DAIMLERCHRYSLER

MERCEDES CAR GROUP

DIVISION DAY

Process efficiencies and cost reductions – the MCG-CORE project

Rainer Schmückle
MCG COO

Stuttgart
September 19th, 2006

Agenda

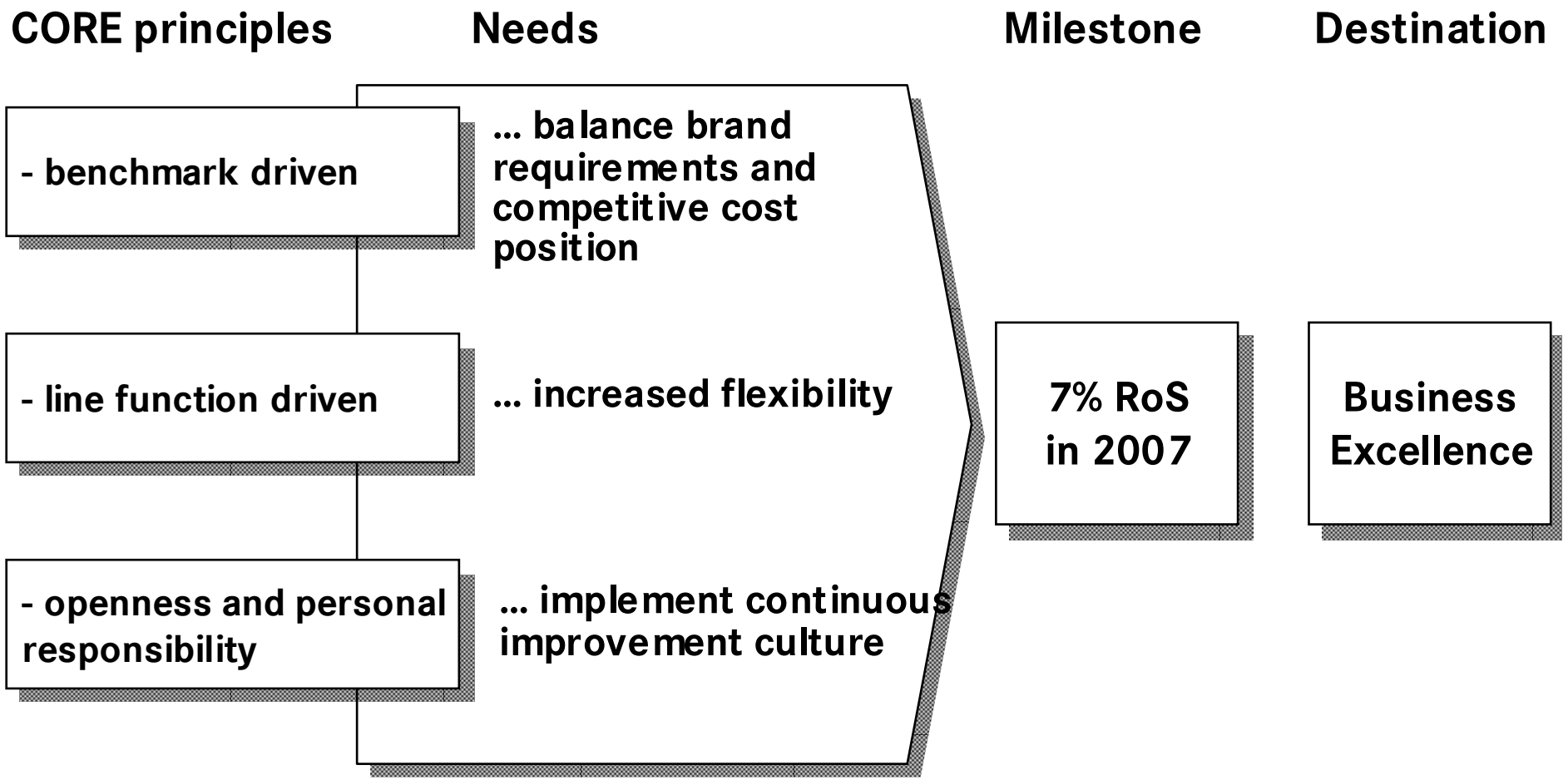
DAIMLERCHRYSLER

MCG Division Day – Rainer Schmückle

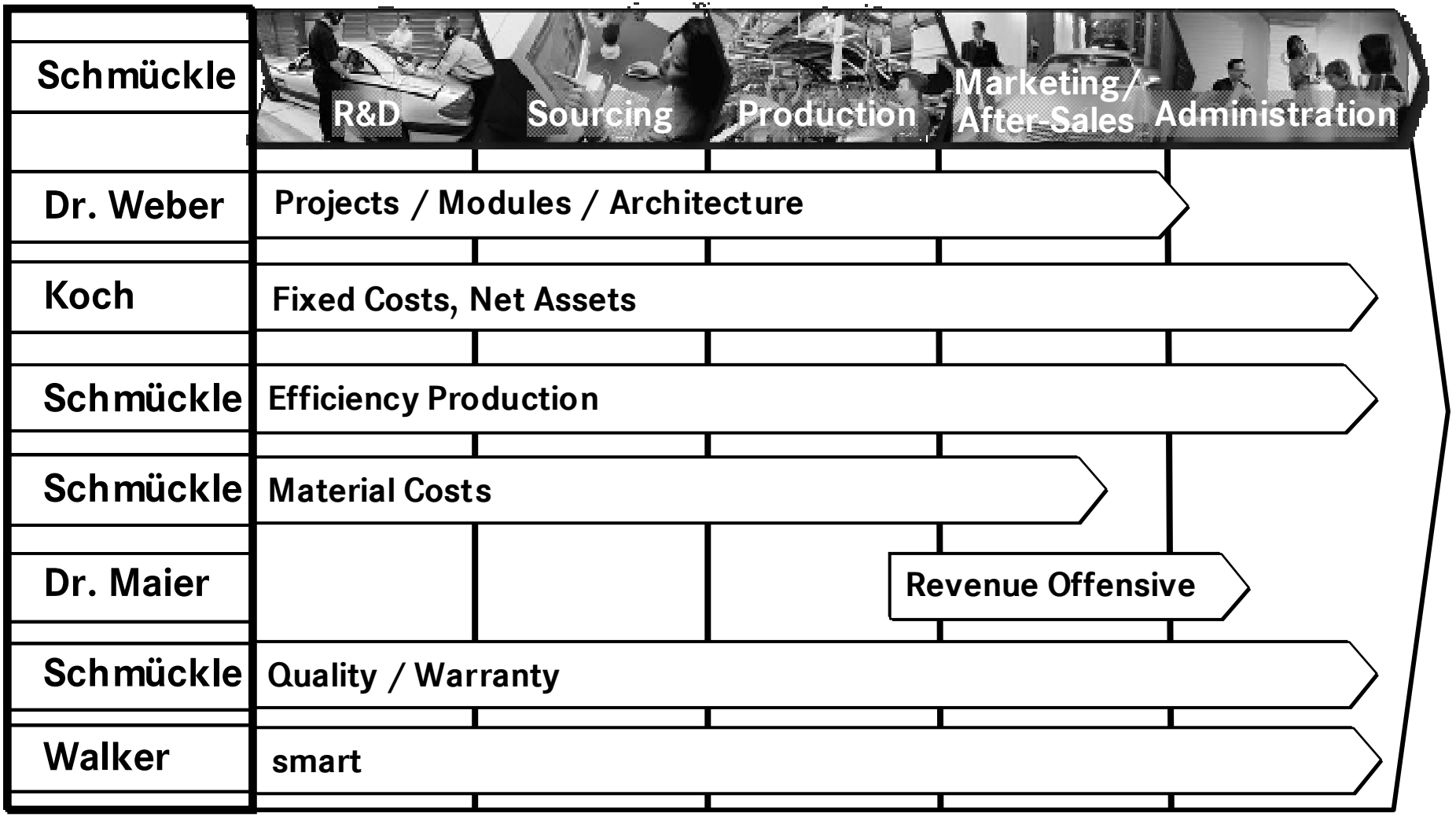
1. **CORE achievement 2005**
2. **Current status**
3. **Main focus: process efficiencies & cost reductions**

DAIMLERCHRYSLER

CORE is the most comprehensive and important mobilization program of the last years within MCG.



CORE PROJECT SETUP & RESPONSIBILITIES



Continued Execution under the leadership of Executive Team MCG

DAIMLERCHRYSLER

Accumulation of Negative Impacts

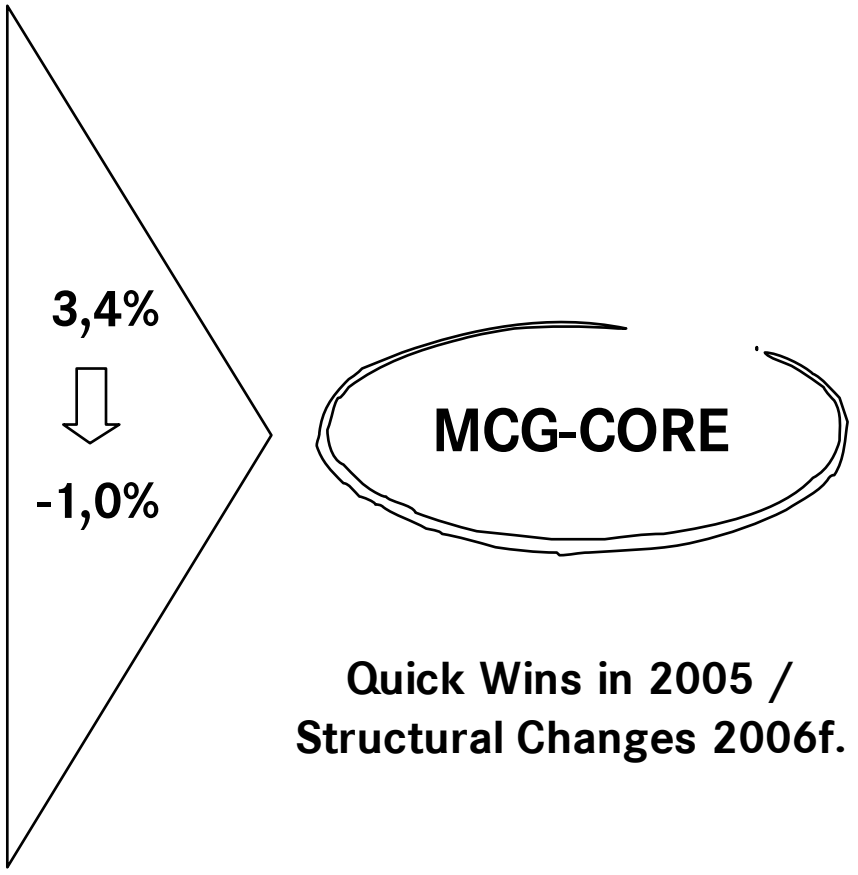
Internal Impacts

- Increased Complexity
- Project Deviations
- smart Performance
- Warranty Cost
- Product Cycles

External Impacts

- Currency
- Raw Material
- Incentive Spending

2004 to 2005 RoS Development



Quick Wins in 2005 / Structural Changes 2006f.

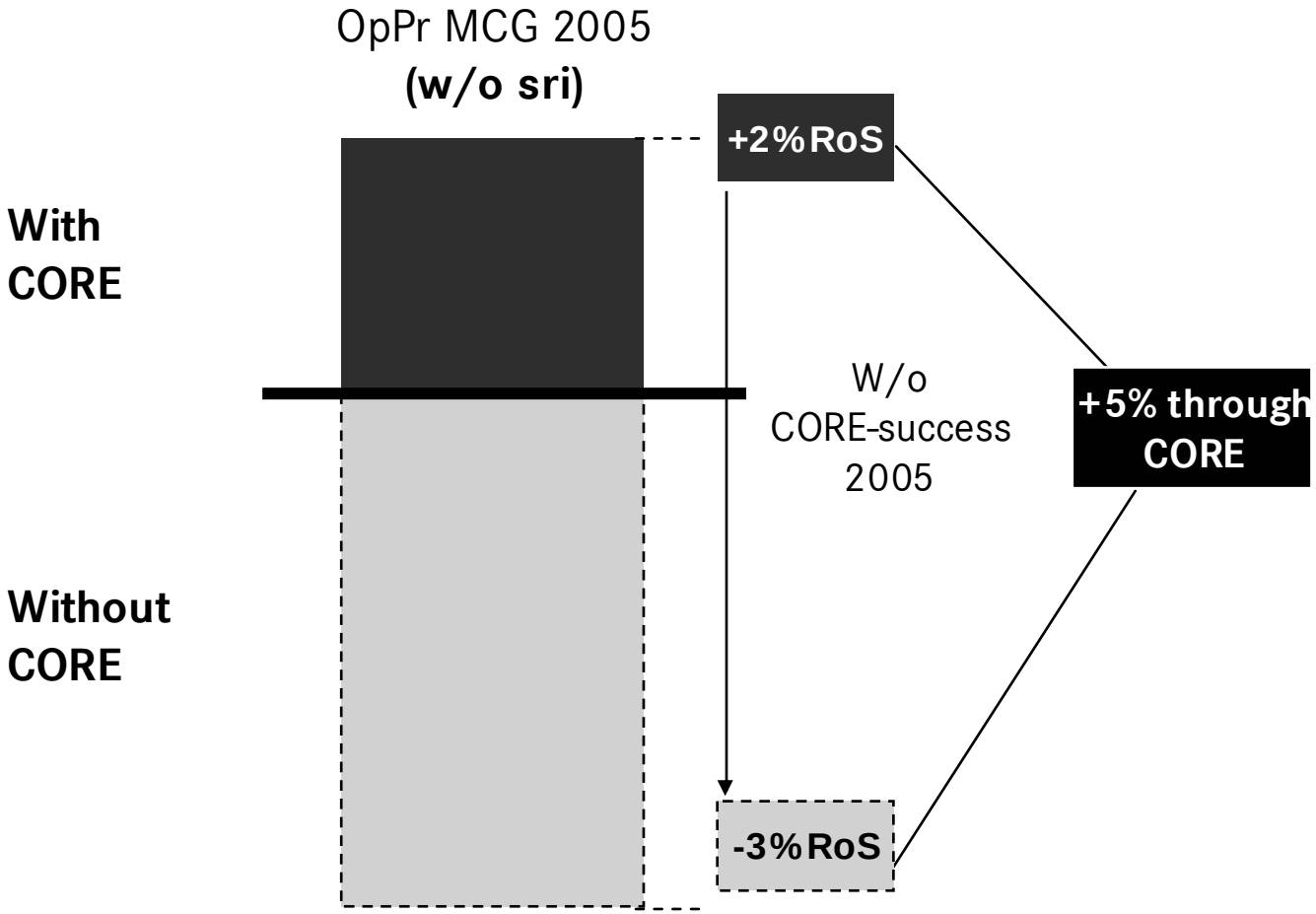
Main levers of CORE – around 13.000 measures in 2005

DAIMLERCHRYSLER

Work module	Main levers	# measures
WM 1 - Projects	• Review of new vehicle / powertrain projects, model years and freshenings • Reduction of product complexity and development costs (internal and supplier) • Optimization of plant/structure and sales projects	~250
WM2 – Fixed Costs , Net Assets	• Fixed costs optimization & net asset reduction • General Quick wins (Expenses for travel, consulting, training, company cars, ...) • Optimization of processes and overhead costs (e.g. HR, QM , F&C, Strategy, MDS, ...)	~1.150
WM3 – Efficiency Production	• Plant productivity worldwide (reinforced CIP, reduction of non-tact related activities, shift model optimization) • Personnel cost (avoidance of extern. recruitment and overtime, flexibility increase, ...)	~1.450
WM4 – Material Costs	• Technical efficiency (standardization, specs, substitution, ...) • Commercial efficiency (global sourcing, make or buy, ...) • Freights / duties (processes, standardization, centralization, ...)	~9.650
WM5 – Revenue Offensive	• Volume, mix • Prices, discounts • Patents, LA2/LA3	~300
WM6 – Quality / Warranty	• Reduction of fault rate • Reduction of fault elimination times • Reduction of W&G costs	~10
WM7 – smart	• smart turnaround: general restructuring, reduction of fix cost budgets on research & development, production & purchasing, marketing &sales, overhead & IT	~400

DAIMLERCHRYSLER

Without the program MCG-CORE, ROS of MCG would have been significantly worse in 2005 (w/o sri).



DAIMLERCHRYSLER

MCG Division Day – Rainer Schmückle

1. CORE achievement 2005
2. Current status
3. Main focus: process efficiencies & cost reductions

DAIMLERCHRYSLER

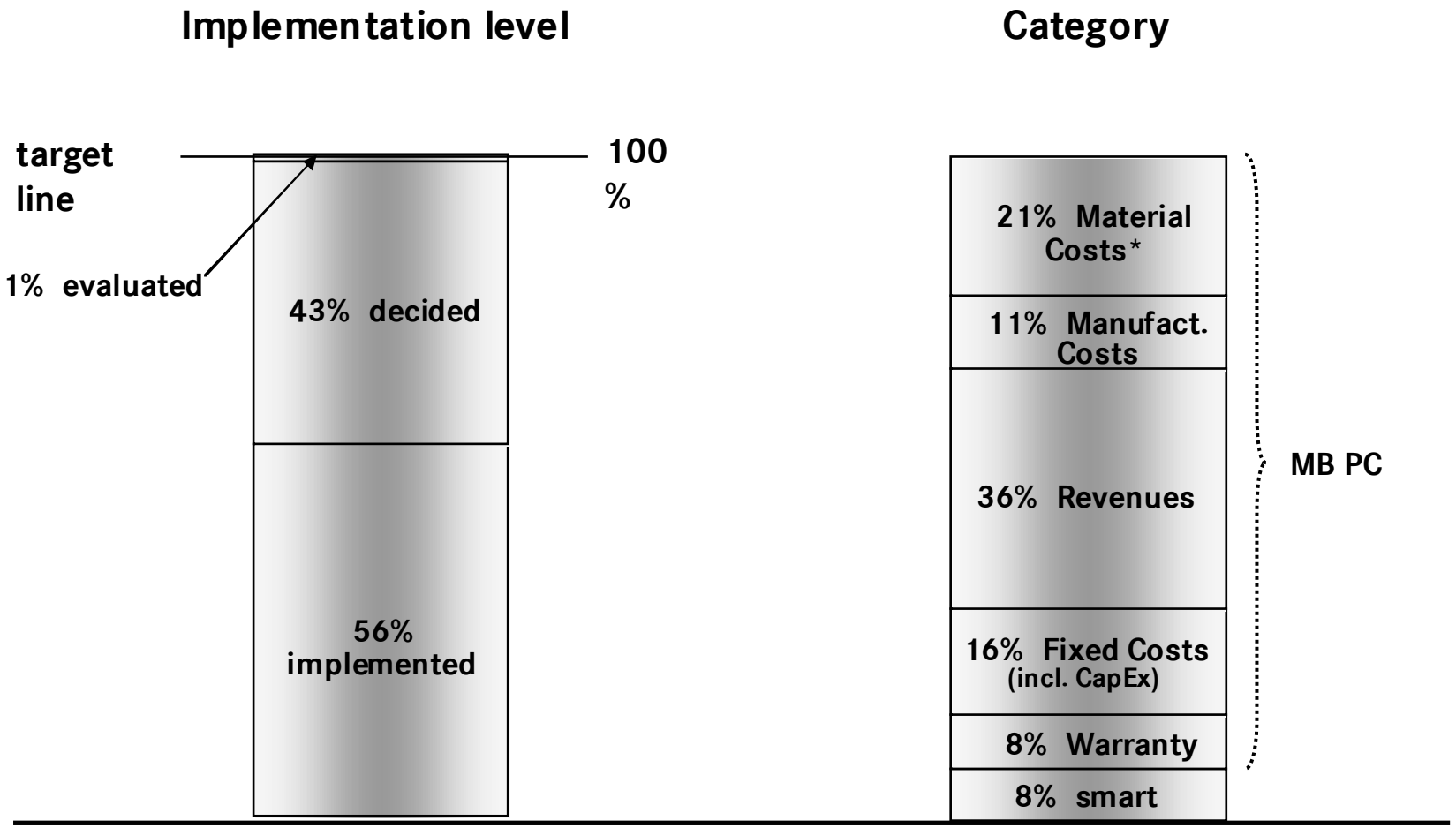
Some of the headwinds are prevailing throughout 2006 and 2007.

- Exchange rate risk
- Raw material – steel cost increase
- Raw material – aluminum cost increase
- Raw material – plastics cost increase
- Energy cost increase
- Launch cost of C-Class in 2007

⇨ **CORE stretch level adjusted to deal with external challenges**

DAIMLERCHRYSLER

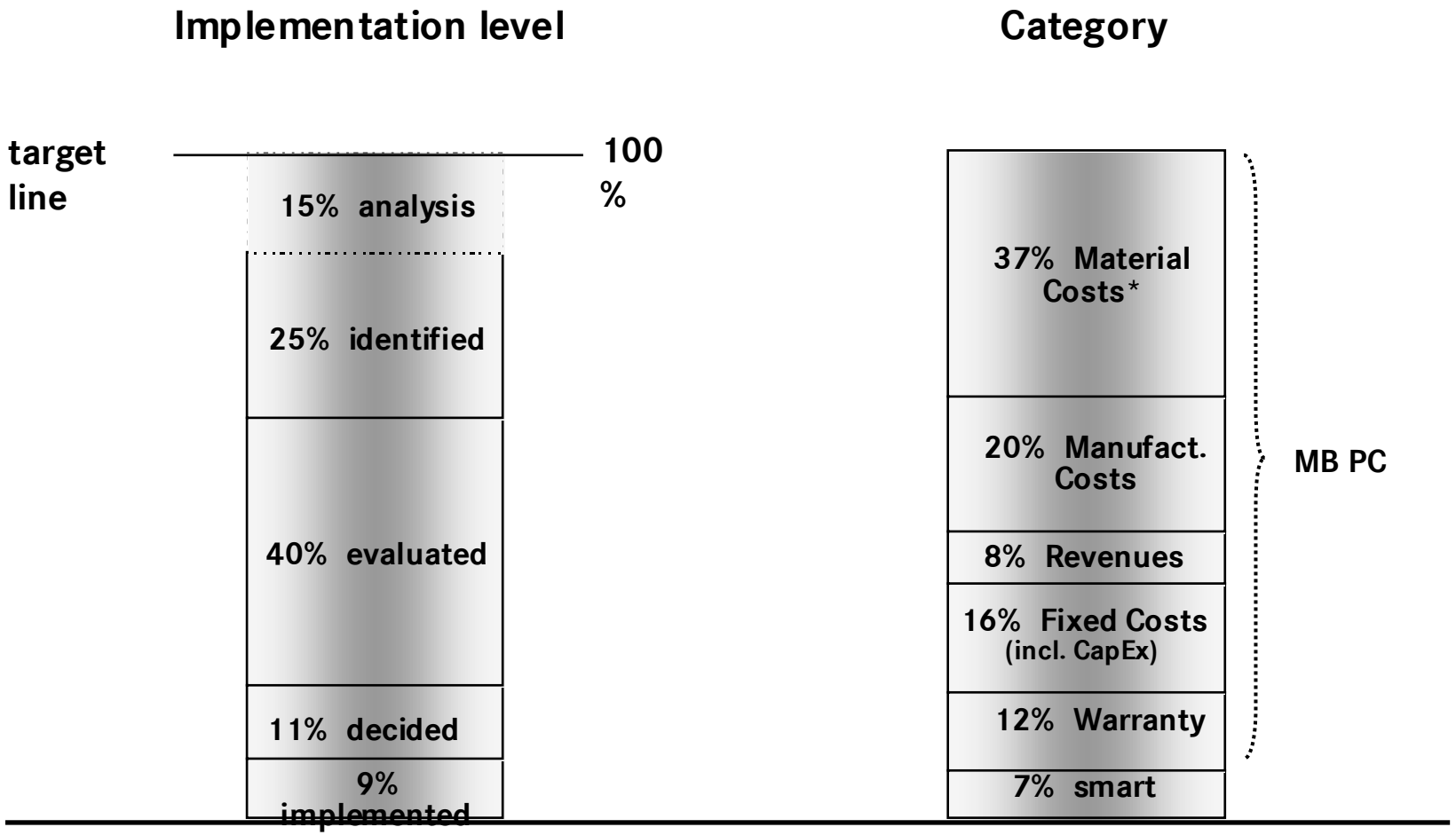
Status CORE 2006



* net of content increases

DAIMLERCHRYSLER

Status CORE 2007 (Incremental target)



* net of content increases

DAIMLERCHRYSLER

MCG Division Day – Rainer Schmückle

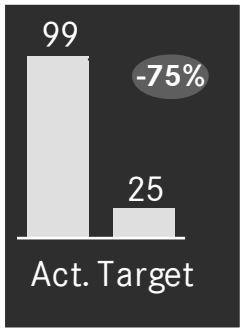
1. CORE achievement 2005
2. Current status
3. Main focus: process efficiencies & cost reductions

Main Focus of CORE work modules (WM)

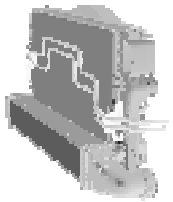
DAIMLERCHRYSLER

WM 1: Module strategy & architecture

Variant reduction



EXAMPLE

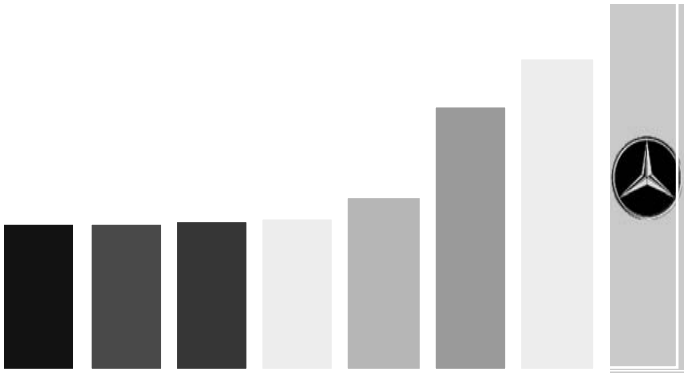


Cooling module

Savings

EUR
> 20 m
p.a.

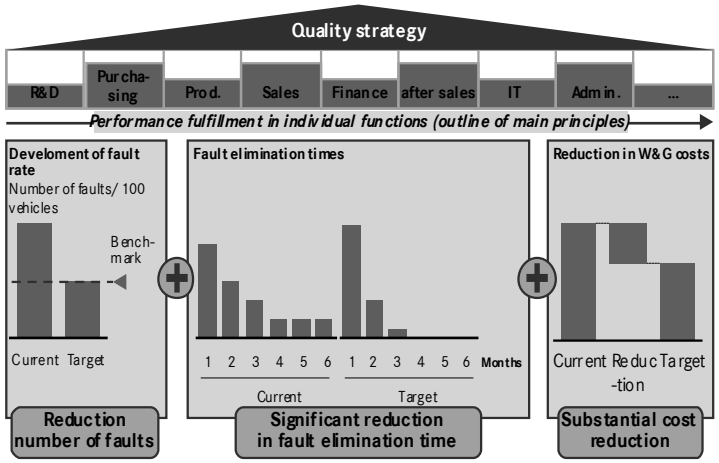
WM3: Production Efficiency



WM4: Direct material optimization

Functional teams	① July - Nov. 2005	② Nov. - March 2005/2006	③ April - Juny 2006	④ June - Sept. 2006
Powertrain	• Supercharging • ...	• Gear components • ...	• Generators, starters • ...	• Raw material • ...
Electrical / electronics	• Telematics • ...	• Display and operation • ...	• Electronic brake systems • ...	• Central systems • ...
Interior	• Complete seat incl. seat components • ...	• Heating, climate, ventilation • ...	• Paneling, decor, accessories • ...	• IP, center console, nozzles • ...
Exterior	• Add-on parts • ...	• Doors • ...	• Molded parts • ...	• Windows, roof • ...
Chassis	• Suspension/ insulation • ...	• Brake system • ...	• Wheels/tires • ...	• Mounting elements, frame parts • ...
	11 scopes	12 scopes	12 scopes	8 scopes

WM6: Quality increase & warranty cost reduction

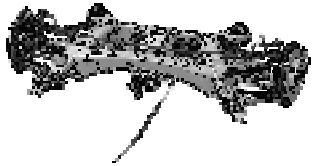


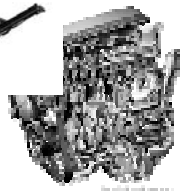
Main Focus of CORE (Module Strategy)

DAIMLERCHRYSLER

Each module will be tracked along several targets to enable successful vehicles.

MODULE SHELF




Cost targets

Quality targets

Complexity targets

Competitive Differentiation

Manufacturing targets
(e.g. time, PPG)

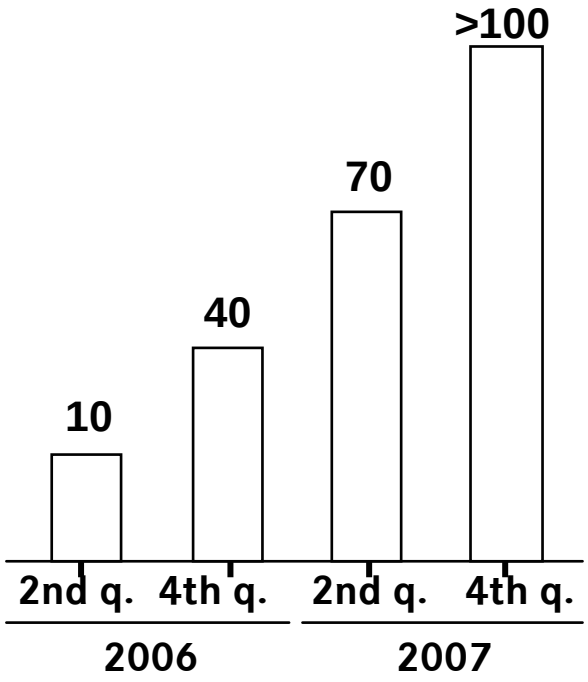



Main Focus of CORE (Module Strategy)

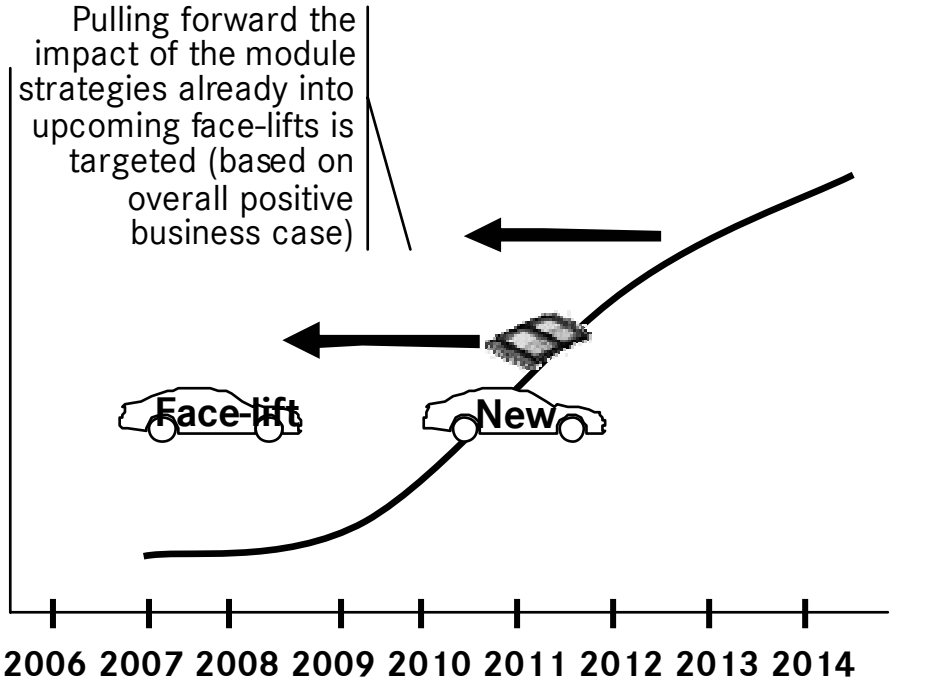
DAIMLERCHRYSLER

By end of 2007 over 100 module strategies will be developed to enable amendments of quality, cost and function – early impact is targeted.

Decided module strategies [#]



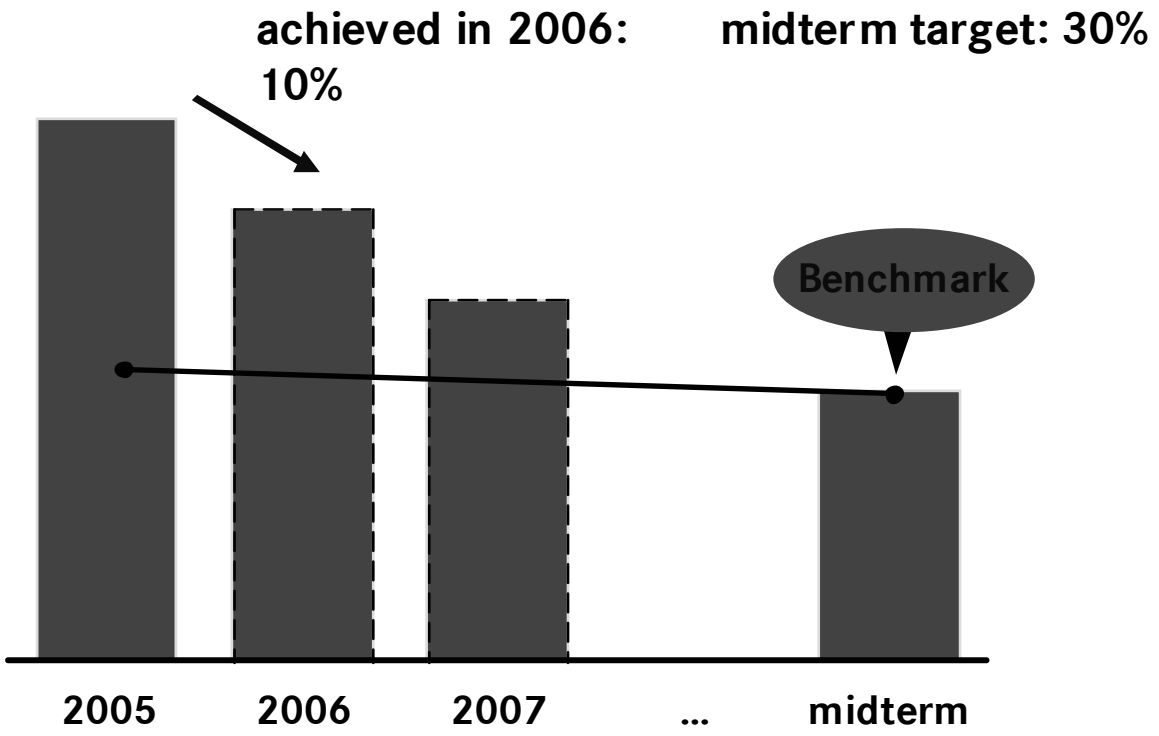
Savings [EUR]



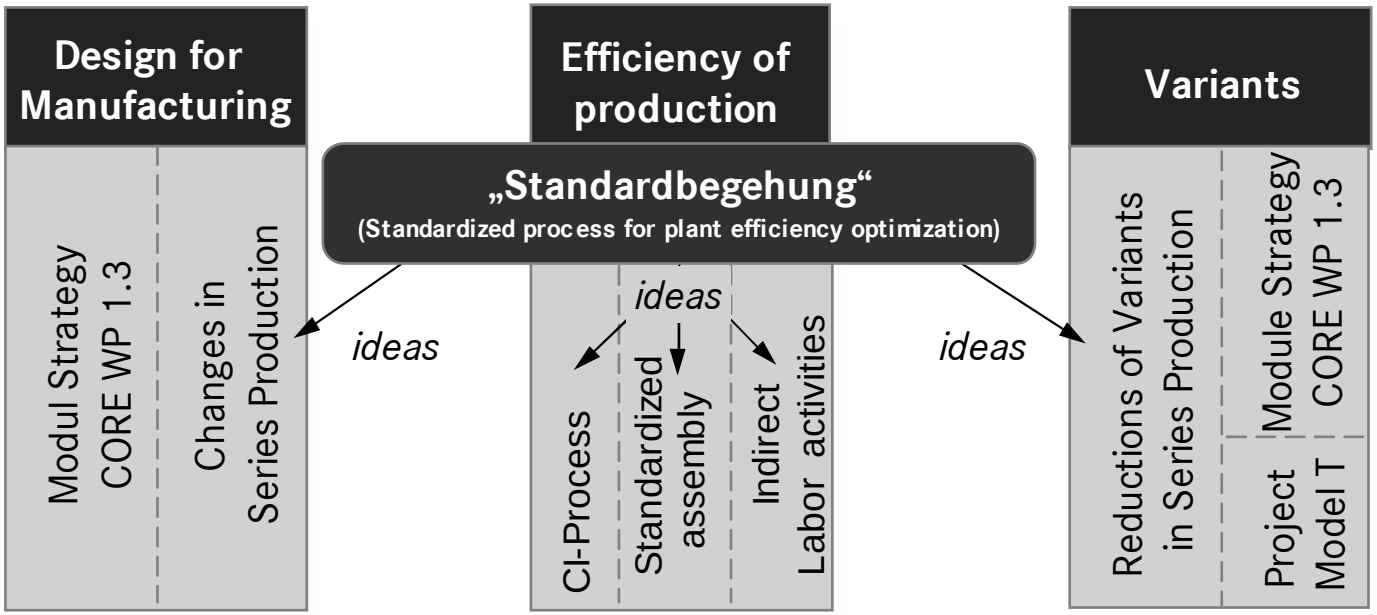
Optimization of HPV as the lever for production efficiency - a challenge for all functions – HPV in 2006 already decreased by 10%.

HPV

Hours per vehicle

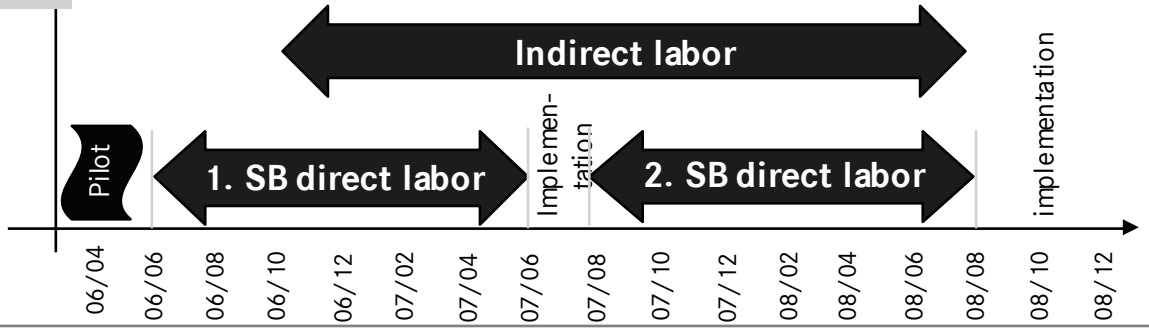


The „Standardbegehung“ creates ideas to reach the HPV targets – using intense interdisciplinary cooperation of all functions.



The „Standardbegehung“

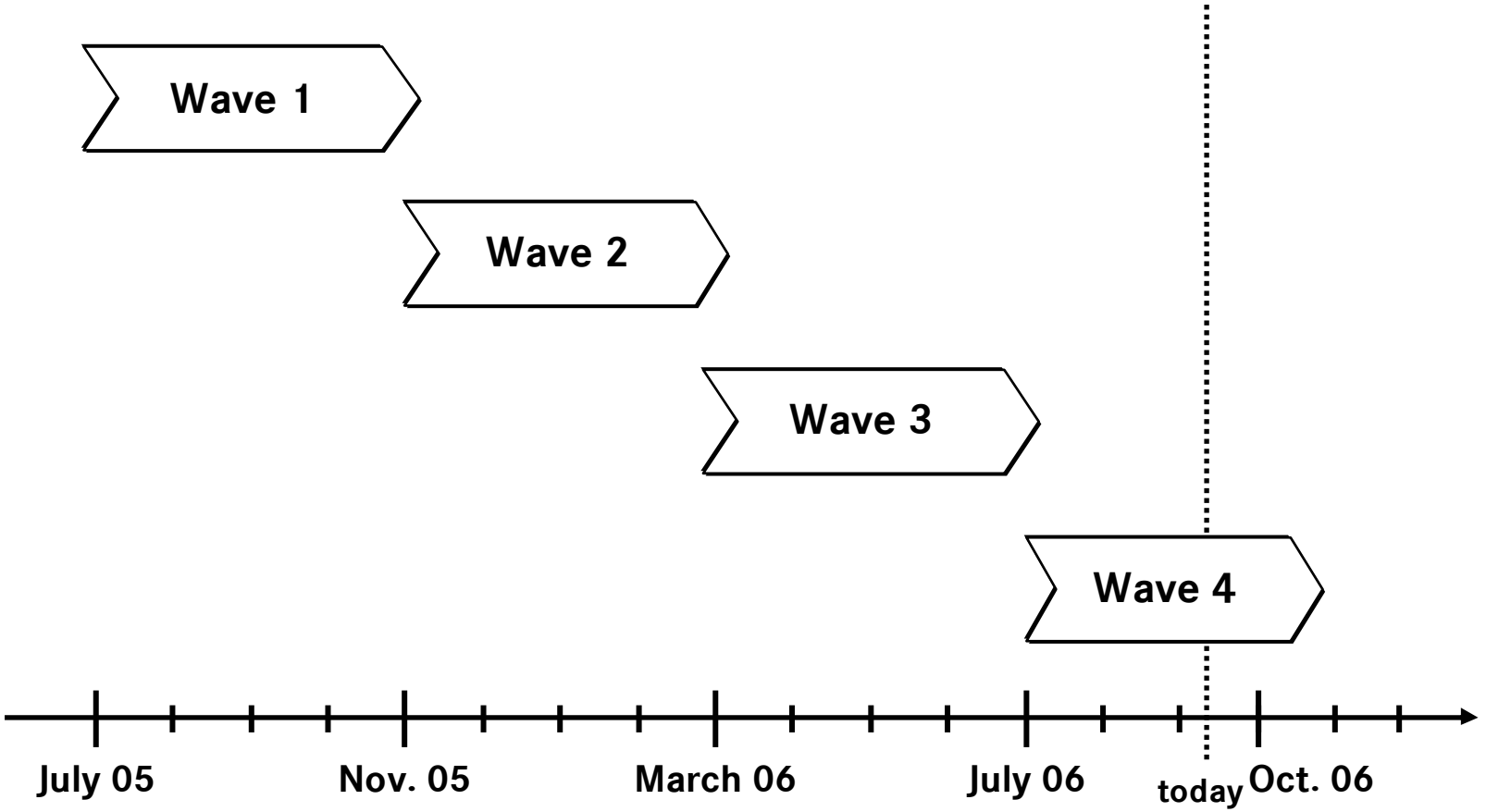
- ✓ Every plant
- ✓ Every worker
- ✓ Every part
- ✓ Every process



Analysis of total direct material in cross-functional teams

Functional teams	① July - Nov. 2005	② Nov. - March 2005/2006	③ April - July 2006	④ July – Oct. 2006
Powertrain	• Supercharging • ...	• Gear components • ...	• Generators, starters • ...	• Raw material • ...
Electrical/ electronics	• Telematics • ...	• Display and operation • ...	• Electronic brake systems • ...	• Central systems • ...
Interior	• Complete seat incl. seat components • ...	• Heating, climate, ventilation • ...	• Paneling, decor, accessories • ...	• IP, center console, nozzles • ...
Exterior	• Add-on parts • ...	• Doors • ...	• Molded parts • ...	• Windows, roof • ...
Chassis	• Suspension/ insulation • ...	• Brake system • ...	• Wheels/tires • ...	• Mounting elements, frame parts • ...
	11 part groups	12 part groups	12 part groups	8 part groups

Target Achievement 2007 is on track

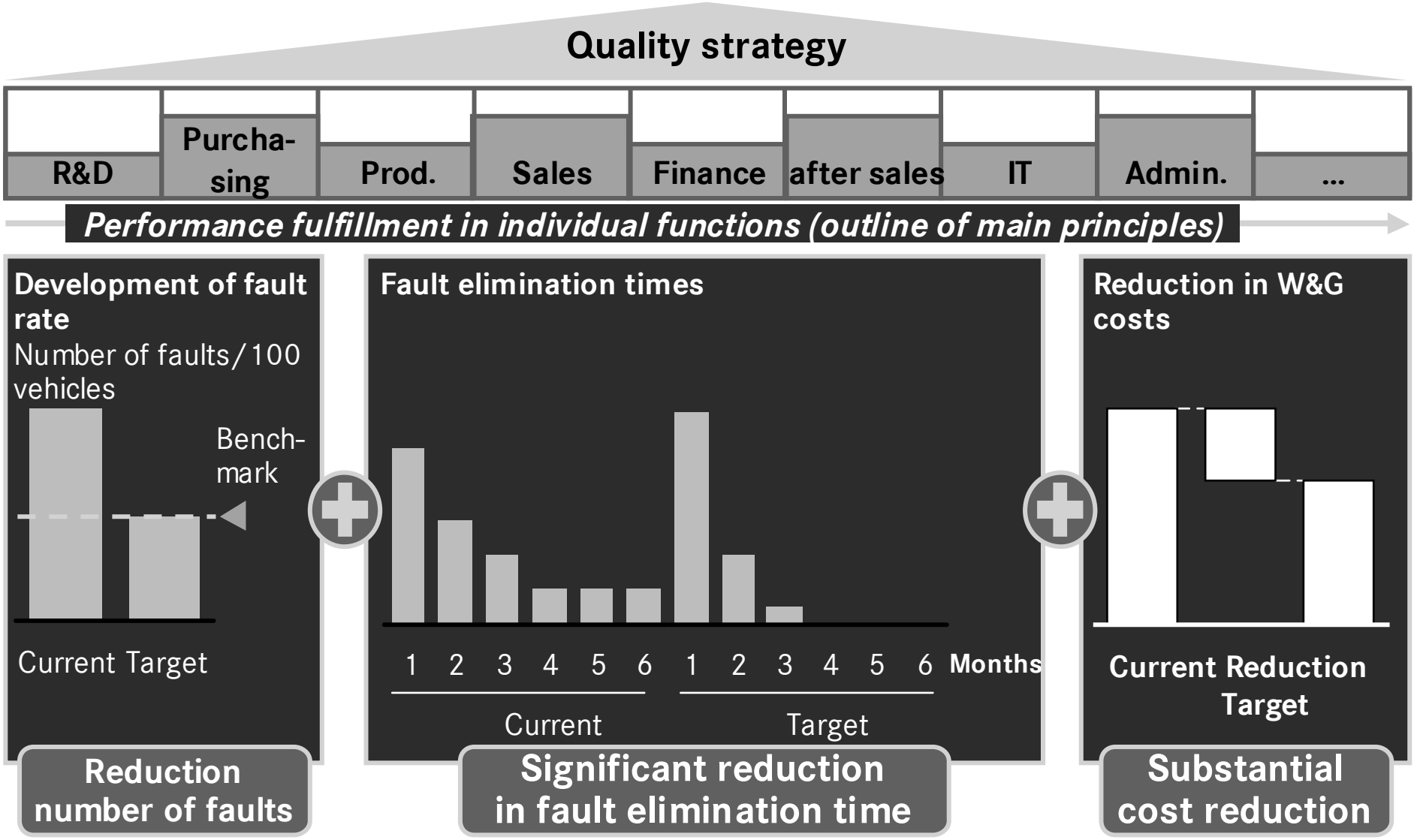


Compensation of raw material increase + significant cost reduction

Main Focus of CORE (Quality)

DAIMLERCHRYSLER

In the field of quality, our new quality strategy with 42 work packages is currently being implemented.

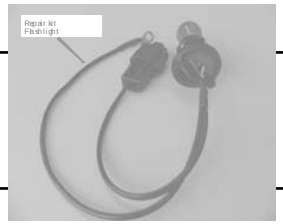


DAIMLERCHRYSLER

Examples of implemented quality measures

691 €/Case

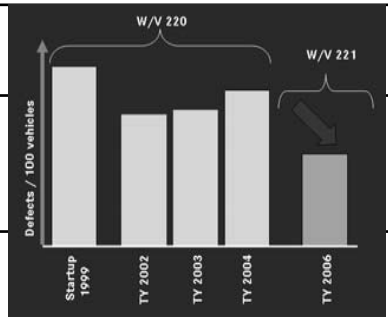
-87%

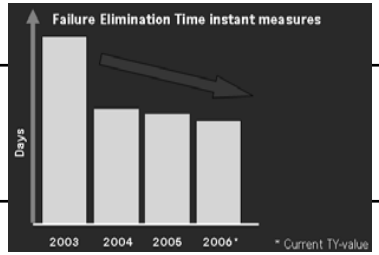


89 €/Case

- Increase of training for service staff
- Definition of further standard processes for all countries

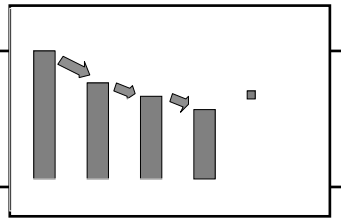
- Intensified testing in the early development phase
- Quality driven ramp ups for all new model lines





- Implementation of escalation process
- Advanced IT-systems

- > 1.000 quality meetings with suppliers in 2005
- Closer cooperation on common Q-standards



DISCLAIMER

This presentation 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; disruption of production or vehicle deliveries, 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” in DaimlerChrysler’s most recent Annual Report and under the heading “Risk Factors” in DaimlerChrysler’s most recent 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.