

# DAIMLERCHRYSLER



Driven by Values  
Annual Report 2005

# Key Figures

## DaimlerChrysler Group

	2005	2004	2003	05/04
Amounts in millions of €				Change in %
Revenues	149,776	142,059	136,437	+5
Western Europe	47,337	48,845	51,157	-3
of which: Germany	20,948	22,315	24,182	-6
NAFTA	77,611	73,266	73,477	+6
of which: United States	67,015	64,232	64,757	+4
Other markets	24,828	19,948	13,736	+24
Discontinued operations	-	-	(1,933)	-
Employees (at year-end)	382,724	384,723	362,063	-1
Investments in property, plant and equipment	6,580	6,386	6,614	+3
Research and development expenditure	5,649	5,658	5,571	-0
Cash provided by operating activities	12,353	11,060	13,826	+12
Operating profit	5,185	5,754	5,686	-10
Net income	2,846	2,466	448	+15
per share (in €)	2.80	2.43	0.44	+15
Total dividend	1,527	1,519	1,519	+1
Dividend per share (in €)	1.50	1.50	1.50	0

Divisions >>

Unit Sales  
Structure >>

# Divisions

Amounts in millions of €

2005                      2004                      2003                      05/04  
Change in %

## Mercedes Car Group

Operating profit (loss)	(505)	1,666	3,126	.
Revenues	50,015	49,630	51,446	+1
Investments in property, plant and equipment	1,629	2,343	2,939	-30
Research and development expenditure	2,418	2,634	2,687	-8
Unit sales	1,216,838	1,226,773	1,216,938	-1
Employees (Dec. 31)	104,345	105,857	104,151	-1

## Chrysler Group

Operating profit (loss)	1,534	1,427	(506)	+7
Revenues	50,118	49,498	49,321	+1
Investments in property, plant and equipment	3,083	2,647	2,487	+16
Research and development expenditure	1,710	1,570	1,689	+9
Unit sales	2,812,993	2,779,895	2,637,867	+1
Employees (Dec. 31)	83,130	84,375	93,062	-1

## Commercial Vehicles

Operating profit	2,093	1,332	811	+57
Revenues	40,634	34,764	26,806	+17
Investments in property, plant and equipment	1,743	1,184	958	+47
Research and development expenditure	1,281	1,226	946	+4
Unit sales	824,867	712,166	500,981	+16
Employees (Dec. 31)	117,183	114,602	88,014	+2

## Financial Services

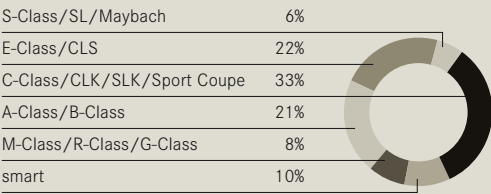
Operating profit	1,468	1,250	1,240	+17
Revenues	15,439	13,939	14,037	+11
Contract volume	117,724	102,399	98,199	+15
Investments in property, plant and equipment	45	91	76	-51
Employees (Dec. 31)	11,129	11,224	11,035	-1

## Other Activities

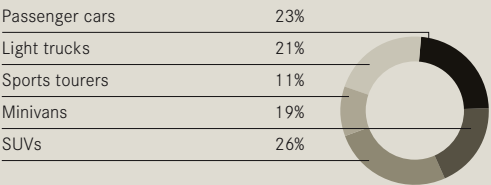
Operating profit	591	456	1,329	+30
Revenues	2,396	2,200	4,084	+9
Investments in property, plant and equipment	109	134	169	-19
Research and development expenditure	240	228	420	+5
Employees (Dec. 31)	18,164	20,636	20,192	-12

# Unit Sales Structure

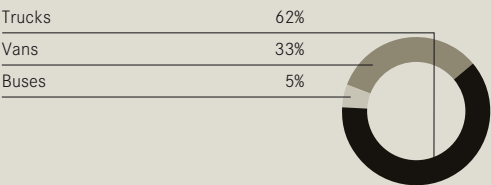
## Mercedes Car Group



## Chrysler Group



## Commercial Vehicles



Doing business means creating values that last. One of these values is mobility – our customers' independence to get to wherever they want to go, whenever and in whatever manner they choose. To fulfill our customers' desire for mobile independence, we have been developing and producing innovative passenger cars and powerful commercial vehicles for 120 years. We also offer our customers a full range of sophisticated financial services. We at DaimlerChrysler are working on this all over the world. Responsible and open to innovation, we deliver top performance day after day.

# DAIMLERCHRYSLER

## Mercedes Car Group

MAYBACH



Mercedes-Benz

 smart<sup>®</sup>

## Chrysler Group



DODGE

CHRYSLER



Jeep<sup>®</sup>

## Commercial Vehicles



Mercedes-Benz



FUSO



## DaimlerChrysler Financial Services

DaimlerChrysler Bank

Chrysler Financial

Mercedes-Benz Financial

DaimlerChrysler Truck Financial

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**The Management Report is prepared in accordance with German Accounting Standard DRS 15 and is audited by independent auditors.**

In this chapter, the Board of Management provides information on the business situation, the Group's finances, cash flow and profitability, and the opportunities and risks of future developments.

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**DaimlerChrysler comprises four divisions.**

This chapter describes the business developments of the divisions. In addition, we report here on new products, major investments and the measures we have initiated to enhance quality and efficiency.

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**DaimlerChrysler is committed to the principles of sustainability.**

This chapter provides details of the Group's cross-divisional activities. Economic, ecological and social responsibility are the basis of our actions.

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The system of corporate management and supervision at DaimlerChrysler is oriented towards the German Corporate Governance Code and international standards.

This chapter explains the functions, interactions and compensation of the bodies of the company, especially the Board of Management and the Supervisory Board.

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DaimlerChrysler's consolidated financial statements are prepared in accordance with US Generally Accepted Accounting Principles (US GAAP) and are audited by independent auditors.

In this chapter, the consolidated financial statements are shown in full detail.

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DaimlerChrysler  
Worldwide

Financial Calendar 2006

In this section, you will find more facts and figures, supplementary information and practical suggestions for other sources of information.



## Top Performance

Developing outstanding and durable technologies, producing innovative and appealing products, offering customer-oriented services and consistently delivering top performance in all of these areas – that’s what we are doing to ensure that Daimler-Chrysler maintains and enhances its leading position in global markets. *We are working on this with all our strength, tremendous commitment and a clear focus on the future.*

# Responsibility

As automotive pioneers, we take responsibility and meet the challenges connected with the automobile, which has become an indispensable part of our daily lives. We are continually developing new and sustainable solutions for greater traffic safety, lower fuel consumption, reduced pollutant and noise emissions, and future-oriented transportation concepts. *We act responsibly, transparently and reliably – both inside and outside our company.*

## Open-mindedness

We have clear ideas about the future of our company, and we pursue our goals for the benefit of our customers, shareholders and employees. Our continued success depends on our ability to respond creatively to change. We know that the world is constantly on the move, and we are prepared to alter our thoughts and actions if a situation calls for it. *After all, only those who are open to change can be successful over the long term.*

## Driven by Values

Ever since Gottlieb Daimler and Carl Benz invented the automobile, their strong pioneering spirit has inspired us to deliver outstanding automotive innovations. Through our product design, automotive engineering and safety technology, we are pioneering innovators developing groundbreaking automotive concepts that promote individual mobility for millions of people all over the world. *So that our customers experience the fascinating values embodied by our exceptional automobiles – now and in the future.*



Christoph Goesser has big ambitions  
and the right partner.

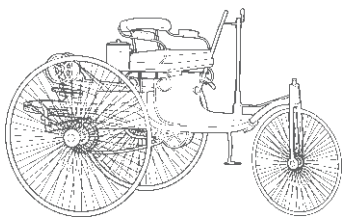






## Innovative

“Our customers expect innovative advisory services. They have high demands, which we have been satisfying for many years. They trust us and recommend us to others. I am aware of this responsibility and do my best every day - in my own company, as chairman of the REM AG and as Honorary Consul for the Republic of Slovakia. As well as performance, I place great importance on personal appearance. Both aspects should ideally complement each other. That’s also what I like about my car. You could say that the S-Class suits me perfectly.”



Carl Benz and Gottlieb Daimler invented the automobile almost simultaneously in the year 1886. This pioneering spirit is a constant spur for our engineers to develop the safest and most innovative automobiles in the world.







For Janice Ford-Johnson and her Jeep® Commander there is always something new to discover.

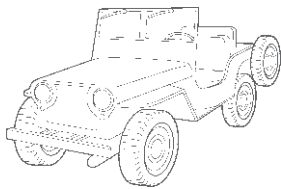






## Individual

“There are no two days alike in my life. My job and my lively family make sure of that. My grandchildren Tamir and Taariq are the liveliest of all: fishing for salmon, inline skating, playing the drums – it’s a good thing that Grandma’s so active and has a car you can fit nearly everything and everybody into: Just yesterday I had half a baseball team in it. But my Jeep® Commander is comfortable as well as practical. It does everything you ask of it and has a lot of character – like me! Maybe that’s why I like it so much.”



A lot has happened since the first Jeep® was developed in 1941. An uncomfortable military vehicle was then adapted to civilian use, allowing owners like Janice Ford-Johnson to enjoy the freedom, adventure, mastery, authenticity and capability of Jeep® vehicles.





You can rely on Jürgen Behm  
and his Actros.

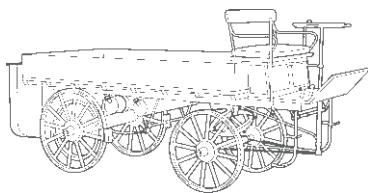






## Reliable

“I only slow down when I have to. In my business the important thing is to keep moving, one day after another. Waiting around doesn’t get you anywhere: get in the cab and drive, that’s what it’s all about. Direct-gear transmission, injection pressure, planetary hubs – that’s all very well. But when I’m on the road only one thing counts: getting myself and the goods to the right place at the right time in good condition. In a word: ‘reliability’. That’s why I decided on the Actros BlackEdition. And I would do the same thing again. Because it’s never let me down.”



In 1896, Gottlieb Daimler built the first motorized truck in Stuttgart. Up to the present day, Mercedes-Benz trucks have always been among the most reliable in the world. So that people like Jürgen Behm can do their job.





For over twenty years Bill Golling has offered his customers the right vehicle with the right financing solution by Chrysler Financial.

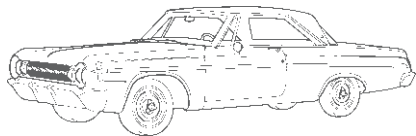




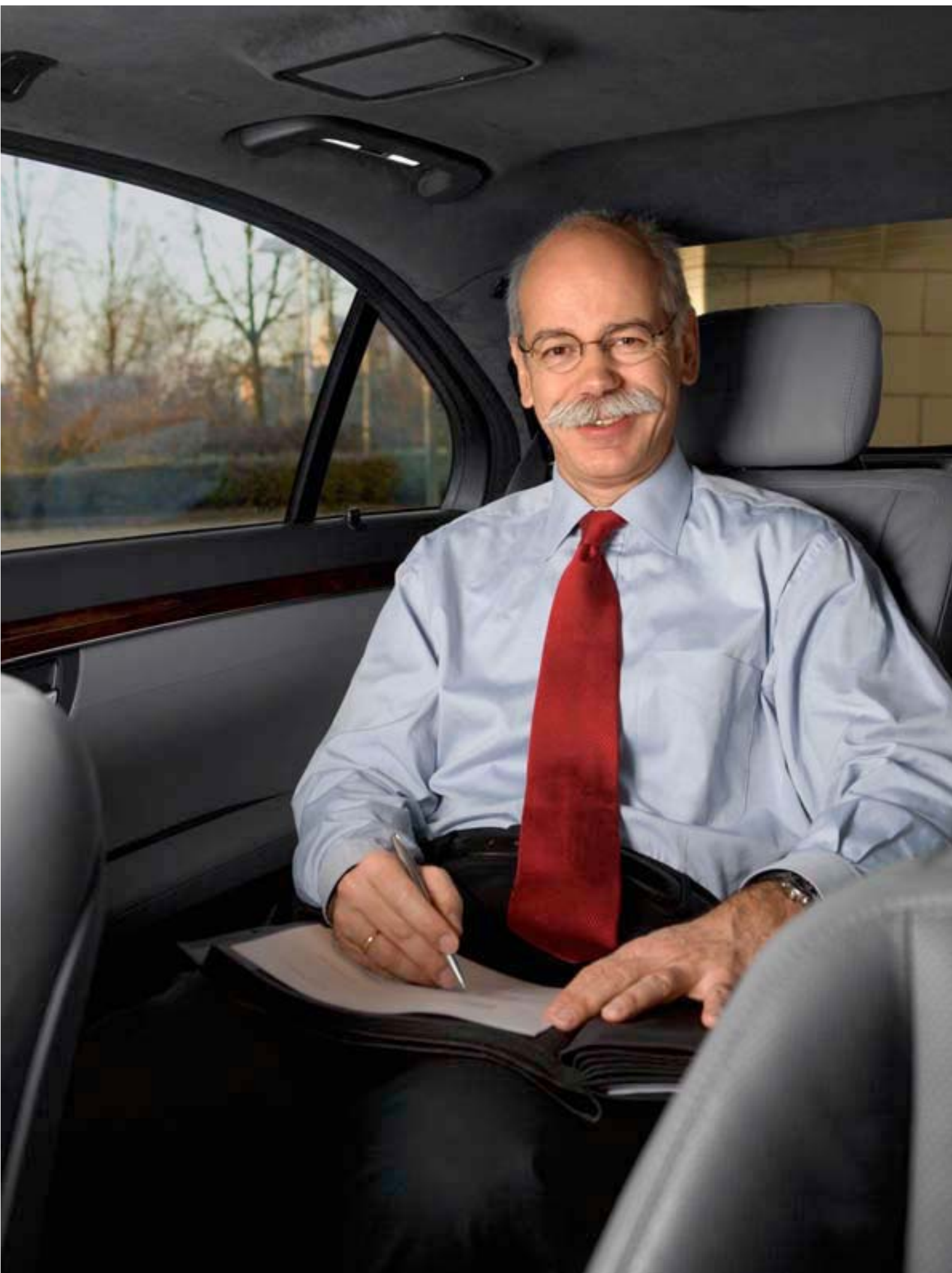


## Excellent

“For over twenty years, DaimlerChrysler Financial Services, specifically Chrysler Financial, has served as my automotive finance partner of choice. Because of their dedication to the success of my business, I consider them one of my most important business relationships. Whether it’s financial solutions for my dealership operations or retail or lease offerings, I have found that their people, products and processes are solely dedicated to helping me sell more vehicles. Currently, Chrysler Financial finances more than 90 percent of our retail and lease customers. They provide an outstanding blend of customer service and innovative automotive financing solutions. Now that’s what I consider excellent value.”



Since the introduction of the Dodge Polara with the powerful HEMI engine in 1964, Chrysler Financial has provided dealers like Bill Golling with the finest automotive financing products and services to help drive sales of Chrysler, Jeep® and Dodge vehicles.



*Dear shareholders,*

I have held the top position at DaimlerChrysler since the beginning of this year. For me, it is the most interesting job in the entire automotive industry and a great professional challenge. With this letter, I address you personally for the first time in a DaimlerChrysler Annual Report.

This Annual Report provides you with detailed information on business developments, our financial situation and DaimlerChrysler in general. I'll begin with a brief overview of the current situation.

DaimlerChrysler is one of the world's most renowned automotive companies, offering a broad spectrum of unique brands. With our comprehensive range of passenger cars and commercial vehicles, we are represented worldwide in nearly all markets and market segments. Last year alone, we launched 17 new models. We safeguard our market position through innovation and pioneering technologies. Examples include new systems designed to improve traffic safety such as BAS PLUS brake assistance and PRE-SAFE® occupant protection, as well as BlueTec – the cleanest diesel engines in the world.

Although we are not yet where we want to be, our strengths give us confidence in our future. We know that we need to do more to improve our profitability. Last year we did not cover our cost of capital, and this is something we are striving to change. We can only create the right conditions for a sustainable increase in the value of our company – and thus also for the positive development of our share price – through long-term profitable growth.

In view of the difficult competitive environment, this is an ambitious goal. We have therefore initiated a far-reaching transformation process throughout DaimlerChrysler so that we can permanently improve our competitiveness.



All of the measures taken in this context have one thing in common:  
We will get faster, more flexible, leaner and more efficient, and seek to achieve operational excellence in everything we do.

At the same time, we are working on improving our cost structure in order to match the level of our best competitors. However, it would be shortsighted to look only at costs. Our focus is on products. In this area we want to achieve even more - with the more efficient use of our resources. We aim to combine our strengths within DaimlerChrysler to develop, produce and sell compelling top-quality products that provide maximum customer benefit. Ultimately, our products will be the measure of our success. And we are already making progress in this regard.

The Mercedes-Benz brand now has the youngest and most comprehensive product range in its long history. With the S-, B-, M- and R-Class, Mercedes-Benz launched four completely new model series in 2005 - more than ever before.

With its new vehicles, the Chrysler Group is increasingly setting itself apart from its North American competitors in terms of quality, innovation and design. Last year, it launched the Dodge Charger, the Ram Mega Cab, the Viper Coupe and the Jeep® Commander, as well as the powerful and sporty SRT vehicles.

Our Commercial Vehicles division profits from its global reach and will continue to supply vehicles tailored to local markets at competitive prices. Thanks to strong products - such as the new vehicles of the Axor and Atego families, the new Mercedes-Benz and Setra buses and the FUSO Canter - we set new records for unit sales of commercial vehicles in 2005. We are pioneers in the market with our hybrid drive and BlueTec diesel technology.

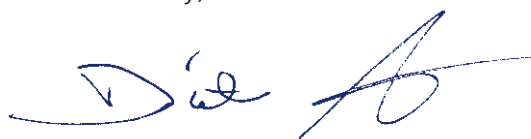
In total, we will launch approximately 50 new vehicles in the years 2005 through 2008. To do this, we will invest nearly €35 billion in the next three years. This will be the foundation for our future success.

Our Annual Report motto is “Driven by Values”. Top performance, responsibility and open-mindedness are the principles behind our actions. We place a top priority on adherence to ethical principles. We intend to live these values – internally and externally – enabling our customers to experience “driving values” with our products.

I have great confidence in our company. DaimlerChrysler undoubtedly has the potential to create sustainable value for you, our shareholders, and concurrently for our customers, our employees and society in general. My colleagues and I will make every effort to ensure that we realize this potential.

I cordially invite you to join us on this path forward.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Dieter Zetsche', with a stylized flourish at the end.

Dieter Zetsche



# Board of Management



**Jürgen E. Schrempp** | 61  
Chairman of the Board of Management until December 31, 2005



**Dieter Zetsche** | 52  
Chairman of the Board of Management /  
Head of Mercedes Car Group | Appointed until 2010



**Thomas W. LaSorda** | 51  
Chrysler Group | Appointed until 2007



**Andreas Renschler** | 47  
Truck Group | Appointed until 2007



**Bodo Uebber** | 46  
Finance & Controlling / Financial Services | Appointed until 2011



**Thomas Weber** | 51  
Group Research & Mercedes Car Group Development | Appointed until 2010



**Günther Fleig** | 57  
Human Resources & Labor Relations Director | Appointed until 2009



**Rüdiger Grube** | 54  
Corporate Development | Appointed until 2007



**Eric R. Ridenour** | 47  
Chief Operating Officer (COO) Chrysler Group | Appointed until 2008



**Thomas W. Sidlik** | 56  
Global Procurement & Supply | Appointed until 2008

**Retired from the Board of Management:**

**Jürgen E. Schrempp** | 61  
retired on December 31, 2005

**Eckhard Cordes** | 55  
retired on August 31, 2005

**Jürgen Hubbert** | 66  
retired on April 6, 2005

# Important Events in 2005



**Two world premieres in Detroit.** At the North American International Auto Show, the Mercedes Car Group presents the new M-Class and the Chrysler Group presents the new Dodge Charger.



**New Van Technology Center (VTC) opened.** A total of 1,000 jobs from the Stuttgart region are brought together at the new VTC. The VTC will enable the Vans business unit to further enhance its quality and efficiency, thus creating the right conditions for global growth.

>> | JANUARY | FEBRUARY | MARCH | APRIL | MAY | JULY |

**Mercedes Car Group starts CORE program.** The Mercedes Car Group initiates a comprehensive program to improve efficiency and increase earnings. As a result of the CORE program, the Mercedes Car Group intends to achieve a return on sales of 7% by 2007.

**World premiere of Mercedes-Benz R-Class in New York.** The grand sports tourer is a combination of well-known vehicle categories such as sporty sedan, station wagon, van and sport utility vehicle (SUV), creating a new, unique profile.

**Presentation of new business model for smart brand.** The new business model aims to reduce fixed costs while increasing productivity.

**Successful maiden flight of Airbus A380.** The successful first flight on April 27, 2005 of the world's biggest passenger aircraft, the Airbus A380, is a milestone in the history of civil aviation.

**Supervisory Board decides on changes to top management.** Dr. Dieter Zetsche becomes Chairman of the Board of Management of Daimler-Chrysler AG as of January 1, 2006.

**Chrysler Group improves productivity.** The highly respected Harbour Report North America shows that the Chrysler Group increased productivity by 4.2% in 2004. Over the last three years, the Chrysler Group has improved its manufacturing productivity by an industry-leading 19%.



**Pioneering innovations at the Commercial Vehicles Show in Amsterdam.** Amongst others BlueTec diesel technology for the Atego and Axor truck series and the new hybrid-drive Canter light truck are presented for the first time.

SEPTEMBER

**World premiere of new S-Class at Frankfurt Motor Show.** The new S-Class is fitted with around a dozen pioneering innovations to offer the highest levels of automotive safety and comfort.

**Board of Management decides on staff reductions at the Mercedes Car Group.**

The Board of Management approves a package of measures with the goal of reducing the Mercedes Car Group's workforce in Germany by 8,500 jobs.

**DaimlerChrysler obtains largest order for hybrid buses.** DaimlerChrysler Commercial Buses North America receives an order to supply 500 Orion VII buses with hybrid drive to the New York transport authorities. This is the world's biggest order for hybrid buses to date.

OCTOBER

**New factory for World Engine.** In Dundee, Michigan, series production starts of the World Engine, developed together with partners Mitsubishi Motors and Hyundai Motor. This new 4-cylinder gasoline engine will benefit from substantial economies of scale.



**Financial Services starts financing company in China.** DaimlerChrysler Automotive Finance (China) Ltd. starts business providing financing for passenger cars and commercial vehicles, including insurance and dealer financing.

NOVEMBER

**DaimlerChrysler sells shareholding in Mitsubishi Motors.** DaimlerChrysler sells its shareholding in MMC for €970 million. The alliance projects with MMC are to be continued.

**One year of reliable operations for Toll Collect.** Toll Collect's electronic toll system for trucks over 12 metric tons has been running smoothly since starting on January 1, 2005. Its functions are expanded with the new On-Board-Unit 2 software on January 1, 2006.

DECEMBER

**Sale of DaimlerChrysler Off-Highway business unit to EQT.** As part of the strategic focus on the core business, DaimlerChrysler sells its business unit that produces large diesel engines. The transaction is to be closed during 2006.

# DaimlerChrysler Shares

Positive development of international stock markets | Significant gains for DaimlerChrysler's share price | Some 70,000 shareholders use our Personal Internet Service

Development of DaimlerChrysler Shares and Important Indices	End of 2005	End of 2004	05/04 % change
DaimlerChrysler shares (in €)	43.14	35.26	+22
DAX 30	5,408	4,256	+27
Dow Jones Euro Stoxx 50	3,579	2,951	+21
Dow Jones Industrial Average	10,718	10,783	-1
Nikkei	16,111	11,489	+40
Dow Jones Stoxx Auto Index	231	193	+20
S&P Automobiles Industry Index	94	159	-41

## Stock Exchange Data of DaimlerChrysler Shares

International securities identification number	DE0007100000
German securities identification number	710000
CUSIP	D1668R123
Stock-exchange abbreviation	DCX
Reuters ticker symbol	DCXGn.DE, DCX.N
Bloomberg ticker symbol	DCX:GR

**Upward trend for international stock exchanges.** European and Asian stock exchanges climbed significantly during the year 2005. However, the US indices Dow Jones, Nasdaq and S&P 500 did not rise sharply until the end of the year, following a weaker phase. In general, markets profited from distinctly stronger buyer interest – a result of continuing solid economic growth in the United States and Asia, and also in some European countries. The moderate level of interest rates and the significant appreciation of the US dollar against the euro and the yen also had a positive impact in 2005. The gains made by German stocks were partially a result of their still relatively low levels compared internationally. On the other hand, the development of stock prices in the automotive sector was negatively affected by the high prices of raw materials, especially oil – in New York the price of crude oil climbed from about US \$40 to US \$61 per barrel during the year. As a result of the hurricanes in the Gulf of Mexico and the Southern states of the USA, the oil price was actually around US \$70 per barrel for a while.

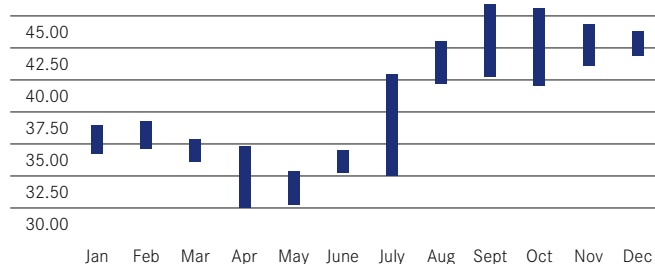
In this situation, automobile manufacturers' share prices developed very differently: US producers' stocks fell significantly due to the increasingly intense competition in the United States, falling profits and repeated downgrading by the rating agencies. On the other hand, the stocks of European and Asian automakers rose, in some cases quite significantly. This was also reflected by the development of the auto indices: in the year 2005, the US index S&P Automobiles Industry fell by 41%, while the European Dow Jones Stoxx Auto Index rose by 20%.

**Positive development of DaimlerChrysler's share price.** At the beginning of last year, DaimlerChrysler's share price did not continue its strong climb of the end of 2004. This was partially due to significant increases in raw-material prices, overall higher customer incentives in the US car market and rising interest rates in the United States. Many investors were afraid that the Chrysler Group would no longer be able to generate sustain-



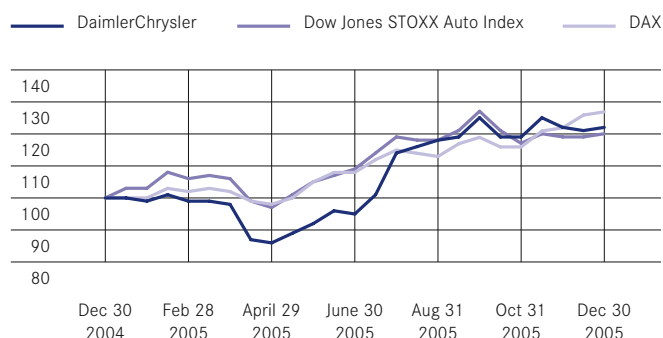
**DaimlerChrysler Share Price (high/low)**

(in €)



ned positive earnings in this environment. Another factor was the weakness of the Mercedes Car Group in terms of profitability. Pressure to sell DCX was predominant, particularly in April, with the result that our stock was at a low for the year of €29.78 at the end of that month. Although our profits for the first quarter exceeded market expectations, the share price did not benefit due to the weakening stock-market sentiment at that time.

A significant upward trend started in May, and accelerated following the announcement of the figures for the second quarter and the change in the management decided upon by the Supervisory Board. The share price benefited not only from an improved stock-market environment, but also from the growing confidence that the CORE efficiency-improving program at the Mercedes Car Group would be successfully implemented and that business was developing positively in the Commercial Vehicles and Financial Services divisions. The equity market also honored the fact that the Chrysler Group achieved appropriate earnings in a difficult environment. Although Deutsche Bank placed 35 million DaimlerChrysler shares with institutional investors at the end of July, the upward trend continued during the summer months: our share price gained approximately 50% from May until the end of September. On September 28, it reached a high for the year of €45.92 (US \$55.15), followed by increased profit taking. Another negative factor was the growing fear of inflation and a difficult car market in the United States. After this weaker phase, the share price at first climbed more significantly in November, but came under pressure once again at the end of that month due to the sale of another 25 million shares by Deutsche Bank. Distinctly firmer stock markets, reductions in raw-material prices and a considerably stronger US dollar had a positive impact in December. The closing price at the end of 2005 was €43.14 in Frankfurt (Xetra) and US \$51.03 in New York. The generally positive development of DaimlerChrysler's share price continued at the beginning of 2006.

**Share Price Index**

**Significantly higher free float.** DaimlerChrysler has a broad shareholder base of approximately 1.5 million shareholders. At the end of 2005, the biggest shareholder was the Kuwait Investment Authority with a holding of 7.2%. In total, institutional investors held 70.4% of our equity and private investors held 22.4%. Around 74% of our capital stock was in the hands of European investors and around 17% was held by US investors.

Deutsche Bank reduced its shareholding in DaimlerChrysler during 2004, at first from 10.4% to 6.9% in July, and then from 6.9% to 4.4% in November. As this holding is no longer regarded as a strategic investment, compared with the prior year, the free float increased by 10.4 percentage points to 92.8%. The weighting of DaimlerChrysler shares in various indices therefore rose.

In the German DAX 30 index, DaimlerChrysler's shares were ranked in fifth position at the end of 2005 with a weighting of 7.0%. In the Dow Jones Euro Stoxx 50 index, our stock was represented with a weighting of 2.2%. Global trading volume in DCX amounted to around 1.7 billion shares in 2005 (2004: 1.5 billion), of which about 111 million were traded in the United States (2004: 123 million) and 1,577 million in Germany (2004: 1,336 million).

Statistics	End of 2005	End of 2004	05/04 % change
Capital stock (in millions of €)	2,647	2,633	+1
Number of shares (in millions)	1,018.2	1,012.8	+1
Market capitalization (in billions of €)	43.9	35.7	+23
Number of shareholders (in millions)	1.5	1.7	-12
Weighting in share indices			
DAX 30	7.0%	6.4%	
Dow Jones Euro Stoxx 50	2.2%	1.9%	
Long-term credit ratings			
Standard & Poor's	BBB	BBB	
Moody's	A3	A3	
Fitch	BBB+	BBB +	
Dominion Bond	A-	A -	

Statistics per Share	2005 €	2004 €	05/04 % change
Net income (basic)	2.80	2.43	+15
Net income (diluted)	2.80	2.43	+15
Dividend	1.50	1.50	-
Stockholders' equity (Dec. 31)	35.80	33.10	+8
Share price: year-end	43.14 <sup>1</sup>	35.26 <sup>1</sup>	+22
high	45.92 <sup>1</sup>	39.41 <sup>1</sup>	+17
low	29.78 <sup>1</sup>	31.63 <sup>1</sup>	-6

<sup>1</sup> Frankfurt Stock Exchange

**Extensive Investor Relations activities.** As in the prior year, the Investor Relations department provided timely information on the company to analysts, institutional investors, rating agencies and private shareholders.

Our communication activities for institutional investors and analysts included roadshows in the major financial centers of Europe, North America and Asia, as well as a large number of one-on-one meetings in Stuttgart and Auburn Hills. We also carried out presentations of the company at the international motor shows in Detroit, Frankfurt, Geneva and Tokyo. We provided information to the capital market on our quarterly results and important changes at the company by means of conference calls, which were simultaneously transmitted on the Internet. The key areas of capital-market communication included the Group's current development, the outlook for full-year 2005, the positioning of the divisions in their respective competitive environments and the strategic orientation of the Group.

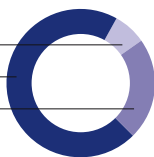
**Expanded Investor Relations information service on the Internet.** As a part of DaimlerChrysler's corporate website, the Investor Relations section at [www.daimlerchrysler.com/](http://www.daimlerchrysler.com/) investor was accessed more than 40,000 times a month last year, equivalent to around 1,300 visitors each day. 42% of visitors accessed the German version, while 58% accessed the pages in English.

We continued expanding our Internet information service for shareholders in 2005. For example, via DaimlerChrysler's IR section, users are able to access the reports, analyses and profit estimates that are published on external finance websites by investment companies and financial analysts. At the end of the year, detailed information on bonds was included in our Internet service.

## Shareholder Structure as of Dec. 31, 2005

### By type of shareholder

Kuwait Investment Authority	7.2%
Institutional investors	70.4%
Retail investors	22.4%



### By region

Germany	47.5%
Europe excluding Germany	26.7%
USA	16.5%
Rest of the world	9.3%



**Strong visitor interest in the Annual Meeting.** More than 8,400 shareholders attended the Annual Meeting of DaimlerChrysler AG held at the International Congress Center (ICC) in Berlin on April 6, 2005. Approximately 38% of the equity capital was represented at the Annual Meeting. In the voting on the nine items on the agenda, the Annual Meeting adopted the recommendations of the management with large majorities. More than 40 shareholder spokespersons asked a total of nearly 350 questions at the Annual Meeting, which were answered by the Board of Management and the Supervisory Board. In addition, DaimlerChrysler's shareholder service replied by telephone or e-mail to some 5,000 inquiries on the Annual Meeting and other issues connected with our stock.

**Shareholders go online.** Our electronic information and communication service, which we are continually expanding and improving for our shareholders, is becoming increasingly popular:

- The number of shareholders registered in DaimlerChrysler's Personal Internet Service increased by 40% to some 70,000 in the year 2005.
- For the first time, 35,000 shareholders received their invitations to the 2005 Annual Meeting by e-mail instead of by post.
- A quarter of the entrance tickets for the Annual Meeting were ordered online.
- 14,000 shareholders took advantage of the possibility to exercise their voting rights at the Annual Meeting via the Internet.
- And around 50,000 shareholders have already decided to have their documents for the 2006 Annual Meeting sent by e-mail.

As a part of our comprehensive approach, DaimlerChrysler's Personal Internet Service provides support to the shareholders on all aspects of the Annual Meeting. In this way, we make it easier for our shareholders to exercise their voting rights, cut costs and protect the environment by reducing the use of paper.

The Personal Internet Service is also available to the shareholders with additional attractive functions outside the period of the Annual Meeting, acting as an additional platform for electronic communication by Investor Relations. For example, it allows personal data in the share register to be viewed and processed online. In addition, shareholders can gain information on the company in electronic form even more effectively than before.

Access to the Personal Internet Service and further information on it can be found at <https://register.daimlerchrysler.com>.



# Management Report

Business developments at DaimlerChrysler in the year 2005 were generally satisfactory in view of the difficult market conditions. Revenues and unit sales increased again. We achieved the earnings target we had set for the Group – despite the substantial burdens of restructuring expenses, significant increases in material and oil prices, and less favorable euro/US dollar hedging rates than in the prior year. In order to improve the Group's profitability over the long term, during the year under review we implemented measures designed to increase efficiency in all divisions. The Mercedes Car Group is to be returned to a path of sustainable competitiveness and profitability as a result of the CORE program. We consistently continued our strategy of focusing on our core competencies by disposing of operations that are not part of our core business.

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# Business and Strategy

## The company

DaimlerChrysler AG was formed in November 1998 as a result of the merger between Daimler-Benz AG and Chrysler Corporation. The Group can look back on a tradition of more than one hundred years, featuring pioneering achievements in automotive engineering by both of its predecessor companies. Today, DaimlerChrysler is a leading supplier of superior passenger cars, sport-utility vehicles, sports tourers, minivans and pick-ups, and the world's largest manufacturer of commercial vehicles. In addition, DaimlerChrysler holds a 33% interest in the European Aeronautic Defence and Space Company (EADS), one of the world's leading companies in the field of aerospace and defense technology.

With its strong brands and a comprehensive portfolio of automobiles ranging from small cars to heavy trucks, supplemented by tailored services along the automotive value chain, DaimlerChrysler is active in nearly all of the world's markets. The Group has production facilities in a total of 20 countries. The worldwide networking of research and development activities and of production and sales locations gives DaimlerChrysler considerable potential to enhance efficiency and gain advantages in an internationally competitive environment.

Of DaimlerChrysler's total revenues of €149.8 billion in the year 2005, 31% was generated by the Mercedes Car Group, 33% by the Chrysler Group, 26% by Commercial Vehicles, 9% by Financial Services and 1% by Other Activities.

At the end of 2005, DaimlerChrysler employed more than 382,700 people worldwide.

The products supplied by the **Mercedes Car Group** range from the high-quality small cars of the smart brand to the premium vehicles of the brands Mercedes-Benz, Mercedes-Benz AMG and Mercedes-Benz McLaren, and the Maybach luxury sedans. Most of these vehicles are produced in Germany, but the division also has production facilities in the United States, France, South Africa, Brazil, India, Malaysia, Thailand, Vietnam and Indonesia.

Future production facilities will also include China. The Group's most important markets in 2005 were Germany with 29% of unit sales, the other markets of Western Europe (35%), the United States (19%) and Japan (4%).

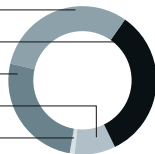
The **Chrysler Group** develops, produces and distributes passenger cars, sports tourers, minivans, sport-utility vehicles and light trucks under the Chrysler, Jeep® and Dodge brands. In addition, the Chrysler Group manufactures and markets spare parts and accessories for the MOPAR brand. Most of its production facilities are in the United States, Canada and Mexico. In 2005, 82% of its vehicles were sold in the United States, 8% in Canada and 4% in Mexico. 6% of its vehicles were exported to markets outside the NAFTA region.

Within a worldwide network, DaimlerChrysler's **Commercial Vehicles** division develops and produces trucks, vans and buses under the brands Mercedes-Benz, Freightliner, Sterling, Western Star, FUSO, Setra, Thomas Built Buses and Orion. The product range covers small vans, medium and heavy-duty trucks for local and long-distance deliveries and for construction sites, as well as tourist, urban and overland buses. It also supplies vehicles for special applications and the Unimog multi-function vehicle. The division's most important sales markets are the United States, with 22% of unit sales in 2005, Germany (13%), the other markets of Western Europe (20%), Asia (22%) and South America (7%).

The **Financial Services** division supports the unit sales of the DaimlerChrysler Group's automotive brands in 39 countries. Its product portfolio mainly comprises tailored financing and leasing packages for dealers and customers, but it also provides services such as insurance and fleet management. The focus of Financial Services' activities is in North America and Western Europe. In Germany, in addition to automotive financial services, the division's product portfolio also includes investment products and credit-card services. DaimlerChrysler Financial Services also holds a 45% interest in the Toll Collect consortium, which on January 1, 2005 launched an electronic toll system for trucks over 12 metric tons on autobahns in Germany.

## Consolidated Revenues by Division

Mercedes Car Group	31%
Chrysler Group	33%
Commercial Vehicles	26%
Financial Services	9%
Other Activities	1%



The **Other Activities** segment primarily comprises our 33% shareholding in the European Aeronautic Defence and Space Company (EADS). In line with our strategy of focusing on our core business, in December 2005, we reached an agreement with the Swedish financial investor EQT covering the sale of the Off-Highway business unit.

## New management model

On January 24, 2006, DaimlerChrysler presented a new management model designed to improve the Group's competitiveness and promote further profitable growth. The new model will further integrate the Group's functions, focus operations areas more closely on their core processes, and encourage internal collaboration. In addition, it will reduce the duplication of activities.

The structural changes include the consolidation and integration of all administrative functions, such as Finance and Controlling, Human Resources and Strategy. These functions will be centralized to report to the responsible Board of Management member for each function throughout the Group. The duplication of activities between the corporate level and the operating level will be eliminated, thereby reducing complexity within the Group. The integration of administrative functions will result in shorter, faster and leaner reporting channels and decision-making.

Within the framework of the new management model, we have also decided to merge the product development of the Mercedes Car Group and the Board of Management area of Research & Technology in the new Board of Management area of Group Research & Mercedes Car Group Development as of March 1, 2006. The new area will take on more responsibility for the pre-development activities of all the automotive divisions.

## DaimlerChrysler – Business Portfolio

(as of March 1, 2006)

Mercedes Car Group	Chrysler Group	Truck Group	Financial Services	Van, Bus, Others
Mercedes-Benz Passenger Cars	Chrysler	Trucks Europe/Latin America	Americas	EADS (33%)
smart	Jeep®	Trucks NAFTA	Europe, Africa Asia/Pacific	Vans
Maybach	Dodge	FUSO		Buses & Coaches

Also starting in March 2006, Commercial Vehicles will focus on its core business of trucks, with the new name of "Truck Group"; buses and vans will be directly managed as separate units and will be included in the new Van, Bus, Others segment in the future. The new structure will create additional synergies between the truck brands as well as a sharper focus on customers and the competition. The direct management of the bus and van operations will facilitate a stronger orientation towards the specific requirements of customers and markets in these segments. Due to the commonality of power-trains and components, the Bus unit will report to the head of the Truck Group and the Van unit will report to the head of the Mercedes Car Group.

Furthermore, the location of the Group's headquarters in Germany will be transferred from Stuttgart-Möhringen to Stuttgart-Untertürkheim. The central administrative functions will therefore be located in Stuttgart-Untertürkheim (Germany) and Auburn Hills (United States).

With the implementation of the new management model, we intend to reduce our administrative expenses, which are currently significantly higher than the industry average, by an annual €1.5 billion per year. €0.5 billion of this total will be realized by other efficiency programs already running, like CORE in the Mercedes Car Group.

In order to achieve the goals of the new management model, personnel capacities will also have to be adjusted. This will lead to a total reduction of up to 20% in the number of persons employed in administrative departments during the years of 2006 through 2008, and 30% in management positions. This is equivalent to 6,000 jobs worldwide.

Preparations for implementing the new management model began immediately after its announcement in January 2006. The total expenditure incurred for the implementation of the program in the years 2006 through 2008 is likely to be in the region of €2 billion.

## Strategy

DaimlerChrysler's strategy has the goal of increasing corporate value through profitable growth. We intend to assume a leading role in the worldwide automotive industry. With regard to the quality of our products and services, the positioning of our brands and our profitability, we are striving to achieve a top position in international competition.

Our strategy is therefore based on the following four pillars:

- **Superior Products & Customer Experience:** We aim to supply top-quality products supported by excellent services that our customers perceive as being superior to the competition. Some examples are fascinating vehicles such as the new S-Class, the R-Class and the B-Class from Mercedes-Benz, the Chrysler 300C, the Dodge Charger, the Actros heavy-duty truck and the Citaro city bus. Our customers' excellent response to these vehicles and the numerous national and international awards they have won demonstrate their exceptional position.
- **Leading Brands:** We strive to establish clearly positioned brands with excellent reputations, which complement each other to form a tremendous product portfolio. Consistent brand management ensures that the identity of the individual brands is protected while economies of scale are utilized.
- **Innovation & Technology Leadership:** We aim to secure the mobility of tomorrow and set ourselves apart from the competition through innovation and technology leadership. Our highly qualified research and development engineers create the technological basis for innovations that set new trends and offer customers genuine added value. Our innovation leader-

ship is demonstrated by pioneering safety innovations such as PRESAFE® preventive occupant protection and DISTRONIC PLUS proximity and cruise control from Mercedes-Benz, Blue-Tec diesel technology and Active Brake Assist for commercial vehicles, and the innovative Stow'n Go™ seating and storage system offered by the Chrysler Group's minivans. Most of these innovations benefit not just one of the Group's brands, but create competitive advantages in worldwide competition for all of our vehicles.

- **Global Presence & Network:** We are a strong, globally active automobile manufacturer with networked operations. This enables us also to participate in the dynamic growth of the emerging markets outside North America, Western Europe and Japan. We intend to achieve a sustained improvement in our cost position as a result of rising unit sales and our worldwide network of production plants and research and development facilities.

Prerequisites for the achievement of these strategic goals are:

- **Operational Excellence:** We intend to attain a leading position in international competition with regard to operational excellence. We are therefore creating clear structures, lean processes and short paths in all areas of the company and at all stages of the value chain, and are making full use of the possibilities offered by standardization and modularization.
- **High-Performing, Inspired People:** The creativity, motivation and commitment of our workforce is the foundation of our success.

**DaimlerChrysler ScoreCard.** These six strategy elements are the essential features of the DaimlerChrysler ScoreCard. In addition to conventional financial performance measures, we also use non-financial parameters such as quality statistics, customer and employee satisfaction, brand image, market share and productivity developments. These parameters are assessed at the divisional level with the use of measurable performance indicators.

The Group's medium-term and long-term goals are broken down in the ScoreCard to the respective reporting periods. The goals are linked with concrete measures for the individual functions down to the departmental level. These goals are then integrated into the employees' personal target agreements.

By means of the DaimlerChrysler ScoreCard, the Board of Management is informed in a timely and comprehensive manner about the current position of the Group and its divisions along the entire value chain. Deviations are recognized at an early stage and any required corrections are immediately initiated.

The DaimlerChrysler ScoreCard helps us to achieve our goals, so that we can continue increasing DaimlerChrysler's corporate value through profitable growth.

In order to further improve the transparency, measurability and control of our human resources work worldwide, we are currently introducing a "Global Human Resources ScoreCard". The defined success factors include employee satisfaction and our image as an employer, which are also part of the DaimlerChrysler ScoreCard. In addition, indicators are recorded for the business units within the "Global Human Resources Score-Card" such as the staff turnover rate, which was 7.3% worldwide in 2005 (2004: 5.3%). The increase was primarily a result of the measures taken at the Mercedes Car Group in 2005 for socially acceptable staff reductions and the efficiency-improving programs at the other divisions.

**Activities in Northeast Asia.** Our activities in Northeast Asia will be at the focus of our regional expansion in the coming years. In 2005, DaimlerChrysler set up a regional management organization for Northeast Asia, covering China, Taiwan and South Korea, in order to expand business operations in this region more effectively.

We made further progress with the development of DaimlerChrysler's business operations in China last year.

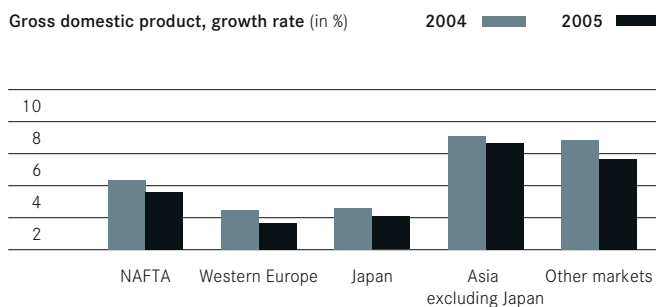
Beijing Benz-DaimlerChrysler Automotive Co. Ltd., a joint venture between DaimlerChrysler and Beijing Automotive Industry Holding Company (BAIC), obtained a license to produce the Mercedes-Benz C-Class and E-Class cars in August 2005. It is planned to produce 20,000 vehicles annually in China in the medium term. These models are to be produced at a new plant in the southeast of Beijing. The existing production in China of Jeep® sport-utility vehicles is also to be transferred to this new plant. Furthermore, in 2005, the Chrysler Group made firm plans to produce the Chrysler 300C in China as well as minivans in China and Taiwan.

In September 2005, the Chinese banking authorities approved the establishment of a financing company for passenger cars and commercial vehicles. As a result, DaimlerChrysler Automotive Finance (China) Ltd. commenced operations already two months later in November.

By taking these steps, we have created important conditions for the expansion of our sales in the markets of Northeast Asia.

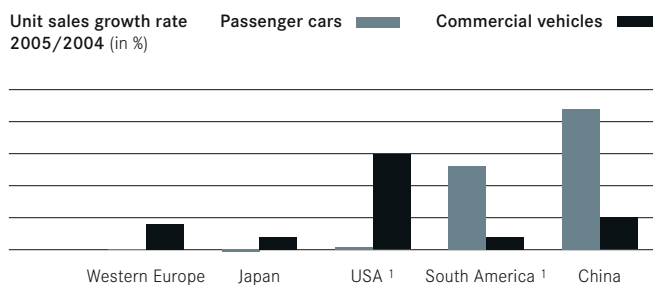


## Economic Growth



Source: Global Insight

## Global Automotive Markets



Source: German Association of the Automotive Industry (VDA)

<sup>1</sup> Segment passenger vehicles including light trucks

**Portfolio changes.** In March 2005, DaimlerChrysler and Mitsubishi Motors Corporation (MMC) reached a settlement concerning expenses incurred as a result of quality actions and recall campaigns at Mitsubishi Fuso Truck and Bus Corporation (MFTBC). As a part of this settlement, an additional 20% of the shares in MFTBC were transferred to DaimlerChrysler free of charge, thus increasing our shareholding in MFTBC to 85%. Furthermore, DaimlerChrysler and MMC agreed on future operational cooperation between the two companies in various areas.

Effective November 17, 2005, DaimlerChrysler sold its stake in MMC for €970 million. Our shareholding had fallen during 2005 from 19.7% to 12.4% due to the issue of new shares by MMC. Existing cooperative projects between DaimlerChrysler and MMC will not be affected by the sale and will continue unchanged. The possibility of cooperating on other new projects is also being investigated.

As a part of the Group's focus on its core business, debis Air-Finance, one of Financial Services' business units, was sold to Cerberus Capital Management on June 30, 2005.

In September 2005, DaimlerChrysler acquired the minority of shares in MTU Friedrichshafen GmbH that were still held by the family shareholders, thus creating the right conditions to dispose of the Off-Highway business unit. In December 2005, we reached an agreement with EQT, a Swedish financial investor, on the sale of the business unit. The transaction includes both MTU Friedrichshafen GmbH and the off-highway activities of Detroit Diesel Corporation (DDC). The transfer of ownership is likely to take place in the first quarter of 2006.

The business portfolio of Commercial Vehicles was also further rationalized in the context of the "Global Excellence" strategic initiative. In December 2005, we sold our fire-truck and rescue-vehicle operations under the brand of American LaFrance to Patriarch Partners, LLC, a financial investor.

## Economy and the industry

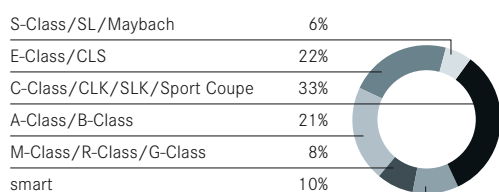
**The world economy.** Following strong growth in the year 2004, the growth of the world economy slowed down last year. This development was primarily due to the sharp increase in energy and raw-material prices, rising interest rates and less expansive public-sector spending. Economic developments in North America, Japan and most of the emerging economies were comparatively favorable. However, growth rates in Western Europe failed to meet expectations. Once again, developments in the euro zone were disappointing, particularly in Germany. Overall, the global economic imbalance actually increased. The United States' trade deficit rose to more than 6% of its gross domestic product. At the same time, the trade surpluses of China and the oil-exporting countries increased significantly. In total, the economies of DaimlerChrysler's sales markets, weighted for each country's share of the Group's revenues, grew by 3.0%. Although this was in line with the long-term trend, it was significantly lower than the strong growth of 3.7% recorded in the prior year.

During the course of the year, the euro depreciated against the US dollar by approximately 13%, but much less significantly against the British pound and the Japanese yen.

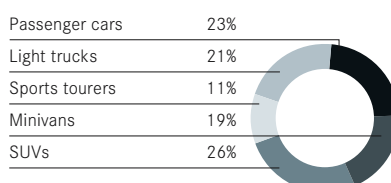
**Automotive markets.** The overall expansion of global automobile markets slowed down slightly in 2005. This was partially due to the significant increase in the price of oil and the consequential loss of customers' purchasing power. In this situation, demand was influenced more than ever by manufacturers' product and price strategies. However, as a result of lively investment activity, worldwide markets for commercial vehicles expanded again in 2005.

## Sales Structure

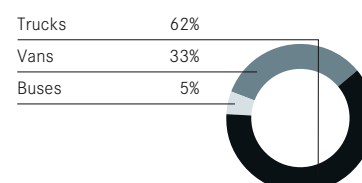
### Mercedes Car Group



### Chrysler Group



### Commercial Vehicles



Sales of passenger cars and light trucks decreased in the United States towards the end of 2005 as a result of the repeated increase in fuel prices and lower sales incentives. However, the total market reached the previous year's volume of 16.9 million vehicles. The market of Western Europe stagnated with total sales of 14.5 million passenger cars. Growth in Germany and France was offset by lower demand in Italy and the United Kingdom. Following a decrease in demand in Japan towards the end of the year, full-year sales were about the same as in the prior year. The emerging markets of South America continued to show strong growth rates. There were differing developments of unit sales in the markets of Central and Eastern Europe: Demand in the new EU member states decreased overall due to the high inflow of used vehicles, whereas the Russian market continued to expand. Driven by double-digit growth rates in the Chinese automobile market, the emerging markets of Asia were once again the main source of growth for the global automotive industry.

The world's major markets for commercial vehicles continued to expand in 2005. In North America, there was another sharp rise in demand for heavy-duty and medium-duty trucks, and unit sales also increased in Western Europe due to continuing strong demand from transport companies. However, rates of expansion were lower than in the prior year. In Japan, sales of commercial vehicles revived in the second half of 2005 due to purchases brought forward as a reaction to new national and regional emission regulations, leading to a slight increase in total market volume.

## Business developments

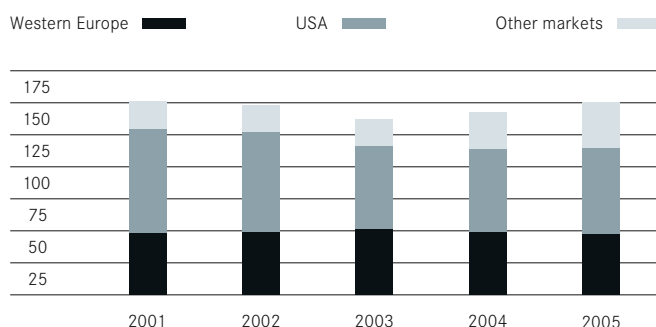
**Unit sales.** DaimlerChrysler sold a total of 4.8 million vehicles in 2005, surpassing the prior-year figure by 3%. We achieved new record unit sales for both passenger cars and commercial vehicles.

Unit sales by the **Mercedes Car Group** of 1.2 million vehicles were similar to the level of 2004. The Mercedes-Benz brand launched the S-Class and M-Class successor models in 2005, as well as opening up a new market segment with its new B-Class and R-Class sports tourers. In addition, the range of gasoline and diesel engines was enhanced with a new generation of V6 and V8 engines. Building on the success of these new products, the Mercedes-Benz brand's business revived significantly in the second half of the year. Unit sales by Mercedes-Benz Passenger Cars therefore increased by 2% to 1,092,500 vehicles despite somewhat difficult market conditions. In the year under review, 124,300 smart branded cars were shipped to dealers (2004: 152,100); retail sales totaled 143,100 units (2004: 139,600). The brand thus slightly improved its position in a significantly declining market for small cars (see pages 72 ff).

The **Chrysler Group** continued its product offensive in 2005 with all-new models such as the Dodge Charger, the Jeep® Commander and the new Dodge Ram Mega Cab pickup. Unit sales increased by 1% to 2.8 million vehicles of the Chrysler, Jeep®, and Dodge brands. In an extremely competitive US market, retail sales increased by 4% to 2.3 million vehicles. The Chrysler 300/300C, the Dodge Magnum, the Jeep® Grand Cherokee and the Chrysler and Dodge minivans with their innovative Stow'n Go™ seating and storage system all continued their positive sales trends. The Chrysler Group improved its position in the US market in the segments of passenger cars and sports tourers as well as minivans and sport-utility vehicles. Market share in the United States increased from 12.8% to 13.2% (see pages 76 ff).

## Consolidated Revenues

(in billions of €)



The **Commercial Vehicles** division continued its very positive development of the prior year, increasing unit sales by 16% to a new record of 824,900 trucks, vans and buses. This was primarily a result of the division's attractive product range, in addition to ongoing favorable market conditions. Growth in the Trucks business segment was particularly strong (+ 25% to 509,300 vehicles). Sales of vans (+ 2% to 267,200 units) and buses (+ 10% to 36,200 units) also increased. The FUSO business unit contributed 178,900 vehicles to the Truck business segment's unit sales in 2005. Due to the date of its first-time consolidation, FUSO's unit sales were only included for eight months of the prior year (118,100 vehicles) (see pages 80 ff).

The **Financial Services** division developed very positively in all of its regions in 2005. Contract volume increased by 15% to €117.7 billion; adjusted for the effects of currency translation, the increase amounted to 3%. At the end of 2005, the worldwide portfolio comprised 6.4 million leased and financed vehicles. New business decreased from €50.9 billion to €48.2 billion, largely due to the above-average volume of special-financing programs in 2004 (see pages 84 f).

**Revenues.** DaimlerChrysler's total revenues increased by 5% to €149.8 billion in 2005. After a weaker first half, the Mercedes Car Group's revenues for the full year slightly exceeded the level of the prior year as a result of the market success of the new models launched during 2005. The Chrysler Group's revenues increased due to higher unit sales by 1% to €50.1 billion. The Commercial Vehicles division increased its revenues by 17% to €40.6 billion. This was due to the positive sales development, as well as the consolidation for the full year of the FUSO business unit, which had only been consolidated for eight months in 2004. Without the FUSO business unit, there would have been an increase of 13%. The Financial Services division contributed €15.4 billion to the Group's total revenues (2004: €13.9 billion). The revenues of €2.1 billion generated by the DaimlerChrysler Off-Highway business unit, which is included in the Other Activities segment, were 18% higher than in the prior year.

In regional terms, DaimlerChrysler's revenues in the NAFTA region increased by 6% to €77.6 billion, while revenues of €47.3 billion in Western Europe were slightly lower than in 2004 (-3%). In the rest of the world, we expanded our business volume by 24% to €24.8 billion.

Revenues	2005	2004	05/04
In millions of €			% change
DaimlerChrysler Group	149,776	142,059	+5
Mercedes Car Group	50,015	49,630	+1
Chrysler Group	50,118	49,498	+1
Commercial Vehicles	40,634	34,764	+17
Financial Services	15,439	13,939	+11
Other Activities	2,396	2,200	+9

# Profitability

## Statements of income

The Group's **revenues** increased by 5% from €142.1 billion in 2004 to €149.8 billion in 2005.

In 2005, **cost of sales** was €122.9 billion compared to €114.6 billion in 2004, a 7% increase. The increase in cost of sales was largely proportionate to the increase in revenues. In addition, gross margin decreased from 19.4% in 2004 to 17.9% in 2005, mainly as a result of expenses incurred in connection with the realignment of the smart business model (€0.8 billion) and the headcount reduction program at the Mercedes Car Group (€0.5 billion).

**Selling expenses** were €12.0 billion in 2005 compared to €11.4 billion in 2004, a 5% increase. The increase in selling expenses primarily reflects the fact that Mitsubishi Fuso Truck and Bus Corporation (MFTBC) was included in the Group's consolidated results for twelve months in 2005 and for only eight months during 2004. It is also due to additional expenses relating to both the realignment of the smart business model (€0.1 billion) and the headcount reduction program at Mercedes Car Group (€0.1 billion). Selling expenses as a percentage of revenues were 8% in each of 2005 and 2004.

**General administrative expenses** reached €6.1 billion in 2005 compared to €6.0 billion in 2004, a 1% increase. Changes in the scope of consolidation (primarily MFTBC) and increased legal and other consulting costs were the primary drivers for the increase. General administrative expenses as a percentage of revenues were 4.1% in 2005, a slight decrease compared to 4.2% in 2004.

**Other expenses** were €0.9 billion in 2005 and €0.6 billion in 2004. This increase was primarily due to €0.2 billion in expenses related to the realignment of the smart business model.

**Research and development expenses** amounted to €5.6 billion in 2005 compared to €5.7 billion in 2004. Research and development expenses as a percentage of revenues were 3.8% in 2005 compared to 4.0% in 2004.

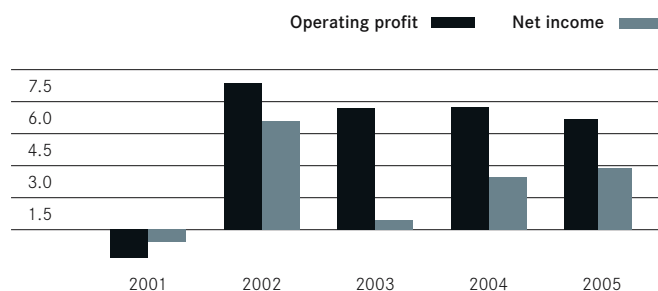
**Other income** was €1.0 billion in 2005 and €0.9 billion in 2004. In 2005, other income included a gain of €0.2 billion from the sale of Chrysler Group's Arizona Proving Grounds vehicle testing facility. The prior-year figure included a gain of €0.1 billion from the settlement of the dispute with Bombardier relating to the sale of DaimlerChrysler Rail Systems GmbH (Adtranz).

**Financial income** for 2005 was €0.2 billion, compared with a financial loss of €1.1 billion in 2004. The distinct improvement was primarily a result of the €1.5 billion improvement in the income from investments.

Income from investments for the year under review includes a gain of €0.7 billion realized on the sale of the shares in Mitsubishi Motors Corporation (MMC). There was an additional positive effect on income from investments from the substantially improved performances of Toll Collect and EADS, whereas the result for the prior year was significantly worsened by the Group's investment in MMC: the total loss contributed by MMC amounted to €0.6 billion. The disposal of the Group's 10.5% equity interest in Hyundai Motor Company (HMC) resulted in a gain of €0.3 billion in 2004.

## Development of Earnings

(in billions of €)



The net interest expense of €0.6 billion was €0.3 billion higher than in the prior year, primarily due to unrealized losses from the mark-to-market valuation of derivative financial instruments that did not qualify for hedge accounting treatment.

The other financial loss amounted to €0.1 billion (2004: €0.2 billion). In 2005, charges were recognized relating to the valuation of derivative hedging transactions, partially offset by increased income from the sale of securities. In addition, the other financial loss was negatively impacted in the prior year particularly by the write-down of loan receivables due from debis AirFinance.

The **income tax expense** amounted to €0.5 billion in 2005 (2004: €1.2 billion). Related to income before income taxes of €3.4 billion (2004: €3.5 billion), the effective tax rate was 14.9%, compared with 33.3% in the prior year. The effective tax rate was reduced in both years by profit contributions from EADS, which are mainly exempt from income tax, and by tax-free gains included in net periodic pension costs and net postretirement benefit costs.

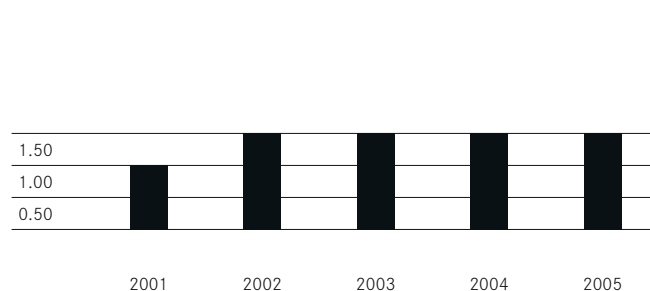
The comparatively low effective tax rate in 2005 primarily reflected the composition of the Group's pre-tax earnings, which included largely tax-free income from the settlement agreement associated with our investment in MFTBC, the sale of DaimlerChrysler's shares in MMC, and the sale of other securities. Opposing effects resulted primarily from tax expenses arising due to the distribution of earnings, which had previously been retained, by non-US companies to their parent company in the United States.

In 2004, the effective tax rate was additionally reduced by the tax-free gain realized on the sale of the Group's 10.5% shareholding in HMC. Opposing effects resulted primarily from non-tax-deductible losses arising from our investments in MMC and debis AirFinance.

Additional information on income taxes can be found in Note 9 of the Notes to the Consolidated Financial Statements.

## Dividend per Share

(in €)



The DaimlerChrysler Group recorded **net income** of €2.8 billion in 2005, compared with €2.5 billion in the prior year. Based on the reported net income, earnings per share amounted to €2.80, compared with €2.43 in 2004.

Unlike operating profit, which decreased primarily due to substantial expenses from the realignment of smart and the headcount reduction initiative at Mercedes-Benz Passenger Cars, net income for the year increased by 15%. This increase was partially influenced by the result of our shareholding in MMC. In 2005, the sale of MMC shares resulted in a net gain of €0.5 billion, whereas the year 2004 was impacted by non-operating expenses of €0.6 billion.

## Dividend

The Board of Management and the Supervisory Board will recommend the distribution of €1,527 million of unappropriated profits of DaimlerChrysler AG or €1.50 per share to the shareholders for their approval at the Annual Meeting to be held on April 12, 2006. The proposed dividend takes account not only of the development of operating profit and cash flow in 2005, but also of our expectations for the coming years.

A dividend of €1,519 million or €1.50 per share was distributed in 2004.

## Operating profit

**Operating Profit (Loss) by Segment**      2005      2004      05/04  
Amounts in millions of €      % change

Mercedes Car Group	(505)	1,666	.
Chrysler Group	1,534	1,427	+7
Commercial Vehicles	2,093	1,332	+57
Financial Services	1,468	1,250	+17
Other Activities	591	456	+30
Eliminations	4	(377)	.
<b>DaimlerChrysler Group</b>	<b>5,185</b>	<b>5,754</b>	<b>-10</b>

DaimlerChrysler posted an operating profit of €5,185 million in 2005, compared with €5,754 million in the prior year. Excluding charges relating to the realignment of the smart business model (€1,111 million), there was an increase in the Group's operating profit.

Higher prices for materials and crude oil affected operating results in all of the industrial divisions. In addition, less favorable euro-dollar hedging conditions than in 2004 burdened earnings at the Mercedes Car Group and the Commercial Vehicles Division.

At the Mercedes Car Group, the measures taken to improve efficiency as a part of the CORE program had a positive impact on operating results during the course of the year; nonetheless, earnings for the full year were negative. The worsened profitability was primarily due to charges relating to the realignment of the smart business model and the costs of the headcount reduction program at the Mercedes Car Group. In a difficult market environment, the Chrysler Group achieved an increase in unit sales and a higher operating profit than in 2004. The Commercial Vehicles Division also developed positively in 2005; operating profit increased primarily as a result of the continued very

positive development of unit sales in all business units. Financial Services improved its operating profit, mainly due to significantly lower charges from the involvement in Toll Collect. Other Activities' operating profit exceeded the prior year's result.

The **Mercedes Car Group** posted an operating loss of €505 million for 2005, compared with an operating profit of €1,666 million in the prior year. Charges on earnings totaling €1,111 million arose in connection with the realignment of the smart business model. These were primarily due to compensation payments to dealers and suppliers, impairments recognized on production facilities, risk provisions for contractual commitments and the write-down of vehicle inventories. In addition, expenses of €570 million were incurred relating to the headcount reduction program at Mercedes-Benz Passenger Cars, for both voluntary severance agreements and early retirements, which had been accepted by approximately 5,000 employees by the end of 2005. The operating result was negatively impacted by the continuation of measures initiated within the framework of the quality improving program.

Further charges in the operational business resulted from less favorable currency-hedging rates than in the prior year (particularly for the US dollar), a less favorable model mix and higher raw-material prices. The model mix was negatively impacted by the S-Class model changeover in the fall and by volume growth in the low-margin segments of the A-Class and the B-Class. There were positive effects on earnings from the 2% increase in unit sales by the Mercedes-Benz brand overall; in total, the division's unit sales were at the same level as in the prior year, despite lower sales by smart.



The efficiency-enhancing measures taken as a part of the CORE program led to a constant improvement in operating results during the year. As a result of the positive verdict by the European Court in the case concerning the alleged infringement of EU competition rules, a provision of €60 million that had been accrued for this purpose was released with a corresponding effect on earnings.

Although market conditions remained difficult in North America, the **Chrysler Group** posted an operating profit of €1,534 million in 2005, compared with an operating profit of €1,427 million in the prior year.

Positive effects on 2005 operating profit include an increase in worldwide factory unit sales, a €240 million gain on the sale of the Arizona Proving Grounds vehicle testing facility and a decrease in turnaround plan charges and charges for workforce reduction actions, as well as lower tooling amortization expense of €105 million. These effects were partially offset by negative net pricing, shifts in market mix, charges of €99 million related to financial support provided to supplier Collins & Aikman and contractual penalty and asset impairment charges of €107 million primarily as a result of a decision to reduce contractual purchase volumes of the Chrysler Crossfire.

The Chrysler Group's 2004 operating profit was negatively impacted by restructuring charges totaling €283 million, incurred in connection with the turnaround plan and other workforce reduction charges and was favorably impacted by an adjustment of €95 million to correct the calculation of an advertising accrual. In 2005, income of €36 million was recorded as a result of adjustments to prior estimates associated with the turnaround plan.

The **Commercial Vehicles** division continued its positive development of the prior year and increased its operating profit from €1,332 million to €2,093 million.

The increase in earnings was due primarily to the positive development of unit sales in all business units, especially the international market success of the products of the Trucks business segment, as well as the efficiency improvements achieved by implementing the "Global Excellence" program. In total, unit sales increased by 16% to 824,900 trucks, vans and buses in 2005. The operating profit achieved in the year 2005 includes exceptional income of €276 million from the settlement reached with MMC relating to charges for quality actions and recall campaigns at MFTBC. In addition, impairments of €87 million were recognized relating to the sale of all the major parts of the US subsidiary American LaFrance.

Substantial charges from price increases for raw materials, especially the sustained high price of steel, and negative currency effects were more than offset.

Prior-year earnings were impacted by charges of €475 million arising at MFTBC. On the other hand, there was income of €60 million from the termination of the engine joint venture with HMC.

In the past financial year, the operating profit posted by **Financial Services** improved by 17% to €1,468 million.

The earnings development in 2005 was a result of increased revenues generated by attractive financial services products, the positive development of risk costs and improved efficiency. There was a negative impact from higher interest rates, particularly in the United States.

The increase also reflects lower charges from the division's involvement in Toll Collect (€54 million versus €472 million in 2004). This reduction is related to startup losses in 2004 and the successful start of the system on January 1, 2005.

In addition, prior-year earnings were negatively affected by an impairment recognized on the investment in debis AirFinance (€102 million). This investment was sold in 2005 within the context of the strategic focus on automotive financial services.

The **Other Activities** segment increased its operating profit by €135 million to €591 million in 2005.

The improved performance was primarily due to the significantly increased profit contribution from EADS resulting from higher Airbus deliveries and stronger earnings by the Space division. The DaimlerChrysler Off-Highway business unit also made a higher contribution to the operating profit of Other Activities.

The segment's prior-year earnings were affected by a series of special items. The agreement reached with Bombardier to settle all disputes relating to the sale of DaimlerChrysler Rail Systems GmbH (Adtranz) resulted in income of €120 million. An impairment of €70 million was recognized on the value of the investment of DASA AG in debis AirFinance, and MMC contributed an operating loss of €27 million.

**Eliminations** with an effect on the income statement resulted primarily from the leasing business in Germany and the increase in inventory financing of European dealers. Any gains or losses arising from vehicle deliveries between the divisions have no effect at the Group level and have therefore been eliminated.

Consolidated Statements of Income	2005	2004	05/04
Amounts in millions of €			% change
Revenues	149,776	142,059	+5
Cost of sales	(122,894)	(114,567)	-7
<b>Gross profit</b>	<b>26,882</b>	<b>27,492</b>	<b>-2</b>
Selling, administrative and other expenses	(18,984)	(17,972)	-6
Research and development	(5,649)	(5,658)	0
Other income	966	895	+8
Goodwill impairment	(30)	-	.
Turnaround plan Chrysler Group	36	(145)	.
<b>Income before financial income</b>	<b>3,221</b>	<b>4,612</b>	<b>-30</b>
Financial income (expense), net	217	(1,077)	.
<b>Income before income taxes</b>	<b>3,438</b>	<b>3,535</b>	<b>-3</b>
Income tax expense	(513)	(1,177)	+56
Minority interests	(74)	108	.
<b>Income from continuing operations</b>	<b>2,851</b>	<b>2,466</b>	<b>+16</b>
Cumulative effects of changes in accounting principles: transition adjustment resulting from adoption of FIN 47	(5)	-	.
<b>Net income</b>	<b>2,846</b>	<b>2,466</b>	<b>+15</b>

“Pension and postretirement benefit expenses, other than current and prior service costs and settlement/curtailment losses” is the sum of the interest cost, the expected return on plan assets, and the amortization of unrecognized net actuarial gains or losses. Operating profit excludes these components of the net periodic pension and postretirement benefit expense, since they are driven by financial factors and are not within the responsibility of the divisions.

Reconciliation of Group Operating Profit to Income before Financial Income	2005	2004	05/04
Amounts in millions of €			% change
<b>Operating profit</b>	<b>5,185</b>	<b>5,754</b>	<b>-10</b>
Pension and postretirement benefit expenses, other than current and prior service costs and settlement/curtailment losses	(1,175)	(845)	-39
Operating (profit) loss from affiliated and associated companies and financial (income) loss from related operating companies	(640)	87	.
Miscellaneous items	(149)	(384)	+61
<b>Income before financial income</b>	<b>3,221</b>	<b>4,612</b>	<b>-30</b>

The reconciliation item “Operating (profit) loss from affiliated and associated companies and financial (income) loss from related operating companies” includes the contributions to earnings from our operating investments which are reported as a component of financial income (expense), net, in the consolidated statements of income. These contributions are allocated to the operating profit (loss) of the respective divisions. In 2005, this resulted in a positive overall contribution to operating profit of €640 million (2004: a negative contribution of €87 million). The increase was primarily a result of the improved proportionate share of the earnings of Toll Collect and EADS. An additional factor is that the prior-year result included impairment charges relating to the Group’s investment in debis AirFinance.

Reconciliation by Reportable Segment of Operating Profit to Income (Loss) before Financial Income	Mercedes Car Group	Chrysler Group	Commercial Vehicles	Financial Services	Other Activities	Total Segments	Eliminations	Daimler-Chrysler Group
Amounts in millions of €								
<b>2005</b>								
<b>Operating profit (loss)</b>	(505)	1,534	2,093	1,468	591	5,181	4	5,185
Pension and postretirement benefit expenses, other than current and prior service costs and settlement/curtailment losses	(33)	(1,030)	(55)	(6)	(51)	(1,175)	-	(1,175)
Operating (profit) loss from affiliated and associated companies and financial (income) loss from related operating companies	(14)	(1)	(47)	38	(706)	(730)	90	(640)
Miscellaneous items	-	-	(42)	(5)	(102)	(149)	-	(149)
<b>Income (loss) before financial income</b>	(552)	503	1,949	1,495	(268)	3,127	94	3,221

<b>2004</b>								
<b>Operating profit (loss)</b>	1,666	1,427	1,332	1,250	456	6,131	(377)	5,754
Pension and postretirement benefit expenses, other than current and prior service costs and settlement/curtailment losses	(34)	(697)	(55)	(5)	(54)	(845)	-	(845)
Operating (profit) loss from affiliated and associated companies and financial (income) loss from related operating companies	2	9	(9)	549	(539)	12	75	87
Miscellaneous items	-	(5)	(364)	(4)	(11)	(384)	-	(384)
<b>Income (loss) before financial income</b>	1,634	734	904	1,790	(148)	4,914	(302)	4,612

In 2004, the reconciliation item “Miscellaneous items” consisted almost solely of the share of minority interests in the expenses for the quality actions and recall campaigns at MFTBC. These expenses were allocated to minority interests and not to operating profit as they were caused by quality problems at MFTBC which arose before the acquisition of shares in that company by DaimlerChrysler.

## Performance measures

The performance measures used at the DaimlerChrysler Group are oriented towards our investors' interests and expectations, and provide a basis for value-based management.

**Value added.** For purposes of performance measurement, DaimlerChrysler differentiates between Group and division/business unit 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.

$$\text{Value Added} = \text{Profit Measure} - \underbrace{\text{Net Assets} \times \text{Cost of Capital (\%)}}_{\text{Cost of Capital}}$$

Alternatively, value added can be calculated from the return on net assets (RONA) by multiplying the difference between RONA and the cost of capital rate by the average net assets in that period.

$$\text{Value Added} = \left( \text{Return on Net Assets (RONA)} - \text{Cost of Capital (\%)} \right) \times \text{Net Assets}$$

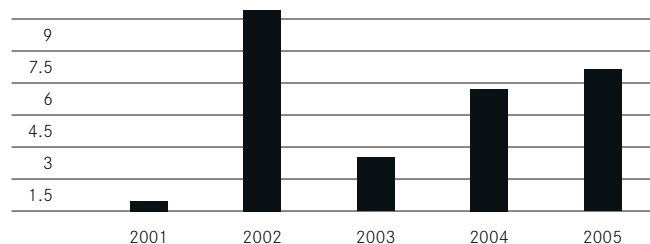
Value added shows to which extent the Group and its divisions/business units have achieved or exceeded the minimum return requirements of the shareholders and creditors, thus creating additional value. The methodology of value added is based on the figures provided by external reporting in accordance with US GAAP. This secures transparency both within the DaimlerChrysler Group and towards shareholders and creditors.

**Profit measure.** The profit measure used at Group level is net operating income, which can be derived from net income as shown in the income statement. At the level of divisions/business units, operating profit is used. Operating profit can be derived from income before financial income, and reflects the specific earnings responsibility of the divisions/business units.

**Net assets.** Net assets are calculated at Group level from the balance sheet components of stockholders' equity (including minority interests) and the financial liabilities and accrued pension obligations of the industrial business. At the division/business unit level of the industrial business, net assets are calculated on the basis of the allocable operating components of assets and liabilities. In the financial services business, performance measurement is on an equity basis, in line with the usual practice in the banking business. The average net assets are calculated as an average of the net assets at the beginning and the end of the financial year.

**Cost of capital.** The required rate of return on net assets and thus the cost of capital are derived from the minimum returns that investors expect on their invested capital. Due to their long-term financing character, unfunded pension obligations are included in addition to equity and debt when calculating the Group's cost of capital. 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 government bonds and other fixed-interest securities) plus a risk premium reflecting the specific risks of an investment in DaimlerChrysler 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 of the unfunded pension obligations is calculated on the basis of discount rates used according to US GAAP. The Group's cost of capital is then a result of the weighted average of the individually required rates of return; in the year under review, the cost of capital amounted to 7% after taxes. At industrial division/business unit level, the cost of capital amounted to 11% before taxes; for the financial services business a cost of equity of 14% before taxes was used.

**Return on Net Assets (RONA) DaimlerChrysler Group (after taxes)**  
(in %)



#### Cost of Capital

In %

2005

2004

Group, after taxes	7	8
Industrial divisions, before taxes	11	13
Financial Services, before taxes	14	14

**Return on net assets.** The profitability ratio return on net assets (RONA) has a special significance as a fundamental component of value added in DaimlerChrysler's performance measurement system. As a quotient of the profit measure and average net assets, RONA allows a statement to be made on the profitability of the Group or the industrial divisions/business units. To assess the profitability of the financial services business, return on equity (ROE) is used.

## Return on net assets and value added

Net operating income amounted to €3.6 billion in 2005, compared with €3.2 billion in the prior year. In combination with nearly unchanged average net assets of €55.3 billion, this led to a return on net assets for the Group of 6.6% (2004: 5.7%). Value added thus increased by €1.1 billion to minus €0.2 billion.

The Mercedes Car Group division's return on net assets of minus 3.8% in 2005 was lower than the minimum required rate of return. The significant decrease compared with the prior year was primarily a result of changes in earnings due to the re-alignment of the business model at smart and expenses relating to the headcount reduction program at the Mercedes Car Group. Additional charges arose from changed currency hedging rates, a less favorable model mix and higher raw-material prices. The slight reduction in net assets could not offset the lower earnings. The development of net assets was due to liabilities relating to the workforce reduction initiative, higher provisions for product guarantees as well as impairments recognized in connection with the realignment of the business model at smart.

The Chrysler Group division's return on net assets of 18.2% (2004: 16.4%) significantly surpassed the minimum required rate of return. The increase compared with the prior year was partially due to the lower net assets, but was mainly a result of the improved operating profit as a consequence of higher unit sales. Additional factors were income from the sale of fixed assets and lower expenses from the turnaround plan.

With a return on net assets of 19.0%, Commercial Vehicles also significantly exceeded the minimum required rate of return, despite a higher level of net assets. As well as efficiency improvements, this positive result was primarily due to the market success of the Trucks business segment.

As a result of Other Activities' increased earnings, its return on net assets rose from 13.4% to 18.8%.



Value Added	2005	2004	05/04
Amounts in millions of €			% change

Net Assets and Return on Net Assets	2005	2004	2005	2004
	(Annual average, in billions of €) Net assets		% Return on net assets	
DaimlerChrysler Group, (after taxes)	55.3	55.9	6.6	5.7
Industrial divisions, (before interest and taxes)				
Mercedes Car Group	13.2	13.5	(3.8)	12.3
Chrysler Group	8.4	8.7	18.2	16.4
Commercial Vehicles	11.0	9.7	19.0	13.8
Other Activities <sup>1</sup>	4.8	4.7	18.8	13.4
	Stockholders' equity		Return on equity <sup>2</sup>	
Financial Services	9.1	8.4	16.2	14.8

Reconciliation to Net Operating Income	2005	2004	05/04
Amounts in millions of €			% change

Net assets are derived from the consolidated balance sheet – as shown in the following table.

Net Assets <sup>1</sup> of the DaimlerChrysler Group	2005	2004	05/04
Amounts in millions of €			% change

Stockholders' equity <sup>2</sup>	35,824	31,460	+14
Minority interests	653	909	-28
Financial liabilities of the industrial segment	4,146	8,330	-50
Pension provisions of the industrial segment	15,413	13,867	+11
<b>Net assets</b>	<b>56,036</b>	<b>54,566</b>	<b>+3</b>

2 Adjusted for the effects from the application of SFAS 133.

# Liquidity and Capital Resources

## Principles and objectives of financial management

Financial management at DaimlerChrysler consists of capital structure management, cash and liquidity management, pension asset management, market price risk management (foreign exchange rates, interest rates, and commodities) and credit and financial country risk management.

Financial management is performed worldwide in a standardized way for all Group entities by Treasury. Financial management is guided by a framework of guidelines, limits and benchmarks. Financial management is separated from other financial functions such as financial controlling, reporting, settlement and accounting. These functions are not covered by Treasury but by the controlling and accounting departments in the companies of the Group.

**Capital structure management** designs the capital structure for the Group and all of its subsidiaries. Decisions regarding the capitalization of Financial Services companies, production, distribution, financing or regional holding companies are based on standardized Group guidelines. The capital resources of Group companies also depend on refinancing conditions in local banking markets. In addition, it is necessary to adhere to the provisions of the law as well as to so-called thin-capitalization rules in the taxation legislation of various countries, as well as various capital transaction restrictions on the transfer of capital and currencies imposed by various countries.

**Cash management** determines cash requirements and surpluses on a worldwide basis. The number of external bank transactions is minimized by the Group's internal netting of cash requirements and surpluses. Netting is done by cash-concentration or cash-pooling procedures. DaimlerChrysler has established standardized processes and systems in order to control its bank accounts and the execution of automated payment transactions.

**Liquidity management** secures DaimlerChrysler'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 for a rolling planning period of twelve months. Resulting financing requirements are covered by the use of appropriate instruments for liquidity management. Liquidity surpluses are invested in the money market to optimize return. Besides operational liquidity, DaimlerChrysler keeps liquidity reserves, which are available on a short-term basis. These liquidity reserves include a pool of receivables from the financial services business which are readily available for securitization in the capital market, as well as confirmed syndicated credit lines with varying maturities.

**Management of market price risk** aims at minimizing 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 the basis for hedging decisions. These cover the selection of the hedging instrument and the definition of the hedging volume and corresponding period. Decisions on foreign exchange rates, interest rates, commodities and asset-liability management are regularly made by the respective committees.

**Management of pension funds** comprises the optimal investment in terms of the risk-return profile of pension assets to cover the corresponding pension liabilities. The major part of pension assets is held in separate pension funds and is not available for general business purposes. The funds are allocated to different asset classes such as equities and bonds based on an optimization process which takes into account the expected growth of pension liabilities. The performance of the asset management is measured by comparing with defined benchmark indices. Decisions on ordinary and extraordinary capital contributions to the pension funds are centralized worldwide in the newly established "Global Pension Committee". Further information on pension liabilities is available in Note 25a of the Notes to the Consolidated Financial Statements.

The risk volume which is subject to **credit risk management** includes all worldwide creditor positions of DaimlerChrysler with financial institutions, issuers of securities and end customers. Credit risk with financial institutions and issuers arises primarily from the trading of derivative financial instruments and the investments executed by liquidity management. The management of this credit risk is based on an internal limit system, which reflects the creditworthiness of the respective financial institution or issuer. The credit risk with end customers results from granting a payment period for goods and services. Similarly, an internal assessment of the customers' creditworthiness provides the basis for quantifying the associated risk. In order to hedge these risks, bank guarantees are often demanded before delivery is initiated.

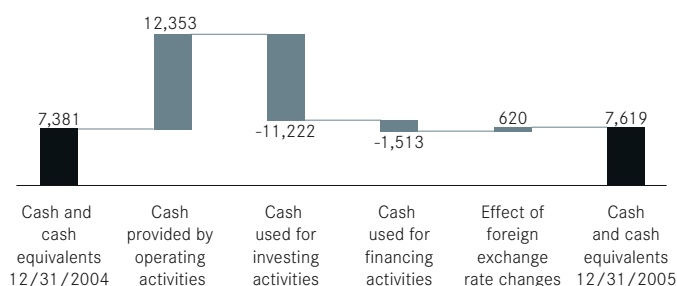
**Financial country risk management** includes various risk aspects: the risk from investments in subsidiaries and joint ventures, the risk from cross-border financing of Group companies in risk countries and the risk from direct sales to end customers in these countries. DaimlerChrysler has developed an internal limit system which divides all countries with DaimlerChrysler operations into risk categories. Credit volumes are restricted according to the country classification or higher guarantees are considered. Available instruments for hedging country risk such as Hermes insurance are frequently employed. On top of that, a committee sets and restricts the level of hard-currency risk for Financial Services companies in risk countries.

## Cash flow

**Cash provided by operating activities** of €12.4 billion was higher than in the prior year (€11.1 billion). The increase was primarily due to the inventory-related receivables from financial services, which had risen significantly in 2004 as a result of higher stocks of vehicles held by dealers, reducing cash provided by operating activities in that period. In 2005, the negative effect from changes of these receivables on cash provided by operating activities was significantly lower. Cash provided by operating activities also increased due to the generally lower cash outflows for tax payments, caused in particular by decreasing taxable income in Germany. Tax payments in the United States were higher than in the prior year, however, as the tax-loss carryforwards had been used up. An additional factor was the shift in the financial services business from finance lease to operate lease contracts which led to increased cash provided by operating activities. The reason for this is that with finance-leasing contracts, only the interest portion of the leasing installments is reflected in cash provided by operating activities, while the amortization portion is reflected within investment activities. With operate lease contracts, however, the entire leasing installments are recognized in cash provided by operating activities. Opposing effects reducing cash provided by operating activities resulted from changes in the volumes of trade receivables and trade liabilities and increased inventories. Contributions to pension funds of €1.7 billion were also slightly higher than in the prior year (€1.6 billion).

### Net Increase (Decrease) in Cash and Cash Equivalents (maturing within 3 months or less)

(in millions of €)



The reduction of €5.5 billion in **cash used for investing activities** to €11.2 billion was primarily attributable to the development of receivables from financial services provided to end customers. This was due not only to a lower volume of new financing contracts, but also to increased payments received on existing receivables. Proceeds from the sale of such receivables decreased, however. Additionally, the acquisition and sale of securities reduced the cash outflow for investing activities, primarily due to the sale of the Group's remaining shares in MMC. There were opposing effects increasing the cash outflow for investing activities caused by the increase in equipment on operating leases and higher payments for the acquisition of shares in subsidiaries and associated companies, mainly due to the acquisition of the remaining shares in MTU Friedrichshafen and capital injections for joint ventures. Furthermore, proceeds from the sale of shares in subsidiaries and associated companies decreased; in the prior year this item had been boosted by the disposal of the Group's shares in HMC. Capital expenditure for property, plant and equipment increased slightly.

The **cash flow from financing activities** resulted in a net cash outflow of €1.5 billion in 2005. This was mainly a result of the dividend distribution at DaimlerChrysler AG for 2004 (€1.5 billion). Borrowing and the repayment of financial liabilities were nearly in balance, with a slight shift towards short-term refinancing. In the prior year, the net increase in financial liabilities offset the dividend distribution. In 2005 the exercise of stock options resulted in a cash inflow from the issue of shares of €0.2 billion.

Cash and cash equivalents with an original maturity of three months or less increased by €0.2 billion compared with December 31, 2004 as a result of currency translation effects. Total liquidity, which also includes long-term investments and securities, increased from €11.7 billion to €12.6 billion.

**Free cash flow of the industrial business**, the parameter used by DaimlerChrysler to measure the financing capability increased by €0.3 billion to €2.1 billion.

**Free Cash Flow Industrial Business**      2005      2004      05/04  
Amounts in billions of €      Change

Cash provided by operating activities	6.2	3.8	2.4
Cash used for investing activities	(4.8)	(2.9)	(1.9)
Changes in cash and cash equivalents (maturing after 3 months) and short term securities	0.7	0.9	(0.2)
<b>Free cash flow industrial business</b>	<b>2.1</b>	<b>1.8</b>	<b>0.3</b>

The increase was mainly due to lower cash outflows for tax payments as a result of decreasing taxable income in Germany. An additional factor was that increased payments were received by the industrial business from companies in the financial services business in connection with tax groups in the United States. The free cash flow was also increased by the sale of the Group's remaining shares in MMC and its interest in debis AirFinance during 2005. In the prior year, the corresponding increase from the sale of the Group's shares in HMC was lower. There were negative effects from the stronger increase in working capital and the realignment of the business model at smart. In addition, the free cash flow was reduced in 2005 by the increased utilization of provisions, also in connection with quality actions. Taking into consideration the dividends paid by Financial Services to the industrial business, the free cash flow of the industrial business significantly surpassed the total dividend distribution planned by DaimlerChrysler to its shareholders for the 2005 financial year.

The **net liquidity of the industrial business**, which is equivalent to liquidity less nominal debt on the balance sheet date, increased by €5.1 billion to €7.3 billion.

Net Liquidity Industrial Business	2005	2004	05/04
Amounts in billions of €			Change
Cash and cash equivalents (maturing within 3 months)	6.8	6.4	0.4
Cash and cash equivalents (maturing after 3 months)	0.1	0.4	(0.3)
Short-term securities	4.5	3.5	1.0
<b>Liquidity</b>	<b>11.4</b>	<b>10.3</b>	<b>1.1</b>
Nominal debt <sup>1</sup>	(4.1)	(8.1)	4.0
<b>Net liquidity</b>	<b>7.3</b>	<b>2.2</b>	<b>5.1</b>

<sup>1</sup> Bookvalue of financial liabilities adjusted for market valuation

The significant increase in net liquidity is mainly due to the positive free cash flow as well as the effects of currency translation. An additional factor was the dividends paid by the financial services business to the industrial business. Opposing effects resulted primarily from the dividend distribution by DaimlerChrysler AG for the 2004 financial year.

## Refinancing

DaimlerChrysler's **refinancing measures** are primarily determined by the Group's financial services activities. To cover a relatively low requirement for additional funding compared with the prior year and to refinance debts becoming due, DaimlerChrysler once again used a broad spectrum of financial and capital-market instruments. The book value of the main refinancing instruments and the weighted average interest rates for the year 2005 are shown in the table below:

	Average interest rates 2005	Book value Dec. 31, 2005	Book value Dec. 31, 2004
	in %	amounts in millions of €	
Bonds/notes	5.70	47,432	44,679
Commercial paper	4.08	9,104	6,824
Liabilities to banks	4.54	17,472	17,664

The financial instruments shown in the above table as of December 31, 2005 are mainly denominated in the following currencies: 57% in US dollars, 21% in euros, 8% in Canadian dollars, 3% in British pounds and 3% in Japanese yen.

The **financial liabilities** shown in the consolidated balance sheet, which in particular also include deposits from direct banking business as well as liabilities from capital lease and residual value guarantees, amounted to €80,932 million on December 31, 2005 (2004: €76,270 million). Of the financial liabilities, €76,786 million or 95% was accounted for by the financial services business (2004: €67,940 million or 89%). Detailed information on the amounts and terms of the financial liabilities is available in Note 26 of the Notes to the Consolidated Financial Statements.



In 2005, DaimlerChrysler successfully issued benchmark notes denominated in US dollars and euros. There were also smaller issues of medium-term note programs in the form of private placements. In addition, the securitization of receivables, mainly in the field of financial services, was utilized particularly in the United States, but also in Canada and Germany. In 2005, DaimlerChrysler sold retail receivables in an amount of €11,575 million (2004: €10,294 million). Within the context of a revolving credit facility for securitizing wholesale receivables, DaimlerChrysler also sold wholesale receivables in an amount of €33,922 million (2004: €35,414 million) to trusts and received proceeds of €33,892 million (2004: €35,393 million). With these transactions, the Group received income of €182 million in 2005 and €250 million in 2004. See Note 34 of the Notes to the Consolidated Financial Statements for further information on the sale of receivables.

At the end of 2005, DaimlerChrysler had short-term and long-term **credit lines** totaling €35.4 billion, of which €17.9 billion was not utilized. These credit lines include a US\$18 billion syndicated global credit facility with international banks in a total of three tranches: the first tranche comprises a 5-year credit line maturing in May 2008, allowing DaimlerChrysler AG and various subsidiaries to draw a total of US\$7 billion under this facility. DaimlerChrysler North America Holding can draw a total of US\$6 billion under a 364-day facility maturing in May 2006. The originally 7-year tranche with a volume of US\$5 billion and maturing in July 2006 was transformed earlier than necessary in 2004 into a new facility of DaimlerChrysler AG with the same volume and a term of five years, i.e. until December 2009. In December 2005, we made use of our contractual option to extend this credit facility by another year (until 2010). In December 2006, the term can again be extended until December 2011.

A part of this US\$18 billion credit facility serves as collateral for borrowings within the commercial-paper program.

In order to hedge the liquidity of an asset-backed commercial-paper program in North America, DaimlerChrysler has an additional credit facility with a consortium of international banks, which was increased to a volume of US\$6.2 billion in 2005 (2004: US\$5.2 billion). This liquidity hedging can only be utilized by the trusts to which DaimlerChrysler sold receivables in the context of this program.

The liquid reserves, short-term and long-term credit lines and the possibility to generate cash inflows by securitizing receivables give the Group sufficient financial flexibility of above €50 billion to cover its refinancing needs at any time.

## Ratings

	2005	2004
<b>Short-term credit ratings</b>		
Standard & Poor's	<b>A-2</b>	A-2
Moody's	<b>P-2</b>	P-2
Fitch	<b>F2</b>	F2
Dominion Bond	<b>R-1-</b>	R-1-
<b>Long-term credit ratings</b>		
Standard & Poor's	<b>BBB</b>	BBB
Moody's	<b>A3</b>	A3
Fitch	<b>BBB+</b>	BBB+
Dominion Bond	<b>A-</b>	A-

During the year 2005, the rating agency Standard & Poor's Rating Services (S&P) kept its long-term rating of BBB and its short-term rating of A-2 unchanged. The outlook of the long-term rating remained stable.

On August 1, 2005, Moody's Investor Service (Moody's) confirmed the A3 long-term and the P-2 short-term rating of DaimlerChrysler but changed the outlook of the long-term rating to negative from stable. Moody's stated that the change reflects the challenges DaimlerChrysler is facing to strengthen margins going forward in particular of the Mercedes Car Group division and to reach a break-even position at smart. In addition, Moody's mentioned the pressure the Chrysler Group is facing in the United States to maintain a trend of improving profitability as a result of rising incentives and competitive pressures and the reliance on the current robustness of the performance of the Commercial Vehicles division. Moody's highlighted that DaimlerChrysler's A3/P-2 ratings continue to reflect the overall strength of the Group's franchise, particularly Mercedes-Benz's market position as a global luxury passenger car brand, the Group's scope and geographically well-spread operations.

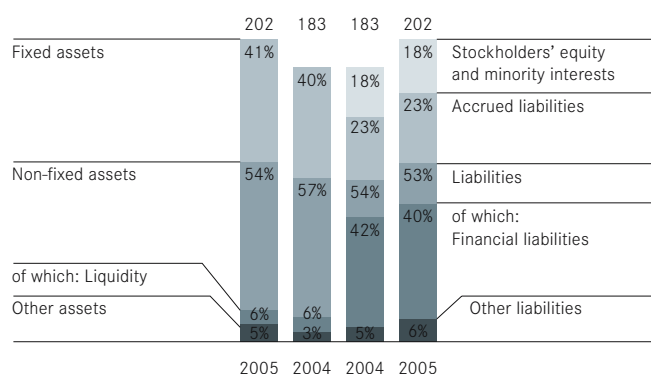
On July 19, 2005, Fitch Ratings (Fitch) revised the outlook on DaimlerChrysler's BBB+ rating to stable from positive. The short-term rating was affirmed at F2. The outlook revision reflected Fitch's view that given the recent performance of the Mercedes Car Group and competitive pressures at the Chrysler Group, an upgrade of the ratings for DaimlerChrysler is unlikely in the short term. Fitch noted that the financial profile of the Group remains strong.

On August 2, 2005, Dominion Bond Rating Service (Dominion) changed the outlook of the long-term rating of DaimlerChrysler to negative from stable. Dominion stated that the change reflects the fact that profitability, although acceptable, is weak for the rating and that they believe that the near term prospects at DaimlerChrysler's main businesses are mixed. Business diversity has enabled DaimlerChrysler to stay profitable and is a key strength supporting the ratings.

# Financial Position

## Balance Sheet Structure

(in billions of €)



The **Group's total assets** increased by 10% compared with the prior year to €201.6 billion, primarily due to the appreciation of the US dollar. The assets and liabilities of our US companies were translated into euros using the exchange rate of €1 = US\$ 1.1797 as of December 31, 2005 (prior year: €1 = US\$1.3621 as of December 31, 2004). This lower exchange rate resulted in correspondingly higher balance sheet amounts in euros. €15.2 billion of the increase in total assets resulted from the effects of currency translation. Adjusted for currency translation effects, total assets increased by €3.6 billion.

The financial-services business accounted for €99.6 billion of the balance sheet total (2004: €88.0 billion). This was equivalent to 49% of the DaimlerChrysler Group's total assets and liabilities (2004: 48%).

On the **assets side** of the balance sheet, property, plant and equipment increased by 8% to €36.7 billion. This development was primarily caused by currency translation, with opposing effects from the impairment of assets in an amount of €0.5 billion relating to the realignment of the smart business model.

Financial assets decreased by 10% to €6.4 billion. One reason for this decrease was the sale of the Group's remaining shares in MMC. The lower net carrying amount of our investment in EADS primarily resulted from the evaluation of derivative financial instruments at EADS. This effect was only partially offset by the Group's proportionate share of the net income of EADS, which is accounted for using the equity method.

Leased equipment increased by €7.5 billion to €34.2 billion, due to altered exchange rate parities as well as the growth of the operate lease business. The latter was partially caused by a shift from sales-financing contracts, which are entered under receivables from financial services, to increased operate lease contracts.

Inventories – less advance payments received – increased to €19.1 (2004: €16.8) billion. The increase was due not only to currency translation effects, but also to the launch of new models and intense competition in the market.

Receivables from financial services amounted to €61.1 billion on December 31, 2005 (2004: €56.8 billion). Adjusted for currency translation effects, the decrease amounted to €1.5 billion. The outstanding balance of sold and securitized receivables from financial services, which are accounted off-balance, was including effects from currency translation, higher than in the prior year. For additional information, see Note 34 of the Notes to the Consolidated Financial Statements.

The decrease in other assets from €12.9 billion to €8.7 billion was primarily due to the valuation and redemption of derivatives.

Total liquidity increased, as intended, by 8% to €12.6 billion, and comprised cash and cash equivalents (€7.7 billion) and marketable securities (€4.9 billion).

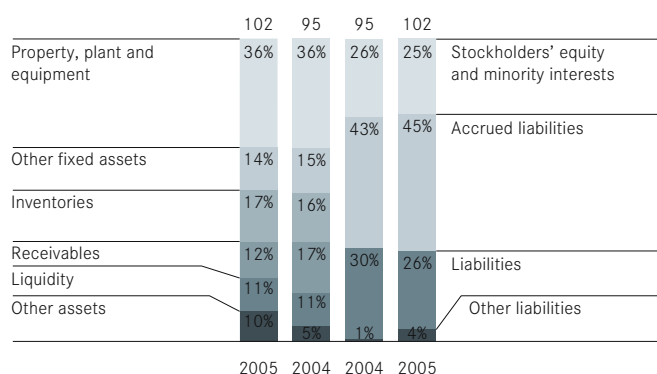
As of December 31, 2005, assets and liabilities held for sale related to the Off-Highway business unit, the sale of which will probably be completed in the first quarter of 2006.

At the balance sheet date 37% of all assets had a maturity of less than one year (2004: 38%).

On the **liabilities side** stockholders' equity amounted to €36.4 billion (2004: €33.5 billion). The increase was mainly due to the Group's net income as well as currency translation effects. There were opposing effects from distribution of the dividend for the 2004 financial year and the valuation of derivative financial instruments (which had no effect on the income statement). The equity ratio, adjusted for the proposed dividend distribution for the 2005 financial year (€1.5 billion), remained almost unchanged and was 17.3% (2004: 17.5%). The equity ratio for the industrial business amounted to 24.8% (2004: 25.2%).

## Balance Sheet Structure of the Industrial Business

(in billions of €)



The decrease in minority interests resulted primarily from the change in the Group's equity interest in Mitsubishi Fuso Truck and Bus Corporation (MFTBC). As of December 31, 2005, DaimlerChrysler held 85% of MFTBC's shares (2004: 65%).

Accrued liabilities increased from €41.9 billion to €46.7 billion, mainly due to currency translation effects. The increase in other accrued liabilities was caused by the changed market valuation of derivatives due to the appreciation of the dollar against the euro as well as higher accruals for product guarantees. The increase in accruals for product guarantees was partially related to the quality offensive at the Mercedes Car Group.

The Group's financial liabilities amounted to €80.9 billion on the balance sheet date (2004: €76.3 billion). Adjusted for the effects of currency translation, this item decreased by €0.5 billion. The financial liabilities shown in the consolidated balance sheet primarily serve to refinance the leasing and sales financing business.

The change in trade liabilities from €12.9 billion to €14.6 billion was mainly caused by currency translation effects.

Deferred income increased to €8.3 billion (2004: €6.3 billion), due not only to currency translation, but also to higher advance rental payments resulting from the expanded operate lease portfolio and higher sales of vehicles with guaranteed residual values.

At the balance sheet date 43% of all liabilities had a maturity of less than one year (2004: 42%).

The **funded status of the Group's pension obligations** changed from being underfunded by €6.6 billion to being underfunded by €7.2 billion in 2005. On the balance sheet date, the Group's pension obligations amounted to €41.5 billion, compared with €34.4 billion at the end of the prior year. The increase was primarily a result of the currency translation effects of €3.4 billion and the reductions in discount rates for pension plans by 0.8 of a percentage point to 4.0% for German plans, and by 0.4 of a percentage point to 5.4% for non-German plans. The plan assets available to finance the pension obligations increased due to currency translation effects (€3 billion) and the good performance of the stock markets from €27.8 billion to €34.3 billion. The yield realized on the German plan assets in 2005 was 16.9%; the foreign plan assets returned a yield of 12.1%. In addition, the plan assets increased due to contributions of €1.7 billion (2004: €1.6 billion).

The **funded status of the other postretirement benefit obligations** changed from an undercover of €12.8 billion to an undercover of €15.8 billion in 2005. The obligations totaled €17.7 billion on the balance sheet date (2004: €14.4 billion). €2.3 billion of the increase was due to the effects of currency translation. The obligations also increased as a result of the reduction in the discount rate of 0.3 of a percentage point to 5.7%. The other changes resulted from the normal annual increase less payments to beneficiaries. Other postretirement benefit obligations were covered by plan assets of €1.9 billion (2004: €1.5 billion).

Additional information on pension plans and similar obligations is available in Note 25a of the Notes to the Consolidated Financial Statements.

## Capital Expenditure

The DaimlerChrysler Group invested a total of €6.6 billion in property, plant and equipment in 2005 (2004: €6.4 billion). For the Mercedes Car Group, the focus was on preparing for the production of the new M-Class and R-Class at the plant in Tuscaloosa, USA, the new V6 and V8 engines and the successors to the C-Class and the smart fortwo. The main areas for the Chrysler Group were the preparation of production facilities for new model introductions and further improvements in plant efficiency and flexibility. The volume of investment in the Commercial Vehicles division was significantly higher than in the prior year. This was primarily due to preparations for the production startup of the new Sprinter and investments related to new truck generations and new low-emission engines fulfilling worldwide emission regulations.

### Investments in Property, Plant and Equipment

	2005	2004	05/04
Amounts in millions of €			% change
DaimlerChrysler Group	6,580	6,386	+3
Mercedes Car Group	1,629	2,343	-30
Chrysler Group	3,083	2,647	+16
Commercial Vehicles	1,743	1,184	+47
Financial Services	45	91	-51
Other Activities	109	134	-19

## Research and Development

Research and development expenditure totaled €5.6 billion in 2005 (2004: €5.7 billion). The Mercedes Car Group's most important projects were the successor models for the C-Class and the smart fortwo. Research and development work at the Chrysler Group was once again influenced by the product offensive, in particular the renewal and extension of the Jeep® and Dodge model ranges. The Commercial Vehicles division's key projects included the new generation of trucks for Europe, the United States and Japan, and various new low-emission engines. Some additional areas of R&D activities were new drive-system technologies, especially hybrid drive and fuel-cell drive, and electronic systems designed to enhance traffic safety.

At the end of 2005, more than 28,200 people worked in DaimlerChrysler's research and development departments, of whom 2,600 were employed in the corporate Research and Technology department and 25,600 were employed in the divisions (see page 94).

We spent a total of €1.5 billion on environmental protection in 2005. Most of these funds were applied to reduce the fuel consumption and emissions of our vehicles. For example, we reduced the consumption of our fleet of vehicles in Germany by 30% in the period of 1990 to 2005. DaimlerChrysler therefore made an above-average contribution to achieving the voluntary commitment declared by the German Automotive Industry Association (VDA) of a 25% reduction. For the continuing reduction of CO<sub>2</sub> emissions, we are also utilizing the potential of biofuels. We are modifying our vehicles so that the blend of biofuel to conventional fuel can be doubled from 5% to 10%.

### Research and Development Expenditure

	2005	2004	05/04
Amounts in millions of €			% change
DaimlerChrysler Group	5,649	5,658	-0
Mercedes Car Group	2,418	2,634	-8
Chrysler Group	1,710	1,570	+9
Commercial Vehicles	1,281	1,226	+4
Other Activities	240	228	+5



## Procurement and Supply

Our Procurement and Supply organization has the goal of building up the world's most effective supply chain, thus contributing to an increase in corporate value. In the year 2005, we identified and utilized additional synergy potential. In order to continuously improve the efficiency and effectiveness of our work, we defined three strategic areas for action: leveraging our global scale, the efficient management of our global supply base, and the use of globally uniform IT structures and processes.

By bundling our purchasing worldwide, we maximize our volumes and the resulting price advantages. For this purpose, we established the Material Strategy and Innovation Council (MSIC). The MSIC coordinates the worldwide activities of our vehicle divisions in the fields of engineering, procurement, cost analysis, and research and technology. For example, with the aid of the MSIC, many opportunities have already been identified for cost reduction and innovation.

The rising prices of raw materials and the growing danger of insolvencies in the supply industry were particularly important for our work in 2005. In order to limit the impact of rising raw material prices on our material costs at an early stage, we carefully monitor the market prices of raw materials. In addition, we cooperate with our suppliers to achieve continuous improvements in products and processes so that lasting price advantages can be realized. Whenever necessary, we enter into long-term agreements to guarantee reliable supplies and limit the effects of future price increases; this also enhances planning security for our suppliers.

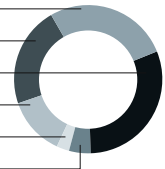
A modern system of risk management helps us to identify and analyze the financial situation of our suppliers. This allows us to react to suppliers' financial difficulties in good time, thus minimizing the financial risks and any impact on DaimlerChrysler's production (see page 98 f).

## Workforce

### Employees by Division

DaimlerChrysler Group 382,724

Mercedes Car Group	104,345
Chrysler Group	83,130
Commercial Vehicles	117,183
Sales Organization	48,773
Financial Services	11,129
Other Activities	18,164



**Employment situation.** As of December 31, 2005, DaimlerChrysler employed 382,724 people worldwide (end of 2004: 384,723). Of this total, 182,060 were employed in Germany (2004: 185,154) and 97,480 in the United States (2004: 98,119). The number of trainees at year-end was 9,880 (2004: 10,047). Compared with the prior year, employment increased by 2% at Commercial Vehicles, where employees were recruited due to the high demand for trucks, particularly in the Trucks Europe/Latin America and Trucks NAFTA business units. At the Mercedes Car Group (-1%), the Chrysler Group (-1%) and Financial Services (-1%), employment levels were slightly lower than at the end of the prior year (see page 92).

**Staff reductions at the Mercedes Car Group.** At the end of September 2005, the Board of Management approved a package of measures to be taken at the Mercedes Car Group aiming to reduce the workforce in Germany by 8,500 jobs. The staff reductions are to be achieved as a result of voluntary severance agreements over a period of twelve months, and will contribute to increasing the productivity of the Mercedes Car Group and thus helping to secure the competitiveness of its facilities in Germany. DaimlerChrysler stands by the "Safeguarding the Future 2012" agreement reached in the year 2004, which provides for voluntary retirement as a first step in the case of any need for personnel reductions. By the end of 2005, approximately 5,000 Mercedes Car Group employees had either already left the company or had signed agreements on their departure (see pages 74 and 92).

## Events after the End of the 2005 Financial Year

**New management model for DaimlerChrysler.** On January 24, 2006, DaimlerChrysler presented a new management model designed to improve the Group's competitiveness and promote further profitable growth.

More detailed information on this subject can be found on page 31 of this Annual Report.

**Further events after the end of the 2005 financial year.** Since the end of the 2005 financial year, there have been no further occurrences that are of major significance to DaimlerChrysler and which would lead to a modified assessment of the Group's position. The course of business in the first two months of 2006 confirms the statements made in the chapter, "Outlook".

# Risk Report

## Risk management system

Within the framework of their global activities and as a result of increasingly intense competition in all markets, DaimlerChrysler's divisions and business units are exposed to a large number of risks, which are inextricably linked with their business activities. Effective management and control instruments are combined into a uniform risk management system, meeting the requirements of applicable law and subject to continuous improvement, which is employed for the early detection, evaluation and management of risks. The risk management system is integrated into the value-based management and planning system. It is an integral part of the overall planning, control and reporting process in all relevant legal entities and central functions, and aims to systematically identify, assess, control and document risks. Taking defined risk categories into account, risks are identified by the management of the divisions and business units, the key associated companies and the central departments, and assessed regarding their probability of occurrence and possible extent of damage. The assessment of the possible extent of damage usually takes place in terms of the risks' effect on operating profit. The communication and reporting of relevant risks is controlled by value limits set by management. The responsible persons also have the task of developing, and initiating as required, measures to avoid, reduce and hedge risks. Major risks and the countermeasures taken are monitored within the framework of a regular controlling 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 risk management system enables the Board of Management to identify key risks at an early stage and to initiate suitable countermeasures. By carrying out targeted audits, the Corporate Audit department monitors compliance with the statutory framework and the Group's internal guidelines as defined in the Risk Management Manual, and, if required, initiates appropriate action. In addition, the external auditors test the system for the early detection of risks that is integrated into the risk management system in terms of its fundamental suitability for the early recognition of developments that could jeopardize the continued existence of the company.

## Economic risks

Following the dynamic development of the world economy in 2004, economic expansion slowed down in all regions in 2005. Although general conditions were relatively unfavorable and potential risks increased, global growth was only slightly below the long-term trend. Two factors with a particularly negative impact were the continuation of high raw-material prices and the rapid growth of the United States' current-account deficit. The stable growth of the world economy in 2006 that is anticipated by most economists and also by DaimlerChrysler depends significantly upon how these factors develop in the future. DaimlerChrysler's financial position, results of operations and cash flows are therefore still exposed to substantial economic risks. Due to the great importance for the global economy of developments in the United States, an isolated severe slowdown of economic expansion there would have negative consequences for the rest of the world.

The US economy is increasingly dependent on the inflow of foreign capital to finance its rapidly growing current-account deficit, and this situation has become a source of considerable risk potential. If the capital inflows cease to be available in the required volumes, the country's current-account deficit will have to be corrected. This could be done by means of higher interest rates and a drastic depreciation of the US dollar, leading to significantly lower growth in the United States and thus also in other regions of the world. Additional risks that would weaken economic growth in the United States are a further increase in capital-market interest rates and a fall in real-estate values, which to a certain extent are inflated by speculation. Both of these factors would substantially reduce private consumption.

Disappointing economic developments in large parts of the European Union, especially Germany, have considerable risk potential due to the region's importance as a major sales market for DaimlerChrysler. In particular, if the ongoing weakness of domestic demand leads to stagnation, this could have a substantial impact on demand for automobiles. The situation of the Japanese economy is similar, although its prospects have improved somewhat. A renewed weakening of the Japanese economy would not only reduce the Group's exports to Japan, but would also place a substantial burden on the earnings trend of our subsidiary, Mitsubishi Fuso Truck and Bus Corporation.

An additional important potential risk is to be seen in the high level of raw-material prices, particularly crude oil. If prices remain high or actually continue rising, the assumed economic development will be jeopardized. Private households' purchasing power would fall and companies' costs would increase, and these two factors combined would have a negative impact on growth in the oil-importing countries. With a long-term rise in the price of oil, some economies could even slip into recession.

A marked reduction in growth rates in China would also be strategically relevant for the Group, as this is currently the most dynamic automobile market in the world and has enormous potential for the future. In view of China's economic power and the sharp increase in the flows of international investment and trade with China, such a slump would not only have serious consequences for the whole of Asia, but could also cause significant growth losses for the world economy, with negative effects on DaimlerChrysler's projects. Potential economic crises in the other emerging markets in which the Group has production facilities could also be of particular relevance. But crises in emerging markets where the Group is solely active in a sales function would result in a more limited risk exposure.

Risks for market access and the global networking of the Group's facilities could arise as a result of the failure or significant delay of multilateral trade liberalization, in particular due to the weakening of international free trade in favor of regional trade blocks or a return to protectionist tendencies. A sharp rise in bilateral free-trade agreements outside the European Union could affect DaimlerChrysler's position in key foreign markets, particularly in Southeast Asia, where Japan is increasingly gaining preferred market access.

Finally, the world economy could be negatively influenced by a sustained deterioration in consumer and investor confidence. This could be triggered by geopolitical and military instability, concern about a possible sharp drop in share prices, the battle against terrorism and the fear of an influenza pandemic.

## Industry and business risks

Weak economic developments, overcapacity in the automotive industry and sluggish consumer demand could have an impact on vehicle manufacturers. This would primarily affect DaimlerChrysler's major markets in Western Europe and the NAFTA region. In the United States, which is still the engine of the global economy, high competitive pressure in the automobile market in recent years has led to the proliferation of special financing offers and price incentives. Continued weak economic developments could make such discount financing and price incentives necessary in the future, at similar or even higher levels. This would not only reduce our earnings from the sale of new vehicles, but would also lead to lower prices in the used-car market and thus to falling residual values. As a result of intensifying competition in Western Europe, the practice of offering discount financing and price incentives is spreading also in this region. In order to achieve the targeted level of prices, factors such as brand image and product quality as well as additional technical features resulting from innovative research and development are becoming increasingly important.

In view of increasing price pressure, it is essential for the Group's future profitability to realize efficiency improvements while fulfilling DaimlerChrysler's own high quality standards. This also applies to the successful implementation of the CORE program and the restructuring initiated in this context for the realignment of the smart business model. Product quality has a major influence on a customer's decision to buy a particular brand of passenger car or commercial vehicle. Technical problems could lead to further recall and repair campaigns, or could even necessitate new developments requiring type approval from the relevant authorities. Furthermore, deteriorating product quality can also lead to higher warranty and goodwill costs.

Legal and political frameworks also have a considerable impact on DaimlerChrysler's future business success. Regulations concerning exhaust emissions and fuel consumption and the development of energy prices play a particularly important role. The Group monitors these factors and attempts to anticipate foreseeable requirements during the phase of product development.

DaimlerChrysler counteracts procurement risks through targeted commodity and supplier risk management. But in view of developments in international supply markets, the effects of these measures are limited. If prices remain at their current level for a long time, or actually continue to rise, this would result in a negative impact on the Group's profitability. Increasing pressure in procurement and sales markets could also seriously jeopardize the financial situation and continued operations of suppliers and dealers. To an increasing extent, individual or joint support actions will be required by automobile manufacturers such as DaimlerChrysler in order to safeguard production and sales. If important suppliers should get into difficulties due to their financial situation, this could have a negative effect on the production and sales of vehicles and thus also on DaimlerChrysler's profitability.

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 supplier problems and intensified security measures at territorial borders. In addition, our manufacturing processes could be disturbed by failures at the data centers. Security measures and emergency plans have been prepared for such eventualities. Although other IT risks in the fields of network, application and system management or outsourcing and supplier management have a very low probability of occurrence, the effect of such a case arising would also have a negative impact on earnings.



DaimlerChrysler's Financial Services division is primarily involved in the provision of financing and leasing for Group products, as well as insurance and services in the field of fleet management. The international orientation of this business and the raising of capital are linked with credit, exchange rate and interest rate risks. DaimlerChrysler counteracts these risks by means of appropriate market analyses and the use of derivative financial instruments. In addition, the U.S. Internal Revenue Service (IRS) has challenged the tax treatment of certain leveraged leases by various companies, including DaimlerChrysler, and we are currently in discussions with the IRS. Although we believe that our tax treatment is appropriate and in compliance with applicable tax law and regulations, the resolution of this matter could have a significant negative impact on our cash flows.

Due to DaimlerChrysler's involvement in the development of a system to record and charge tolls for the use of highways in Germany by trucks with more than 12 metric tons gross vehicle weight, we are exposed to a number of risks which could have negative effects on the Group's financial situation, cash flows and profitability. The development and operation of the electronic toll collection system is the responsibility of the operator company, Toll Collect GmbH, in which DaimlerChrysler holds a 45% ownership interest and which is included in the consolidated financial statements using the equity method of accounting. In addition to DaimlerChrysler's membership of the consortium and its equity interest in Toll Collect GmbH, guarantees were issued supporting obligations of Toll Collect GmbH towards the Federal Republic of Germany concerning the completion and operation of the toll system. The toll system went into operation on January 1, 2005 with slightly reduced functionality. On January 1, 2006, the toll system was installed with full functionality as specified in the operator contract. Risks can arise primarily due to lower tolls derived from the system, offsetting alleged claims by the Federal Republic of Germany, or a refusal to grant the final operating license. Additional information on the electronic toll collection system and the related risks can be found in the Notes to the Consolidated Financial Statements: see Note 3 (Significant Equity Method Investments), Note 31 (Legal Proceedings) and Note 32 (Contingent Obligations and Other Commercial Commitments).

DaimlerChrysler bears a proportionate share of the risks of its subsidiaries and its associated and affiliated companies in line with its share of their equity capital.

## Finance market risks

The DaimlerChrysler Group is exposed to market risks from changes in foreign currency exchange rates, interest rates and equity prices. Furthermore, commodity price risks arise from procurement. These market risks may adversely affect DaimlerChrysler's operating results, financial condition and cash flow. The Group seeks to manage and control these risks primarily through its regular operating and financing activities, and if appropriate, through the use of derivative financial instruments. Additional information on financial instruments and derivatives is available in Note 33 of the Notes to the Consolidated Financial Statements. DaimlerChrysler evaluates these market risks by monitoring changes in key economic indicators and market information on an ongoing basis.

To quantify the exchange rate risk, interest rate risk and equity price risk of the Group on a continuous basis, DaimlerChrysler's risk management systems employ value-at-risk analyses as recommended by the Bank for International Settlements. The value-at-risk calculations employed by DaimlerChrysler express potential losses in fair values assuming a 99% confidence level and a holding period of five days. This method is based on the variance-covariance approach of the RiskMetrics™ model. Estimates of volatilities and correlations are drawn from the RiskMetrics™ datasets and supplemented by additional exchange rate, interest rate and equity price information. The Group does not use derivative financial instruments for speculative purposes.

Any market sensitive instruments, including equity and fixed interest bearing securities, that DaimlerChrysler holds for pension plans or similar obligations are not included in this quantitative and qualitative analysis. Please refer to Note 25a of the Notes to the Consolidated Financial Statements for additional information regarding the Group's pension plans.

In accordance with the organizational standards in the international banking industry, DaimlerChrysler maintains risk management control systems independent of Corporate Treasury and with a separate reporting line.

**Exchange rate risks.** The global nature of DaimlerChrysler's business activities results in cash receipts and payments denominated in various currencies. For the assessment of currency exposures, the cash inflows and outflows of the business segments are offset and netted out if they are denominated in the same currency. Currency exposures are regularly assessed and gradually hedged with suitable financial instruments, predominantly foreign exchange forwards and currency options, according to exchange rate expectations, which are constantly reviewed. The net assets of the Group which are invested in subsidiaries and affiliated companies outside the euro zone are generally not hedged against currency risks. However, in specific circumstances, DaimlerChrysler hedges the currency risk inherent in certain of its long-term investments. Besides this, DaimlerChrysler does not generally hedge the currency translation risk which arises from our subsidiaries which report their revenues and results in a functional currency other than the euro.

The following table shows value-at-risk figures for DaimlerChrysler's 2005 and 2004 portfolio of derivative financial instruments used to hedge the underlying currency exposure. We have computed the average exposure based on an end-of-quarter basis.

Value-at-Risk	Dec. 31, 2005	Average for 2005	Dec. 31, 2004	Average for 2004
Amounts in millions of €				
Exchange rate sensitive derivative financial instruments <sup>1</sup>	281	253	148	256

<sup>1</sup> Forward foreign exchange contracts, foreign exchange swap contracts, currency options.

The average value-at-risk of our derivative financial instruments used to hedge exchange rate risks in 2005 is almost unchanged to that of 2004. The increase in the period-end value-at-risk is primarily a result of a higher foreign exchange derivatives' volume in US dollars.

Due to exchange rate fluctuations, especially of the US dollar and other major currencies against the euro, DaimlerChrysler is exposed to exchange rate risks and resultant transaction risks. These transaction risks primarily affect the Mercedes Car Group division, as a significant portion of its revenues are generated in foreign currencies while most of its costs are incurred in euros. The Commercial Vehicles division is also exposed to such transaction risks, but only to a minor degree because of its worldwide production network. Chrysler Group's transaction risks are low, as most of its revenues and costs are generated in US dollars.

**Interest rate risks.** DaimlerChrysler holds a variety of interest rate sensitive financial instruments to manage its liquidity and the cash needs of the day-to-day operations. A substantial volume of interest rate sensitive assets and liabilities is related to the leasing and sales financing business operated by DaimlerChrysler Financial Services. The leasing and sales financing business enters into transactions with customers which primarily result in fixed-rate receivables. DaimlerChrysler's general policy is to match funding in terms of maturities and interest rates. However, for a limited portion of the receivables portfolio, the funding does not match in terms of maturities and interest rates. As a result, DaimlerChrysler is exposed to risks due to changes in interest rates.

DaimlerChrysler coordinates the funding activities of the Industrial Business and Financial Services at the Group level. It uses interest rate derivative instruments, such as interest rate swaps, forward rate agreements, swaptions, caps and floors, to achieve the desired interest rate maturities and asset/liability structures (asset and liability management).

The following table shows value-at-risk figures for DaimlerChrysler's 2005 and 2004 portfolio of interest rate sensitive financial instruments. We have computed the average exposure based on an end-of-quarter basis.

Value-at-Risk	Dec. 31, 2005	Average for 2005	Dec. 31, 2004	Average for 2004
Amounts in millions of €				
Interest-rate-sensitive financial instruments	89	90	73	75

In 2005, the average and the period-end values-at-risk of our portfolio of interest rate sensitive financial instruments increased, primarily due to more volatile interest rates and a weaker euro mainly in relation to the US dollar.

**Equity price risks.** DaimlerChrysler holds investments in equity securities and equity derivatives. In accordance with international banking standards, DaimlerChrysler does not include investments in equity securities that the Group classifies as long-term investments in the equity price risk assessment. Equity derivatives used to hedge the market price risk of investments accounted for using the equity method are also not included in this assessment. Changes in the fair market value of these derivatives essentially offset changes in the fair market value of the underlying investment. The remaining equity price risk in 2005 and 2004 was not, and is currently not, material to the Group. Thus, DaimlerChrysler does not present the value-at-risk figures for the remaining equity price risk.

**Commodity price risks.** Associated with DaimlerChrysler's business operations, the Group is exposed to changes in prices of commodities. DaimlerChrysler addresses those procurement risks by a concerted commodity and supplier risk management.

To a minor extent, DaimlerChrysler uses derivative commodity instruments to reduce some of the Group's commodity price risk, mainly the risk associated with the purchase of precious metals. The risk resulting from these derivative commodity instruments in 2005 and 2004 was not, and is currently not, significant to the Group. Therefore, DaimlerChrysler does not separately present the value-at-risk figures for its derivative commodity instruments.

## Legal risks

Various legal proceedings are pending against DaimlerChrysler. In our view, most of these proceedings constitute ordinary, routine litigation that is incidental to our business. However, the possibility cannot be excluded that the final resolution of some of these lawsuits could cause DaimlerChrysler to incur substantial costs and cash outflows. Although the final resolution of any such lawsuit could have a material effect on the Group's earnings in any particular period, DaimlerChrysler believes that any resulting obligations are unlikely to have a sustained effect on the Group's financial position, results of operations and cash flow. Information on various legal proceedings can be found in Note 31 of the Notes to the Consolidated Financial Statements.

## Overall risks

There are no discernible risks that, either alone or in combination with other risks, could jeopardize the continued existence of the company.

# Outlook

The statements made in the Outlook section are based on the operative planning of the DaimlerChrysler Group for the years 2006 through 2008. This planning is based on premises regarding the economic situation resulting from assessments made by renowned economic institutes, as well as the ambitious targets of our divisions. The forecasts for future business developments are oriented towards the opportunities and risks offered by the anticipated market conditions and the competitive situation during the planning period.

## The world economy

Present economic conditions and global indicators for consumer, business and investor sentiment suggest that the world economy will expand in 2006 at about the same rate as last year. This should be assisted by ongoing stable growth in the United States, although US interest rates are likely to continue rising with a resulting negative impact on domestic demand. Growth in Western Europe, and in particular in Germany, might accelerate slightly, but from a relatively low level. It is still uncertain whether or not Japan has really overcome its growth weakness, but economic opportunities now seem to outweigh the risks. Growth in the emerging markets will probably slow down a little in 2006, mainly due to slightly less dynamism in the rapidly expanding Chinese economy and rather lower growth rates in the Middle East. Northeast Asia will continue to be the region with the strongest growth, followed closely by India and Eastern Europe. Growth is likely to accelerate in particular in the new EU member states of Central and Eastern Europe in 2006. Overall, the world economy should expand at a rate of slightly more than 3%, like in 2005 and in line with the long-term trend. Risks for the global economy are to be seen in rising raw-material prices, especially of oil, and the possible correction of the US foreign-trade deficit, which would result in weaker domestic demand in the United States and the significant depreciation of the US dollar.

Our planning is based on the assumption that compared with average exchange rates during 2005, in the coming years, the euro will appreciate against the US dollar and the British pound, and will remain fairly stable against the Japanese yen.

## Automotive markets

In line with the development of the world economy, growth in global demand for automobiles in 2006 will be at about the same rate as in 2005. Whereas demand for passenger cars in nearly all of the emerging markets is likely to increase significantly, the best that can be expected for the North American market for passenger cars and light trucks and the Western European markets for passenger cars is that volumes will remain at the same level as in 2005. Slight growth is anticipated for Japan, the world's second-largest market for passenger cars, as a result of further improvements in economic conditions in Japan.

Global demand for commercial vehicles should remain at a high level for the year 2006. As a result of purchases brought forward in connection with new emission regulations due to come into force in the year 2007, the North American market for heavy trucks could expand again slightly in full-year 2006. A similar pattern of demand is emerging in Japan. Demand in Western Europe should remain stable in 2006. For the year 2007, we anticipate a significantly lower market volume due to the cyclical weakening of the major markets for commercial vehicles, exacerbated by stricter emission regulations in the United States and Japan.

Most of the growth in worldwide demand for vehicles in the coming years will continue to be in the emerging markets of Asia, in South America, and increasingly in Central and Eastern Europe, due to the dynamic growth in purchasing power, improved infrastructures and the generally increasing need for mobility in those regions.

DaimlerChrysler assumes that competitive pressure will intensify due to the industry's worldwide over-capacity. Additional factors are stricter safety and environmental regulations, the fulfillment of which will cause substantial costs for all producers. Therefore, one of the factors for success in the future will be the ability to achieve competitive advantages through innovative products and strong brands. In this context, it will also become increasingly important to have a worldwide market presence with the possibility to participate in the growth of the emerging markets.

## Unit sales

Only weak growth the major passenger car markets is anticipated in the coming years. The **Mercedes Car Group** plans for unit sales in 2006 at a similar level to the prior year, combined with an improved model mix. Unit sales should then increase again in 2007 and 2008. This expansion will be based on the new products already launched in the year 2005 and those scheduled for the next few years. With the new B-Class and R-Class models we are opening up the sports-tourer market segment for the Mercedes-Benz brand and thus attracting new customers. The new S-Class, which will be fully available in 2006, underscores the innovation and technology leadership of the Mercedes-Benz brand. We intend to further extend our leading market position in the premium segment with this superb automobile. Improved penetration of the Asian markets should also contribute to growing sales. We see opportunities above all in China, where the Mercedes Car Group plans to assemble its C-Class and E-Class models and to further develop its sales organization. Unit sales of the smart brand should be boosted by the successor model to the smart fortwo in 2007. The possibility of launching the new model in the US market is being investigated. As a result of the CORE efficiency-improving program and the new business model for the smart brand, the profitability of the Mercedes Car Group should increase continuously during the planning period of 2006 through 2008. We aim to achieve a return on sales of 7% in the year 2007. Parallel to the measures being taken to improve profitability, the Mercedes Car Group continues to implement its quality offensive.

The **Chrysler Group** plans to further improve its competitive position in the coming years. With an array of attractive new models, we intend to achieve world-class levels of performance in customer experience and operational excellence, i.e. product quality and productivity. To achieve this, the Chrysler Group will launch ten all-new models in 2006 followed by several more new vehicles in the following years. This should strengthen our market position in the highly competitive North American market. But the Chrysler Group also intends to sell more vehicles outside the NAFTA region, assisted by the Dodge brand, which we are now launching in Europe. The product range for export markets will be significantly expanded in the coming years. One focus of the Chrysler Group's regional expansion is in China, where minivans and the Chrysler 300 and 300C are to be produced in the future in addition to the existing production of Jeep® vehicles. In the coming years, we will further improve the efficiency and flexibility of our manufacturing processes. Furthermore, the Chrysler Group will reduce costs by making more use of the existing know-how within the DaimlerChrysler Group and thus standardizing components and using shared vehicle architecture for several models. As a result of its generally improved competitiveness and the new products launched in 2006, the Chrysler Group anticipates stable unit sales in 2006 but significantly higher volumes in the following years.



In 2006, the **Commercial Vehicles** division aims to achieve unit sales at the same high level as in the prior year. Due to a weakening of demand in Western Europe, North America and Japan, unit sales are expected to fall in 2007, with the possibility of an increase in 2008. We intend to make the commercial vehicles business less dependent on cyclical market fluctuations in the future as a result of the Global Excellence optimization program, so that sustained positive earnings can be achieved also under difficult market conditions. In this way, we intend to utilize our cost advantages as the world's biggest manufacturer of commercial vehicles better than in the past. In addition, we will strengthen Commercial Vehicles' competitive position in the years 2006 through 2008 with numerous new products. These include the successor model to the Sprinter, the new Premium Class from Freightliner, and the new touring buses from Mercedes-Benz. Within the context of our worldwide growth strategy, we will push forward with the integration of FUSO and utilize the opportunities presented in Asia, especially in China. Within the framework of the new management model (see page 31), as of March 2006, the Commercial Vehicles division will focus on the development, production and distribution of trucks, and the division will therefore be renamed "Truck Group". Buses and vans will be directly managed as separate units and will be included in the Van, Bus, Others segment. The new structure should create additional synergies and facilitate a stronger orientation towards the specific requirements of customers and markets in the individual segments.

The **Financial Services** division will continue to make an important contribution to vehicle sales and to the financial success of the DaimlerChrysler Group. The key challenges in the coming years are growing competition from internationally active banks and from alternative sales channels on the Internet, intensified competition in the automobile markets, and, from today's perspective, increasing levels of interest rates all over the world. In order to meet these challenges, the Financial Services division will further enhance its process quality and efficiency, aided by the improvement of its risk-management system. The growth in Asian markets targeted by DaimlerChrysler's vehicle brands is to be supported with tailored financial services. For example, in November 2005 the division started business operations in China, where we are the first provider to offer customers and dealers financing and insurance packages for passenger cars and commercial vehicles from one source. In total, we anticipate a slight increase in contract volume during the planning period.

**EADS** anticipates a generally stable development of the worldwide civil-aircraft market with strong demand in the years 2006 through 2008. Due primarily to rising Airbus deliveries, EADS' volume of business should continue to grow in the coming years. This development will be assisted by the new A380 wide-body aircraft, which should be delivered to customers starting at the end of the year 2006. EADS also expects generally positive developments for its defense and space operations, despite the continuation of very tight government budgets.

On the basis of the divisions' planning, in 2006 we expect **DaimlerChrysler's unit sales** to be in the magnitude of the prior-year. We anticipate positive sales impetus in the following years, primarily as a result of the new products launched by the Chrysler Group and upcoming new products from the Mercedes Car Group.

**Investments in Property, Plant and Equipment 2006-2008**

(in billions of €)

DaimlerChrysler Group 19.1

Mercedes Car Group 7.2

Chrysler Group 7.7

Commercial Vehicles 3.8

Financial Services 0.1

Other Activities 0.3



## Revenues and earnings

Adjusted for exchange-rate effects, revenues in 2006 will probably increase slightly. In the following years, we expect revenues to increase significantly in line with rising unit sales. In regional terms, the main source of growth will be the dynamic markets of Asia.

DaimlerChrysler anticipates an improvement in profitability in 2006, with continuous increases in operating profit during the following years.

The driving force of this positive earnings trend is on the one hand our product offensive with more than 50 new vehicles in the period of 2005 through 2008. On the other hand, an important contribution will come from the efficiency-improving programs that we have initiated in all of the divisions and which are being pushed steadily forward. The Mercedes Car Group in particular should be able to substantially boost its profitability as a result of its CORE efficiency-improving program. An additional factor that should have a positive impact on earnings in the coming years is the closer networking of our worldwide activities and in particular the knowledge transfer and closer cooperation within the Group.

A fundamental condition for the targeted increase in earnings is a generally stable economic and political situation and the moderate increase in the worldwide demand for automobiles expected for the years of 2006 through 2008. Opportunities and risks may arise from the development of currency exchange rates, interest rates and raw-material prices.

An important step to achieve our goals is the new management model for DaimlerChrysler, which we announced in January 2006. By implementing this program, we intend to generally improve the Group's competitiveness and create the right conditions for further profitable growth (see page 31).

## Capital expenditure

During the planning period of 2006 through 2008, DaimlerChrysler expects to invest a total of approximately €19 billion on property, plant and equipment. At the Mercedes Car Group, the focus of investment will be on advance expenditure for the successor models to the present C-Class and E-Class. Principle investments by the Chrysler Group will be in the modernization of its plants and the continuation of the product offensive. At the Commercial Vehicles division, major investments are planned in connection with the new modular platforms for heavy-duty and medium-duty trucks and for a new family of engines for heavy-duty trucks. DaimlerChrysler also plans to invest substantial funds in the further expansion of its business activities in China.

**Investments in property, plant and equipment**

In billions of €

2005 2006-2008

DaimlerChrysler Group	<b>6.6</b>	19.1
Mercedes Car Group	<b>1.6</b>	7.2
Chrysler Group	<b>3.1</b>	7.7
Commercial Vehicles	<b>1.7</b>	3.8
Financial Services	<b>0.1</b>	0.1
Other Activities <sup>1</sup>	<b>0.1</b>	0.3

<sup>1</sup> Excluding the Off-Highway business unit in the period of 2006 through 2008

## Research and Development Expenditure 2006-2008

(in billions of €)

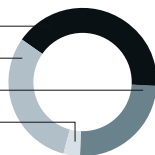
DaimlerChrysler Group 15.5

Mercedes Car Group 6.4

Chrysler Group 4.7

Commercial Vehicles 3.8

Other Activities 0.6



## Research and development

Within the framework of DaimlerChrysler's new management model, we are merging our Group-wide area of Research and Technology with the product development of the Mercedes Car Group to form the new Board of Management area of Group Research & Mercedes Car Group Development. This new area will continue to work as a research competence center for the entire Group, and will take on more responsibility for the predevelopment activities of all the automotive divisions. This will shorten the launch periods for future technologies, enhance our customer focus and avoid the duplication of work.

With this new organization, we will be able to apply our research and development expenditure more efficiently in the coming years. We are optimizing work processes and concentrating on those projects that create the maximum added value for our customers. In addition, we are intensifying the cooperation between the various internal research and development departments and with the supplier industry. We will establish more so-called "project houses" in which engineers from different countries and divisions will work together. We will increasingly utilize the possibilities of modularization and standardization, wherever this is compatible with the identity of our brands. For example, we will reduce the number of vehicle architectures in the coming years while significantly increasing the number of versions based on shared vehicle architectures. This strategy will enable us to continue to offer a wide range of attractive new models while achieving substantial savings with regard to material and development costs and further enhancing the quality of our products.

### Research and development expenditure

In billions of €

2005 2006-2008

DaimlerChrysler Group	5.6	15.5
Mercedes Car Group	2.4	6.4
Chrysler Group	1.7	4.7
Commercial Vehicles	1.3	3.8
Other Activities <sup>1</sup>	0.2	0.6

<sup>1</sup> Excluding the Off-Highway business unit in the period of 2006 through 2008

During the period of 2006 through 2008, DaimlerChrysler will invest a total of €15.5 billion in its research and development activities. As a result of the targeted efficiency improvements, the annual expenditure will be slightly below the level of recent years in all of the automotive divisions. One focus of DaimlerChrysler's research and development expenditure will be on the new models planned by the Mercedes Car Group and the Chrysler Group. Some of the key projects in the Commercial Vehicles division are the new truck platforms and new engines fulfilling future emission regulations in the United States, Western Europe and Japan.

Significant expenditure is also planned for new technologies with which we intend to improve the safety, environmental compatibility and fuel economy of road vehicles.

## Workforce

As a result of the anticipated production volumes and productivity advances, DaimlerChrysler assumes that compared with the end of 2005, the size of its workforce will decrease continuously during the planning period of 2006 through 2008. Due to the sale of the Off-Highway business unit, the number of employees is likely to fall by around 7,000 in the first quarter of 2006. The staff-adjustment measures being taken at the Mercedes Car Group for its locations in Germany will result in a reduction of approximately 8,500 jobs by the end of September 2006. And the implementation of the new management model will lead to a reduction of around 6,000 jobs in administrative functions worldwide by the end of 2008.

### Forward-looking statements in this Annual Report:

This Annual Report contains forward-looking statements that reflect management's current views with respect to future events. The words "anticipate", "assume", "believe", "estimate", "expect", "intend", "may", "plan", "project" and "should" and similar expressions identify forward-looking statements. Such statements are subject to risks and uncertainties, including, but not limited to: an economic downturn in Europe or North America; changes in currency exchange rates, interest rates and in raw material prices; introduction of competing products; increased sales incentives; the effective implementation of our New Management Model, and the CORE program, including the new business model for smart, at the Mercedes Car Group; renewed pressure to reduce costs in light of restructuring plans announced by our major competitors in NAFTA; supply interruptions of production materials, resulting from shortages, labor strikes or supplier insolvencies; the resolution of pending governmental investigations; and decline in resale prices of used vehicles. If any of these or other risks and uncertainties occur (some of which are described under the heading "Risk Report" on pages 58 ff in this Annual Report and under the heading "Risk Factors" in the Annual Report on Form 20-F filed with the Securities and Exchange Commission), or if the assumptions underlying any of these statements prove incorrect, then actual results may be materially different from those expressed or implied by such statements. We do not intend or assume any obligation to update any forward-looking statement, which speaks only as of the date on which it is made.

## Divisions

DaimlerChrysler sold a total of 4.8 million vehicles in 2005 (+ 3%). The increase was primarily due to the success of the numerous new models that we launched during that year. Although its major new models were not available until the second half of the year, the Mercedes Car Group posted unit sales similar to the level of the prior year. The Chrysler Group slightly increased its unit sales compared with 2004, and the Commercial Vehicles division posted a significant rise. The Financial Services division continued its strategy of focusing on the core automotive business and supported the automotive divisions with tailored financial services. Our associated company, EADS, continued developing very positively during the year under review.



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# Mercedes Car Group

Attractive new models generate sales momentum | Greater efficiency through CORE program | Quality offensive takes effect | Operating profit negatively impacted by necessary workforce reductions and restructuring measures

	2005	2004	05/04 % change
Amounts in millions of €			
Operating profit (loss)	(505)	1,666	.
Revenues	50,015	49,630	+1
Investments in property, plant and equipment	1,629	2,343	-30
Research and development expenditure	2,418	2,634	-8
Production	1,214,855	1,246,726	-3
Unit sales	1,216,838	1,226,773	-1
Employees (Dec. 31)	104,345	105,857	-1

**Business developments affected by new models and restructuring measures.** The Mercedes Car Group, comprising the brands Mercedes-Benz, Maybach, smart, Mercedes-Benz AMG and Mercedes-Benz McLaren, sold 1,216,800 vehicles in 2005 (2004: 1,226,800). The success of the new models launched in the market led to significantly higher revenues for the Mercedes-Benz brand in the second half of the year. As a result, unit sales in 2005 were slightly higher than the figure recorded in 2004. Revenues of €50.0 billion slightly exceeded the prior year's level.

Within the framework of the CORE program, the Mercedes Car Group initiated various measures to boost efficiency during 2005, leading to a substantial improvement in profitability as the year progressed. Nevertheless, the division posted an operating loss of €505 million for the full year (2004: operating profit of €1.7 billion). This decline in profitability was primarily caused by two factors: on the one hand the special charges of €1.1 billion associated with the realignment of the business model at smart, and on the other hand expenses of €570 million related to the announced workforce reductions at the Mercedes Car Group's locations in Germany (see page 39).

**Mercedes-Benz successfully launches new models.** The Mercedes-Benz brand introduced four important new models in 2005: the successor models for the M-Class and S-Class, and the new B-Class and R-Class Sports Tourers. Engine line-ups were significantly upgraded with the launch of the new generation of V6 and V8 gasoline and diesel engines. Thanks to the success of the new models and engines, unit sales of the Mercedes-Benz brand rose 2% to 1,092,500 vehicles in 2005, despite difficult market conditions. Unit sales in the United States increased by 4%, and sales in Western Europe excluding Germany were up 2% from the figure recorded in 2004. In Germany, however, an intensely competitive environment and consumers' reluctance to buy in the run-up to model changeovers led to a 5% decline in sales. The Mercedes-Benz brand was particularly successful in Asia in the year under review. Unit sales in Japan increased by 18% in 2005, and we sold 11,500 vehicles in the rapidly growing Chinese market, an increase of 18% from the figure recorded in 2004.

Unit sales of the S-Class in 2005 did not reach the prior year's level due to consumers' reluctance to buy prior to the model changeover in October. Although model lifecycle factors led to a decline in C-Class sales, the new V6 gasoline and diesel engines – as well as the new Sport Edition – generated positive sales momentum in the second half of the year. Although unit sales did not equal the prior-year figure, the E-Class remained the clear leader in its segment with a global market share of 27% in 2005. The CLS coupe was a particularly successful member of the E-Class model family, recording sales of 51,600 units (2004: 8,100). Unit sales of the new A-Class, of which the successor model was launched in 2004, were much higher in 2005 than in the prior year, and sales of M-Class vehicles rose significantly following the model changeover.

With the innovative **R-Class**, Mercedes-Benz affirms its role as a technology leader and trendsetter in the automotive industry.



**New S-Class features numerous innovations.** The Mercedes Car Group unveiled the new S-Class at the International Motor Show (IAA) in Frankfurt in September 2005. The model was subsequently launched in Western Europe and has met with an extremely positive response from customers and the press. With its numerous innovations, the new S-Class continues the tradition established by the world's most successful sedan in the luxury segment. Exemplary safety and the highest levels of comfort remain the outstanding attributes of the S-Class. Following in the footsteps of its predecessors, the new S-Class introduces numerous technical innovations as standard features: the "anticipatory" Brake Assist BAS PLUS system, DISTRONIC PLUS proximity cruise control, the PRE-SAFE® precautionary occupant protection system, and the new night vision system offer the latest advanced technology for accident prevention. At the same time, the highest levels of driving comfort are guaranteed by a new dynamic multi-contour seat, the Active Body Control system (ABC), the further refined AIRMATIC suspension system, and an all-new automatic climate control system. As a preview of the drive systems of the future, we also presented two visions of the new S-Class with hybrid drive at the IAA: the Direct Hybrid (in combination with a gasoline engine) and the BlueTec Hybrid (with a diesel engine). Sales of the new S-Class sedan totaled 20,500 units by the end of the year under review.

#### **B-Class and R-Class launch the Sports tourer segment.**

The Mercedes-Benz brand expanded its range of products in 2005 to include two completely new vehicles: the B-Class and the R-Class. These two sports tourer models combine the advantages of sporty sedans, station wagons, vans and sport-utility vehicles (SUV) into an independent individual profile, thereby enabling us to win over new customer groups for the Mercedes-Benz brand.

The B-Class, which has been available in Europe since June 2005, met with a very positive response from our customers and the media, a fact that was reflected in the excellent unit sales figure of 62,200 vehicles for the model's first year on the market.

The space-saving arrangement of the engine and transmission in the B-Class is based on the sandwich concept used in the A-Class. It enables the new Sports tourer to offer the interior spaciousness of larger sedans and station wagons despite its compact outer dimensions. The model's EASY-VARIO system makes it possible to alter the design of the interior in a great variety of ways with just a few manual adjustments.

The R-Class, which we launched in the United States in September 2005, is outstanding for its innovative interior concept, extraordinary design, and the dynamic handling of an upper-range automobile. The highest levels of safety are provided by permanent all-wheel drive, pneumatic suspension at the rear axle or all-round AIRMATIC suspension, the 4ETS electronically controlled traction system, and ESP®. A total of 8,300 R-Class sports tourers were sold in the United States in the year under review. A shorter version of the model will go on sale in Western Europe in the spring of 2006.

**Refined power in the new M-Class.** The new M-Class has met with a very positive response among customers and the press. A total of 66,900 new M-Class vehicles have been sold since the model was launched in the United States in April 2005 and in Western Europe the following August. The new M-Class underscores its exceptional position in the off-road segment with its state-of-the-art technology and three powerful new engines. The model was one of the first SUVs to be awarded five stars (the best possible result) in both the front and side-impact tests conducted by the National Highway Traffic Safety Administration in the United States.

The **Maybach 57** combines luxury and driving dynamics at the highest level: state-of-the-art technology and high performance with the perfection appropriate for this brand.



**Product offensive continues with launch of numerous attractive new products.** The E 320 BLUETEC was unveiled at the North American Auto Show in Detroit in January 2006. Featuring the world's cleanest diesel engine, this car will be launched in the United States in the fall of 2006. With this first series-version BLUETEC passenger car, Mercedes-Benz will establish "BLUETEC" as the name of a generation of particularly economical and clean diesel engines. To great acclaim, Mercedes-Benz also presented the new GL-Class, a new model in the growth segment of large SUVs. The R-Class with a wheelbase appropriate to European requirements debuted in February 2006. As the year progresses, we will launch the technically all-new generation of the E-Class, the new high-end coupe – the CL-Class, and the upgraded SL-Class.

**A successful year for Mercedes-Benz in motor sport.** 2005 was a successful year in motor sport for Mercedes-Benz. The brand finished second in both the Formula One Drivers' and Constructors' championships, first in the Driver, Team, and Manufacturer classifications in the German Touring Car Masters (DTM), and first in the Drivers' and Constructors' championships in the Formula 3 Euro Series. Mercedes-Benz won 36 of the 49 races the brand participated in: McLaren-Mercedes drivers finished first in ten of 18 Formula One Grand Prix races, the C-Class was the winning vehicle in eight of eleven DTM races, and Mercedes engines were victorious in 18 of 20 Formula 3 races.

**Quality offensive takes effect.** The extensive measures being implemented within the framework of our quality offensive enabled us to significantly improve the quality of our vehicles in the year under review. Internal analyses as well as numerous external studies have shown this to be the case. In the 2005 J.D. Power Initial Quality Study, for example, the Mercedes-Benz brand moved up five notches and is now once again among the top five vehicle brands. Mercedes-Benz passenger cars were also rated among the best automobiles in three vehicle classes in the German ADAC breakdown statistics. These successes represent only an initial step, however, as we continue to pursue our objective of making our products number one in the world when it comes to quality.

**Consistent implementation of the CORE program.** In February 2005, we launched the efficiency-improving CORE program as a means of returning the Mercedes Car Group to lasting competitiveness. Our objective here is to achieve a return on sales of 7% by 2007. We systematically examined the entire value chain of the Mercedes Car Group in seven different task areas in terms of efficiency, costs and quality. Then, in the initial phase of CORE, we began implementing measures designed to achieve a short-term improvement in earnings. Examples of such measures included reducing expenditures for materials, personnel, energy and information technology, and simplifying warehouse logistics systems. In addition, we examined all our current projects and canceled those vehicle and engine projects that promised to be unprofitable. Some of these measures began taking effect in 2005, as reflected in the development of earnings throughout the year. The second phase of CORE, which began in September 2005, involves the implementation of structural measures, whereby our ultimate goal is to be able to develop, produce and sell first-class products of the highest quality under competitive conditions. To do this, we have to make our processes faster, leaner and better, reduce our costs, and focus on the essentials.

**Workforce reductions at German locations.** In view of the ongoing difficult market situation and intensely competitive conditions, an adjustment of capacities at the Mercedes Car Group in conjunction with efforts to increase productivity had become unavoidable. For this reason, at the end of September 2005, the Board of Management approved a package of measures calling for workforce reductions of 8,500 persons at the Mercedes Car Group locations in Germany. This headcount reduction, to be achieved through voluntary agreements within a period of twelve months, is designed to help secure the competitiveness of German locations – and thus the success of the Mercedes Car Group – over the long term. By the end of 2005, approximately 5,000 employees had signed agreements on their departure from the Mercedes Car Group or had already left. This means that just three months after the start of the voluntary program, about 60% of the twelve-month goal had been already been achieved. €570 million of the approximately €950 million in total charges associated with the workforce reductions were already recognized in the fourth quarter of 2005.

The **smart fortwo convertible** is less than three meters long, stylish in all situations, and has built-in safety: the smart fortwo has got what it takes. And with fuel consumption of 3.4 liters per 100 kilometers, the cdi version is the world's best-selling "three-liter" car.



**Maybach expands its product range.** The Maybach high-end luxury brand expanded its range of models in 2005, thereby further boosting the brand's appeal. The exclusive Maybach 62 and 57 models were joined by the even more powerful and versatile Maybach 57 S at the end of the year. Since the brand was revived, Maybach has delivered some 1,500 vehicles around the world in an economic environment that has been challenging also for the luxury car sector. 300 of these automobiles were delivered in 2005.

**smart improves its position in a contracting market.** Unit sales of the smart brand totaled 124,300 vehicles in the year under review (2004: 152,100). This figure can be broken down into 43,700 smart forfour vehicles (2004: 59,100), 75,300 smart fortwo cars (2004: 79,500), and 5,300 smart roadsters (2004: 13,600). As retail sales increased to a total of 143,100 vehicles (2004: 139,600), dealers' inventories were significantly reduced during the year. The most important sales markets for the smart brand remained Germany (35,000 units; -28%) and Italy (30,800 units; -22%). A big success for the smart brand was the launch of the smart fortwo cdi in Canada, where we sold 4,100 units of that model in 2005 – significantly more than originally anticipated.

The smart fortwo cdi remains the world's best-selling "three-liter" car (with fuel consumption of 3.4 liters per 100 kilometers). Beginning in the spring of 2006, it will be possible to retrofit diesel-particulate filters in all smart diesel cars. At the same time, our smart forfour diesel models will be fitted with diesel filters; smart fortwo diesel models have been fitted with this equipment since January 2006.

**smart implements its restructuring program.** Within the framework of the restructuring program initiated for smart in April 2005, we discontinued production of the smart roadster and development of the planned smart SUV. The workforce was reduced from 1,350 to 750 employees at smart headquarters, and there was a reduction of 125 employees at the Hambach plant. We also restructured our marketing activities and expanded our dealership network from 930 to 1,120 sales outlets. In addition, we incorporated smart's procurement, design, aftersales and IT into the Mercedes-Benz organization. As a result of these measures, we succeeded in reducing fixed costs at smart by 26% in the year under review.

Unit sales 2005 <sup>1</sup>	1,000 units	05/04 % change
<b>Mercedes-Benz</b>	1,093	+2
of which: S-Class/SL/Maybach/SLR	72	-17
E-Class/CLS	265	-10
C-Class	398	-16
of which: CLK	58	-27
SLK	59	+10
Sports coupe	33	-29
A/B-Class	263	+84
M/R-Class	90	+27
G-Class	5	-16
<b>smart</b>	124	-18
<b>Mercedes Car Group</b>	1,217	-1
of which: Germany	355	-8
Western Europe (excluding Germany)	422	-3
NAFTA	254	+6
United States (retail sales)	224	+1
South America	10	-2
Asia/Oceania (excluding Japan)	74	+11
Japan	48	+17

<sup>1</sup> Group sales, unless otherwise indicated (including leased vehicles)



# Chrysler Group

Positive business developments in a difficult market | Improved manufacturing productivity and flexibility | New products successful in the market | Next product offensive in 2006 | Slight increase in operating profit

	2005	2004	05/04 % change
Amounts in millions of €			
Operating profit	1,534	1,427	+7
Revenues	50,118	49,498	+1
Investments in property, plant and equipment	3,083	2,647	+16
Research and development expenditure	1,710	1,570	+9
Production	2,760,467	2,652,186	+4
Unit sales	2,812,993	2,779,895	+1
Employees (Dec. 31)	83,130	84,375	-1

**Continuation of positive business developments.** Although market conditions remained difficult in North America, business developments at the Chrysler Group were generally positive in 2005, primarily due to successful new products and measures taken to reduce costs and improve quality. This was also reflected by the division's operating profit, which increased slightly to €1.5 billion (2004: €1.4 billion) (see page 40).

Worldwide, the Chrysler Group posted factory unit sales (shipments to dealers) of 2.8 million Chrysler, Jeep® and Dodge brand passenger cars, sports tourers, minivans, sport-utility vehicles and light trucks in 2005, an increase of 1% compared to the prior year. The United States was the largest market with 2.3 million vehicles (+ 1%), followed by Canada with 209,900 vehicles (-1%) and Mexico with 122,500 vehicles (+ 11%). The Chrysler Group also shipped 175,200 vehicles to markets outside the NAFTA region, an increase of 3% over the prior year.

Worldwide retail and fleet sales increased by 5% to 2.8 million vehicles, with fleet sales accounting for 26% of total US sales (2004: 22%).

Due to higher unit sales, the Chrysler Group's revenues of €50.1 billion were 1% above the prior-year level.

The 2007 Dodge Caliber is a five-door vehicle that provides a new slant on one of the world's most competitive segments.



**Improved position in the US market.** The Chrysler Group increased its retail and fleet sales in the US market by 4% to 2.3 million vehicles. Its market share rose to 13.2% (2004: 12.8%). It improved its market position not only in the passenger-car and sports-tourer segments, but also with minivans and SUVs. Successful models once again were the Chrysler 300/300C with sales of 144,000 vehicles (+ 35%), the Dodge Magnum with 52,500 vehicles sold (+ 34%), and the Jeep® Grand Cherokee with 213,600 units (+ 18%). Unit sales of Chrysler and Dodge minivans increased due to the ongoing success of the innovative Stow'n Go™ seating and storage system by 5% to 407,500 vehicles. The Chrysler Group also achieved sales increases with the models Dodge Sprinter (+ 92%) and Chrysler PT Cruiser (+ 15%). However, sales of the Dodge Durango and the Dodge Ram decreased by 16% and 6%, respectively. Although they were not available until May and September, 44,800 and 17,000 units were sold of the all-new Dodge Charger and Jeep® Commander respectively.

At the end of the year, dealers in the United States had inventories totaling 598,200 vehicles, equivalent to 85 days' supply (end of 2004: 600,600 vehicles and 81 days).

**Product offensive in 2005.** In addition to improving efficiency and product quality, another strategic goal of the Chrysler Group is to achieve a sustained improvement in its competitive position as a result of launching new models. Therefore, the Chrysler Group continued its product offensive in 2005 with award-winning products such as the Dodge Charger, the Jeep® Commander and the new Dodge Ram Mega Cab pickup truck.

The Dodge Charger sports sedan was selected as "Best Vehicle" in the large-car category by Consumer Guide magazine. The police-car versions of the Dodge Charger and Dodge Magnum models, equipped with either a 3.5-liter V6 or a 5.7-liter HEMI-V8 engine, achieved best-in-class rankings in the Michigan State Police vehicle evaluation program.

The Jeep® Commander, the first Jeep® with three rows of seats, has drawn strong reviews from the general public and the media. And the Dodge Ram Mega Cab pickup truck with its best-in-class interior room, maximum power and payload capability secured Truckin' magazine's "Truck of the Year" title.

Finally, to satisfy the growing demand for vehicles with all-round high performance, the Chrysler Group expanded its SRT (Street and Racing Technology) line-up with five new vehicles: the Chrysler 300C SRT8, the Dodge Charger SRT8, the Dodge Magnum SRT8 and the Dodge Viper SRT10 sports coupe; the Jeep® Grand Cherokee SRT8, the most powerful Jeep® vehicle ever, will arrive in dealerships in early 2006.

#### **Expanded product range also outside North America.**

Midterm, the Chrysler Group plans to further develop its presence in international markets. In 2005, the Chrysler Group also expanded its range of products available in international markets with diesel and right-hand-drive versions of the Chrysler 300C and the improved PT Cruiser with a significantly upgraded 2.2-liter diesel engine. In the second quarter of 2005, the Jeep® Grand Cherokee was introduced for customers outside North America with an all-new V6 diesel engine.

Since July 2005, the new Jeep® Grand Cherokee has been assembled for international markets by Magna Steyr in Graz, Austria. This plant also produces sedan and touring versions of the Chrysler 300C, as well as the Chrysler Voyager and Grand Voyager minivans with the Stow'n Go™ seating and storage system. In total, 79,500 vehicles were produced under license in Graz in 2005 (2004: 64,000). Starting in early 2006, the Jeep® Commander will also be built in Graz. Additionally, Chrysler Group will launch the Dodge brand in markets outside North America and plans to substantially add to the portfolio of products offered.

The 2007 Jeep® Compass with its modern, urban styling, is designed to appeal to a new class of entry-level Jeep buyers.



In September 2005, the Chrysler Group announced that Beijing-Benz-DaimlerChrysler Automotive, Ltd. (BBDC), a joint venture between DaimlerChrysler AG, DaimlerChrysler (China), Ltd. and Beijing Automotive Industry Holding Co., Ltd. (BAIC), will begin production of the Chrysler 300 sedan for the Chinese market at the end of 2006. In addition, license agreements have been finalized for the production of minivans in China and Taiwan.

**Increased manufacturing productivity.** By the year 2007, the Chrysler Group aims to close the gap with the best competitors in the North American market in terms of vehicle quality and productivity. In 2005, additional measures were taken to achieve further productivity improvements and to optimize manufacturing processes, including more intensive support and training for assembly employees. In cooperation with the United Automobile, Aerospace, and Agricultural Implement Workers of America (UAW), new workplace practices are being introduced that are designed to foster greater creativity and innovation among production staff while improving their working environment.

The results of the measures that have been implemented in recent years can be seen in the Harbour Report North America 2005 – a highly respected report measuring the productivity of automobile manufacturers in North America. Harbour's latest study shows that the Chrysler Group once again reduced its overall hours per vehicle, by 4.2% to 35.85 hours in 2004, and Chrysler Group plants are at the top of their respective segments: subcompact cars, minivans, front- and rear-wheel drive transmissions, and engine production. Over the last three years, the Chrysler Group has improved its manufacturing productivity by an industry-leading 19%.

**More flexibility in the plants.** In order to make the plants even more flexible and competitive, new manufacturing technologies and processes have been added, so that multiple vehicles can be assembled on the same line. The latest example of this is the Toledo North Assembly Plant (TNAP) in Ohio, where the new Dodge Nitro will be produced alongside the Jeep® Liberty. And in 2006, the Belvidere Plant will lead the Chrysler Group in manufacturing flexibility, starting with the Dodge Caliber and the Jeep® Compass and a third model in late 2006.

**Pioneering agreement signed with trade union.** Another important factor to increase flexibility and reduce costs in the Company's Canadian plants is the new three-year collective-bargaining agreement signed with the National Automobile, Aerospace, Transportation and General Workers Union of Canada (CAW) in September 2005. This agreement reduces the annual rate of increase in wages and retirement-pension and health-care costs by more than half compared with historic trends, while giving the Chrysler Group enhanced flexibility with regard to personnel deployment and workplace practices.

**Production start of World Engine.** The Chrysler Group is forging new paths in the development and manufacture of engines. In October 2005, the Global Engine Manufacturing Alliance (GEMA), a joint venture between the Chrysler Group, Hyundai Motor Company and Mitsubishi Motors, started the series production of the World Engine at a new manufacturing facility in Dundee, Michigan. This engine was jointly developed by the three partners and forms a platform for small, economical and low-emission four-cylinder gasoline engines.

**The 2007 Chrysler Aspen** – the first Chrysler SUV – offers elegant Chrysler styling, capability, performance and abundant premium amenities.



The new World Engine family, with 1.8, 2.0 and 2.4-liter versions, will be offered by the Chrysler Group starting in 2006 with the Dodge Caliber, followed by other models. At the end of 2006, a second plant will commence production in Dundee, Michigan. Together with two other World Engine plants in South Korea and a plant in Japan, the maximum production capacity for the World Engine will be approximately 1.8 million units. GEMA is a completely new business model, bundling the strengths of the individual partners and achieving substantial cost advantages from the high volume of output. Due to the flexible use of highly-qualified personnel and state-of-the-art manufacturing technology, GEMA is expected to set new productivity standards for engine production.

**Attractive new products in 2006.** The Chrysler Group will launch 10 all-new products in 2006 – more than in any other year in its history – including the Chrysler Aspen, the Jeep® Wrangler, the Jeep® Compass, the Dodge Caliber and the Dodge Nitro.

The 2007 Chrysler Aspen – the first Chrysler SUV – offers elegant Chrysler styling, capability, performance and abundant premium amenities. It is the latest addition to the Chrysler brand showroom – a premium SUV that's a value alternative to luxury-priced competitors.

The all-new Dodge Caliber combines a sporty, coupe-like profile with the strength and functionality of an SUV. It will be the first compact vehicle from the Chrysler Group to be offered with all-wheel drive, and the first Chrysler Group vehicle to be fitted with all versions of the new World Engine.

In Europe and other markets outside North America, the Dodge Caliber will be offered with a 2.0-liter turbo-diesel engine. The five-passenger Dodge Nitro will be a mid-size SUV designed to attract a customer seeking distinctive style, sporty performance and cargo flexibility.

At the Frankfurt International Motor Show (IAA) in September 2005, the Jeep® brand hinted at its planned portfolio expansion with the world premiere of the Jeep® Patriot and the Jeep® Compass concept vehicles. In 2006, the Chrysler Group will begin production of two new SUVs for global markets inspired by these vehicles. The powerful yet fuel-efficient 2.4-liter World Engine and the state-of-the-art 2.0-liter turbo-diesel (for international markets) will be available for these compact SUVs.

Unit sales 2005 <sup>1</sup>	1,000 units	05/04 % change
<b>Total</b>	2,813	+1
thereof: Passenger cars	644	+6
Light trucks	589	-12
Sports tourers	298	+6
Minivans	551	+7
SUVs	731	+3
United States	2,305	+1
Canada	210	-1
Mexico	123	+11
Other markets	175	+3

<sup>1</sup> Factory shipments (including leased vehicles)

# Commercial Vehicles

Favorable developments in global commercial-vehicle markets | Positive trend continues for all business units | Implementation of “Global Excellence” initiative | Numerous new products presented | Very high operating profit

2005	2004	05/04	% change
Amounts in millions of €			
Operating profit	2,093	1,332	+57
Revenues	40,634	34,764	+17
Investments in property, plant and equipment	1,743	1,184	+47
Research and development expenditure	1,281	1,226	+4
Production	834,657	718,787	+16
Unit sales	824,867	712,166	+16
Employees (Dec. 31)	117,183	114,602	+2

**Unit sales, revenues and operating profit up sharply.** In 2005, the Commercial Vehicles division built on the very positive developments of the prior year, increasing unit sales by 16% to a new record of 824,900 trucks, vans and buses. Revenues at the division rose by 17% to €40.6 billion. At €2.1 billion, operating profit was significantly higher than the €1.3 billion recorded in 2004 (see page 40).

**Very positive development of truck sales in all major markets.** The Trucks business segment again posted a significant increase in sales in the year under review: Unit sales of 509,300 trucks exceeded the prior year’s figure by 25%. This positive development was due not only to ongoing very favorable developments in all key markets, but also to the great success enjoyed by our attractive products as well as the consolidation for the full year of the FUSO business unit, which was only consolidated for eight months of the prior year.

**Sales record at Trucks Europe/Latin America.** Unit sales at the Trucks Europe/Latin America business unit totaled 148,000 vehicles, an increase of 8% from the prior year – and also a new record. High rates of growth were recorded in all important Western European markets, as well as in Turkey and the Near and Middle East.

In Western Europe, the Mercedes-Benz brand maintained its leading position in the segment for medium and heavy-duty trucks by posting unit sales of 74,100 vehicles (2004: 66,100) and gaining a market share of 22% (2004: 22%). With unit sales of 36,000 vehicles (2004: 32,900), Germany was the most important market for Mercedes-Benz trucks in Western Europe. Market share in Germany reached 42% in 2005 (2004: 42%). Sales of the high-quality Actros truck developed particularly well throughout the year.



From the premium product portfolio of DaimlerChrysler, the world's largest manufacturer of commercial vehicles with strong, attractive brands: the **Mercedes-Benz Actros**, the **Freightliner Coronado** and the **FUSO Canter**.  
(from left to right)



Truck sales also increased slightly in Latin America (excluding Mexico) to 31,300 units. We confirmed our leading position in Brazil in the year under review, attaining a market share of 31%. This was due in particular to our successful products featuring high levels of customer utility in the category of heavy-duty trucks.

**Sharp increase in North American sales.** The Trucks NAFTA business unit posted a 20% increase in sales to 182,400 units in 2005. Market volume rose particularly sharply in the Class 8 segment (heavy-duty trucks over 15 metric tons gross vehicle weight). Sales of the Freightliner, Sterling and Western Star brands in this segment were up 28% to 111,900 units, and market share for those brands rose from 35% to 36%. The Trucks NAFTA unit sold 51,200 vehicles in Classes 5-7 (medium-duty trucks), gaining a market share of 23% (2004: 50,500 vehicles and 25% market share). As part of the "Global Excellence" initiative and the associated portfolio review, Commercial Vehicles sold its American LaFrance firefighting and rescue-vehicle business to the investment firm Patriarch Partners, LLC in December 2005.

Development activities at the division in the year under review focused on chassis, cabs and engines. Among other things, this was due to the preparations associated with the more stringent emission regulations planned in the US (EPA07), which will come into force in January 2007. The share of Group-produced major components used in Freightliner and Sterling trucks was further increased.

**FUSO strengthens market position in Asia.** The FUSO business unit sold 178,900 trucks and buses worldwide in 2005. A total of 59,000 of these vehicles were sold in the brand's home market of Japan, while 119,900 were sold in other countries. Due to the date of FUSO's first-time consolidation, the prior-year figure of 118,100 vehicles sold applies only to eight months of 2004.

Market volume for commercial vehicles declined in Japan in the first half of 2005, only to recover sharply as a result of higher demand in the second half of the year. This recovery also resulted from purchases brought forward due to the upcoming JPN 05 emission regulations, which will have to be fulfilled by all competitors as of September 2007. FUSO's market share in Japan fell from 27% to 23% as a result of the 2004 recall measures and the temporary exclusion of the brand from public-sector invitations to tender. Sales outside Japan rose, however, primarily driven by the solid development of export markets, purchases brought forward in advance of more stringent emission regulations, and the introduction of the new generation of the Canter light truck.

The new **Mercedes-Benz Sprinter** is a pioneer for automotive safety. The safest van in its class, the **Mercedes-Benz Viano** was awarded five stars in the EURO NCAP test.



**Record sales by the Vans business unit.** The Vans business unit also set a new sales record, selling 267,200 vehicles worldwide, an increase of 2%. This sales growth was mainly due to significantly higher demand for the Sprinter van, which set a new sales record of 164,000 units in its last year of production (2004: 151,300). More than 1.3 million Sprinter vans were sold throughout the model's entire product lifecycle, underscoring the Mercedes-Benz Sprinter's position as the benchmark for its class over the last ten years. We have unveiled the successor to the Sprinter at the end of the year 2005 to the press. Whereas unit sales of vans in Europe were slightly lower than in the prior year, sales increased in the NAFTA region. With a market share of 16% (2004: 17%), the business unit maintained its leading position in the segment for medium and large vans in Western Europe in the year under review.

As a result of their excellent handling, comfort, functionality and design, the Vito and Sprinter models were named "Courier, Express and Parcel Van of the Year 2005" in their respective segments. The trade magazine "Firmenauto" also presented both models with awards for their active-safety systems. In addition, the Viano van received five stars (the top rating) for its high safety standards in a comparative test conducted by Dekra, a German certification organization.

**Bus and coach sales increase.** Worldwide sales by the Buses business unit with the brands Mercedes-Benz, Setra and Orion rose by 10% to 36,200 buses, coaches and chassis. The success of our products enabled us to expand our leading position in the class of buses over 8 metric tons gross vehicle weight by increasing our global market share to 17% from 16% in 2004. The Buses business unit sold 8,400 vehicles (2004: 8,800) in Europe. Unit sales in South America were up 2% to 14,600 vehicles. With a market share of 49%, we were able to maintain our leading position in this region as well. In Mexico, we succeeded in expanding our leading market position with sales of 5,800 buses, coaches and chassis (up 28%) and a market share of 55% (2004: 53%). The Buses business unit was also very successful in the Middle East region, selling 2,300 units (2004: 400), most of which were chassis built in Brazil.

#### **Presentation of pioneering new products and technologies.**

In early 2005, we began offering the Viano van with a diesel-particulate filter as standard equipment. And the Vito van is the only vehicle in its class to offer such a filter as an option. We presented the new Viano 4MATIC with all-wheel drive at the International Motor Show (IAA) in Frankfurt in September 2005.

At the Amsterdam Commercial Vehicle Show in October 2005, the Trucks Europe/Latin America business unit presented a range of impressive new truck products, such as the Actros "Cruiser" 1860 LS concept truck and equipment for new applications for Axor construction vehicles. We also unveiled our BlueTec diesel technology for the Atego and Axor truck series and presented the new hybrid-drive Canter light truck. 8,600 trucks with BlueTec were already sold in 2005. The Vito 4x4 van with all-wheel drive also debuted in Amsterdam.

At the technology conference in Papenburg in the fall of 2005, we presented safety innovations such as an emergency braking system for the Actros truck, which will be available as of June 2006 as the "Active Brake Assist", as well as alternative drive concepts such as natural gas and hybrid drive for trucks and vans.

A new era for large city buses: the **Mercedes-Benz "CapaCity"** – 19.54 meters long.



The Buses segment continued its product offensive in Europe. The unit's full-line range of products was expanded in the fall of 2005 to include the new generation of the Mercedes-Benz T-vego travel coach, the new Mercedes-Benz Citaro Low Entry urban and overland bus, and the new Setra MultiClass 400 overland bus. Our broad range of environmentally friendly drive systems, such as the fuel-cell drive used in Mercedes-Benz Citaro urban buses and the hybrid drive used in Orion-brand buses in North America, once again confirmed our leadership in innovation and technology for buses in the year under review.

**Success with "Global Excellence".** The Commercial Vehicles division presented its "Global Excellence" program in June 2005. This program is based on four initiatives and should improve the competitiveness of all of the division's business units.

The "Optimizing the Business Model" initiative includes measures to reduce the division's susceptibility to cyclical fluctuations and to ensure that it remains profitable even in years when commercial vehicle markets are sluggish. The "Operational Excellence" initiative focuses on reducing material costs and fixed costs, optimizing processes worldwide and creating greater flexibility at the division's production plants. The primary focus of the "Growth in Global Commercial Vehicle Markets" initiative is on intensifying activities in Asian markets with high growth potential. The FUSO business unit plays a key role in the latter initiative, which will integrate it more firmly into the Trucks segment. The goal of the fourth initiative – "Future Product Generations" – is to consolidate and expand the division's innovation leadership through the introduction of new technologies and products.

Unit sales in 2005 <sup>1</sup>	in 1,000 units	05/04 % change
Total	825	+16
thereof: Vans	267	+2
Trucks <sup>2</sup>	502	+24
Buses & Coaches	44	+18
Other products <sup>3</sup>	12	+12
Europe	322	+1
thereof: Germany	111	-0
Western Europe (excluding Germany)	166	+2
thereof: United Kingdom	36	-2
France	32	+7
Italy	18	+1
NAFTA	218	+23
thereof: United States	183	+21
South America	62	+11
thereof: Brazil	35	-2
Asia/Australia	181	+39

<sup>1</sup> Group sales (including leased vehicles)

<sup>2</sup> Including school buses from Thomas Built Buses and chassis from Freightliner

<sup>3</sup> Mitsubishi L200 pickup and Mitsubishi Pajero manufactured in South Africa

# Financial Services

Positive business developments in 2005 | Contract volume increases to €117.7 billion | Market presence established in China | Toll Collect system running smoothly in Germany; conversion to new OBU 2 software completed | Increase in operating profit

	2005	2004	05/04 Change in %
Amounts in millions of €			
Operating profit	1,468	1,250	+17
Revenues	15,439	13,939	+11
Contract volume	117,724	102,399	+15
Investments in property, plant and equipment	45	91	-51
Employees (Dec. 31)	11,129	11,224	-1

## Stable business development at DaimlerChrysler Financial Services.

The Financial Services division once again developed very positively in all regions in 2005. Contract volume rose by 15% to €117.7 billion; when adjusted for exchange-rate effects, contract volume increased by 3%. At the end of the year, Financial Services' global portfolio comprised 6.4 million leased and financed vehicles. New business totaled €48.2 billion in an extremely competitive market environment in 2005 (2004: €50.9 billion).

Operating profit rose by 17% from the prior year to €1.5 billion. DaimlerChrysler Financial Services employed 11,129 people worldwide at the end of 2005, similar to the number a year earlier (see page 41).

In line with our strategy of clearly focusing on financial services along the automotive value chain, we renamed the division DaimlerChrysler Financial Services at the beginning of 2005. The new name reinforces the identity of Financial Services. It also sends a clear message that the division is a global provider of excellent financial services and a source of effective sales support for the automotive brands within the DaimlerChrysler Group.

## Improved cooperation with dealers and vehicle brands in North and South America.

As part of an organizational restructuring program, we combined all of our financial services activities in North and South America into the "Americas" region. Contract volume in this region increased by 18% to €85.9 billion, accounting for 73% of the total portfolio; when adjusted for exchange-rate effects, the increase was 1%. New business in the region decreased from €35.1 billion to €31.8 billion. This was a result of adjustments made to incentive programs in the form of the Bonus Cash program at Chrysler Financial. Such changes had caused a substantial increase in new business in the prior year.

We further expanded our close cooperation with the Group's vehicle brands in 2005. Detailed discussions with dealers led to the creation of new financial products for contract extensions (bridge leases) and for the signing of new leasing and financing contracts ahead of time (lease pull-ahead). Demand for Freightliner trucks was very high in the year under review. In order to accelerate delivery of Freightliner trucks to customers, we optimized our credit-approval processes in the Truck Financial unit by carrying out creditworthiness checks at an earlier stage. In addition, we expanded the passenger-car financing process to include a new module for electronic contracts (eContracts), which was tested in pilot operation. Processes for credit applications and checking contract data underwent further automation in the year under review, resulting in even better quality of service for our dealers. Surveys of Chrysler and Mercedes-Benz dealerships conducted by J.D. Power and Associates confirmed that our dealers are very satisfied with the financial services we provide.

**DaimlerChrysler Financial Services** is the first choice provider of financial services for all of the Group's brands, and now has more than six million leasing and financing contracts.



**Positive business development in the Europe, Africa, Asia/Pacific region.** The Europe, Africa, Asia/Pacific region also developed positively in 2005. At €31.8 billion, contract volume was up 8% from the prior year. Business developments were particularly dynamic in South Africa, Turkey and Thailand. The portfolio in the core European markets of the United Kingdom, Italy and France remained stable at €7.3 billion. Contract volume in the eastern European countries of Poland, Hungary, the Czech Republic, Slovakia and Slovenia rose by 7% to €0.9 billion. In Germany, DaimlerChrysler Bank, our largest company in this region, provided attractive products that once again led to an increase in leased and financed vehicles' share of the total number of Group-brand vehicles sold. The bank managed a contract volume of €15.2 billion at the end of the year under review (2004: €14.5 billion), serving some 987,000 customers, or 7% more than in 2004. Contract volume in the Africa and Asia/Pacific region increased by 23% to €5.4 billion.

New financial products and our penetration of new markets enabled us to further consolidate our position as a captive financial services provider in 2005. By standardizing processes for credit and contracts, we were able to improve our cost situation and thus also our competitive position.

We are now the first automotive financial services company to have launched a European platform for asset-backed securities (ABS). This platform enables our European subsidiaries to securitize automotive credit receivables and place them on the capital market.

In November 2005, the division became the first financial services company to offer passenger car and truck financing, as well as insurance, in China. The offerings target both dealers and retail customers. Through its activities, Financial Services is supporting the DaimlerChrysler Group as it enters this strategically important market. Our activities in China will initially focus on the fast-growing business centers of Beijing, Shanghai and Guangzhou.

**Fleet Management expands its international presence.** The Fleet Management unit benefited from the growing demand for comprehensive multi-brand fleet management solutions in the year under review. The unit offers everything from consulting and vehicle procurement services (including financing and leasing solutions) to fleet-related activities such as fleet-vehicle resale and disposal services and the provision of information for supporting fleet management. The services provided by Fleet Management are geared toward local fleet operators as well as companies that operate large international fleets. Our objective with regard to both customer groups is to provide optimal service to new and existing customers and to make them better acquainted with the products of the DaimlerChrysler Group. We further expanded our presence in Europe with the inclusion of fleet management in the product portfolio of our Swiss subsidiary, and we now offer fleet management solutions and services in 12 countries around the world.

**Toll Collect system for trucks is running smoothly.** The toll collection system successfully launched in Germany at the beginning of 2005 for trucks over 12 metric tons gross vehicle weight has proved to be reliable and has remained extremely stable even when pushed to maximum capacity. A total of 482,000 of the first-version on-board units (OBU 1) were in use in the year under review, with the Toll Collect system registering 24 billion kilometers traveled. The new OBU 2 on-board unit software, which makes it possible to update operating information via mobile telephony, was gradually installed in trucks throughout 2005, and the switch from OBU 1 to OBU 2 took place on schedule on January 1, 2006. DaimlerChrysler Financial Services holds a 45% share in the Toll Collect consortium.

## Other Activities

Significantly higher contribution to earnings from EADS | Agreement reached on sale of DaimlerChrysler's Off-Highway business unit | Disposal of shares in Mitsubishi Motors Corporation

	2005	2004	05/04 % change
Amounts in millions of €			
Operating profit	591	456	+30
Revenues	2,396	2,200	+9
Investments in property, plant and equipment	109	134	-19
Research and development expenditure	240	228	+5
Employees (Dec. 31)	18,164	20,636	-12

**Continued focus on core business operations.** The Other Activities segment mainly comprises our 33% holding in the European Aeronautic Defence and Space Company (EADS) and the DaimlerChrysler Off-Highway business unit. It also includes Corporate Research, our real estate activities, and our holding and finance companies.

Since June 30, 2004, our holding in Mitsubishi Motors (MMC) has been included in the consolidated financial statements as a financial investment shown at fair value. The further exercise of options on MMC mandatory convertible bonds led to a reduction of our holding in MMC from 19.7% to 12.4% as the year progressed. Then, on November 17, 2005, we sold our entire stake in MMC (see page 34). As part of our strategy of focusing even more closely on our core business operations, we reached an agreement in December 2005 with EQT, a Swedish financial investor, on the sale of the DaimlerChrysler Off-Highway business unit. The transaction includes both MTU Friedrichshafen GmbH and the off-highway activities of Detroit Diesel Corporation (DDC). The transfer of ownership is likely to take place in the first quarter of 2006.

## EADS

**Impressive growth continues at EADS.** EADS, one of the world's leading aerospace and defense companies, continued to grow in 2005, and expects both revenues and earnings to surpass its prior-year figures once again. The company will publish its results for the 2005 financial year on March 8, 2006.

During the first nine months of 2005, revenues at EADS as defined by the International Financial Reporting Standards (IFRS) rose from €21.5 billion to €23.4 billion. A major reason for this positive development was the increase in Airbus aircraft deliveries. In addition, both the Space division and the Defence & Security Systems division increased their business volumes during this period.

Between January and September 2005, EADS achieved an EBIT (earnings before interest, taxes, goodwill amortization and exceptional items) of €2.1 billion (Jan.-Sept. 2004: €1.5 billion).

Incoming orders at EADS increased by 88% in the first nine months of the year, to €38.8 billion (Jan.-Sept. 2004: €20.6 billion). At €210.4 billion, the order backlog at the end of September was substantially higher than the €184.3 billion recorded at the end of the 2004 financial year. EADS thus had the largest order backlog in the aerospace and defense industry.

For full-year 2005, EADS expects revenues to increase to more than €33 billion and EBIT to rise to €2.75 billion (2004: €31.8 billion and €2.4 billion respectively).

**Airbus maintains global market leadership.** Airbus delivered 378 aircraft in 2005 (2004: 320), thus outperforming its main competitor, Boeing, for the third consecutive year. With 1,055 firm orders received, Airbus set a new record for incoming orders in the aircraft industry. The enormous success of Airbus is also reflected by its order backlog of 2,177 civil aircraft as of December 31, 2005 (Dec. 31, 2004: 1,500).



Airbus' 21st century flagship, the **A380**, introduces a new era of airline transportation, carrying 555 passengers aboard the most spacious and efficient aircraft in the world.



**New Airbus projects for future growth.** The Airbus A380, the world's largest passenger aircraft, successfully completed its maiden flight on April 27, 2005. By the beginning of January 2006, more than 220 test flights had been successfully conducted with three A380 aircraft. At the end of 2005, Airbus had received 159 firm orders and commitments from 16 customers for the new Airbus flagship.

The program for the new A350 long-distance aircraft was officially launched on October 6, 2005. EADS is continuing its strategy of internationalization with the new aircraft, as partners from China and other countries participate in the A350 program. At the end of 2005, Airbus had received 172 firm orders and commitments for the A350.

In addition, six Chinese airlines ordered a total of 150 aircraft of the A320 family in December 2005. This is the largest order Airbus has received from China to date, and it underscores the tremendous importance of the rapidly growing Chinese market.

**Positive developments at other EADS divisions.** The Eurocopter division also maintained its leading position in the helicopter market in 2005. No other helicopter manufacturer can boast such a broad product range in both the civil and military sectors. Eurocopter operates in all growth regions around the world: In 2005, the division reached an agreement with Chinese partners to jointly develop and produce a new transport helicopter.

Signs of market recovery have been confirmed in the space sector. The Space division reached breakeven in 2004, and EADS expects it to make a positive contribution to earnings in full-year 2005. Moreover, the decisions made by the ESA Council of Ministers Conference in December 2005 will open up new business opportunities for the German aerospace industry. The agreement to further develop the Ariane program and recent European Mars research initiatives are particularly positive signals in this regard.

Despite tight defense budgets in Europe, EADS expects to achieve further growth in its defense business. Germany's participation in the development of the MEADS ground-based air defense system illustrates the fact that urgently needed projects for modernizing and strengthening armed forces can only be conducted within an international and transatlantic framework. At the same time, activities in the services sector – providing secure communication systems for example – are becoming increasingly important for long-term business developments.

## DaimlerChrysler Off-Highway

**Growth continues in a difficult market environment.** Despite higher prices for oil and raw materials, the off-highway diesel-engine market expanded in the year under review, although at a lower rate than the growth recorded in 2004. Developments were particularly positive in the segments for commercial shipping, raw-materials transport and infrastructure projects.

**Strong growth in revenues and incoming orders.** Revenues at the DaimlerChrysler Off-Highway business unit increased by 18% to €2.1 billion in the year under review. This growth was primarily due to the Power Generation segment (engines for stationary electricity generators), engines for use in mining, agricultural and construction vehicles and the Marine segment.

Incoming orders at the Off-Highway business unit rose by 27% to €2.3 billion in the year under review. Nearly all segments contributed to this positive development.

## Cross-Divisional Activities

DaimlerChrysler's financial success is based on the trust of the people in all of the countries in which the Group is present. This is why economic, ecological and social responsibility is firmly anchored in our corporate strategy. We are convinced that entrepreneurial success and social responsibility go hand in hand, and that value creation always depends on value orientation within society. Our actions are based on these principles.

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# Sustainability at DaimlerChrysler

In order to ensure the long-term success of the DaimlerChrysler Group, we have committed ourselves to the guiding principle of sustainability. This commitment entails an awareness of responsibility in three areas:

We bear responsibility for our Group's business performance and longterm economic success.

We conserve the earth's resources and help to preserve an intact environment for present and future generations.

We live up to our responsibilities toward our customers, employees, shareholders and society as a whole; the DaimlerChrysler Group regards itself as an integral part of all the communities within which it operates.

**"Sustainability Profile 2005"** is our first report on the Group's manifold activities in the important field of sustainability.



**Committed to the principle of sustainability.** At DaimlerChrysler, profitable growth and a sense of responsibility for society and the environment are two sides of the same coin. That's why sustainability is an important guiding principle of our business operations – in the interests of our customers, employees, shareholders and society.

As a vehicle manufacturer with worldwide operations, DaimlerChrysler bears a great burden of responsibility. Several hundred thousand people are involved in the production and distribution of our products all over the globe. Our vehicles are on the road in almost every country in the world. They satisfy people's need for mobility and offer flexible alternatives for transporting goods. By laying the foundation for individual mobility and independence, they play a significant role in modern societies.

At the same time, the manufacture and operation of our vehicles requires the use of natural resources, and our business operations influence society in many different ways. The growing networking of the world economy and people's increasing need for mobility is altering the economic, ecological, social and political conditions in which we live. Striking the right balance between these conditions and DaimlerChrysler's business success is a global challenge for the future.

The guiding principle of sustainability is an integral part of our corporate strategy. It is in line with our internal guidelines and is a key component of our corporate values and business strategy, whose objectives are to ensure the Group's long-term business success.

**Activities in 2005.** Sustainability management at DaimlerChrysler was significantly enhanced during 2005. In order to further enhance the Group's sustainability profile, the various sustainability initiatives were strategically combined.

Specific sustainability goals and measures were defined within DaimlerChrysler's economic, ecological and social responsibility. And as part of an improved process of sustainability reporting, we published a report entitled "DaimlerChrysler Sustainability Profile 2005" in July.

We regard the reappearance of DaimlerChrysler's shares in the renowned Dow Jones Sustainability Index (DJSI) in September 2005 as confirmation that our work in this area has been effective.

You will find a comprehensive summary of our activities in the field of sustainability in the report "DaimlerChrysler Sustainability Profile 2005" and on our website at [www.daimlerchrysler.com/sustainability](http://www.daimlerchrysler.com/sustainability).

# Human Resources

Number of employees worldwide at prior year's level | Further enhancement of Global Human Resources Strategy | Workforce reduction program being implemented at Mercedes Car Group and in preparation for Group administrative functions | Implementation of "Safeguarding the Future 2012" agreement | Approximately 9,900 traineeships worldwide

	2005	2004
Employees (at December 31)		
DaimlerChrysler Group	382,724	384,723
Mercedes Car Group	104,345	105,857
Chrysler Group	83,130	84,375
Commercial Vehicles	117,183	114,602
Sales Organization Automotive Businesses	48,773	48,029
Financial Services	11,129	11,224
Other Activities <sup>1</sup>	18,164	20,636

<sup>1</sup> DaimlerChrysler Off-Highway business unit, Corporate Research, real-estate activities and holding and finance companies

**382,700 employees at year-end, slightly lower than prior-year figure.** On December 31, 2005, DaimlerChrysler employed 382,724 people worldwide (2004: 384,723). Of this total, 182,060 worked in Germany (2004: 185,154) and 97,480 in the United States (2004: 98,119). The number of trainees totaled 9,880 (2004: 10,047). Commercial Vehicles posted a particularly large increase in the number of employees compared to the prior year (+2%). The increase in hiring in this division was due to strong demand for trucks, especially in the Europe/Latin America and Trucks NAFTA regions. The number of employees at the Mercedes Car Group (-1%), the Chrysler Group (-1%) and Financial Services (-1%) was slightly lower than the previous year's figures.

**Further enhancement of the Global Human Resources Strategy.** Our Global Human Resources Strategy defines uniform principles, standards and processes for our business operations worldwide. It does this in line with the requirements of our business units, which are also globally oriented. That's why DaimlerChrysler defined uniform core challenges for its human resources departments all over the world. For the core challenge, "Outstanding Performance and Productivity", it instituted measures aimed at strengthening DaimlerChrysler's competitiveness. Important issues in this area were the reduction and limitation of labor costs and the maintenance and enhancement of our employees' productivity and competitiveness. We have defined the personnel principles supporting the establish-

ment and expansion of our business operations in China in the "Human Resources China Book", which establishes uniform standards and increases efficiency. The introduction of a global "Human Resources ScoreCard" will enable us to more effectively measure and monitor the work of our human resources activities all over the world.

**Workforce reductions at the Mercedes Car Group, new management model for DaimlerChrysler.** At the end of September 2005, the Board of Management set a goal for the Mercedes Car Group of reducing the number of employees at its German locations by 8,500. The plan calls for these workforce adjustments to be completed over a period of twelve months (by the end of September 2006) through voluntary severance agreements. The achieved increase in productivity will considerably improve the competitiveness of Mercedes-Benz. DaimlerChrysler will adhere to the "Safeguarding the Future 2012" agreement, which was concluded in 2004 and calls for voluntary measures in the initial phase of a headcount reduction. The actions taken for voluntary departures and early retirements should lead to expenses of approximately €950 million, €570 million of which was already booked in 2005. Within the framework of implementing the new management model announced in January 2006, the number of persons employed in administrative functions will be reduced by up to 20% by the end of 2008.

**Implementation of the "Safeguarding the Future 2012" agreement.** DaimlerChrysler plans to use the "Safeguarding the Future 2012" agreement reached in summer 2004 between the Group's management and the General Labor Council primarily to achieve the following goals: improving competitiveness, strengthening innovation power, increasing employee flexibility and safeguarding jobs in Germany. With the aim of achieving the agreed cost savings of €500 million annually in the medium term, initial steps were taken toward implementing appropriate measures in the year under review. The most important of these measures were:

- For all employees covered by the collective bargaining agreement with DaimlerChrysler AG, compensation levels will be reduced by 2.79% as of January 1, 2006. The compensation levels for new employees were already reduced in 2005.



The **diversity** of our customers is reflected by the diversity of our workforce, which contributes to DaimlerChrysler's success.



- For senior executives in Germany, the variable compensation for 2006 will be reduced by 10% in addition to the reduction of their regular monthly salaries.
- In 2005, we worked on a comprehensive restructuring of the compensation system, in connection with implementing the Compensation Framework Agreement (ERA) beginning in 2007. Extensive measures were taken at all production locations in Germany in order to introduce a uniform compensation system for salaried employees and wage earners.
- In industry-related service units, we have so far transferred approximately 4,000 employees to the services-sector earnings agreement.
- In 2005, approximately 3,500 new skilled workers were transferred to the internal staff-rotation program (“DCmove”). Of this total, 350 were deployed in jobs at various locations in Germany. This program increases the flexibility of staff assignments at DaimlerChrysler and simplifies the exchange of employees between different production locations. The young skilled workers in the program are given systematic support and have the opportunity to enhance their expertise in a variety of work situations.

**Progress in health care and workplace safety.** At the Chrysler Group, we have cooperated with the labor unions to continue improving workplace safety and company healthcare programs. These measures have been positively received. For example, in 2005, the Chrysler Group received an award from the US Academy for Occupational and Environmental Medicine in recognition of its innovative healthcare and workplace safety programs and the significant decrease in work-related injuries at its production locations.

#### **Management Development: LEADing the way to success.**

Management development at DaimlerChrysler, which we are standardizing at our locations throughout the world with the help of our management tool LEAD (Leadership Evaluation and Development), ensures compliance with Group-wide quality standards. We have supplemented the LEAD program with the “Individual Development Plan.” The courses offered by the DaimlerChrysler Corporate University help our top managers ensure that their qualifications remain world-class.

**Diversity of our workforce will enable us to achieve long-term success.** In order to boost its competitiveness, DaimlerChrysler deliberately employs men and women with different areas of expertise, types of experience and points of view. The diversity of our employees in terms of age, gender or nationality ensures that they complement one another and is one of the keys to our success. Women are traditionally underrepresented in technology-oriented companies, especially in Germany. Our Global Diversity Council has taken action to help remedy this situation. In an initial step, it set a target corridor for each division regarding the proportion of women in management positions, with the aim of achieving these targets by 2008.

**Image campaign – “Pioneers Welcome”.** Global operations can be successfully supported by human resources departments that recruit, integrate and train well-qualified and motivated employees. DaimlerChrysler has launched a new personnel image campaign called “Pioneers Welcome” in order to recruit outstanding university graduates and other skilled workers even in economically difficult times.

**Training programs ensure top employee performance over the long term.** In 2005, approximately 2,600 men and women completed their traineeships at DaimlerChrysler locations in Germany, matching the very high figure of the previous year. In addition, 472 graduates entered junior management training programs. We are thus offering young people career prospects while underscoring our responsibility to society. DaimlerChrysler currently employs approximately 8,300 trainees in Germany and 9,900 worldwide. Providing job training to young people will continue to be a focus of our human-resources work in the future.

**A thank you to our employees.** The Board of Management thanks all of DaimlerChrysler’s employees for their initiative, commitment and achievements. We are convinced that their ability, enthusiasm and energy will secure a successful future for the Group. We also extend our thanks to the employee representatives for their constructive cooperation in 2005.

# Research and Technology

Investment of €5.6 billion in research and development | On the road to accident-free driving with innovative safety systems | Alternative drive systems for sustainable mobility | Innovative materials reduce costs and help protect the environment

**Research safeguards competitiveness.** The Group's research units provide the impetus for the technological expertise that will ensure a bright future for DaimlerChrysler. All of our activities here are geared toward the goals of safeguarding individual mobility, conserving resources, creating innovations that benefit our customers, and securing competitive advantages. To this end, DaimlerChrysler invested a total of €5.6 billion in research and development in 2005 (2004: €5.7 billion).

At the end of 2005, Corporate Research employed 2,600 people (2004: 2,900), and a further 25,600 men and women were employed in the development departments at the Mercedes Car Group, Chrysler Group, and Commercial Vehicles (2004: 26,100).

Their research and development work focused on five core technology fields in 2005:

- Drive technology
- Vehicle layout and the human-machine interaction
- Production and materials technology
- Electric/electronic systems and intelligent transportation systems
- Software and process technology

The results of this research work are applied by all of the business units in the Group's various product brands. Our research units also focus on the general issues of diagnostics, testing procedures and prevention. In addition, we conduct analyses throughout the Group of the various social developments and trends that result from the introduction of new technologies, so that we can identify in a timely manner the new demands that will be placed on our products and our company in the future.

**The vision of accident-free driving.** Our long-term objective is to develop vehicles for our customers so that they can drive accident-free. As we work toward this goal, the new S-Class and its innovative systems are once again setting standards, particularly in the field of active safety.

The new Brake Assist PLUS system, for example, uses radar technology to monitor the area in front of the vehicle. If the vehicle gets too close to the car in front, the system will calculate the

braking force needed to avoid a collision and then warn the driver of the imminent danger. When Brake Assist PLUS is combined with the PRE-SAFE® occupant protection system, the result is a unique anticipatory safety system that supports drivers even more effectively than before.

In addition, the new night vision assistant provides for greater safety on dark roads. This system has two infrared headlights that illuminate the road, significantly extending the driver's range of vision. An infrared camera records the reflected image of the road ahead and displays this on the dashboard. These and other systems are gradually transforming our vision of accident-free driving into reality.

Further advances are being made with the next generation of assistance systems. These will focus on intersections as a common site of accidents. To this end, we have refined our anticipatory systems within the framework of the publicly funded INVENT project. More specifically, we have examined how drivers can best be supported in dangerous situations, especially those that occur at intersections. At the 2005 International Motor Show (IAA) in Frankfurt, we presented the prototype of a video-based assistance system that demonstrated for the first time how accidents at intersections can be prevented in the future. At the heart of the system is a module containing image processing algorithms that recognize traffic lights and signs, as well as a second module that analyzes the movements of cross traffic. Drivers who fail to react to a dangerous situation are warned of it in several stages – first visually, then acoustically, and, if necessary, even by means of a brief automatic emergency braking maneuver. Our goal here is to develop intelligent assistance systems that can interpret critical situations before an accident becomes unavoidable, utilizing the extra time gained to make a decisive contribution to the realization of accident-free driving.

The most frequent types of accident involving commercial vehicles are rear-end accidents and vehicles leaving the road. Rear-end accidents alone account for a quarter of all truck accidents. We will achieve a drastic reduction in this kind of accident with the new emergency braking system that is to be offered

**F 600 HY<sup>GENIUS</sup>** – The new research vehicle with pioneering fuel-cell drive and customer-oriented innovations for safety and driving pleasure.



on all Mercedes-Benz trucks as of 2006. And our Lane Assistant gives a warning when a vehicle is about to leave its lane. This innovative system will be available also on the new generation of Setra and Mercedes-Benz travel buses starting in 2006.

**Pioneer in the development of fuel cells.** DaimlerChrysler believes that fuel-cell drive will make a unique contribution to sustainable mobility. Our fuel-cell buses, which have covered more than one million kilometers in over 70,000 hours of operation in the most diverse climates and terrains, have convincingly demonstrated the reliability and robustness of fuel-cell drive.

A new operational test began in Beijing in 2005 with three Mercedes-Benz Citaro fuel-cell buses. As a result, there are now 36 Citaro buses with fuel-cell drive on the road in regular service around the world – by far the largest test fleet. In the year under review, more than 100 of our fuel-cell vehicles were in use with customers, a figure that cannot be matched by any other company in the automotive industry. Much more important than the number of vehicles on the road, however, are the results of the practical tests for which they have been put to use. These tests are helping to accelerate the development of fuel-cell technology toward marketability.

The alliance between DaimlerChrysler, Ballard and Ford for the further development of fuel-cell technology has now been reorganized: DaimlerChrysler and Ford have acquired Ballard Power Systems AG in Nabern, Germany, and established the NuCellSys GmbH joint venture in order to move ahead even more quickly with the integration of fuel-cell drive into motor vehicles.

**F600 HY<sup>GENIUS</sup> – the fuel cell moves a step closer to series production.** The F600 HY<sup>GENIUS</sup> marks a major step toward series production by fuel-cell drive systems, which we hope to achieve sometime between 2012 and 2015. To this end, we refined the fuel-cell drive concept for this family-friendly research vehicle. One result of this work is that the F600 HY<sup>GENIUS</sup> has a power output of 85 kW (115 hp). The fuel-cell stacks used in the car are also 40% smaller than was previously the case, yet generate 30% more power and consume 16% less energy. The F600 HY<sup>GENIUS</sup> can travel more than 400 kilometers on a tank of hydrogen, which

corresponds to consumption of 2.9 liters of diesel fuel per 100 kilometers. We also succeeded in significantly improving the cold-start capability of the fuel cell in the F600 HY<sup>GENIUS</sup> to -25°C.

**Optimized human-machine interaction.** Another focus of our research involves the question of how to optimize the interaction between humans and machines. Our answer in the F600 HY<sup>GENIUS</sup> is an instrument cluster consisting of two high-resolution color displays that serve as virtual instruments. These instruments appear to be 1.4 meters in front of the driver, which eliminates the need for the driver's eyes to constantly adjust to changing distances, resulting in much less driver fatigue. A further innovation is the dual-mode operating concept, with controls on the instrument panel and the COMAND unit located on the armrest. This new vehicle and operating concept is linked to a user-recognition system and allows for more rapid, more intuitive and safer control than conventional systems.

**Paint technology improved with paint foils.** DaimlerChrysler is taking a completely new approach when it comes to manufacturing painted plastic exterior components. The solution here is to use plastic components coated with paint foils. The first step involves forming a paint-coated foil into a thin outer skin that gives the component its final shape. After the paint hardens, the component is filled with foam. The result is a stable painted part that can be directly used in the assembly of a vehicle's exterior. We are now preparing the application of this technique in the series production of passenger cars and commercial vehicles.

This innovative technology offers both economic and ecological benefits. For example, the fact that we no longer conduct wet painting operations means there are no paint residues or fumes that have to be recycled or disposed of at great expense. This also conserves resources and eases the burden on the environment. In addition, there is no loss of quality, as the paint foils fulfill all criteria for exterior components with respect to color and resistance to scratching and chemicals.

# DaimlerChrysler and the Environment

€1.5 billion spent on environmental protection | Mercedes-Benz S-Class is first vehicle to receive environmental certification | BlueTec technology for the world's cleanest diesel engine | Driving with the environment in mind: hybrid drive concepts | Environmental Leadership Awards for our employees' commitment to the environment

**DaimlerChrysler takes on responsibility.** At DaimlerChrysler, environmental protection is an integral aspect of sustainable mobility and of our corporate strategy, which is oriented toward long-term value enhancement. That's why we take a holistic approach toward our measures to protect the environment, across the entire value creation process. In both the production and application of our products, we aim to save resources and avoid emissions. To achieve this goal, we spent €1.5 billion on environmental protection in 2005.

**Environment-oriented product development.** As the recipient of the world's first environmental certificate for an automobile, the new S-Class is setting benchmarks for environmental protection as well as in other areas. For example, the new S350 more than meets the currently valid emission limits, with nitrogen oxide emissions that are more than 85% below permissible levels and hydrocarbon emissions that are approximately 75% lower than the limit. What's more, we are using an even larger proportion of renewable raw materials and recycled materials in the new S-Class than in its predecessor model. As a result, we already reached the 95% quota of recyclable materials that will be required by law in 2015; that also applies to the new A-Class, which was introduced in 2004.

In the certificate, the certification board of TÜV Management GmbH confirmed that we have integrated environmental protection considerations into the development process of the S-Class.

**BlueTec technology firmly established in the market.** In 2004, we celebrated the market launch of BlueTec engines for Mercedes-Benz commercial vehicles. These engines employ Selective Catalytic Reduction (SCR) technology. The use of BlueTec technology can reduce nitrogen oxide emissions by up to 80%. As a result, these engines already comply with the emission limits set by the Euro 4 and Euro 5 standards, which will go into effect in 2006 and 2009 respectively.

What's more, in 2005 we introduced particulate filters as standard equipment in all diesel-powered Mercedes-Benz passenger car models. In the next step, we also intend to exploit the tremendous potential of BlueTec in passenger cars. To this end, we

are currently testing the application of SCR technology in passenger cars in many countries throughout the world. In June 2005, we introduced the first diesel passenger car with SCR technology at the Innovation Symposium in Washington. The vehicle involved – the Mercedes-Benz "bionic car" – is a concept vehicle. In September 2005 we presented the S320 BLUETEC HYBRID at the International Auto Show in Frankfurt to demonstrate the capabilities of BlueTec in the luxury segment.

Both cars are currently the cleanest diesel-operated vehicles in the world, and they comply with all of the future emission limits known to us today. BlueTec is clearly playing a key role in making diesel-operated vehicles more environmentally friendly than ever before.

**Drive concepts of the near future: direct hybrid, BlueTec hybrid and two-mode hybrid.** In city traffic, the advantages of hybrid technology lead to noticeably lower fuel consumption and lower emissions. At the IAA 2005 we employed the new S-Class to demonstrate how hybrid technology can be used to achieve significant additional reduction in both fuel consumption and emissions. Our objective is to make gasoline engines as efficient as diesel engines, and diesel engines as clean as gasoline engines.

The S320 BLUETEC HYBRID is clear proof that the combination of BlueTec and hybrid technology not only results in lower nitrogen oxide emissions but also reduces diesel fuel consumption by an additional 20%. The intelligent combination of direct injection and hybrid technology in the S350 DIRECT HYBRID reduces gasoline consumption by 25% compared to the previous model. Both concept vehicles – BLUETEC HYBRID and DIRECT HYBRID – are thus paving the way for the drive technologies of tomorrow and have the potential for higher efficiency and environmental compatibility while boosting driving comfort and enjoyment.

We are cooperating with General Motors Corporation on the development of hybrid technology. In our Hybrid Competence Center in Troy, Michigan, USA, we are working together to develop a two-mode hybrid drive system. At the end of 2005, the BMW Group joined this alliance of equal partners. By pooling

**BlueTec** – Innovative and modern emission treatment for the world's cleanest diesel engine.



our development know-how, we can offer our customers superior vehicles with an attractive performance and appealing comfort, fuel consumption and emission levels at competitive prices. Because these features are interpreted differently for each model, the distinctive product characteristics and the different brand attributes remain untouched.

The two-mode hybrid drive system uses smaller electric motors than the existing single-mode system, and therefore requires significantly less space in a vehicle. A vehicle with a two-mode system can operate either with the two electric motors, with only the combustion engine, or with both drive systems simultaneously. That makes it possible to fully exploit the fuel savings and performance potential of the hybrid drive system – in city driving, at higher constant speeds on country roads and highways, when passing, on steep slopes or when pulling a trailer.

#### **Environmentally friendly hybrid buses in everyday use.**

Our Orion brand hybrid buses demonstrate that hybrid technology opens up plenty of potential not only for passenger cars but also for commercial vehicles. They also underscore our long-term commitment to innovative products and environmentally friendly technologies. Compared to diesel buses with conventional drive systems, the Orion hybrid buses not only significantly reduce emission values and fuel consumption, but also deliver better driving performance. In 2005, we received a major order for 500 Orion VII hybrid city buses from the local public transportation authorities of New York City. This supplements past orders from New York City Transit and the Metropolitan Transportation Authority (MTA Bus) for 200 and 125 Orion hybrid buses respectively. In addition, we supply the Aero HEV low-entry city bus from FUSO with hybrid drive. Hybrid Sprinters are also in the trial stage and are being used by customers in everyday operations. And the FUSO Canter truck with hybrid drive is about to go into series production.

**Alternative fuels as a future energy source.** Alternative fuels can make a significant contribution to environmentally compatible mobility due to their more favorable CO<sub>2</sub> balance, as well as reducing dependence on fossil fuels. We are therefore working hard in this area, for example to develop applications for bio-

mass-to-liquid (BTL) fuels and biodiesel. In the field of BTL fuels (SunDiesel), we are cooperating with Choren Industries and Volkswagen. SunDiesel has proven its suitability as an alternative fuel for passenger cars and commercial vehicles both on the engine test bench and in practical use. The cooperation agreed upon in 2005 between Choren Industries and Shell is an important step on the way to the large-scale production and marketing of SunDiesel.

In the United States, the tank of every Jeep Liberty CRD is already filled up in the assembly plant with B5 fuel (diesel with a 5% blend of biodiesel). We have entered into a partnership with Biodiesel Industries Inc. and NextEnergy Inc. in order to push forward with the development of biodiesel technology. We are already very successful with the Flex-Fuel vehicles of the Chrysler Group – for example with minivans, the Dodge Ram 1500, the Dodge Stratus and the Chrysler Sebring. These are vehicles with engines that can run on either conventional gasoline or a mixture of gasoline and 85% bioethanol (E85). The Chrysler Group has already sold 1.5 million such vehicles, which also offer significant consumption and emission advantages.

**DaimlerChrysler Environmental Leadership Award.** In 2005 we once again honored our employees' commitment to preserving the environment with our annual Environmental Leadership Award. The following projects received the Environmental Leadership Award for 2005:

- *Dry treatment at the Untertürkheim plant.* This is a new process for the treatment of metals for mass production which allows us to dispense with the previously used "cooling lubricant" chemical mixture.
- *Abaca natural fibers for passenger car exteriors.* The fibers of the abaca plant stand up to the extremely high stress to which vehicle exteriors are subjected. The world's first use of these fibers in series-produced car exteriors was in the spare tire well covers of A-Class vehicles.
- *Jatropha plant from India delivers biodiesel.* The extremely undemanding tropical plant *jatropha curcas* has been cultivated since January 2004 on previously useless wasteland in India. It provides oil-rich seeds from which biodiesel can be extracted.



# Global Procurement and Supply

Advanced global alignment of purchasing activities | Additional cost advantages and progress with efficiency | Managing rising raw-material prices | Global Supplier Awards presented

**Global alignment of procurement and supply activities.** Our Group-wide organization, Global Procurement & Supply, is responsible for purchasing goods and services at DaimlerChrysler. It includes the units Procurement Mercedes-Benz Passenger Cars/smart, Procurement and Supply Chrysler Group and Procurement Commercial Vehicles, as well as International Procurement Services, which is responsible for purchasing non-production materials and services.

Our primary objective is to increase corporate value by optimizing the Group's supply chain network. In concrete terms, this means creating an effective global procurement network to further improve the quality, cost, technology and supply of the purchased goods and services.

**Our strategic goals.** In order to continuously improve the efficiency and effectiveness of our operations, we have defined three strategic areas for action:

- *Global Scale Leverage.* We are constantly identifying and realizing new synergy potentials within our global organization.
- *Global Supply Base Management.* We analyze, evaluate and support our suppliers on the basis of quantitative parameters as well as conduct-related aspects. On an annual basis, we present awards to the best performing suppliers.
- *Global Infrastructure and Processes.* We provide our suppliers and divisions with a globally integrated purchasing system.

In order to achieve these goals, we actively involve our suppliers in the processes and infrastructures of procurement and supply.

**Advantages from bundling purchasing volumes.** By bundling our purchasing volumes worldwide, we achieve the maximum possible volumes enabling us to realize significant price advantages. This globally coordinated procurement (lead buying) gives us substantial economies of scale when purchasing goods and material. We also have central buying for select commodities, managed through “one face to the supplier” for a specific commodity, supported by brand representatives from the participating purchasing units.

For all of our main commodities we have defined how they are to be purchased – locally like body stampings, globally coordinated like air conditioning devices (Lead Buying) or centrally like leather (Central Buying).

In addition, we established the Material Strategy and Innovation Council (MSIC), which coordinates the global activities of our automotive divisions in the fields of engineering, procurement, cost analysis and research and technology. MSIC has already identified and implemented many opportunities to combine volumes and reduce costs, while improving quality and innovation.

We also develop commodity strategies for major grouping of purchases. These plans define the procurement for all of the DaimlerChrysler business units. More than 80% of our total spend with suppliers worldwide is covered by commodity strategies.

## **Global supplier management with Extended Enterprise™.**

Our global supplier management is based on three key instruments:

First, supplier management with Extended Enterprise™. This program identifies the four value drivers quality, cost, technology and supply as a basis for the global performance-based cooperation. In addition, it integrates the conduct-related aspects integrity, commitment and communication, which both sides – DaimlerChrysler and its suppliers – acknowledge as a basis for cooperation. In top-level executive meetings with our suppliers, we discuss individual performance, supplier capabilities and agree on measures for continuous improvement.



The **DaimlerChrysler Supplier Portal** provides our suppliers with full online transparency of their performance. The External Balanced Scorecard (EBSC) has become a valuable tool internally and externally averaging 18,000 page hits per month.



Second, our External Balanced Scorecard (EBSC) was further developed so that it now covers 80% of our supplier base. With the help of EBSC, our suppliers can compare their performance relative to the competition in the categories of cost, quality, technology and supply; in this way we provide our suppliers with an honest and fair evaluation process which is available online.

Third, effective communication. This is the foundation for all of the supporting measures. In 2005, we saw a continuation of intense global competition, continued rises in raw-material prices and changing market conditions. We therefore intensified communication with our suppliers to prepare solutions and offsets to enhance our joint competitiveness. As a result, we were able to secure our production processes in this more difficult environment.

**Increased efficiency through standardization.** Through the global alignment of processes and infrastructures, we provide our internal and external partners with a globally integrated and cost-optimized procurement network. For example, our global supplier portal provides worldwide access to almost all of the Group's supplier applications. With a single sign-on and a common framework, we currently offer more than 160 procurement and supply applications to over 50,000 active users. The continuous rollout of a common procurement system is another area of standardized infrastructure that enables us to cover nearly our total volume of business worldwide.

**Risk-management systems guarantee continuous supply.** In the year under review, financially distressed suppliers and a significant increase in supplier bankruptcies were a major challenge. We met these challenges with the help of risk-management systems that we had already introduced in previous years. With these tools and processes, we are able to continuously evaluate the financial health of our suppliers and to react in sufficient time. We thus minimized the impact on production and financial risks.

In addition, managing the continued increase in raw-material prices has developed into a key competitive factor. As a result of ongoing high demand, mounting speculation in the commodity markets and unforeseen natural disasters, raw-material prices in 2005 remained at the historically high levels reached in the second half of 2004. We permanently monitor the prices of raw materials and react appropriately in this situation. We also work with our suppliers to ensure that we achieve continuous improvements in products and processes, as well as realizing lasting price advantages. Wherever appropriate, we enter into long-term agreements to maintain our supply of materials and to minimize the impact of future price rises; this also enhances planning security for our suppliers.

**DaimlerChrysler Global Supplier Awards 2005.** To its best suppliers, Global Procurement and Supply presented the DaimlerChrysler Global Supplier Awards for 2005. With these awards, we recognize outstanding performance on the basis of the External Balanced Scorecard as well as in the areas of communication, commitment and integrity. All global suppliers providing over €1 million in volume to at least two of the Group's automotive business units were eligible for the awards. The awards were presented to the top suppliers in the following categories:

- Powertrain: Denso
- Exterior: Gentex
- Chassis: Mubea
- Interior: Johnson Controls
- Electric/Electronic: Yazaki
- General Goods & Services: Dell
- Manufacturing Goods & Services: Marposs
- Logistics: NYK Line

# Social Responsibility

Worldwide social commitment | Enhancement of “Global Sustainability Network” | Comprehensive dialogue with policy makers, the business community and society | Help for disaster victims | Action to improve traffic safety for children

**DaimlerChrysler assumes social responsibility.** Through its worldwide operations, DaimlerChrysler has a positive impact on society and on people's living conditions. Therefore, we strengthened our social commitment once again in 2005, because stable societies are a precondition for a good business environment. As one of the founding members of the UN “Global Compact” initiative, we are committed to supporting and promoting its guidelines. We have anchored the spirit of the Global Compact in our Principles of Social Responsibility and our Integrity Code. Numerous initiatives demonstrate how seriously we take these principles.

**Expanded “Global Sustainability Network”.** By using the locally grown abaca fibers in the Philippines as a substitute for glass fibers in components for the A-Class, we have implemented another project for the increased utilization of natural materials in vehicle production. For several years now, DaimlerChrysler has been using coconut fibers from the Brazilian rain forest as a part of the POEMA project. In India, we support research on the jatropha plant as a source of biodiesel. Through the “Global Sustainability Network”, DaimlerChrysler helps people locally by creating qualified jobs, protecting the environment and ecosystems, and increasing the share of renewable resources in industrial production (see page 97).

**Intensified transatlantic dialogue.** Good and strong transatlantic relations are a key element of DaimlerChrysler's role as a German-American company – this is why we continuously help foster dialogue on both sides of the Atlantic involving all of the important groups and decision-making bodies. Most prominently in 2005, we hosted the US-German Round Table, an annual symposium organized by the Association of German Industry (BDI) and the US-based International Management and Development Institute (IMDI). At this event, US congressmen and German business leaders debated key issues of the twenty-first century.

And in June 2005, DaimlerChrysler organized an event at the Convention Center in Washington DC showcasing our products and underscoring our impact on American society – from the creation of jobs to the transport of school children.

**Help your neighbor.** The DaimlerChrysler Corporation Fund and the Group's employees provide support to many community-based organizations through our “Good Neighbors, Good Citizens®” program in the United States. Since 1953, we have assisted numerous non-profit organizations and charities in the four areas of community vitality, public policy, future workforce and employee volunteerism. Support is provided in the form of active help as well as substantial financial donations. Through this kind of partnership with numerous charitable organizations, we contribute to improving social stability. Furthermore, our employees throughout the United States donated over US \$8.6 million to the United Way charity in 2005.

In 2004, DaimlerChrysler employed 8,400 disabled people in Germany, significantly exceeding the minimum rate stipulated by law. In addition, the Group ordered goods and services worth €43 million from companies primarily employing disabled persons. For example, we are the biggest customer of the disabled workshops in Sindelfingen, purchasing 40% of their output.

The Group also follows the good corporate citizen approach in other areas – for example, through our longstanding partnership with the International Olympic Committee (IOC). Furthermore, in the context of the Olympic Solidarity development aid program established in 1996, DaimlerChrysler is constructing new sports facilities in primary and middle schools in China and Tibet, primarily to the benefit of less privileged groups.

In Germany, we supported various cultural events in 2005 with the aim of helping young artists to achieve their international breakthrough.

For the **future of Afghanistan**:  
a Mercedes-Benz Vito for a  
DaimlerChrysler training project  
in Kabul.



**Disaster relief efforts.** In 2005, DaimlerChrysler responded quickly and effectively to a series of natural disasters. For example, the victims of the tsunami disaster in Southeast Asia received aid worth more than €2 million in addition to numerous donations from our employees all over the world. Furthermore, our local subsidiaries provided transportation for rescue as well as supplying drinking water and other goods. Also, a special reconstruction fund was set up to help rebuild facilities such as schools, hospitals and orphanages.

In the weeks following the destruction caused by hurricane Katrina in the United States, DaimlerChrysler and its employees once again demonstrated their support with donations totaling more than US\$7 million. This included 100 new vans and sport utility vehicles that were sent to the area fully loaded with relief goods. A benefit concert organized by DaimlerChrysler raised a sum of US\$500,000, which was donated to the charitable organization "Habitat for Humanity" to help build housing for flood victims.

**Ongoing commitment to the fight against HIV/AIDS.** As a major employer, we are concerned about the wellbeing of our employees. Therefore, DaimlerChrysler is deeply committed to the battle against the immune weakness, AIDS. Within the framework of our "Workplace Initiative on HIV/AIDS", we provide free medical treatment to employees in South Africa and their families. We also promote education and prevention. The positive results of this initiative encouraged us to extend our fight – adjusted to local conditions – to other countries and Group companies. In 2005, we developed a global HIV/AIDS policy to provide a framework for tailored programs throughout all operations.

**Training gives young people a valuable opportunity.** Job training not only helps individuals to make a living, it also contributes to the economic development and stability of these societies. This is particularly true in regions with a risk of instability. Therefore, DaimlerChrysler has begun to establish a network of training centers. In Kabul (Afghanistan), Beit Sahour (Palestine) and Perm (Russia), we enable young people to

acquire a sound training as mechanics. In addition, DaimlerChrysler supports an agricultural training center in Harar (Ethiopia) run by the aid organization "People for People".

**Mondialogo: intercultural learning and sustainable development.** Together with UNESCO, DaimlerChrysler has founded the Mondialogo initiative. The goal of Mondialogo is to improve the dialogue between various cultures. In addition, we aim to foster understanding, respect and acceptance among young people. In May 2005, we presented the Mondialogo Engineering Award to young engineers who had developed joint concepts to combat poverty and promote sustainable development. The second Mondialogo School Contest, initiated in November 2005, attracted more than 35,000 students from 138 countries.

**More safety for children in road traffic.** Playful learning is the principle behind MobileKids, DaimlerChrysler's unique traffic-safety initiative designed for children between the ages of eight and twelve. It includes a TV cartoon series ("The Nimbols") and an interactive Internet game platform ("Mokitown") with more than half a million registered users. Children in Italy, Singapore, India, Israel, Malaysia and China are able to participate in numerous MobileKids activities. We also promote children's safety in road traffic with other worldwide initiatives such as the "Global Road Safety Program" and "Seat-Check" in the United States.

**Responsible partnerships create mutual trust.** Since the social development of economies is also in the interest of the DaimlerChrysler Group, we are entering into an increasing number of "responsibility partnerships" with politics, society and non-government organizations (NGOs). These partnerships foster trust, reduce alienation and build bridges between different cultures and value systems, ultimately supporting our overall goal – the success of DaimlerChrysler.

# Corporate Governance

The Board of Management and the Supervisory Board of DaimlerChrysler are committed to the principles of good corporate governance. National and international investors rightly expect the company to be managed and supervised responsibly, transparently, and with a long-term orientation.

We orient our actions towards these expectations and have therefore designed our system of corporate governance to reflect international standards and to be transparent. On the following pages, the Board of Management and the Supervisory Board explain the principles of corporate governance at DaimlerChrysler. Further information can be found on our website at [www.daimlerchrysler.com/corpgov\\_e](http://www.daimlerchrysler.com/corpgov_e).

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# Corporate Governance Report

## General conditions

DaimlerChrysler is a stock corporation with its domicile in Germany. The legal framework for corporate governance therefore derives from German law, particularly the Stock Corporation Act, the Codetermination Act and legislation concerning capital markets, as well as from the Memorandum and Articles of Incorporation of DaimlerChrysler AG.

As our shares are listed on stock exchanges outside Germany, and in particular on the New York Stock Exchange (NYSE), we also have to adhere to those countries' capital-market legislation and the listing requirements applicable at those stock exchanges. We are therefore in favor of the convergence of international stock-exchange regulations.

A description of the differences between DaimlerChrysler's corporate-governance principles and those applicable to US companies under NYSE corporate-governance listing standards can be seen on our website at [www.daimlerchrysler.com/corpgov\\_e](http://www.daimlerchrysler.com/corpgov_e).

## DaimlerChrysler's corporate bodies

**Shareholders and the Annual Meeting.** The company's shareholders exercise their rights and cast their votes at the Annual Meeting. Each share in DaimlerChrysler AG entitles its owner to one vote. There are no shares with multiple voting rights, no preferred or privileged stock, and no maximum voting rights.

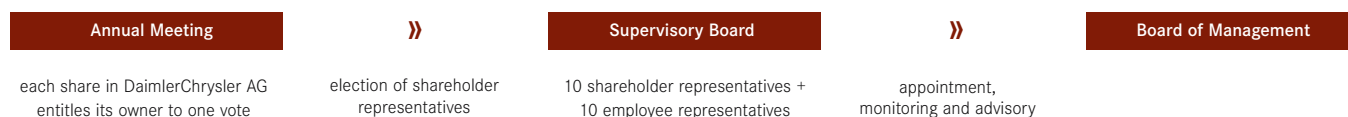
Various important decisions can only be made by the Annual Meeting. These include the decision on the appropriation of distributable profits, the ratification of the actions of the members of the Board of Management and the Supervisory Board, the election of the independent auditors and the election of members of the Supervisory Board. The Annual Meeting also makes decisions on amendments to the Memorandum and Articles of Incorporation, capital measures, and the approval of certain intercompany agreements. The influence of the Annual Meeting on the management of the company is limited by law, however. The Annual Meeting can only make management decisions if it is requested to do so by the Board of Management.

### **Separation of corporate management and supervision.**

DaimlerChrysler AG is obliged by the German Stock Corporation Act to apply a dual management system featuring the strict separation of the two boards responsible for managing and for supervising the company (two-tier board). With this system, the company's Board of Management is responsible for the executive functions, while the Supervisory Board monitors the Board of Management. No person may be a member of these two boards at the same time.

**Supervisory Board.** In accordance with the German Codetermination Act, the Supervisory Board of DaimlerChrysler 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 in Germany. The members representing the shareholders and the members representing the employees are equally obliged by law to act in the company's best interests.





The Supervisory Board monitors and advises the Board of Management in its management of the company. Its duties also include appointing and recalling members of the Board of Management, as well as deciding on their compensation, whereby the details of the compensation of the Board of Management's members are delegated to the Presidential Committee. However, the Supervisory Board reviews and advises on the structure of the system of compensation whenever this is necessary. It also reviews the individual and consolidated annual financial statements and reports to the Annual Meeting on the results of its review.

The work of the Supervisory Board is coordinated by its Chairman. The Supervisory Board has formed three committees: the Presidential Committee, the Audit Committee and the Mediation Committee.

The *Presidential Committee* has particular responsibility for the contractual affairs of the members of the Board of Management and determines their compensation. It also supports and advises the Chairman of the Supervisory Board and his deputy and prepares the meetings of the Supervisory Board.

The *Audit Committee* deals with questions of accounting and risk management. It discusses the effectiveness of the internal control systems and regularly receives reports on the work of the Corporate Audit department. It also discusses the interim financial statements and the annual financial statements, individual and consolidated, of DaimlerChrysler AG. The Audit Committee makes recommendations concerning the selection of independent auditors, assess such auditors' suitability and independence, and, after the independent auditor is elected by the Annual Meeting, commissions it to conduct the annual audit of the individual and consolidated financial statements, negotiates an audit fee and determines the focus of that audit. The Audit Committee receives reports from the independent auditors on any accounting matters that might be regarded as critical and on any differences of opinion with the Board of Management. In addition, it makes recommenda-

tions to the Supervisory Board, concerning the appropriation of distributable profits and capital measures for example. Finally, the Audit Committee approves services provided by the independent auditors or affiliated companies to DaimlerChrysler AG or to companies of the DaimlerChrysler Group that are not directly related to the annual audit.

The Supervisory Board is convinced of the independence of the members of Audit Committee representing the shareholders. The Chairman of the Audit Committee, Mr. Bernhard Walter, has special expertise and experience in the application of accounting principles and internal monitoring systems. Therefore, the Supervisory Board has appointed Mr. Walter as Financial Expert.

The *Mediation Committee* is formed solely to perform the functions laid down in Section 31, Subsection 3 of the German Codetermination Act. Accordingly, it has the task of making proposals for the appointment of members of the Board of Management if a previous proposal did not obtain the legally required majority of votes.

**Board of Management.** As of December 31, 2005, the Board of Management of DaimlerChrysler AG comprised ten members. The duties of the Board of Management include setting the Group's strategic focus and managing its business. It is also responsible for preparing the individual and consolidated annual financial statements and the quarterly financial statements, and for installing and monitoring a risk-management system. The Rules of Procedure define the areas of responsibility of the Board of Management and its members; these are described on pages 20 and 21 of this Annual Report.



## Principles guiding our actions

**Integrity Code and compliance activities.** The Integrity Code is a guideline for behavior which has been in effect since 1999 and which was revised in 2003 that defines a binding framework for the actions of all our employees worldwide. Among other things, the guidelines define correct behavior in international business and in any cases of conflicts of interest, questions of equal treatment, proscription of corruption, the role of internal monitoring systems and the duty to conform with applicable law and other internal and external regulations. DaimlerChrysler expects all of its employees to adhere strictly to the Integrity Code.

Already in the year 2003, the Audit Committee of the Supervisory Board established a Business Practices Office (BPO) at the DaimlerChrysler Group with two contact centers in Stuttgart and Auburn Hills. Employees can submit confidential complaints to the BPO concerning suspected violations of accounting regulations or the Integrity Code.

In addition, the Corporate Compliance Operations department was established at the beginning of 2006 with the objective of securing a uniform compliance organization throughout the Group. This organization will ensure that DaimlerChrysler's business practices in the entire Group are examined in detail and that guidelines are updated and implemented as necessary. Possible violations of anti-corruption laws, internal guidelines and rules of conduct are examined; necessary countermeasures are initiated and their implementation is monitored. Compliance managers will be deployed in DaimlerChrysler subsidiaries and certain regions. In addition, training programs will be designed with a focus on corporate compliance and will be executed worldwide. The Corporate Compliance organization will report directly to the Chairman of the Board of Management of DaimlerChrysler.

The Sales Practices Hotline, which was established in 2005, is also allocated to the Corporate Compliance organization. Our officers have again been notified in several events and written communications of the special significance of the Integrity Code to our company. The Sales Practices Hotline is particularly responsible for replying to questions from sales personnel regarding the correct business approach to public-sector institutions, and in this context also accepts information on any questionable events for further investigation.

Reports are regularly submitted to the Audit Committee of the Supervisory Board on the complaints received by the BPO and the Sales Practices Hotline and the processing of such complaints.

**Code of Ethics.** In July 2003, we approved a "Code of Ethics". This code addresses the members of the Board of Management and a large number of senior officers who have a significant influence on planning and reporting in the context of the annual and interim financial statements. The provisions of the code aim to prevent mistakes by the persons addressed and to promote ethical behavior as well as the complete, appropriate, accurate, timely and clear disclosure of information on the Group. The wording of the Code of Ethics can be seen on our website at [www.daimlerchrysler.com/corpgov\\_e](http://www.daimlerchrysler.com/corpgov_e).

**Risk management.** DaimlerChrysler has a risk-management system commensurate with its position as a company with global operations (see pages 58 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 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, if required, initiates appropriate actions.

**Accounting principles.** The consolidated financial statements of the DaimlerChrysler Group are prepared in accordance with the United States Generally Accepted Accounting Principles (US GAAP). Details of US GAAP can be found in the Notes to the Consolidated Financial Statements (see Note 1).

The annual financial statements of DaimlerChrysler AG, which is the parent company, are prepared in accordance with the accounting guidelines of the German Commercial Code (HGB). Both sets of financial statements are audited by independent auditors.

**Transparency.** DaimlerChrysler regularly informs its shareholders, financial analysts, shareholders' associations, the media and the interested public on the situation of the Group and on any significant changes in its business. We have posted an overview of all the significant information disclosed in the year 2005 on our website at [www.daimlerchrysler.com/ir/annualdoc05](http://www.daimlerchrysler.com/ir/annualdoc05).

**Fair disclosure.** In principle, all new facts that are communicated to financial analysts and institutional investors are simultaneously also made available to all shareholders and the interested public. If any information is made public outside Germany as a result of the regulations governing capital markets in the respective countries, we also make this information available without delay in Germany in the original version, or at least in English. In order to ensure that information is provided quickly, DaimlerChrysler makes use of the Internet and of other methods of communication.

**Financial calendar.** All the dates of important disclosures (e.g. the Annual Report, interim reports, the Annual Meeting) are announced in advance in a Financial Calendar. The Financial Calendar can be seen inside the rear cover of this Annual Report and on our website at [www.daimlerchrysler.com/ir/calendar](http://www.daimlerchrysler.com/ir/calendar).

**Ad-hoc publicity.** In addition to its regular scheduled reporting, DaimlerChrysler discloses, in accordance with applicable law without delay, any so-called inside information which directly affects the Group.

**Major shareholdings.** DaimlerChrysler also reports without delay after receiving notification that by means of acquisition, disposal or any other method, the shareholding in DaimlerChrysler AG of any person or institution has reached, exceeded or fallen below 5, 10, 25, 50 or 75 percent of the company's voting rights.

**Shares held by the Board of Management and the Supervisory Board.** As of December 31, 2005, the members of the Board of Management held a total of 8.5 million shares, options or stock appreciation rights of DaimlerChrysler AG (0.833% of the shares issued). As of the same date, the members of the Supervisory Board held a total of 0.1 million shares, options or stock appreciation rights of DaimlerChrysler AG (0.012% of the shares issued).

**Directors' Dealings.** In 2005, the following securities transactions took place involving members of the Board of Management and the Supervisory Board and certain senior officers who regularly have access to inside information and who are authorized to make significant business decisions (and, in accordance with the provisions of the German Securities Trading Act, involving persons in a close relationship with the aforementioned persons). DaimlerChrysler discloses these transactions without delay after receiving notification of them. This information is also available on our website at [www.daimlerchrysler.com/corpgov\\_e](http://www.daimlerchrysler.com/corpgov_e).

## Directors' Dealings

Date	Name	Function	Type and place of transaction	Number of shares <sup>1</sup>	Price	Total volume (rounded)
May 2, 2005	Mr. Bodo Uebber	Board of Management	Acquisition of shares, Frankfurt	3,000	€30.64	€91,920
May 4, 2005	Dr. Michael Mühlbayer	Senior officer	Acquisition of shares, Frankfurt	1,500	€30.39	€45,585
May 25, 2005	Mr. Thomas W. LaSorda	Board of Management	Acquisition of shares, New York	570	\$40.68	\$23,188
May 25, 2005	Mr. Thomas W. LaSorda	Board of Management	Acquisition of shares, New York	1,300	\$40.40	\$52,520
May 25, 2005	Mr. Thomas W. LaSorda	Board of Management	Acquisition of shares, New York	1,900	\$40.39	\$76,741
May 26, 2005	Mr. Thomas W. LaSorda	Board of Management	Acquisition of shares, New York	2,423	\$40.27	\$97,574
July 11, 2005	Ms. Christine K. Cortez	Senior officer	Sale of shares, New York	3,000	\$40.42	\$121,278
July 15, 2005	Mr. Gary E. Dilts	Senior officer	Acquisition of shares by exercise of options, off-exchange	22,500	€34.40	€774,000
July 15, 2005	Mr. Gary E. Dilts	Senior officer	Sale of new shares, Frankfurt	22,500	€34.74	€781,650
July 19, 2005	Ms. Nancy Rae	Senior officer	Acquisition of shares by exercise of options, off-exchange	24,000	€34.40	€825,600
July 19, 2005	Ms. Nancy Rae	Senior officer	Sale of new shares, Frankfurt	24,000	€35.20	€844,800
July 28, 2005	Mr. Robert G. Liberatore	Senior officer	Sale of shares, New York	7,000	\$48.11	\$336,770
July 29, 2005	Dr. Eckhard Cordes	Board of Management	Acquisition of shares by exercise of options, off-exchange	92,500	€34.40	€3,182,000
July 29, 2005	Dr. Eckhard Cordes	Board of Management	Sale of new shares, Frankfurt	92,500	€39.58	€3,661,150
July 29, 2005	Mr. Günter Egle	Senior officer	Acquisition of shares by exercise of options, off-exchange	15,000	€34.40	€516,000
July 29, 2005	Mr. Günter Egle	Senior officer	Sale of new shares, Frankfurt	15,000	€39.80	€597,000
July 29, 2005	Mr. Wolfgang Diez	Senior officer	Acquisition of shares by exercise of options, off-exchange	20,000	€34.40	€688,000
July 29, 2005	Mr. Wolfgang Diez	Senior officer	Sale of new shares, Frankfurt	20,000	€40.20	€804,000
July 29, 2005	Mr. Ulrich Walker	Senior officer	Acquisition of shares by exercise of options, off-exchange	20,000	€34.40	€688,000
July 29, 2005	Mr. Ulrich Walker	Senior officer	Sale of new shares, Frankfurt	20,000	€40.04	€800,800
July 29, 2005	Mr. Herbert Kauffmann	Senior officer	Acquisition of shares by exercise of options, off-exchange	20,000	€34.40	€688,000
July 29, 2005	Mr. Herbert Kauffmann	Senior officer	Sale of new shares, Frankfurt	20,000	€39.63	€792,600
Aug. 1, 2005	Mr. Harald Bölstler	Senior officer	Acquisition of shares by exercise of options, off-exchange	10,000	€34.40	€344,000
Aug. 1, 2005	Mr. Harald Bölstler	Senior officer	Sale of new shares, Frankfurt	10,000	€40.52	€405,200
Aug. 1, 2005	Mr. Thomas W. Sidlik	Board of Management	Acquisition of shares by exercise of options, off-exchange	50,000	€34.40	€1,720,000
Aug. 1, 2005	Mr. Thomas W. Sidlik	Board of Management	Sale of new shares, Frankfurt	50,000	€40.52	€2,026,000
Aug. 1, 2005	Dr. Albert Kirchmann	Senior officer	Acquisition of shares by exercise of options, off-exchange	8,500	€34.40	€292,400
Aug. 1, 2005	Dr. Albert Kirchmann	Senior officer	Sale of new shares, Frankfurt	8,500	€40.46	€343,910

<sup>1</sup> The information pertains to no par value registered shares of DaimlerChrysler AG with a pro rata amount of €2.60 of the capital stock.

Date	Name	Function	Type and place of transaction	Number of shares <sup>1</sup>	Price	Total volume (rounded)
Aug. 1, 2005	Mr. David H. Olsen	Senior officer	Acquisition of shares by exercise of options, off-exchange	9,000	€34.40	€309,600
Aug. 1, 2005	Mr. David H. Olsen	Senior officer	Sale of new shares, Frankfurt	9,000	€40.01	€360,090
Aug. 2, 2005	Mr. Peter M. Rosenfeld	Senior officer	Acquisition of shares by exercise of options, off-exchange	12,000	€34.40	€412,800
Aug. 2, 2005	Mr. Peter M. Rosenfeld	Senior officer	Sale of new shares, Frankfurt	12,000	€41.36	€496,320
Aug. 2, 2005	Ms. Christine K. Cortez	Senior officer	Acquisition of shares by exercise of options, off-exchange	22,500	€34.40	€774,000
Aug. 2, 2005	Ms. Christine K. Cortez	Senior officer	Sale of new shares, Frankfurt	22,500	€40.52	€911,700
Aug. 3, 2005	Mr. Paul S. Halata	Senior officer	Acquisition of shares by exercise of options, off-exchange	20,000	€34.40	€688,000
Aug. 3, 2005	Mr. Paul S. Halata	Senior officer	Sale of new shares, Frankfurt	20,000	€41.26	€825,200
Aug. 3, 2005	Mr. Hans-Heinrich Weingarten	Senior officer	Acquisition of shares by exercise of options, off-exchange	15,000	€34.40	€516,000
Aug. 3, 2005	Mr. Hans-Heinrich Weingarten	Senior officer	Sale of new shares, Frankfurt	15,000	€41.08	€616,200
Aug. 4, 2005	Dr. Rolf Bartke	Senior officer	Acquisition of shares by exercise of options, off-exchange	27,500	€34.40	€946,000
Aug. 4, 2005	Dr. Rolf Bartke	Senior officer	Sale of new shares, Frankfurt	27,500	€40.65	€1,117,875
Aug. 4, 2005	Mr. Thomas W. Sidlik	Board of Management	Acquisition of shares by exercise of options, off-exchange	25,000	€34.40	€860,000
Aug. 4, 2005	Mr. Thomas W. Sidlik	Board of Management	Sale of new shares, Frankfurt	25,000	€40.65	€1,016,250
Aug. 5, 2005	Mr. George Murphy	Senior officer	Acquisition of shares by exercise of options, off-exchange	22,500	€34.40	€774,000
Aug. 5, 2005	Mr. George Murphy	Senior officer	Sale of new shares, Frankfurt	22,500	€40.36	€908,100
Aug. 8, 2005	Mr. Susan J. Unger	Senior officer	Sale of shares, New York	18,200	\$50.84	\$925,288
Aug. 18, 2005	Mr. Frank J. Ewasyshyn	Senior officer	Sale of shares, New York	2,500	\$51.63	\$129,075
Sept. 5, 2005	Dr. Gerald Weber	Senior officer	Acquisition of shares by exercise of options, off-exchange	17,000	€34.40	€584,800
Sept. 5, 2005	Dr. Gerald Weber	Senior officer	Sale of new shares, Frankfurt	17,000	€40.70	€691,900
Sept. 12, 2005	Mr. Earl G. Graves	Supervisory Board	Sale of shares, New York	501	\$52.08	\$26,092
Nov. 22, 2005	Mr. Hubertus Troska	Senior officer	Acquisition of shares by exercise of options, off-exchange	4,000	€34.40	€137,600
Nov. 22, 2005	Mr. Hubertus Troska	Senior officer	Sale of new shares, Frankfurt	4,000	€44.17	€176,680
Dec. 12, 2005	Mr. Steven A. Torok	Senior officer	Acquisition of shares by exercise of options, off-exchange	20,000	€34.40	€688,000
Dec. 13, 2005	Mr. Steven A. Torok	Senior officer	Sale of new shares, Frankfurt	20,000	€42.90	€858,000
Dec. 21, 2005	Mr. Helmut Lense	Supervisory Board	Sale of shares, Frankfurt	224	€42.81	€9,589

<sup>1</sup> The information pertains to no par value registered shares of DaimlerChrysler AG with a pro rata amount of €2.60 of the capital stock.

# Compensation Report

As an element of the Corporate Governance Report, the Compensation Report summarizes the principles that are applied to determine the compensation of the Board of Management of DaimlerChrysler AG and explains the level and structure of its members' compensation.

Furthermore, the principles and level of the compensation of the Supervisory Board are also described.

## Compensation of the Board of Management

**Responsibility.** Responsibility for determining the structure and level of compensation of the Board of Management of DaimlerChrysler AG is delegated by the Supervisory Board to the Presidential Committee (see page 105). The principles to be applied have been laid down by the Supervisory Board in the Rules of Procedure for the Presidential Committee. If requested by the Committee, the Supervisory Board also holds discussions on the structure of the compensation system for the Board of Management and regularly reviews this structure.

**Goals.** The aim of the compensation system for the Board of Management is to compensate the members of the Board of Management commensurately with their areas of activity and responsibility when compared internationally. The system should also clearly and directly reflect in the variability of compensation the joint and individual performance of the Board of Management members and the success of the Group.

For this purpose, the compensation system comprises a base salary, an annual bonus and an element of stock-based compensation as variable compensation with a long-term incentive effect and risk component.

In order to ensure the competitiveness and appropriateness of Board of Management compensation, its structure, the individual components and the total compensation are reviewed each year in relation to a benchmark group of companies in the United States and Europe. For this purpose, the Presidential Committee is regularly assisted by external consultants.

**Structure of Board of Management compensation.** Board of Management compensation in 2005 comprised three components, set out below:

- *The fixed base salary*, paid in twelve monthly installments, is related to the area of responsibility of each Board of Management member.
- *The annual bonus* is variable cash compensation, the level of which is related to the fixed base salary and varies in relation to the degree to which DaimlerChrysler's planned operating profit is achieved. Additional targets may also be taken into account, such as the development of total shareholder return in relation to comparable automotive companies. When setting the level of the annual bonus, the Presidential Committee of the Supervisory Board also has the possibility to reflect the Board of Management members' individual performance, which is not directly reflected in the performance of the Group, with a supplementary payment or deduction of up to 25%. The operating-profit target is determined annually in advance on the basis of the planning approved by the Supervisory Board.

As of the 2006 financial year, the level of the annual bonus is related not only to the achievement of the operating-profit target, but in equal measure also to the comparison of the achieved operating profit with the respective prior-year result.



- The new model of *stock-based compensation*, which was applied for the first time in the 2005 financial year, is the so-called Performance Phantom Share Plan. This plan is linked to the long-term development of corporate value and is based on the factors of performance orientation, benchmark comparison and share ownership. This new component of compensation replaced the two components granted in 2004 for the last time, the medium-term incentive plan and the stock option plan.

The new model takes into consideration all of the key criteria recommended in connection with good corporate governance. With a term of four years, the plan is oriented toward mid-term performance targets, while also having a long-term effect through the obligation to hold shares. With this model, target achievement is measured in terms of the return on net assets that is actually achieved by the Group and its return on sales compared with the relevant competitors, which are BMW, Ford, GM, Honda, Iveco, Toyota, Volvo and VW. Due to the allocation of phantom shares at the beginning of the four-year period, the development of DaimlerChrysler's share price is taken into consideration; these phantom shares are also entitled to a dividend during the four-year period. After three years, the final number of phantom shares is calculated from the degree of target achievement. These phantom shares must then be held for one more year. After four years, the amount to be paid out is calculated by multiplying the number of phantom shares by the share price relevant at that time. The members of the Board of Management have to use a quarter of this gross amount paid out to purchase "real" DaimlerChrysler shares, so that the stipulations arising from the guidelines for share ownership are fulfilled (see below).

No retroactive change in the defined performance targets or the comparative parameters is possible in connection with allocating the stock-based compensation.

**Guidelines for share ownership.** As a supplement to these three components of Board of Management compensation, the Presidential Committee of the Supervisory Board of DaimlerChrysler AG has approved Stock Ownership Guidelines for the Board of Management, under which the members of the Board of Management are required to invest a portion of their private assets in DaimlerChrysler shares within a period of several years and to hold these shares until the end of their Board of Management membership. The real shares acquired in the context of the new stock-based compensation are generally to be used to fulfill the provisions of these guidelines, but the shares can also be acquired in a different way.

#### **Total Board of Management compensation in 2005.**

The total compensation paid by Group companies to the members of the Board of Management of DaimlerChrysler AG is calculated from the amount of compensation paid in cash and from the non-cash benefits in kind.

€9.3 million was paid as fixed compensation, €24.6 million as short-term and medium-term performance-related compensation, and €1.0 million as long-term performance-related compensation. This totaled an amount of €34.9 million in 2005.

In 2005, the members of the Board of Management were granted a total of 454,914 phantom shares within the framework of the long-term stock-based compensation, the so-called Performance Phantom Share Plan. Payment is made for these phantom shares, depending on internal and external performance targets for continuous activity in the Board of Management, in the year 2009. The reference share price for the allocation of the phantom shares is the average price of DaimlerChrysler shares between January 1, 2005 and the day before the first meeting of the Presidential Committee in which the allocation is decided upon. This value was €35.41 per phantom share in 2005. Disclosure of those amounts will then take place in connection with the performance-related compensation for the year 2009.

Stock options were exercised in 2005 relating to the stock option plans of previous years. Members of the Board of Management exercised a total of 167,500 options from the Stock Option Plan 2003.

Further details of directors' dealings can be found in the Corporate Governance Report (see page 107 ff). Information on stock-based compensation is given in Note 24 of the Notes to the Consolidated Financial Statements.

Board of Management Members whose term of office ended in 2005 were entitled to receive compensation earned before the respective retirement date from current mid-term and the new 2005 long-term share-based remuneration components calculated on a pro-rata basis. We also had expenditures in connection with certain previously accrued retirement benefit obligations of other Board of Management members. The aggregate amount of both items is €23.8 million.

**Pensions.** The pension agreements of the Board of Management members with DaimlerChrysler AG in 2005 included a commitment to an annual retirement pension, which is calculated as a percentage of the fixed annual base salary.

In 2005, disbursements to former members of the Board of Management of DaimlerChrysler AG and their survivors amounted to €16.9 million. An amount of €292.2 million has been accrued for pension obligations to former members of the Board of Management and their survivors.

As of the 2006 financial year, the pension agreements of the Board of Management members with DaimlerChrysler AG have been changed over to defined-contribution pension plans.

#### **Sideline activities of the Board of Management members.**

Members of the Board of Management require the consent of the Supervisory Board before commencing any sideline activities. This ensures that neither the time required nor the compensation paid for such activities lead to any conflict with the members' duties to the Group.

Insofar as such sideline activities are memberships of other supervisory boards or comparable boards, these are disclosed in the annual financial statements of DaimlerChrysler AG and on the Internet.

No compensation is paid to Board of Management members for other positions held at companies of the Group.

## Compensation of the Supervisory Board

**Supervisory Board compensation in 2005.** The compensation of the Supervisory Board is determined by the Annual Meeting of DaimlerChrysler AG and is governed by the company's Articles of Incorporation. The current regulation specifies that the members of the Supervisory Board receive, in addition to the refund of their expenses and the costs of any value-added tax incurred by them in the performance of their office, a fixed compensation of €75,000, three times this amount for the Chairman of the Supervisory Board, twice this amount for the Deputy Chairman of the Supervisory Board and the Chairman of the Audit Committee, 1.5 times this amount for the chairmen of other Supervisory Board committees and 1.3 times this amount for members of Supervisory Board committees. If a member of the Supervisory Board exercises several of the aforementioned functions, he shall be remunerated solely for the function with the highest compensation. The individual compensation of the members of the Supervisory Board is shown in the table on the right.

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.

Except for the compensation paid to the employee representatives within the Supervisory Board in accordance with their contracts of employment, no compensation was paid for services provided personally beyond the aforementioned board and committee activities, in particular for advisory or agency services.

The compensation paid in 2005 to the members of the Supervisory Board of DaimlerChrysler AG for their services to the Group therefore totaled €2.0 million.

**Loans to members of the Board of Management or the Supervisory Board.** In 2005, no advances or loans existed to members of the Board of Management or the Supervisory Board of DaimlerChrysler AG.

#### Compensation of the members of the Supervisory Board

Name	Function	Total 2005 €
Hilmar Kopper	Chairman of the Supervisory Board	243,700
Erich Klemm <sup>1</sup>	Deputy Chairman of the Supervisory Board	168,700
Heinrich Flegel	Member of the Supervisory Board	80,500
Nate Gooden <sup>2</sup>	Member of the Supervisory Board	79,400
Earl G. Graves	Member of the Supervisory Board	77,200
Victor Halberstadt	Member of the Supervisory Board (retired April 6, 2005)	20,826
Thomas Klebe <sup>1,3</sup>	Member of the Supervisory Board and of the Presidential Committee	107,400
Arnaud Lagardère <sup>5</sup>	Member of the Supervisory Board (since April 6, 2005)	56,579
Jürgen Langer <sup>1</sup>	Member of the Supervisory Board	80,500
Robert J. Lanigan	Member of the Supervisory Board	80,500
Helmut Lense <sup>1</sup>	Member of the Supervisory Board	80,500
Peter A. Magowan	Member of the Supervisory Board	80,500
William A. Owens	Member of the Supervisory Board	80,500
Gerd Rheude <sup>1</sup>	Member of the Supervisory Board	80,500
Udo Richter <sup>1</sup>	Member of the Supervisory Board	80,500
Wolf Jürgen Röder <sup>1</sup>	Member of the Supervisory Board	80,500
Manfred Schneider	Member of the Supervisory Board and of the Presidential Committee	106,300
Stefan Schwaab <sup>1</sup>	Member of the Supervisory Board and of the Audit Committee	111,800
Bernhard Walter	Member of the Supervisory Board and Chairman of the Audit Committee	164,300
Lynton R. Wilson <sup>4</sup>	Member of the Supervisory Board	80,500
Mark Wössner	Member of the Supervisory Board	80,500

<sup>1</sup> The members representing the employees have stated that their compensation should be paid to the Hans-Böckler Foundation, in accordance with the guidelines of the German Trade Union Federation.

<sup>2</sup> Mr. Gooden abstained from receiving his compensation and meeting fees. At his request, these amounts were paid to the Hans-Böckler Foundation.

<sup>3</sup> Dr. Klebe also received €2,000 in meeting fees for his activity as a member of the Supervisory Board of DaimlerChrysler Luft- und Raumfahrt Holding AG

<sup>4</sup> Mr. Wilson also received €18,900 for committee activities at Mercedes-Benz Canada and DaimlerChrysler Canada Inc.

<sup>5</sup> Mr. Lagardère also receives compensation for his activity as Chairman of the Board of Directors of EADS N.V.. For 2004, the total amount was €320,000. Due to variable compensation components, the respective amount for 2005 is not yet available.

# Declaration of Compliance with the German Corporate Governance Code

Section 161 of the German Stock Corporation Act (AktG) requires the Board of Management and the Supervisory Board of a listed stock corporation to declare each year that the recommendations of the “German Corporate Governance Code Government Commission” published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette have been and are being met or, if not, which recommendations have not been or are not being applied. Shareholders must be given permanent access to such declaration.

The German Corporate Governance Code (“Code”) contains rules with varying binding effects. Apart from outlining aspects of the current German Stock Corporation Act, it contains recommendations from which companies are permitted to deviate. However, if they do so, they must disclose this each year. The Code also contains suggestions which can be ignored without giving rise to any disclosure requirement.

The Board of Management and the Supervisory Board of DaimlerChrysler AG have decided to disclose not only deviations from the Code’s recommendations (see I.) but also – without being legally obliged to do so – deviations from its suggestions (see II.).

For the period from December 2004 until July 20, 2005, the following declaration refers to the Code in effect as of May 21, 2003. For the corporate governance practice of DaimlerChrysler AG since July 21, 2005, this declaration refers to the requirements of the Code in effect as of June 2, 2005, published in the electronic Federal Gazette on July 20, 2005.

The Board of Management and the Supervisory Board of DaimlerChrysler AG declare that both the recommendations and the suggestions of the “German Corporate Governance Code Government Commission”, have been and are being met. The Board of Management and the Supervisory Board also intend to follow the recommendations and suggestions of the German Corporate Governance Code in the future. The following recommendations and suggestions are the only ones not been or being applied:

## **I. Deviations from the Recommendations of the German Corporate Governance Code**

**1. Deductible with the D&O insurance (Code Clause 3.8, Paragraph 2)** The Directors’ and Officers’ Liability (D&O) insurance obtained by DaimlerChrysler AG for the Board of Management and the Supervisory Board does not provide any insurance cover for intentional acts and omissions or for breaches of duty knowingly committed.

Insurance cover is limited to negligent breaches of duty by members of the Board of Management and Supervisory Board, so that this is the only context in which the question of the agreement of a deductible arises.

It is not advisable to agree on a deductible for negligence on the part of the members of the Supervisory Board, as DaimlerChrysler AG endeavors to staff its Supervisory Board with prominent members of the community from Germany and abroad who have extensive business experience, and the company may be impeded in this aim if members of its Supervisory Board have to accept far-reaching liability risks for potential negligence. The fact that a deductible is fairly unusual in other countries makes this even more of a problem.

On the part of members of the Board of Management, the D&O insurance of DaimlerChrysler AG envisages a deductible for cases of ordinary or gross negligence. Moreover, in cases of a grossly negligent breach of duty by a member of the Board of Management, the Presidential Committee of the Supervisory Board which is responsible for the Board of Management's service contracts may agree to make a percentage deduction from the variable portion of the compensation of the member of the Board of Management concerned. In terms of its overall financial result, this would be the same as an additional deductible. In the view of DaimlerChrysler AG, this rule enables individual cases to be judged more fairly on their merits than the blanket approach of the Code.

**2. Individualized reporting of Board of Management compensation (Code Clause 4.2.4)** As in the past, the compensation for the Board of Management is not reported individually. The compensation of the Board of Management for the 2005 fiscal year will also be reported, broken down into fixed and variable elements and into components with a long-term incentive effect. This information is crucial for assessing whether the division of such compensation between fixed and performance-related components is appropriate and whether the structure of such compensation provides adequate incentives for the Board of Management. As the Board of Management operates according to the principle of collective responsibility, the incentives provided for the Board of Management as a whole are the decisive factor, not those for each individual member.

For the 2006 fiscal year, the compensation will be published in accordance with the provisions of the German Law on the Disclosure of the Compensation of Members of the Board of Management (Vorstandsvergütungs-offenlegungsgesetz).

**3. Approval of sideline activities (Code Clause 4.3.5)** For reasons of practicality, approval of sideline activities by members of the Board of Management has been granted by the Chairman of the Supervisory Board. In future the Supervisory Board will reach a decision regarding approval in its entirety.

**4. Compensation of the Supervisory Board (Code Clause 5.4.7, Paragraph 2)** As long as the ways by which criteria for the assessment of success can adequately be structured are still subject to substantial legal uncertainties, no performance-related compensation shall be set.

## **II. Deviations from the Suggestions of the German Corporate Governance Code**

**1. Broadcast of the Annual Meeting (Code Clause 2.3.4)** The Annual Meeting of DaimlerChrysler AG will be broadcast on the Internet until the end of the Board of Management's report. Continuing the broadcast after this point, particularly the broadcast of individual shareholders' spoken contributions could be construed as interference in those shareholders' privacy rights. For this reason the company will further on not broadcast this part of the Annual Meeting.

**2. Variable compensation of the Supervisory Board relating to the company's long-term success (Code Clause 5.4.7)** We draw attention to the comments on I. 4. with regard to the introduction of performance-related compensation.

Stuttgart, December 2005

The Board of Management

The Supervisory Board

# Report of the Supervisory Board

In five meetings during the 2005 financial year, the Supervisory Board dealt in detail with the business situation of DaimlerChrysler and the strategic development of the Group and its divisions. In addition to important personnel decisions, the agendas of the meetings also included various individual issues that were dealt with and discussed together with the Board of Management.

**Cooperation between the Supervisory Board and the Board of Management.** In its meetings, the Supervisory Board was regularly and fully informed by the Board of Management about the situation of the Group, particularly its business and financial developments, personnel situation, investment plans and questions of fundamental business policy and strategy. The Board of Management presented the Group's key performance figures to the Supervisory Board in the form of monthly reports, and submitted in good time those issues requiring the specific approval of the Supervisory Board. The Supervisory Board approved these issues after reviewing various documents, making inquiries with the Board of Management and holding intensive discussions with the members of the Board of Management. The Supervisory Board was also kept fully informed of specific matters between its meetings, and in urgent cases it was requested to pass resolutions in writing. In addition, the Chairman of the Board of Management informed the Chairman of the Supervisory Board in regular individual discussions about all important developments and forthcoming decisions. Whenever necessary, the Supervisory Board also convened without the Board of Management.

In an environment featuring generally stable growth of the world economy, but at lower rates than in the prior year due to the higher level of interest rates and above all the repeated sharp rise in the price of crude oil, the Supervisory Board dealt in 2005 in depth with the development of the individual divisions. One major focus of discussions throughout the year was the development of the Mercedes Car Group, both of Mercedes-Benz Passenger Cars and of the smart brand. In the middle of the year, a personnel decision was made with great significance for the Group's future: the appointment of the new Chairman of the Board of Management as of January 1, 2006.

**Issues discussed at the meetings in the year 2005.** In the meeting held in February 2005, the Supervisory Board dealt with the audited 2004 financial statements of DaimlerChrysler AG, the 2004 consolidated financial statements, the 2004 management report of DaimlerChrysler AG, the 2004 Group management report and the proposal made by the Board of Management on the appropriation of earnings. The Supervisory Board also received information on the settlement agreement approved a short time before with Mitsubishi Motors Corporation concerning compensation payments to DaimlerChrysler for charges incurred in connection with the acquisition of Mitsubishi Fuso Truck & Bus Corporation. Other issues dealt with at the meeting were a discussion about the development of alternative drive systems and a report on the Group's interest in debis AirFinance, the sale of which was approved by the Supervisory Board later in the same year.

The main topic dealt with in the meeting in April 2005 was the situation of the Mercedes Car Group. The Supervisory Board received a presentation of the restructuring plans for smart, and subsequently approved the program after detailed discussion of the required personnel reductions and the effects on the quarterly results. In line with its principle of dealing with strategic issues in each regular meeting, the Supervisory Board was given a presentation by the Board of Management on the strategy of the Commercial Vehicles division and business activities planned or already implemented in Asia, particularly in China.

The meeting held in July focused on the personnel decisions in the Board of Management and on the interim report on the first half of the year. In this context, the business development and strategy of the Financial Services division was described in detail. Approval was granted for DaimlerChrysler Financial Services to apply for a license to establish an industrial bank in the United States. Another item on the agenda was information concerning the engagement of KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, to conduct the independent audit and the important audit issues determined by the Audit Committee in conjunction with KPMG.





**Hilmar Kopper**  
Chairman of the Supervisory Board

In addition, the Supervisory Board discussed the effects of bridge financing that had previously been approved in writing for an insolvent supplier, as well as various internal corporate restructuring measures in North America.

In the meeting held in September, consultations centered on the staff-reduction program at the Mercedes Car Group. The Supervisory Board approved the funds required to achieve the reduction goals set by the Board of Management. Furthermore, the Board of Management reported on the completed acquisition of the remaining shares in MTU Friedrichshafen GmbH, which had previously been approved by the Supervisory Board in writing. Approval was granted for the planned sale of a vehicle testing facility in the United States and for additional investments for the production of vehicles in China by the Chrysler Group. The Supervisory Board received reports on the course of business and the competitive situation at the Chrysler Group, the strategy of the Procurement department and new legal developments in the field of corporate governance.

In December, the main subjects for discussion were the operative planning for the period of 2006 through 2008 and the approval of a financing limit for the 2006 financial year. The planning data was backed up by extensive documentation and was debated in depth. In this context, the Board of Management also reported to the Supervisory Board in detail on the company's risk-monitoring system and its results. A report was given on the sale of shares in Mitsubishi Motors Corporation, which the Supervisory Board had previously approved. In addition, the Supervisory Board gave its approval for the sale of the DaimlerChrysler Off-Highway business unit, which includes MTU Friedrichshafen, subject to a defined limit for the ongoing negotiations.

**Corporate governance.** A number of corporate-governance issues were also dealt with in the December meeting. In this context, pursuant to Section 161 of the German Stock Corporation Act, the declaration of compliance with the German Corporate Governance Code in its version of June 2, 2005 was approved.

Following one of the Code's recommendations, the Supervisory Board stated that in its view, it is capable of independently advising and monitoring the Board of Management provided that more than half of the members representing the shareholders are independent directors. After due investigation, it stated that this condition is also fulfilled at DaimlerChrysler AG and that the members of the Audit Committee representing the shareholders also fulfill the criterion of independence.

Any possible conflicts of interest connected with the Group's involvement in Toll Collect or the sale of the Off-Highway business unit caused by other board positions held by some members of the Supervisory Board were avoided, since those members disclosed such positions to the entire Supervisory Board and did not participate in the discussions or voting on the relevant topics.

Two members of the Supervisory Board, Mr. Earl G. Graves and Mr. Arnaud Lagardère, attended fewer than half of the meetings held during 2005.

**Report on the work of the committees.** The Presidential Committee convened six times in 2005, and dealt in detail with various Board of Management matters and compensation issues. Another major topic was the discussion about changing the pension plan for the members of the Board of Management from a defined-benefit to a defined-contributions plan. At the beginning of 2006, the Committee was involved in the plans for a new management structure and the changes in Board of Management members' responsibilities intended in this context.

In addition, the Presidential Committee prepared the plenary meetings and dealt with questions of corporate governance.

The Audit Committee met nine times in 2005. Details of these meetings are given in a separate report of this committee (see page 121). The Mediation Committee, a body formed in accordance with the stipulations of the German Codetermination Act, was not required to convene last year. The Supervisory Board was regularly informed about the work, and especially the decisions, of the committees.

**Personnel changes in the Supervisory Board.** After Mr. Halberstadt announced that he would retire from the Supervisory Board for personal reasons with effect as of the 2005 Annual Meeting, in April 2005, that Annual Meeting approved the proposal to appoint Mr. Arnaud Lagardère as a member of the Supervisory Board representing the shareholders for a period of 5 years.

**Personnel changes in the Board of Management.** During the year, the Supervisory Board made decisions on various Board of Management matters.

In February 2005, the Supervisory Board resolved to reappoint Mr. Thomas Weber for a period of five years as of January 1, 2006 with unchanged responsibility for the area of "Research and Technology".

Mr. Jürgen Hubbert, previously responsible for the "Executive Automotive Committee", retired from the Board of Management of DaimlerChrysler AG upon the expiry of his period of office on April 6, 2005.

In July 2005, the Supervisory Board accepted the early retirement of the Chairman of the Board of Management, Mr. Jürgen E. Schrempp, effective December 31, 2005. It also resolved to appoint Mr. Dieter Zetsche Chairman of the Board of Management effective January 1, 2006, and to extend his membership by another five years. With an unchanged period of office until 2007, Mr. Thomas W. LaSorda was appointed CEO of the Chrysler Group as successor to Mr. Zetsche. Mr. LaSorda's previous position of Chief Operating Officer of the Chrysler Group was allocated to Mr. Eric R. Ridenour, who was newly appointed as a member of the Board of Management for an initial period of three years.

In August 2005, the Supervisory Board accepted the early retirement of Mr. Eckhard Cordes, effective August 31, 2005, and in this context resolved that Mr. Zetsche would become CEO of the Mercedes Car Group effective September 1, 2005 and that Mr. LaSorda and Mr. Ridenour would already assume their new duties on that date.

In January 2006, the Board of Management reported to the Supervisory Board on plans for a new management structure at the Group and the schedule prepared for its implementation. In this context, the Supervisory Board approved various changes in Board of Management members' responsibilities.

In February 2006, the Supervisory Board resolved to reappoint Mr. Bodo Uebber for a period of five years as of December 16, 2006 with unchanged responsibility for the area of "Finance & Controlling/Financial Services."

**Audit of the 2005 financial statements.** The DaimlerChrysler AG financial statements and the management report for 2005 were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt am Main, and were given an unqualified audit opinion. The same applies to the consolidated financial statements prepared according to US GAAP, which were supplemented with a group management report and additional notes. Pursuant to Articles 57 and 58 of the Introductory Law of the German Commercial Code (EGHGB) in connection with Section 292a of

the German Commercial Code (HGB), the US GAAP consolidated financial statements presented in this report grant exemption from the obligation to prepare consolidated financial statements in accordance with German law.

The financial statements and the appropriation of earnings proposed by the Board of Management, as well as the auditors' report, were submitted to the Supervisory Board. They were thoroughly inspected by the Audit Committee and the Supervisory Board and discussed in the presence of the auditors, who reported on the results of their audit. The Supervisory Board has declared itself in agreement with the results of the audit and has established that there are no objections to be made. The Supervisory Board has approved the financial statements presented by the Board of Management. The financial statements are thereby adopted. Finally, the Supervisory Board has also examined the appropriation of earnings proposed by the Board of Management and is in agreement with that proposal.

**Appreciation.** The Supervisory Board expresses its gratitude to the management and the departing members of the Supervisory Board and the Board of Management. Particular thanks are due to Mr. Jürgen E. Schrempp for more than 40 years' successful work for DaimlerChrysler, thereof more than 10 years as the Chairman of the Board of Management. He rendered outstanding services to the Group.

The Supervisory Board also thanks the employees of the DaimlerChrysler Group for their outstanding personal commitment and their achievements in 2005.

Stuttgart-Möhringen, February 2006

The Supervisory Board



Hilmar Kopper  
Chairman

# Members of the Supervisory Board

**Hilmar Kopper**  
Frankfurt am Main  
Chairman of the Supervisory Board  
of DaimlerChrysler AG  
Chairman

**Erich Klemm**<sup>1</sup>  
Sindelfingen  
Chairman of the Corporate Works  
Council, DaimlerChrysler Group  
and DaimlerChrysler AG  
Deputy Chairman

**Prof. Dr. Heinrich Flegel**<sup>1</sup>  
Stuttgart  
Director Research Materials and  
Manufacturing, DaimlerChrysler AG,  
Chairman of the Management  
Representative Committee,  
DaimlerChrysler Group

**Nate Gooden**<sup>1</sup>  
Detroit  
Vice President of the International  
Union, United Automobile, Aerospace  
and Agricultural Implement Workers  
of America (UAW)

**Earl G. Graves**  
New York  
Publisher, Black Enterprise Magazine

**Dr. Thomas Klebe**<sup>1</sup>  
Frankfurt am Main  
Director Department for General Shop  
Floor Policy and Codetermination,  
German Metalworkers' Union (IG Metal)

**Arnaud Lagardère**  
Paris  
General Partner and  
CEO of Lagardère SCA  
(since April 6, 2005)

**Jürgen Langer**<sup>1</sup>  
Frankfurt am Main  
Chairman of the Works Council of  
the Frankfurt/Offenbach Dealership,  
DaimlerChrysler AG

**Robert J. Lanigan**  
Toledo  
Chairman Emeritus of Owens-Illinois,  
Inc.; Founding Partner, Palladium Equity  
Partners

**Helmut Lense**<sup>1</sup>  
Stuttgart  
Chairman of the Works Council,  
Untertürkheim Plant,  
DaimlerChrysler AG

**Peter A. Magowan**  
San Francisco  
President of San Francisco Giants

**William A. Owens**  
Kirkland  
Retired President and Chief Executive  
Officer of Nortel Networks Corporation

**Gerd Rheude**<sup>1</sup>  
Wörth  
Chairman of the Works Council,  
Wörth Plant, DaimlerChrysler AG

**Udo Richter**<sup>1</sup>  
Bremen  
Chairman of the Works Council,  
Bremen Plant, DaimlerChrysler AG

**Wolf Jürgen Röder**<sup>1</sup>  
Frankfurt am Main  
Member of the Executive Board of  
the German Metalworkers' Union  
(IG Metal)

**Dr. rer. pol. Manfred Schneider**  
Leverkusen  
Chairman of the Supervisory Board  
of Bayer AG

**Stefan Schwaab**<sup>1</sup>  
Gaggenau  
Vice Chairman of the Corporate  
Works Council, DaimlerChrysler  
Group and DaimlerChrysler AG,  
Vice Chairman of the Works Council  
Gaggenau Plant, DaimlerChrysler AG

**Bernhard Walter**  
Frankfurt am Main  
Former Spokesman of the Board of  
Management of Dresdner Bank AG

**Lynton R. Wilson**  
Toronto  
Chairman of the Board of CAE Inc.;  
Chairman Emeritus, Nortel  
Networks Corporation

**Dr.- Ing. Mark Wössner**  
Munich  
Former CEO and Chairman of the  
Supervisory Board of Bertelsmann AG

**Committees of the Supervisory  
Board:**  
**Committee pursuant to Section 31,  
Subsection 3 of the German Law  
of Industrial Codetermination**  
Hilmar Kopper (Chairman)  
Erich Klemm  
Dr. rer. pol. Manfred Schneider  
Dr. Thomas Klebe

**Presidential Committee**  
Hilmar Kopper (Chairman)  
Erich Klemm  
Dr. rer. pol. Manfred Schneider  
Dr. Thomas Klebe

**Audit Committee**  
Bernhard Walter (Chairman)  
Hilmar Kopper  
Erich Klemm  
Stefan Schwaab

**Retired from the  
Supervisory Board:**  
Prof. Victor Halberstadt  
Amsterdam  
Professor for Public Economics  
at Leiden University, Netherlands  
(retired April 6, 2005)

<sup>1</sup> Representative of the employees

# Report of the Audit Committee



**Bernhard Walter**  
Chairman of the Audit Committee

The Audit Committee convened nine times in 2005. In February 2005, in the presence of the external auditors the Audit Committee reviewed the financial statements and the consolidated financial statements for 2004 with the respective management reports, including the annual report on Form 20-F, and the proposal on the appropriation of earnings made by the Board of Management. The audit reports and important accounting matters were discussed in detail with the external auditors. The Audit Committee then recommended that the Supervisory Board agree to the Board of Management's proposal on the appropriation of distributable profits and approve the financial statements. In further meetings during the course of the year, the Audit Committee held detailed discussions with the Board of Management attended by the external auditors concerning the 2005 half-year financial statements and the interim reports on the first and third quarters of 2005.

The Audit Committee regularly examined the qualifications and independence of the external auditors, and, in a particular matter, their efficiency. In this context, during the year, the Audit Committee monitored the implementation of the principles decided upon for the approval of services provided by the external auditors. After receiving the approval of the Annual Meeting, the Audit Committee engaged KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt am Main, to conduct the annual audit, negotiated the audit fee of the external auditors and determined the important audit issues for the year 2005.

Furthermore, in the year 2005, the Audit Committee was occupied with new accounting standards and their interpretation, as well as with the status of the introduction within the company of the International Financial Reporting Standards. The Audit Committee was also occupied with the risk-monitoring system, the company's risk reports and the risks from legal proceedings, the reports and programs of the Corporate Audit department, the Group's effective tax rate and tax structure, new statutory developments of relevance for the Audit Committee, and the Group's interest-rate and exchange-rate management.

The Audit Committee's work in the year 2005 focused in particular on the investigations taking place in the company that were initiated by the United States Securities and Exchange Commission (SEC). In each regular meeting, as well as in the additional special meetings convened for that purpose, the Audit Committee received information about the progress of the investigations from the company's management and the lawyers and external auditors involved in the investigations. This included receiving reports on the existence, application and monitoring of international guidelines and rules of conduct, the further development of compliance management, and the elimination of deficits identified at the Group. The Audit Committee also met several times to discuss these matters without any other representatives of the company. The willingness of DaimlerChrysler's management to cooperate fully in these investigations also applies to the Audit Committee.

In addition, the Audit Committee dealt regularly with complaints and criticism with regard to accounting, the internal monitoring systems and the annual audit that were received confidentially, and if so desired anonymously, from DaimlerChrysler employees, and received information separately concerning violations of Section 302, Subsection 5 of the Sarbanes-Oxley Act. The Audit Committee also received regular reports, taking into consideration any justified complaints or criticism, about the introduction and effectiveness of the internal monitoring of financial reporting relating to the correct implementation of the provisions of the Sarbanes-Oxley Act.

Once again in the year 2005, the Audit Committee conducted a specific self-evaluation of its activities.

Stuttgart-Möhringen, February 2006

The Audit Committee

**Bernhard Walter**  
Chairman

# Consolidated Financial Statements

The accompanying consolidated financial statements (consolidated balance sheets as of December 31, 2005 and 2004, consolidated statements of income, cash flows and changes in stockholders' equity for each of the financial years 2005, 2004 and 2003 as well as notes to consolidated financial statements) were prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). In order to comply with Section 57 and 58 of the EGHGB (Introductory Law to German Commercial Code) in conjunction with Section 292a of the HGB (German Commercial Code), the consolidated financial statements were supplemented with the Group management report and additional explanations. Therefore, the consolidated financial statements, which have to be filed with the Commercial Register and published in the Federal Gazette, comply with the Fourth and Seventh Directive of the European Community. For the interpretation of these directives we relied on Article 2 of the German Amendment Accounting Standard No. 2 issued by the German Accounting Standards Committee. The consolidated financial statements and the Group management report as of December 31, 2005, prepared according Section 57 and 58 of the EGHGB in conjunction with Section 292a of the HGB and filed with the Commercial Register in Stuttgart under the number HRB 19 360, will be provided to shareholders on request.



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## Statement by the Board of Management

The Board of Management of DaimlerChrysler AG is responsible for preparing the accompanying financial statements.

We have implemented effective controlling and monitoring systems to guarantee compliance with accounting principles and the adequacy of reporting. These systems include the application of uniform guidelines group-wide, the use of reliable software, the selection and training of qualified personnel, and regular reviews by our internal auditing department.

In accordance with German legal requirements we have integrated the group's early warning systems into a risk management system. This enables the Board of Management to identify significant risks at an early stage and to initiate appropriate measures. KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft audited the consolidated financial statements, which were prepared in accordance with US generally accepted accounting principles, and issued an unqualified audit report.

Together with the independent auditors, the Supervisory Board's Audit Committee examined and discussed the consolidated financial statements including the business review report and the auditors' report in depth. Subsequently, the entire Supervisory Board reviewed the documentation related to the consolidated financial statements. The result of this examination is included in the Report of the Supervisory Board.



Dieter Zetsche



Bodo Uebber

## Report of Independent Registered Public Accounting Firm

The Supervisory Board  
DaimlerChrysler AG:

We have audited the accompanying consolidated balance sheets of DaimlerChrysler AG and subsidiaries ("DaimlerChrysler") as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2005. These consolidated financial statements are the responsibility of DaimlerChrysler's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of DaimlerChrysler as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with generally accepted accounting principles in the United States of America.

As described in Note 11 to the consolidated financial statements, DaimlerChrysler adopted FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143" in 2005. As described in Note 1 to the consolidated financial statements, DaimlerChrysler changed its method of accounting for stock-based compensation in 2003. As described in Notes 3 and 11 to the consolidated financial statements, DaimlerChrysler also adopted the required portions of FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities – an interpretation of ARB No. 51", in 2003.

Stuttgart,  
February 23, 2006

KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft



Nonnenmacher  
Wirtschaftsprüfer



Krauß  
Wirtschaftsprüfer

# Consolidated Statements of Income (Loss)

(in millions of €, except per share amounts)	Note	Consolidated Year ended December 31,		
		2005	2004	2003
Revenues	35.	149,776	142,059	136,437
Cost of sales	5.	(122,894)	(114,567)	(109,926)
<b>Gross profit</b>		<b>26,882</b>	<b>27,492</b>	<b>26,511</b>
Selling, administrative and other expenses	5.	(18,984)	(17,972)	(17,772)
Research and development		(5,649)	(5,658)	(5,571)
Other income	6.	966	895	689
Goodwill impairment	12.	(30)	-	-
Turnaround plan Chrysler Group	7.	36	(145)	(469)
<b>Income before financial income</b>		<b>3,221</b>	<b>4,612</b>	<b>3,388</b>
Impairment of investment in EADS		-	-	(1,960)
Other financial income (expense), net (therein loss on issuance of associated company stock of €135 million in 2004 and gain on issuance of related company stock of €24 million in 2003)		217	(1,077)	(832)
Financial income (expense), net	8.	217	(1,077)	(2,792)
<b>Income (loss) before income taxes</b>		<b>3,438</b>	<b>3,535</b>	<b>596</b>
Income tax (expense) benefit	9.	(513)	(1,177)	(979)
Minority interests		(74)	108	(35)
<b>Income (loss) from continuing operations</b>		<b>2,851</b>	<b>2,466</b>	<b>(418)</b>
Income from discontinued operations, net of taxes	10.	-	-	14
Income on disposal of discontinued operations, net of taxes	10.	-	-	882
Cumulative effects of changes in accounting principles: transition adjustments resulting from adoption of FIN 47 and FIN 46R, net of taxes	11.	(5)	-	(30)
<b>Net income (loss)</b>		<b>2,846</b>	<b>2,466</b>	<b>448</b>
<b>Earnings per share</b>	36.			
Basic earnings per share				
Income (loss) from continuing operations		2.80	2.43	(0.41)
Income from discontinued operations		-	-	0.01
Income on disposal of discontinued operations		-	-	0.87
Cumulative effects of changes in accounting principles		-	-	(0.03)
Net income		2.80	2.43	0.44
Diluted earnings per share				
Income (loss) from continuing operations		2.80	2.43	(0.41)
Income from discontinued operations		-	-	0.01
Income on disposal of discontinued operations		-	-	0.87
Cumulative effects of changes in accounting principles		-	-	(0.03)
Net income		2.80	2.43	0.44

The accompanying notes are an integral part of these Consolidated Financial Statements.

Industrial Business <sup>1</sup>			Financial Services <sup>1, 2</sup>			(in millions of €, except per share amounts)
2005	Year ended December 31, 2004	2003	2005	Year ended December 31, 2004	2003	
134,340	128,133	122,397	15,436	13,926	14,040	Revenues
(110,326)	(103,771)	(98,937)	(12,568)	(10,796)	(10,989)	Cost of sales
24,014	24,362	23,460	2,868	3,130	3,051	<b>Gross profit</b>
(17,725)	(16,741)	(16,374)	(1,259)	(1,231)	(1,398)	Selling, administrative and other expenses
(5,649)	(5,658)	(5,571)	-	-	-	Research and development
921	833	637	45	62	52	Other income
(30)	-	-	-	-	-	Goodwill impairment
36	(145)	(469)	-	-	-	Turnaround plan Chrysler Group
1,567	2,651	1,683	1,654	1,961	1,705	<b>Income before financial income</b>
-	-	(1,960)	-	-	-	Impairment of investment in EADS
192	(1,043)	(775)	25	(34)	(57)	Other financial income (expense), net (therein loss on issuance of associated company stock of €135 million in 2004 and gain on issuance of related company stock of €24 million in 2003)
192	(1,043)	(2,735)	25	(34)	(57)	Financial income (expense), net
1,759	1,608	(1,052)	1,679	1,927	1,648	<b>Income (loss) before income taxes</b>
133	(442)	(352)	(646)	(735)	(627)	Income tax (expense) benefit
(63)	113	(30)	(11)	(5)	(5)	Minority interests
1,829	1,279	(1,434)	1,022	1,187	1,016	<b>Income (loss) from continuing operations</b>
-	-	14	-	-	-	Income from discontinued operations, net of taxes
-	-	882	-	-	-	Income on disposal of discontinued operations, net of taxes
(5)	-	(30)	-	-	-	Cumulative effects of changes in accounting principles: transition adjustments resulting from adoption of FIN 47 and FIN 46R, net of taxes
1,824	1,279	(568)	1,022	1,187	1,016	<b>Net income (loss)</b>
						<b>Earnings per share</b>
						Basic earnings per share
						Income (loss) from continuing operations
						Income from discontinued operations
						Income on disposal of discontinued operations
						Cumulative effects of changes in accounting principles
						Net income
						Diluted earnings per share
						Income (loss) from continuing operations
						Income from discontinued operations
						Income on disposal of discontinued operations
						Cumulative effects of changes in accounting principles
						Net income

1 Additional information about the Industrial Business and Financial Services is not required under U.S. GAAP and is unaudited.

2 Contains the financing and leasing business of the Financial Services segment without Mobility Management and activities of DaimlerChrysler Financial Services AG.

# Consolidated Balance Sheets

		Consolidated		Industrial Business <sup>1, 2</sup>		Financial Services <sup>1, 2</sup>	
(in millions of €)	Note	At December 31, 2005	2004	At December 31, 2005	2004	At December 31, 2005	2004
Assets							
Goodwill	12.	1,881	2,003	1,822	1,945	59	58
Other intangible assets	13.	3,191	2,671	3,133	2,602	58	69
Property, plant and equipment, net	14.	36,739	34,017	36,565	33,851	174	166
Investments and long-term financial assets	20.	6,356	7,039	6,084	6,763	272	276
Equipment on operating leases, net	15.	34,238	26,711	3,629	3,099	30,609	23,612
Fixed assets		82,405	72,441	51,233	48,260	31,172	24,181
Inventories	16.	19,139	16,805	17,674	15,330	1,465	1,475
Trade receivables	17.	7,595	7,001	7,348	6,805	247	196
Receivables from financial services	18.	61,101	56,785	–	–	61,101	56,785
Other assets	19.	8,731	12,931	4,654	9,216	4,077	3,715
Securities	20.	4,936	3,884	4,502	3,474	434	410
Cash and cash equivalents	21.	7,711	7,782	6,894	6,782	817	1,000
Non-fixed assets		109,213	105,188	41,072	41,607	68,141	63,581
Deferred taxes	9.	7,249	4,213	7,060	4,071	189	142
Prepaid expenses	22.	1,391	1,030	1,299	953	92	77
Disposal group Off-Highway, assets held for sale	10.	1,374	–	1,374	–	–	–
Total assets (thereof short-term 2005: €74,909; 2004: €68,679)		201,632	182,872	102,038	94,891	99,594	87,981
Liabilities and stockholders' equity							
Capital stock		2,647	2,633				
Additional paid-in capital		8,221	8,042				
Retained earnings		31,688	30,361				
Accumulated other comprehensive loss		(6,107)	(7,514)				
Treasury stock		–	–				
Stockholders' equity	23.	36,449	33,522	26,859	25,445	9,590	8,077
Minority interests		653	909	614	885	39	24
Accrued liabilities	25.	46,682	41,938	45,389	40,864	1,293	1,074
Financial liabilities	26.	80,932	76,270	4,146	8,330	76,786	67,940
Trade liabilities	27.	14,591	12,920	14,381	12,710	210	210
Other liabilities	28.	9,053	8,745	6,561	6,110	2,492	2,635
Liabilities		104,576	97,935	25,088	27,150	79,488	70,785
Deferred taxes	9.	4,203	2,312	(2,309)	(3,854)	6,512	6,166
Deferred income	29.	8,298	6,256	5,626	4,401	2,672	1,855
Disposal group Off-Highway, liabilities held for sale	10.	771	–	771	–	–	–
Total liabilities (thereof short-term 2005: €86,399; 2004: €77,158)		165,183	149,350	75,179	69,446	90,004	79,904
Total liabilities and stockholders' equity		201,632	182,872	102,038	94,891	99,594	87,981

1 Additional information about the Industrial Business and Financial Services is not required under U.S. GAAP and is unaudited.

2 Contains the financing and leasing business of the Financial Services segment without Mobility Management and activities of DaimlerChrysler Financial Services AG.

The accompanying notes are an integral part of these Consolidated Financial Statements.



# Consolidated Statements of Changes in Stockholders' Equity

(in millions of €)	Capital stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss				Treasury stock	Total
				Cumulative translation adjustment	Available-for-sale securities	Derivative financial instruments	Minimum pension liability		
<b>Balance at January 1, 2003</b>	2,633	7,819	30,485	465	(74)	1,065	(7,317)	-	35,076
Net income	-	-	448	-	-	-	-	-	448
Other comprehensive income (loss)	-	-	-	(1,628)	407	1,162	444	-	385
<b>Total comprehensive income</b>									833
Stock based compensation	-	95	-	-	-	-	-	-	95
Issuance of shares upon conversion of notes	-	1	-	-	-	-	-	-	1
Purchase of capital stock	-	-	-	-	-	-	-	(28)	(28)
Re-issuance of treasury stock	-	-	-	-	-	-	-	28	28
Dividends	-	-	(1,519)	-	-	-	-	-	(1,519)
<b>Balance at December 31, 2003</b>	2,633	7,915	29,414	(1,163)	333	2,227	(6,873)	-	34,486
Net income	-	-	2,466	-	-	-	-	-	2,466
Other comprehensive loss	-	-	-	(715)	(206)	(369)	(748)	-	(2,038)
<b>Total comprehensive income</b>									428
Stock based compensation	-	127	-	-	-	-	-	-	127
Purchase of capital stock	-	-	-	-	-	-	-	(30)	(30)
Re-issuance of treasury stock	-	-	-	-	-	-	-	30	30
Dividends	-	-	(1,519)	-	-	-	-	-	(1,519)
<b>Balance at December 31, 2004</b>	2,633	8,042	30,361	(1,878)	127	1,858	(7,621)	-	33,522
Net income	-	-	2,846	-	-	-	-	-	2,846
Other comprehensive income (loss)	-	-	-	2,727	(18)	(1,223)	(79)	-	1,407
<b>Total comprehensive income</b>									4,253
Stock based compensation	-	87	-	-	-	-	-	-	87
Issuance of new shares	14	141	-	-	-	-	-	-	155
Purchase of capital stock	-	-	-	-	-	-	-	(21)	(21)
Re-issuance of treasury stock	-	-	-	-	-	-	-	21	21
Dividends	-	-	(1,519)	-	-	-	-	-	(1,519)
Other	-	(49)	-	-	-	-	-	-	(49)
<b>Balance at December 31, 2005</b>	2,647	8,221	31,688	849	109	635	(7,700)	-	36,449

The accompanying notes are an integral part of these Consolidated Financial Statements.

# Consolidated Statements of Cash Flows \*

(in millions of €)	Consolidated		
	2005	2004	2003
Net income (loss)	2,846	2,466	448
Income (loss) applicable to minority interests	74	(108)	35
Cumulative effects of changes in accounting principles	5	-	30
Gains on disposals of shares in companies	(732)	(281)	(956)
Impairment of investment in EADS	-	-	1,960
Depreciation and amortization of equipment on operating leases	6,341	5,445	5,579
Depreciation and amortization of fixed assets	6,312	5,817	5,838
Change in deferred taxes	(809)	(593)	644
Equity (income) loss from equity method investments	(103)	933	538
Change in financial instruments	298	(275)	160
(Gains) losses on disposals of fixed assets/securities	(1,370)	(520)	(424)
Change in trading securities	(4)	(26)	71
Change in accrued liabilities	170	1,344	1,015
Turnaround plan expenses (gains) - Chrysler Group	(36)	145	469
Turnaround plan payments - Chrysler Group	(92)	(219)	(279)
Net changes in inventory-related receivables from financial services	(207)	(2,455)	(2,670)
Changes in other operating assets and liabilities:			
- Inventories, net	(1,519)	(1,393)	(293)
- Trade receivables	(443)	242	(441)
- Trade liabilities	802	1,186	1,081
- Other assets and liabilities	820	(648)	1,021
<b>Cash provided by operating activities</b>	<b>12,353</b>	<b>11,060</b>	<b>13,826</b>
Purchases of fixed assets:			
- Increase in equipment on operating leases	(20,236)	(17,678)	(15,604)
- Purchases of property, plant and equipment	(6,580)	(6,386)	(6,614)
- Purchases of other fixed assets	(272)	(514)	(303)
Proceeds from disposals of equipment on operating leases	11,643	10,468	11,951
Proceeds from disposals of fixed assets	1,098	741	643
Payments for investments in businesses	(552)	(264)	(1,021)
Proceeds from disposals of businesses	516	1,218	1,209
Investments in/collections from wholesale receivables	(5,195)	(5,978)	(10,432)
Proceeds from sale of wholesale receivables	5,288	6,331	10,260
Investments in retail receivables	(27,073)	(30,488)	(28,946)
Collections on retail receivables	21,262	17,148	16,577
Proceeds from sale of retail receivables	8,612	9,531	9,196
Acquisitions of securities (other than trading)	(10,773)	(4,211)	(5,175)
Proceeds from sales of securities (other than trading)	11,025	3,481	4,785
Change in other cash	15	(81)	(134)
<b>Cash used for investing activities</b>	<b>(11,222)</b>	<b>(16,682)</b>	<b>(13,608)</b>
Change in commercial paper borrowings and short-term financial liabilities	1,407	2,453	129
Additions to long-term financial liabilities	14,322	15,013	16,436
Repayment of long-term financial liabilities	(15,867)	(13,370)	(12,518)
Dividends paid (including profit transferred from subsidiaries)	(1,575)	(1,547)	(1,537)
Proceeds from issuance of capital stock (including minority interests)	227	30	44
Purchase of treasury stock	(27)	(30)	(36)
<b>Cash provided by (used for) financing activities</b>	<b>(1,513)</b>	<b>2,549</b>	<b>2,518</b>
Effect of foreign exchange rate changes on cash and cash equivalents (maturing within 3 months)	620	(313)	(1,069)
<b>Net increase (decrease) in cash and cash equivalents (maturing within 3 months)</b>	<b>238</b>	<b>(3,386)</b>	<b>1,667</b>
<b>Cash and cash equivalents (maturing within 3 months)</b>			
<b>At beginning of period</b>	<b>7,381</b>	<b>10,767</b>	<b>9,100</b>
<b>At end of period</b>	<b>7,619</b>	<b>7,381</b>	<b>10,767</b>

The accompanying notes are an integral part of these Consolidated Financial Statements.

\* For other information regarding Consolidated Statements of Cash Flows, see Note 30.

Industrial Business <sup>1</sup>			Financial Services <sup>1, 2</sup>			(in millions of €)
2005	Year ended December 31, 2004	2003	2005	Year ended December 31, 2004	2003	
1,824	1,279	(568)	1,022	1,187	1,016	Net income (loss)
63	(113)	30	11	5	5	Income (loss) applicable to minority interests
5	-	30	-	-	-	Cumulative effects of changes in accounting principles
(732)	(281)	(956)	-	-	-	Gains on disposals of shares in companies
-	-	1,960	-	-	-	Impairment of investment in EADS
667	544	609	5,674	4,901	4,970	Depreciation and amortization of equipment on operating leases
6,251	5,693	5,735	61	124	103	Depreciation and amortization of fixed assets
(356)	(1,211)	194	(453)	618	450	Change in deferred taxes
(92)	951	539	(11)	(18)	(1)	Equity (income) loss from equity method investments
297	(288)	141	1	13	19	Change in financial instruments
(1,320)	(524)	(424)	(50)	4	-	(Gains) losses on disposals of fixed assets/securities
(3)	(29)	82	(1)	3	(11)	Change in trading securities
93	1,198	1,098	77	146	(83)	Change in accrued liabilities
(36)	145	469	-	-	-	Turnaround plan expenses (gains) – Chrysler Group
(92)	(219)	(279)	-	-	-	Turnaround plan payments – Chrysler Group
(207)	(2,455)	(2,670)	-	-	-	Net changes in inventory-related receivables from financial services
						Changes in other operating assets and liabilities:
(1,518)	(1,535)	(502)	(1)	142	209	- Inventories, net
(419)	210	(500)	(24)	32	59	- Trade receivables
806	1,193	1,082	(4)	(7)	(1)	- Trade liabilities
989	(805)	715	(169)	157	306	- Other assets and liabilities
6,220	3,753	6,785	6,133	7,307	7,041	<b>Cash provided by operating activities</b>
						Purchases of fixed assets:
(4,181)	(3,828)	(3,973)	(16,055)	(13,850)	(11,631)	- Increase in equipment on operating leases
(6,537)	(6,298)	(6,539)	(43)	(88)	(75)	- Purchases of property, plant and equipment
(253)	(496)	(250)	(19)	(18)	(53)	- Purchases of other fixed assets
4,996	4,514	4,577	6,647	5,954	7,374	Proceeds from disposals of equipment on operating leases
1,066	705	606	32	36	37	Proceeds from disposals of fixed assets
(566)	(244)	(967)	14	(20)	(54)	Payments for investments in businesses
186	1,176	1,179	330	42	30	Proceeds from disposals of businesses
26,963	29,911	37,346	(32,158)	(35,889)	(47,778)	Investments in/collections from wholesale receivables
(27,246)	(27,849)	(34,938)	32,534	34,180	45,198	Proceeds from sale of wholesale receivables
3,818	4,457	3,829	(30,891)	(34,945)	(32,775)	Investments in retail receivables
(2,824)	(3,848)	(3,206)	24,086	20,996	19,783	Collections on retail receivables
(504)	(115)	(361)	9,116	9,646	9,557	Proceeds from sale of retail receivables
(10,773)	(4,210)	(4,963)	-	(1)	(212)	Acquisitions of securities (other than trading)
11,017	3,445	4,687	8	36	98	Proceeds from sales of securities (other than trading)
75	(189)	(207)	(60)	108	73	Change in other cash
(4,763)	(2,869)	(3,180)	(6,459)	(13,813)	(10,428)	<b>Cash used for investing activities</b>
848	1,481	(1,392)	559	972	1,521	Change in commercial paper borrowings and short-term financial liabilities
2,297	2,661	5,469	12,025	12,352	10,967	Additions to long-term financial liabilities
(4,609)	(6,953)	(4,229)	(11,258)	(6,417)	(8,289)	Repayment of long-term financial liabilities
(287)	(585)	(908)	(1,288)	(962)	(629)	Dividends paid (including profit transferred from subsidiaries)
195	(255)	(220)	32	285	264	Proceeds from issuance of capital stock (including minority interests)
(27)	(30)	(36)	-	-	-	Purchase of treasury stock
(1,583)	(3,681)	(1,316)	70	6,230	3,834	<b>Cash provided by (used for) financing activities</b>
						Effect of foreign exchange rate changes on cash and cash equivalents (maturing within 3 months)
548	(291)	(981)	72	(22)	(88)	
422	(3,088)	1,308	(184)	(298)	359	<b>Net increase (decrease) in cash and cash equivalents (maturing within 3 months)</b>
						<b>Cash and cash equivalents (maturing within 3 months)</b>
6,381	9,469	8,161	1,000	1,298	939	<b>At beginning of period</b>
6,803	6,381	9,469	816	1,000	1,298	<b>At end of period</b>

1 Additional information about the Industrial Business and Financial Services is not required under U.S. GAAP and is unaudited.

2 Contains the financing and leasing business of the Financial Services segment without Mobility Management and activities of DaimlerChrysler Financial Services AG.

# Consolidated Fixed Assets Schedule

(in millions of €)	Balance at January 1, 2005	Currency change	Change in consolidated companies	Acquisition or Manufacturing Costs			Balance at December 31, 2005
				Additions	Reclassifica- tions	Disposals	
Goodwill	3,049	361	16	176	–	520	3,082
Other intangible assets	3,477	417	–	274	169	205	4,132
<b>Intangible assets</b>	6,526	778	16	450	169	725	7,214
Land, leasehold improvements and buildings including buildings on land owned by others	20,995	1,145	(15)	270	377	393	22,379
Technical equipment and machinery	32,536	2,766	4	847	1,976	1,854	36,275
Other equipment, factory and office equipment	22,797	2,242	5	1,502	1,517	1,856	26,207
Advance payments relating to plant and equipment and construction in progress	4,268	494	16	4,002	(4,053)	47	4,680
<b>Property, plant and equipment</b>	80,596	6,647	10	6,621	(183)	4,150	89,541
Investments in affiliated companies	1,026	17	(161)	165	9	126	930
Loans to affiliated companies	247	–	(108)	47	–	48	138
Investments in associated companies	4,334	15	21	140	(14)	513	3,983
Investments in related companies	1,033	8	(22)	312	5	568	768
Loans to associated and related companies	242	10	–	11	–	190	73
Long-term securities	611	29	–	147	–	180	607
Other loans	258	–	(4)	15	201	244	226
<b>Investments and long-term financial assets</b>	7,751	79	(274)	837	201	1,869	6,725
<b>Equipment on operating leases</b>	35,080	4,425	275	20,236	(187)	14,933	44,896

1 Currency translation changes with period end rates.

The consolidated fixed assets schedule is part of the Notes to Consolidated Financial Statements.

Balance at January 1, 2005	Currency change	Change in consolidated companies	Depreciation/Amortization			Balance at December 31, 2005	Book Value <sup>1</sup>		(in millions of €)
			Additions	Reclassifica- tions	Disposals		Balance at December 31, 2005	Balance at December 31, 2004	
1,046	130	–	30	–	5	1,201	1,881	2,003	Goodwill
806	57	(5)	201	2	120	941	3,191	2,671	Other intangible assets
1,852	187	(5)	231	2	125	2,142	5,072	4,674	<b>Intangible assets</b>
9,570	465	9	671	(7)	207	10,501	11,878	11,425	Land, leasehold improvements and buildings including buildings on land owned by others
21,436	1,596	(3)	3,005	(9)	1,697	24,328	11,947	11,100	Technical equipment and machinery
15,497	1,448	3	2,351	57	1,484	17,872	8,335	7,300	Other equipment, factory and office equipment
76	15	–	12	(2)	–	101	4,579	4,192	Advance payments relating to plant and equipment and construction in progress
46,579	3,524	9	6,039	39	3,388	52,802	36,739	34,017	<b>Property, plant and equipment</b>
211	1	(8)	32	–	72	164	766	815	Investments in affiliated companies
10	–	(6)	2	–	–	6	132	237	Loans to affiliated companies
(2)	5	7	–	–	–	10	3,973	4,336	Investments in associated companies
253	–	(17)	4	–	60	180	588	780	Investments in related companies
164	–	–	1	–	164	1	72	78	Loans to associated and related companies
12	–	–	–	–	11	1	606	599	Long-term securities
64	–	(4)	3	–	56	7	219	194	Other loans
712	6	(28)	42	–	363	369	6,356	7,039	<b>Investments and long-term financial assets</b>
8,369	1,035	56	6,341	(41)	5,102	10,658	34,238	26,711	<b>Equipment on operating leases</b>

# Notes to Consolidated Financial Statements

## Basis of Presentation

### 1. Summary of Significant Accounting Policies

**General.** The consolidated financial statements of DaimlerChrysler AG and subsidiaries ("DaimlerChrysler" or the "Group") have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). All amounts are presented in millions of euros ("€").

Certain amounts reported in previous years have been reclassified to conform to the 2005 presentation. In connection with an internal investigation of certain accounts, transactions and payments, DaimlerChrysler made adjustments to its January 1, 2003 stockholders' equity balance to correct for misstatements in years prior to 2003 and recognized charges in its 2005 consolidated financial income statement to correct for misstatements in the years 2003 and 2004 (see Note 31). DaimlerChrysler also adjusted its January 1, 2003 stockholders' equity balance and recognized charges in its 2005 income statement relating to the years 2003 and 2004 to correct the accounting for certain derivative instruments that did not qualify for hedge accounting treatment, deferred income taxes of its U.S. subsidiaries, and other minor misstatements. The charges recognized for 2003 and 2004 had the effect of reducing operating profit by €55 million, financial income by €58 million, tax expense by €7 million, and 2005 net income by €106 million in the 2005 statement of income. The total adjustments relating to the years prior to 2003 had the effect of increasing stockholders' equity as of January 1, 2003 by €72 million. The 2003 and 2004 misstatements were not material to those years and the charges recognized in 2005 to correct the misstatements of those years were not material to the consolidated statement of income for 2005. In addition, the adjustments to January 1, 2003 stockholders' equity to correct the cumulative misstatements as of that date were not material to beginning stockholders' equity as of January 1, 2003.

Commercial practices with respect to certain products manufactured by DaimlerChrysler necessitate that sales financing, including leasing alternatives, be made available to the Group's customers. Accordingly, the Group's consolidated financial statements are also significantly influenced by activities of its financial services business. To enhance the readers' understanding of the Group's consolidated financial statements, the accompanying financial statements present, in addition to the audited 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. Such information, however, is not required by U.S. GAAP and is not intended to, and does not represent the separate U.S. GAAP results of operations and financial position of the Group's industrial or financial services business activities. Information concerning the financial services business activities of the Group contains the financing and leasing business of the Financial Services segment without Mobility Management and the activities of DaimlerChrysler Financial Services AG. Transactions between the Group's industrial and financial services business activities principally represent intercompany sales of products, intercompany borrowings and related interest, and other support under special vehicle financing programs. The effects of transactions between the industrial and financial services businesses have been eliminated within the industrial business columns.

**Use of Estimates.** Preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions related to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses for the period. Significant items related to such estimates and assumptions include recoverability of investments in equipment on operating leases, collectibility of sales financing and finance lease receivables, realizability of investments in associated companies, warranty obligations, sales incentive obligations, valuation of derivative instruments, and assets and obligations related to employee benefits. Actual amounts could differ from those estimates.



**Risks and uncertainties.** DaimlerChrysler's financial position, results of operations, and cash flows are subject to numerous risks and uncertainties. Factors that could affect DaimlerChrysler's future financial statements and cause actual results to vary materially from expectations include, but are not limited to, adverse changes in global economic conditions; overcapacity and intense competition in the automotive industry; dependence on suppliers of parts and services, primarily single source suppliers; the concentrations of DaimlerChrysler's revenues derived from the United States and Western Europe; the significant portion of DaimlerChrysler's workforce subject to collective bargaining agreements; fluctuations in currency exchange rates, interest rates and commodity prices; significant legal proceedings and environmental and other government regulations.

**Principles of Consolidation.** The accompanying consolidated financial statements include the financial statements of DaimlerChrysler AG and all of its material, majority-owned subsidiaries and certain variable interest entities for which DaimlerChrysler is determined to be the primary beneficiary (see Note 2).

All significant intercompany accounts and transactions relating to consolidated subsidiaries and consolidated variable interest entities have been eliminated.

**Investments in Associated Companies.** Significant equity investments in which DaimlerChrysler does not have a controlling financial interest, but has the ability to exercise significant influence over the operating and financial policies of the investee ("associated companies") are accounted for using the equity method.

The excess of DaimlerChrysler's initial investment in equity method companies over the Group's ownership percentage in the underlying net assets of those companies is attributed to certain fair value adjustments with the remaining portion recognized as goodwill ("investor level goodwill") which is not amortized.

A decline in fair value of an investment in any associated company below its carrying amount that is deemed to be other than temporary results in a reduction in carrying amount of the investment to fair value. The impairment is charged to earnings and a new cost basis for the investment is established.

The European Aeronautic Defence and Space Company EADS N.V. ("EADS") represents a significant associated company. Because the financial statements of EADS are not made available timely to DaimlerChrysler in order to apply the equity method of accounting, the Group's proportionate share of the results of operations of this associated company are included in DaimlerChrysler's consolidated financial statements on a three month lag.

**Foreign Currencies.** The assets and liabilities of foreign operations where the functional currency is not the euro are generally translated into euro using period-end exchange rates. The resulting translation adjustments are recorded as a component of accumulated other comprehensive loss. The statements of income and the statements of cash flows are translated using average exchange rates during the respective periods.

The exchange rates of the U.S. dollar, as the significant foreign currency, used in preparation of the consolidated financial statements were as follows:

	2005 €1 =	2004 €1 =	2003 €1 =
Exchange rate at December 31,	1.1797	1.3621	1.2630
Average exchange rates			
First Quarter	1.3113	1.2497	1.0735
Second Quarter	1.2594	1.2046	1.1355
Third Quarter	1.2199	1.2218	1.1248
Fourth Quarter	1.1897	1.2977	1.1885

The assets and liabilities of foreign operations in highly inflationary economies are translated into euro on the basis of period-end rates for monetary assets and liabilities and at historical rates for non-monetary items, with resulting translation gains and losses recognized in earnings. Further, for foreign operations in such economies, depreciation and gains and losses from the disposal of non-monetary assets are determined using historical rates. In all periods presented the Group had foreign operations in one economy that was considered highly inflationary.

**Revenue Recognition.** Revenue for sales of vehicles, service parts and other related products is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price of the transaction is fixed and determinable, and collectibility is reasonably assured. Revenues are recognized net of discounts, cash sales incentives, customer bonuses and rebates granted. Non-cash sales incentives that do not reduce the transaction price to the customer are classified within cost of sales. Shipping and handling costs are recorded as cost of sales in the period incurred.

DaimlerChrysler uses price discounts to adjust market pricing in response to a number of market and product factors, including: pricing actions and incentives offered by competitors, economic conditions, 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 any point in time, including: cash offers to dealers and consumers, lease subsidies which reduce the consumer's monthly lease payment, or reduced financing rate programs offered to consumers.

The Group records as a reduction to revenue at the time of sale to the dealer the estimated impact of sales incentives programs offered to dealers and consumers. This estimated impact represents the incentive programs offered to dealers and consumers as well as the expected modifications to these programs in order for the dealers to sell their inventory.

The Group offers extended, separately priced warranty contracts for certain products. Revenues from these contracts are 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 expected costs for services under the contract exceeds unearned revenue.

For transactions with multiple deliverables, such as when vehicles are sold with free service programs, the Group allocates revenue to the various elements based on their relative fair values when criteria for separation are met.

When below market rate loans under special financing programs are used to promote sales of vehicles and the Financial Services segment finances the vehicle, the effect of the rate differential at the contract origination date is deducted from revenues and recorded as unearned income in the consolidated balance sheet. The Financial Services segment amortizes the unearned income balance into earnings using the interest method over the original (contractual) life of the receivables. Upon prepayment or sale of the receivable, the unamortized unearned income is recognized into earnings.

Sales under which the Group guarantees the minimum resale value of the product, such as in sales to certain rental car company customers, are accounted for similar to an operating lease in accordance with Emerging Issues Task Force ("EITF") 95-1, "Revenue Recognition on Sales with a Guaranteed Minimum Resale Value." The guarantee of the resale value may take the form of an obligation by DaimlerChrysler to pay any deficiency between the proceeds the customer receives upon resale in an auction 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 resale of these vehicles are included in gross profit.

Revenue from operating leases is recognized on a straight-line basis over the lease term.

Revenue from sales financing and finance lease receivables is recognized using the interest method. Recognition of revenue is generally suspended when a finance or lease receivable becomes contractually delinquent for periods ranging from 60 to 120 days.

**Sales of receivables.** The Group transfers significant amounts of automotive finance receivables in the ordinary course of business to trusts in “asset-backed securitizations” and “whole loan sales” and usually remains as servicer for a servicing fee. The accounting for securitized sold receivables is based upon the financial component approach that focuses on control according to the provisions of Statement of Financial Accounting Standards (“SFAS”) 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities.”

Servicing fees are recognized on a consistent yield basis over the remaining term of the related receivables sold.

Gains and losses from the sale of finance receivables are recognized as revenues in the period in which the sale occurs. In determining the gain or loss for each qualifying sale of finance receivables, the investment in the receivable pool sold is allocated between the portion sold and the portion retained based upon their relative fair values.

Further information on the Group’s securitized sold receivables is included in Note 34.

**Estimated Credit Losses.** DaimlerChrysler determines its allowance for credit losses based on an ongoing systematic review and evaluation performed as part of the credit-risk evaluation process. The evaluation performed considers historical loss experience, the size and composition of the portfolios, current economic events and conditions, the estimated fair value and adequacy of collateral and other pertinent factors. Certain homogeneous loan portfolios are evaluated collectively, taking into consideration primarily historical loss experience adjusted for the estimated impact of current economic events and conditions, including fluctuations in the fair value and adequacy of collateral. Other receivables, such as wholesale receivables and loans to large commercial borrowers, are evaluated for impairment individually based on the fair value of the underlying collateral. Credit exposures deemed to be uncollectible are charged against the allowance for doubtful accounts. DaimlerChrysler generally does not originate or purchase receivables for resale. Loans that are classified as held for sale are carried at the lower of cost or market when it is determined that market price for the loan represent the estimated future cash flows on the loan.

**Research and Development and Advertising.** Research and development and advertising costs are expensed as incurred.

**Sales of Newly Issued Subsidiary Stock.** Gains and losses resulting from the issuance of stock by a Group subsidiary to third parties that reduce DaimlerChrysler’s percentage ownership (“dilution gains and losses”) and DaimlerChrysler’s share of any dilution gains and losses reported by its investees accounted for under the equity method are recognized in the Group’s consolidated statement of income in the line item “Other financial income (expense), net.”

**Income taxes.** Current income taxes are determined based on respective local taxable income and tax rules. In addition, current income taxes include adjustments for uncertain tax payments or tax refunds for periods not yet assessed. Deferred tax reflects the changes in deferred tax assets and liabilities except for changes recognized in other comprehensive loss. 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 carry forwards and tax credits. Amortization of these differences or realization of loss carry forwards and tax credits are based on enacted local tax rules and tax rates. DaimlerChrysler recognizes a valuation allowance on deferred tax assets if it is more likely than not that the benefit from the deferred tax asset will not be realized.

**Discontinued Operations.** The results of operations of discontinued Group components and gains or losses from their disposal are each presented separately net of tax in the Group’s statement of income for all periods presented. A Group component is considered a discontinued operation if its operations and cash flows have been or will be eliminated from the ongoing activities of the Group as a result of the disposal transaction, the Group will not have any significant subsequent continuing involvement with the component, and the component can be clearly distinguished operationally and for financial reporting purposes. If not disposed of by the balance sheet date, to qualify as discontinued operations, a component must also meet the conditions to be classified as held for sale. Net assets of a discontinued Group component classified as held for sale are measured at the lower of its carrying amount or fair value less cost to sell. Gains from the sale of a discontinued Group component are recognized in the period realized and reported separately.

**Pension and Other Postretirement Plans.** The measurement of pension and postretirement benefit liabilities is based upon the projected unit credit method in accordance with SFAS 87, “Employers’ Accounting for Pensions,” and SFAS 106, “Employers’ Accounting for Postretirement Benefits Other Than Pensions,” respectively. As permitted under SFAS 87 and SFAS 106, changes in the amount of either the projected benefit obligation (for pension plans), the accumulated benefit obligation (for other postretirement plans) or differences between actual and expected return on plan assets and from changes in assumptions can result in gains and losses not yet recognized in the Group’s consolidated financial statements. The expected return on plan assets is determined based on the expected long-term rate of return on plan assets and the fair value or market-related value of plan assets. Amortization of an unrecognized net gain or loss is included as a component of the Group’s net periodic benefit plan cost for a year if, as of the beginning of the year, that unrecognized net gain or loss exceeds 10 percent of the greater of (1) the projected benefit obligation (for pension plans) or the accumulated postretirement benefit obligation (for other postretirement plans) or (2) the fair value or market-related value of that plan’s assets. In such case, the amount of amortization recognized by the Group is the resulting excess divided by the average remaining service period of active employees expected to receive benefits under the plan (see Note 25a).

DaimlerChrysler elected retroactive application as of January 1, 2004, to account for subsidies provided under the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (“Medicare Act”). Under certain conditions, the Medicare Act provides for subsidies related to postretirement healthcare benefits that reduce the accumulated postretirement benefit obligation (“APBO”) of companies in the United States. See Note 25a for further information about the impact of the Medicare Act on the Group’s consolidated financial statements.

**Earnings Per Share.** Basic earnings per share are calculated by dividing income from continuing operations and net income, respectively, by the weighted average number of shares outstanding. Diluted earnings per share reflect the potential dilution that would occur if all securities and other contracts to issue ordinary shares were exercised or converted (see Note 36).

**Goodwill and Other Intangible Assets.** The Group accounts for all business combinations initiated after June 30, 2001, using the purchase method of accounting. Goodwill represents the excess of the cost of an acquired entity over the fair values assigned to the assets acquired and the liabilities assumed after taking into consideration the types of acquired intangible assets that are required to be recognized and reported separately from goodwill.

Goodwill acquired and intangible assets determined to have an indefinite useful life are not amortized, but instead are tested for impairment. DaimlerChrysler evaluates the recoverability of its goodwill at least annually or when significant events occur or there are changes in circumstances that indicate the fair value of a reporting unit of the Group is less than its carrying value. The Group determines the fair value of each of its reporting units by estimating the present value of their future cash flows. In addition, any recognized intangible asset determined to have an indefinite useful life is tested at least annually for impairment until its life is determined to no longer be indefinite. Intangible assets with estimable useful lives are valued at acquisition cost, are amortized on a straight-line basis over their respective estimated useful lives (2 to 10 years) to their estimated residual values, and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset or asset group may not be recoverable.

**Property, Plant and Equipment.** Property, plant and equipment is valued at acquisition or manufacturing costs plus the fair value of related asset retirement costs, if any and if reasonably estimable, less accumulated depreciation. Plant and equipment under capital leases are stated at the lower of present value of minimum lease payments or fair value less accumulated amortization. Depreciation expense is recognized using the straight-line method. The costs of internally produced equipment and facilities include all direct costs and allocable manufacturing overhead including depreciation charges as well as the fair value of related asset retirement cost, if any. Costs of the construction of certain long-term assets include capitalized interest, which is amortized over the estimated useful life of the related asset. Property, plant and equipment are depreciated over the following useful lives:

Buildings	10 to 50 years
Site improvements	5 to 40 years
Technical equipment and machinery	3 to 30 years
Other equipment, factory and office equipment	2 to 33 years

**Leasing.** Leasing includes all arrangements that transfer the right to use specified property, plant or equipment for a stated period of time, even if the right to use such property, plant or equipment is not explicitly described in an arrangement. The Group is a lessee of property, plant and equipment and lessor of equipment, principally passenger cars and commercial vehicles. All leases that meet certain specified criteria intended to represent situations where the substantive risks and rewards of ownership have been transferred to the lessee are accounted for as capital leases. All other leases are accounted for as operating leases. Rent expense on operating lease where the Group is lessee is recognized over the respective lease terms using the straight-line method. Equipment on operating leases where the Group is lessor is carried initially at its acquisition or production cost and is depreciated over the contractual term of the lease, using the straight-line method, to its estimated residual value. The estimated residual value is initially determined using published third party information as well as projections based on historical experience about expected resale values for the types of equipment leased.

**Impairment of Long-Lived Assets.** Long-lived assets held and used, such as property, plant and equipment and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset or asset group to the estimated future undiscounted cash flows expected to be generated by the asset or group of assets. If the carrying amount of an asset or group of assets exceeds its estimated future undiscounted cash flows, an impairment charge is recognized in the Group's financial statements by the amount by which the carrying amount of the asset or group of assets exceeds fair value of the asset or group of assets.

**Assets and liabilities held for sale.** Long-lived assets and disposal groups classified as held for sale (including discontinued operations) are disclosed separately. Long-lived assets held for sale are reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. See Notes 4 and 10 for further information.

**Non-fixed Assets.** Non-fixed assets represent the Group's inventories, receivables, securities and cash, including amounts to be realized in excess of one year. In the accompanying notes, the portion of assets to be realized in excess of one year has been disclosed.

**Inventories.** Inventories are valued at the lower of acquisition or manufacturing cost or market, cost being generally determined on the basis of an average or first-in, first-out method ("FIFO"). Certain of the Group's U.S. inventories are valued using the last-in, first-out method ("LIFO"). Manufacturing costs comprise direct material and labor and applicable manufacturing overheads, including depreciation charges.

**Marketable Securities and Investments.** Securities and certain investments are accounted for at fair value, if fair value is readily determinable. Unrealized gains and losses on trading securities, representing securities bought and held principally for the purpose of near term sales, are included in earnings. Unrealized gains and losses on available-for-sale securities are included as a component of accumulated other comprehensive loss, net of applicable taxes, until realized. All other securities and investments are recorded at cost. A decline in value of any available-for-sale security or cost method investment below cost that is deemed to be other than temporary results in an impairment charge to earnings that reduces the carrying amount of the security or the cost method investment to fair value establishing a new cost basis.

**Valuation of Retained Interests in Securitized Sold Receivables.** DaimlerChrysler retains residual beneficial interests in certain pools of sold and securitized retail and wholesale finance receivables. The retained interest balance represents DaimlerChrysler's right to receive collections on the transferred receivables in excess of amounts required by the securitization trust to pay the interest and principal to investors, servicing fees, and other required payments. The Group determines the value of its retained interests using discounted cash flow modeling upon the sale of receivables and at the end of each quarter. The valuation methodology considers historical and projected principal and interest collections on the securitized sold receivables, expected future credit losses arising from the collection of the securitized sold receivables, and estimated repayment of principal and interest on notes issued to third parties and secured by the sold receivables.

The Group recognizes unrealized gains or losses attributable to the change in the fair value of the retained interests, which are recorded in a manner similar to available-for-sale securities, net of related income taxes as a component of accumulated other comprehensive loss until realized. The Group is not aware of an active market for the purchase or sale of retained interests, and accordingly, determines the estimated fair value of the retained interests by discounting the estimated cash flow releases (the cash-out method) using a discount rate that is commensurate with the risks involved. In determining the fair value of the retained interests, the Group estimates the future rates of prepayments, net credit losses and forward yield curves. These estimates are developed by evaluating the historical experience of comparable receivables and the specific characteristics of the receivables sold, and forward yield curves based on trends in the economy.

An impairment adjustment to the carrying value of the retained interests is recognized in the period a decline in the estimated cash flows below the cash flows inherent in the cost basis of an individual retained interest (the pool-by-pool method) is considered to be other than temporary. Other than temporary impairment adjustments are generally recorded as a reduction of revenue.

**Cash Equivalents.** The Group's liquid assets are recorded under various balance sheet captions as more fully described in Note 21. For purposes of the consolidated statements of cash flows, the Group considers those highly liquid instruments with original maturities of three months or less to be cash equivalents.

**Derivative Instruments and Hedging Activities.** DaimlerChrysler uses derivative financial instruments such as forward contracts, swaps, options, futures, swaptions, forward rate agreements, caps and floors for hedging purposes. The accounting of derivative instruments is based upon the provisions of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. On the date a derivative contract is entered into, DaimlerChrysler designates the derivative as either a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge), or a hedge of a net investment in a foreign operation. DaimlerChrysler recognizes all derivative instruments as assets or accrued liabilities on the balance sheet and measures them at fair value, regardless of the purpose or intent for hold-



ing them. Changes in the fair value of derivative instruments are recognized periodically either in earnings or stockholders' equity, as a component of accumulated other comprehensive loss, depending on whether the derivative is designated as a hedge of changes in fair value or cash flows. For derivatives designated as fair value hedges, changes in fair value of the hedged item and the derivative are recognized currently in earnings. For derivatives designated as cash flow hedges, fair value changes of the effective portion of the hedging instrument are recognized in accumulated other comprehensive loss on the balance sheet, net of applicable taxes, until the hedged item is recognized in earnings. The ineffective portions of the fair value changes are recognized in earnings immediately. Derivatives not meeting the criteria for hedge accounting are marked to market and impact earnings. SFAS 133 also requires that certain derivative instruments embedded in host contracts be accounted for separately as derivatives.

Further information on the Group's financial instruments is included in Note 33.

**Commitments and Contingencies.** Liabilities for loss contingencies are recorded when it is probable that a liability to third parties has been incurred and the amount can be reasonably estimated. Liabilities for loss contingencies are regularly adjusted as further information develops or circumstances change.

The accrued liability for expected warranty-related costs is established when the 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. Because portions of the products sold and warranted by the Group contain parts manufactured (and warranted) by suppliers, the amount of warranty costs accrued also contains an estimate of recoveries from suppliers.

The accrued liability for sales incentives is based on the estimated cost of the sales incentive programs and the number of vehicles held in dealers' inventory. The majority of vehicles held in dealers' inventory are sold to consumers within the next quarter and the sales incentives accrued liability is adjusted to reflect recent actual experience.

In accordance with Financial Accounting Standards Board ("FASB") Interpretation ("FIN") 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others – an interpretation of FASB Statements No. 5, 57 and 107 and rescission of FASB Interpretation No. 34" DaimlerChrysler recognizes, at inception of a guarantee, a liability for the fair value of the non-contingent portion of the obligation due to the issuance of the guarantee. DaimlerChrysler applies these provisions for guarantees issued or modified after December 31, 2002. If performance under the guarantee is probable and the amount can be reasonably estimated, a liability for the contingent obligation is recognized for any guarantee regardless of its date of issuance. Further information on the Group's obligations under guarantees is included in Note 25b and 32.

DaimlerChrysler records the fair value of an asset retirement obligation in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets and subsequently adjusts the carrying amount for changes in expected cash flows and the passage of time.

**Deposits from Direct Banking Business.** Demand deposit accounts are classified as financial liabilities. Interest paid on demand deposit accounts is recognized in cost of sales as incurred.

**Stock-Based Compensation.** DaimlerChrysler adopted the fair value recognition provisions of SFAS 123, "Accounting for Stock-Based Compensation," prospectively to all employee awards granted, modified, or settled after January 1, 2003. Compensation expense for all stock-options granted after December 31, 2002, has been measured principally at the grant date based on the fair value of the equity award using a modified Black-Scholes option-pricing model. Compensation expense is recognized over the employee service period with an offsetting credit to equity (paid-in capital). DaimlerChrysler options granted prior to January 1, 2003, continue to be accounted for using the intrinsic value based approach under Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. Compensation expense under APB 25 was measured at the grant date based on the difference between the strike price of the equity award and the fair value of the underlying stock as of the date of grant. The following table illustrates the effect on net income and earnings per share if the fair value based method had been applied to all outstanding and unvested awards in each period.

(in millions of €)	Year ended December 31,		
	2005	2004	2003
Net income	2,846	2,466	448
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	57	81	81
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(59)	(113)	(164)
Pro forma net income	2,844	2,434	365
Earnings per share (in €)			
Basic	2.80	2.43	0.44
Basic – pro forma	2.80	2.40	0.36
Diluted	2.80	2.43	0.44
Diluted – pro forma	2.79	2.40	0.36

Further information on stock-based compensation is included in Note 24.

**New Accounting Standards Not Yet Adopted.** In December 2004 the FASB issued SFAS 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"). SFAS 123R establishes the accounting for transactions in which an entity exchanges its equity instruments for goods or services. SFAS 123R also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. Equity-classified awards are measured at grant date fair value and are not subsequently remeasured. Liability-classified awards are remeasured to fair value at each balance sheet date until the award is settled. SFAS 123R originally applied to all awards granted after July 1, 2005, and to awards modified, repurchased or cancelled after that date. The effective date of SFAS 123R was deferred by an SEC Rule until the beginning of the first annual period beginning after June 15, 2005. DaimlerChrysler will adopt SFAS 123R as of January 1, 2006, using a modified version of prospective application. DaimlerChrysler expects the cumulative effect from the adoption of SFAS 123R to increase expense by €9 million in the first quarter of 2006.

In June 2005 the FASB ratified EITF 05-5, "Accounting for Early Retirement or Postemployment Programs with Specific Features (Such As Terms Specified in Altersteilzeit Early Retirement Arrangements)." EITF 05-5 provides guidance on the accounting for the German Altersteilzeit ("ATZ") early retirement program and other types of benefit arrangements with the same or similar terms. The ATZ program is an early retirement program in Germany designed to create an incentive for employees within a certain age group, to transition from full or part-time employment into retirement before their legal retirement age. The ATZ program provides the employee with a bonus which is reimbursed by subsidies from the German government if certain conditions are met. According to EITF 05-5, the bonuses provided by the employer should be accounted for as postemployment benefits under SFAS 112, "Employer's Accounting for Post-retirement Benefits," with compensation cost recognized over the remaining service period beginning when the individual agreement is signed by the employee and ending when the active service period ends. The government subsidy should be recognized when the employer meets the necessary criteria and is entitled to the subsidy. The effect of applying EITF 05-5 should be recognized prospectively as a change in accounting estimate in fiscal years beginning after December 15, 2005. DaimlerChrysler expects the adoption of EITF 05-5 to result in income after taxes of approximately €0.1 billion from the reduction of the related provision that will be recognized in the income of the first quarter 2006 in the Group's consolidated financial statements.

## 2. Scope of Consolidation and Certain Variable Interest Entities

**Scope of Consolidation.** DaimlerChrysler comprises, besides DaimlerChrysler AG, 494 (2004: 485) German and non-German subsidiaries as well as 4 (2004: 4) companies (variable interest entities) that have been consolidated in accordance with the requirements of FASB Interpretation No. 46 (revised December 2003) "Consolidation of Variable Interest Entities" ("FIN 46R"). A total of 96 (2004: 105) companies are accounted for in the consolidated financial statements using the equity method of accounting. During 2005, 18 subsidiaries were included in the consolidated financial statements for the first time. A total of 9 subsidiaries were no longer included in the consolidated group. The effects of changes in the Group's consolidated balance sheets and the consolidated statements of income, if material, are explained further in the notes to the consolidated financial statements. In addition, 3 (2004: 3) companies administering pension funds whose assets are subject to restrictions have not been included in the consolidated financial statements. The impact of non-consolidated subsidiaries (affiliated companies) and investments that were not accounted for using the equity method of accounting (associated companies) on the consolidated financial position, results of operations or cash flows of the Group was neither material for individual companies nor in the aggregate.

**Variable Interest Entities.** DaimlerChrysler applied the provisions of FIN 46R to special purpose entities as of December 31, 2003, and to all other entities as of March 31, 2004. The implementation of FIN 46R resulted in the consolidation of several leasing arrangements that were off-balance in the past and qualify as special purpose entities as defined in FIN 46R. DaimlerChrysler is the primary beneficiary of those structures and, accordingly, consolidated them effective December 31, 2003. Under the leasing arrangements, variable interest entities were established which raised funds by issuing either debt or equity securities to third party investors. The variable interest entities used the debt and equity proceeds to purchase property and equipment, which is leased by the Group and used in the normal course of business. At the end of the lease term, DaimlerChrysler generally has the option to purchase the property and equipment or re-lease the property and equipment under new terms. Total assets of those consolidated entities amount to €0.5 billion and €0.7 billion and total liabilities amount to €0.7 billion and €0.8 billion as of December 31, 2005 and 2004, respectively. The cumulative effect of consolidating these special purpose entities on the Group's consolidated statement of income in 2003 was €(30) million, net of taxes of €35 million (€(0.03) per share). The assets consist primarily of property, plant and equipment that generally serves as collateral for the entities' long-term borrowings. The creditors of these entities do not have recourse to the general credit of the Group, except to the extent of guarantees provided.

In addition, DaimlerChrysler has equity or other variable interests in a number of other variable interest entities where it is not the primary beneficiary. Among these entities are Toll Collect, multi-seller bank conduits, and other variable interest entities. Note 3 provides disclosure about the Group's involvement in Toll Collect, while multi-seller bank conduits are discussed in Note 34. DaimlerChrysler's aggregate maximum exposure to loss arising from its investments in the other variable interest entities was €0.4 billion as of December 31, 2005.

### 3. Significant Equity Method Investments

**EADS.** At December 31, 2005, the European Aeronautic Defence and Space Company EADS N.V. ("EADS") was the most significant investment accounted for under the equity method. The Group's legal ownership percentage in EADS as of December 31, 2005, was 30%.

On July 7, 2004, DaimlerChrysler entered into a securities lending agreement with Deutsche Bank AG concerning 22,227,478 EADS shares (3% of the voting stock). The securities lending has several tranches with terms ranging between three and four years. As collateral, DaimlerChrysler received a lien on a securities account of equivalent value as the shares loaned by DaimlerChrysler. Because this transaction does not meet the criteria of a sale, the loaned shares continue to be carried as investments on the balance sheet and, accordingly, our proportionate share of EADS' income is still accounted at a percentage of 33%.

As of September 30, 2003, DaimlerChrysler determined that the decline in fair value below the carrying value of its investment in EADS was other than temporary. To evaluate the fair value of the investment the Group used the market price of a share of EADS common stock, multiplied by the number of shares owned. In making that determination, DaimlerChrysler considered the duration and severity of the decline and the reasons for the decline. Although EADS is involved in a variety of businesses, it is primarily an aircraft manufacturer because of its Airbus division, which manufactures commercial aircraft and represents more than 60 % of EADS' revenues. As a consequence, EADS' share price declined as a result of the negative outlook for the airline industry in the aftermath of the terrorist attacks at September 11, 2001, the outbreak of the SARS disease, the war in Iraq and the decline of the U.S. dollar compared to the euro which further depressed market participants' expectations for the commercial airline industry. Consequently, DaimlerChrysler reduced the carrying value of its investment in EADS by €1.96 billion to its market value, based on the quoted market price, which approximated €3.5 billion at that time. As a result of the impairment a new cost basis was established.

DaimlerChrysler's equity in the earnings or losses of EADS was €324 million, €249 million and €(1,845) million in 2005, 2004 and 2003, respectively, including investor-level adjustments. DaimlerChrysler's equity in the earnings or losses of EADS is shown in the Group's statements of income within "Financial income (expense), net," except for the other than temporary impairment of €1,960 million in 2003, which is included in a separate caption within "financial income (expense), net."

The carrying amount of DaimlerChrysler's investment in EADS at December 31, 2005 and 2004 was €3,564 million and €3,854 million, respectively. DaimlerChrysler's share of the underlying reported net assets of EADS exceeded the carrying value of DaimlerChrysler's investment at December 31, 2005 and 2004, by €1,899 million, primarily as a result of the impairment recognized in the third quarter of 2003. The market value at December 31, 2005, of DaimlerChrysler's investment in EADS based on quoted market prices was €8,507 million.

The following table presents summarized U.S. GAAP financial information for EADS, which was the basis for applying the equity method in the Group's consolidated financial statements:

#### EADS

(in millions of €)

2005

2004

2003

Income statement information <sup>1</sup>			
Revenues	32,542	30,977	27,650
Net income	980	753	348
Balance sheet information <sup>2</sup>			
Fixed assets	32,462	29,331	
Non-fixed assets	36,935	34,525	
Total assets	69,397	63,856	
Stockholders' equity	16,557	17,434	
Minority interests	1,811	1,971	
Accrued liabilities	10,825	9,299	
Other liabilities	40,204	35,152	
Total liabilities and stockholders' equity	69,397	63,856	

<sup>1</sup> For the period October 1 to September 30.

<sup>2</sup> Balance sheet information as of September 30.

**MMC.** On April 22, 2004, the Board of Management and the Supervisory Board of DaimlerChrysler AG decided to withdraw from providing any financial support to Mitsubishi Motors Corporation (“MMC”) and not to participate in a recapitalization of MMC anticipated to occur in July 2004. At the time of this decision, DaimlerChrysler held 37% of MMC’s voting stock and was represented by 3 of the 8 (37.5%) of the members of MMC’s board of directors.

Between DaimlerChrysler’s Board vote on April 22, 2004, and the MMC shareholder meeting on June 29, 2004, MMC worked with its other significant shareholders, lenders and potential investors on a restructuring plan that included a recapitalization of MMC which was presented for vote at the June 29 shareholder meeting. DaimlerChrysler was not party to those discussions nor did DaimlerChrysler participate in any of the measures set forth in the restructuring plan; however, DaimlerChrysler’s concurrence to the measures was required as its ownership level at such time provided it with veto powers.

On June 29, 2004, the shareholders of MMC approved the restructuring plan which resulted in a new investor obtaining a 33.3% interest in MMC’s voting stock, thereby becoming MMC’s largest shareholder, and in the issuance of three classes of convertible preferred instruments to other investors and some existing MMC shareholders (not including DaimlerChrysler).

The new investor that acquired a 33.3% voting interest entered into a contractual agreement with MMC that awarded it the unilateral right to make significant operating decisions. In addition, the new shareholder acted in concert with other large institutional shareholders who together with the new shareholder own a majority of the voting stock. Accordingly, such Japanese shareholder groups who acted in concert in the recapitalization were in a position to control MMC.

The MMC board of directors was comprised of 12 board members in total, with DaimlerChrysler’s board representation reduced to 2 board members (16.7%) which did no longer enable DaimlerChrysler to block or veto any matters coming to a vote at board level.

DaimlerChrysler’s ownership interest in voting stock was diluted from 37.0% to 24.7% in the second quarter of 2004. The dilution below one-third was significant because Japanese laws require a one-third minimum quorum to afford shareholder protective rights, e.g. in cases of the dissolution of the company, the sale of all or substantial part of the business of the company, or agreements to merge with other companies. As a result, DaimlerChrysler no longer had the blocking and veto rights that DaimlerChrysler believes are essential to exercise significant influence by ownership interest. DaimlerChrysler surrendered significant rights by agreeing not to oppose the restructuring plan. Upon conversion of the mandatory convertible preferred instruments issued to other MMC investors, DaimlerChrysler’s interest in MMC’s voting stock would have been further diluted to below 11%.

Furthermore, all executive officers appointed by DaimlerChrysler resigned and all other DaimlerChrysler expatriates, in total more than 50 managers that were assigned to this investee, left MMC prior to June 30, 2004, and returned to DaimlerChrysler. Even prior to the June 29, 2004 shareholder meeting, an announcement was made on May 24, 2004 informing MMC employees that DaimlerChrysler’s assignees had been released from their managerial responsibilities and had delegated their responsibilities to other managers, none of whom were related to DaimlerChrysler.

Based on the factors outlined above, DaimlerChrysler lost its ability to significantly influence MMC’s operating and financial policies. Consequently, as of the annual shareholders’ meeting of MMC on June 29, 2004, DaimlerChrysler ceased to account for its investment in MMC using the equity method and has accounted for MMC shares as a marketable security at fair value until the disposition of such shares (see Note 20).

Through June 29, 2004, the results from MMC were included in the Group’s consolidated statements of income using the equity method of accounting. The Group’s proportionate share in the negative results of MMC through June 29, 2004 and 2003, was €(655) million and €(281) million, respectively. The amount for 2004 includes the effects from the dilution of the Group’s interest in MMC of €(135) million and related realized gains from currency hedging of the net investment of €195 million (after tax €120 million). These effects from the dilution as well as these realized gains from currency hedging are reflected in DaimlerChrysler’s consolidated statement of income in the line item “financial income (expense), net”.

In November 2005, DaimlerChrysler sold all of its MMC shares for €970 million in cash. Due to the gain on that sale, DaimlerChrysler’s financial income and net income for 2005 increased by €681 million and €502 million, respectively.

The following table presents summarized U.S. GAAP financial information for MMC, which was the basis for applying the equity method in the Group’s consolidated financial statements:

<b>MMC</b>		
(in millions of €)	<b>2004</b>	<b>2003</b>
<b>Income statement information<sup>1</sup></b>		
Revenues	9,858	27,129
Net loss	(1,730)	(759)

<sup>1</sup> 2004 for the period October 1, 2003 to March 31, 2004;  
2003 for the period October 1, 2002 to September 30, 2003, respectively.

**Toll Collect.** In 2002, our subsidiary DaimlerChrysler Financial Services AG (formerly DaimlerChrysler Services AG), Deutsche Telekom AG and Compagnie Financiere et Industrielle des Autoroutes S.A. (Cofiroute) contracted with the Federal Republic of Germany to develop and, within a joint venture company, install and operate a system for electronic collection of tolls from all commercial vehicles over 12t GVW using German highways. DaimlerChrysler 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"). DaimlerChrysler accounts for its 45% ownership interest in Toll Collect using the equity method of accounting. The Group has a significant variable interest in Toll Collect, a variable interest entity, but determined that it is not the primary beneficiary and therefore not required to consolidate Toll Collect. In the operating agreement, each of the consortium members (including DaimlerChrysler Financial Services AG) has provided guarantees supporting the obligations of Toll Collect GmbH towards the Federal Republic of Germany. These guarantees are described in more detail below. Cofiroute's risks and obligations are limited to €70 million. DaimlerChrysler Financial Services AG and Deutsche Telekom AG are jointly obliged to indemnify Cofiroute for amounts exceeding this limitation.

The following table presents summarized U.S. GAAP financial information for Toll Collect, which was the basis for applying the equity method in the Group's consolidated financial statements:

<b>Toll Collect</b>			
(in millions of €)	2005	2004	2003
<b>Income statement information for the year</b>			
Revenues	522	-	-
Net loss	(143)	(1,071)	(206)
<b>Balance sheet information as of December 31</b>			
Noncurrent assets	457	458	
Current assets	467	77	
Total assets	924	535	
Equity	(789)	(934)	
Noncurrent liabilities	38	1,173	
Current liabilities	1,675	296	
Total liabilities and equity	924	535	

During the construction period of the toll collection system, the most significant assumptions used in accounting for the investment in Toll Collect related to the launch date of the toll collection system, the estimated cost to design and construct the system, and the operation of the system.

According to the Operating Agreement, the toll collection system was to be operational no later than August 31, 2003. After a delay in 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 a final operating permit in April 2006. Failure to obtain the final operating permit by January 1, 2007, at the latest, may lead to termination of the operating agreement by the Federal Republic of Germany.

With the successful start of phase 1, for the period beginning January 1, 2005, Toll Collect GmbH received remuneration for the infrastructure and the operation of the toll collection system from the Federal Republic of Germany. Certain immaterial penalties have been set off from the remuneration by the Federal Republic of Germany. According to the implementation agreement of April 23, 2004, the Federal Republic of Germany paid Toll Collect GmbH only 95% of the fees which would otherwise had been payable under the Operating Agreement due to the slightly reduced technical functionality during phase 1.

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 €75 million per year until September 30, 2006, at €150 million per year thereafter until the final operating permit has been issued, and at €100 million per year following issuance of the final operating permit. These cap amounts are subject to a 3% increase for every year of operation.



During phase 1 any offsetting with claims of the Federal Republic of Germany stemming from the period before January 1, 2005, including contractual penalties and damages, was excluded. The exclusion of offsetting according to the implementation agreement does not cover damages and contractual penalties arising with the beginning of phase 1. In phase 2 there are no limitations to offsetting by the Federal Republic of Germany. In case of any offsetting Toll Collect GmbH insofar may not receive remuneration. In case of offsetting, the consortium members may be required to provide Toll Collect GmbH with sufficient liquidity.

The Operating Agreement calls for submission of all disputes related to the toll collection system to arbitration. The Federal Republic of Germany has initiated arbitration proceedings against DaimlerChrysler 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 revenues that allegedly arose from delays in the operability of the toll collection system. See Note 31 for additional information.

Each of the consortium members (including DaimlerChrysler Financial Services AG) have 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, DaimlerChrysler AG has guaranteed bank loans obtained by the consortium. The guarantees are described in detail below:

- *Guarantee of bank loan.* DaimlerChrysler AG issued a guarantee to third parties up to a maximum amount of €600 million, which represents a 50% share of security to bank loans obtained by the consortium.
- *Guarantee of obligations.* Towards the Federal Republic of Germany the consortium members have jointly and severally guaranteed the obligations of Toll Collect GmbH resulting from the operating agreement concerning the delivery and operation of the toll collection system. This guarantee expires one year after the successful launch of the completed toll collection system which we expect in April 2006.

– *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 (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 revenues 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 and other events reduce Toll Collect GmbH’s equity to a level that is 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.

While DaimlerChrysler’s maximum future obligation resulting from the guarantee of the bank loan can be determined (€600 million), the Group is unable to accurately estimate its maximum exposure to loss resulting from the guarantee of obligations and the guarantee in form of the equity maintenance undertaking due to the various uncertainties described above. Therefore, in addition to the maximum exposure from the guarantee of the bank loan and the risks already provided for under the established accruals, the Group’s exceeding maximum exposure to loss could be material.

**debis AirFinance.** In November 1995, DaimlerChrysler assumed a 45% equity ownership interest in debis AirFinance B.V. (“dAF”), an Amsterdam registered Private Limited Liability Company that was established for purposes of leasing aircraft and related technical equipment to airlines and financial intermediaries. Several banks held the remaining ownership interests in dAF. DaimlerChrysler held significant variable interests in dAF, a variable interest entity, but determined that it was not the primary beneficiary and therefore not required to consolidate dAF. DaimlerChrysler’s involvement with dAF consisted primarily of its equity interest and also subordinated loans receivable and unsecured loans provided to dAF. In the fourth quarter of 2004, DaimlerChrysler recorded impairment charges of €222 million relating to its investment which were based on estimates of the fair value of DaimlerChrysler’s proportionate share of dAF’s underlying equity and of the loans provided to dAF.

In June 2005, as part of the Group's ongoing strategy to focus on its core automotive business, DaimlerChrysler sold its 45% equity interest in dAF and its outstanding subordinated loans receivable and unsecured loans to dAF for €325 million in cash to Cerberus Capital Management, L.P., subject to indemnification for exposures incurred prior to the sale up to a maximum of \$30 million. The sale did not have a material impact on the Group's net income.

Prior to the sale, DaimlerChrysler accounted for its investment in dAF using the equity method of accounting.

#### 4. Acquisitions and Dispositions

##### Acquisitions

**MFTBC.** On March 14, 2003, as part of the Group's global commercial vehicle strategy, DaimlerChrysler acquired from MMC a 43% non-controlling interest in Mitsubishi Fuso Truck and Bus Corporation ("MFTBC") for €764 million in cash plus certain direct acquisition costs. MFTBC is involved in the development, design, manufacture, assembly and sale of small, mid-size and heavy-duty trucks and buses, primarily in Japan and other Asian countries. Also, on March 14, 2003, ten Mitsubishi Group companies entered into a separate share sale and purchase agreement with MMC pursuant to which they purchased from MMC 15% of MFTBC's shares for approximately €266 million in cash. On March 18, 2004, DaimlerChrysler acquired from MMC an additional 22% interest in MFTBC for €394 million in cash, thereby reducing MMC's interest in MFTBC to a non-controlling 20%. The aggregate amount paid by DaimlerChrysler for its 65% controlling interest in MFTBC was €1,251 million, consisting of consideration paid plus direct acquisition costs in 2003 and 2004 (€770 million and €394 million, respectively), plus a re-allocation of €87 million of the initial purchase price of MMC pertaining to MFTBC and previously included in the Group's investment in MMC, which was an equity method investee of DaimlerChrysler when the business combination with MFTBC was consummated. DaimlerChrysler has included the consolidated results of MFTBC beginning at the consummation date in the Group's Commercial Vehicles segment. Prior to then, the Group's proportionate share of MFTBC's results was included in the Commercial Vehicles segment using the equity method of accounting (see also Note 35).

Subsequent to DaimlerChrysler's acquisition of a controlling interest in MFTBC, a number of quality problems concerning MFTBC vehicles spanning production years since July 1974 were identified. During the second and third quarters of 2004, DaimlerChrysler was able to comprehensively assess those quality issues and define necessary technical solutions and a course of action to implement them. The estimates of cost in the interim periods of 2004 were based on the status of the investigation and DaimlerChrysler's best estimate of the probable costs to be incurred to address and remedy the identified quality issues.

Of the €1.1 billion quality costs recorded in 2004 by MFTBC, (i) €0.1 billion was recognized in "Financial income (expense), net" in the statement of income representing DaimlerChrysler's proportionate share of the results of MFTBC, which was included on a one month lag relating to amounts attributed to refinements to estimates that were made before MFTBC was fully consolidated, (ii) €0.7 billion to cost of sales representing the sum of the 43% attributed to the March 2003 investment (for which the purchase price allocation period was closed) and the 35% of the costs attributed to minority shareholders of MFTBC; (iii) €0.2 billion to goodwill attributed to the 22% interest acquired in 2004; and (iv) €0.1 billion to deferred tax assets.

DaimlerChrysler assigned €95 million of the aggregate preliminary purchase price to registered trademarks that are not subject to amortization, €81 million to technology with a useful life of 10 years, €49 million to other identifiable intangible assets and €14 million to acquired in-process R&D that was expensed in the periods the investments were made. In addition, DaimlerChrysler assigned €6,206 million to tangible assets acquired and €5,469 million to liabilities assumed. The remaining €275 million was allocated to goodwill of the Commercial Vehicles segment and is not expected to be deductible for tax purposes.

During the first quarter of 2005, MFTBC finished investigating the product quality reports and finalized its conclusions about the issues that required action. The level of information reached during this process enabled DaimlerChrysler to refine its estimate of the probable cost and an additional amount of €5 million was recorded in the first quarter of 2005. MFTBC expects to be able to complete the majority of the field campaigns by the end of the first quarter of 2006.

Under the two share purchase agreements under which DaimlerChrysler acquired 43% and 22%, respectively, of MFTBC shares, DaimlerChrysler had the right to a price adjustment if the warranty reserve recorded on the books of MFTBC proved to be inadequate. Negotiations with MMC resulted in a settlement agreement on March 4, 2005, in which the parties agreed on such a price adjustment. Under the terms of the settlement agreement, DaimlerChrysler received (i) MMC's remaining 20% stake in MFTBC, (ii) a cash payment of €72 million, (iii) promissory notes having an aggregate face value of €143 million, payable in four equal installments over the next four years and (iv) certain other assets and rights pertaining to the distribution of MFTBC products in one Asian market. The parties also clarified the terms of their cooperation under other, ongoing agreements. The fair value assigned to the consideration received from MMC was €0.5 billion and has been allocated to income and goodwill consistent with DaimlerChrysler's accounting for the quality issues subsequent to the business combination. Accordingly, €0.3 billion was recognized as a reduction of cost of sales in the first quarter of 2005 based on DaimlerChrysler's proportionate after-tax loss recorded in the second and third quarter of 2004 relating to quality measures and €0.2 billion was recognized as reduction of goodwill.

As a result of the settlement with MMC, DaimlerChrysler's controlling interest in MFTBC increased from 65% to 85% and the aggregate purchase price after giving effect to the price reduction was €1,014 million. As of June 30, 2005, goodwill of €53 million related to final purchase price allocation of MFTBC was allocated to the Commercial Vehicles segment. The goodwill is not expected to be deductible for tax purposes.

## Dispositions

**Off-Highway business.** In September 2005, DaimlerChrysler acquired the 11.65% interest in MTU Friedrichshafen GmbH ("MTU-F") held by minority shareholders for €171 million in cash, including direct transaction costs. DaimlerChrysler has subsequently owned 100% of the MTU-F shares. As a result of this transaction, DaimlerChrysler recorded a preliminary goodwill of €134 million that was allocated to goodwill of the Other Activities segment.

On December 27, 2005, as part of the Group's ongoing strategy to focus on its core automotive business, DaimlerChrysler entered into a share sale and purchase agreement with the Swedish investor group EQT regarding the sale of a major portion of its Off-Highway Business Unit, including the MTU-F Group and the Off-Highway activities of Detroit Diesel Corporation. The sale price, which still has to be determined finally, is based on an enterprise value of €1,600 million which is subject to adjustments for cash, debts, pensions and a standardized net working capital.

The closing of the transaction, which is expected to occur in the first quarter of 2006, is subject to certain closing conditions, e.g. approval of the relevant anti-trust authorities. Furthermore, the transaction has to be submitted for review by the Federal Ministry of Economics and Technology under the German Foreign Trade and Payments Act (see Note 10 for presentation).

**ALF.** In the third quarter of 2005, as part of the Group's ongoing strategy to focus on its core automotive business, Freightliner, a wholly-owned U.S. subsidiary of DaimlerChrysler, entered into an agreement to sell major parts of its subsidiary American LaFrance ("ALF"), a fire-truck manufacturer, to an U.S. investment company. The sale was closed in the fourth quarter of 2005. Prior to the sale and based upon the agreed purchase price, Freightliner recorded asset impairment charges in 2005 of €87 million, related to the write-down of inventories and certain long-lived assets, which are reflected in cost of sales and other operating expenses of the Commercial Vehicles segment.

**Hyundai.** In May 2004, as part of the realignment of its strategic alliance with Hyundai Motor Company ("HMC"), DaimlerChrysler terminated discussions with HMC regarding the formation of a commercial vehicles joint venture. Also in May 2004, DaimlerChrysler sold its non-controlling 50% interest in DaimlerHyundai Truck Corporation ("DHTC") to HMC for a total pretax gain of €60 million (€27 million was recognized in other income and €33 million is recognized in financial income (expense), net), which is attributed to the Commercial Vehicles segment. In August 2004, as part of the realignment of its strategic alliance with HMC, DaimlerChrysler sold its 10.5% stake in HMC for €737 million in cash, resulting in a pretax gain of €252 million that is included in financial income (expense), net.

**MTU Aero Engines.** On December 31, 2003, as part of the Group's ongoing strategy to focus on its core automotive business, DaimlerChrysler sold its 100% equity interest in MTU Aero Engines GmbH ("MTU Aero Engines") to Kohlberg, Kravis Roberts & Co. Ltd. ("KKR"), an investment company. The sales price for the operative business of MTU Aero Engines amounted to €1,450 million. Excluding cash, cash equivalents and debts, which remain at MTU Aero Engines, the net sales price amounted to €1,052 million. Consideration received by DaimlerChrysler included a note receivable from KKR and cash of €877 million. As a result of this transaction, DaimlerChrysler paid a compensation of \$250 million to United Technologies Corporation, the parent company of Pratt & Whitney, in January 2004. In 2003, DaimlerChrysler realized a gain of €882 million from this sale, net of taxes of €149 million. The operating results and cash flows from MTU Aero Engines' business are included in DaimlerChrysler's consolidated financial statements through December 31, 2003. However the operating results and gain are presented as discontinued operations in accordance with SFAS 144 (see Note 10).

**Other dispositions.** In November 2003, as part of the Group's ongoing strategy to focus on its core automotive business, DaimlerChrysler sold a 60% interest in Mercedes-Benz Lenkungen GmbH, its 100% interest in Mercedes-Benz Lenkungen U.S. LLC and its 100% interest in the steering activities of DaimlerChrysler do Brasil Ltda. to ThyssenKrupp Automotive AG ("ThyssenKrupp") for €42 million in cash. DaimlerChrysler's remaining 40% interest in Mercedes-Benz Lenkungen GmbH was subject to put and call options held by DaimlerChrysler and ThyssenKrupp, respectively, of approximately €28 million. The sales resulted in an aggregate pretax gain of €11 million in 2003, which is included in other income of the Commercial Vehicles segment. DaimlerChrysler's remaining 40% interest in Mercedes-Benz Lenkungen GmbH was accounted for using the equity method. In November 2005, the Group exercised its Put Option to sell its remaining 40%-stake in ThyssenKrupp Presta SteerTec (formerly: Mercedes-Benz Lenkungen GmbH) to ThyssenKrupp for a purchase price of €28 million.

In September 2003, as part of the Group's ongoing strategy to focus on its core automotive business, DaimlerChrysler sold its 50% interest in CTS Fahrzeug-Dachsysteme GmbH to Porsche AG for €55 million in cash, resulting in a pretax gain of €50 million which is included in financial income (expense), net, of the Mercedes Car Group segment. Prior to the sale, DaimlerChrysler accounted for CTS Fahrzeug-Dachsysteme GmbH using the cost method.

# Notes to Consolidated Statements of Income

## 5. Functional Costs and Other Expenses

Selling, administrative and other expenses are comprised of the following:

(in millions of €)	Year ended December 31,		
	2005	2004	2003
Selling expenses	11,960	11,403	11,763
Administration expenses	6,092	6,008	5,351
Other Expenses	932	561	658
	18,984	17,972	17,772

In 2005, selling expenses include advertising costs of €2,512 million (2004: €2,748 million, 2003: €2,965 million).

### Headcount reduction initiative at Mercedes Car Group.

In September 2005, DaimlerChrysler initiated a program to enhance the competitiveness of the Mercedes Car Group. The program is expected to reduce headcount by 8,500 employees in Germany, primarily through voluntary termination contracts. The initiative is expected to be finalized during the second half of 2006. The individual benefits are based on age, salary levels and past service.

As of December 31, 2005, approximately 5,000 employees have signed severance contracts. For the contracts signed prior to December 31, 2005, expenditures of €670 million will be incurred; €570 million were recorded in income for 2005, primarily within cost of sales. An amount of €100 million is available under the terms of a deferred compensation fund set up under the Compensation Framework Agreement (ERA), a collective bargaining agreement in Germany. Under this agreement, DaimlerChrysler had to recognize a liability in prior years for ERA as a portion of the compensation increase in these years was to be unconditionally paid to employees at a later date. In an agreement with the worker's council of DaimlerChrysler, it was determined that the fund should be used for purposes such as termination and early retirement benefits with any unused balance distributed to employees otherwise. In 2005, €70 million were paid and €600 million remain within other liabilities at December 31, 2005.

**smart realignment.** Based on the unit sales development of the smart roadster and the smart forfour and the downward revisions to forecasted sales targets, DaimlerChrysler reduced its production and notified suppliers about declining production at the beginning of 2005. These developments resulted in increased operating and cash flow losses and an expectation that losses would continue in future periods. Therefore, DaimlerChrysler evaluated the recoverability of the carrying amount of the long-lived assets that generate cash flows largely independent of other assets and liabilities of the Group. The smart roadster had been assembled in a plant in France until the decision to cease production, whereas the asset group related to the smart forfour consists of owned real estate and equipment of a Dutch plant as well as leased equipment located with suppliers, but carried on DaimlerChrysler's balance sheet. As a result of the impairment tests, DaimlerChrysler recognized charges of €444 million in 2005 in "cost of sales" representing the excess of the carrying amount of these long-lived assets over their fair value. After the impairment charge, the remaining carrying amount of the assets represented the estimated fair value of land and buildings and other assets.

As a result of the deterioration of operations in the first quarter of 2005, DaimlerChrysler decided to cease production of the smart roadster by the end of 2005 and provide incentives to dealers related to those vehicles. Thus, also included as a reduction of revenue or in "cost of sales" during 2005 were €140 million, to recognize the effects of inventory write-downs, higher incentives and lower residual values of vehicles.

Further costs related to the realignment of smart during 2005, amounting to €301 million, arose primarily from supplier claims which resulted from the discontinuation of the smart roadster and the reduction of the production volume for the smart for-four. Estimated payments to the dealer network are also included. These charges were recognized in "cost of sales" and in "selling expenses".

In connection with the activities related to the smart business unit, DaimlerChrysler also decided in 2005 not to proceed with the development of the smart SUV that was scheduled to be introduced in 2006. As a result of the decision to abandon the smart SUV, tooling and equipment located in the designated assembly plant in Brazil and equipment still under construction with suppliers for which firm purchase orders were in place, €61 million were written off in 2005 by a charge to "other expenses" to the extent those assets could not be redeployed for other purposes. Charges of €104 million were recognized during 2005 related to the liabilities arising from the cancellation of supply contracts and were recognized as "other expenses".

In addition, plans to reduce workforce at the locations in Böblingen (Germany) and Hambach (France) were approved in 2005. According to those plans, by December 31, 2005, 185 employees have been transferred to other Group operations and continue to provide services there while 236 German employees had accepted termination benefits in accordance with the terms of a collective bargaining agreement consisting of cash severance, continued pay for a period after the end of service and job placement assistance; the employee services ended with the acceptance of the termination benefits. Therefore, charges for employee termination benefits of €24 million are included in 2005. In addition, charges for consulting services have been recorded totaling to €7 million in 2005.

A goodwill impairment charge of €30 million was recognized in 2005 (see Note 12).

All charges related to the realignment of smart, amounting to €1,111 million, relate to the Mercedes Car Group segment. The development of balances accrued in 2005, which lead to payments in subsequent periods, is summarized as follows:

(in millions of €)	Workforce reduction	Other costs	Total
Balance at January 1, 2005	–	–	–
Net charges	24	552	576
Payments	(16)	(443)	(459)
Balance at December 31, 2005	8	109	117

The Mercedes Car Group expects the remaining balance of €117 million to be paid in 2006.

**Others.** In 2003, DaimlerChrysler recognized an impairment charge amounting to €77 million related to certain long-lived assets (primarily property, plant and equipment) at a production facility in Brazil. The charge is included in cost of sales of the Mercedes Car Group segment.

As discussed in Note 7, the DaimlerChrysler Supervisory Board approved a multi-year turnaround plan for the Chrysler Group in February 2001. The related charges are presented as a separate line item on the accompanying consolidated statements of income (loss) and are not reflected in cost of sales or selling, administrative and other expenses.



**Personnel expenses and number of employees.** Personnel expenses included in the statement of income are comprised of:

(in millions of €)	Year ended December 31,		
	2005	2004	2003
Wages and salaries	19,750	18,750	18,897
Social security and payroll costs	3,371	3,294	3,178
Net pension cost (see Note 25a)	1,131	948	837
Net postretirement benefit cost (see Note 25a)	1,331	1,173	1,290
Other expenses for pensions and retirements	148	51	85
	25,731	24,216	24,287

Number of employees (annual average):

	2005	2004	2003
Hourly employees	232,836	229,763	226,989
Salaried employees	139,220	134,949	129,656
Trainees/apprentices	14,409	14,307	14,039
	386,465	379,019	370,684

Information on the remuneration to the current and former members of the Board of Management and to the current members of the Supervisory Board is included in Note 38.

## 6. Other Income

Other income consists of the following:

(in millions of €)	Year ended December 31,		
	2005	2004	2003
Gains on sales of property, plant and equipment	351	94	58
Rental income, other than relating to financial services	101	100	110
Gains on sales of companies	64	128	11
Reimbursement of contract costs	–	–	17
Government subsidies	33	30	63
Other miscellaneous items	417	543	430
	966	895	689

Other miscellaneous items consist of reimbursements under insurance policies, income from licenses, reimbursements of certain non-income related taxes and customs duties, income from various employee canteens and other miscellaneous items.

Gains on sales of property, plant and equipment for the year ended December 31, 2005, include a €240 million gain on the sale of the Chrysler Group's Arizona Proving Grounds vehicle testing facility.

Due to the repurchase of a note by its issuer, a gain of €53 million was realized in 2005 and is included in gains on sales of property, plant and equipment. The note was issued by MTU Aero Engines Holding AG to DaimlerChrysler in the context of the sale of MTU Aero Engines GmbH in 2003.

As result of the settlement agreement in connection with the sale of DaimlerChrysler Rail Systems GmbH (Adtranz) in 2004, a gain of €120 million which had been deferred since 2001 was realized as other income.

## 7. Turnaround Plan for the Chrysler Group

In 2001, the Supervisory Board of DaimlerChrysler AG approved a multi-year turnaround plan for the Chrysler Group. Key initiatives for the multi-year turnaround plan included a workforce reduction and an elimination of excess capacity.

The net gains recorded for the plan in 2005 were €36 million (€23 million net of taxes) and are presented as a separate line item on the accompanying consolidated statements of income (€34 million and €2 million would have otherwise been reflected in cost of sales and selling, administrative and other expenses, respectively). These adjustments were due to modifications of estimates related to workforce reductions and facility closures in 2005 and prior years.

The net charges recorded for the plan in 2004 were €145 million (€89 million net of taxes) and are presented as a separate line item on the accompanying consolidated statements of income (€139 million and €6 million would have otherwise been reflected in cost of sales and selling, administrative and other expenses, respectively). These adjustments were due to modifications of estimates related to workforce reductions and facility closures in 2004 and prior years.

The net charges recorded for the plan in 2003 were €469 million (€288 million net of taxes) and are presented as a separate line item on the accompanying consolidated statements of income (loss) (€462 million and €7 million would have otherwise been reflected in cost of sales and selling, administrative and other expenses, respectively). These adjustments were associated with the planned closing, significant downsizing and sale of certain manufacturing facilities between 2003 and 2005. The adjustments were also the result of modifications to previous estimates due to actual settlements or additional available information.

Workforce reduction charges in 2005, 2004 and 2003 were €(15) million, €154 million and €209 million respectively. The charges for the voluntary early retirement programs, accepted by 223, 503 and 1,827 employees in 2005, 2004 and 2003, respectively, were formula driven based on salary levels, age and past service. Additionally, 618, 5,417 and 1,355 employees were involuntarily affected by the plan in 2005, 2004 and 2003, respectively. The amount of involuntary severance benefits paid and charged against the liability were €30 million, €51 million and €20 million in 2005, 2004 and 2003, respectively.

The Chrysler Group recorded impairment charges of €(3) million, €43 million and €249 million in 2005, 2004 and 2003, respectively. The 2005 impairment charges represent an adjustment to prior estimates related to facility closures. The 2004 and 2003 impairment charges represent the amount by which the carrying values of the property, plant, equipment and tooling exceeded their respective fair market values.

In addition, accruals for other costs related to divestiture and closure actions included net charges and adjustments of €(18) million, €(52) million and €11 million during the years ended December 31, 2005, 2004 and 2003, respectively.

During the years ended December 31, 2005, 2004 and 2003, the Chrysler Group made cash payments of €92 million, €219 million and €279 million, respectively, for charges previously recorded.

The Chrysler Group expects to make additional cash payments of approximately \$58 million in 2006 for the previously recorded charges. The Chrysler Group may recognize additional adjustments to the turnaround plan charges in 2006 primarily relating to the closure or sale of selected operations.

As of December 31, 2005, 2004 and 2003, the Chrysler Group had workforce reduction reserves of €102 million, €160 million and €198 million, respectively. In addition, reserves for other costs were €18 million, €60 million and €148 million as of December 31, 2005, 2004 and 2003, respectively.

## 8. Financial Income (Expense), net

(in millions of €)	Year ended December 31,		
	2005	2004	2003
Income from investments of which from affiliated companies €28 (2004: €36; 2003: €37)	55	86	37
Gains, net from disposals of investments and shares in affiliated and associated companies	732	291	44
Gain (loss) from the dilution of shares in affiliated companies and investments accounted for under the equity method	–	(135)	24
Impairment of investment in EADS (Note 3)	–	–	(1,960)
Write-down of investments and shares in affiliated companies	(31)	(50)	(44)
Gain (loss) from companies included at equity	103	(798)	(538)
<b>Income (loss) from investments, net</b>	<b>859</b>	<b>(606)</b>	<b>(2,437)</b>
Other interest and similar income of which from affiliated companies €33 (2004: €5; 2003: €20)	539	490	521
Interest and similar expenses of which from affiliated companies €26 (2004: €32; 2003: €16)	(1,112)	(790)	(911)
<b>Interest expense, net</b>	<b>(573)</b>	<b>(300)</b>	<b>(390)</b>
Income (loss) from securities and long-term receivables of which from affiliated companies €2 (2004: €2; 2003: €1)	200	18	(15)
Write-down of securities and long-term receivables	(5)	(122)	(19)
Other, net	(264)	(67)	69
<b>Other financial income (loss), net</b>	<b>(69)</b>	<b>(171)</b>	<b>35</b>
	<b>217</b>	<b>(1,077)</b>	<b>(2,792)</b>

In 2005, DaimlerChrysler sold all of its MMC shares. The gain on that sale amounted to €681 million and is included in “Gains, net from disposals of investments and shares in affiliated and associated companies”.

In 2004, the dilution of DaimlerChrysler’s interest in MMC resulted in a loss of €135 million which is reflected in “Gain (loss) from the dilution of shares in affiliated companies and investments accounted for under the equity method”. Realized gains from DaimlerChrysler’s currency hedging of the net investment in MMC of €195 million are included in “Loss from companies included at equity”.

In 2003, MTU-F created a new company, MTU CFC Solutions GmbH (“MTU CFC”), and contributed all of its fuel cell activities into a new company for 100% ownership interest. Also in 2003, MTU CFC issued new shares to RWE Fuel Cells GmbH for a capital contribution. MTU-F did not participate in this increase in share capital causing the ownership interest of MTU-F in MTU CFC to dilute to 74.9%. As a result of this transaction, DaimlerChrysler realized a gain of €24 million, which is included in “gain (loss) from the dilution of shares in affiliated companies and investments accounted for under the equity method”.

The Group capitalized interest expenses related to qualifying construction projects of €73 million (2004: €70 million; 2003: €100 million).

## 9. Income Taxes

Income before income taxes consists of the following:

(in millions of €)	Year ended December 31,		
	2005	2004	2003
Germany	(103)	448	(736)
Non-German countries	3,541	3,087	1,332
	<b>3,438</b>	<b>3,535</b>	<b>596</b>

The income (loss) in Germany includes the income (loss) from companies included at equity if the shares of those companies are held by German companies. In 2003, the write-down of the investment in EADS of €1,960 million is also included.

Income tax expense is comprised of the following components:

(in millions of €)	Year ended December 31,		
	2005	2004	2003
Current taxes			
Germany	3	847	766
Non-German countries	1,319	923	(432)
Deferred taxes			
Germany	(309)	(502)	172
Non-German countries	(500)	(91)	473
	513	1,177	979

For German companies, the deferred taxes at December 31, 2005 were calculated using a federal corporate tax rate of 25% (2004 and 2003: 25%). Deferred taxes were also calculated with a solidarity surcharge of 5.5% for each year on federal corporate taxes plus the after federal tax benefit rate for trade tax of 12.125% for each year. Therefore, the tax rate applied to German deferred taxes amounted to 38.5% (2004 and 2003: 38.5%). For non-German companies, the deferred taxes at period-end were calculated using the enacted tax rates.

In 2004, the U.S. government enacted the American Jobs Creation Act of 2004 ("Act"), that provides for a special one-time tax deduction of 85% of certain earnings of non-U.S. subsidiaries that are repatriated to the U.S., provided certain criteria are met. DaimlerChrysler North America Holding Corporation, a wholly-owned U.S. subsidiary of DaimlerChrysler, completed in 2005 its evaluation of the Act. In 2005, DaimlerChrysler repatriated \$2.7 billion of dividends to the U.S., leading to an income tax expense of €66 million. In the reconciliation of expected income tax expense to actual income tax expense the expense is included in the line "foreign tax rate differential".

In 2003, the German government enacted new tax legislation which, among other changes, provides that, beginning January 1, 2004, 5% of dividends received from German companies and 5% from certain gains from the sale of shares in affiliated and unaffiliated companies are no longer tax-free while losses from the sale of shares in affiliated and unaffiliated companies continue to be non-deductible. The change in tax legislation resulted in a deferred tax expense due to the deferred tax liabilities on the unrealized gains. The effect of the increase in the deferred tax liabilities of the Group's German companies was recognized in the year of enactment and as a result, a deferred tax expense of €64 million was included in the consolidated statement of income (loss) in 2003.

A reconciliation of expected income tax expense to actual income tax expense determined using the applicable German corporate tax rate for the calendar year of 25% (2004: 25%; 2003: 26.5%) plus a solidarity surcharge of 5.5% on federal corporate taxes payable plus the after federal tax benefit rate for trade taxes of 12.125% (2004: 12.125%; 2003: 11.842%) for a combined statutory rate of 38.5% in 2005 (2004: 38.5%; 2003: 39.8%) is included in the following table. In 2003, for the purpose of financing the flood disaster in Germany and effective only for the calendar year 2003, the increased federal corporate tax rate of 26.5% instead of 25% was used for calculating the current taxes in Germany.

(in millions of €)	Year ended December 31,		
	2005	2004	2003
Expected expense for income taxes	1,324	1,361	237
Foreign tax rate differential	(544)	(357)	(489)
Trade tax rate differential	(50)	(43)	(37)
Non-deductible impairment of investment in EADS	-	-	780
Tax effect of equity method investments	(15)	291	159
Tax-free income and non-deductible expenses	(194)	(88)	269
Effect of changes in German tax laws	-	-	64
Other	(8)	13	(4)
Actual expense for income taxes	513	1,177	979

In 2005, tax free income at foreign companies arose relating to the compensation for MFTBC, the sale of other securities and in connection with the net periodic postretirement benefit costs. The reduction of the calculated expected tax expenses on those issues is included in the line “foreign tax rate differential”. Moreover, the line “foreign tax rate differential” includes all other reconciling items between expected and actual expense for income taxes at foreign companies.

In 2005, DaimlerChrysler sold all of its MMC shares. The realized gain – with the exception of the net gains from hedging the Group’s net investment in MMC – was tax-free. The expected tax expense on the tax free gain was reversed in the line “tax free income and non-deductible expenses” with an amount of €82 million. In 2004, the non tax-deductible loss of MMC resulting from accounting under the equity method and from the dilution of DaimlerChrysler’s interest in MMC affected the line “tax effect of equity method investments” negatively by €298 million due to the missing tax benefit.

In 2004, DaimlerChrysler sold its investment in HMC and realized a tax-free gain of €252 million. This led to a positive reconciling item of €97 million in the line “tax-free income and non-deductible expenses”.

Tax-free gains included in net periodic pension costs at the German companies also reduced the expected tax expense. Moreover, the line “tax-free income and non-deductible expenses” includes all other effects at German companies due to tax-free income and non-deductible expenses.

The Group has various open income tax years unresolved with the taxing authorities in various jurisdictions. The open years are either currently under review by certain taxing authorities or not yet under examination. In 2003, the line “foreign tax rate differential” above included a tax benefit and related interest of €571 million which resulted in connection with agreements reached with the U.S. tax authorities on a claim pertaining to additional research and development credits for tax years 1986 through 1998. In 2003, the line “tax-free income and non-deductible expenses” included a tax expense and related interest of €318 million pertaining primarily to tax costs associated with developments resulting from the examination by the German tax authorities of the Group’s German tax returns for the years 1994 to 1998.

Deferred income tax assets and liabilities are summarized as follows:

	At December 31,	
(in millions of €)	2005	2004
Intangible assets	401	55
Property, plant and equipment	520	699
Investments and long-term financial assets	3,135	2,678
Equipment on operating leases	727	651
Inventories	752	675
Receivables	749	834
Net operating loss and tax credit carryforwards	1,854	2,814
Pension plans and similar obligations	5,125	4,315
Other accrued liabilities	6,477	5,515
Liabilities	2,516	3,000
Deferred income	1,670	1,371
Other	111	95
	24,037	22,702
Valuation allowances	(640)	(573)
<b>Deferred tax assets</b>	<b>23,397</b>	<b>22,129</b>
Intangible assets	(932)	(852)
Property, plant and equipment	(3,987)	(3,798)
Equipment on operating leases	(7,125)	(6,699)
Receivables	(3,482)	(4,540)
Prepaid expenses	(360)	(370)
Pension plans and similar obligations	(2,479)	(2,096)
Other accrued liabilities	(311)	(148)
Taxes on undistributed earnings of non-German subsidiaries	(261)	(307)
Liabilities	(1,010)	(1,012)
Other	(404)	(406)
<b>Deferred tax liabilities</b>	<b>(20,351)</b>	<b>(20,228)</b>
<b>Deferred tax assets (liabilities), net</b>	<b>3,046</b>	<b>1,901</b>

At December 31, 2005, the Group had corporate tax net operating losses ("NOLs") amounting to €1,528 million (2004: €1,705 million), trade tax NOLs amounting to €129 million (2004: €81 million) and tax credit carryforwards amounting to €868 million (2004: €1,640 million). The corporate tax NOLs mainly relate to losses of foreign companies and are partly limited in their use to the Group. Of the total amount of corporate tax NOLs at December 31, 2005, €25 million expire at various dates from 2006 through 2009, €704 million in 2010, €275 million expire at various dates from 2018 through 2025 and €524 million can be carried forward indefinitely. The tax credit carryforwards mainly relate to U.S. companies and are partly limited in their use to the Group. Of the total amount of credit carryforwards at December 31, 2005, €107 million expire from 2010 through 2015, €181 million expire from 2023 through 2025 and €580 million can be carried forward indefinitely. The trade tax NOLs are not limited in their use. The companies of the Off-Highway Business unit, which are shown as held for sale, are included at December 31, 2005 in the corporate and trade tax NOLs with €21 million each.

The valuation allowances, which relate to deferred tax assets of foreign companies that DaimlerChrysler believes will more likely than not expire without benefit increased by €67 million from December 31, 2004 to December 31, 2005. In future periods DaimlerChrysler's estimate of the amount of the deferred tax assets considered realizable may change, and hence the valuation allowances may increase or decrease.

Net deferred income tax assets and liabilities in the consolidated balance sheets are as follows:

	At December 31, 2005		At December 31, 2004	
	Total	thereof non-current	Total	thereof non-current
(in millions of €)				
Deferred tax assets	7,249	2,880	4,213	1,944
Deferred tax liabilities	(4,203)	(4,099)	(2,312)	(2,222)
<b>Deferred tax assets (liabilities), net</b>	<b>3,046</b>	<b>(1,219)</b>	<b>1,901</b>	<b>(278)</b>

DaimlerChrysler recorded deferred tax liabilities for non-German withholding taxes of €188 million (2004: €222 million) on €3,764 million (2004: €4,434 million) in cumulative undistributed earnings of non-German subsidiaries and additional German tax of €73 million (2004: €85 million) on the future payout of these foreign dividends to Germany because as of today, the earnings are not intended to be permanently reinvested in those operations.

The Group did not provide income taxes or non-German withholding taxes on €13,831 million (2004: €9,626 million) in cumulative earnings of non-German subsidiaries because the earnings are intended to be indefinitely reinvested in those operations. It is not practicable to estimate the amount of unrecognized deferred tax liabilities for these undistributed foreign earnings.

Including the items charged or credited directly to related components of stockholders' equity and the expense (benefit) of discontinued operations and from changes in accounting principles, the expense (benefit) for income taxes consists of the following:

	Year ended December 31,		
(in millions of €)	2005	2004	2003
Expense for income taxes of continuing operations	513	1,177	979
Expense for income taxes of discontinued operations	-	-	202
Income tax benefit from changes in accounting principles	(3)	-	(35)
Stockholders' equity for items in accumulated other comprehensive loss	(1,065)	(754)	1,055
Stockholders' equity for U.S. employee stock option expense in excess of amounts recognized for financial purposes	-	(9)	-
	(555)	414	2,201

In 2004 and 2003, tax benefits of €2 million and €105 million from the reversal of deferred tax asset valuation allowances at subsidiaries of MMC were recorded as a reduction of the investor level goodwill relating to the Group's investment in MMC.

## 10. Disposal Group Off-Highway, Assets and Liabilities Held for Sale and Discontinued Operations

**Disposal Group Off-Highway, Assets and Liabilities Held for Sale.** On December 27, 2005, DaimlerChrysler entered into a share sale and purchase agreement regarding the sale of a major portion of its Off-Highway Business Unit. The closing is expected to occur in the first quarter of 2006 (see Note 4).

As a result of DaimlerChrysler's significant anticipated continuing sales of products to the Off-Highway business which are expected to continue beyond one year after disposal, the operations of the Off-Highway business have not been presented as discontinued operations in DaimlerChrysler's consolidated income statements.

However, the assets and the liabilities of the Off-Highway business that are part of the transaction have each been aggregated and presented in separate lines on the consolidated balance sheet.



The assets held for sale and liabilities held for sale are shown on a consolidated basis and are comprised of the following:

(in millions of €)	At December 31, 2005
<b>Assets held for sale</b>	
Intangible assets	20
Goodwill	309
Property, plant and equipment	212
Investments and long-term financial assets	80
Inventories	395
Receivables and other assets	316
Other	42
	1,374
<b>Liabilities held for sale</b>	
Minority interests	4
Accrued liabilities	603
Liabilities	157
Other	7
	771

**Discontinued Operations.** The results of MTU Aero Engines and the gain on sale are reported as discontinued operations. However, for segment reporting purposes, the revenues and operating profit of MTU Aero Engines are included in the Other Activities segment revenues and operating profit in 2003 (see Notes 4 and 35).

The operating results of the discontinued operations were as follows in 2003:

(in millions of €)	Year ended December 31, 2003
Revenues	1,933
Income before income taxes	67
Income taxes	(53)
<b>Earnings from discontinued operations</b>	14

## 11. Cumulative Effects of Changes in Accounting Principles

**Conditional Asset Retirement Obligation.** As of December 31, 2005, DaimlerChrysler adopted the provisions of FIN 47, “Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143” pertaining to the accounting for legal asset retirement obligations whose timing or method of settlement is conditional on a future event. For existing conditional asset retirement obligations whose fair value could be reasonably determined, DaimlerChrysler recognized the liability and related additional long-lived asset and adjusted the liability and the asset, respectively, for cumulative accretion and accumulated depreciation to the date of adoption. The cumulative effect of adopting FIN 47 was a reduction of net income of €5 million, net of taxes of €3 million (€0.00 per share), recognized separately in the consolidated statement of income in 2005.

**Variable Interest Entities.** DaimlerChrysler adopted the provisions of FIN 46R pertaining to the consolidation of variable interest entities that are special purpose entities as of December 31, 2003, and to all other entities as of March 31, 2004 (see Note 2). The cumulative effect of adopting FIN 46R was a reduction of net income of €30 million, net of taxes of €35 million (€0.03 per share), recognized in the consolidated statement of income in 2003.

# Notes to Consolidated Balance Sheets

## 12. Goodwill

Information with respect to changes in the Group's goodwill is presented in the Consolidated Fixed Asset Schedule included herein.

The carrying amount of goodwill as of December 31, 2005, compared to the previous year, decreased by €122 million. This decrease relates to goodwill of €309 million attributable to the business unit Off-Highway and is included in the separate line item "assets held for sale" as of December 31, 2005 (see Note 10). Additions to goodwill of €134 million from the acquisition of the minority interests in MTU-F in 2005 form part of that goodwill (see Note 4). Furthermore, the goodwill of MFTBC was reduced by €200 million (see Note 4). Currency translation effects of €232 million led to an increase of goodwill.

At December 31, 2005 and 2004, the carrying value of goodwill allocated to the Group's reporting segments are (excluding investor level goodwill of €55 million and €51 million, respectively):

	Mercedes Car Group	Chrysler Group	Commerc. Vehicles	Financial Services	Other Activities	total
(in millions of €)						
2005	199	1,035	547	63	37	1,881
2004	177	898	670	62	196	2,003

The company conducts a goodwill impairment test at least annually to identify potential goodwill impairment. In this regard, the company compares the fair value of a reporting unit with its carrying amount, including goodwill allocated to the respective reporting unit. The fair values of the reporting units are calculated using discounted future cash flows. If the carrying amount of a reporting unit exceeds its fair value, a second step of the good-

will impairment test is performed to measure the amount of goodwill impairment loss. As a result of the 2005 goodwill impairment test, a goodwill impairment charge at smart of €30 million was recognized.

## 13. Other Intangible Assets

Information with respect to changes in the Group's other intangible assets is presented in the Consolidated Fixed Asset Schedule included herein.

Other intangible assets comprise:

	At December 31,	
(in millions of €)	2005	2004
Other intangible assets subject to amortization		
Gross carrying amount	1,628	1,309
Accumulated amortization	(941)	(806)
Net carrying amount	687	503
Other intangible assets not subject to amortization	2,504	2,168
	3,191	2,671

DaimlerChrysler's other intangible assets subject to amortization represent concessions, industrial property rights and similar rights (€298 million) as well as software developed or obtained for internal use (€342 million). The additions in 2005 of €244 million (2004: €215 million) with a weighted average useful life of 6 years primarily include software developed or obtained for internal use. The aggregate amortization expense for the years ended December 2005, 2004 and 2003, was €201 million, €169 million and €178 million, respectively.

Estimated aggregate amortization expense for other intangible assets for the next five years is:

(in millions of €)	2006	2007	2008	2009	2010
Amortization expense	213	136	109	54	40

Other intangible assets not subject to amortization represent primarily intangible pension assets.

#### 14. Property, Plant and Equipment, net

Information with respect to changes in the Group's property, plant and equipment is presented in the Consolidated Fixed Assets Schedule included herein.

Property, plant and equipment includes buildings, technical equipment and other equipment capitalized under capital lease agreements of €262 million (2004: €245 million). Depreciation expense and impairment charges on assets under capital lease arrangements were €47 million (2004: €34 million; 2003: €19 million).

Future minimum lease payments due for property, plant and equipment under capital leases at December 31, 2005 amounted to €472 million and are due as follows:

(in millions of €)	2006	2007	2008	2009	2010	there-after
Future minimum lease payments	75	72	53	33	30	209

The reconciliation of future minimum lease payments from capital lease agreements to the corresponding liabilities is as follows:

(in millions of €)	December 31, 2005
Amount of future minimum lease payments	472
Less interest included	133
Liabilities from capital lease agreements	339

#### 15. Equipment on Operating Leases, net

Information with respect to changes in the Group's equipment on operating leases is presented in the Consolidated Fixed Assets Schedule included herein. Of the total equipment on operating leases, €33,644 million represent automobiles and commercial vehicles (2004: €26,017 million).

Noncancellable future lease payments due from customers for equipment on operating leases at December 31, 2005 amounted to €15,500 million and are due as follows:

(in millions of €)	2006	2007	2008	2009	2010	there-after
Future lease payments	7,918	4,350	2,225	738	149	120

#### 16. Inventories

(in millions of €)	At December 31,	
	2005	2004
Raw materials and manufacturing supplies	1,906	1,746
Work-in-process	2,924	2,545
Finished goods, parts and products held for resale	14,414	12,805
Advance payments to suppliers	47	75
	19,291	17,171
Less: Advance payments received	(152)	(366)
	19,139	16,805

Certain of the Group's U.S. inventories are valued using the LIFO method. If the FIFO method had been used instead of the LIFO method, inventories would have been higher by €753 million (2004: €601 million).

At December 31, 2005, inventories include €322 million of company cars of DaimlerChrysler pledged as collateral to the DaimlerChrysler Pension Trust e.V. The pledge was made in 2004 due to the requirement to provide collateral for certain vested employee benefits in Germany.

## 17. Trade Receivables

(in millions of €)	At December 31,	
	2005	2004
Receivables from sales of goods and services	8,135	7,592
Allowance for doubtful accounts	(540)	(591)
	7,595	7,001

As of December 31, 2005, €115 million of the trade receivables mature after more than one year (2004: €283 million).

Changes in the allowance for doubtful accounts for trade receivables were as follows:

(in millions of €)	Year ended December 31,		
	2005	2004	2003
Balance at beginning of year	591	587	629
Charged to costs and expenses	41	49	23
Amounts written off	(75)	(160)	(48)
Currency translation and other changes	(17)	115	(17)
Balance at end of year	540	591	587

## 18. 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 DaimlerChrysler.

Wholesale receivables represent loans for floor financing programs for vehicles sold by the Group's automotive businesses to the dealer or loans for assets purchased by the dealer from third parties, primarily used vehicles traded in by the dealer's customer or real estate such as dealer showrooms.

Other receivables mainly represent investments in leases involving the purchase of non-automotive assets by parties other than retail customers or the Group's dealers.

Receivables from financial services are comprised of the following:

(in millions of €)	At December 31,	
	2005	2004
Receivables from:		
Retail	46,947	44,202
Wholesale	11,961	10,670
Other	3,367	3,020
	62,275	57,892
Allowance for doubtful accounts	(1,174)	(1,107)
	61,101	56,785

As of December 31, 2005, receivables from financial services with a carrying amount of €37,896 million mature after more than one year (2004: €35,598 million). Receivables from financial services are generally secured by vehicles or other assets.

**Maturities.** Contractual payments from the receivables from financial services at December 31, 2005 amounted to €66,235 million and are as follows:

	2006	2007	2008	2009	2010	there-after
(in millions of €)						
Maturities	25,600	13,338	11,014	6,701	3,533	6,049

Actual cash flows will vary from contractual maturities due to future sales of finance receivables, prepayments and write-offs.

**Allowances.** Changes in the allowance for doubtful accounts for receivables from financial services were as follows:

(in millions of €)	Year ended December 31,		
	2005	2004	2003
Balance at beginning of year	1,107	1,265	1,559
Charged to costs and expenses	559	467	553
Amounts written off	(420)	(413)	(492)
Reversals	(137)	(84)	(63)
Currency translation and other changes	65	(128)	(292)
Balance at end of year	1,174	1,107	1,265

**Sales-type and direct-financing contracts.** Finance leases consist of sales-type leases of vehicles to the Group's direct retail customers and direct-financing leases of vehicles to customers of the Group's independent dealers. Included in retail and other receivables are investments in finance leases involving minimum lease payments of €15,309 million and €14,072 million, unearned income of €2,496 million and €2,602 million, initial direct costs of €43 million and €47 million and estimated unguaranteed residual values of €623 million and €660 million at December 31, 2005 and 2004, respectively.

**Leveraged lease contracts.** Investments in leveraged leases are included in the line "other". Leveraged leases are comprised of the following:

(in millions of €)	At December 31,	
	2005	2004
Rentals receivable (net of principal and interest on nonrecourse debt)	4,586	4,039
Deferred investment tax credits	(41)	(40)
	4,545	3,999
Unguaranteed residual values	588	617
Unearned income	(1,780)	(1,638)
	3,353	2,978

As of December 31, 2005, an amount of €2,775 million (2004: € 2,421 million) of deferred income tax liabilities was related to leveraged leases.

#### Presentation in Consolidated Statements of Cash Flows.

Wholesale receivables from the sale of vehicles from the Group's inventory to independent dealers as well as retail receivables from the sale of DaimlerChrysler's vehicles directly to retail customers relate to the sale of the Group's inventory. The cash flow effects of such receivables are presented as "net changes in inventory-related receivables from financial services" within the consolidated cash flows from operating activities. All cash flow effects attributable to receivables from financial services that are not related to the sale of inventory to DaimlerChrysler's independent dealers or direct customers are classified as investing activities within the consolidated statements of cash flows.

**Sale of receivables.** Based on market conditions and liquidity needs, DaimlerChrysler may sell portfolios of retail and wholesale receivables to third parties, which typically results in the derecognition of the transferred receivables from the balance sheet. Retained interests in securitized sold receivables are classified as other assets in the Group's consolidated balance sheets (see Note 19). For additional information on retained interests in sold receivables and the sale of finance receivables, see Note 34.

#### 19. Other Assets

(in millions of €)	At December 31,	
	2005	2004
Receivables from affiliated companies	696	1,174
Receivables from related companies <sup>1</sup>	324	588
Retained interests in sold receivables	2,215	2,202
Other receivables and other assets	5,664	9,228
	8,899	13,192
Allowance for doubtful accounts	(168)	(261)
	8,731	12,931

<sup>1</sup> Related companies include entities which have a significant ownership in DaimlerChrysler or entities in which the Group holds a significant investment.

As of December 31, 2005, €2,618 million of the other assets mature after more than one year (2004: €3,494 million).

Changes in the allowance for doubtful accounts related to receivables included in other assets were as follows:

(in millions of €)	Year ended December 31,		
	2005	2004	2003
Balance at beginning of year	261	888	723
Charges (releases) to costs and expenses	(18)	61	134
Amounts written off	(90)	(702)	(2)
Currency translation and other changes	15	14	33
Balance at end of year	168	261	888

## 20. Securities, Investments and Long-Term Financial Assets

Information with respect to the Group's total investments and long-term financial assets is presented in the Consolidated Fixed Assets Schedule included herein. The carrying amounts of participations (investments that are not accounted for under the equity method) and long-term (marketable) securities which are shown among "Investments and long-term financial assets" in the Consolidated Balance Sheets are comprised of the following:

(in millions of €)	At December 31,	
	2005	2004
Participations with a quoted market price	332	503
Participations without a quoted market price	256	277
Total participations	588	780
Long-term securities	606	599

The main changes in investments in participations were caused by the sale of the stake in MMC (see Note 3).

Investments without a quoted market price were tested for impairment when an impairment indicator occurred. In 2005 and 2004, investments without a quoted market price with carrying amounts of €20 million were tested for impairment. In 2005 and 2004, no impairments were recognized.

The disclosure of short-term securities is made in the Consolidated Balance Sheets among "Securities" and is recorded separately in available-for-sale and trading:

(in millions of €)	At December 31,	
	2005	2004
Available-for-sale	4,773	3,725
Trading	163	159
Short-term securities	4,936	3,884

As of December 31, 2005, the table below shows the (amortized) costs, fair values, gross unrealized holding gains and losses per security class of investments with a quoted market price, long-term and short-term available-for-sale securities. The aggregate amounts of unrealized losses on investments which are in a continuous unrealized loss position for less than 12 months and the aggregate amounts of unrealized losses on investments which are in a continuous unrealized loss position for 12 months or longer are shown separately together with their appropriate fair values.

(in millions of €)	Cost	Fair value	Unrealized gain	Fair value	Unrealized Loss less 1 year Unrealized loss	Fair value	Unrealized Loss 1 year or more Unrealized loss	Fair value	Unrealized Loss total Unrealized loss
Equity securities	279	664	388	12	3	-	-	12	3
Equity-based funds	272	273	1	-	-	-	-	-	-
Debt securities issued by the German government and other political subdivisions	205	205	-	-	-	-	-	-	-
Debt securities issued by non-German governments	778	777	-	34	1	-	-	34	1
Corporate debt securities	2,796	2,796	9	547	6	26	3	573	9
Mortgage-backed securities	318	317	1	68	1	35	1	103	2
Securities backed by other assets	190	190	-	-	-	-	-	-	-
Other debt securities	260	260	-	-	-	-	-	-	-
Debt-based funds	228	229	1	-	-	-	-	-	-
	5,326	5,711	400	661	11	61	4	722	15



As of December 31, 2004, these values were as follows:

(in millions of €)	Cost	Fair value	Unrealized gain	Fair value	Unrealized Loss less 1 year Unrealized loss	Fair value	Unrealized Loss 1 year or more Unrealized loss	Fair value	Unrealized Loss total Unrealized loss
Equity securities	560	948	394	-	-	134	6	134	6
Equity-based funds	175	175	-	-	-	-	-	-	-
Debt securities issued by the German government and other political subdivisions	360	360	1	-	-	1	1	1	1
Debt securities issued by non-German governments	128	132	4	-	-	-	-	-	-
Corporate debt securities	1,718	1,726	12	96	4	-	-	96	4
Mortgage-backed securities	361	361	1	41	1	-	-	41	1
Securities backed by other assets	170	170	-	-	-	-	-	-	-
Other debt securities	819	820	1	-	-	-	-	-	-
Debt-based funds	135	135	-	-	-	-	-	-	-
	4,426	4,827	413	137	5	135	7	272	12

The estimated fair values of investments in debt securities (excluding debt-based funds), by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty.

(in millions of €)	At December 31,	
	2005	2004
Due within one year	1,164	1,157
Due after one year through five years	1,703	1,624
Due after five years through ten years	508	330
Due after more than ten years	1,170	458
	4,545	3,569

Proceeds from disposals of long-term and short-term available-for-sale securities were €10,336 million (2004: €3,702 million; 2003: €2,743 million). Gross realized gains from sales of these securities were €847 million (2004: €254 million; 2003: €8 million), while gross realized losses were €8 million (2004: €3 million; 2003: €15 million). The proceeds and realized gains from the sale of the stake in MMC in 2005 (see Note 3) and HMC in 2004 (see Note 4) are included in these figures. The proceeds from the sale of the stake in HMC are shown in the Consolidated Statements of Cash Flows among the line item "Proceeds from disposals of businesses", the remaining proceeds are disclosed in the line item "Proceeds from sales of securities (other than trading)".

The unrealized losses included in the 2005 statement of income related to trading securities were €6 million (2004 and 2003: -). There are no unrealized gains in these securities (2004: €2 million; 2003: €10 million).

DaimlerChrysler uses the weighted average cost method as a basis for determining cost and calculating realized gains and losses.

## 21. Liquid Assets

Liquid assets recorded under various balance sheet captions are as follows:

(in millions of €)	At December 31,	
	2005	2004
Cash and cash equivalents <sup>1</sup>		
originally maturing within 3 months	7,619	7,381
originally maturing after 3 months	92	401
Total cash and cash equivalents	7,711	7,782
Securities	4,936	3,884
	12,647	11,666

<sup>1</sup> Cash equivalents originally maturing within 3 months include commercial papers, certificates of deposit of €5.5 billion and €3.6 billion at December 31, 2005 and 2004, cash at banks, cash on hand and checks in transit.

## 22. Prepaid Expenses

Prepaid expenses are comprised of the following:

(in millions of €)	At December 31,	
	2005	2004
Prepaid pension cost	595	246
Other prepaid expenses	796	784
	1,391	1,030

As of December 31, 2005, €809 million of the total prepaid expenses mature after more than one year (2004: €435 million).

As a result of the overfunded status of the accumulated pension benefit obligations of one pension plan, the prepaid pension cost increased in 2005 by €0.3 billion.

## 23. Stockholders' Equity

**Number of Shares Issued and Outstanding as well as Treasury Stock.** DaimlerChrysler had issued and outstanding 1,018,172,696 registered Ordinary Shares of no par value at December 31, 2005 (2004: 1,012,824,191). This increase relates to the issuance of new Ordinary Shares upon exercises in connection with the Stock Option Plan 2000 (tranche 2003). Each share represents a nominal value of €2.60 of capital stock.

In 2005, DaimlerChrysler purchased approximately 0.7 million (2004: 0.8 million; 2003: 1.3 million) Ordinary Shares in connection with an employee share purchase plan, of which 0.7 million (2004: 0.8 million; 2003: 1.3 million) were re-issued to employees.

**Authorized and Conditional Capital.** On April 6, 2005, the annual meeting authorized DaimlerChrysler through October 6, 2006, to acquire treasury stocks for certain defined purposes up to a maximum nominal amount of €263 million of capital stock, representing nearly 10% of the issued and outstanding capital stock.

On April 9, 2003, the annual meeting authorized the Board of Management through April 8, 2008, upon approval of the Supervisory Board, to increase capital stock by issuing new, no par value registered shares in exchange for cash contributions totaling €500 million as well as by issuing new, no par value registered shares in exchange for non-cash contributions totaling €500 million and to increase capital stock by issuing Ordinary Shares to employees totaling €26 million.

Furthermore, the Board of Management, with the consent of the Supervisory Board, was authorized to issue convertible bonds and/or notes with warrants with a total face value up to €15 billion and with a maturity of no more than twenty years prior to April 5, 2010, and to grant conversion or option rights for new shares in DaimlerChrysler with an allocable portion of the capital stock of up to €300 million as more closely defined in the fixed terms and conditions.

From the Stock Option Plan 1996 on December 31, 2005, outstanding rights in a nominal volume of €0.1 million could result in 22,110 new shares of DaimlerChrysler AG. In 2005, 2004 and 2003, no options were exercised from this Plan.

**Comprehensive Income/(Loss).** The changes in the components of accumulated other comprehensive loss are as follows:

(in millions of €)	Year ended December 31, 2005			Year ended December 31, 2004			Year ended December 31, 2003		
	Pretax	Tax effect	Net	Pretax	Tax effect	Net	Pretax	Tax effect	Net
Unrealized gains (losses) on securities (incl. retained interests):									
Unrealized holding gains (losses)	511	(136)	375	277	(10)	267	731	(146)	585
Reclassification adjustments for (gains) losses included in net income	(512)	119	(393)	(592)	119	(473)	(255)	77	(178)
Unrealized gains (losses) on securities	(1)	(17)	(18)	(315)	109	(206)	476	(69)	407
Unrealized gains (losses) on derivatives hedging variability of cash flows:									
Unrealized derivative gains (losses)	(3,552)	1,270	(2,282)	2,339	(900)	1,439	4,406	(1,682)	2,724
Reclassification adjustments for (gains) losses included in net income	1,517	(458)	1,059	(2,957)	1,149	(1,808)	(2,506)	944	(1,562)
Unrealized derivative gains (losses)	(2,035)	812	(1,223)	(618)	249	(369)	1,900	(738)	1,162
Minimum pension liability adjustments	(170)	91	(79)	(1,224)	476	(748)	662	(218)	444
Foreign currency translation adjustments	2,548	179	2,727	(635)	(80)	(715)	(1,598)	(30)	(1,628)
Changes in other comprehensive income/(loss)	342	1,065	1,407	(2,792)	754	(2,038)	1,440	(1,055)	385

Exchange rate effects on the components of other comprehensive loss principally are shown within changes of the cumulative translation adjustment.

Effective October 1, 2004, the Chrysler Group prospectively changed the functional currency of DaimlerChrysler Canada Inc. ("DCCI"), its Canadian subsidiary, from the U.S. dollar to the Canadian dollar. This change resulted from several significant economic and operational changes within DCCI, including a reduction of U.S. sourced components. The initial implementation of this change in functional currency had the effect of increasing the value of the net assets of the Group and the accumulated other comprehensive loss by €179 million in 2004.

**Miscellaneous.** Under the German corporation law (Aktiengesetz), the amount of dividends available for distribution to shareholders is based upon the unappropriated accumulated earnings of DaimlerChrysler AG (parent company only) as reported in its statutory financial statements determined in accordance with the German commercial code (Handelsgesetzbuch). For the year ended December 31, 2005, DaimlerChrysler management has proposed a distribution of €1,527 million (€1.50 per share) of the 2005 earnings of DaimlerChrysler AG as a dividend to the stockholders.

## 24. Stock-Based Compensation

As of December 31, 2005, the Group has awards outstanding that were issued under a variety of plans including (1) the 2005 Performance Phantom Share Plan, (2) the 2000 and 1996 stock option plans, (3) various stock appreciation rights ("SARs") plans and (4) the medium term incentive awards.

As discussed in Note 1, DaimlerChrysler adopted the provisions of SFAS 123 prospectively for all awards granted after December 31, 2002. Awards granted in previous periods will continue to be accounted for using the provisions of APB 25 and related interpretations.

**Performance Phantom Share Plan.** In 2005 the Group adopted the "Performance Phantom Share Plan" under which virtual shares (phantom shares) are granted to eligible employees entitling them to receive cash paid out after four years. The amount of cash paid to eligible employees is based on the number of phantom shares that vest (determined over a three year performance period) times the quoted price of DaimlerChrysler's Ordinary Shares (determined as an average price over a specified period at the end of the four-year service). The number of phantom shares that vest will depend on the achievement of Group performance goals as compared with competitive and internal benchmarks (return on net assets and return on sales). The Group will not issue any common shares in connection with the Performance Phantom Share Plan.

Analysis of the phantom shares issued is as follows:

(in millions)	Number of phantom shares
Outstanding at the beginning of the year	–
Granted phantom shares	3.6
Forfeitures/Disposals	–
Outstanding at year end	3.6

In 2005 the group recognized €30 million of compensation expenses related to the Performance Phantom Share Plan. The Group considers the Performance Phantom Share Plan in the accrued liabilities. Because the payment per vested phantom share depends on the quoted price of one DaimlerChrysler Ordinary Share, the quoted price represents the fair value of each phantom share. The proportionate compensation expense for 2005 is determined based on the year-end quoted price of DaimlerChrysler Ordinary Shares as well as the estimated target achievement grades as of December 31, 2005.

**Stock Option Plans.** In April 2000, the Group's shareholders approved the DaimlerChrysler Stock Option Plan 2000 which provides for the granting of stock options for the purchase of DaimlerChrysler Ordinary Shares to eligible employees. Options granted under the Stock Option Plan 2000 are exercisable at a reference price per DaimlerChrysler Ordinary Share determined in advance plus a 20% premium. The options become exercisable in equal installments on the second and third anniversaries from the date of grant. All unexercised options expire ten years from the date of grant. If the market price per DaimlerChrysler 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%.

The table below shows the basic terms of options issued (in millions):

Year of grant	Reference price	Exercise price	Options granted	Options outstanding At December 31, 2005	Options exercisable
2000	€62.30	€74.76	15.2	13.3	13.3
2001	€55.80	€66.96	18.7	16.7	16.7
2002	€42.93	€51.52	20.0	18.5	18.5
2003	€28.67	€34.40	20.5	13.8	4.3
2004	€36.31	€43.57	18.0	17.3	–

In 2005, no options were granted under the Stock Option Plan 2000.

DaimlerChrysler established, based on shareholder approvals, the 1998, 1997 and 1996 Stock Option Plans (former Daimler-Benz plans), which provided for the granting of options for the purchase of DaimlerChrysler Ordinary Shares to certain members of management. The options granted under the plans 1997 and 1998 were evidenced by non-transferable convertible bonds with a principal amount of €511 per bond due ten years after issuance. During certain specified periods each year, each convertible bond could have been converted into 201 DaimlerChrysler Ordinary Shares, if the market price per share on the day of conversion was at least 15% higher than the predetermined conversion price and the options had been held for a 24 month waiting period.

In the second quarter of 1999, DaimlerChrysler converted all options granted under the 1998 and 1997 Stock Option Plans into SARs. All terms and conditions of the new SARs are identical to the stock options which were replaced, except that the holder of a SAR has the right to receive cash equal to the difference between the exercise price of the original option and the fair value of the Group's stock at the exercise date rather than receiving DaimlerChrysler Ordinary Shares.

All terms and conditions of the options granted under the plan 1996 are identical to the stock options which were granted under the plans 1997 and 1998, except that the plan 1996 includes no waiting period. The options granted under the plan 1996 were not converted into SARs.

The basic terms of the bonds and the related stock options / SARs issued (in millions) under these plans are as follows:

	Stated interest rate	Conversion price	Related stock options granted	Stock options/SARs At December 31, 2005	
				outstanding	exercisable
Bonds granted in					
1996	5.9%	€42.62	0.9	–	–
1997	5.3%	€65.90	7.4	4.6	4.6
1998	4.4%	€92.30	8.2	5.3	5.3

The Group will not issue any common shares in connection with the plans 1997 and 1998.

Analysis of the stock options issued is as follows:

(options in millions; per share amounts in €)	Number of stock options	2005 Average exercise price per share	Number of stock options	2004 Average exercise price per share	Number of stock options	2003 Average exercise price per share
Balance at beginning of year	86.5	52.78	71.6	55.18	53.1	63.40
Options granted	–	–	18.0	43.57	20.5	34.40
Exercised	(5.3)	34.40	–	–	–	–
Forfeited	(0.3)	41.42	(1.4)	40.79	(1.2)	51.83
Expired	(1.3)	60.13	(1.7)	65.92	(0.8)	74.76
Outstanding at year-end	79.6	53.92	86.5	52.78	71.6	55.18
Exercisable at year-end	52.8	60.82	40.2	65.92	23.1	71.71

For the year ended December 31, 2005, the Group recognized compensation expense on stock options (before taxes) of €87 million (2004: €119 million; 2003: €95 million).

The fair values of the DaimlerChrysler stock options issued in 2004 and 2003 were measured at the grant date (beginning of April) based on a modified Black-Scholes option-pricing model, which considers the specific terms of issuance. For options granted to the Board of Management in 2004 and 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 such a limit in the case of exceptional and unpredictable developments, are calculated with the intrinsic value at December 31. The table below presents the underlying assumptions as well as the resulting fair values and total values (in millions of €):

	2004	2003
Expected dividend yield	4.4%	5.6%
Expected volatility	33%	35%
Risk-free interest rate	2.6%	2.9%
Expected lives (in years)	3	3
Fair value per option	€7.85	€6.00
Total value by award	131.9	123.0

Unearned compensation expense (before taxes) of all outstanding and unvested stock options as of December 31, 2005, that are not subject to a possible limitation according to the recommendation of the German Corporate Governance Code, totals €35 million (2004: €125 million; 2003: €122 million).

**Stock Appreciation Rights Plans.** In 1999, DaimlerChrysler established a stock appreciation rights plan (the “SAR Plan 1999”) which provides eligible employees of the Group with the right to receive cash equal to the appreciation of DaimlerChrysler Ordinary Shares subsequent to the date of grant. The stock appreciation rights granted under the SAR Plan 1999 vest in equal installments on the second and third anniversaries from the date of grant. All unexercised SARs expire ten years from the grant date. The exercise price of a SAR is equal to the fair market value of DaimlerChrysler’s Ordinary Shares on the date of grant. On February 24, 1999, the Group issued 11.4 million SARs at an exercise price of €89.70 each (\$98.76 for Chrysler employees), of which 8.2 million SARs are outstanding and exercisable at December 31, 2005.

As discussed above (see “Stock Option Plans”), in the second quarter of 1999 DaimlerChrysler converted all options granted under its existing stock option plans from 1997 and 1998 into SARs.

In conjunction with the consummation of the merger between Daimler-Benz and Chrysler in 1998, the Group implemented a SAR plan through which 22.3 million SARs were issued at an exercise price of \$75.56 each, of which 10.0 million SARs are outstanding and exercisable at December 31, 2005. The initial grant of SARs replaced Chrysler fixed stock options that were converted to DaimlerChrysler Ordinary Shares as of the consummation of the merger. SARs which replaced stock options that were exercisable at the time of the consummation of the merger were immediately exercisable at the date of grant. SARs related to stock options that were not exercisable at the date of consummation of the merger became exercisable in two installments; 50% on the six-month and one-year anniversaries of the consummation date.

A summary of the activity related to the Group's SAR plans as of and for the years ended December 31, 2005, 2004 and 2003 is presented below:

	Number of SARs	2005 Weighted-average exercise price	Number of SARs	2004 Weighted-average exercise price	Number of SARs	2003 Weighted-average exercise price
(SARs in millions; per share amounts in €)						
Outstanding at beginning of year	32.5	71.37	36.3	74.24	40.3	79.13
Granted	–	–	–	–	–	–
Exercised	–	–	–	–	–	–
Forfeited	(4.5)	67.16	(3.8)	72.54	(4.0)	75.00
Outstanding at year-end	28.0	76.65	32.5	71.37	36.3	74.24
SARs exercisable at year-end	28.0	76.65	32.5	71.37	36.3	74.24

Compensation expense or benefit (representing the reversal of previously recognized expense) on SARs is recorded based on changes in the market price of DaimlerChrysler Ordinary Shares. For the years ended December 31, 2005, 2004 and 2003, the Group recognized no compensation expense in connection with SARs, because the options underlying exercise prices were greater than the market price for DaimlerChrysler Ordinary Shares at December 31, 2005.

**Medium Term Incentive Awards.** The Group granted medium term incentives to certain eligible employees with three year performance periods. The amount ultimately earned in cash at the end of a performance period is primarily based on the degree of achievement of corporate goals derived from competitive and internal planning benchmarks and the value of DaimlerChrysler Ordinary Shares at the end of three year performance periods. The benchmarks are return on net assets and return on sales. In 2005 no medium term incentive awards (2004: 0.7 million awards; 2003: 1.3 million awards) were issued.

The Group considers the medium term incentive awards with their fair value in the accrued liabilities and recognized €25 million gains (2004: €12 million expenses; 2003: €35 million expenses) from the valuation of this accrued liability.

## 25. Accrued Liabilities

Accrued liabilities are comprised of the following:

	Total	2005 Due after one year	Total	At December 31, 2004 Due after one year
(in millions of €)				
Pension plans and similar obligations (see Note 25a)	15,482	12,845	13,923	12,634
Income and other taxes	3,396	1,166	3,344	1,884
Other accrued liabilities (see Note 25b)	27,804	11,839	24,671	8,771
	46,682	25,850	41,938	23,289

### a) Pension Plans and Similar Obligations

Pension plans and similar obligations are comprised of the following components:

	At December 31, 2005	At December 31, 2004
(in millions of €)		
Pension liabilities (pension plans)	5,275	5,606
Other postretirement benefits	9,825	8,021
Other benefit liabilities	382	296
	15,482	13,923

The decrease of the pension liabilities of €0.3 billion resulted primarily from the transfer of the Group's Off-Highway pension liabilities to "Disposal Group Off-Highway, Liabilities Held for Sale" (see Note 10).



The increase in accrued other postretirement benefits of €1.8 billion resulted mainly from currency exchange rate effects and from the annual increase of the accruals less payments to beneficiaries.

### Pension Plans

The Group provides pension benefits to substantially all of its hourly and salaried employees. Plan benefits are principally based upon years of service. Certain pension plans are based on salary earned in the last year or last five years of employment while others are fixed plans depending on ranking (both wage level and position).

**Funded Status.** The following information with respect to the Group's pension plans is presented by German Plans and non-German Plans (principally comprised of plans in the U.S.) The funded status of the projected benefit obligations is as follows:

(in millions of €)	Total	At December 31, 2005		Total	At December 31, 2004	
		German Plans	Non-German Plans		German Plans	Non-German Plans
Projected benefit obligations	41,514	15,163	26,351	34,448	12,628	21,820
Less fair value of plan assets	(34,348)	(10,590)	(23,758)	(27,804)	(9,019)	(18,785)
Funded status	7,166	4,573	2,593	6,644	3,609	3,035

A reconciliation of the funded status to the amounts recognized in the consolidated balance sheets is as follows:

(in millions of €)	Total	At December 31, 2005		Total	At December 31, 2004	
		German Plans	Non-German Plans		German Plans	Non-German Plans
Funded status	7,166	4,573	2,593	6,644	3,609	3,035
Amounts not recognized:						
Unrecognized actuarial net losses	(13,270)	(5,299)	(7,971)	(11,356)	(4,166)	(7,190)
Unrecognized prior service cost	(2,470)	(2)	(2,468)	(2,143)	(2)	(2,141)
Net assets recognized	(8,574)	(728)	(7,846)	(6,855)	(559)	(6,296)
Amounts recognized in the consolidated balance sheets consist of:						
Prepaid pension cost	(595)	–	(595)	(246)	–	(246)
Accrued pension liability	5,275	3,141	2,134	5,606	2,927	2,679
Disposal group off-highway, liabilities held for sale	321	321	–	–	–	–
Intangible assets	(2,375)	–	(2,375)	(2,074)	–	(2,074)
Accumulated other comprehensive loss	(11,200)	(4,190)	(7,010)	(10,141)	(3,486)	(6,655)
Net assets recognized	(8,574)	(728)	(7,846)	(6,855)	(559)	(6,296)

In 2005 DaimlerChrysler used the rates from the 2005 Heubeck mortality tables G for the valuation of the German pension obligations. Previously, DaimlerChrysler used the rates from 1998 Heubeck mortality tables. The new mortality tables reflect

longer living expectation for current employees and lower living expectation for retirees, which resulted in a minor increase of projected benefit obligations for 2005.

The development of the projected benefit obligation and the plan assets in 2005 and 2004 is as follows:

(in millions of €)	At December 31, 2005			At December 31, 2004		
	Total	German Plans	Non-German Plans	Total	German Plans	Non-German Plans
Change in projected benefit obligations:						
Projected benefit obligations at beginning of year	34,448	12,628	21,820	32,132	11,165	20,967
Foreign currency exchange rate changes	3,391	-	3,391	(1,351)	-	(1,351)
Service cost	739	296	443	681	256	425
Interest cost	1,874	588	1,286	1,878	586	1,292
Plan amendments	233	-	233	67	-	67
Actuarial losses	2,923	2,163	760	2,146	1,110	1,036
Acquisitions and other	53	53	-	852	58	794
Settlement/curtailment loss	49	-	49	134	3	131
Benefits paid	(2,196)	(565)	(1,631)	(2,091)	(550)	(1,541)
Projected benefit obligations at end of year	41,514	15,163	26,351	34,448	12,628	21,820
Change in plan assets:						
Fair value of plan assets at beginning of year	27,804	9,019	18,785	26,328	8,183	18,145
Foreign currency exchange rate changes	3,038	-	3,038	(1,252)	-	(1,252)
Actual return on plan assets	3,951	1,518	2,433	2,854	664	2,190
Employer contributions	1,661	534	1,127	1,649	638	1,011
Plan participant contributions	18	-	18	19	-	19
Acquisitions and other	-	-	-	188	-	188
Benefits paid	(2,124)	(481)	(1,643)	(1,982)	(466)	(1,516)
Fair value of plan assets at end of year	34,348	10,590	23,758	27,804	9,019	18,785

**Plan Assets.** At December 31, 2005, plan assets were invested in diversified portfolios that consisted primarily of debt and equity securities. Assets and income accruing on all pension trust and relief funds are used solely to pay pension benefits and administer the plans. The Group's pension asset allocation at December 31, 2005 and 2004, and target allocation for the year 2006, are presented in the following table:

(in % of plan assets)	2006 planned	Plan Assets German Plans		2006 planned	Plan Assets Non-German Plans	
		2005	2004		2005	2004
Equity securities	56	56	56	61	61	61
Debt securities	35	36	36	24	25	28
Alternative investments	4	2	1	9	7	5
Real estate	3	2	2	5	5	4
Other	2	4	5	1	2	2

Alternative investments consist of private equity and debt investments and, beginning in 2005 investments in commodities and hedge funds.

Every 3–5 years, or more frequently if appropriate, DaimlerChrysler conducts asset-liability studies for its major pension funds. DaimlerChrysler uses the expertise of external investment and actuarial advisors. These studies are intended to determine the optimal long-term asset allocation with regard to the liability structure. The resulting Model Portfolio allocation is intended to minimize the economic cost of defined benefit schemes and to limit the risks to an appropriate level.

The Model Portfolio is then expanded to a medium term Benchmark Portfolio. The Benchmark Portfolio matches the asset class weights in the Model Portfolio, but expands the asset classes by adding of sub-asset-classes with corresponding weights and assigning specific capital market indices to each sub-asset-class.

Modern Portfolio Theory is then applied to determine an optimal one-year target allocation, the performance of which is tracked against the Benchmark Portfolio.

The entire process is overseen by investment committees which consist of senior financial management from treasury and certain appropriate executives. The investment committees meet regularly to approve the asset allocations, review the risks and results of the major pension funds and approve the selection and retention of external managers of specific portfolios.

The majority of investments are in international blue chip equities and high quality government and corporate bonds. To maintain a wide range of diversification and to improve return opportunities, up to approximately 20% of assets are allocated to private equity, high yield debt, convertible instruments, emerging markets, commodities and hedge funds. Internal controlling units monitor all investments regularly. External depository banks provide safekeeping of securities and reporting of transactions and assets.

**Assumptions.** The measurement date for the Group's pension obligations and plan assets is generally December 31. The measurement date for the Group's net periodic pension cost is principally January 1. Assumed discount rates and rates of increase in remuneration used in calculating the projected benefit obligations together with long-term rates of return on plan assets vary according to the economic conditions of the country in which the pension plans are situated.

The following weighted average assumptions were used to determine benefit obligations:

(in %)	2005	German Plans		2005	Non-German Plans	
		2004	2003		2004	2003
Average assumptions:						
Discount rate	4.0	4.8	5.3	5.4	5.8	6.2
Rate of long-term compensation increase	3.0	3.0	3.0	4.4	4.5	4.5

The following weighted average assumptions were used to determine net periodic pension cost:

(in %)	2005	German Plans		2005	Non-German Plans	
		2004	2003		2004	2003
Average assumptions:						
Discount rate	4.8	5.3	5.8	5.8	6.2	6.7
Expected return on plan assets (at the beginning of the year)	7.5	7.5	7.5	8.5	8.5	8.5
Rate of long-term compensation increase	3.0	3.0	3.0	4.5	4.5	5.4

**Expected Return on Plan Assets.** The expected rate of return for German and non-German plan assets is primarily derived from asset allocation of pension funds and expected future returns for the various asset classes in portfolios. The investment committees survey banks and large asset portfolio managers about their expectations of future returns of the relevant market indices. The allocation weighted average return expectations serves an initial indicator for the expected rate of return on plan assets for each pension fund.

In addition, we consider long-term actual portfolios results and historical market returns in evaluation in order to reflect the long-term character of the expected rate.

From January 1, 2003 to December 31, 2005, the expected rate of return was 7.5% and 8.5% for German and non-German plans, respectively. For 2006, the expected rates of return on plan assets for German and non-German plans are the same as the respective rates used in 2005.

**Net Pension Cost.** The components of net pension cost were for the years ended December 31, 2005, 2004 and 2003 as follows:

(in millions of €)	Total	German Plans	2005 Non-German Plans	Total	German Plans	2004 Non-German Plans	Total	German Plans	2003 Non-German Plans
Service cost	739	296	443	681	256	425	600	256	344
Interest cost	1,874	588	1,286	1,878	586	1,292	2,029	632	1,397
Expected return on plan assets	(2,377)	(673)	(1,704)	(2,339)	(614)	(1,725)	(2,379)	(509)	(1,870)
Amortization of:									
Unrecognized net actuarial (gains) losses	600	183	417	372	141	231	226	173	53
Unrecognized prior service cost	279	–	279	292	–	292	287	–	287
Net periodic pension cost	1,115	394	721	884	369	515	763	552	211
Settlement/curtailment loss	16	–	16	64	–	64	74	50	24
Net pension cost	1,131	394	737	948	369	579	837	602	235

**Contributions.** Employer contributions to the Group's defined benefit pension plans were €1,661 million and €1,649 million for the years ended December 31, 2005 and 2004, respectively. Employer cash contributions to the Group's defined benefit pension plans are expected to approximate €1.9 billion in 2006, of which €0.5 billion is estimated to be needed to satisfy minimum funding and contractual requirements and an additional €1.4 billion is expected to be contributed at the Group's discretion.

**Estimated Future Pension Benefit Payments.** Pension benefits pertaining to the Group's German and non-German plans were €565 million and €1,631 million, respectively during 2005, and €550 million and €1,541 million, respectively during 2004. The total estimated future pension benefits to be paid by the Group's pension plans for the next 10 years approximates €25.4 billion and are expected to be paid as follows:

	2006	2007	2008	2009	2010	2011-2015
(in billions of €)						
German Plans	0.6	0.6	0.6	0.7	0.7	3.9
Non-German Plans	1.7	1.8	1.8	1.8	1.9	9.3
Total	2.3	2.4	2.4	2.5	2.6	13.2

**Accumulated Benefit Obligation.** For all pension plans that have an accumulated benefit obligation in excess of plan assets, information pertaining to the accumulated benefit obligation and plan assets are presented as follows:

	At December 31, 2005	At December 31, 2004	At December 31, 2003
(in millions of €)			
Projected benefit obligation	41,099	33,749	31,487
Accumulated benefit obligation	39,379	32,627	30,547
Plan Assets	33,953	27,141	25,660

The pretax increase of the minimum pension liability in 2005 resulted in a reduction of stockholder's equity by €170 million (2004: €1,224 million) and is included in other comprehensive loss.

### Other Postretirement Benefits

Certain DaimlerChrysler operations in the U.S. and Canada provide postretirement health and life insurance benefits to their employees. Upon retirement from DaimlerChrysler, the employees may become eligible for continuation of these benefits. The benefits and eligibility rules may be modified.

**Funded Status.** The funded status of the accumulated postretirement benefit obligations is as follows:

	At December 31, 2005	2004
(in millions of €)		
Accumulated postretirement benefit obligations	17,711	14,355
Less fair value of plan assets	(1,912)	(1,547)
Funded status	15,799	12,808

A reconciliation of the funded status to the liability recognized for accrued postretirement health and life insurance benefits in pension plans and similar obligations is as follows:

	At December 31, 2005	2004
(in millions of €)		
Funded status	15,799	12,808
Amounts not recognized:		
Unrecognized actuarial net losses	(6,189)	(4,721)
Unrecognized prior service cost	215	(66)
Net liability recognized	9,825	8,021

The development of the accumulated postretirement benefit obligations and the plan assets in 2005 and 2004 is as follows:

(in millions of €)	At December 31,	
	2005	2004
Change in accumulated postretirement benefit obligations:		
Accumulated postretirement benefit obligations at beginning of year	14,355	14,910
Foreign currency exchange rate changes	2,280	(1,053)
Service cost	273	255
Interest cost	917	863
Plan amendments	(289)	4
Actuarial losses	1,004	127
Settlement/curtailment loss	15	46
Benefits paid	(844)	(797)
Accumulated postretirement benefit obligations at end of year	17,711	14,355
Change in plan assets:		
Fair value of plan assets at beginning of year	1,547	1,531
Foreign currency exchange rate changes	241	(132)
Actual gains (losses) on plan assets	134	160
Plan participant contributions	1	-
Benefits paid	(11)	(12)
Fair value of plan assets at end of year	1,912	1,547

**Plan Assets.** At December 31, 2005, plan assets were invested in diversified portfolios that consisted primarily of debt and equity securities. Assets and income accruing on all pension trust and relief funds are used solely to pay benefits and administer the plans. The Group's other benefit plan asset allocation at December 31, 2005 and 2004, and target allocations for 2006 are as follows:

(in % of plan assets)	2006 planned	2005	2004
Equity securities	65	67	68
Debt securities	35	33	32
Real estate	-	-	-

Asset allocation is based on a Benchmark Portfolio designed to diversify investments among the following primary asset classes: U.S. Equity, International Equity and U.S. Fixed Income. The objective of the Benchmark Portfolio is to achieve a reasonable balance between risk and return.

The investment process is overseen by Investment Committees which consist of senior financial management and other appropriate executives. The Investment Committees meet regularly to approve the asset allocations and review the risks and results of the funds and approve the selection and retention of external managers of specific portfolios.

The majority of investments reflect the asset classes designated by the Benchmark Portfolio. To maintain a wide range of diversification and improve return possibilities, a small percentage of assets (approximately 5%) is allocated to highly promising markets such as High Yield Debt and Emerging Markets. Internal controlling units monitor all investments regularly. External depositary banks provide safekeeping of securities as well as reporting of transactions and assets.

**Estimated Future Subsidies due to Medicare Act.** The total estimated future subsidies due to Medicare Act for the next 10 years approximate €717 million and are expected to be received as follows:

(in millions of €)	2006	2007	2008	2009	2010	2011-2015
Medicare Act	53	57	61	65	69	412



**Contributions.** DaimlerChrysler did not make any contributions to its other postretirement plans in 2005 or 2004 and does not expect to make any contributions in 2006.

**Assumptions.** The measurement date for the Group's accumulated other postretirement benefit obligations and plan assets is generally December 31. The measurement date for the Group's net periodic postretirement benefit cost is principally January 1. Assumed discount rates and rates of increase in remuneration used in calculating the accumulated postretirement benefit obligations together with long-term rates of return on plan assets vary according to the economic conditions of the country in which the plans are situated.

The weighted average assumptions used to determine the benefit obligations of the Group's postretirement benefit plans at December 31 were as follows (in %):

	2005	2004	2003
Average assumptions:			
Discount rate	5.7	6.0	6.3
Health care inflation rate in following (or "base") year	7.4	8.0	8.0
Ultimate health care inflation rate (2011/2011/2008)	5.0	5.0	5.0

The weighted average assumptions used to determine the net periodic postretirement benefit cost of the Group's postretirement benefit plans were as follows (in %):

	2005	2004	2003
Average assumptions:			
Discount rate	6.0	6.3	6.8
Expected return on plan assets (at the beginning of the year)	8.5	8.5	8.5
Health care inflation rate in following (or "base") year	8.0	8.0	10.0
Ultimate health care inflation rate (2011)	5.0	5.0	5.0

U.S. postretirement benefit plan assets utilize an asset allocation substantially similar to that of the pension assets so the expected rate of return is the same for both pension and postretirement benefit plan asset portfolios. Accordingly, the information about the expected rate of return on pension plan assets described above also applies to postretirement plan assets. For 2006 the expected rate of return on plan assets is the same as the rate applied in 2005.

The assumptions have a significant effect on the amounts reported for the Group's health care plans. The following schedule presents the effects of a one-percentage-point change in assumed ultimate health care cost inflation rates as from 2011:

(in millions of €)	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost components	191	(129)
Effect on accumulated postretirement benefit obligations	2,223	(1,805)

**Net Postretirement Benefit Cost.** The components of net periodic postretirement benefit cost for the years ended December 31, 2005, 2004 and 2003 were as follows:

(in millions of €)	2005	2004	2003
Service cost	273	255	278
Interest cost	917	863	983
Expected return on plan assets	(155)	(159)	(217)
Amortization of:			
Unrecognized net actuarial (gains) losses	301	208	220
Unrecognized prior service cost	(8)	3	24
Net periodic postretirement benefit cost	1,328	1,170	1,288
Settlement/curtailment loss	3	3	2
Net postretirement benefit cost	1,331	1,173	1,290

**Estimated Future Postretirement Benefit Payments.**

Postretirement benefits paid pertaining to the Group's plans were €844 million and €797 million during 2005 and 2004, respectively. The total estimated future postretirement benefits to be paid by the Group's plans for the next 10 years approximate €11.6 billion and are expected to be paid as follows:

	2006	2007	2008	2009	2010	2011-2015
(in billions of €)						
Expected payments	1.0	1.0	1.1	1.1	1.2	6.2

**Prepaid Employee Benefits.** In 1996 DaimlerChrysler established a Voluntary Employees' Beneficiary Association ("VEBA") trust for payment of non-pension employee benefits. At December 31, 2005 and 2004, the VEBA trust had a balance of €2,392 million and €2,023 million, respectively, of which the long-term assets in the VEBA trust of €1,835 million and €1,474 million, respectively, are reported as plan assets for the accumulated postretirement benefit obligations and not reported in DaimlerChrysler's Consolidated Balance Sheets. The short-term assets in the VEBA trust are classified as cash and marketable securities in DaimlerChrysler's Consolidated Balance Sheets. No contributions to the VEBA trust were made in 2005, 2004 and 2003. DaimlerChrysler does not expect to make any contributions to the VEBA trust in 2006.

**b) Other Accrued Liabilities**

Other accrued liabilities consisted of the following:

	At December 31,	
(in millions of €)	2005	2004
Product guarantees	11,632	10,877
Accrued sales incentives	5,381	4,680
Accrued personnel and social costs	3,219	2,938
Derivative financial instruments	1,706	326
Other	5,866	5,850
	27,804	24,671

The Group issues various types of product guarantees under which it generally guarantees the performance of products delivered and services rendered for a certain period or term (see Note 32). The accrued liability for these product guarantees covers expected costs for legally and contractually obligated warranties as well as expected costs for policy coverage, recall campaigns and buyback commitments. The liability 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 changes in provisions for those product guarantees are summarized as follows:

(in millions of €)	2005	2004
Balance at January 1	10,877	9,230
Currency change and change in consolidated companies	767	334
Utilizations and transfers	(5,587)	(4,712)
Product guarantees issued in respective year	5,012	4,807
Changes from prior period product guarantees issued	563	1,218
Balance at December 31	11,632	10,877

The amount included in the line item "Product guarantees issued in respective year" represents the additions to the accruals for product guarantees recognized in the corresponding year for products sold in this year.

In 2005, "Changes from prior period product guarantees issued" are partly offset by payments received from suppliers in settlement of claims for recovery of the costs for recall campaigns.

The Group also offers customers the opportunity to purchase separately priced extended warranty and maintenance contracts. The revenue from these contracts is deferred at the inception of the contract and recognized into income over the contract period in proportion to the costs expected to be incurred based on historical information. Included in “Deferred income” on the Consolidated Balance Sheets, the deferred revenue from these contracts is summarized as follows:

(in millions of €)	2005	2004
Balance at January 1	1,115	1,129
Currency change and transfers	226	(147)
Deferred revenue current period	694	611
Earned revenue current period	(487)	(478)
Balance at December 31	1,548	1,115

The provisions for derivative financial instruments are mainly due to exchange rate risks from financial liabilities and future sales revenues. The deviation from previous year is especially attributable to the changed currency relation of the Euro in relation to the U.S. dollar.

## 26. Financial Liabilities

(in millions of €)		At December 31,	
		2005	2004
<b>Short-term:</b>			
Notes/Bonds		12,530	10,760
Commercial paper		9,104	6,824
Liabilities to financial institutions		9,860	10,309
Liabilities to affiliated companies		417	438
Deposits from direct banking business		3,045	2,945
Loans, other financial liabilities		27	608
Liabilities from capital lease and residual value guarantees		1,500	1,422
Short-term financial liabilities (due within one year)		36,483	33,306
<b>Long-term:</b>			
	<b>Maturities</b>		
Notes/Bonds of which due in more than five years €10,939 (2004: €10,492)	2007-2097	34,902	33,919
Liabilities to financial institutions of which due in more than five years €1,469 (2004: €1,265)	2007-2019	7,612	7,355
Liabilities to affiliated companies of which due in more than five years €- (2004: €-)		76	-
Deposits from direct banking business of which due in more than five years €9 (2004: €9)		160	179
Loans, other financial liabilities of which due in more than five years €- (2004: €-)		-	69
Liabilities from capital lease and residual value guarantees of which due in more than five years €210 (2004: €210)		1,699	1,442
Long-term financial liabilities		44,449	42,964
		80,932	76,270

Weighted average interest rates for notes/bonds, commercial paper, liabilities to financial institutions and deposits from direct banking business are 5.70 %, 4.08 %, 4.54 % and 2.24 %, respectively, at December 31, 2005.

Commercial papers are primarily denominated in euros and U.S. dollars and include accrued interest. Liabilities to financial institutions are partly secured by mortgage conveyance, liens and assignment of receivables of approximately €2,219 million (2004: €2,232 million).

Aggregate nominal amounts of financial liabilities maturing during the next five years and thereafter are as follows:

	2006	2007	2008	2009	2010	there- after
(in millions of €)						
Financial liabilities	36,601	13,474	11,760	4,169	2,370	12,482

At December 31, 2005, the Group had unused short-term credit lines of €7,099 million (2004: €9,278 million) and unused long-term credit lines of €10,806 million (2004: €8,981 million). The credit lines include an \$18 billion revolving credit facility with a syndicate of international banks. The credit agreement is comprised of a multi-currency revolving credit facility which allows DaimlerChrysler AG to borrow up to \$5 billion until December 2009 and \$4.8 billion until December 2010, respectively, an U.S. dollar revolving credit facility which allows DaimlerChrysler North America Holding Corporation, a wholly-owned subsidiary of DaimlerChrysler AG, to borrow up to \$6 billion available until May 2006, and a multi-currency revolving credit facility for working capital purposes which allows DaimlerChrysler AG and several subsidiaries to borrow up to \$7 billion until May 2008. A part of the \$18 billion facility serves as back-up for commercial paper drawings.

## 27. Trade Liabilities

(in millions of €)	At December 31, 2005			At December 31, 2004		
	Total	Due after one and before five years	Due after five years	Total	Due after one and before five years	Due after five years
Trade liabilities	14,591	1	–	12,920	2	–

## 28. Other Liabilities

(in millions of €)	At December 31, 2005			At December 31, 2004		
	Total	Due after one and before five years	Due after five years	Total	Due after one and before five years	Due after five years
Liabilities to affiliated companies	334	–	224	354	10	–
Liabilities to related companies	96	5	–	77	–	–
Other liabilities	8,623	260	139	8,314	542	166
	9,053	265	363	8,745	552	166

As of December 31, 2005, other liabilities include tax liabilities of €1,147 million (2004: €803 million) and social benefits due of €808 million (2004: €774 million).

## **29. Deferred Income**

As of December 31, 2005, €3,105 million of the total deferred income is to be recognized after more than one year (2004: €2,088 million).

## Notes to Consolidated Statements of Cash Flows

## Other Notes

### 30. Consolidated Statements of Cash Flows

The following cash flows represent supplemental information with respect to net cash provided by operating activities:

(in millions of €)	Year ended December 31,		
	2005	2004	2003
Interest paid	3,652	3,092	3,207
Income taxes paid	700	1,373	937

For the year ended December 31, 2005, net cash provided by financing activities included payments/(proceeds) of early terminated cross currency hedges, related to financial liabilities, of €72 million (2004: €(1,304) million; 2003: €(556) million).

### 31. Legal Proceedings

Various legal proceedings are pending against the Group. We believe that such proceedings in the main constitute ordinary routine litigation incidental to its business.

The official receiver of Garage Bernard Tutrice S.A., France, a former customer of DaimlerChrysler France S.A.S., filed a lawsuit against DaimlerChrysler France in the commercial court of Versailles in November 2003. The complaint seeks damages of €455 million alleged to have resulted from tax fraud committed by the former Chairman of Tutrice S.A. who was convicted of tax fraud in April, 2001. In January 2006, the court ordered DaimlerChrysler France to pay €30 million in compensatory damages, and rejected the rest of the claim.

In October 2005, DaimlerChrysler Australia/Pacific Pty. Ltd. ("DCAuP") settled the previously reported actions filed in the Supreme Court of New South Wales by National Australia Bank Limited and the liquidator in connection with the financial failure of a customer. The settlement agreement provides for payment by DCAuP of AUD 55 million and a release from all further claims.



DaimlerChrysler AG in its capacity as successor of Daimler-Benz AG is a party to a valuation proceeding (Spruchstellenverfahren) relating to a subordination and profit transfer agreement that existed between Daimler-Benz AG and the former AEG AG ("AEG"). In 1988, former AEG shareholders filed a petition to the regional court in Frankfurt claiming that the consideration and compensation stipulated in the agreement was inadequate. In 1994, a court-appointed valuation expert concluded that the consideration provided for in the agreement was adequate. Following a Federal Constitutional Court decision in an unrelated case, the Frankfurt court in 1999 instructed the expert to employ a market value approach in its valuation analysis rather than the capitalized earnings value approach previously used. The court also instructed the expert in 2004 to take into account additional findings of the Federal Supreme Court elaborating further on the valuation issue addressed by the Federal Constitutional Court. In September 2004, the expert delivered the requested valuation opinion. If the new opinion were to be followed by the Frankfurt court, the valuation ratio would increase significantly in favour of the AEG shareholders. DaimlerChrysler believes the original consideration and compensation to be adequate and the second valuation opinion to be unwarranted. DaimlerChrysler intends to defend itself vigorously against the claims in this proceeding.

In 1999, former shareholders of Daimler-Benz AG instituted a valuation proceeding (Spruchstellenverfahren) against DaimlerChrysler AG at Stuttgart district court. These proceedings relate to the merger of Daimler-Benz AG and DaimlerChrysler AG in connection with the business combination of Daimler-Benz and Chrysler Corporation in 1998. In the course of the merger, 1.8% of all shares in Daimler-Benz AG were involuntarily exchanged for DaimlerChrysler shares. Some shareholders claim that the ratio used in the course of the merger did not correspond to the actual value of the Daimler-Benz shares. An expert commissioned by the court presented his report in December 2005. In it, he has calculated various alternative values for payments to be made. These alternatives range from confirming the appropriateness of the ratio used to considerable payments to be made to the former Daimler-Benz shareholders with respect to the involuntarily exchanged shares. DaimlerChrysler continues to view the exchange ratio set by the company at the time as appropriate, and the alternative values calculated by the court expert as unfounded. We intend to continue defending ourselves vigorously against these claims.

Various legal proceedings are pending against DaimlerChrysler AG or its subsidiaries alleging defects in various components (including occupant restraint systems, seats, brake systems, tires, ball joints, engines and fuel systems) in several different vehicle models or allege design defects relating to vehicle stability (rollover propensity), pedal misapplication (sudden acceleration), brakes (vibration and brake transmission shift interlock), or crashworthiness. Some of these proceedings are filed as class action lawsuits that 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 proceedings could require DaimlerChrysler or its subsidiaries to pay partially substantial compensatory and punitive damages, or undertake service actions, recall campaigns or other costly actions.

Seven purported class action lawsuits are pending in various U.S. courts regarding alleged front disc brake judder in 1999–2004 model year Jeep® Grand Cherokee vehicles and the treatment of related warranty claims. Plaintiffs seek compensatory and punitive damages, costs of repair or replacement, attorneys' fees and costs.

Three purported class action lawsuits are pending in various U.S. courts that allege that the paint applied to 1982–1997 model year Chrysler, Plymouth, Jeep® and Dodge vehicles delaminates, peels or chips as the result of defective paint, paint primer, or application processes. Plaintiffs seek compensatory and punitive damages, costs of repair or replacement, attorneys' fees and costs. Seven other previously reported class action lawsuits regarding paint delamination have been dismissed.

In November 2004, a jury awarded \$3.75 million in compensatory damages and \$98 million in punitive damages against DaimlerChrysler Corporation in *Flax v. DaimlerChrysler Corporation*, a case filed in Davidson County Circuit Court in the state of Tennessee. The complaint alleged that the seat back in a 1998 Dodge Grand Caravan was defective and collapsed when the Caravan was struck by another vehicle resulting in the death of an occupant. In June 2005 the trial court reduced the punitive damage award to \$20 million in response to motions filed by DaimlerChrysler Corporation challenging the verdict and the damage awards. DaimlerChrysler Corporation is appealing the verdict and the damage awards.

In October 2005, the Arizona Court of Appeals reversed the \$50 million punitive damages award and affirmed the \$3.75 million compensatory damages award in *Douglas v. DaimlerChrysler Corporation*, a case involving the front seat back strength of a 1996 Dodge Ram club cab pickup. DaimlerChrysler Corporation is defending approximately 25 other complaints involving vehicle seat back strength.

The U.S. Environmental Protection Agency filed a complaint in the U.S. District Court for the District of Columbia against DaimlerChrysler Corporation in December 2005 alleging defects in catalytic converters and on-board diagnostic systems in certain Chrysler Group vehicles, and failure to properly disclose defects in such converters. The parties have agreed to the terms of a consent decree in settlement of the complaint. The settlement requires DaimlerChrysler Corporation to, among other things, extend the warranties on catalytic converters in certain 1996 – 2000 vehicles, and reprogram the powertrain control modules in certain 1996 – 1998 vehicles with updated on-board diagnostic systems calibrations. DaimlerChrysler Corporation also settled a related parallel administrative proceeding with the California Air Resources Board. The estimated cost of such remedial actions and related settlement payments is approximately \$95 million.

Like other companies in the automotive industry, DaimlerChrysler (primarily DaimlerChrysler Corporation) have experienced a growing number of lawsuits which seek compensatory and punitive damages for illnesses alleged to have resulted from direct and indirect exposure to asbestos used in some vehicle components (principally brake pads). Typically, these suits name many other corporate defendants and may also include claims of exposure to a variety of non-automotive asbestos products. A single lawsuit may include claims by multiple plaintiffs alleging illness in the form of asbestosis, mesothelioma or other cancer or illness. The number of claims in these lawsuits increased from approximately 14,000 at the end of 2001 to approximately 28,000 at the end of 2005. In the majority of these cases, plaintiffs do not specify their alleged illness and provide little detail about their alleged exposure to components in DaimlerChrysler's vehicles. Some plaintiffs do not exhibit current illness, but seek recovery based on potential future illness. DaimlerChrysler believes that many of these lawsuits involve unsubstantiated illnesses or assert only tenuous connections with components in its vehicles, and that there is credible scientific evidence to support the dismissal of many of these claims. Although DaimlerChrysler's expenditures to date in connection with such claims have not been material to its financial condition, it is possible that the number of these lawsuits will continue to grow, especially those alleging life-threatening illness, and that the company could incur significant costs in the future in resolving these lawsuits.

A class action lawsuit was filed in 2002 against Mercedes-Benz USA, LLC ("MBUSA"), and its wholly-owned subsidiary Mercedes-Benz Manhattan, Inc., and is pending in the United States District Court for the District of New Jersey. The lawsuit alleges that those companies participated in a price fixing conspiracy among Mercedes-Benz dealers. MBUSA and Mercedes-Benz Manhattan continue to defend themselves vigorously.

DaimlerChrysler received a "statement of objections" from the European Commission on April 1, 1999, which alleged that the Group violated EU competition rules by impeding cross-border sales of Mercedes-Benz passenger cars to final customers in the European Economic Area. In October 2001, the European Commission found that DaimlerChrysler infringed EU competition rules and imposed a fine of approximately €72 million. On September 15, 2005, the Court of First Instance of the European Court of Justice annulled the decision in part and reduced the fine to an amount of €9.8 million. Neither party appealed the judgment, which is now final.

More than 80 purported class action lawsuits alleging violations of antitrust law are pending against DaimlerChrysler and several of its U.S. subsidiaries, six other motor vehicle manufacturers, operating subsidiaries of those companies in both the United States and Canada, the National Automobile Dealers Association and the Canadian Automobile Dealers Association. Some complaints were filed in federal courts in various states and others were filed in state courts. The complaints allege that the defendants conspired to prevent the sale to U.S. consumers of vehicles sold by dealers in Canada in order to maintain new car prices at artificially high levels in the U.S. They seek treble damages on behalf of everyone who bought or leased a new vehicle in the U.S. since January 1, 2001. DaimlerChrysler believes the complaints against it are without merit and plans to defend itself against them vigorously.

DaimlerChrysler Services North America LLC ("DCSNA") settled the two previously reported class action lawsuits alleging racially discriminatory credit practices. The court approved settlements require, among other things, training programs for employees, consumer financial literacy programs, and community outreach for African-Americans and Hispanics.

The Federal Republic of Germany has initiated arbitration proceedings against DaimlerChrysler Financial Services AG, Deutsche Telekom AG and Toll Collect GbR. The statement of claims of the Federal Republic of Germany was received in August 2005. The Federal Republic of Germany is mainly seeking damages, contractual penalties and the transfer of intellectual property rights to Toll Collect GmbH. In particular, the Federal Republic of Germany is claiming lost revenues of €3.51 billion plus interest (€236 million through July 31, 2005) for the period September 1, 2003, through December 31, 2004, and contractual penalties of approximately €1.65 billion through July 31, 2005 plus interest (€107 million through July 31, 2005). Since some of the contractual penalties, among other things, 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. DaimlerChrysler believes the claims of the Federal Republic of Germany are without merit and intends to defend itself vigorously against these claims.

Freightliner LLC acquired in September 2000 Western Star Trucks Holdings Ltd. Prior to its acquisition by Freightliner, Western Star had completed the sale of a truck manufacturer, ERF (Holdings) plc, to MAN AG for CAD195 million. In September 2002, MAN filed a claim against Freightliner Ltd. (formerly Western Star) with the London Commercial Court for fraud and breach of representations and warranties in the share purchase agreement, alleging that ERF's accounts and financial statements were misstated and seeking damages in excess of GBP300 million. Freightliner Ltd. subsequently filed a contribution claim with that court against Ernst & Young, ERF's and Western Star's auditors. In October 2005, the court ruled that Freightliner Ltd. was vicariously liable for fraud by an employee of ERF in connection with the preparation of ERF's financial accounts, and also found in favor of Ernst & Young on the contribution claim. Freightliner Ltd. has appealed both decisions on liability. In December 2005, the court awarded MAN an interim payment of GBP250 million, based on a minimum estimate of the parties, which amount significantly exceeds Freightliner Ltd.'s net assets. A hearing to determine final damages may be deferred until resolution of the appeals. In a related matter, MAN sued Freightliner LLC in February 2005 alleging that assets were fraudulently transferred from Freightliner Ltd. while the above described proceeding was pending, and seeking payment from Freightliner LLC of the damages awarded against Freightliner Ltd. in that proceeding. The complaint, which was amended in December 2005, is pending in Multnomah County Circuit Court in the state of Oregon. Freightliner LLC intends to defend itself vigorously in this matter.

Tracinda Corporation filed a lawsuit in 2000 against DaimlerChrysler AG and some of the members of its Supervisory Board and Board of Management alleging that the defendants violated U.S. securities law and committed fraud in obtaining approval from Chrysler stockholders of the business combination between Chrysler and Daimler-Benz in 1998. On April 7, 2005, the United States District Court for the District of Delaware rendered a judgment in favor of the defendants and against Tracinda Corporation on all claims finding that there had been no fraud and no violation of U.S. securities laws. Tracinda is appealing the decision and filed its opening brief with the United States Court of Appeals for the Third Circuit in January 2006.

A purported class action was filed against DaimlerChrysler AG and some members of its Board of Management in 2004 in the United States District Court for the District of Delaware on behalf of current or former DaimlerChrysler shareholders who are neither citizens nor residents of the United States and who acquired their DaimlerChrysler shares on or through a foreign stock exchange. On January 24, 2006, the Court granted DaimlerChrysler's motion to dismiss the complaint, declining to exercise jurisdiction over the case. The complaint, which had not yet been served on any member of DaimlerChrysler's Board of Management, contained allegations similar to those in the Tracinda complaint and the prior class action complaint. On February 17, 2006, the plaintiffs filed a notice of appeal of this decision to the United States Court of Appeals for the Third Circuit.

Several lawsuits, including putative class action lawsuits, were filed in 2002 against a large number of companies from a wide variety of industries and nationalities asserting claims relating to the practice of apartheid in South Africa. One of the lawsuits names DaimlerChrysler AG as a defendant and another one names a U.S. subsidiary of DaimlerChrysler AG as a defendant. The lawsuits were consolidated in the United States District Court for the Southern District of New York for pretrial purposes. On November 29, 2004, the Court granted a motion to dismiss filed by a group of defendants, including DaimlerChrysler. Plaintiffs filed notices of appeal of the Court's decision. The appeal has now been fully briefed. Oral argument was held in January 2006.

In August 2004, the U.S. Securities and Exchange Commission ("SEC") opened a formal investigation into possible violations by DaimlerChrysler of the anti bribery, record keeping and internal control provisions of the U.S. Foreign Corrupt Practices Act (FCPA). The U.S. Department of Justice ("DOJ") has also requested information in this regard. DaimlerChrysler is voluntarily sharing with the DOJ and the SEC information from its own internal investigation of certain accounts, transactions and payments, primarily relating to transactions involving government entities, and is providing the agencies with information pursuant to outstanding subpoenas and other requests. Following is a summary of information DaimlerChrysler uncovered to date in connection with its internal investigation. Further issues may arise as the company completes its investigation.

- DaimlerChrysler determined that improper payments were made in a number of jurisdictions, primarily in Africa, Asia and Eastern Europe. These payments raise concerns under the U.S. FCPA, German law, and the laws of other jurisdictions.
- In connection with its internal investigation, DaimlerChrysler has identified and selfreported potential tax liabilities to tax authorities in several jurisdictions. These tax liabilities of DaimlerChrysler AG and certain foreign affiliates result from misclassifications of, or the failure to record, commissions and other payments and expenses.
- DaimlerChrysler determined that certain payable accounts related to consolidated subsidiaries were not eliminated during consolidation.
- DaimlerChrysler is taking action to address and resolve the issues identified in the course of our investigation to safeguard against the recurrence of improper conduct. This includes evaluating and revising its governance policies and internal control procedures.

In connection with these issues, DaimlerChrysler recognized charges in its 2005 consolidated statement of income to correct misstatements relating to the years 2003 and 2004 which had the effect of reducing 2005 operating profit by €16 million and reducing 2005 net income by €64 million. In addition, DaimlerChrysler adjusted stockholders' equity as at January 1, 2003 to correct accumulated misstatements in the periods 1994 through 2002 which had the effect of reducing the January 1, 2003 balance of stockholders' equity by €222 million. DaimlerChrysler recognized a charge of €125 million in the third quarter of 2005 with respect to tax liabilities that had been identified in the course of the internal investigation by the date the unaudited interim financial statements for the third quarter 2005 were issued. Following its continued investigation of the misstatements discussed above, DaimlerChrysler subsequently determined that any adjustments for pre-2003 periods should be reflected in the January 1, 2003 balance of stockholders' equity. Accordingly, DaimlerChrysler reversed €100 million of the €125 million charge originally recognized in the third quarter 2005. This amount is reflected in the €222 million reduction of the January 1, 2003 balance of stockholders' equity.

DaimlerChrysler's internal investigation into possible violations of law is ongoing. If the DOJ or the SEC determines that violations of U.S. law have occurred, it could seek criminal or civil sanctions, including monetary penalties, against DaimlerChrysler and certain of its employees, as well as additional changes to its business practices and compliance programs.

DaimlerChrysler also determined that for a number of years a portion of the taxes related to compensation paid to expatriate employees was not properly reported. In connection with this underpayment of taxes, DaimlerChrysler recognized charges in its 2005 consolidated statement of income to correct corresponding overstatements relating to the years 2003 and 2004 which had the effect of reducing 2005 operating profit by €34 million and reducing 2005 net income by €25 million. In addition, DaimlerChrysler adjusted stockholders' equity as at January 1, 2003 to correct accumulated overstatements of net income in the periods 1994 through 2002 which had the effect of reducing the January 1, 2003 balance of stockholders' equity by €84 million. DaimlerChrysler voluntarily reported potential tax liabilities resulting from these issues to the tax authorities in several jurisdictions.

In November 2004, the SEC issued a formal order of investigation concerning 13 named participants in the United Nations Oil-for-Food Program seeking to determine whether there had been acts in violation of the provisions of the Securities Exchange Act of 1934 requiring the maintenance of books, records and accounts, the maintenance of internal accounting controls and prohibiting specified payments to foreign officials for improper purposes. In July 2005, the SEC supplemented the formal order of investigation to add DaimlerChrysler to the list of named companies. In that regard, DaimlerChrysler received an order from the SEC to provide a written statement and to produce certain documents regarding transactions in that Program.

DaimlerChrysler is responding to the SEC's request. The DOJ has also requested information in this regard. In addition, the United Nations Independent Inquiry Committee ("IIC") that investigated the administration and management of the United Nations Oil-for-Food Program asked DaimlerChrysler to provide assistance in the IIC's evaluation of certain transactions under that Program. On October 27, 2005, the IIC issued its final report on the United Nations Oil-for-Food Program, which includes a narrative describing DaimlerChrysler's alleged conduct during the Program. In its report, the IIC concludes that DaimlerChrysler knowingly made or caused to be made a kickback payment of approximately €6,950 to the former Government of Iraq, that a DaimlerChrysler employee signed two side agreements to make additional payments, and that this conduct was in contravention of Program rules and the United Nations sanctions against Iraq. It is possible that additional payments may be identified as a result of the ongoing SEC and DOJ investigations. If the DOJ or the SEC determines that violations of U.S. law have occurred, it could seek criminal or civil sanctions, including monetary penalties, against DaimlerChrysler and certain of its employees.

The BaFin (German Federal Financial Supervisory Authority) is investigating whether DaimlerChrysler AG's public ad hoc disclosure on July 28, 2005 that Professor Schrempp will leave the company at the end of 2005 was timely. If the BaFin determines that the company improperly filed such disclosure, it could fine DaimlerChrysler up to €1 million. In a related matter, the District Attorney's Office in Stuttgart closed the previously reported investigation of alleged insider trading in DaimlerChrysler shares by two DaimlerChrysler senior executives prior to the ad hoc disclosure. In January 2006 the District Attorney's Office also opened an investigation of alleged insider tipping by the Chairman of our Supervisory Board in advance of such disclosure. In February 2006, shareholders of DaimlerChrysler who claim damages based on the alleged unduly delayed ad hoc disclosure filed an application for a model case pursuant to German law (KapMuG).

Litigation is subject to many uncertainties and DaimlerChrysler cannot predict the outcome of individual matters with assurance. It is reasonably possible that the final resolution of some of these matters could require the Group to make expenditures, in excess of established reserves, over an extended period of time and in a range of amounts that DaimlerChrysler cannot reasonably estimate. Although the final resolution of any such matters could have a material effect on the Group's consolidated operating results for a particular reporting period, DaimlerChrysler believes that it should not materially affect its consolidated financial position.

## 32. Contingent Obligations and Commercial Commitments

**Contingent Obligations.** Obligations from issuing guarantees as a guarantor (excluding product warranties) are as follows:

(in millions of €)	At December 31, Maximum potential future obligations		At December 31, Amount recognized as a liability	
	2005	2004	2005	2004
Guarantees for third party liabilities	1,819	2,653	412	486
Guarantees under buy-back commitments	1,499	1,646	406	536
Other contingent obligations	249	273	125	178
	3,567	4,572	943	1,200

Guarantees for third party liabilities principally represent guarantees of indebtedness of non-consolidated affiliated companies and third parties and commitments by Group companies as to contractual performance by joint venture companies and certain non-incorporated companies, partnerships, and project groups. The terms under these arrangements generally cover the range of the related indebtedness of the non-consolidated affiliated companies and third parties or the contractual performance period of joint venture companies, non-incorporated companies, partnerships, and project groups. The parent company of the Group (DaimlerChrysler AG) provides guarantees for certain obligations of its consolidated subsidiaries towards third parties. At December 31, 2005, these guarantees amounted to €54.0 billion. To a lesser extent, consolidated subsidiaries provide guarantees to third parties of obligations of other consolidated subsidiaries. All intercompany guarantees are eliminated in consolidation and therefore are not reflected in the above table.

DaimlerChrysler AG provides a guarantee to Deutsche Bank AG to cover the obligations of employees that are participating in its corporate credit card program for corporate travel expenses which is operated by Deutsche Bank AG. To date, DaimlerChrysler has not incurred any significant payments from that guarantee which amounted to €651 million as of December 31, 2004. In March 2005, DaimlerChrysler AG and Deutsche Bank AG concluded an additional agreement that supplements the existing framework agreement, limiting the guarantee for current and future credit card obligations arising from that program to €20 million.

Guarantees under buy-back commitments principally represent arrangements whereby the Group guarantees specified trade-in or resale values for assets or products sold to non-consolidated affiliated companies and third parties. Such guarantees provide the holder with the right to return purchased assets or products back to the Group, partially also in connection with a future purchase of products or services. The table above excludes 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.

Other contingent obligations principally include pledges or indemnifications related to the quality or timing of performance by third parties or participations in performance guarantees of consortiums. Performance guarantees typically provide the purchaser of goods or services with the right to be reimbursed for losses incurred or other penalties if the third party or the consortium fails to perform. Amounts accrued under performance guarantees reflect estimates of probable losses resulting from a third party's failure to perform under obligating agreements.

DaimlerChrysler AG and its wholly owned subsidiary DaimlerChrysler Financial Services AG have provided various guarantees towards third parties with respect to the investment in Toll Collect. See Note 3 for detailed information regarding Toll Collect including the guarantees issued. Of the guarantees mentioned in Note 3, only the €600 million guarantee for the bank loan is reflected in the above table in the line "Guarantees for third party liabilities". The other guarantees are not reflected in the above table since the maximum potential future obligation resulting from the remaining guarantees cannot be accurately estimated. Accruals established in this regard are also not included in the above table.

When circumstances indicate that payment is probable and the amount is reasonably estimable, guarantees made by the Group are recognized as a liability in the consolidated balance sheet in accordance with SFAS 5 "Accounting for Contingencies", with an offsetting amount recorded as an expense (contingent obligation). For guarantees issued or modified after December 31, 2002, the Group records guarantees at fair value, unless a higher amount must be accrued for in accordance with SFAS 5 (non-contingent obligations). Both contingent obligations and non-contingent obligations are included in the column "Amount recognized as a liability" in the table above.

In accordance with FIN 45, the obligations associated with product warranties are not reflected in the above table. See Note 25b for accruals relating to such obligations.



**Commercial Commitments.** In addition to the above guarantees and warranties, in connection with certain production programs, the Group has committed to purchase various levels of outsourced manufactured parts and components over extended periods at market prices. The Group has also committed to purchase or invest in the construction and maintenance of various production facilities. Amounts under these guarantees represent commitments to purchase plant or equipment at market prices in the future. As of December 31, 2005, commitments to purchase outsourced manufactured parts and components or to invest in plant and equipment are approximately €10.1 billion. These amounts are not reflected in the above table.

Collins & Aikman Corporation ("C&A"), a major tier one supplier to the automotive industry, initiated bankruptcy reorganization proceedings in the U.S. and similar proceedings in England. During 2005, DaimlerChrysler Corporation, along with other major customers of C&A, agreed to provide price increases and financing to C&A. DaimlerChrysler's portion of the 2005 price increases and funding commitment was \$120 million and is included in cost of sales on the accompanying consolidated statements of income (loss). DaimlerChrysler agreed to provide an additional \$70 million of price increases for calendar year 2006. DaimlerChrysler also agreed to accelerate payments for tooling and to fund other DaimlerChrysler program specific capital expenditures in 2005 and 2006, as well as to fund launch costs as needed throughout 2005. In addition, DaimlerChrysler also provided financial support of €13 million in Europe in 2005 to support the continuation of component deliveries, to finance specific investments and to secure launch costs.

DaimlerChrysler would be significantly adversely affected in the near term by a sudden and prolonged interruption in the supply of components from C&A. Such an interruption would affect production of nearly all Chrysler Group vehicles as well as the Mercedes Car Group's M-Class and R-Class vehicles in Alabama, and all Commercial Vehicle Division vans in Europe. It would also delay the launch of future vehicle projects in our Vans business unit.

The Group also enters into noncancellable operating leases for facilities, plant and equipment. Total rentals under operating leases charged to expense in 2005 in the statement of income amounted to €946 million (2004: €902 million; 2003: €747 million). Future minimum lease payments under noncancellable lease agreements as of December 31, 2005 are as follows:

(in millions of €)	2006	2007	2008	2009	2010	there-after
Operating leases	805	588	401	344	304	1,134

Future payments to be received from the subleasing of these facilities, plant and equipment to third parties total €297 million.

In 2003, DaimlerChrysler signed an agreement with the City of Hamburg, Germany, a holder of approximately 6% of the common shares of DaimlerChrysler Luft- und Raumfahrt Holding Aktiengesellschaft ("DCLRH"), a majority-owned subsidiary of the Group. Pursuant to the terms of the agreement and upon execution of the agreement, DaimlerChrysler holds a call option for the City's interest in DCLRH, exercisable on or after January 1, 2005, and the City of Hamburg holds a put option exercisable at the earlier of October 1, 2007, or upon the occurrence of certain events which are solely within the control of DaimlerChrysler. DaimlerChrysler believes the likelihood that these certain events will occur is remote. Upon exercise of either option, the City of Hamburg would have received a minimum consideration of its interest in DCLRH of €450 million in cash or shares of EADS or a combination of both. The agreement was amended in July 2004 with respect to the exercise price of the put option, so that the City of Hamburg may only put its interest in DCLRH to the Group for €450 million in cash. As a consideration for the amendment, the City of Hamburg is entitled to receive an additional payment upon execution of the option equal to 10% of the appreciation of EADS shares in excess of a share price of €21 up to a share price of €26.

### 33. Information about Financial Instruments and Derivatives

#### a) Use of Financial Instruments

The Group conducts business on a global basis in numerous international currencies and is therefore exposed to fluctuations in foreign currency exchange rates. The Group uses, among others, bonds, medium-term-notes, commercial paper and bank loans in various currencies. As a consequence of using these types of financial instruments, the Group is exposed to risks from changes in interest and foreign currency exchange rates. DaimlerChrysler holds financial instruments, such as money market investments, variable- and fixed-interest bearing securities, and to a lesser extent, equity securities for managing excess liquidity that subject the Group to risks from changes in interest rates and market prices. DaimlerChrysler manages the various types of market risks by using, among others, derivative financial instruments. In addition, equity investments in publicly traded companies also expose the Group to equity price risk, which, if deemed appropriate, DaimlerChrysler hedges through the use of derivative financial instruments. Without these derivative financial instruments the Group's exposure to these market risks would be higher. DaimlerChrysler does not use derivative financial instruments for purposes other than risk management.



Based on regulations issued by regulatory authorities for financial institutions, the Group has established guidelines for risk controlling procedures and for the use of financial instruments, including a clear segregation of duties with regard to operating financial activities, settlement, accounting and controlling of financial instruments.

Market risks are quantified according to the “value-at-risk” method which is commonly used among banks. Using historical variability of market data, potential changes in value resulting from changes of market prices are calculated on the basis of statistical methods.

DaimlerChrysler is also exposed to market price risks associated with the purchase of commodities. To a minor degree, DaimlerChrysler uses derivative instruments to reduce market price risks, primarily with respect to precious metals. The risk resulting from derivative commodity instruments is not significant to the Group and thus not included in the following discussion.

The contract volumes at December 31 of derivative financial instruments used for hedging currency- and interest-rate risks are shown in the table below. The contract or notional amounts shown do not always represent amounts exchanged by the parties and are not necessarily a measure for the exposure of DaimlerChrysler through its use of derivatives.

	At December 31,	
(in millions of €)	2005	2004
Currency contracts	25,082	20,226
Interest rate contracts	42,407	38,313

#### b) Fair Value of Financial Instruments

The fair value of a financial instrument is the price at which one party would assume the rights and/or duties of another party pertaining to such instrument. The fair values of financial instruments have been determined with reference to market information available at the balance sheet date and the valuation methodologies discussed below. Considering the variability of their value-determining factors, the fair values presented herein are only an indication of the amounts that the Group could realize under current market conditions.

The carrying amounts and fair values of the Group's financial instruments are as follows:

	At December 31, 2005		At December 31, 2004	
(in millions of €)	Carrying amount	Fair value	Carrying amount	Fair value
Financial instruments (other than derivative instruments):				
Assets:				
Financial assets	1,361	1,361	1,610	1,610
Receivables from financial services	61,101	61,246	56,785	57,558
Securities	4,936	4,936	3,884	3,884
Cash and cash equivalents	7,711	7,711	7,782	7,782
Liabilities:				
Financial liabilities	80,932	82,129	76,270	78,244
Derivative instruments:				
Assets:				
Currency contracts	181	181	1,287	1,287
Interest rate contracts	546	546	2,667	2,667
Equity contracts	73	73	90	90
Liabilities:				
Currency contracts	646	646	152	152
Interest rate contracts	867	867	196	196
Equity contracts	209	209	65	65

Derivative instruments representing assets are included in other assets (see Note 19) at fair value, while derivative instruments representing liabilities are included in other accrued liabilities (see Note 25b) at fair value.

The methods and assumptions used to determine the fair values of financial instruments are summarized below:

**Financial Assets and Securities.** The fair values of securities are determined using quoted market prices. The Group has certain equity investments in related and affiliated companies which are not presented in the table since they are not publicly traded and determination of fair values is impracticable. In addition, equity investments in associated companies are also not considered in this presentation. For a presentation of the carrying amount and fair value of EADS, the most significant investment of DaimlerChrysler in associated companies, please refer to Note 3.

**Receivables from Financial Services.** The carrying amounts of variable rate finance receivables approximate their fair values since the contract rates of those receivables approximate current market rates. The fair values of fixed rate finance receivables were determined by discounting expected cash flows, using the current interest rates at which comparable loans with identical maturity could be borrowed as of December 31, 2005 and 2004.

**Cash and Other assets.** The carrying amounts of Cash and other assets approximate fair values due to the short-term maturities of these instruments.

**Financial Liabilities.** The fair value of publicly traded debt was determined using quoted market prices. The fair values of other long-term bonds were determined by discounting future cash flows, using market interest rates over the remaining term. The carrying amounts of commercial paper and borrowings under revolving credit facilities were assumed to approximate fair value due to their short maturities.

**Currency Contracts.** The fair values of forward foreign exchange contracts were based on European Central Bank reference exchange rates adjusted for the respective interest rate differentials (premiums or discounts). Currency options were valued based on quoted market prices or option pricing models.

**Interest Rate Contracts.** The fair values of instruments to hedge interest rate risks (e.g. interest rate swap agreements, cross currency interest rate swap agreements) were determined by discounting expected cash flows, using market interest rates over the remaining term of the instrument. Interest rate options are valued based on quoted market prices or option pricing models.

**Equity Contracts.** The fair values of instruments to hedge equity price risk were determined on the basis of quoted market prices or option pricing models.

### **c) Credit Risk**

The Group is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments. DaimlerChrysler manages the credit risk exposure to financial institutions through diversification of counterparties and review of each counterparty's financial strength. Based on the rating of the counterparties performed by established rating agencies, DaimlerChrysler does not have a significant exposure to any individual counterparty. DaimlerChrysler Financial Services has established detailed guidelines for the risk management process related to the exposure to financial services customers. Additional information with respect to receivables from financial services and allowance for doubtful accounts is included in Note 18.

### **d) Accounting for and Reporting of Financial Instruments (Other than Derivative Instruments)**

The income or expense arising from the Group's financial instruments (other than derivative instruments), is recognized in financial income, net, with the exception of receivables from financial services and financial liabilities related to leasing and sales financing activities. Interest income on receivables from financial services and gains and losses from sales of receivables are recognized as revenues. Interest expense on financial liabilities related to leasing and sales financing activities are recognized as cost of sales. The carrying amounts of the financial instruments (other than derivative instruments) are included in the consolidated balance sheets under their corresponding captions.

### **e) Accounting for and Reporting of Derivative Instruments and Hedging Activities**

**Foreign Currency Risk Management.** As a consequence of the global nature of DaimlerChrysler's businesses, its operations and its reported financial results and cash flows are exposed to the risks associated with fluctuations in the exchange rates of the U.S. dollar and other world currencies against the euro. The Group's businesses are exposed to transaction risk whenever revenues of a business are denominated in a currency other than the currency in which the business incurs the costs relating to those revenues. The Mercedes Car Group segment is primarily exposed to such risk. The Mercedes Car Group generates its revenues mainly in the currencies of the countries in which cars are sold, but it incurs manufacturing costs primarily in euros. The Commercial Vehicles segment is subject to transaction risk to a lesser extent because of its global production network. At Chrysler Group, revenues and costs are principally generated in U.S. dollars, resulting in a relatively low transaction risk for this segment. The Other Activities segment is indirectly exposed to transaction risk through its equity investment in EADS, which is accounted for using the equity method.

To mitigate the impact of currency exchange rate fluctuations, DaimlerChrysler continually assesses its exposure to currency risks and hedges a portion of those risks through the use of derivative financial instruments. Responsibility for managing DaimlerChrysler's currency exposures and use of currency derivatives is centralized within the Group's Currency Committee. The Currency Committee consists of members of senior management from Corporate Treasury, each of the operating businesses as well as from Risk Controlling. Corporate Treasury implements the decisions concerning foreign currency hedging taken by the Currency Committee. Risk Controlling regularly informs the Board of Management of the actions of Corporate Treasury based on the decisions of the Currency Committee.

**Interest Rate and Equity Price Risk Management.** DaimlerChrysler holds a variety of interest rate sensitive assets and liabilities to manage the liquidity and cash needs of its day-to-day operations. In addition a substantial volume of interest rate sensitive assets and liabilities is related to the leasing and sales financing business which is operated by DaimlerChrysler Financial Services. In particular, the Group's leasing and sales financing business enters into transactions with customers, primarily resulting in fixed rate receivables. DaimlerChrysler's general policy is to match funding in terms of maturities and interest rates. However, for a limited portion of the receivables portfolio, funding does not match in terms of maturities and interest rates. As a result, DaimlerChrysler is exposed to risks due to changes in interest rates. DaimlerChrysler coordinates funding activities of the industrial business and financial services on the Group level. The Group uses interest rate derivative instruments such as interest rate swaps, forward rate agreements, swaptions, caps and floors to achieve the desired interest rate maturities and asset/liability structures.

The Group assesses interest rate risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities. The Group maintains risk management control systems independent of Corporate Treasury to monitor interest rate risk attributable to DaimlerChrysler's outstanding interest rate exposures as well as its offsetting hedge positions. The risk management control systems involve the use of analytical techniques, including value-at-risk analyses, to estimate the expected impact of changes in interest rates on the Group's future cash flows.

Excess liquidity invested in equity securities and the corresponding risks of derivative financial hedging instruments for equities were not material to the Group in the reporting periods presented. To a certain extent, the equity price risk from investments in publicly traded companies is hedged through derivative financial instruments.

**Fair Value Hedges.** Gains and losses from fluctuations in the fair value of recognized assets and liabilities and firm commitments of operating transactions as well as gains and losses arising from derivative financial instruments designated as fair value hedges of these recognized assets and liabilities and firm commitments are recognized currently in revenues or cost of sales, if the transactions being hedged involve sales (including the leasing and sales financing business) or production of the Group's products. When the hedged items are recognized in financial income, net, net gains and losses from fluctuations in the fair value of both recognized financial assets and liabilities and derivative financial instruments designated as fair value hedges of these financial assets and liabilities are also recognized in financial income, net.

For the year ended December 31, 2005, net losses of €58 million (2004: net losses of €49 million) were recognized in operating and financial income, net, representing principally the component of the derivative instruments' gain or loss excluded from the assessment of hedge effectiveness and the amount of hedging ineffectiveness.

**Cash Flow Hedges.** Changes in the value of forward foreign currency exchange contracts and currency options designated and qualifying as cash flow hedges are reported in accumulated other comprehensive loss. These amounts are subsequently reclassified into operating income in the same period the underlying transactions affect operating income. Changes in the fair value of derivative hedging instruments designated as hedges of variability of cash flows associated with variable-rate long-term debt are also reported in accumulated other comprehensive loss. These amounts are subsequently reclassified into the income statement as a yield adjustment in the same period in which the related interest on the floating-rate debt obligations affect earnings. If the interest sensitive hedged items affect operating income (including the leasing and sales financing business), the effects from the hedging instruments are also recognized in operating income. If the interest sensitive hedged items affect financial income, net, the corresponding effects from the hedging instruments are likewise classified in financial income, net.

For the year ended December 31, 2005, €41 million losses (2004: losses of €6 million), representing principally the component of the derivative instruments' gain/loss excluded from the assessment of the hedge effectiveness and the amount of hedge ineffectiveness, were recognized in operating and financial income, net.

During 2005, DaimlerChrysler recorded expenses of €1 million as a result of the discontinuance of cash flow hedges (2004: no gains and losses were recorded).

It is anticipated that €90 million of net gains included in accumulated other comprehensive loss at December 31, 2005, will be reclassified into earnings during the next year.

As of December 31, 2005, DaimlerChrysler held derivative financial instruments with a maximum maturity of 27 months to hedge its exposure to the variability in future cash flows from foreign currency forecasted transactions.

**Hedges of the Net Investment in a Foreign Operation.** In specific circumstances, DaimlerChrysler hedges the currency risk inherent in certain of its long-term investments where the functional currency is other than the euro, through the use of derivative and non-derivative financial instruments. For the year ended December 31, 2005, net gains of €213 million (2004: €120 million) from hedging the Group's net investment in MMC were reclassified into the income statement. For further information, also see the discussion in Note 3. In addition, net losses of €8 million from hedging the Group's net investments in foreign operations were included in the cumulative transition adjustment without affecting DaimlerChrysler's net income in 2004.

### 34. Retained Interests in Securitized Sold Receivables and Sale of Finance Receivables

DaimlerChrysler uses securitization transactions to improve shareholder returns and diversify its funding sources. In the ordinary course of the business the Group sells significant portions of its automotive finance receivables to trusts and third-party entities in "asset-backed securitizations" and "whole loan sales". The information given below relates only to transfers of finance receivables which qualified for de-recognition according to the criteria in SFAS 140.

**Description of Securitization Transactions.** Asset-backed securitizations ("ABS") involve the sale of financial assets by DaimlerChrysler to trusts that are Special Purpose Entities ("SPE"). The SPEs purchase the assets with cash raised through the issuance of beneficial interests (usually debt instruments) to third-party investors. The sold financial assets consist of retail receivables with an expected average lifetime of several months at the time of the securitization and short-term wholesale receivables which are securitized using a revolving-period structure. The investors in the beneficial interests have recourse to the assets in the trusts and benefit from credit enhancements, such as overcollateralization. In a subordinated capacity, the Group retains residual beneficial interests in the sold receivables designed to absorb substantially all credit, prepayment, and interest-rate risk of the receivables transferred to the trusts. The retained interest balance represents DaimlerChrysler's right to receive collections on the transferred receivables in excess of amounts required by the trust to pay interest and principal to investors, servicing fees, and other required payments. To support the European ABS-program DaimlerChrysler also provided a subordinated loan to one trust. The Group's maximum exposure to loss as a result of its involvement with these entities is limited to the amount of the carrying value of retained interests and the provided subordinated loan.

The Group also transfers automotive finance receivables to third-party trusts in transactions wherein it does not retain a beneficial interest in the transferred receivables (whole loan sales). In whole loan sales, all risk of loss related to the sold receivables is transferred from DaimlerChrysler to the purchaser.

The Group generally remains as servicer for the sold receivables.

**Trusts and Third-Party Entities.** Trusts sponsored by DaimlerChrysler are considered Qualifying Special Purpose Entities ("QSPEs") under SFAS 140 and are not consolidated by the Group. The third-party entities are multi-seller and multi-collateralized bank conduits. These trusts are considered to be variable interest entities ("VIEs") under FIN 46R. A bank conduit generally receives substantially all of its funding from issuing asset-backed securities that are cross-collateralized by the assets held by the entity. Although its interest in these VIEs is significant, DaimlerChrysler has concluded that it is not the primary beneficiary of these bank conduits and therefore is not required to consolidate them under FIN 46R.

**Assumptions in Measuring the Retained Interests and Sensitivity Analysis.** At December 31, 2005 and 2004, significant assumptions used in measuring the residual interest resulting from the sale of retail and wholesale receivables were as follows (weighted average rates for securitizations completed during the respective year):

	2005	Retail 2004	2005	Wholesale 2004
Prepayment speed assumption (monthly rate)	1.25%-1.5%	1.5%	1	1
Lifetime (in months)	18	18	3	3
Estimated lifetime net credit losses (an average percentage of sold receivables)	1.9%	2.3%	0.0%	0.0%
Residual cash flows discount rate (annual rate)	12.0%	12.0%	12.0%	12.0%

<sup>1</sup> For the calculation of wholesale gains, the Group estimated that all sold wholesale loans would be liquidated within 210 days.

Actual and projected net lifetime credit losses for retail receivables securitized were as follows:

Actual and projected credit losses Percentages as of	Receivables securitized in			
	2002	2003	2004	2005
December 31, 2005	1.8%	1.6%	1.8%	1.9%
December 31, 2004	1.9%	2.0%	2.3%	
December 31, 2003	2.4%	2.5%		
December 31, 2002	2.6%			

Static pool losses are calculated by summing the actual and projected future credit losses and dividing them by the original balance of each pool of assets. The amount shown above for each year is a weighted average for all securitizations during that year and outstanding at December 31, 2005.

At December 31, 2005, the significant assumptions used in estimating the residual cash flows from sold receivables and the sensitivity of the current fair value to immediate 10% and 20% adverse changes are as follows:

(in millions of €)	Assumption percentage	Impact on fair value based on adverse	
		10% change	20% change
Prepayment speed, monthly	1.5%	(8)	(14)
Expected remaining net credit losses as a percentage of receivables sold	0.9%	(23)	(45)
Residual cash flow discount rate, annualized	12.0%	(16)	(32)

The effect of a 10% and 20% adverse change in the discount rate used to compute the fair value of the retained subordinated securities would be a decrease of €2 million and €3 million, respectively. Similar changes to the monthly prepayment speed and the expected remaining net credit losses as a percentage of receivables sold for the retained subordinated securities would have no adverse effect on the fair value of the retained subordinated securities.

These sensitivities are hypothetical and should be used with caution. The effect of a variation in a particular assumption on the fair value of the retained interests is calculated without changing any other assumption; in reality, changes in one assumption may result in changes in another, which might magnify or counteract the sensitivities.

**Retained Beneficial Interests in Securitized Sold Receivables.** As there is no active market for retained interests, the Group determines the value of its retained interests using discounted cash flow modeling upon the sale of receivables. The valuation methodology considers historical and projected principal and interest collections on the sold receivables, expected future credit losses arising from the collection of the sold receivables, and estimated repayment of principal and interest.

For more details on the valuation of retained interests in securitized sold receivables please see Note 1.

The fair value of retained interests in securitized sold receivables was as follows:

(in millions of €)	At December 31,	
	2005	2004
Fair value of estimated residual cash flows, net of prepayments, from sold receivables, before expected future net credit losses	2,266	2,190
Expected future net credit losses on sold receivables	(286)	(369)
Fair value of net residual cash flows from sold receivables	1,980	1,821
Retained subordinated securities	233	379
Other retained interests	2	2
Retained interests in sold receivables	2,215	2,202

At December 31, 2005, the Group also recognized a subordinated loan with a carrying value of €25 million to a trust related to the European ABS-platform.

The fair value of Retained Interests in sold receivables and the subordinated loan are included in other assets (see Note 19).

**Sale of Finance Receivables.** During the year ended December 31, 2005, DaimlerChrysler sold in asset-backed securitization transactions €10,059 million (2004: €9,329 million) and €33,922 million (2004: €35,414 million) of retail and wholesale receivables, respectively. From these transactions, the Group recognized gains of €11 million (2004: €79 million) and €169 million (2004: €157 million). During the year ended December 31, 2005, the Group sold €1,516 million (2004: €965 million) of retail receivables in whole loan sales and recognized gains of €2 million (2004: €14 million). As of December 31, 2005, the outstanding balance of receivables serviced in connection with whole loan sales was €1,931 million (2004: €1,361 million).

The cash flows in connection with the mentioned transactions between DaimlerChrysler and the securitization trusts were as follows:

(in millions of €)	2005	2004
Proceeds from new securitizations	15,093	11,360
Proceeds from collections reinvested in previous wholesale securitizations	33,892	35,393
Amounts reinvested in previous wholesale securitizations	(33,922)	(35,414)
Servicing fees received	214	183
Receipt of cash flow on retained interest in sold receivables	998	686

The outstanding balance, delinquencies and net credit losses of sold receivables and other receivables, of those companies that sell receivables, as of and for the years ended December 31, 2005 and 2004, respectively, were as follows:

(in millions of €)	2005	Outstanding balance at 2004	2005	Delinquencies > 60 days at 2004	2005	Net credit losses for the year ended 2004
Managed retail receivables	48,216	38,963	111	116	428	390
Managed wholesale receivables	18,979	15,142	8	6	6	3
Total receivables managed	67,195	54,105	119	122	434	393
Less: Retail receivables sold	(14,677)	(14,287)	(32)	(24)	(155)	(144)
Less: Wholesale receivables sold	(8,703)	(5,880)	-	-	(3)	-
Total receivables sold	(23,380)	(20,167)	(32)	(24)	(158)	(144)
Retail receivables recognized in balance sheets	33,539	24,676	79	92	273	246
Wholesale receivables recognized in balance sheets	10,276	9,262	8	6	3	3
Receivables recognized in balance sheets	43,815	33,938	87	98	276	249



The following summarizes the outstanding balance of the receivables sold to the QSPEs and VIEs and the corresponding retained interest balances as of December 31, 2005:

(in millions of €)	Receivables sold	Retained interest in sold receivables
Variable interest entities	3,815	367
Qualifying special purpose entities	19,565	1,848
	23,380	2,215

**Servicing Assets and Servicing Liabilities.** Servicing assets (Servicing liabilities) represent the present value derived from retaining the right (obligation) to service securitized receivables compared to adequate servicer compensation. During the year ended December 31, 2005, the Group recognized servicing assets of €7 million (2004: €1 million) and related amortization of €2 million (2004: €2 million). The Group also recognized servicing liabilities of €10 million (2004: €8 million) and related amortization of €13 million (2004: €11 million). At December 31, 2005, the fair value of servicing assets on sold receivables was €6 million (2004: €1 million), and the fair value of servicing liabilities was €15 million (2004: €15 million). These values were determined by discounting expected cash flows at current market rates.

**Liquidity Facilities of Special Purpose Entities.** To support the Group's asset-backed commercial paper program in North America, a group of financial institutions has provided contractually committed liquidity facilities aggregating \$6.2 billion which expire in September 2006, and are subject to annual renewal. These liquidity facilities can only be drawn upon by the special purpose entity to which the Group's North American financial services companies will sell receivables under this program. As of December 31, 2005, none of the liquidity facilities have been utilized.

### 35. Segment Reporting

Information with respect to the Group's reportable segments follows:

**Mercedes Car Group.** This segment includes activities related mainly to the development, design, manufacture, assembly and sale of passenger cars and off-road vehicles under the brand names Mercedes-Benz, smart and Maybach as well as related parts and accessories.

**Chrysler Group.** This segment includes the development, design, manufacture, assembly and sale of cars and trucks under the brand names Chrysler, Jeep® and Dodge and related automotive parts and accessories.

**Commercial Vehicles.** This segment is involved in the development, design, manufacture, assembly and sale of vans, trucks, buses and Unimogs as well as related parts and accessories. The products are sold mainly under the brand names Mercedes-Benz, Setra, Freightliner, and Mitsubishi and Fuso.

**Financial Services.** The activities in this segment primarily extend to the marketing of services related to financial services (principally retail and lease financing for vehicles and dealer financing) and insurance brokerage. This Segment is also engaged in toll collection. In 2005, DaimlerChrysler renamed its Services segment to Financial Services, to emphasize its focus on the financial services business.

**Other Activities.** This segment comprises businesses, operations and investments not allocated to one of DaimlerChrysler's other business segments. It includes the Group's equity method investment EADS, the business unit DC Off-Highway which is primarily comprised of the MTU-F Group and the Off-Highway activities of Detroit Diesel Corporation, the real estate and corporate research activities, the holding companies and financing subsidiaries through which the Group refinances the capital needs of the operating businesses in the capital markets. The Group's equity investment in MMC is included in this segment using the equity method of accounting through June 29, 2004, and thereafter as an investment in related companies, accounted for at fair value. In November 2005, DaimlerChrysler sold all of its MMC shares (see also Note 3). Through December 31, 2003, this segment includes the MTU Aero Engines business unit. On December 27, 2005, DaimlerChrysler entered into a share sale and purchase agreement with the Swedish investor group EQT regarding the sale of a major portion of its Off-Highway Business Unit. The closing is expected to occur in the first quarter of 2006 (see also Note 4).

On January 24, 2006, DaimlerChrysler presented a new management model. As part of the new management model, DaimlerChrysler intends to change the composition of its business segments by reporting the van and bus business units with its Other Activities. As a result of these changes, the Commercial Vehicles segment will be renamed the Truck Group.

**Management Reporting and Controlling Systems.** The Group's management reporting and controlling systems use accounting policies that are substantially the same as those described in Note 1 in the summary of significant accounting policies (U.S. GAAP), except for revenue recognition between the automotive business segments and the Services segment in certain markets.

The Group measures the performance of its operating segments through "operating profit". DaimlerChrysler's consolidated operating profit (loss) is the sum of the operating profits and losses of its reportable segments adjusted for consolidation and elimination entries. Segment operating profit (loss) is computed starting with income (loss) before income taxes, minority interests, discontinued operations, and the cumulative effect of changes in accounting principles, and then adjusting that amount to 1) exclude pension and postretirement benefit income or expenses, other than current and prior year service costs and settlement/curtailment losses, 2) exclude gains from the sale of the 12.4% stake in MMC in 2005 and the 10.5% stake in HMC in 2004, impairment of investment in EADS in 2003, 3) exclude interest and similar income and interest and similar expenses,

4) exclude other financial income (loss), net and 5) include or exclude certain miscellaneous items. In addition, this result is further adjusted to a) include pre-tax income (loss) from discontinued operations, adjusted to exclude or include the reconciling items 1 to 5 described above, b) include pre-tax gain (loss) on the disposal of discontinued operations, and c) include the Group's share of all of the above reconciling items included in the net earnings (losses) of investments accounted for at equity.

Intersegment sales and revenues are generally recorded at values that approximate third-party selling prices.

Revenues are allocated to countries based on the location of the customer. Long-lived assets are disclosed according to the physical location of these assets.

Capital expenditures represent the purchase of property, plant and equipment.

Segment information as of and for the years ended December 31, 2005, 2004 and 2003 follows:

(in millions of €)	Mercedes Car Group	Chrysler Group	Commercial Vehicles	Financial Services	Other Activities	Total Segments	Discontinued Operations/ Eliminations	Consolidated
<b>2005</b>								
Revenues	46,429	50,086	38,356	12,798	2,107	149,776	–	149,776
Intersegment sales	3,586	32	2,278	2,641	289	8,826	(8,826)	–
Total revenues	50,015	50,118	40,634	15,439	2,396	158,602	(8,826)	149,776
Operating Profit (Loss)	(505)	1,534	2,093	1,468	591	5,181	4	5,185
Identifiable segment assets	27,081	55,372	21,712	99,635	29,251	233,051	(31,419)	201,632
Capital expenditures	1,629	3,083	1,743	45	109	6,609	(29)	6,580
Depreciation and amortization	2,418	3,336	1,313	5,757	168	12,992	(381)	12,611
<b>2004</b>								
Revenues	46,082	49,485	32,940	11,646	1,906	142,059	–	142,059
Intersegment sales	3,548	13	1,824	2,293	294	7,972	(7,972)	–
Total revenues	49,630	49,498	34,764	13,939	2,200	150,031	(7,972)	142,059
Operating Profit (Loss)	1,666	1,427	1,332	1,250	456	6,131	(377)	5,754
Identifiable segment assets	26,945	45,869	20,156	88,036	26,526	207,532	(24,660)	182,872
Capital expenditures	2,343	2,647	1,184	91	134	6,399	(13)	6,386
Depreciation and amortization	1,854	3,368	1,058	4,976	164	11,420	(308)	11,112
<b>2003</b>								
Revenues	48,025	49,321	25,304	11,997	3,723	138,370	(1,933)	136,437
Intersegment sales	3,421	–	1,502	2,040	361	7,324	(7,324)	–
Total revenues	51,446	49,321	26,806	14,037	4,084	145,694	(9,257)	136,437
Operating Profit (Loss)	3,126	(506)	811	1,240	1,329	6,000	(314)	5,686
Identifiable segment assets	24,199	47,147	14,713	83,239	31,227	200,525	(22,075)	178,450
Capital expenditures	2,939	2,487	958	76	169	6,629	(15)	6,614
Depreciation and amortization	1,789	3,927	890	5,087	196	11,889	(290)	11,599

**Mercedes Car Group.** In 2005, the operating profit (loss) of the Mercedes Car Group segment includes charges of €570 million for the headcount reduction initiative at Mercedes Car Group. Of this amount, €70 million were already cash effective in 2005 (see Note 5).

An accrual established in connection with a case alleging infringement of EU competition law was reduced by €60 million as a result of a favorable decision by the Court of First Instance of the European Court of Justice. This amount is included in selling expenses in the consolidated statement of income and in the operating results of the Mercedes Car Group segment in 2005.

The operating profit (loss) of the Mercedes Car Group segment for 2005 includes charges of €1,111 million associated with the realignment of the business model for smart. Thereof €535 million are attributable to impairment charges and write-downs and €576 million are attributable to expected payments in the current or future periods (see Note 5).

In 2003, operating profit of the Mercedes Car Group includes a non-cash impairment charge amounting to €77 million related to certain long-lived assets (primarily property, plant and equipment) at a production facility in Brazil.

**Chrysler Group.** In 2005, the Chrysler Group recorded a €240 million gain on the sale of its Arizona Proving Grounds vehicle testing facility and a €36 million benefit as a result of adjustments to prior estimates associated with the Chrysler Group turnaround plan (see also Note 7), which were partially offset by charges of €99 million related to the financial support provided to supplier Collins & Aikman (see Note 32).

In 2004, the Chrysler Group's operating results were negatively impacted by a €145 million charge related to the turnaround plan, a €138 million charge for early retirement incentives and other workforce reductions, partially offset by an adjustment of €95 million to correct the calculation of an advertising accrual to more accurately reflect expected payments.

In 2003, the Chrysler Group's operating results were negatively impacted by a €469 million charge related to the turnaround plan. Also during 2003, the Chrysler Group and Financial Services segments agreed to an arrangement regarding the sharing of risks associated with the residual values of certain leased vehicles. In addition, the Chrysler Group and Financial Services segments negotiated reduced pricing on certain retail financing programs offered by the Chrysler Group as sales incentives in 2003. The adjusted pricing reflected the then current favorable funding environment as well as Financial Services becoming the exclusive provider of selected discount consumer financing for the Chrysler Group. Both arrangements resulted in a favorable impact of €244 million on the 2003 operating profit of the Chrysler Group, and a corresponding decrease of €244 million on the 2003 operating profit of Financial Services. Neither arrangement had any effect on the Group's consolidated operating results.

**Commercial Vehicles.** As discussed in Note 4, on March 18, 2004, DaimlerChrysler acquired an additional 22% interest in MFTBC from MMC for €394 million in cash, thereby increasing the Group's ownership interest in MFTBC to a controlling 65%. As a result of the acquisition and first time consolidation of MFTBC in March 2004, the identifiable segment assets of the Commercial Vehicles segment increased by €4.3 billion.

Subsequent to the acquisition of the controlling interest in MFTBC, a number of quality problems of MFTBC vehicles that were produced before DaimlerChrysler first acquired a stake in MFTBC were identified (see Note 4 for additional information). As of December 31, 2004, DaimlerChrysler made a true-up based on the preliminary evaluation of the probable costs associated with the quality measures and recall campaigns at MFTBC which substantially confirmed the estimates made in the third quarter 2004. Total expenses arising from the recall issues reduced 2004 operating profit of the Commercial Vehicle segment by €475 million. The reduction in operating profit consisted of €70 million classified as financial income (expense), net, in the Group's 2004 statement of operations and €735 million classified as cost of sales, net of €330 million attributed to the minority interests' share in those costs. As expenses attributed to minority interests are not allocated to operating profit, they are included in the line "Miscellaneous items, net" in the reconciliation of total segment operating profit to consolidated income before income taxes, minority interests, and discontinued operations. The following settlement with MMC associated with the quality issues and recall campaigns at MFTBC resulted in a favorable impact of €276 million, which is included in the operating profit of the Commercial Vehicles segment in 2005.

**Financial Services.** In 2005, 2004 and 2003, the Financial Services segment recorded charges of €54 million, €472 million and €241 million related to the participation in Toll Collect. The charges in 2004 were mainly the result of revaluing the system's total costs and extra operating expenses required to guarantee the start of the system on January 1, 2005.

In 2004, the operating profit of the Financial Services segment includes non-cash impairment charges of €102 million associated with the investment made in dAF.

Capital expenditures for equipment on operating leases for 2005, 2004 and 2003 for the Financial Services segment amounted to €16,055 million, €13,850 million and €11,631 million, respectively.

With respect to two agreements entered into in 2003 with the Chrysler Group segment, the 2003 operating profit of Financial Services were unfavorably impacted by €244 million. See discussion at Chrysler Group above.

**Other Activities.** In 2005, operating profit of the Other Activities segment includes primarily the Group's share in the gains of EADS of €757 million (see Note 3). In 2004 and 2003, the proportionate results of the investments in EADS and MMC together amounted to €548 million and €278 million, respectively. The 2004 amount also included the results from the dilution of the Group's interest in MMC (loss of €135 million) and related currency hedging effects (gain of €195 million). Due to the loss of significant influence on MMC at June 29, 2004, the Group's share in the losses of MMC is only included for the corresponding period (see Note 3 for additional information).

As a result of the repurchase of a note by MTU Aero Engines Holding AG, a gain of €53 million is included in the operating profit of the Other Activities segment for 2005 (see Note 6).

At December 31, 2005, the identifiable assets of the Other Activities segment include €3,564 million related to the carrying values of the investment in EADS. In 2004 and 2003, the carrying values of the investments in EADS and MMC together amounted to €4,313 million and €4,542 million, respectively.

In connection with the sale of Adtranz in 2001, a settlement agreement with Bombardier was reached in 2004 with respect to all claims asserted. This settlement resulted in a favorable impact of €120 million on the 2004 operating profit of the Other Activities segment.

In addition, the operating profit of 2004 of the Other Activities segment includes non-cash impairment charges of €70 million associated with the investment made in dAF.

The 2003 operating profit of Other Activities includes a gain of €1,031 million from the sale of MTU Aero Engines. Following the sale transaction, effective December 31, 2003, MTU Aero Engines' assets and liabilities were deconsolidated. Revenues, operating profit, capital expenditures, and depreciation and amortization of the Other Activities segment include MTU Aero Engines through December 31, 2003 (see also Notes 4 and 10).

The reconciliation of total segment operating profit (loss) to consolidated income (loss) before income taxes, minority interests, discontinued operations and cumulative effects of changes in accounting principles is as follows:

(in millions of €)	2005	2004	2003
Total segment operating profit	5,181	6,131	6,000
Elimination and consolidation amounts	4	(377)	(314)
Total Group operating profit	5,185	5,754	5,686
Pension and postretirement benefit expenses, other than current and prior service costs and settlement/curtailment losses	(1,175)	(845)	(870)
Gain from the sale of the 12.4% stake in MMC	681	-	-
Gain from the sale of the 10.5% stake in HMC	-	252	-
Impairment of investment in EADS	-	-	(1,960)
Interest and similar income	539	490	521
Interest and similar expenses	(1,112)	(790)	(911)
Other financial income (loss), net	(69)	(171)	35
Miscellaneous items, net	(149)	(384)	(308)
Pre-tax income from discontinued operations, adjusted to exclude or include the above reconciling items	-	-	(84)
Pre-tax income on disposal of discontinued operations	-	-	(1,031)
The Group's share of the above reconciling items included in the net losses of investments accounted for at equity	(462)	(771)	(482)
Consolidated income before income taxes, minority interests, cumulative effects of changes in accounting principles and discontinued operations	3,438	3,535	596

Revenues from external customers presented by geographic region are as follows:

(in millions of €)	Germany	Western Europe <sup>1</sup>	United States	Other American countries	Asia	Other countries	Discontinued operations	Consolidated
2005	20,948	26,389	67,015	13,919	12,525	8,980	–	149,776
2004	22,315	26,530	64,232	11,295	10,093	7,594	–	142,059
2003	24,182	26,975	64,757	10,399	6,786	5,271	(1,933)	136,437

<sup>1</sup> Excluding Germany

Germany accounts for €20,682 million of long-lived assets (2004: €21,209 million; 2003: €21,164 million), the United States for €44,007 million (2004: €35,250 million; 2003: €36,430 million) and other countries for €17,716 million (2004: €15,982 million; 2003: €13,102 million).

### 36. Earnings (Loss) per Share

The computation of basic and diluted earnings (loss) per share for “Income (loss) from continuing operations” is as follows:

(in millions of € or millions of shares, except earnings (loss) per share)	2005	Year ended December 31,	
		2004	2003
Income (loss) from continuing operations – basic	2,851	2,466	(418)
Interest expense on convertible bonds and notes (net of tax)	–	–	–
Income (loss) from continuing operations – diluted	2,851	2,466	(418)
Weighted average number of shares outstanding – basic	1,014.7	1,012.8	1,012.7
Dilutive effect of stock options in 2005 and 2004	3.0	1.7	–
Weighted average number of shares outstanding – diluted	1,017.7	1,014.5	1,012.7
<b>Earnings (loss) per share from continuing operations</b>			
Basic	2,80	2.43	(0.41)
Diluted	2,80	2.43	(0.41)

Because the Group reported a loss from continuing operations for the year ended December 31, 2003 the diluted loss per share does not include the antidilutive effects of convertible bonds and notes. Had the Group reported income from continuing operations for the year ended December 31, 2003 the weighted average number of shares outstanding would have potentially been diluted by 0.5 million shares resulting from the conversion of bonds and notes.

Stock options to acquire 65.7 million, 67.1 million and 71.6 million DaimlerChrysler Ordinary Shares that were issued in connection with the 2000 Stock Option Plan were not included in the computation of diluted earnings (loss) per share for 2005, 2004 and 2003, respectively, because the options' underlying exercise prices were higher than the average market prices of DaimlerChrysler Ordinary Shares in these periods.

### 37. Related Party Transactions

The Group purchases materials, supplies and services from numerous suppliers throughout the world in the ordinary course of its business. These suppliers include companies in which the Group holds an ownership interest and companies that are affiliated with some members of DaimlerChrysler AG's Supervisory Board or Board of Management.

In recent years, DaimlerChrysler initiated several cooperation projects with MMC. In November 2005, DaimlerChrysler sold its remaining 12.4% interest in MMC. Current cooperation projects will not be affected by the sale, and will continue as previously agreed. Examples of such projects are the joint development and production of engines, the shared use of vehicle architecture and the joint production of passenger cars, sports utility vehicles and pickup trucks in Europe, North America, China and South Africa.

DaimlerChrysler has an agreement with McLaren Cars Ltd., a wholly owned subsidiary of McLaren Group Ltd., for the production of the Mercedes McLaren super sports car, which DaimlerChrysler launched into the markets in 2004. The Group owns a 40% equity interest in McLaren Group Ltd.

As described in more detail in Note 3, DaimlerChrysler provides a number of guarantees with respect to Toll Collect, a joint venture in which DaimlerChrysler holds an equity interest of 45%. Mr. Bernhard Walter, a member of the Supervisory Board of DaimlerChrysler AG, is also a member of the Supervisory Board of Deutsche Telekom AG, one of the other investors in Toll Collect.

In 2003, DaimlerChrysler sold 60% of its equity interest in Mercedes-Benz Lenkungen GmbH to ThyssenKrupp Automotive AG. Since then, DaimlerChrysler accounted for its remaining 40% equity interest in the company using the equity method of accounting. Mr. Bernhard Walter, a member of DaimlerChrysler's Supervisory Board, abstained from the voting for the approval of the sale since he is also a member of the Supervisory Board of ThyssenKrupp AG, the parent company of ThyssenKrupp Automotive AG. As described in Note 4, DaimlerChrysler sold its remaining 40% equity interest in the company to ThyssenKrupp Automotive AG. The Group continues to purchase products from this company.

In May 2002, our wholly owned subsidiary DaimlerChrysler Corporation ("DCC") sold its Dayton Thermal Products Plant to Behr Dayton, a joint venture company with Behr America Inc. As of May 1, 2004, DCC sold its remaining minority interest in the joint venture to Behr America Inc. DCC is required to purchase products from the former joint venture at competitively-based prices under a supply agreement entered into in connection with the sale. The supply agreement is valid from April 2002 through April 2008. Product pricing was based on the existing cost structure of the Dayton Thermal Products Plant and was comparable to pricing in effect prior to the transaction.

In 2004, Dr. Mark Wössner, a member of DaimlerChrysler's Supervisory Board, received payments for the rental of premises to Westfalia Van Conversion GmbH, a wholly owned subsidiary of DaimlerChrysler AG, in the amount of €1 million.

DaimlerChrysler engages in commercial transactions negotiated at arms length with its equity investee EADS. DaimlerChrysler does not consider these transactions to be material to us either individually or in the aggregate. Mr. Lagardère, a member of the Supervisory Board of DaimlerChrysler AG, is also one of two chairmen of the board of directors of EADS.

From time to time, DaimlerChrysler Group companies may purchase goods and services (primarily advertising) from, and sell or lease vehicles or provide financial services to, Lagardère Group companies in the ordinary course. Mr. Lagardère is the general partner and chief executive officer of their ultimate parent company, Lagardère SCA, a publicly traded company.



**The following represent transactions with shareholders:**

DaimlerChrysler incurred expenses of approximately \$800,000 in 2005 for advertising and related marketing activities with a U.S. magazine. Earl G. Graves, member of DaimlerChrysler's Supervisory Board and shareholder of DaimlerChrysler AG, is the Chairman, Chief Executive Officer and sole stockholder of the magazine's ultimate parent company.

In July 2005, DCC and Haden Prism LLC ("Haden") entered into an agreement under which Haden will construct and operate a vehicle paint facility within the Chrysler Group's manufacturing complex in Toledo, Ohio, as part of a supplier colocation project scheduled to begin operation in 2006. Haden is an indirect subsidiary of Haden International Group, Inc., which is 75% owned by Palladium Equity Partners ("Palladium"), a private investment firm with investments in several other companies. Robert J. Lanigan, a member of the Supervisory Board of DaimlerChrysler AG, is a partner and an investor in Palladium.

DaimlerChrysler Canada Inc. paid CAD 1.2 million to a subsidiary of Mosaic Sales Solutions Holding Company for field marketing services pursuant to a competitively bid contract awarded in April 2005. The chief executive officer of the subsidiary, Tony LaSorda, is the brother of Thomas LaSorda, a member of the Board of Management of DaimlerChrysler AG who assumed responsibility for the Chrysler Group in September 2005.

During 2005, Deutsche Bank AG reduced its 11.8% share ownership as of December 31, 2004, and now holds less than 5% of our outstanding shares. Deutsche Bank AG and its subsidiaries provided the Group with various financial and other services for which they were paid reasonable and customary fees. DaimlerChrysler also guarantees the obligations of its employees under the company's corporate credit card program for corporate travel expenses with Deutsche Bank AG in the event the employees default on their obligations to Deutsche Bank AG. This guarantee, which amounted to €651 million as of December 31, 2004, was reduced to €20 million during 2005. DaimlerChrysler so far has not incurred any major payments to Deutsche Bank AG from that guarantee.

On July 7, 2004, DaimlerChrysler entered into a securities lending agreement with Deutsche Bank AG concerning 22,227,478 of its shares in EADS (approximately 3% of the voting stock). As collateral, DaimlerChrysler received a lien on a securities account of equivalent value as the shares loaned by DaimlerChrysler.

**38. Compensation of the Members of the Board of Management and the Supervisory Board and Further Additional Information Concerning German Corporate Governance Code Compensation.**

The total compensation paid by Group related companies to the members of the Board of Management of DaimlerChrysler AG is calculated from the amount of compensation paid in cash and from benefits in kind.

Thereof €9.3 million account for fixed, €24.6 million for short-term and mid-term and €1.0 million for long-term incentive compensation components. This is correspondent to a sum of €34.9 million in 2005.

In 2005, 454,914 phantom shares were granted to the members of the Board of Management from the long-term share-based compensation component. The cash pay-out for these shares will be effective in 2009 in the event of continuous service on the Board of Management and dependent on the achievement of internal and external goals. The information on the pay-out will be part of the performance-oriented compensation disclosure for the business year 2009. For detailed information on stock-based compensation programs, see Note 24.

In 2005, stock options granted in 2003 were exercisable. In this context, Members of the Board of Management exercised 167,500 stock options.

Board of Management Members, whose term of office expired in 2005, were entitled to receive compensation earned before the respective retirement date from current mid-term and the new 2005 long-term share-based remuneration components calculated on a pro-rata basis. We also had expenditures in connection with certain previously accrued retirement benefit obligations of other Board of Management Members. The aggregate amount of both items is €23.8 million.

The aggregate amount of expenditures paid by DaimlerChrysler for the year ended December 31, 2005, to provide pension, retirement and similar benefits for former members of the board of management and their survivors was €16.9 million. An amount of €292.9 million has been accrued for pension obligations to former members of the Board of Management and their survivors.

The compensation paid in 2005 to the members of the Supervisory Board of DaimlerChrysler AG for services in all capacities to the Group amounted to €2.0 million. The individual compensation paid to the members of the Supervisory Board is disclosed as part of the compensation report in accordance with a recommendation of the German corporate governance code. Except for the compensation paid to employee representatives within the Supervisory Board in accordance with their contracts of employment, no compensation was paid for services provided personally beyond the aforementioned Board activities, in particular for advisory or agency services.

As of December 31, 2005, no advances or loans existed to members of the Board of Management or Supervisory Board of DaimlerChrysler AG.

**Transactions with Related Parties.** For transactions with related parties, which are shareholders of DaimlerChrysler AG, see the last section of Note 37.

**Third Party Companies.** At December 31, 2005, DaimlerChrysler was shareholder of a significant company, that meet the criteria of a third party company according German Corporate Governance Codex:

Name of the company	Tata Motors Limited
Headquarters	Mumbai, India
Stake in % <sup>1</sup>	6.8
Equity in millions of € <sup>2</sup>	828
Net income in millions of € <sup>2</sup>	253

<sup>1</sup> As of December 31, 2005

<sup>2</sup> Based on national consolidated financial statements for the year ended March 31, 2005

### 39. Principal Accountant Fees and Services

The fees, billed by the independent auditors KPMG for professional services in 2005, 2004 and 2003 are comprised of:

(in millions of €)	2005	Year ended December 31,	
		2004	2003
Audit fees	42	39	34
Audit-related fees	11	14	7
Tax fees	5	6	6
All other fees	4	5	3
	62	64	50

# Transition to International Financial Reporting Standards (IFRS)

**EU directive on the application of IFRS.** In July 2002, the European Parliament and the European Council passed a directive on the application of IFRS. All companies oriented towards the capital market that are domiciled in an EU country are obliged to prepare their consolidated financial statements in accordance with IFRS for financial years beginning on or after January 1, 2005. The member states are allowed, however, to postpone the mandatory application of IFRS until 2007 for companies that are only listed with debt certificates or that already apply internationally recognized standards for purposes of stock-exchange listings outside the European Union. The latter is applicable in particular for companies, such as DaimlerChrysler, which are listed on the New York Stock Exchange and therefore prepare their consolidated financial statements in accordance with US GAAP. In Germany, this postponement option was implemented in December 2004 within the context of the Financial Statements Law Reform Act (BilReG). On the basis of current planning, at the beginning of 2007, we will probably prepare and publish our first consolidated financial statements according to IFRS as additional information on the 2006 financial year (including 2005 as a comparative period).

**Effects of the differences between IFRS and US GAAP.** In September 2002, the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) included a "Short-term Convergence" project in their project plan with the goal of quickly eliminating a number of existing divergences. In the long term, IASB and FASB continue to pursue the goal of reducing or eliminating any remaining differences through joint projects and by coordinating future work programs. In addition, it was agreed that the respective interpretation committees would collaborate on convergence in terms of interpretation and application. DaimlerChrysler supports the ongoing convergence between IFRS and US GAAP. Although progress has already been made on the way to achieving a substantial reduction in the differences between the two systems, significant differences still exist. DaimlerChrysler expects the application of IFRS to have only limited effects on the comparability and continuity of financial reporting. On the basis of the present

regulations, we assume that the number of differences between US GAAP and IFRS with a significant impact on our consolidated financial statements is low, and that primarily the following areas will be affected.

**Research and development expenditure.** According to US GAAP, research and development costs are generally to be recorded as an expense immediately. According to IFRS, a difference is to be made between research and development. Research costs are to be entered immediately as an expense, whereas development costs that fulfill specific criteria are to be capitalized and amortized.

**Qualifying special-purpose entities (QSPE).** Qualifying special-purpose entities are established to achieve a defined goal such as conducting a leasing transaction or selling receivables. According to US GAAP, QSPEs are exempt from the obligation to consolidate. But according to IFRS, the general consolidation regulations apply. For DaimlerChrysler, this regulation means that additional special-purpose companies will be consolidated compared with US GAAP, particularly relating to the sale of receivables.

**Pension obligations.** In conformance with IFRS 1, First-time Adoption of International Financial Reporting Standards, DaimlerChrysler will not apply the provisions of IAS 19, Employee Benefits, retroactively to the period since its performance-related pension plans were created. Accordingly, the net pension obligation or the net pension-plan assets for performance-related pension plans as of January 1, 2005 is based on the actuarially calculated projected benefit obligation, taking future salary increases into consideration (defined-benefit obligation – DBO), less the market value of the plan assets. Differences to the values entered according to US GAAP will be netted off with reserves in the IFRS opening balance sheet. Due to the significance of actuarial losses not yet recognized, which have accumulated at DaimlerChrysler in recent years, this effect resulting from the introduction of IFRS is likely to have the greatest impact on shareholders' equity.

# Ten-Year Summary

Amounts in millions of €

1996 1997 1998 1999 2000 2001 <sup>1</sup> 2002 <sup>1</sup> 2003 <sup>1</sup> 2004 <sup>1</sup> 2005

## From the statements of income:

Revenues	100,233	116,057	130,122	148,243	160,278	150,422	147,408	136,437	142,059	149,776
Personnel expenses	21,648	23,370	25,033	26,158	26,500	25,095	24,163	24,287	24,216	25,731
of which: Wages and salaries	17,143	18,656	19,982	21,044	21,836	20,073	19,701	18,897	18,750	19,750
Research and development expenditure	5,616	6,364	6,540	7,438	7,241	5,848	5,942	5,571	5,658	5,649
Operating profit (loss)	6,212	6,230	8,593	11,012	9,752	(1,346)	6,827	5,686	5,754	5,185
Operating margin	6.2%	5.4%	6.6%	7.4%	6.1%	(0.9%)	4.6%	4.2%	4.1%	3.5%
Financial income	120	594	493	278	110	131	2,746	(2,792)	(1,077)	217
Income (loss) before income taxes and extraordinary items	5,406	5,995	7,697	9,473	4,280	(1,703)	6,439	596	3,535	3,438
Net operating income	–	4,946	5,829	6,552	8,796	332	6,116	1,467	3,165	3,635
Net operating income as % of net assets (RONA)	–	10.9%	11.6%	12.3%	14.8%	0.5%	9.4%	2.5%	5.7%	6.6%
Net income (loss)	4,022	6,547	4,820	5,746	7,894	(593)	5,098	448	2,466	2,846
Net income (loss) per share (€)	4.09	4.28 <sup>2</sup>	5.03	5.73	7.87	(0.59)	5.06	0.44	2.43	2.80
Diluted net income (loss) per share (€)	4.05	4.21 <sup>2</sup>	4.91	5.69	7.80	(0.59)	5.03	0.44	2.43	2.80
Total dividend	–	–	2,356	2,358	2,358	1,003	1,519	1,519	1,519	1,527
Dividend per share (€)	–	–	2.35	2.35	2.35	1.00	1.50	1.50	1.50	1.50
Dividend including tax credit <sup>3</sup> per share (€)	–	–	3.36	3.36	3.36	–	–	–	–	–

## From the balance sheets:

Property, plant and equipment	23,111	28,558	29,532	36,434	40,145	41,180	36,285	32,933	34,017	36,739
Leased equipment	7,905	11,092	14,662	27,249	33,714	36,002	28,243	24,385	26,711	34,238
Current assets	54,888	68,244	75,393	93,199	99,852	103,414	104,104	103,881	105,188	109,213
of which: Liquid assets	12,851	17,325	19,073	18,201	12,510	14,536	12,439	14,296	11,666	12,647
Total assets	101,294	124,831	136,149	174,667	199,274	207,616	187,527	178,450	182,872	201,632
Stockholders' equity	22,355	27,960	30,367	36,060	42,422	38,928	35,076	34,486	33,522	36,449
of which: Capital stock	2,444	2,391	2,561	2,565	2,609	2,609	2,633	2,633	2,633	2,647
Accrued liabilities	32,135	36,007	35,057	38,211	36,972	42,476	43,995	39,544	41,938	46,682
Liabilities	41,672	54,313	62,527	90,560	109,661	115,337	99,883	95,745	97,935	104,576
of which: Financial liabilities	25,496	34,375	40,430	64,488	84,783	91,395	78,824	75,311	76,270	80,932
Debt-to-equity ratio	114%	123%	133%	179%	200%	235%	225%	218%	228%	222%
Mid- and long-term provisions and liabilities	36,989	45,953	47,601	55,291	75,336	87,814	79,778	73,422	72,192	78,784
Short-term provisions and liabilities	41,950	50,918	58,181	83,315	81,516	80,874	72,673	70,542	77,158	86,399
Current ratio	–	85%	79%	66%	67%	64%	72%	74%	67%	65%
Net assets (annual average)	–	45,252	50,062	53,174	59,496	66,094	65,128	59,572	55,885	55,301

Amounts in millions of €

1996      1997      1998      1999      2000      2001 <sup>1</sup>      2002 <sup>1</sup>      2003 <sup>1</sup>      2004 <sup>1</sup>      2005

**From the statements of cash flows:**

Investments in property, plant and equipment	6,721	8,051	8,155	9,470	10,392	8,896	7,145	6,614	6,386	<b>6,580</b>
Investments in leased equipment	4,891	7,225	10,245	19,336	19,117	17,951	17,704	15,604	17,678	<b>20,236</b>
Depreciation of property, plant and equipment	4,427	5,683	4,937	5,655	6,645	7,580	6,385	5,841	5,498	<b>6,039</b>
Depreciation of leased equipment	1,159	1,456	1,972	3,315	6,487	7,254	7,244	5,579	5,445	<b>6,341</b>
Cash provided by operating activities <sup>4</sup>	9,956	12,337	16,681	18,023	16,017	15,944	15,909	13,826	11,060	<b>12,353</b>
Cash used for investing activities <sup>4</sup>	(8,745)	(14,530)	(23,445)	(32,110)	(32,709)	(13,287)	(10,839)	(13,608)	(16,682)	<b>(11,222)</b>

**From the stock exchanges:**

Share price at year-end Frankfurt (€)	-	-	83.60	77.00	44.74	48.35	29.35	37.00	35.26	<b>43.14</b>
New York (US \$)	-	-	96.06	78.25	41.20	41.67	30.65	46.22	48.05	<b>51.03</b>
Average shares outstanding (in millions)	981.6	949.3	959.3	1,002.9	1,003.2	1,003.2	1,008.3	1,012.7	1,012.8	<b>1,014.7</b>
Average diluted shares outstanding (in millions)	994.0	968.2	987.1	1,013.6	1,013.9	1,003.2	1,013.9	1,012.7	1,014.5	<b>1,017.7</b>

**Rating:**

Credit rating, long-term										
Standard & Poor's	-	-	A +	A +	A	BBB+	BBB+	BBB	BBB	<b>BBB</b>
Moody's	-	-	A 1	A 1	A 2	A 3	A 3	A3	A3	<b>A3</b>
Fitch	-	-	-	-	-	-	-	BBB+	BBB+	<b>BBB+</b>
Dominion Bond	-	-	-	-	-	-	-	A-	A-	<b>A-</b>

<b>Average annual number of employees</b>	419,758	421,661	433,939	463,561	449,594	379,544	370,677	370,684	379,019	<b>386,465</b>
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<sup>1</sup> Some amounts and ratios have been adjusted compared with our reporting in previous years. See also Note 1 of the Notes to the Consolidated Financial Statements.

<sup>2</sup> Excluding one-time positive tax effects, especially due to extra distribution of 10.23 € per share.

<sup>3</sup> For our stockholders who are taxable in Germany. There is no tax credit from 2001 due to a change in the corporate income tax system.

<sup>4</sup> Periods before 2002 not adjusted for the effects of inventory-related receivables from Financial Services.

# Glossary

**Code of Ethics.** The DaimlerChrysler Code of Ethics applies to the members of the Board of Management and senior executives who have a significant influence on planning and reporting in connection with the year-end and quarterly financial statements. The regulations contained in the Code are designed to avoid misconduct and to ensure ethical behavior and the correct disclosure of information on the Group.

**Consolidated Group.** The consolidated Group is the total of all those companies that are consolidated, i.e. fully consolidated companies and companies consolidated using the equity method.

**Corporate governance.** The term corporate governance applies to the proper management and monitoring of a company. The structure of corporate governance at DaimlerChrysler AG is determined by Germany's Stock Corporation Act, Codetermination Act and capital-market legislation, as well as international capital-market laws and stock-exchange listing regulations.

**Cost of capital.** The cost of capital is a product of the average capital invested and the cost-of-capital rate. The cost-of-capital rate is derived from the investors' required rate of return (see page 44).

**CSR – corporate social responsibility.** A collective term for the social responsibility assumed by companies, including economical, ecological and social aspects.

**Equity method.** Accounting and valuation method for shareholdings in associated companies and joint ventures, as well as 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.

**Free float.** Free float is the percentage of a company's shares held by shareholders who hold less than 5% of that company's shares in total (see page 25).

**Goodwill.** Goodwill is the term for the amount by which the price paid for a company exceeds the value of the shareholders' equity of that company when its assets and liabilities are valued at current market value.

**IFRS – International Financial Reporting Standards.** IFRS is a set of standards and interpretations developed by an independent private-sector committee, the International Accounting Standards Board (IASB). IFRS includes regulations for companies' external accounting and reporting. DaimlerChrysler will probably prepare and publish consolidated financial statements according to IFRS for the first time at the beginning of 2007 for the 2006 financial year (see page 203).

**Integrity Code.** Our Integrity Code has been in use since 1999 and was revised and expanded in 2003. It sets out a binding framework for the actions of all our employees worldwide.

**Net assets.** Net assets are the capital invested by the Group and the industrial divisions; they are defined as the total of shareholders' equity plus financial liabilities and the accrued pension liabilities of the industrial business. The relevant capital base for the financial services business is shareholders' equity (see page 44).

**Net operating income.** Net operating income is the operational profit measure after taxes and the relevant parameter for measuring the Group's operating performance.

**Operating profit.** Operating profit is the operational profit measure before taxes (see page 39).



# Index

**Rating.** An assessment of a company's creditworthiness issued by rating agencies.

**ROE – return on equity.** For the financial services business, return on investment is measured by means of ROE (return on equity). ROE is defined as a quotient of operating profit and shareholders' equity.

**RONA – return on net assets.** For the Group as a whole and for the industrial divisions, return on investment is measured by means of RONA (return on net assets). RONA is defined as a quotient of net operating income (for the Group) or operating profit (for the industrial divisions) and net assets (see page 45).

**Sarbanes-Oxley Act.** The Sarbanes-Oxley Act was passed in the United States in 2002. This new law resulted in additional regulations for the protection of investors, including greater responsibility for management and the audit committee. In particular, requirements concerning the accuracy and completeness of published financial information have become stricter, and disclosure and auditing duties have been expanded.

**US GAAP – United States Generally Accepted Accounting Principles.** The principles of accounting, evaluation and disclosure that are generally followed in the United States and which are applied by DaimlerChrysler.

**Value-at-risk.** 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.

**Value added.** Value added indicates the extent to which the operational profit measure exceeds the cost of capital. When value added is positive, return on net assets is higher than the cost-of-capital (see page 45).

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# International Representative Offices

## **Berlin**

Phone +49 30 2594 1100  
Fax +49 30 2594 1109

## **Abidjan**

Phone +225 21 75 1001  
Fax +225 21 75 1090

## **Abu Dhabi**

Phone +97 1 4 8833 200  
Fax +97 1 4 8833 201

## **Bangkok**

Phone +66 2344 6100  
Fax +66 2676 5550

## **Beijing**

Phone +86 10 6590 6227  
Fax +86 10 6590 6337

## **Brussels**

Phone +32 2 23311 33  
Fax +32 2 23311 80

## **Budapest**

Phone +36 1 8877 002  
Fax +36 1 8877 001

## **Buenos Aires**

Phone +54 11 4808 8719  
Fax +54 11 4808 8702

## **Cairo**

Phone +20 2 529 9120  
Fax +20 2 529 9105

## **Caracas**

Phone +58 241 613 2460  
Fax +58 241 613 2462

## **Hanoi**

Phone +84 8 8958 710  
Fax +84 8 8958 714

## **Hong Kong**

Phone +86 10 6598 3388  
Fax +86 10 6590 6265

## **Istanbul**

Phone +90 212 482 3520  
Fax +90 212 482 3521

## **Jakarta**

Phone +62 21 86 899 100  
Fax +62 21 86 899 611

## **Kiev**

Phone +380 44 206 8080  
Fax +380 44 206 8088

## **Kuala Lumpur**

Phone +603 2246 8811  
Fax +603 2246 8812

## **Lagos**

Phone +234 1 461 8727  
Fax +234 1 261 2945

## **Ljubljana**

Phone +386 1 5883 798  
Fax +386 1 5883 799

## **Madrid**

Phone +34 91 484 6161  
Fax +34 91 484 6019

## **Melbourne**

Phone +61 39 566 9104  
Fax +61 39 566 9110

## **Mexico City**

Phone +52 55 5081 7313  
Fax +52 55 5081 7479

## **Milton Keynes**

Tel. +44 190 8245 800  
Fax +44 190 8245 802

## **Moscow**

Phone +7 495 745 2616  
Fax +7 495 745 2614

## **New Delhi**

Phone +91 20 2750 5800  
Fax +91 20 2750 5951

## **Paris**

Phone +33 1 39 23 5400  
Fax +33 1 39 23 5442

## **Pretoria**

Phone +27 12 677 1502  
Fax +27 12 666 8191

## **Rome**

Phone +39 06 4144 2405  
Fax +39 06 4121 9097

## **São Paulo**

Phone +55 11 4173 7171  
Fax +55 11 4173 7118

## **Seoul**

Phone +82 2 2112 2555  
Fax +82 2 2112 2644

## **Singapore**

Phone +65 6849 8321  
Fax +65 6849 8493

## **Skopje**

Phone +389 2 2580 000  
Fax +389 2 2580 401

## **Sofia**

Phone +359 2 919 8811  
Fax +359 2 945 4014

## **Taipei**

Phone +886 2 2715 9696  
Fax +886 2 2719 2776

## **Tashkent**

Phone +998 71 120 6374  
Fax +998 71 120 6674

## **Teheran**

Phone +98 21 2204 6047  
Fax +98 21 2204 6126

## **Tel Aviv**

Phone +972 9 957 9091  
Fax +972 9 957 6872

## **Tokyo**

Phone +81 3 5572 7172  
Fax +81 3 5572 7126

## **Warsaw**

Phone +48 22 312 7200  
Fax +48 22 312 7201

## **Washington D.C.**

Phone +1 202 414 6756  
Fax +1 202 414 6729

## **Windsor, Ontario**

Phone +1 519 973 2201  
Fax +1 519 973 2226

## **Zagreb**

Phone +385 1 348 6600  
Fax +385 1 348 6601

# Addresses/Information/Internet

## **DaimlerChrysler AG**

70546 Stuttgart

Phone +49 711 17 0

Fax +49 711 17 22244

[www.daimlerchrysler.com](http://www.daimlerchrysler.com)

## **DaimlerChrysler Corporation**

Auburn Hills, MI 48326-2766

USA

Phone +1 248 576 5741

[www.daimlerchrysler.com](http://www.daimlerchrysler.com)

## **Investor Relations**

Stuttgart

Phone +49 711 17 92261

+49 711 17 95256

+49 711 17 95277

Fax +49 711 17 94109

+49 711 17 94075

Auburn Hills

Phone +1 248 512 2812

Phone +1 248 512 2923

Fax +1 248 512 2912

## **Publications for our shareholders:**

- Annual Report (German, English)
- Form 20-F (English)
- Interim Reports for the 1st, 2nd and 3rd quarters (German, English)
- Environment Report (German, English)
- Social Responsibility Report (German, English)
- Sustainability Report (German, English)

The financial statements of DaimlerChrysler AG prepared in accordance with German GAAP were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, and an unqualified opinion was rendered thereon. These financial statements are published in the German Federal Gazette and are filed with the Commercial Registry of the Stuttgart District Court.

The aforementioned publications can be requested from:

DaimlerChrysler AG

Investor Relations

HPC 0324

70546 Stuttgart

Germany

The documents can also be ordered by phone or fax using the following number: +49 711 17 92287

[www.daimlerchrysler.com/investors](http://www.daimlerchrysler.com/investors)

**Additional information on the Internet.** Special information on our shares and earnings developments can be found in the "Investor Relations" section of our website. It includes the Group's annual and interim reports, the company financial statements of DaimlerChrysler AG, and reports to the US Securities and Exchange Commission (SEC) for all the financial years since 1998. You can also find topical reports, presentations, an overview of various performance measures, information on the share price, and other services.

# DaimlerChrysler Worldwide

	Mercedes Car Group	Chrysler Group	Commercial Vehicles	Sales Organization Automotive Businesses	Financial Services	Other Activities
<b>Europe</b>						
Production locations	10	-	19	-	-	3
Sales outlets	-	-	-	5,333	76	209
Revenues in millions of €	30,088	3,060	17,201	-	6,208	1,234
Employees	92,930	244	57,477	42,225	4,602	14,795
<b>NAFTA</b>						
Production locations	1	30	18	-	-	2
Sales outlets	-	-	-	4,965	33	533
Revenues in millions of €	12,043	45,439	12,770	-	8,609	466
Employees	4,472	82,321	26,838	2,777	5,326	1,930
<b>South America</b>						
Production locations	1	2	3	-	-	-
Sales outlets	-	-	-	611	9	59
Revenues in millions of €	202	438	1,932	-	133	38
Employees	1,083	560	13,414	-	279	-
<b>Africa</b>						
Production locations	1	1	1	-	-	-
Sales outlets	-	-	-	232	1	43
Revenues in millions of €	1,358	321	1,410	-	218	27
Employees	5,520	-	1,081	-	505	-
<b>Asia</b>						
Production locations	3	1	9	-	-	-
Sales outlets	-	-	-	1,152	12	151
Revenues in millions of €	5,531	461	6,116	-	109	357
Employees	340	5	18,340	2,643	194	839
<b>Australia/Oceania</b>						
Production locations	-	-	-	-	-	-
Sales outlets	-	-	-	243	4	71
Revenues in millions of €	718	208	679	-	145	163
Employees	-	-	33	1,128	223	600

Note: Unconsolidated revenues of each division (segment revenues).

# Financial Calendar 2006

<b>Annual Press Conference</b> Mercedes Event Center (MEC) Sindelfingen	<b>February 16, 2006</b> 10 a.m. CET
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<b>Analysts' and Investors' Conference Call</b>	<b>February 16, 2006</b> 2.30 p.m. CET
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<b>Presentation of the Annual Report 2005</b>	<b>March 6, 2006</b>
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<b>Annual Meeting</b> Messe Berlin	<b>April 12, 2006</b> 10 a.m. CET
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<b>Interim Report Q1 2006</b>	<b>April 27, 2006</b>
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<b>Interim Report Q2 2006</b>	<b>July 27, 2006</b>
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<b>Interim Report Q3 2006</b>	<b>October 25, 2006</b>
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<< DaimlerChrysler Worldwide

<< Addresses



DaimlerChrysler  
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