Company provides general warranty to the ultimate consumer for each product sold and accrues warranty expense at the time of sale based on the history of actual claims. Also, the Company accrues potential expenses, which may occur due to change of fix component of any product or voluntary recalls pending as of the end of the reporting period.

Other provision are comprised of provision related to loss on lawsuits.

Notes to Consolidated Financial Statements

KIA MOTORS CORPORATION AND SUBSIDIARIES

For the years ended December 31, 2012 and 2011

Changes in provisions for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

	2012			2011		
	Provision of warranty for sale	Other provision	Total	Provision of warranty for sale	Other provision	Total
Balance at January 1	₩ 1,643,068	32,093	1,675,161	1,261,789	25,620	1,287,409
Increase	1,040,461	4,029	1,044,490	1,088,844	12,363	1,101,207
Usage	(830,845)	(3,907)	(834,752)	(708,128)	(5,588)	(713,716)
Increase due to business combination	-	-	-	1,997	-	1,997
Other decrease	(49,701)	(850)	(50,551)	(1,434)	(302)	(1,736)
Balance at December 31	₩ 1,802,983	31,365	1,834,348	1,643,068	32,093	1,675,161
Thereof non-current	₩ 1,274,578	27,932	1,302,510	1,144,463	27,713	1,172,176

18. Commitments and Contingencies

(a) The Company provides guarantees for certain customers' financing relating to long-term installment sales. The oustanding amount for which the Company has provided guarantees to the respective financial institutions is ₩ 9,345 million as of December 31, 2012. These guarantees are covered by insurance contracts in which the Company is the beneficiary of the claim amount if the customer defaults.

(b) As of December 31, 2012, one blank promissory note have been provided as collateral to Korea Defense Industry Association ("KDIA") for a performance guarantee on a contract.

(c) The Company is involved in several claims, litigations for alleged damages and product liabilities, which arose in the ordinary course of business, as of December 31, 2012. Management is of the opinion that foregoing lawsuits and claims will not have a material adverse effect on the Company's financial position and results of operations since the incurrence is not probable nor amounts can be reasonably estimated.

(d) In connection with long-term debt guaranteed by Hyundai Motor America, Inc. and Mobis America, Inc., Kia Motors Manufacturing Georgia, Inc. (KMMG) should pay guarantor fees calculated at a rate of 0.15% per annum on the outstanding debt balance of KMMG which should be paid biannually.

(e) On October 1, 2008, KMMG entered into an agreement with the West Point Development Authority to issue up to USD 1,100,000 thousand of taxable revenue bonds for a term through December 1, 2022, to fund the purchase of building, machinery and equipment. As of December 31, 2012, approximately USD 757,216 thousand of taxable revenue bonds, net of redemptions have been issued and sold to KMMG for these purchases.

(f) The Company acquired 5.23% of Hyundai Engineering & Construction Co., Ltd's shares along with terms of a contract that the Company is prohibited from selling the shares, offering it as collateral or split for two years from April 1, 2011, the date of acquisition. 939,407 shares of the Company, which is approximately 10% of the share acquired, were deposited at escrow account for execution of the contract.

19. Derivative Financial Instruments and Hedge Accounting

The Company has entered into derivative instrument contracts including forwards and options to hedge its foreign currency risk exposures. Details of derivative financial instrument contracts as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won and thousands of USD and EUR)

	Contract amounts		Fair value	
Derivative instrument	2012	2011	2012	2011
Foreign currency forwards	-	USD 150,000	-	(7,314)
Foreign currency options	-	USD 810,000	-	(6,941)
	-	EUR 20,000	-	373

20. Equity

(a) The number of shares to issue, the number of shares issued and the par value of a share of the Parent Company are 820,000,000 shares, 405,363,347 shares and ₩ 5,000 as of December 31, 2012, respectively. 1,372,891 shares was issued by exercising the stock warrant of bond with warrant for the year ended December 31, 2012.

The Parent Company retired 10 million and 12.5 million shares of treasury stock on July 2, 2003 and May 28, 2004, respectively. Due to these stock retirements, the aggregate par value of issued shares differs from the common stock amount.

(b) Accumulated other comprehensive income and loss as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012	2011
Gain on valuation of available-for-sale financial assets	₩	553,593	426,551
Effective portion of changes in fair value of cash flow hedges		-	(5,543)
Change in capital adjustments - increase in gain of equity method accounted investments		120,008	170,534
Change in capital adjustments - increase in loss of equity method accounted investments		(136,031)	(94,807)
Foreign currency translation difference		(203,539)	(53,481)
	₩	334,031	443,254

(c) Other equity as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012	2011
Gain on retirement of capital stock	₩	119,859	119,859
Other capital surplus		55,613	55,907
Treasury stock		(24,432)	(24,432)
	₩	151,040	151,334

Notes to Consolidated Financial Statements

KIA MOTORS CORPORATION AND SUBSIDIARIES

For the years ended December 31, 2012 and 2011

21. Retained Earnings

(a) Retained Earnings as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012	2011
Legal reserve	₩	97,400	72,400
Voluntary reserve		8,351,171	4,212,710
Unappropriated retained earnings		4,214,453	4,939,605
	₩	12,663,024	9,224,715

(b) Changes in retained earnings for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012	2011
Balance at January 1	₩	9,224,715	6,113,182
Profit attributable to owners of the Parent Company		3,864,687	3,415,577
Dividends		(242,167)	(198,738)
Defined benefit plan actuarial losses		(155,817)	(90,867)
Defined benefit plan actuarial losses of associates		(28,394)	(14,439)
Balance at December 31	₩	12,663,024	9,224,715

22. Earnings per Share

Details of calculating earnings per share for the years ended December 31, 2012 and 2011 are as follows:

(a) Basic earnings per share

(In won, except number of shares)

		2012	2011
Profit attributable to owners of the Parent Company	₩	3,864,686,750,500	3,415,577,661,691
Weighted-average number of common shares outstanding(*)		404,838,423	398,414,044
Earnings per share	₩	9,546	8,573

(*) The weighted-average number of common equivalent shares are calculated by averaging circulation period, and treasury stock is not included in the number of common shares.

(b) Diluted earnings per share

(In won, except number of shares)

	2012	2011
Profit attributable to owners of the Parent Company	₩ 3,864,686,750,500	3,415,577,661,691
Adjustment: Interest expense of bond with warrant	808,737,528	5,700,195,723
Adjusted profit for the year	₩ 3,865,495,488,028	3,421,277,857,414
Adjusted weighted-average number of common shares outstanding	404,985,231	404,540,467
Diluted earnings per share	₩ 9,545	8,457

Diluted earnings per share are calculated by dividing net income, as adjusted assuming all potentially dilutive stock options have been exercised, by the weighted-average number of common shares outstanding and common equivalent shares outstanding. The adjustment represents interest expense if the warrants were exercised, net of tax amount.

23. Dividends

(a) Details of dividends for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won, except shares and par value)

	2012	2011
Number of shares issued	405,363,347	403,990,456
Number of treasury stock	(378,116)	(378,116)
Number of dividend shares	404,985,231	403,612,340
Par value per share	₩ 5,000	5,000
Dividends as a percentage of par value	13%	12%
Dividend amount	₩ 263,240	242,167

(b) Dividends payout ratio for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won, except for ratio)

	2012	2011
Dividend amount	₩ 263,240	242,167
Profit attributable to owners of the Parent Company	3,864,687	3,415,577
Dividend payout ratio	6.81%	7.09%

(c) Dividend yield ratio for the years ended December 31, 2012 and 2011 are summarized as follows:

(In won, except for ratio)

	2012	2011
Dividend per share	₩ 650	600
Market price as of year end	56,500	66,700
Dividend yield ratio	1.15%	0.90%

Notes to Consolidated Financial Statements

KIA MOTORS CORPORATION AND SUBSIDIARIES

For the years ended December 31, 2012 and 2011

24. Selling, General and Administrative Expense

Details of selling, general and administrative expenses for the years ended December 31, 2012 and 2011 are as follows:

(In millions of won)

		2012	2011
Selling expenses:			
Advertising	₩	1,282,854	1,205,120
Sales promotion		1,009,858	750,540
Warranty expenses		1,040,461	1,088,844
Freight		416,369	355,701
Overseas marketing and export expenses		1,096,318	1,051,112
		4,845,860	4,451,317
General and administrative expenses:			
Salaries		617,928	579,543
Bonus		289,985	254,948
Retirement and severance benefits cost		61,590	60,155
Accrual for other long-term employee benefits		7,675	5,082
Other employee benefits		141,878	125,361
Travel		44,636	41,206
Communications		15,799	14,358
Utilities		15,898	12,887
Taxes and dues		25,057	22,597
Rent		55,290	53,568
Depreciation		72,424	62,624
Amortization		18,626	13,947
Bad debt expenses		846	1,763
Repairs and maintenance		22,040	18,835
Insurance premium		13,093	15,736
Entertainment expense		5,735	5,230
Maintenance fee for vehicles		27,845	25,158
Supplies and stationery		11,695	12,519
Information fees		2,498	2,002
Education and training		28,164	27,680
Commissions and fees		282,713	272,859
Test expenses		560,070	459,811
Others		17,332	13,707
		2,338,817	2,101,576
	₩	7,184,677	6,552,893

25. Finance Income and Finance Expense

Details of finance income and finance expense for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012	2011
Finance income			
Interest income	W	168,957	113,720
Gain on foreign currency transaction		74,266	55,852
Gain on foreign currency translation		94,925	3,413
Dividends income		5,634	3,597
Gain on sale of available-for-sale financial assets (*)		59,013	-
Gain on valuation of derivative instrument		-	3,520
	₩	402,795	180,102

(In millions of won)

		2012	2011
Finance expense			
Interest expense	W	156,808	192,494
Loss on foreign currency transaction		51,083	72,053
Loss on foreign currency translation		3,052	45,580
Loss on sale of available-for-sale financial assets		202	1
Loss on valuation of derivative instrument		-	10,088
	₩	211,145	320,216

(*) The Company disposed of a portion of its investment in Hyundai WIA Corporation and recognized gain on sale of available-for-sale financial assets for the year ended December 31, 2012.

26. Other Income and Expense

(a) Other income for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012	2011
Rent	₩	13,394	14,464
Foreign exchange transaction gain		205,674	146,183
Foreign exchange translation gain		20,770	45,409
Gain on sale of property, plant and equipment		17,501	80,681
Gain on sale of intangible assets		180	483
Reversal of allowance for doubtful accounts		337	2,454
Other income		159,483	167,704
	₩	417,339	457,378

Notes to Consolidated Financial Statements

KIA MOTORS CORPORATION AND SUBSIDIARIES

For the years ended December 31, 2012 and 2011

(b) Other expense for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012	2011
Foreign exchange transaction loss	₩	203,764	207,511
Foreign exchange translation loss		17,666	65,551
Loss on disposal of accounts and notes receivable - trade		769	824
Donation		22,092	21,063
Loss on sale of property, plant and equipment		34,196	114,511
Loss on sale of intangible assets		303	-
Impairment loss of intangible assets		2,910	935
Loss on inventory scrap		23,568	881
Other expenses		75,996	20,044
	₩	381,264	431,320

27. Income Taxes

(a) The component of income tax expense for the years ended December 31, 2012 and 2011 are as follows:

(In millions of won)

		2012	2011
Current tax expense	₩	997,765	539,085
Origination and reversal of temporary differences		294,171	751,881
Less: income tax recognized in other comprehensive income		7,416	(88,552)
Total income tax expense	₩	1,299,352	1,202,414

(b) Income tax (expense) benefit recognized directly in other equity and other comprehensive income for the years ended December 31, 2012 and 2011 are as follows:

(In millions of won)

		2012	2011
Current tax:			
Gain on sale of treasury stock	₩	-	(4,632)
Defined benefit plan actuarial losses		49,746	29,010
		49,746	24,378
Deferred income tax:			
Gain on valuation of available-for-sale financial assets		(40,560)	(112,429)
Gain on valuation of derivative instruments		(1,770)	(501)
		(42,330)	(112,930)
Income tax recognized directly in other comprehensive income	₩	7,416	(88,552)

Income tax related to gain on sale of treasury stock was recognized directly in other equity and income tax related to defined benefit plan actuarial gains/losses, gains/losses on valuation of available-for-sale financial assets and gains/losses on valuation of derivative instruments were recognized in other comprehensive income.

(c) Reconciliation of effective tax rate for the years ended December 31, 2012 and 2011 are as follows:

(In millions of won)

		2012	2011
Profit before income taxes	₩	5,164,056	4,721,650
Income tax using the Company's statutory tax rate(*)		1,208,553	1,002,275
Adjustment for:			
Non-taxable income		(70,899)	(14,452)
Non-deductible expense		55,487	30,655
Tax credits		(248,451)	(132,872)
Tax effect for gains/losses on investment in subsidiaries and associates		346,312	290,608
Others		8,350	26,200
Income tax expenses	₩	1,299,352	1,202,414
Effective tax rate		25.16%	25.47%

(*) Calculated by multiplying each nation's statutory tax rate of nations and profit before income taxes on each separated financial statements.

(d) The Company set off a deferred tax asset against a deferred tax liability of the same taxable entity if, and only if, they relate to income taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities.

(e) Details of changes in deferred tax assets and liabilities for the year ended December 31, 2012 are as follows:

(In millions of won)

		Beginning balance	Profit or loss	Other comprehensive income	Ending balance
Allowance for doubtful accounts	₩	18,853	1,332	-	20,185
Bad debts write-off		59,880	-	-	59,880
Accrued expenses		139,702	105,491	-	245,193
Provision of warranty for sale		291,501	30,269	-	321,770
Provision of other long-term employee benefits		47,746	6,096	-	53,842
Annual leaves		20,498	2,288	-	22,786
Revaluated land		(372,219)	5,351	-	(366,868)
Depreciation		(325,292)	53,450	-	(271,842)
Investment in subsidiaries and associates		(850,040)	(346,312)	-	(1,196,352)
Gains/Losses on sales of investment assets and others		(97,031)	20,188	-	(76,843)

Notes to Consolidated Financial Statements

KIA MOTORS CORPORATION AND SUBSIDIARIES

For the years ended December 31, 2012 and 2011

(In millions of won)

		Beginning balance	Profit or loss	Other comprehensive income	Ending balance
Valuation of derivative instruments		1,770	-	(1,770)	-
Valuation of available-for-sale financial assets		(136,181)	-	(40,560)	(176,741)
Operating loss carryforward		36,576	(34,186)	-	2,390
Carryforwards of unused tax credits		119,012	(119,012)	-	-
Others		82,855	23,204	-	106,059
	₩	(962,370)	(251,841)	(42,330)	(1,256,541)

(f) Details of changes in deferred tax assets and liabilities for the year ended December 31, 2011 are as follows:

(In millions of won)

		Beginning balance	Profit or loss	Other comprehensive income	Ending balance
Allowance for doubtful accounts	₩	24,873	(6,020)	-	18,853
Bad debts write-off		54,982	4,898	-	59,880
Accrued expenses		126,997	12,705	-	139,702
Provision of warranty for sale		163,276	128,225	-	291,501
Provision of other long-term employee benefits		37,680	10,066	-	47,746
Annual leaves		16,379	4,119	-	20,498
Revaluated land		(340,370)	(31,849)	-	(372,219)
Depreciation		(65,821)	(259,471)	-	(325,292)
Investment in subsidiaries and associates		(559,432)	(290,608)	-	(850,040)
Gains/Losses on sales of investment assets and others		760	(97,791)	-	(97,031)
Valuation of derivative instruments		2,271	-	(501)	1,770
Valuation of available-for-sale financial assets		(23,752)	-	(112,429)	(136,181)
Operating loss carryforward		68,234	(31,658)	-	36,576
Carryforwards of unused tax credits		296,303	(177,291)	-	119,012
Others		(12,869)	95,724	-	82,855
	₩	(210,489)	(638,951)	(112,930)	(962,370)

(g) As of December 31, 2012 the amounts of total temporary differences related to investments of subsidiaries and associates which deferred tax assets and liabilities were not recognized, in are ₩ 599,530 million and ₩ 1,620,319 million, respectively.

28. Classification of Expenses by Nature

Details of expenses by nature for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012	2011
Fluctuation of inventories	₩	110,551	(678,204)
Raw material and merchandise consumed		31,114,554	29,119,359
Employee benefits		3,635,792	3,235,328
Other employee benefits		609,717	529,119
Depreciation and amortization		1,063,844	990,800
Overseas marketing and export expenses		1,113,871	1,075,192
Sales promotion		1,010,506	750,540
Warranty expenses		1,040,461	1,088,844
Commissions and fees		709,494	631,570
Test expenses		733,759	616,770
Advertising		1,282,854	1,205,120
Freight		442,634	380,901
Rent		57,547	53,568
Utilities		291,391	251,431
Repairs and maintenance		126,126	105,247
Others		377,581	336,269
	₩	43,720,682	39,691,854

Notes to Consolidated Financial Statements

KIA MOTORS CORPORATION AND SUBSIDIARIES

For the years ended December 31, 2012 and 2011

29. Cash Flows

(a) Details of cash flows from operating for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012	2011
Profit for the year	₩	3,864,704	3,519,236
Adjustments for:			
Depreciation		752,120	695,569
Amortization		311,724	295,231
Other long term employee benefits		28,812	26,855
Retirement and severance benefits		212,326	207,408
Employee compensation		-	19,140
Warranty expenses		1,040,461	1,088,844
Loss on foreign currency translations		20,718	111,131
Interest expense		156,808	192,494
Loss on valuation of derivative instruments		-	10,088
Loss on sale of property, plant and equipment		34,196	114,511
Income tax expense		1,299,352	1,202,414
Loss on inventory scrap		23,568	881
Gain on foreign currency translations		(115,695)	(48,822)
Interest income		(168,957)	(113,720)
Dividends income		(5,634)	(3,597)
Gain on sale of property, plant and equipment		(17,501)	(80,681)
Gain on investment in associates, net		(1,414,080)	(1,336,618)
Gain on sale of available-for-sale financial assets		(59,013)	-
Gain on valuation of derivative instruments		-	(3,520)
Others		10,179	23,428
		2,109,384	2,401,036

(In millions of won)

		2012	2011
Changes in assets and liabilities:			
Accounts and notes receivable - trade	₩	365,104	151,942
Accounts and notes receivable - other		(59,962)	304,462
Advance payments		(13,049)	(8,465)
Inventories		50,682	(703,739)
Other current assets		(17,841)	60,763
Other non-current assets		4,874	(92,704)
Accounts and notes payable - trade		173,558	44,155
Accounts and notes payable - other		(28,407)	(227,772)
Advances received		4,416	(12,722)
Accrued expenses		119,511	369,200
Payment of warranty expenses		(830,845)	(708,128)
Payment of long-term employee benefits		(12,344)	(9,606)
Payment of retirement benefits		(423,445)	(426,226)
Other current liabilities		(1,218)	7,770
Transfer of retirement benefit		214	(6,176)
Benefit plan assets		(238,997)	325,597
Other non-current liabilities		87,571	8,845
		(820,178)	(922,804)
Cash generated from operations	₩	5,153,910	4,997,468

(b) Significant non-cash investing and financing activities for the years ended December 31, 2012 and 2011 are as follows:

(In millions of won)

		2012	2011
Reclassification from investment in associates to available-for-sale financial assets	₩	-	295,449

Notes to Consolidated Financial Statements

KIA MOTORS CORPORATION AND SUBSIDIARIES

For the years ended December 31, 2012 and 2011

30. Finance Risk Management

The Company's activities are exposed to a variety of financial risks: credit risk, liquidity risk and market risk (comprised of foreign exchange risk and interest rate risk). The treasury department monitors and manages the financial risk arising from the Company's underlying operations in accordance with the risk management policies and procedures authorized by the board of directors.

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company has transacted with customers before evaluating on their credit rating and have their collaterals to control customers on default.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Management believes the Company maintains adequate sources of liquidity to settle short-term financial liabilities. In addition, based on periodic analysis of expected cash outflows, the Company also considers other alternatives, including seeking additional external financing or disposition of financial instruments for investment purpose, to mitigate liquidity risk.

(c) Market risk

Market risk is the risk of fluctuations in fair value of financial instrument and future cash flow by changes of market price. The purpose for managing market price is to optimize profits, while manage and control on exposure to market risk within acceptable limits.

(i) Foreign exchange risk

The Company is exposed to foreign exchange risk arising from high proportion of export in sales amount, which is denominated in foreign currencies. The Company's primary exposure is to the US dollar and Euro and the Company manages to minimize financial risk on fluctuations in foreign exchange in order to stabilize operating activities. The Company consistently evaluates on various foreign exchange risk according to the Company's own guideline for foreign exchange and transaction policy. If necessarily, the Company may enter into foreign currency forwards contracts to hedge its foreign currency risk and strictly limit on speculative transaction.

(ii) Interest rate risk

The Company's asset and liability is exposed to interest rate risk on deposits and loans. In order to minimize actual Interest cost, the Company continuously monitors current status of market interest rate, make a prediction on market data and reviews on method for borrowing and joining financial instruments on deposit. Also, the Company's management monitors the level of interest rates and maintains the balance of borrowings at variable rates and fixed rates.

(d) Management of capital risk

The fundamental goal of capital management is to maintain on financial structure. As for this to be maintained, the Company use debt ratio as indicator of capital management. The debt ratio is calculated as total liability divided by total equity.

31. Risk Management of Financial Instruments

(a) Credit and counterparty risk

(i) Exposure to credit and counterparty risk

The carrying amount of financial assets means maximum exposure in respect of credit and counterparty risk. The maximum exposure as of December 31, 2012 and 2011 are as follows:

(In millions of won)

		2012	2011
Cash and cash equivalents (*)	₩	1,902,988	2,303,819
Short-term financial instruments		2,367,230	1,630,000
Accounts and notes receivable - trade		1,801,731	2,178,699
Accounts and notes receivable - other		485,696	432,453
Other current assets		152,090	95,371
Long-term financial instruments		58,990	21,033
Long-term available-for-sale financial assets		1,606,358	1,229,673
Long-term accounts and notes receivable - trade		2,675	2,322
Guarantee deposits		166,463	173,156
Other non-current assets		122,936	120,788
	₩	8,667,157	8,187,314

(*) Cash on hand is excluded.

(ii) Loss on impairment

The carrying amount of trade account and notes receivable and other receivable divided by maturity as of December 31, 2012 and 2011 are as follows:

(In millions of won)

		2012		2011	
		Accounts and notes receivable - trade	Other receivable (*)	Accounts and notes receivable - trade	Other receivable (*)
Not overdue	₩	1,500,279	806,588	1,882,453	736,582
Past due less than 3 month		260,421	80,463	225,649	37,303
Past due 4~ 6 month		19,123	6,471	48,866	1,128
Past due 7~12 month		43,142	17,481	51,302	25,002
Past due over 12 month		100,836	21,868	98,870	24,300
	₩	1,923,801	932,871	2,307,140	824,315

(*) Other receivables are comprised of other accounts and notes receivables, long-term other accounts and notes receivables, accrued income, short-term loans and guarantee deposits.

Notes to Consolidated Financial Statements

KIA MOTORS CORPORATION AND SUBSIDIARIES

For the years ended December 31, 2012 and 2011

Changes in allowance for doubtful trade accounts and notes receivable and other receivables for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012		2011	
		Accounts and notes receivable - trade	Other receivable	Accounts and notes receivable - trade	Other receivable
Balance at January 1	₩	126,119	25,315	118,860	37,574
Collection of written-off amount		163	7,055	6,279	-
Write-off		(852)	(8,052)	(1,037)	(13,973)
Impairment loss		846	-	62	1,366
Reversal of allowance for doubtful accounts		(167)	(172)	(2,454)	-
Others		(6,714)	457	4,409	348
Balance at December 31	₩	119,395	24,603	126,119	25,315

(b) Liquidity risk

(i) Aggregate maturities of the Company's financial liabilities, including estimated interest, as of December 31, 2012 are summarized as follows:

(In millions of won)

		Within 1 year	1~5 years	Over 5 years	Total
Accounts and notes payable - trade	₩	4,998,445	-	-	4,998,445
Accounts and notes payable - other		1,713,988	-	-	1,713,988
Accrued expenses		921,097	-	-	921,097
Bonds		156,263	1,628,081	-	1,784,344
Borrowings		1,345,932	927,726	343,875	2,617,533
Financial lease liabilities		6,581	17,208	-	23,789
Other current liabilities		3,137	-	-	3,137
Other non-current liabilities		-	108,446	-	108,446
	₩	9,145,443	2,681,461	343,875	12,170,779

(ii) Aggregate maturities of the Company's financial liabilities, including estimated interest, as of December 31, 2011 are summarized as follows:

(In millions of won)

		Within 1 year	1~5 years	Over 5 years	Total
Accounts and notes payable - trade	₩	4,825,992	-	-	4,825,992
Accounts and notes payable - other		1,744,387	-	-	1,744,387
Accrued expenses		799,220	-	-	799,220
Bonds		1,200,122	1,767,182	103,783	3,071,087
Borrowings		2,045,960	622,457	205,749	2,874,166
Financial lease liabilities		6,943	25,044	-	31,987
Other current liabilities		52,511	-	-	52,511
Other non-current liabilities		-	20,727	-	20,727
	₩	10,675,135	2,435,410	309,532	13,420,077

(c) Foreign exchange risk

The Company's capital and income (loss) would have been increased or decreased, if the foreign exchange rate against USD and EUR were higher. The Company assumes that interest rate fluctuates 10% at year ended period. Also, the Company assumes that others variables such as interest rate are not changed by sensitive analysis. The Company analyzed by the same method as used for last period and details for the effect on income before taxes are summarized as follows:

(In millions of won)

		2012		2011	
		10% Up	10% Down	10% Up	10% Down
USD	₩	(154,569)	154,569	(86,354)	86,354
EUR		983	(983)	(31,217)	31,217

(d) Interest rate risk

Sensitivity analysis of interest expenses and interests income for the year from changes of interests rate for the years ended December 31, 2012 and 2011 are as summarized as follows:

(In millions of won)

		2012		2011	
		100 bps Up	100 bps Down	100 bps Up	100 bps Down
Interest income	₩	19,023	(19,023)	21,183	(21,183)
Interest expense		11,756	(11,756)	16,728	(16,728)

Notes to Consolidated Financial Statements

KIA MOTORS CORPORATION AND SUBSIDIARIES

For the years ended December 31, 2012 and 2011

(e) Fair value

(i) Fair value and carrying amount

Details of fair value and carrying amount of financial assets and liabilities by category as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

	2012			2011	
		Carrying amount	Fair value	Carrying amount	Fair value
Loans and receivables:					
Cash and cash equivalents	₩	1,903,309	1,903,309	2,304,169	2,304,169
Short-term financial instruments		2,367,230	2,367,230	1,630,000	1,630,000
Account and notes receivable - trade		1,801,731	1,801,731	2,178,699	2,178,699
Account and note receivable - other		485,696	485,696	432,453	432,453
Long-term account and notes receivable - trade		2,675	2,675	2,322	2,322
Other financial assets		481,724	481,724	389,448	389,448
	₩	7,042,365	7,042,365	6,937,091	6,937,091
Available-for-sale financial assets:					
Long-term available-for-sale financial assets	₩	1,606,358	1,606,358	1,229,673	1,229,673
Held-to-maturity investments:					
Held-to-maturity investments	₩	18,755	18,755	17,380	17,380
Derivative financial assets:					
Currency option (hedge)	₩	-	-	3,520	3,520
Liabilities recognized by amortized cost:					
Accounts and notes payable - trade	₩	4,998,445	4,998,445	4,825,992	4,825,992
Accounts and notes payable - other		1,713,988	1,713,988	1,744,387	1,744,387
Bonds		1,620,707	1,652,202	2,811,312	2,840,434
Debt		2,233,501	2,228,179	2,767,194	2,735,268
Financial lease liabilities		21,871	21,871	28,795	28,795
Other financial liabilities		1,032,556	1,032,556	822,109	822,109
	₩	11,621,068	11,647,241	12,999,789	12,996,985

	2012			2011	
	Carrying amount		Fair value	Carrying amount	Fair value
Derivative financial liabilities:					
Currency forward (hedge)	₩	-	-	7,314	7,314
Currency option (hedge)		-	-	10,088	10,088
	₩	-	-	17,402	17,402

The Company measured the fair value of financial instruments as follows:

- The fair value of available-for-sale financial assets traded within the market is measured at the closing bid price quoted at the end of the reporting period.
- The fair value of the derivatives is the present value of the difference between contractual forward price and future forward price discounted during the remaining period of the contract, from present to contractual maturity.

The fair value of current receivables is close to their carrying amounts. In addition, the fair value of other financial instruments is determined as the present value of estimated future cash flows discounted at the current market interest rate. As of December 31, 2012, there isn't any significant business climate and economic environment changes affecting the fair value of financial assets and liabilities.

(ii) Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable, are based on the government yield curve at the reporting date plus an adequate credit spread. The interest rates used as of December 31, 2012 and 2011 are summarized as follows:

	2012	2011
Derivatives	-	3.22~3.30%
Debts and Bonds	3.08%	3.41%

Notes to Consolidated Financial Statements

KIA MOTORS CORPORATION AND SUBSIDIARIES

For the years ended December 31, 2012 and 2011

(iii) Fair value hierarchy

Fair value measurement classified by fair value hierarchy as of December 31, 2012 are summarized as follows:

(In millions of won)

		Level 1	Level 2	Level 3	Total
Available-for-sale financial assets:					
Marketable securities	₩	1,218,122	-	-	1,218,122

(*) Financial assets and liabilities carried at fair value by each valuation method are defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or in indirectly
- Level 3: input for the asset or liability that are not based on observable market data

(f) Income and expense by financial instruments category for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012			2011		
		Finance income	Finance expense	Other comprehensive income	Finance income	Finance expense	Other comprehensive income
Loans and receivables	₩	197,688	46,142	-	146,644	49,780	-
Available-for-sale financial assets		64,647	202	127,042	3,597	1	342,338
Held-to-maturity investments		895	-	-	831	-	-
Liabilities recognized by amortized cost		139,565	164,801	-	25,510	260,347	-
Derivative financia instruments		-	-	5,543	3,520	10,088	2,507
	₩	402,795	211,145	132,585	180,102	320,216	344,845

32. Transactions and Balances with Related Companies

(a) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012		2011	
		Sales and others	Purchase and others	Sales and others	Purchase and others
Associates	₩	1,097,815	11,417,266	1,352,171	9,083,582
Others		3,486,801	8,897,832	3,819,206	9,833,936
	₩	4,584,616	20,315,098	5,171,377	18,917,518

(b) Account balances with related companies as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

	2012			2011	
		Accounts receivable and others	Accounts payable and others	Accounts receivable and others	Accounts payable and others
Associates	₩	134,496	1,691,388	196,993	1,383,859
Others		423,642	1,658,227	257,297	1,682,812
	₩	558,138	3,349,615	454,290	3,066,671

The Company has financial instruments managed by HMC investment securities Co., Ltd. amounting W 160,000 million, which is one of the other related company

(c) Executive compensation of the Parent Company for each of the following categories for the year ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012	2011
Compensation			
Salaries	₩	52,425	44,644
Retirement and severance benefits		10,731	10,904

(d) Details of guarantee which the Company has provided for related companies as of December 31, 2012 are summarized as follows:

(In thousands of foreign currency)

Relative	Company	Type of borrowings	Lender	Period	Amount
Associates	Hyundai Card Co., Ltd.	Guarantee	GE Capital	2012.9.24 ~ 2015.1.9	USD 30,000

33. Date of Authorization for issue

The consolidated financial statements were authorized for issue on January 25, 2013, at the Board of Directors meeting, and it is going to be authorized on March 22, 2013, at the general meeting of stockholders.

PRODUCT LINE-UP

KIA QUORIS • K9

EXPERIENCE NEW LUXURY

The Kia Quoris is a premium RWD luxury sedan with state-of-the-art features that enhance overall product quality. A sense of 'modern classic' dignity has been added while maintaining Kia's young and dynamic design identity. Innovative side mirror puddle lamps illuminate the ground for better visibility when approaching and exiting the vehicle at night while convenient door handle pocket lights aid vehicle access in the dark It offers a comfortable and pleasant ride, while touting a thrilling maximum output of 334 ps and the maximum torque of 40.3 kg·m thanks to the V6 3.8 GDI Engine and 8-speed automatic transmission.

SEDONA • CARNIVAL

RELIABLE MULTI-PLAYER

Stylish, durable, sophisticated. The Carnival cuts a classy figure as the only MPV that truly finds the right mix between luxury and convenience – and it's also a pure joy to drive. Kia innovation brings you the modern fusion of a high-end sedan and multi-purpose utility vehicle.

SORENTO

PRESTIGE REBORN

Sorento is built for urban living but created by designers who have drawn on their deep-seated understanding of off-road driving. While it features a dynamic design that enhances city life, the all-new Sorento is a robust, masculine and capable off-road vehicle. Its modern design, comfort factor and sophisticated feel on the road encourage you to look beyond traditional capabilities.

FORTE • CERATO KOUP

IRRESISTIBLE FASCINATION

The Cerato (Forte) Koup is a sporty two-door differentiated from its sister sedan in terms of its dynamic and sporty looks, optimal size befitting a coupe bodystyle, top-notch engine performance and safety, and numerous cutting-edge convenience features. A sense of beauty and speed come together based on the concept of 'simplicity of the straight line'.

FORTE • CERATO

A GIFT OF TRUE INNOVATION

The new Cerato is a next-generation compact sedan with diverse cutting-edge features complementing its sophisticated and dynamic design. Redefining the very best in automobile design, its bold, coupé-like proportions and eye catching lines and curves exude brisk acceleration and effortless fluidity of motion. With its beautiful exterior styling, the new Cerato features superb performance and power along with a smooth and stable ride as well as uncompromised safety.

SOUL

FREE YOUR MIND

We take extra care with each revision of the Soul because it defines what we have achieved as a design-centered company. The latest Soul features the addition of ambient touches to its signature look and luxurious convenience features, such as a button-start smart key and electronic mirrors to expand Soul's commercial appeal.

OPTIMA • K5

HONE YOUR COMPETITIVE EDGE

Innovation, a sporty stance, and style with confident individuality are the characteristics of Optima, a Kia's most popular sedan. A passionate mid-size car that loves the road, Optima is grandiose when you want it to be, but sporty and fun when you feel like dressing down.

CADENZA • K7

DYNAMIC INTELLIGENCE

This was the first Kia Motors product to be released utilizing the company's newly-developed large-sedan platform. The Cadenza is best known for its luxurious styling, in which 'light' and 'lines' stand boldly out, while its top-end power performance provides an exhilarating driving experience. The current model sports innovations such as improved safety and comfort features with reduced road noise.

RONDO • ALL-NEW CARENS

THE STYLISH FAMILY CAR FOR MODERN LIFE

Completely refurbished with an all-new eye-catching body shell, the Carens combines the muscle of an SUV with the roominess of an MPV. Outfitted with a robust bumper, elegant side moldings and expansive hood, Carens' creative adaptation of an MPV face with sporty SUV styling cues is complemented by a larger wheelbase to offer a total package that will stop the competition in its tracks.

BORREGO • MOHAVE

INSPIRING PERFORMANCE

Inspired by the harsh beauty of the desert, the Mohave has the power to tame nature's furies. Designed in our labs and tested in the wild, Mohave is for drivers who refuse to stay within the lines. We invite you to push its capabilities to the limit and see why the Mohave has truly earned its name.

VENGA

THE VERSATILE VENGA

The Venga is designed exclusively for the European market. We began with the observation that other companies' MPVs sacrificed too much style with their singular focus on functionality. We applied Kia's signature grille to the front profile, expanded the window coverage and carved out a panoramic sunroof to flood the cabin with natural light. The result is a new-concept city styled MPV that showcases the innovation and inspiration driving Kia's success.

picanto • morning

ALL IN SMALL

The moment you take the wheel of the Kia Picanto your eyes will widen and your pulse will quicken. From sassy styling to comfort and safety features, Kia has thought of everything. Picanto is an eye-catcher – a well-dressed, sporty ride that perfectly balances cutting-edge design, technical innovation and the pure, simple joy of driving.

RIO • PRIDE

A TALENTED COMPACT

Rio doesn't just stand out from the competition, it stands out – period. Its exterior cuts a jaunty, fun-loving profile. On the inside, you are immersed in a private oasis that soothes your senses. Rio carries you away in its calm embrace, enveloping you in a private, personal space. The five-door model is a particularly excellent combination of value, sophistication and practicality, giving it broad market appeal.

cee'd

LIVE MORE LIFE

cee'd is an all around delight – an experience that challenges all preconceptions. Built for the senses, cee'd springs forward in a lively color palette that commands attention. But once you get behind the wheel, you feel yourself melting into a finely-crafted cockpit that removes all stress from the driving experience.

COMPANY HISTORY

1940's ~ 1960's

1944. 12 Kyungsung Precision Industries Ltd. founded

1952. 03 Production of Korea's first bicycle ('Samcheonri')

1962. 01 Korea's first truck, the K-360, introduced

1970's ~ 1980's

1973. 06 Sohari Plant opened

08 Launch of Brisa, Korea's first passenger car

1975. 05 First export of completely built cars

1981. 08 Bongo, Korea's first multi-purpose car, introduced

1987. 03 Pride passenger car produced

1989. 07 Hwasung factory completed

1990's ~ 2000

1992. 10 Kia Motors America (KMA) established

1993. 07 World's first compact SUV, Sportage, introduced

1995. 02 Kia Motors Europe (KME) established

1998. 01 Carnival (Sedona), Korea's first minivan, introduced

2000 ~ 2005

2002. 02 Sorento introduced

04 Surpassed 10 million units in cumulative production

11 Tianlima mass-produced at Kia Motors' Chinese plant / Kia's 10 millionth vehicle produced / Sorento introduced in China / Regal introduced / Ceremony to launch mass-production of the first / TianLima sedan with Dong Feng Train Group of China

2003. 03 Sales in the U.S. surpass 10 million units / Opirus (Amanti) premium large-size sedan launched

2004. 08 New Sportage introduced

2005. 03 Kia's 5 millionth vehicle for export produced

04 New Pride (Rio) introduced

07 Grand Carnival (Sedona) introduced

2006 ~ 2008

2006. 10 Ground-breaking ceremony for U.S plant held in Georgia, U.S.A.

2007. 04 Construction of Slovakia plant completed

12 Mass-production commences at Yancheng 2nd Plant, China

2008. 01 Mohave (Borrego) premium SUV introduced

06 Completion of Kia Design Center America

08 Forte (all-new Cerato) compact sedan introduced

09 Soul introduced

11 Design Management Award received from Korean Design Awards

2009 ~ 2011

2009. 03 Soul received the Korean auto industry's first red dot Design Award / 'EcoDynamics' green brand announced

04 Sorento R premium CUV introduced

06 Forte Koup introduced

07 Forte Hybrid LPi introduced

11 K7 (Cadenza) s emi large-size luxury sedan introduced

12 Venga received iF Design Awards

2010. 02 Construction of Georgia plant in the US completed

03 Venga honored with red dot Design Award

Progressive, urban-style CUV, Sportage R launched / Sponsorship for the Union of European Football Associations (UEFA) extended to 2017

04 K5 (Optima) innovative medium-size sedan introduced

06 Gwangju plant awarded Plant Quality Award from J.D. Power

07 Sportage ranked first in the U.S. in terms of residual value

08 Forte GDI introduced

10 PoP, Kia's eco-friendly electric concept car introduced

12 Optima (K5) and Sportage win the iF Product Design Award

Annual production and sales surpassed 2 million units per year

2011. 01 All-new Morning launched

02 Forte Eco Plus launched

03 Optima (K5) wins the Best of the Best from the red dot Design Award, a first for a Korean automotive company

Cumulative export volume reached over 10 million units

05 Optima (K5) Hybrid launched

06 Soul GDI launched

11 Picanto (Morning) wins the iF Product Design Award

2012

2012. 01 Kia launches USD 13 million 'Green Light Project' to improve social mobility of needy children

02 Kia Motors wins awards in four areas in the 5-Year Cost to Own Award of Kelley Blue Book

03 Kia Picanto (Morning) and Rio (Pride) win red dot 'Product Design' awards

All-new Kia cee'd premiers at Geneva Motor Show

05 All-new elegant and luxury flagship sedan Kia Quoris (K9) is launched

06 Construction begins for third China plant with a 300,000-unit annual capacity

Kia Motors is selected as the 'Best Car Manufacturer' in the U.K.

07 Kia Motors wins the grand slam with prizes from the world's top three design awards - red dot Design Award, if Design Award, IDEA Award

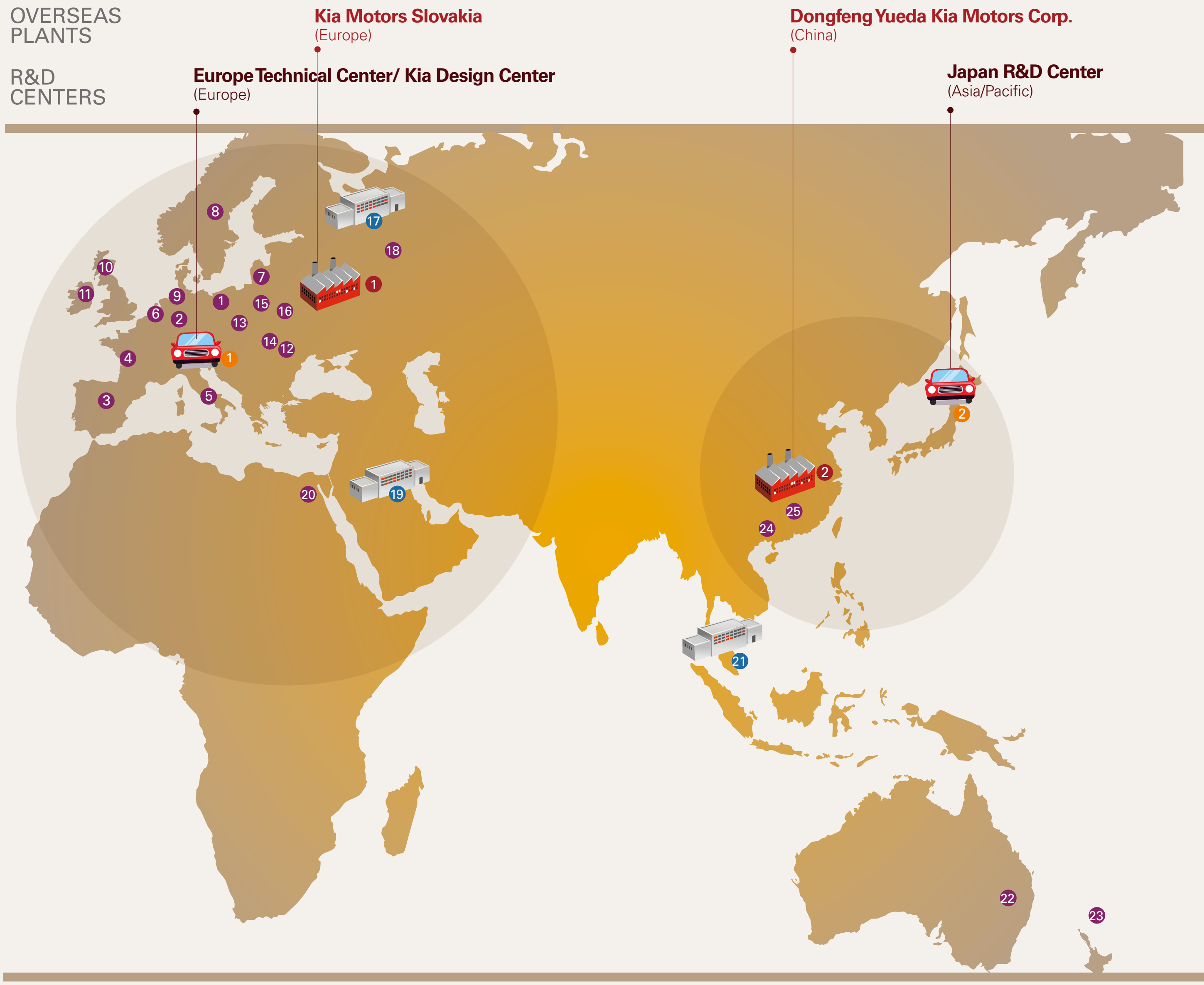
08 New Kia cee'd acclaimed for exterior and interior design at Automotive Brand Awards

09 World premiere of all-new Kia Rondo (Carens) compact MPV at Paris Motor Show

10 Kia Motors enters the ranks of Interbrand's 'Top 100 Best Global Brands'

11 All-new third-generation Kia Cerato (Forte) premieres at Los Angeles Motor Show

GLOBAL NETWORK



OVERSEAS SALES SUBSIDIARIES & REGIONAL HQs

Europe

1. Kia Motors Europe
2. Germany
3. Spain
4. France
5. Italy
6. Belgium
7. Poland
8. Sweden
9. Netherlands
10. UK
11. Ireland
12. Kia Motors Central Europe
13. Austria
14. Hungary
15. Czech
16. Slovakia
17. Eastern Europe/ CIS Regional HQ
18. Russia

Africa/Middle East

19. Middle East/Africa Regional HQ
20. Egypt Office

Asia Pacific

21. Asia Pacific Regional HQ (Asia Office)
22. Australia
23. New Zealand

China

24. China Completed Car Sales HQ
25. Dongfeng Yueda Kia Motors

North America

26. USA
27. Canada

South America

28. Central & South America Regional HQ
29. Chile Office

OVERSEAS PLANTS

Europe

❶ Kia Motors Slovakia

China

❷ Dongfeng Yueda Kia Motors Corp.
- No. 1 Plant
- No. 2 Plant

North America

❸ Kia Motors Manufacturing Georgia

R&D CENTERS

Europe

❶ Europe Technical Center
Kia Design Center

Asia Pacific

❷ Japan R&D Center

North America

❸ America Technical Center
❹ Kia Design Center America

Overseas Sales Subsidiaries & Reginal HQ

Overseas Plants

R&D Center

BOARD OF DIRECTORS

Hyoung-Keun Lee
- Currently, Vice Chairman, Kia Motors Corp.
- (Former) President, Kia Motors Corp.

Sam-ung Lee
- Currently, President, Kia Motors Corp.
- (Former) Executive Vice President, Kia Motors Corp.

Euisun Chung
- Currently, Vice Chairman, Hyundai Motor Corp.
- (Former) President, Kia Motors Corp.

Han-Woo Park
- Currently, Executive Vice President / CFO, Kia Motors Corp.
- (Former) Executive Vice President, Hyundai Motor Company

Sang Koo Nam
- Currently, Chair Professor of Business Administration at Gachon University
- (Former) President of Korea Corporate Governance Service

Hyun-Kook Hong
- Currently, Vice Chairman, Gaduk Tax Consulting Associates
- (Former) Auditor of NTS (National Tax Service)
- (Former) Director of Regional NTS in Daegu

Keon-Soo Shin
- Currently, Attorney at law, KCL (Kim, Choi & Lim)
- (Former) Chief Prosecutor, Criminal Department, Seoul High Prosecutor's Office

Won-Joon Kim
- Currently, Advisor at Kim & Chang Law Firm
- (Former) Executive Director of Market Oversight at the Fair Trade Commission

Doo-Hee Lee
- Currently, Professor of Business Administration at Korea University
- Currently, President of APAIE (Asia-Pacific Association for International Education)
- (Former) President of Korean Marketing Association

As of March 31st, 2013

CONTACT INFORMATION

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