

DAIMLERCHRYSLER



Annual Financial Statements 2006 DaimlerChrysler AG

Balance Sheet of DaimlerChrysler AG

	Notes	12/31/2006 € in millions	12/31/2005 € in millions
ASSETS			
Fixed Assets			
Intangible assets	(1)	40	46
Property, plant and equipment incl. equipment on operating leases, net	(2)	9,078	9,113
Investments and long-term financial assets	(3)	32,403	32,042
		41,521	41,201
Non-fixed Assets			
Inventories	(4)	5,055	5,752
Trade receivables	(5)	1,940	2,050
Receivables from affiliated companies	(5)	7,948	8,176
Other receivables and other assets	(5)	1,373	2,302
Securities	(6)	3,132	1,871
Cash and cash equivalents	(7)	1,933	284
		21,381	20,435
Prepaid Expenses		19	15
		62,921	61,651
STOCKHOLDERS' EQUITY AND LIABILITIES			
Stockholders' Equity			
Capital stock (authorized unissued capital € 550 million)	(8a)	2,673	2,647
Additional paid-in capital	(8b)	12,356	12,012
Retained earnings	(8c)	3,483	4,336
Unappropriated profit		1,542	1,527
		20,054	20,522
Accruals			
Accrued pension and similar liabilities	(9)	11,850	10,828
Other accrued liabilities	(10)	11,405	10,780
		23,255	21,608
Liabilities			
Trade liabilities	(11)	3,980	3,803
Liabilities to affiliated companies	(11)	12,305	12,132
Other liabilities	(11)	3,227	3,499
		19,512	19,434
Deferred Income		100	87
		62,921	61,651

Income Statement of DaimlerChrysler AG

	Notes	2006 € in millions	2005 € in millions
Revenues	(12)	64,571	59,150
Cost of goods sold	(13)	(56,789)	(54,403)
Gross profit		7,782	4,747
Selling expenses	(13)	(5,440)	(5,640)
General administrative expenses	(13)	(2,762)	(2,348)
Other operating income	(14)	1,394	1,500
Other operating expenses	(15)	(383)	(717)
Result from investments in affiliated and related companies	(16)	(11)	2,789
Interest income	(17)	738	958
Other financial income	(18)	24	378
Income from ordinary activities		1,342	1,667
Income taxes	(19)	(653)	(61)
Net income	(20)	689	1.606
Withdrawal from (p. y. addition to) retained earnings		853	(79)
Unappropriated profit		1,542	1,527

Notes to the Financial Statements of DaimlerChrysler AG

Accounting Policies

The financial statements of DaimlerChrysler AG are prepared according to the accounting requirements of the German Commercial Code (HGB) and the Stock Corporation Act (AktG). The financial statements are shown in millions of EURO (€) and compared with the figures as of December 31, 2005. The summarized items in the balance sheet and the income statement are specifically included and explained in the notes to the financial statements.

The schedule according to § 266 HGB has been modified in order to provide a more detailed classification. Receivables from related companies and other assets are aggregated with other receivables and other assets. Accrued taxes and other accrued liabilities are aggregated with other accrued liabilities. The other liabilities include liabilities to related companies, notes/bonds and commercial papers, liabilities to financial institutions and sundry other liabilities. In the financial year 2006, the method of netting liabilities to related companies from loss assumptions and receivables from related companies was not utilized.

The income statement is prepared in accordance with the internationally established cost of sales accounting method. The classification of the financial statements has been modified to enhance the presentation of financial transactions. Financial transactions are defined as investment income from affiliated and related companies, interest income and other financial income.

Reporting and Valuation

Intangible assets are measured at acquisition cost less ordinary amortization. In most cases the useful life of the assets is not more than 3 years.

Property, plant and equipment incl. equipment on operating leases, net is measured at historical cost or production cost less ordinary depreciation.

The costs of internally produced equipment and facilities include all direct costs and attributable manufacturing overheads, as well as depreciation charges.

For ordinary depreciation, a useful life of 3 to 10 years is assumed in most cases for technical equipment and machinery, other equipment, factory and office equipment. Shorter periods are applied for equipment used in multishift operations.

As a matter of principle, movable property with a useful life of 4 years or more is depreciated by the reducing balance method. Depreciation expense is recognized using the reducing balance method until such time as the application of the straight-line method yields higher expenses. As a rule, the highest possible depreciation rate allowed for tax purposes is utilized. Accelerated depreciation is recorded to the extent necessary to report lower values.

Low value fixed assets are written off immediately.

Equipment on operating leases, where the company is lessor, is measured at acquisition cost or manufacturing cost and depreciated over the asset's useful life, generally 3 to 21 years. Depending upon the lessee, leased equipment is depreciated either using the straight-line method or the reducing balance method. The reducing

balance method is utilized until such time as the straight-line method yields higher expenses.

In the schedule of fixed assets, we have reported leased equipment separately under property, plant and equipment. The Special Assets Pension Trust has been reported separately under financial assets.

Investments in affiliated companies, Investments in related companies and Other investments and Long-term financial assets are reported at the lower of acquisition cost or market value; low-interest-bearing and non-interest-bearing loans are measured at net present value.

Raw materials, Manufacturing supplies and Resale products are valued at the lower of acquisition cost and current price; *Work in process and Finished goods* at manufacturing cost. Manufacturing costs include direct costs of materials and labor and the related material manufacturing overhead costs, including depreciation charges. Deductions for inventory obsolescence risks are recorded in appropriate amounts in conformity with the tax requirements. The principle of loss-free valuation (“Verlustfreie Bewertung”) is used in accordance with the tax regulations.

Allowances for all discernible risks have been considered when valuing *Receivables and Other assets*. Non-interest-bearing receivables with residual maturities of more than one year are discounted at the balance sheet date. A general bad debt allowance has been recorded to cover general credit risk.

Other securities are measured at the lower of acquisition cost and fair market value as at the balance sheet date.

Accrued pension and Similar liabilities are valued using the projected unit credit method. This method of reporting pension obligations corresponds to the method used in the consolidated financial statements under US GAAP and results in

a higher value than that calculated according to § 6a EStG (Income Tax Act). In 2006, the accrual is based on the full “Projected Benefit Obligation” in accordance with the US financial accounting standards SFAS 87 and SFAS 158. In the prior year, the accrual was based on the minimum level of the “Accumulated Benefit Obligation” (ABO).

Accrued liabilities for taxes and Other accrued liabilities are determined on the basis of reasonable commercial judgment.

Derivative financial transactions (particularly currency futures and currency options and interest-rate swaps) are combined with their underlying transaction into a valuation unit if a direct connection between the financial transaction and the underlying transaction exists.

In these cases, the effects of currency contracts entered into for the purpose of currency hedging are only recognized as income at the due date. Financial transactions for which no valuation unit has been formed are valued individually at market prices. Unrealized losses are recognized in income.

Liabilities are stated at the amounts repayable.

Foreign Currencies

Foreign currency receivables and foreign currency liabilities are converted using the exchange rate on the transaction date or the respective lower or higher exchange rate at the balance sheet date.

Fixed Assets Schedule of DaimlerChrysler AG

	Balance at 01/01/2006	Acquisition or Manufacturing Costs			Balance at 12/31/2006
		Additions	Reclassi- fications	Disposals	
€ in millions					
Intangible assets					
Franchises, industrial property rights and similar rights as well as other intangible assets	210	22	2	26	208
Advance payments
	210	22	2	26	208
Property, plant and equipment					
Technical equipment and machinery	7,667	748	199	135	8,479
Other equipment, factory and office equipment	5,157	651	96	218	5,686
Equipment on operating leases, net	6,481	2,785	2	2,619	6,649
Advance payments relating to plant and equipment and construction in process	384	293	(299)	10	368
	19,689	4,477	(2)	2,982	21,182
Financial assets					
Investments in affiliated companies	24,031	305	3	907	23,432
Loans to affiliated companies	215	188	-	117	286
Investments in associated and related companies	1,048	36	(3)	36	1,045
Other loans	17	1	-	.	18
Special Assets Pension Trust	7,974	1,010	-	109	8,875
	33,285	1,540	-	1,169	33,656
Fixed assets	53,184	6,039	-	4,177	55,046

Balance at 01/01/2006	Depreciation/Write-up				Balance at 12/31/2006	Book Values	
	Additions	Write-up	Reclassi- fications	Disposals		Balance at 12/31/2006	Balance at 12/31/2005
164	30	-	.	26	168	40	46
-	-	-	-	.	-	.	.
164	30	-	.	26	168	40	46
5,289	988	-	.	129	6,148	2,331	2,378
3,419	689	-	.	204	3,904	1,782	1,738
1,868	1,098	-	.	914	2,052	4,597	4,613
-	-	-	-	-	-	368	384
10,576	2,775	-	.	1,247	12,104	9,078	9,113
746	38	-	-	26	758	22,674	23,285
1	-	(1)	-	-	-	286	214
494	33	-	-	34	493	552	554
2	.	.	-	.	2	16	15
-	-	-	-	-	-	8,875	7,974
1,243	71	(1)	-	60	1,253	32,403	32,042
11,983	2,876	(1)	-	1,333	13,525	41,521	41,201

Notes to the Balance Sheet of DaimlerChrysler AG

1 Intangible assets

The intangible assets comprise acquired licenses (EDP software) and similar rights amounting to € 40 million. Ordinary depreciation amounts to € 30 million.

2 Property, plant and equipment incl. equipment on operating leases, net

The additions of € 4,477 million include € 2,785 million of leased assets which are mainly passenger cars. Further additions consist only of movable property.

Ordinary depreciation amounts to € 2,775 million (p. y. € 2,614 million).

3 Investments and long term financial assets

The interest in affiliated and related companies decreased by € 613 million to € 23,226 million (p. y. € 23,839 million).

The decline is mainly linked to the merger of DaimlerChrysler Off-Highway Holding GmbH with DaimlerChrysler AG. In the financial year 2006, unscheduled write downs amounting to € 71 million (p. y. € 148 million) were recorded on investments in affiliated, associated and related companies.

A separate report in accordance with § 287 HGB (German Commercial Code) of the investments in subsidiaries of DaimlerChrysler AG is filed at the Commercial Register in Stuttgart.

Loans to affiliated companies increased by € 72 million. This increase results mainly from the granting of a loan to DaimlerChrysler Ludwigsfelde GmbH. Offsetting items represent the repayments of loans particularly by DaimlerChrysler Mitarbeiter Wohnfinanz GmbH.

The Special Assets Pension Trust includes financial assets which were transferred to the DaimlerChrysler Pension Trust e. V. These assets and their returns are used exclusively for the retirement pension plan. In the financial year 2006, ancillary capital of € 64 million was allocated to the Pension Trust.

The development of fixed assets is shown in the fixed assets schedule.

4 Inventories

	12/31/2006 € in millions	12/31/2005 € in millions
Raw material and manufacturing supplies	970	959
Work-in-process	812	772
Finished goods and resale products	3,319	4,070
<u>Inventories</u>	<u>5,101</u>	<u>5,801</u>
Advance payments	(46)	(49)
Total	5,055	5,752

Finished goods and resale products contain both vehicles manufactured in-house and vehicles produced within the scope of contractual manufacturing. Spare parts and used vehicles are also included.

5 Other receivables and Other assets

	12/31/2006		12/31/2005	
	€ in millions	€ in millions	€ in millions	€ in millions
Trade receivables		1,940		2,050
of which due after 1 year	29		53	
Receivables from affiliated companies		7,948		8,176
of which due after 1 year	9		4	
Receivables from related companies		166		170
of which due after 1 year	1		1	
Other assets		1,207		2,132
of which due after 1 year	229		277	
Total of Receivables and Other assets		11,261		12,528
of which due after 1 year	268		335	

Receivables from affiliated companies comprise mostly intragroup (cash) accounts receivables and trade receivables within the scope of central financial and liquidity management (€ 6,106 million, p. y. € 6,203 million) and trade receivables from domestic and foreign subsidiaries (€ 1,842 million, p. y. € 1,973 million). Receivables from related companies include mainly trade receivables with domestic and foreign subsidiaries (€ 146 million, p. y. 169 million) and intragroup (cash) receivables and trade receivables within the scope of central financial and liquidity management (€ 20 million, p. y. € 1 million).

In the previous year, other assets included the intragroup acquisition of MTU Friedrichshafen GmbH (€ 964 million). Other assets are comprised mainly of tax assets (€ 510 million, p. y. € 639 million), a bill transaction (€ 89 million, p. y. € 125 million) and receivables from insurance arrangements (€ 172 million, p. y. € 0 million).

6 Securities

	12/31/2006	12/31/2005
	€ in millions	€ in millions
Other securities	3,132	1,871

Other securities contain investments in funds (€ 1,467 million) and debt securities (€ 1,665 million).

The increase in other securities is caused by the actual stock of Commercial Papers which is € 1,540 million higher than last year. In contrast, the balance of a special fund declined by € 259 million, mainly due to a reduction of the shares. Furthermore, a bond was amortized with € 20 million.

During the financial year, DaimlerChrysler AG purchased treasury stock in the amount of 686,354 shares (which represent € 1,784,520.40, about 0.07 % of total capital stock). The average purchase price of these shares was € 42,28. These shares were acquired as part of the company's employee share purchase program. 604,615 treasury shares (which represent € 1,571,999.00, about 0.06 % of total capital stock) were sold directly to employees. An additional 81,283 shares (which represent € 211,335.80, about 0.01 % of total capital stock) were sold to group companies at acquisition cost for resale to their employees.

The table below provides an overview of the average purchase price per share for the employees:

Period	Subscription price per share (€)
February-March 2006	47.17
June 2006	36.73
October 2006	39.82

Additional contributions granted by DaimlerChrysler AG were graded. An employee purchasing 5 shares received a benefit of € 67.50, the purchase of 10 shares lead to a benefit of € 135. Employees who bought at least 15 shares received a bonus share exempt from any additional charges.

In March 2006, 456 treasury shares (which represent € 1,185.60 of total capital stock) were sold to Deutsche Bank AG at an average share price of € 47.51.

7 Cash and cash equivalents

Cash and cash equivalents amount to € 1,933 million (p. y. € 284 million) and include deposits at financial institutions as well as cash and checks in hand.

In addition to cash and cash equivalents, liquid assets also include securities (€ 3,132 million, p. y. € 1,871 million).

8 Stockholders' equity

	12/31/2006 € in millions	12/31/2005 € in millions
Capital stock	2,673	2,647
Additional paid-in capital	12,356	12,012
Retained earnings	3,483	4,336
Unappropriated profit	1,542	1,527
Stockholders' equity	20,054	20,522

a) Capital stock

	Number of shares	€
Capital stock December 31, 2005	1,018,172,696	2,647,249,010
Capital stock December 31, 2006	1,028,163,751	2,673,225,753

As the legal successor of Daimler-Benz AG, DaimlerChrysler AG assumed the risk on all commitments for convertible notes and warrants issued by the former Daimler-Benz AG in 1998. The holders now have the right to either convert their notes into or exercise their options to purchase DaimlerChrysler shares. The bonds and warrants and the post-merger changes in conditions are discussed below.

In the context of the stock based compensation arrangements offered to management in the period from 1996 to 1998 as well as in the financial year 2000, the Annual Meeting authorized several stock option plans for eligible employees. Since the 2005 financial year, a Performance Phantom Share Plan has been issued annually.

The plans offered from 1996 to 1998 entitled a selected group of upper management to purchase DaimlerChrysler shares in connection with the subscription of non-transferable convertible notes. The convertible notes, which are denominated in notes with a nominal value of € 511.29 each, mature in 10 years. The notes bear an interest of 5.9 % per year (Plan 1996), 5.3 % (Plan 1997) or 4.4 % (Plan 1998).

The stock option plan from 1996 entitles the note holders to convert these notes into DaimlerChrysler shares at a ratio of 1:1.005, i. e. each note with a face value of € 511.29 could be converted into 201 ordinary shares. The resulting conversion price per share was € 42.62. The exercise assumes that the stock price on the date prior to the conversion is at least 15 % over the stated conversion price. The convertible note from 1996 expired as of July 19, 2006. Convertible notes with a total par value of € 56,242.09 were repaid. The stock option plans from 1997 and 1998 were transformed into stock appreciation rights (SARs) in 1999. As a result, the conversion rights for the stock were transformed into profit-sharing rights entitling the owners to future appreciation of the stock in form of a cash payment of equal value. This does not have any effects on stockholders' equity.

The stock option plan from 2000 was structured in the form of a Premium Priced Plan upon approval by the Annual Meeting. In the years 2000 to 2004, five tranches were issued. The allocated options entitle owners to purchase one DaimlerChrysler share per option. Within the scope of the stock option plan 2000, a strike price must be paid for exercising the option (which includes a 20 % surcharge on the reference price). If the stock price (last closing auction price prior to the exercise in Xetra-trading on the Frankfurt Stock Exchange) equals at least the strike price (profit target), the participant receives an additional variable payment for each exercised option. Initial exercise dates for these options are or were from April 2002 to April 2007. The maturity period of the tranches accounts each for ten years. At the end of this period, the unexercised options will lapse. In the financial year 2006, 7,088,730 options were exercised from the 2003 tranche and 2,902,325 options from the 2004 tranche. Capital stock and additional paid-in capital increased accordingly by € 26 million and € 344 million.

Stock Option Plan 2000

Tranche	2000	2001	2002	2003	2004
Strike price of the option per share, €	74.76	66.96	51.52	34.40	43.57
Reference price, €	62.30	55.80	42.93	28.67	36.31
Variable payment, €	12.46	11.16	8.59	5.73	7.26
Outstanding options, as of December 31, 2006	11,878,350	16,252,390	18,282,150	6,720,835	13,993,300

At the beginning of the 4-year plan term under the Performance Phantom Share Plan, participants are awarded phantom shares with an average price (opening share price in Xetra-trading on the Frankfurt Stock Exchange) of € 35.41 € between January 1, 2005, and February 21, 2005, and with an average price of € 46.17 between January 1, 2006, and February 23, 2006. As of December 31, 2006, 3,616,897 phantom shares were awarded. In June of each year, the participants are entitled to a dividend equal in value to the actual dividend paid on real DaimlerChrysler shares. As phantom shares are virtual shares, the participants are excluded from any voting rights. Management performance is measured after 3 years with two equally weighted performance factors, compared to relevant competitors.

This results in the final awarding of virtual shares, which are subject to a restriction period of one year. The payment proceeds are calculated with the average price of DaimlerChrysler shares (opening price in Xetra-trading on the Frankfurt Stock Exchange) between January 1, 2009, and January 1, 2010, and the day before the first meeting of the Presidential Committee of the Supervisory Board of DaimlerChrysler AG in 2009 and 2010. Subsequently, 25 % of the gross proceeds must be used to purchase real DaimlerChrysler shares until the Stock Ownership Target has been reached within the scope of the Stock Ownership Guidelines.

The Stock Ownership Guidelines require executives to establish a preassigned Stock Ownership Target of real DaimlerChrysler shares and to retain it until their retirement from the group. Thus, the shareholders' position is reinforced.

The tables below provide an overview of the conditional and authorized capital classified into tranches according to the Memorandum and Articles of Incorporation of DaimlerChrysler AG:

Conditional Capital in €

Number	I	II	III	Total
Conditional Capital as of 12/31/2006	300,000,000	209,717,144	40,689,870	550,407,014
Balance at 12/31/2006	115,384,615	80,660,440	15,649,950	211,695,005
Purpose	Bearer Notes or Convertible Notes 2000/2010	Stock Option Plan 2000/2005	Convertible Notes 1996/2006 1997/2007 1998/2008	

Authorized Capital in €

Number	I	II	III
12/31/2006	500,000,000	500,000,000	26,000,000
Time limit	04/08/2008	04/08/2008	04/08/2008
Purpose	Capital Increases	Capital Increases	Employee Stocks

The Annual Meeting authorized the Board of Management to increase capital stock in each case by issuing new shares against cash contributions (Authorized Capital I) or contributions in kind (Authorized Capital II) entire or in partial amounts up to € 500 million. Furthermore, the Board of Management is authorized to increase capital stock by the issue of new employee shares against cash contribution and/or contribution in kind as a whole or in partial amounts by up to € 26 million.

In addition, DaimlerChrysler AG was authorized to acquire treasury stock of up to € 264 million of capital stock – corresponding to 10 % of capital stock – for certain pre-defined purposes until October 12, 2007.

The capital stock of the company amounts to € 2,673,225,753 as of December 31, 2006. The capital stock is classified into 1,028,163,751 no-par registered shares. All shares carry the same rights. Each share constitutes one vote and is decisive for the portion of the profit.

b) Additional paid-in capital

The amount of additional paid-in capital is € 12,356 million. In the financial year 2006, premiums received amounting to € 344 million were added to additional paid-in capital resulting from the exercise of stock options from the 2003 tranche and from the 2004 tranche of the Stock Option Plan 2000.

c) Retained earnings

	12/31/2006 € in millions	12/31/2005 € in millions
Retained earnings	3,483	4,336

The retained earnings as of December 31, 2006, amount to € 3,483 million. In 2006, there was a withdrawal of € 853 million from retained earnings.

9 Accrued pension and similar liabilities

	12/31/2006 € in millions	12/31/2005 € in millions
Pension liabilities	11,850	10,828

The measurement of pension liabilities is based upon the projected unit credit method in accordance with generally accepted accounting principles in the United States of America (SFAS 87 and SFAS 158). They were determined at the beginning of the financial year 2006 based on the pension liabilities of the Company and the assets of DaimlerChrysler Unterstützungskasse. The assumptions used in calculating the actuarial values according to the "Richttafeln 2005 G" (actuarial mortality assumptions) of Dr. Klaus Heubeck for the pension liabilities were a discount rate of 4.0 % (p. y. 4.75 %), a long-term rate for increasing remunerations from 2006 of 3.0 % (p. y. 3.0 %), an increase in living costs of 1.75 % (p. y. 1.50 %) and an expected long-term rate of return on plan assets (DaimlerChrysler Unterstützungskasse) of 7.5 % (p. y. 7.5 %).

As of December 31, 2006, a pension obligation was reported for the first time in the balance sheet based on the Projected Benefit Obligation (PBO) according to SFAS 158. The impact on results of this change of method is € 1,186 million. The valuation of PBO is based on the discount rate of 4.5 % (p. y. 4.0 %) and the estimated annual increase of cost of living of 1.90 % (p. y. 1.75 %).

The calculation of PBO is based on "Richttafeln 2005 G" (actuarial mortality assumptions) of Dr. Klaus Heubeck.

10 Other accrued liabilities

	12/31/2006 € in millions	12/31/2005 € in millions
Accrued taxes	2,280	2,037
Other accrued liabilities	9,125	8,743
	11,405	10,780

The accruals recorded for income and other taxes relate to income taxes for years not yet finally assessed. They also include matters that were identified as part of the U.S. governmental investigations.

Other accrued liabilities consist mainly of accrued warranty costs, accrued personnel and social costs, obligations from sales business, free service and maintenance contracts, end-of-life vehicles and reserves for lawsuits as well as risks arising from forward exchange transactions. Additionally, other accrued liabilities include accruals for deferred maintenance to be carried out in the first quarter of the following year. The change in other accrued liabilities compared with the prior year is mainly due to an increase in personnel and social obligations.

11 Liabilities

	12/31/2006		12/31/2005	
	€ in millions	€ in millions	€ in millions	€ in millions
Notes/Bonds and Commercial Paper		1,070		1,457
of which due in less than 1 year	950		1,324	
of which due in more than 5 years	-		-	
of which convertible	-		.	
Liabilities to financial institutions		745		108
of which due in less than 1 year	710		75	
of which due in more than 5 years	-		26	
Trade liabilities		3,980		3,803
of which due in less than 1 year	3,980		3,802	
of which due in more than 5 years	.		.	
Liabilities to affiliated companies		12,305		12,132
of which due in less than 1 year	12,305		11,940	
of which due in more than 5 years	-		-	
Liabilities to related companies		13		46
of which due in less than 1 year	13		46	
of which due in more than 5 years	-		-	
Other liabilities		1,399		1,888
of which due in less than 1 year	1,387		1,875	
of which due in more than 5 years	.		.	
of which tax liabilities	141		196	
of which obligations concerning social security	93		308	
Total of liabilities		19,512		19,434
of which due in less than 1 year	19,345		19,062	
of which due in more than 5 years	.		26	

Liabilities to affiliated companies include mainly intragroup (cash) payables and trade payables within the scope of the central financial and liquidity management (€ 11,886 million, p. y. € 11,629 million) as well as trade payables with domestic and foreign subsidiaries (€ 419 million, p. y. € 503 million).

Liabilities to related companies contain mainly intragroup (cash) payables and trade payables within the scope of the central financial and liquidity management (€ 9 million, p. y. € 22 million) as well as trade payables with domestic and foreign subsidiaries (€ 4 million, p. y. € 24 million).

Notes/Bonds and Commercial Papers are mainly Commercial Papers (€ 689 million).

Other liabilities include mainly liabilities of wages and salaries, withheld income tax and social security contributions, option premiums as well as certain other liabilities to third parties.

Notes to the Income Statement of DaimlerChrysler AG

12 Revenues

	2006	2005
	€ in millions	€ in millions
Revenues classified by type:		
Passenger cars	47,813	42,463
Commercial vehicles	16,758	16,687
	64,571	59,150
Revenues classified by region:		
Domestic	21,382	19,574
Foreign	43,189	39,576
	64,571	59,150
Allocation of foreign revenues:		
EU-Member countries	18,351	16,481
Rest of Europe	3,258	2,823
North America	13,044	11,452
Asia	5,529	5,843
Africa	1,398	1,389
Australia	628	654
Latin America	981	934

13 Functional costs

Functional costs reported in the income statement are broken down into the categories cost of goods sold, selling expenses and general administrative expenses.

Cost of goods sold consists of manufacturing costs. These costs consist mainly of the costs of production materials, purchased services, personnel expenses, depreciation and rental expenses for the production departments. Cost of goods sold also includes € 3,120 million (p. y. € 3,150 million) of research and development expenses as well as gains or losses from hedging activities conducted by the industrial business segment.

Selling costs include mainly purchased services, e.g. advertising and marketing expenses. Furthermore, personnel expenses, commissions, outgoing freight costs and rental expenses of the selling and distribution organization are also included in selling costs.

General administrative expenses include mainly purchased services, e.g. IT costs. Personnel expenses, consulting fees and rental expenses of the general administration are also included. Furthermore, general administrative expenses include the following statutory auditor fees:

	2006
	€ in millions
Audit (include central audit projects)	23.5
Other audit services	3.5
Tax consultancy	0.3
Other services	0.8
	28.1

Other taxes and customs duties amounting to € 78 million (p. y. € 21 million) are included within functional costs.

14 Other operating income

Other operating income totaling € 1,394 million consists of income from cost reimbursements, other deliveries and services as well as rent and lease income.

Other operating income includes € 764 million (p. y. € 825 million) of income assignable to prior financial periods and relates mostly to income from the release of accruals and reserves, income from fixed asset disposals, income from the write-off of liabilities and income from insurance payments.

15 Other operating expenses

Other operating expenses of € 383 million comprise additions to accruals as well as rental expenses.

Other operating expenses include € 161 million (p. y. € 77 million) of expenses attributable to prior financial periods and expenses related to asset disposals and charge-off of receivables.

16 Income from investments in affiliated and related companies

	2006	2005
	€ in millions	€ in millions
Income from profit and loss transfer agreements	1,362	1,589
thereof: DC-Grund DaimlerChrysler Verwaltungsgesellschaft für Grundbesitz mbH	488	448
DaimlerChrysler Vermögens- und Beteiligungsgesellschaft mbH	299	263
DaimlerChrysler Lust- und Raumfahrt Holding AG	246	246
Expenses related to loss assumptions	(1,659)	(1,254)
Income from affiliated companies	366	1,972
Income from related companies	20	10
Depreciation of investments in affiliated and related companies	(71)	(148)
Earnings from disposals of investments in affiliated and related companies	53	621
Losses from disposals of investments in affiliated and related companies	(82)	(1)
	(11)	2,789

Income from investments contains payments from gain transfer agreements, loss assumptions from affiliated companies of the DaimlerChrysler AG as well as distributions from subsidiaries. The expenses related to loss assumptions mainly consist of the absorption of losses from smart gmbh, DaimlerChrysler Ludwigsfelde GmbH and Chrysler Deutschland GmbH.

The decrease in investment income is mainly due to lower distributions from affiliated companies, in particular the payment from DaimlerChrysler North America Holding Corporation (€ 0 million, p. y. € 1,304 million) and DaimlerChrysler Off-Highway Holding GmbH (€ 0 million, p. y. € 230 million). DaimlerChrysler Off-Highway Holding GmbH was merged into DaimlerChrysler AG on January 1, 2006.

Income from disposals of investments in affiliated and related companies decreased in comparison to last year. This is mainly due to last year's sale of the investment in Mitsubishi Motors Corporation (€ 506 million).

Income from investments amounting to € 10 million related to other periods.

17 Interest income

	2006		2005	
	€ in millions	€ in millions	€ in millions	€ in millions
Income from other securities and loans of financial assets		27		12
thereof from affiliated companies	27		12	
Other interest and similar income		434		471
thereof from affiliated companies	243		239	
Interest and similar expenses		(531)		(543)
thereof from affiliated companies	(377)		(371)	
Income from Pension Trust		808		1,018
		738		958

The decrease in interest income is caused mainly by the distribution of special funds from the Special Assets Pension Trust (€ 805 million, p. y. € 1,017 million).

18 Other financial income

	2006	2005
	€ in millions	€ in millions
Currency result	23	385
Write-offs of securities (short term assets)	(5)	(9)
Other Income	35	27
Other expenses	(58)	(49)
Other financial income Pension Trust	29	24
	24	378

The decrease in the other financial income is mainly due to the lower currency result. The currency result contained in the previous year a positive effect (€ 269 million) from the amortization of a JPY-bond.

19 Income taxes

DaimlerChrysler AG in its capacity as a parent company is also a taxpayer with respect to the management and profit sharing agreements concluded with its affiliated companies. The most important affiliated companies with existing agreements are DaimlerChrysler Luft- und Raumfahrt Holding AG, DaimlerChrysler Financial Services AG, DC-Grund DaimlerChrysler Verwaltungsgesellschaft für Grundbesitz mbH, smart gmbh, DaimlerChrysler Vermögens- und Beteiligungsgesellschaft mbH, EvoBus GmbH and DaimlerChrysler Ludwigsfelde GmbH.

Income taxes amounted to € 653 million compared to € 61 million in the previous year. Taxes include € 426 million (caused operatively) of tax prepayments and additions to tax accruals for 2006 and € 219 million for previous years as well as € 8 million of other income taxes.

20 Net Income

In the 2006 financial year, net income was € 689 million. After a withdrawal of € 853 million from retained earnings, the unappropriated profit amounts to € 1,542 million. It is proposed to the Annual Meeting to distribute the entire unappropriated profit to the shareholders.

Other Notes

Personnel expenses/ Employees

	2006	2005
	€ in millions	€ in millions
Wages and salaries	9,410	9,323
Social contributions	1,521	1,555
Pension costs	1,365	2,209
	12,296	13,087
Personnel (annual average)	Number	Number
Hourly employees	90,618	96,460
Salaried employees	53,909	55,948
Trainees/Apprentices	9,558	10,478
Annual average	154,085	162,886
Personnel (year ended)	151,226	160,722

Wages and salaries include direct labor, salaries, severance pay, holiday bonus, special bonus and changes in accruals for personnel expenses.

The social contributions relate to the employer's contributions to pension, unemployment, nursing care and medical insurance plans.

The pension costs include the current year's additions to pension accruals.

Cost of materials

	2006	2005
	€ in millions	€ in millions
Cost of raw materials, supplies and purchased goods	39,534	36,089
Cost of purchased services	7,969	8,935
	47,503	45,024

Derivative financial instruments

Derivative financial instruments are used exclusively for hedging of interest and currency risks, hedging of stock prices and for price hedging of raw materials. They provide coverage both for the underlying trading operations of the consolidated group companies and for self-generated financial transactions (primary transactions). The quantification of market risks on group level is based on the "Value-at-Risk" method, which is generally used by banks. Furthermore, limits are also defined to curtail risks relating to contracting parties and transaction types. Agreements are closed only with reputable international financial institutions and consolidated group companies.

As a result of the evaluation of contract parties by established rating agencies, the general credit risk is immaterial. All business transactions are carried out under strict segregation of duties in the areas of trade, processing, documentation and controlling.

Nominal value	12/31/2006	12/31/2005
	€ in millions	€ in millions
Currency hedging contracts	22,610	24,366
Interest hedging contracts	2,313	4,577
Price hedging contracts	2,179	177
Commodity futures contracts	115	88
	27,217	29,208

Currency hedging contracts are comprised mainly of currency futures contracts and currency options. They are used primarily for hedging of receivables and payables in the automotive business and for hedging foreseeable transactions in the currencies of large industrialized countries. Interest hedging contracts relate mainly to interest swaps. Options are utilized in order to minimize the interest fluctuation risk. Presently, commodity futures contracts consist solely of commodity swaps for raw materials in order to hedge price risks. Price hedging contracts imply forward sales to hedge share prices. The nominal values represent the gross total of all purchase and sales contracts of derivative financial transactions.

	12/31/2006		12/31/2005	
	Book Value	Market Value	Book Value	Market Value
	€ in millions	€ in millions	€ in millions	€ in millions
Asset accounts				
Currency hedging contracts	76	491	34	180
Interest hedging contracts	-	38	-	69
Price hedging contracts	-	398	-	-
Commodity futures contracts	-	7	-	12
	76	934	34	261
Liability accounts				
Currency hedging contracts	(102)	(189)	(215)	(606)
Interest hedging contracts	.	(39)	(3)	(71)
Commodity futures contracts	(16)	(16)	(30)	(30)
Price hedging contracts	(4)	(4)	.	.
	(122)	(248)	(248)	(707)
Total	(46)	686	(214)	(446)

The carrying values are taken directly from the balance sheet accounts (Other assets and Other accrued liabilities). The fair market values can be derived from the amounts at which the corresponding derivative financial transactions are traded or quoted as of the balance sheet date, without taking into account any conflicting value developments from primary transactions. If no market values are available, the market values are determined on the basis of established computation methods.

The fair values of forward foreign exchange contracts were based on European Central Bank reference exchange rates adjusted for the respective interest rate differentials. Currency and interest rate options were valued on the basis of quoted market prices or on estimates based on option pricing models. The fair values of existing instruments to hedge share prices or interest rate risks (e. g. interest swap agreements, interest currency swap agreements) were estimated by discounting expected cash flows using market interest rates over the remaining term of the instrument. The fair values of commodity swaps are detected on the basis of effective fixings on the commodity forward exchange adjusted for the respective interest rate differentials.

Contingent liabilities

	12/31/2006 € in millions	12/31/2005 € in millions
Payment guarantees in favor of the holders of the issued Bonds and Euro-Medium-Term-Notes of DaimlerChrysler North America Holding Corporation, Auburn Hills, USA	32,578	32,716
Payment guarantees in favor of the holders of the issued Bonds and Euro-Medium-Term-Notes of DaimlerChrysler Canada Finance Inc., Montreal, Canada	5,216	4,982
Payment guarantees in favor of the holders of the issued Bonds and Euro-Medium-Term-Notes of DaimlerChrysler UK Finance plc., Milton Keynes, UK	1,602	426
Payment guarantees in favor of the holders of the issued Bonds of DaimlerChrysler Corporation, Auburn Hills, USA	1,385	1,543
Payment guarantees in favor of the European Investment Bank and of the holders of the issued Bonds of DaimlerChrysler Coordination Center S.C.S./G.C.V., Zaventem, Belgium	1,287	1,108
Payment guarantees in favor of the holders of the issued Bonds and Euro-Medium-Term-Notes of DaimlerChrysler International Finance B. V., Nieuwegein, Netherlands	1,000	3,500
Payment guarantees in favor of the holders of the issued Bonds of DaimlerChrysler Australia/Pacific Pty. Ltd., Mulgrave, Australia	880	321
Payment guarantees in favor of the holders of the issued Bonds and Euro-Medium-Term-Notes of DaimlerChrysler UK Holding plc, Milton Keynes, UK	617	1,461
Payment guarantees in favor of the holders of the issued Bonds of DaimlerChrysler South Africa (Pty.) Ltd., Pretoria, South Africa	594	533
Payment guarantees in favor of the European Investment Bank for the commitment of Daimler-Benz AG & Co. "Optima" Grundstücksvermietung Potsdamer Platz OHG, Schönefeld-Waltersdorf, Germany	390	511
Payment guarantee in favor of the holders of the commitment of Toll Collect GmbH, Berlin, Germany	230	-
Payment guarantees in favor of the holders of the issued Bonds of DaimlerChrysler Japan Co. Ltd., Tokyo, Japan	229	119
Payment guarantee in favor of Deutsche Leasing AG of the commitment of Karmann GmbH, Osnabrück, Germany	82	120
Payment guarantee in favor of the holders of the commitment of DaimlerChrysler (Thailand) Ltd., Bangkok, Thailand	42	103

Contingent liabilities

	12/31/2006 € in millions	12/31/2005 € in millions
Payment guarantees in favor of the KfW for the commitment of DaimlerChrysler de México S. A. de C. V., Mexico City, Mexico	31	39
Payment guarantee in favor of the Crédit Commercial de France for the commitment of Groupement d'intérêt économique "Spring Rain", Hambach, France	30	26
Payment guarantee in favor of the European Investment Bank for the commitment of DaimlerChrysler Espana Holding S.A., Madrid, Spain	30	30
Payment guarantees in favor of the European Investment Bank for the commitment of DaimlerChrysler do Brasil Ltda., Sao Bernardo do Campo, Brazil	30	92
Payment guarantees in favor of Commerzbank AG, Gummersbach for the loan collateralization of Tignaris Beteiligungsgesellschaft mbH & Co. Objekt Duisburg/Witten KG, Düsseldorf, Germany	28	30
Payment guarantee in favor of GRISLEVA and GRAMEDA Vermietungsgesellschaft mbH for the commitment of Kunststofftechnik Sachsen, Grünwald, Germany	24	23
Payment guarantees in favor of the KfW for the commitment of DaimlerChrysler Argentina S.A., Buenos Aires, Argentina	21	28
Payment guarantees in favor of the KfW for the commitment of DaimlerChrysler Services de México S. A. de C. V., Mexico City, Mexico	15	34
Payment guarantees in favor of the holders of the commitment of DaimlerChrysler Services North America, L.L.C., Farmington Hills, USA	1	60
Payment guarantee in favor of the holders of the commitment of Toll Collect GbR, Berlin, Germany	0	600
Payment guarantees in favor of the holders of the issued Bonds and Euro-Medium-Term-Notes of DaimlerChrysler Australia/Pacific Holding Pty. Ltd., Mulgrave, Australia	0	457
Commitments of the placement and payment guarantee of DCSF Immobilien Verwaltungsgesellschaft Nr. 8 mbH & Co., Stuttgart, Germany	0	54
Payment guarantee in favor of FERN S.à.r.l. out of the sale of debis Air Finance B.V.	0	26
Payment guarantees in favor of the KfW for the commitment of Banco DaimlerChrysler DC S. A., Sao Paulo, Brazil	0	21
Other guarantees	419	402
Liabilities from other warranty agreements	2	3
Guarantees against domestic and foreign subsidiaries as well as to third parties thereof to affiliated companies	231	203
	191	155

Guarantees include guarantees to affiliated companies amounting to € 46,552 million (p.y. € 49,110 million).

In the 2006 financial year, payment guarantees of DaimlerChrysler AG decreased slightly. This development was additionally supported by exchange rate effects of dollar bonds. DaimlerChrysler AG is liable on behalf of the co-shareholders of Dornier GmbH for all future non-estimable equalization payments guaranteed by DADC Luft- und Raumfahrt Beteiligungs AG for 2007 and subsequent years. Claims on future non-estimable equalization payments for 2007 and subsequent years are in existence for the minority shareholders of DaimlerChrysler Luft- und Raumfahrt Holding AG.

Other financial commitments

Other financial commitments (€ 10,568 million) include € 3,392 million of other financial commitments to affiliated companies.

Buy-back commitments to both third parties and affiliated companies of DaimlerChrysler AG, which are in line with the industry average, exist in connection with vehicle sales or leasing operations.

Other financial commitments relating to rental and lease agreements amount to € 3,867 million. A large share of the intangible assets and equipment of the former Daimler-Benz AG was transferred to DaimlerChrysler Vermögens- und Beteiligungsgesellschaft mbH, Stuttgart, on June 30, 1998, followed by a subsequent lease-back of the equipment to DaimlerChrysler AG. The rental expense for preceding years totals € 476 million as of December 31, 2006. Leasing agreements with 19 property companies at Potsdamer Platz were assumed by DaimlerChrysler Immobilien (DCI) GmbH.

The rental expense, totaling € 1,162 million, must be paid to the real estate management firms of Mercedes-Benz AG & Co. OHG, Ludwigsfelde, and Daimler-Benz AG & Co. OHG, Ludwigsfelde.

Other financial commitments, particularly order commitments for expansion investment, are within the usual range.

DaimlerChrysler AG is liable as joint and several debtor for investments in 29 general partnerships.

Some co-shareholders of joint ventures are provided with tender rights for their shares.

Proposal on appropriation of profit

As of December 31, 2006, DaimlerChrysler reported net income of € 689 million (p. y. € 1,606 million). After a withdrawal of € 853 million from retained earnings, the unappropriated profit of DaimlerChrysler AG as of December 31, 2006, amounts to € 1,542 million. It is proposed to the Annual Meeting to distribute the full amount of the unappropriated profit. This corresponds to a dividend of € 1.50 per share.

Compensation 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. It also describes the principles and level of compensation of the Supervisory Board.

Compensation of the Board of Management

Responsibility

The Supervisory Board has transferred responsibility for determining the structure and level of compensation for the Board of Management of DaimlerChrysler AG to the Presidential Committee, which regularly informs the Supervisory Board about its decisions and obtains the approval of the entire Supervisory Board if needed. The principles to be applied have been laid down by the Supervisory Board in the Rules of Procedure for the Presidential 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 compensation system for the Board of Management aims to compensate its members 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 an element of fixed basic compensation, an annual bonus and an element of variable compensation with medium-term and long-term incentive effects and a risk component.

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

Structure of Board of Management compensation

Board of Management compensation for 2006 comprised three components, as set out below:

The element of 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 basic compensation and depends to an equal extent on the degree to which DaimlerChrysler's planned operating profit is actually achieved and a comparison of the operating profit in the current year and the prior year. Additional targets may also be taken into consideration, such as the development of total shareholder return in relation to comparable automotive companies. When setting the annual bonus, the Presidential Committee of the Supervisory Board also has the possibility to reward 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.

Variable compensation, in the form of a Performance Phantom Share Plan, is linked to the long-term development of enterprise value and is based on the principles of performance orientation, benchmark comparison and share ownership. This component of compensation 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 towards medium-term performance targets, while also having a long-term effect through the obligation to acquire shares and hold them permanently. With this model, target achievement is measured in terms of the return on net assets that is actually achieved by the Group, i.e. value creation, and its return on sales; the latter compared with the relevant competitors, which are BMW, Ford, General Motors, Honda, Toyota, AB Volvo and Volkswagen. Due to the allocation of phantom shares at the beginning of the 4-year period, the development of DaimlerChrysler's share price is taken into consideration; these phantom shares are also entitled to a dividend during the 4-year period. After three years, the final number of phantom shares is calculated depending on 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 retrospective change in the defined performance targets or the competitive 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

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 over 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 required shares can also be acquired in different ways.

Total Board of Management compensation in 2006

The following specifications include benefits which are agreed or granted to each member of the Board of Management of DaimlerChrysler AG by DaimlerChrysler AG as well as by DaimlerChrysler Corporation for their activities as members of the Board of Management of DaimlerChrysler AG.

The total compensation paid 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. The latter primarily comprise the provision of company cars and the reimbursement of expenses for security precautions.

€ 7.5 million was paid as fixed, i.e. non-performance-related compensation, € 9.2 million as short-term variable, i.e. short-term performance-related compensation, and € 3.8 million as variable performance-related compensation with medium-term and long-term incentive effects that was granted in previous years and became due for payment in 2006. This totaled an amount of € 20.5 million for the year 2006.

in thousand of €	Fixed Compensation		Variable Compensation		Total
	Base Salary	Benefits in kind	Annual Bonus	Mid- and long-term compensation ^{1 2}	
Dr. Dieter Zetsche	1,500	339	2,564	688	5,091
Günther Fleig	525	145	844	405	1,919
Dr. Rüdiger Grube	550	156	837	410	1,953
Thomas W. LaSorda	717	75	861	752	2,405
Andreas Renschler	525	127	921	136	1,709
Eric R. Ridenour	502	45	582	595	1,724
Thomas W. Sidlik	502	68	687	387	1,644
Bodo Uebber	575	154	1,018	131	1,878
Dr. Thomas Weber	525	430	921	334	2,210
Subtotal	5,921	1,539	9,235	3,838	
Total	7,460		13,073		20,533

1 The figures shown here comprise the pay-out of the 2003 Medium Term Incentive and the dividend equivalent of the phantom shares from the 2004 Medium Term Incentive as well as from the 2005 and 2006 Performance Phantom Share Plans. The so-called Medium Term Incentive is a share based compensation component that was replaced by the Performance Phantom Share Plan in 2005.

2 In addition, options were exercisable from the stock option plans granted in prior years: two Board of Management members exercised a total of 148,000 options from 2003 Stock Option Plan. The figures in this column also include the variable compensation with long-term incentive effect paid in this context (Mr. LaSorda € 447 thousand, Mr. Ridenour € 401 thousand). Further information on stock-based compensation can be found on pages 11 and 12.

In 2006, the members of the Board of Management were granted a total of 276,160 phantom shares within the framework of the stock-based component of compensation, the so-called “Performance Phantom Share Plan.”

	Phantom shares granted in 2006
Dr. Dieter Zetsche	59,563
Günther Fleig	25,721
Dr. Rüdiger Grube	24,367
Thomas W. LaSorda	33,031
Andreas Renschler	27,887
Eric R. Ridenour	25,721
Thomas W. Sidlik	25,721
Bodo Uebber	28,428
Dr. Thomas Weber	25,721
Summe	276,160

The reference share price for the allocation of phantom shares is the average price of DaimlerChrysler shares between January 1, 2006, and the day before the first meeting of the Presidential Committee in which the allocation is decided upon. This value was € 46.17 per phantom share in 2006. Before being paid out in the year 2010, the numbers of phantom shares may change, depending on internal and external performance targets and continuous activity in the Board of Management. Since payment continues to depend on the share price at the time of payment, this element of compensation will not be shown in the total compensation of the Board of Management until it is actually paid out in 2010.

Retirement provisions

Until the year 2005, the pension agreements of the German Board of Management members included a commitment to an annual retirement pension, calculated contingent on the years of service as a proportion of the base salary (70 % for Dr. Dieter Zetsche, 69 % for Günther Fleig, 60 % for Dr. Rüdiger Grube and Dr. Thomas Weber as well as 50 % for Andreas Renschler and Bodo Uebber). Those pension rights remain, but have been frozen at that level. The pension payments begin in the form of a retirement pension when a member’s contract of service ends on or after his 60th birthday, or in the form of an invalidity pension when a member’s contract of service ends before his 60th birthday due to disability. An annual increase of 3.5 % is effected. Similar to the retirement pension of the German workforce, arrangements for widows and orphans are included.

Effective from January 1, 2006, those pension agreements were converted into a defined-contribution pension system, in line with the existing pension systems for senior management at the Group. Each Board of Management member is credited with a capital component each year. This capital component comprises an amount equal to 15 % of the sum of the Board of Management member’s fixed base salary and the annual bonus that was actually achieved, multiplied by an age factor equivalent to a

certain rate of return, at present 6 %. This pension plan is payable at the age of 60 at the earliest.

US Board of Management members are entitled to annual pension benefits under two plans applicable to senior management of DaimlerChrysler Corporation. For the first plan, the benefit is based on the individual's prior contributions (a percentage of base salary deductions) and years of service and final average salary. In principle, under this plan, 2.25 % of the base salary is earned as a pension payment for each year of credited service.

For the second plan, benefits are based on a percentage of annual bonuses (currently 4 %).

The company fulfilled its obligations for benefits earned last year relating to bonuses by providing investment contracts that will make payments at retirement equivalent on an after-tax basis to payments the company would have otherwise had to make.

Service Costs in connection with Pension Plans 2006¹	
in thousand €	
Dr. Dieter Zetsche	666
Günther Fleig	389
Dr. Rüdiger Grube	431
Thomas W. LaSorda ²	34
Andreas Renschler	250
Eric R. Ridenour ²	26
Thomas W. Sidlik ²	30
Bodo Uebber	408
Dr. Thomas Weber	277
Summe	2,511

1 For Messrs. LaSorda, Ridenour and Sidlik, this only includes the service costs for the first pension plan.

2 The service costs of the investments for the second pension plan of the US members of the Board of Management for 2006 amount to € 566 thousand for Mr. LaSorda, € 300 thousand for Mr. Ridenour and € 605 thousand for Mr. Sidlik.

Significant commitments to Board of Management members upon termination of their services

No severance payments are foreseen for Board of Management members in the case of early termination of their service contracts. Solely in the case of early termination of a service contract by mutual consent, the Board of Management service contracts include a commitment to payment of the base salary and to provision of a company car until the end of the original service period. Such persons are only entitled to payment of the performance-related component of compensation, pro rata, for the period until the day when the Board of Management member leaves the company. Entitlement to payment of the performance-related component with a long-term

incentive effect is defined by the exercise conditions specified in the respective plans.

The German Board of Management members with pension agreements concluded with DaimlerChrysler AG before the year 2006 can also receive pension payments and the use of a company car for the period beginning after the end of the original service period.

Irrespective of the above provisions, if DaimlerChrysler AG terminates Mr. Sidlik's contract without cause, or if he terminates it for good reason, then he would be entitled to receive an amount equal to twice the sum of his annual base salary and average annual bonus over the prior three years. He would also be entitled to receive a payment equal to the incremental value of the retirement benefits that he would have otherwise been entitled to receive at the end of the contract and certain other pension benefits at termination.

If Mr. LaSorda's contract is similarly terminated, then he would be entitled to receive compensation equal to twice the sum of his annual base salary and annual bonus. He would also be entitled to receive pension credit for two additional years of service and certain other pension benefits at termination.

Sideline activities of the members of the Board of Management

The members of the Board of Management should accept management board or supervisory board positions and/or any other administrative or honorary functions outside the Group only to a limited extent. Furthermore, the 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 leads to any conflict with the members' duties to the Group.

Insofar as such sideline activities are memberships of other supervisory boards or comparable boards, these are disclosed in the Notes to the Consolidated 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.

Payments made to former members of the Board of Management of DaimlerChrysler AG and their survivors

The payments made in 2006 to former members of the Board of Management of DaimlerChrysler AG and their survivors amounted to € 24.2 million. An amount of € 188.8 million has been accrued for pension obligations towards former members of the Board of Management and their survivors.

Compensation of the Supervisory Board

Supervisory Board compensation in 2006

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 regulations specify 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, 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 below. The members of the Supervisory Board and its committees receive a meeting fee of € 1,100 for each Supervisory Board meeting and committee meeting they attend.

Name	Compensated Function(s)	Total €
Hilmar Kopper	Chairman of the Supervisory Board, of the Presidential Committee and Member of the Audit Committee	243,700
Erich Klemm ¹	Deputy Chairman of the Supervisory Board, of the Presidential Committee and the Audit Committee	172,000
Dr. Manfred Bischoff	Member of the Supervisory Board (since April 12, 2006) and of the Presidential Committee (since April 27, 2006)	77,296
Heinrich Flegel	Member of the Supervisory Board	82,700
Ron Gettelfinger ²	Member of the Supervisory Board (since August 28, 2006)	26,990
Nate Gooden ²	Member of the Supervisory Board (until July 20, 2006)	41,301
Earl G. Graves	Member of the Supervisory Board	81,600
Thomas Klebe ¹	Member of the Supervisory Board and the Presidential Committee	110,700
Arnaud Lagardère	Member of the Supervisory Board	80,500
Jürgen Langer ¹	Member of the Supervisory Board	82,700
Robert J. Lanigan	Member of the Supervisory Board (until April 12, 2006)	24,259
Helmut Lense ¹	Member of the Supervisory Board	82,700
Peter A. Magowan	Member of the Supervisory Board	82,700
William A. Owens	Member of the Supervisory Board	82,700
Gerd Rheude ¹	Member of the Supervisory Board	82,700
Udo Richter ¹	Member of the Supervisory Board	82,700
Wolf Jürgen Röder ¹	Member of the Supervisory Board	81,600
Manfred Schneider	Member of the Supervisory Board and the Presidential Committee (until April 27, 2006)	91,012
Stefan Schwaab ¹	Member of the Supervisory Board and the Audit Committee	114,000
Bernhard Walter	Member of the Supervisory Board and Chairman of the Audit Committee	165,400
Lynton R. Wilson	Member of the Supervisory Board	82,700
Mark Wössner	Member of the Supervisory Board	82,700

¹ The members representing the employees have stated that their board compensation will be transferred to the Hans-Böckler Foundation, in accordance with the guidelines of the German Trade Union Federation.

² Mr. Gooden and Mr. Gettelfinger abstained from receiving their compensation and meeting fees. At their request, these amounts were paid to the Hans-Böckler Foundation.

Except for the compensation paid to the members of the Supervisory Board representing the employees in accordance with their contracts of employment, no compensation was paid for services provided personally in 2006 beyond the aforementioned board and committee activities, in particular for advisory or agency services.

The compensation paid in 2006 to the members of the Supervisory Board of DaimlerChrysler AG for their services to the Group therefore totaled € 2.1 million.

Loans to members of the Board of Management or the Supervisory Board

In 2006, no advances or loans existed to members of the Board of Management or to members of the Supervisory Board of DaimlerChrysler AG.

The Management Board Membership and Supervisory Board Membership are listed on pages 34 to 41.

Notes relating to § 160, Section 1, Subsection 8 AktG (German Stock Corporation Act)

Regarding § 25, Section 1 of the German Securities Trading Act, there were no notifiable events in 2006 and therefore no notes relating to § 160, Section 1, Subsection 8 AktG (German Stock Corporation Act) were reported.

German Corporate Governance Codex/ Statement relating to § 161 AktG (German Stock Corporation Act)

The obligatory statement pursuant to § 161 AktG (German Stock Corporation Act) was executed by the Board of Management and the Supervisory Board and also accessed to the shareholders.

Board of Management

Stuttgart, February 26 , 2007



Dr.-Ing. Dieter Zetsche



Eric Ridenour



Günther Fleig



Thomas W. Sidlik



Dr. phil. Rüdiger Grube




Bodo Uebber



Thomas W. LaSorda



Dr.-Ing. Thomas Weber



Andreas Renschler

Unqualified Auditor's Report for Statutory Audits of Annual Financial Statements

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the DaimlerChrysler AG, Stuttgart, for the business year from January 1 to December 31, 2006. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB [Handelsgesetzbuch: "German Commercial Code" and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Stuttgart
February 26 , 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft


Krauß
Wirtschaftsprüfer
[German public auditor]


Hug
Wirtschaftsprüfer
[German public auditor]

Board of Management

Members of the Board of Management

Supervisory Board Memberships/ Directorships

Dr.-Ing. Dieter Zetsche

Stuttgart
Chairman of the Board of Management /
Head of Mercedes Car Group
Appointed until 2010

Internal Directorships
DaimlerChrysler Corporation (Chairman)
DaimlerChrysler Motors Company LLC
Freightliner LLC

External Directorships
McLaren Group Ltd.

Günther Fleig

Stuttgart
Human Resources & Labor Relations Director
Appointed until 2009

Internal Directorships
DaimlerChrysler Aviation GmbH (Chairman of the Advisory Board)
DaimlerChrysler Management Consulting GmbH (Chairman of the Advisory Board)
DaimlerChrysler Financial Services AG
DaimlerChrysler Unterstützungskasse GmbH

External Directorships
Wohnstätten Sindelfingen GmbH (Chairman)

Dr. phil. Rüdiger Grube

Stuttgart
Corporate Development
Appointed until 2010

Internal Directorships
DaimlerChrysler Aviation GmbH
DaimlerChrysler Financial Services AG

External Directorships
Beijing Benz-DaimlerChrysler Automotive Co., Ltd. (Vice-Chairman)
EADS Participations B. V.
European Aeronautic Defence and Space Company EADS N.V.
Hamburg Port Authority
McLaren Group Ltd.

Members of the Board of Management

Supervisory Board Memberships/ Directorships

Thomas W. LaSorda

Auburn Hills
Chrysler Group
Appointed until 2012

Internal Directorships
DaimlerChrysler Corporation

External Directorships
none

Andreas Renschler

Stuttgart
Truck Group
Appointed until 2010

Internal Directorships
DaimlerChrysler Financial Services AG
Detroit Diesel Corporation (Chairman)
EvoBus GmbH (Chairman)
Freightliner LLC (Chairman)
Mitsubishi Fuso Truck and Bus Corporation

External Directorships
Deutsche Messe AG

Eric Ridenour

Auburn Hills
Chief Operating Officer (COO) Chrysler Group
Appointed until 2008

Internal Directorships
DaimlerChrysler Corporation

External Directorships
none

Thomas W. Sidlik

Auburn Hills
Global Procurement & Supply
Appointed until 2008

Internal Directorships
DaimlerChrysler Corporation
DaimlerChrysler Corporation Fund
DaimlerChrysler Motors Company LLC
Daimler-Benz Purchasing Coordination of North America, Inc.
(Chairman)

External Directorships
none

Members of the Board of Management

Supervisory Board Memberships/ Directorships

Bodo Uebber

Stuttgart
Finance & Controlling / Financial Services
Appointed until 2011

Internal Directorships

DaimlerChrysler Bank AG
DaimlerChrysler Corporation
DaimlerChrysler Espana Holding S. A.
DaimlerChrysler Financial Services AG (Chairman)
DaimlerChrysler France Holding S. A. S. (Chairman)
DaimlerChrysler Mexico Holding, S. A. de C.V. (Chairman)
DaimlerChrysler North America Holding Corporation
(Chairman)
DaimlerChrysler UK Holding plc (Chairman)
DaimlerChrysler Unterstutzungskasse GmbH
Freightliner LLC

External Directorships

Hannover Rückversicherung AG (Withdrawal May 12, 2006)
Talanx AG

Dr.-Ing. Thomas Weber

Stuttgart
Group Research & Mercedes Car Group
Development
Appointed until 2010

Internal Directorships

mb-technology GmbH (Chairman)
Mercedes-Benz HighPerformanceEngines Ltd. (Chairman)

External Directorships

Ballard Power Systems Inc.
McLaren Automotive Ltd.

Supervisory Board

Members of the Supervisory Board

Supervisory Board Memberships/ Directorships

Hilmar Kopper

Frankfurt/Main
Chairman of the Supervisory Board
of DaimlerChrysler AG

Xerox Corp.

Chairman

Erich Klemm *)

Sindelfingen
Chairman of the General Works
Council, DaimlerChrysler Group and
DaimlerChrysler AG

Deputy Chairman

Dr. Manfred Bischoff

Munich
Chairman of the Board EADS N.V.
(since April 12, 2006)

DaimlerChrysler Luft- und Raumfahrt-Holding AG
DaimlerChrysler Aerospace AG
Fraport AG
Royal KPN N.V.
Nortel Networks Corporation and Nortel Networks Ltd.
SMS GmbH
Unicredit S.p.a.
Voith AG

Prof. Dr. Heinrich Flegel *)

Stuttgart
Director Research Materials and
Manufacturing, DaimlerChrysler AG; Chairman
of the Management Representative
Committee, DaimlerChrysler Group

Ron Gettelfinger *)

Detroit
President of the International Union,
United Automobile, Aerospace and Agricultural
Implement Workers of America (UAW)
(since August 28, 2006)

Members of the Supervisory Board

Supervisory Board Memberships/ Directorships

Earl G. Graves

New York
Publisher, Black Enterprise Magazine

Aetna Life and Casualty Company
AMR Corporation (American Airlines)
Earl G. Graves Ltd.

Dr. Thomas Klebe *)

Frankfurt/Main
Director Department for General Shop Floor
Policy and Codetermination, German
Metalworkers' Union (IG Metall)

DaimlerChrysler Luft- und Raumfahrt Holding AG
DaimlerChrysler Aerospace AG

Arnaud Lagardère

Paris
General Partner and CEO of Lagardère SCA

Hachette SA
EADS N.V.
EADS Participations B.V.
Hachette Livre (SA)
Hachette Distribution Services (SA)
Virgin Stores (SA)
Hachette Filipacchi Medias (SA)
Lagardère Active (SAS)
Lagardère Active Broadband (SAS)
Lagardère Active Broadcast (SA)
Lagardère Active Publicité, Lagardère Active Radio
International (SA)
SEDI TV-TEVA (SNC)
Lagardère (SAS)
Lagardère Capital & Management (SAS)
Arjil Commanditée - Arco (SA)
Lagardère Ressources (SAS)
France Telecom (SA)
LVHM Moët Hennessy Louis Vuitton (SA)
Le Monde (SA)
Lagardère Sports (SAS)
Lagardère Management, Inc.
Lagardère Active North America, Inc.

Jürgen Langer *)

Frankfurt/Main
Chairman of the Works Council of the
Frankfurt/Offenbach Dealership,
DaimlerChrysler AG

**Members of the
Supervisory Board**

**Supervisory Board Memberships/
Directorships**

Helmut Lense *)

Stuttgart
Chairman of the Works Council,
Untertürkheim Plant, DaimlerChrysler AG

Peter A. Magowan

San Francisco
President of San Francisco Giants

Caterpillar Inc.

William A. Owens

Kirkland
Retired President and Chief Executive Officer
of Nortel Networks Corporation
CEO and Chairman of AEA Holdings Asia

Polycom Inc.
AEA Investors LLC
Wipro Ltd.
Embarq Corp.
Intelius Inc.
Force 10 Networks Inc.
Unifrax Corp.

Gerd Rheude *)

Wörth
Chairman of the Works Council,
Wörth Plant, DaimlerChrysler AG

Udo Richter*)

Bremen
Chairman of the Works Council,
Bremen Plant, DaimlerChrysler AG

Wolf Jürgen Röder *)

Frankfurt/Main
Member of the Executive Board
of German Metalworkers' Union (IG Metall)

Robert Bosch GmbH

**Members of the
Supervisory Board**

**Supervisory Board Memberships/
Directorships**

Dr. rer. pol. Manfred Schneider

Leverkusen
Chairman of the Supervisory Board of
Bayer AG

Bayer AG
Linde AG
Metro AG
RWE AG
TUI AG

Stefan Schwaab *)

Gaggenau
Vice Chairman of the General Works
Council, DaimlerChrysler Group and
DaimlerChrysler AG,
Vice Chairman of the Works Council
Gaggenau Plant, DaimlerChrysler AG

Bernhard Walter

Frankfurt/Main
Former Spokesman of the
Board of Management of Dresdner Bank AG

BilfingerBerger AG
Deutsche Telekom AG
Henkel KGaA
KG Allgemeine Leasing GmbH & Co.
Staatliche Porzellan-Manufaktur Meissen GmbH
Wintershall AG
Wintershall Holding AG

Lynton R. Wilson

Toronto
Chairman of the Board of CAE Inc.
Chairman Emeritus, Nortel
Networks Corporation

CAE Inc.

Dr. Ing. Mark Wössner

Munich
Former CEO and Chairman of the
Supervisory Board of Bertelsmann AG

Citigroup Global Markets Deutschland
AG & Co. KGaA
eCircle AG
Loewe AG
Reuters AG
Douglas Holding AG
Heidelberger Druckmaschinen AG

Committees of the Supervisory Board:

Committee pursuant to § 27, Section 3 MitbestG (Codetermination Act)

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

Presidential Committee

Hilmar Kopper (Chairman)
Erich Klemm *)
Dr. Manfred Bischoff
Dr. Thomas Klebe *)

Audit Committee

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

Retired from the Supervisory Board

Nate Gooden *) †
Detroit
Vice President of the International Union,
United Automobile, Aerospace and
Agricultural Implement Workers
of America (UAW)
(retired July 20, 2006)

Robert J. Lanigan
Toledo
Chairman Emeritus of Owens-Illinois, Inc.
Founding Partner, Palladium Equity Partners
(retired April 12, 2006)

*) Representative of the employees

Management Report of DaimlerChrysler AG

Business and General Conditions

The company

DaimlerChrysler AG was founded in May 1998. Subsequently, Daimler-Benz AG was merged with DaimlerChrysler AG. DaimlerChrysler AG has its registered office in Stuttgart and is the parent company of the DaimlerChrysler Group.

The company can look back on a tradition of pioneering achievements in automotive engineering that goes back more than one hundred years.

The business activities of DaimlerChrysler AG span the development, production and sales of passenger cars and commercial vehicles, including the Mercedes-Benz and Maybach brands, as well as the management of a global automotive group with further brands such as Chrysler, Jeep®, Dodge, Setra, Freightliner, Mitsubishi Fuso, Sterling, Orion, Western Star, Thomas Built Buses and smart.

We support our automotive divisions with the financial services products of our Financial Services division, which is managed by our subsidiary, DaimlerChrysler Financial Services AG.

Our offering extends from high quality compact cars to premium vehicles and luxury sedans and from highly adaptable small vans to medium and heavy-duty trucks for local and long-distance deliveries and construction. With our strong passenger car and commercial vehicles brands we are

excellently positioned on virtually every market and market segment around the world.

DaimlerChrysler AG primarily develops its products at its technology centers in Sindelfingen and Stuttgart-Untertürkheim. Research, for example, is carried out at the Ulm location.

Its vehicles are produced both at its plants in Germany as well as at some of its subsidiaries (e.g. M-, GL- and R-Class at Mercedes-Benz U.S. International, Inc., Tuscaloosa, USA) and specialist vehicle manufacturers as part of, for example, contract manufacturing agreements.

DaimlerChrysler AG sales are primarily conducted through its own sales network that has 35 branches in Germany as well as a large number of foreign sales subsidiaries and authorized agents on every continent in the world.

In particular, sales activities comprise selling and leasing new and used vehicles, as well as performing repairs and the spare parts business.

Production locations of DaimlerChrysler AG

Passenger cars	
Sindelfingen	C-Class sedan and sport coupe, E-Class sedan and Station wagon, CLS, S-Class, CL coupe, Maybach
Bremen	C-Class sedan and station wagon, CLK coupe, SL roadster, SLK roadster
Rastatt	A-Class, B-Class
Stuttgart-Untertürkheim	Engines, axles and gearboxes
Berlin	Engines
Hamburg	Axles, steering columns, pedal assemblies, transmissions, parking brakes, exhaust manifolds and welded structural components
Commercial vehicles	
Düsseldorf	Sprinter
Kassel	Axles
Gaggenau	Axles, gearboxes, transformers
Mannheim	Engines, foundry
Wörth	Actros, Atego, Axor, Unimog, Econic

Branch locations of DaimlerChrysler AG

Aachen	Hanover	NDL-Verbund Rhine-Ruhr
Augsburg	Kassel	NDL-Verbund Ulm/ Schwäbisch Gmünd
Baden-Baden	Koblenz	NDL Weser-Ems
Berlin	Cologne	Nuremberg
Braunschweig	Landau	Ravensburg
Darmstadt	Leipzig	Regensburg
Dortmund	Magdeburg	Reutlingen
Dresden	Mainz	Saarland
Frankfurt/ Offenbach	Mannheim	Stuttgart
Freiburg	Munich	Wuppertal/ Solingen/ Remscheid
Fulda	NDL-Verbund Ostsee	Würzburg/ Schweinfurt
Hamburg	NDL-Verbund Ostwestfalen-Lippe	

Selected sales companies of DaimlerChrysler AG

DaimlerChrysler Australia / Pacific Pty. Ltd.	DaimlerChrysler UK Ltd.
DaimlerChrysler Belgium Luxembourg S.A.	DaimlerChrysler Schweiz AG
DaimlerChrysler Danmark AS	DaimlerChrysler Automotive Polska Sp. z.o.o.
DaimlerChrysler France S.A.S.	Mercedes-Benz Canada Inc.
DaimlerChrysler Italia S.p.A.	Mercedes-Benz Hongkong Ltd.
DaimlerChrysler Japan Co., Ltd.	Mercedes-Benz Korea Ltd.
DaimlerChrysler Nederland B.V.	Mercedes-Benz Portugal Comercio de Automoveis S.A.
DaimlerChrysler (Thailand) Ltd.	Mercedes-Benz USA, LLC

The Board of Management of DaimlerChrysler AG

DaimlerChrysler AG is the parent company of the DaimlerChrysler Group. The allocation of responsibilities of the Board of Management of DaimlerChrysler AG, which consists of nine persons, reflects the Group's structure as of December 31, 2006. Functional and divisional elements reflect the structure and organization of the company and the Group. Further information on persons and responsibilities can be found in the Notes on pages 34 ff.

The company is managed by a Board of Management, whose members are authorized to represent it vis-a-vis third parties. The Board of Management must have at least two members, who are appointed by the Supervisory Board for a maximum period of five years, in accordance with Section 84 of the German Stock Corporation Act. Reappointment or the extension of a period of office, in each case for a maximum of five years, is permissible. The Supervisory Board of DaimlerChrysler AG has resolved, however, generally to limit such appointments and reappointments to three years in the future. These appointments and reappointments can only be made by a resolution of the Supervisory Board; reappointments may generally not be made more than one year before the end of the current period of office. The Supervisory Board appoints one of the members of the Board of Management as the Chairman of the Board of Management.

The Supervisory Board can revoke the appointment of a member of the Board of Management and of the Chairman of the Board of Management if there is an important reason to do so. Such a reason could be, for example, gross neglect of duty, lack of ability to conduct the management in a proper manner, or a vote of no confidence by the Annual Meeting.

The general purpose for which the company is organized is defined in Article 2 of the Articles of Incorporation. Pursuant to Section 179 of the German Stock Corporation Act, the Articles of Incorporation can only be changed through a resolution of the Annual Meeting. In accordance with Article 19, Paragraph 1 of the Articles of Incorporation, resolutions of the Annual Meeting are passed with a simple majority of the votes cast unless otherwise required by binding provisions of applicable law, and with a simple majority of the capital stock represented at the Annual Meeting if this be required. Pursuant to Section 179, Subsection 2, Sentence 2 of the German Stock Corporation Act, any amendment to the purpose of the company requires a 75 % majority of the capital stock represented at the Annual Meeting.

A description of the system of compensation and the individualized details of the compensation of the members of the Board of Management and of the Supervisory Board are shown in the Notes on pages 24 ff.

DaimlerChrysler AG has concluded various agreements that include so-called change-of-control clauses regulating the possible occurrence of a change of control. One of the issues involved is a number of non-utilized syndicated credit lines in a total amount of US \$12 billion, which the lenders are entitled to terminate if DaimlerChrysler AG becomes a subsidiary of another company or is controlled by one person or several persons acting jointly. Furthermore, DaimlerChrysler AG is a party in a joint venture for the development of fuel cells. This joint venture can be terminated by either of the contracting parties if the other party is subject to a change of control. A change of control is defined here as the right to give instructions to the Board of Management and to determine the company's guiding principles, the possibility to elect the majority of the members of the Supervisory Board or possession of at least 40 % of the voting rights. In addition, DaimlerChrysler AG is

a party to an agreement concerning the intellectual property rights in connection with a joint venture for the development of a hybrid drive system, which in the case of a change of control of one of the partners involved, allows the other partners to terminate the agreement. A change of control as defined by this agreement refers to the beneficial ownership of the majority of the voting rights in the company, and with a stock-exchange listed company the beneficial ownership of at least 20 % of the voting rights in the company if within 18 months after this limit is exceeded the majority of the members of the Supervisory Board representing the shareholders consists of persons who were proposed by the owner of the 20 % of the voting rights; a change of control is also understood as a merger or amalgamation with another company, unless in the case of a stock-exchange listed company after the merger the majority of the votes are held by the previous owners and no-one has beneficial ownership of more than 20 % of the voting rights; a change of ownership is also understood as the transfer of all or nearly all of the assets. Finally, DaimlerChrysler AG is a party to an agreement regulating the exercise of voting rights in EADS N.V. In the case of a change of control, this agreement stipulates that DaimlerChrysler AG is obliged, if so requested by the French party to the agreement, to make all efforts to dispose of its shares in EADS under appropriate conditions to a third party that is not a competitor of EADS or of the French contracting party of DaimlerChrysler AG. In this case, the French party has the right of preemption under the same conditions as were offered to the third party. A change of control can also lead to the dissolution of the voting consortium. According to the EADS agreement, a change of control has taken place if a competitor of EADS N.V. or of the French contracting party either appoints so many members of the Supervisory Board of DaimlerChrysler AG that it can appoint the majority of the members of the Board of

Management or holds an investment that enables it to control the day-to-day business of DaimlerChrysler AG.

New Management Model for the DaimlerChrysler Group

On January 24, 2006, DaimlerChrysler presented a new management model with the aim of improving the Group's competitiveness. The model is designed to further integrate the Group's functions, focus operational areas more closely on their core processes, and encourage internal collaboration. It is also intended to reduce the duplication of activities in administrative areas.

The structural changes include the consolidation and integration of all administrative functions, such as Finance and Controlling, Human Resources and Strategy. Each of these functions will be centralized and will report to the Board of Management member responsible for the respective 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.

In March 2006, the Commercial Vehicles division was renamed as the "Truck Group", and since then has focused on its core business of producing and selling trucks; bus and van activities are directly managed within the new segment "Van, Bus, Other". The new structure allows a stronger orientation towards customers' specific requirements in these market segments. Due to the commonality of powertrains 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. Below, the "Truck Group" and "Van, Bus, Other" divisions are reported as Mercedes-Benz Commercial Vehicles.

In order to react faster to changing market conditions, we have more closely integrated the organization of our research, predevelopment and development departments and pooled their resources. Responsibility for product development at the Mercedes Car Group has been integrated into the newly created Board of Management area "Group Research and Mercedes Car Group Development", which acts as a research competence center for the entire DaimlerChrysler Group. In addition to its responsibility for the products of the Mercedes Car Group, it is increasingly taking on predevelopment work for all the automotive divisions.

Furthermore, the location of the Group's headquarters in Germany has been transferred from Stuttgart-Möhringen to Stuttgart-Untertürkheim.

With the implementation of the new management model, we intend to reduce our administrative expenses by an average of € 1.5 billion each year. € 0.5 billion of this total will be addressed by other programs, such as CORE at the Mercedes Car Group.

In order to achieve the goals of the new management model, personnel capacities are also being 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, equivalent to approximately 6,000 jobs worldwide.

The implementation of the new management model is running according to plan. Most of the planned reductions in management positions had already taken place by the end of 2006. On July 18, 2006, we reached an agreement with the Group Employee Council on the details of the settlement of interests for employees paid according to external wage tariffs. We have been working with the new structures since August 2006, and have achieved substantial efficiency gains as a result.

The total expenditure for the implementation of the program in the years 2006 through 2008 is likely to be in the region of € 2 billion.

Financial Position and Performance

The world economy

The world economy continued its expansion course in 2006. However, at + 3.9 %, the rise in global gross domestic product (GDP) was down slightly on the previous year (+ 4.3 %). In particular, the key factors affecting this performance were the sharp increase in energy and commodities prices and rising interest rates.

The positive economic development in the United States was characterized by strong domestic demand. This was muted by high energy prices and interest rate hikes. The annual average growth rate of + 3.3 % (p. y. + 3.6 %) was therefore slightly lower than in the previous year.

As a result of the economic recovery in Germany stimulating other Member States, economic performance in the euro zone was clearly positive. The rise in private consumption and growing investment spending by companies led to an increase in gross domestic product in the EU of + 2.8 % (p. y. + 1.6 %) in 2006.

Germany's economic performance was very positive after a disappointing 2005. A further strong increase in exports, strong domestic demand again for the first time, and a moderate rise in private consumer spending resulted in considerable growth in gross domestic product of + 2.7 % (p. y. + 0.8 %).

The Japanese economy continues to enjoy a recovery. Driven by stable consumer demand and increased investment spending among companies in 2006, the gross domestic product rose by + 2.2 % (p. y. + 2.2 %).

As in the previous year, a number of emerging markets in Asia, Russia and China saw strong growth.

Over the course of the year, the value of the Euro remained nearly constant against the US dollar (USD) and the British pound (GBP). The Euro rose slightly against the Japanese yen (JPY).

Automotive Markets

The overall expansion of worldwide automotive markets slowed slightly in 2006. Global demand for passenger cars continued to grow at a positive rate (+ 3 %), but slower than in the prior year due to repeated increases in the prices of crude oil and fuel. The commercial vehicle market showed a strong rate of expansion (+ 6 %) - especially in the medium and heavy segments - and a continuation of lively investment activity.

Sales of passenger cars and commercial vehicles in the United States decreased slightly to 17.1 million units (2005: 17.4 million), partially as a result of higher financing costs caused by the continuous increase in interest rates and repeated sharp fuel price rises. The latter led to a change in customer preferences: In a comparison of vehicle segments, small, fuel-efficient cars profited considerably at the expense of minivans, SUVs and pickups.

Although demand in Western Europe increased slightly to 14.6 million passenger cars (2005: 14.5 million), car sales did not generally benefit commensurately from the region's broad economic upswing. Among the major national markets, car sales increased in Germany (+ 4 %) and Italy (+ 4 %), but decreased in France (- 3 %), the United Kingdom (- 4 %) and Spain (- 2 %).

In Japan, the car market shrank by 2 % to 4.6 million passenger cars despite the country's positive economic performance.

Driven by double-digit growth rates for car sales in China and India, the emerging markets of Asia were once again the main source of growth for the global automobile industry. South America also continued its dynamic expansion, while higher sales

in Central and Eastern Europe were almost solely a reflection of strong growth in Russia.

The world's major markets for commercial vehicles continued to expand in 2006.

In North America, demand for trucks increased once again (+ 10 %). However, this increase was due not only to the healthy economy, but above all to a boost in sales because of stricter emission regulations coming into force at the beginning of 2007. There was a distinct decrease in demand at the end of the year, especially for heavy and medium trucks.

In Western Europe, unit sales of commercial vehicles also increased once again in 2006. Truck sales were boosted in this market by pullforward purchases triggered by the introduction of digital tachographs in May 2006 and the mandatory introduction of the Euro 4 emission limits in the fall.

In Japan, sales of heavy and medium trucks also rose in the year 2006.

In China, there was a slight upturn of the commercial vehicle market following the decline in the previous year.

Business developments

The business developments of DaimlerChrysler AG were positive overall. As forecast, revenues and unit sales increased again. Despite negative currency effects, the operating result rose significantly. The lower income from ordinary activities is mainly due to lower transfers from investments.

Mercedes-Benz Passenger Cars

The operating result for passenger cars improved significantly year-on-year and is positive again. In particular, this encouraging development is due to an improved revenues to cost ratio. The significant rise in revenues was coupled with a

disproportionately low rise in costs. Revenues rose as a result of higher unit sales and the trend towards higher-end vehicles. This was thanks to the highly successful new model launches in 2005, including the new S-, M- and B-Class in particular. The new CL- and GL-Class presented in 2006, and the new generation of the E- and SL-Class have also been very well received on the market. In terms of costs, these optimizations have only resulted in relatively low increases in cost of materials and personnel expenses. The charges for non-recurring expenses for severance agreements were down year-on-year. The CORE program that was launched in 2005 was successfully concluded as of December 31, 2006. Around 9,700 personnel measures were implemented on a voluntary basis, thereby sustainably improving the company's competitiveness and profitability.

Mercedes-Benz Commercial Vehicles

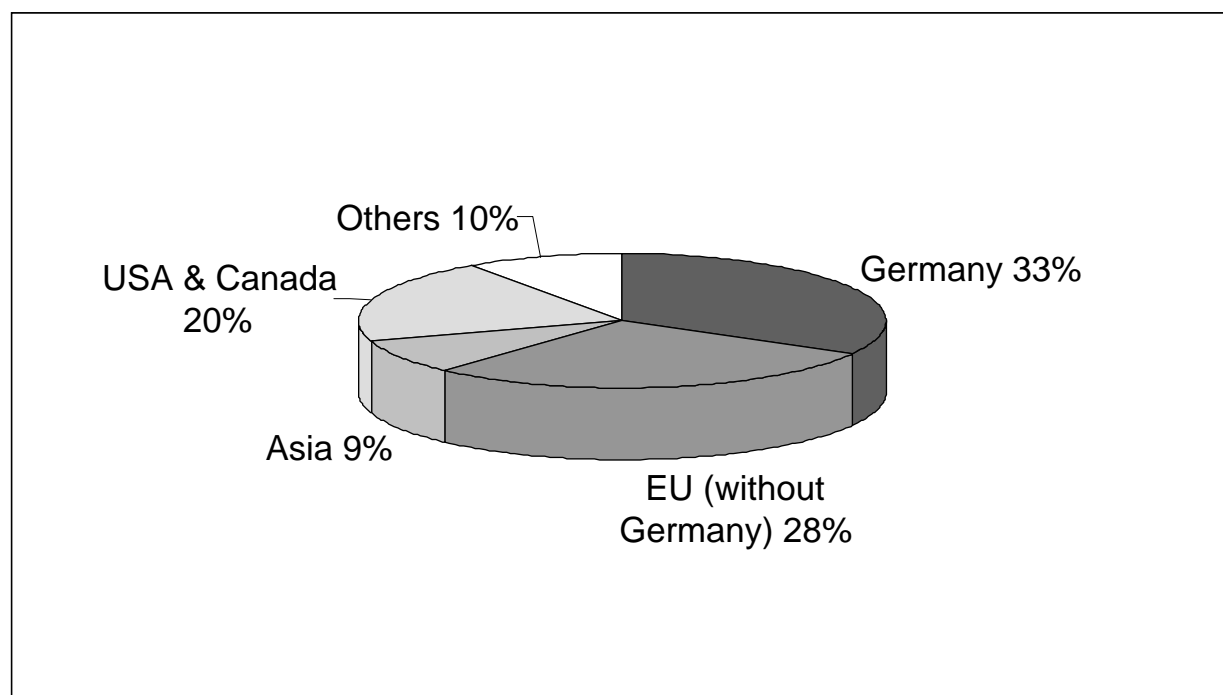
The operating result also improved at Commercial Vehicles. Despite declines in unit sales, particularly for the Axor and the Sprinter as well, the successor model which was launched in 2006 and very well received, revenues increased as a result of an improved product mix. In addition, preemptive effects relating to the stricter emission regulations on key markets and the competitiveness of Commercial Vehicles products also contributed to the improved result. The rise in cost of materials and personnel expenses was disproportionately low compared to revenues growth on account of the efficiency enhancing measures introduced. The measures to improve efficiency and profitability implemented in the Commercial Vehicles division as part of the Global Excellence Program are also bearing fruit.

Financial Performance

Overview Key Figures DaimlerChrysler AG

In € million	2006	2005	2004
Revenues	64,571	59,150	56,072
Cost of goods sold (without R&D)	(53,669)	(51,253)	(46,754)
Gross profit (without R&D)	10,902	7,897	9,318
Research and development costs (R&D)	(3,120)	(3,150)	(3,239)
Selling and general administrative expenses	(8,202)	(7,988)	(7,642)
Other operating income/expenses	1,011	783	793
Operating result	591	(2,458)	(770)
Financial income, net	751	4,125	1,049
Income from ordinary activities	1,342	1,667	279
Income taxes	(653)	(61)	(789)
Net income/loss	689	1,606	(510)

DaimlerChrysler AG Revenues by Regions



Revenues

At € 64,571 million (p. y. € 59,150 million), the development of revenues, as forecast in the previous year's outlook, was clearly positive. Revenues were up 9.2 % as against the previous year.

Germany accounted for € 21,382 million of revenues (p. y. € 19,574 million) and the rest of the world for € 43,189 million (p. y. € 39,576 million). As in the previous year, the share of exports was therefore 66.9 %. Revenues in North America increased by + 13.9 % to € 13,044 million. In the European Union (without Germany) revenues were up by 11.3 % as against the previous year at € 18,351 million (p. y. € 16,481 million).

€ 47,813 million of revenues (p. y. € 42,463 million) related to the Passenger Cars division. The Commercial Vehicles division generated revenues of € 16,758 million (p. y. € 16,687 million).

Unit sales

As forecast in 2005, unit sales increased in the past financial year. This was due to the highly successful new model launches in the Passenger Cars division in 2005, including the new S-, M- and B-Class in particular. In the 2006 financial year, as a result of the attractive product range in the Passenger Cars division, DaimlerChrysler AG continued to build on the successes of previous years and increased Passenger Car unit sales despite difficult market conditions. In the Commercial Vehicles division, unit sales dipped slightly on account of the model change of the Sprinter, the successor model to which was launched in 2006, and mainly of the Axor.

Total unit sales were up by around 64,000 units, rising from around 1,748,000 to around 1,812,000 units. The + 8.7 % increase in unit sales in North America to approx. 314,000 units is a new record. In Asia, unit sales declined by 10.5 % to

approx. 120,000 units. In other regions, an increase to approx. 132,000 units was recorded. In the EU (without Germany), unit sales figures were up by + 4.0 % to approx. 528,000 units. In Germany, unit sales rose by + 4.9 % to approx. 718,000 units. The market share in the Passenger Cars division declined from 10.2 % to 9.8 % and in the Commercial Vehicles division from 23.1 % to 21.8 %.

In the **Passenger Cars** division, unit sales for new Mercedes-Benz vehicles amounted to approx. 1,152,000 units, exceeding the previous year's figure of approx. 1,103,000 units by approx. 49,000 units. Approximately 105,000 units thereof (p. y. approx. 93,000 units) were leased directly to customers.

The previous year was affected by the launch of highly successful new models, which developed their full effect in the financial year. Unit sales of the S-Class therefore increased by approx. 33,000 units to approx. 108,000 units (p. y. approx. 75,000 units). Unit sales of the R-, G-, GL and M-Class rose by around 84,000 units to 179,000 units (p. y. 95,000 units).

Unit sales of the A- and B-Class rose by approx. 16,000 units to approx. 289,000 units (p. y. approx. 273,000 units).

In contrast, unit sales of the C-Class declined by approx. 63,000 units to approx. 331,000 units (p. y. approx. 394,000 units) as a result of its life cycle.

The new generation of the E-Class ensured that the decline in unit sales is stopped compared to the previous year. Unit sales of the E-Class dropped by approx. 21,000 units to approx. 245,000 units (p. y. approx. 266,000 units).

Passenger Cars Unit Sales (1,000 units)	2006	2005
C-Class	331	394
A- and B-Class	289	273
E-Class	245	266
R-,G-,GL- and M-Class	179	95
S-Class	108	75

In the **Commercial Vehicles** division, unit sales of new van, truck, and Unimog vehicles were 4.7 % down on the previous year's figure of around 385,000 units at around 366,000 units. Approx. 29,000 units (p. y. approx. 34,000 units) of the vehicles sold were leased directly to our customers.

The Vans unit contributed to this figure with a decline in unit sales of around 14,000 units from around 277,000 units to around 263,000 units. This development is due to the model change of the Sprinter, the successor model to which was launched in 2006 and the discontinuation of the Vaneo.

Unit sales at MB Trucks declined by around 5,000 units to 103,000 units (p. y. 108,000 units). This development is largely due to the Axor.

Commercial Vehicle Unit Sales (1,000 units)	2006	2005
Sprinter	164	174
Vito	77	75
Viano	17	16
Vaneo	0	7
Vario	5	5
Actros	59	59
Atego	25	25
Axor	16	21
Unimog	2	2
Econic	1	1

Cost of goods sold (without R&D)

The cost of sales increased from € 51,253 million to € 53,669 million.

In the reporting year, production was extended slightly. A total of approx. 1,510,000 units (p. y. approx. 1,457,000 units) were produced. Approx. 1,149,000 units of these (p. y. approx. 1,091,000 units) relate to the Passenger Cars division (+ 5.3 %) and approx. 361,000 units (p. y. approx. 366,000 units) to the Commercial Vehicles division (- 1.2 %). Thus, fewer new vehicles were produced than sold in the Passenger Cars and

Commercial Vehicles divisions, resulting in reduced inventories.

The production increase in the Passenger Cars division including a shift in product mix towards higher-end products and higher commodities prices led to a strong increase in cost of materials compared to the previous year.

The personnel expenses within the cost of sales dropped significantly as against the previous year, particularly as a result of the lower number of employees. Following the end of CORE, the severance expenses component of the cost of sales was also down.

Research and development expenses (R&D)

At € 3,120 million, research and development expenses remained at a very high level (p. y. € 3,150 million). 4.8 % (p. y. 5.3 %) of revenues were invested for future developments and innovations.

At € 1,952 million (p. y. € 2,079 million), the main share of this related to the Passenger Cars division. Key areas of research and development activities in the Passenger Cars division were the C-Class in particular, which was launched in 2007, and the E-Class because of its new generation, which was presented in 2006, and the scheduled model change in 2009.

At € 703 million (p. y. € 662 million), around € 41 million more was invested in development in the Commercial Vehicles division. Some focal areas included engine development, as well as emissions projects in connection with the planned emissions legislation, particularly in the EU (Euro IV and Euro V) and in the USA (EPA 07).

Furthermore, € 465 million (p. y. € 409 million) was invested in DaimlerChrysler AG Corporate Research. Corporate Research conducts research on behalf of the Passenger Cars and Commercial Vehicles divisions.

The cost of materials component of research and development expenses was virtually constant year-on-year.

The personnel expenses component of research and development expenses was down as against the previous year. This decline was due to pension and severance expenses in connection with the personnel restructuring measures. In Research and Development approx. 14,000 people were em-mployed last year.

General administrative expenses

Administrative expenses rose significantly to € 2,762 million (p. y. € 2,348 million).

The main factors contributing to this increase were purchased services and higher personnel expenses. In particular, this increase in personnel expenses was due to severance expenses as part of the new management model (NMM).

Furthermore, expenses for consulting services in connection with the ongoing investigations for the US Securities and Exchange Commission (SEC) and the Department of Justice (DOJ) rose again.

Selling expenses

At € 5,440 million, selling expenses were down as against the previous year (p. y. € 5,640 million).

The costs of materials within the selling expenses was down as a result of the reduction in purchased services, such as marketing expenses for the new models launched in 2005.

The personnel expenses within the selling expenses was also down as against the previous year. This is primarily due to the lower pension costs.

Operating result positive again

The operating result – defined as the result of ordinary activities less financial income – improved to € 591 million in 2006 (p. y. € - 2,458 million).

In addition to the positive operating earnings contributions from the Passenger Cars and Commercial Vehicles divisions, retirement benefit expenses improved by around € 844 million to € 1,365 million. The severance expenses for CORE were down in 2006 as against the previous year, though there were also new expenses for severance payments as part of the implementation of the new management model of around € 244 million in the financial year. The operating result was also reduced by the ongoing investigations for the US Securities and Exchange Commission (SEC) and the Department of Justice (DOJ).

Financial income reduced significantly

At € 751 million, financial income was down sharply on the previous year's figure of € 4,125 million. This decline was due largely to net income from investments in affiliated and related companies. In turn, this was due to lower profit transfers and distributions by subsidiaries as well as higher levels of loss absorption. Also, lower income was generated from the disposal of shares in affiliated companies and investments than in the previous year, such as Mitsubishi Motors Corporation.

Lower distributions from special funds reduced net interest income by € 220 million.

Income tax expenses of € 653 million (p. y. € 61 million) consist of advance tax payments and additions to tax provisions for 2006 (€ 426 million) and previous years (€ 219 million) as well as other income taxes (€ 8 million).

Dividend of € 1.50 per share

In 2006, DaimlerChrysler AG posted a net income of € 689 million after a net profit of € 1,606 million in the previous year.

After a withdrawal of € 853 million to retained earnings, the company reported an unappropriated profit of € 1,542 million.

We will propose to the Annual Meeting on April 4, 2007, to distribute a dividend of € 1.50 (p. y. € 1.50) per share for the financial year 2006. With 1,028 million shares eligible for dividends, the total dividend amount is € 1,542 million.

Workforce

As of the year-end 2006, the total number of employees declined to 151,226 (p. y. 160,722).

As a consequence of the personnel adjustment, the previous year's fluctuation ratio is no longer meaningful. Therefore, we are reporting the average length of service of employees at DaimlerChrysler AG, which was 17.3 years (p. y. 16.9 years) in the reporting year.

In level 1-4 management positions, the share of female persons rose as against the previous year from 8.8 % to 11.0 %.

At the end of September 2005, the Board of Management approved a package of measures to be taken at the Passenger Cars division aiming to reduce the workforce in Germany by 8,500 jobs. By December 31, 2006, around 9,700 Passenger Cars division employees at German locations had signed agreements on their leaving the company or had already left. Around 1,900 of these were early retirement.

As part of the new management model announced in January 2006, the number of administrative positions around the world will be reduced by around 6,000 – approx. 20 % – by the end of 2008. On the basis of "Safeguarding the Future 2012", all these measures should be

effected by way of voluntary severance agreements. By the end of 2006, approximately 1,400 employees at DaimlerChrysler AG had either already left the company or had signed agreements on their departure. The implementation at management level was virtually completed by the end of 2006.

In the fourth quarter of 2006, around 6,200 partial retirement agreements were concluded.

Employee Stock Purchase Plan 2006

In 2006, a total of approx. 32,000 employees in Germany acquired shares in the company in three campaigns (p. y. 35,000 employees).

Lower personnel expenses

In the reporting year, personnel expenses declined to € 12,296 million (p. y. € 13,087 million).

Expenses for wages and salaries rose by € 87 million to € 9,410 million in the reporting year (p. y. € 9,323 million). This increase was due to higher personnel and social accruals. As a result of the run-off phase of the personnel adjustment measures in the Passenger Cars division (CORE) and the start-up phase in administration (NMM), severance costs were only insignificantly lower as against the previous year.

Social contributions declined slightly by 2.2 % to € 1,521 million (p. y. € 1,555 million).

Pension costs declined from € 2,209 million to € 1,365 million. Pension expenses rose to € 836 million as a result of the scheduled addition to pension provisions. However, the rise in the discount rate (4.5 %, p. y. 4.0 %) reduced the present value of the obligations recognized and thereby the scheduled addition. In the previous year, extraordinary additions of € 1,482 million were required. The initial recognition of the full obligation (PBO) in accordance with SFAS 158 in the financial

year increases expenses by € 1,186 million. In the financial year, around € 400 million was paid in pension benefits.

DaimlerChrysler ScoreCard

The DaimlerChrysler ScoreCard supports us with the implementation of our strategy. It is the link between our target system and the operational management of the divisions; with its help, the status of implementation and target achievement is tracked regularly and effectively. The ScoreCard serves as an additional management instrument that supplements the financial controlling instruments with the use of non-financial performance indicators.

All dimensions are regularly measured and collated in the ScoreCard reports for discussion by the Board of Management. Deviations from the target path are thus recognized at an early stage and the required adjustments are initiated.

Environment

DaimlerChrysler spent a total of € 1.7 billion on environmental protection in 2006 (2005: € 1.5 billion). Our prime goal in this area is to make mobility sustainable for the future. We therefore permanently work on improving our products' environmental compatibility, further reducing the fuel consumption and emissions of our gasoline and diesel engines, and developing alternative propulsion systems. We use environmentally friendly production methods and promote the improvement of fossil fuels and the development and application of regenerative fuels.

In recent years, we have made further progress regarding our manufacturing processes and the emissions of our vehicles. Since 1990, we have reduced the fleet consumption of our passenger cars in Germany by 30 %. In the past 15 years, we have reduced the exhaust emissions of our passen-

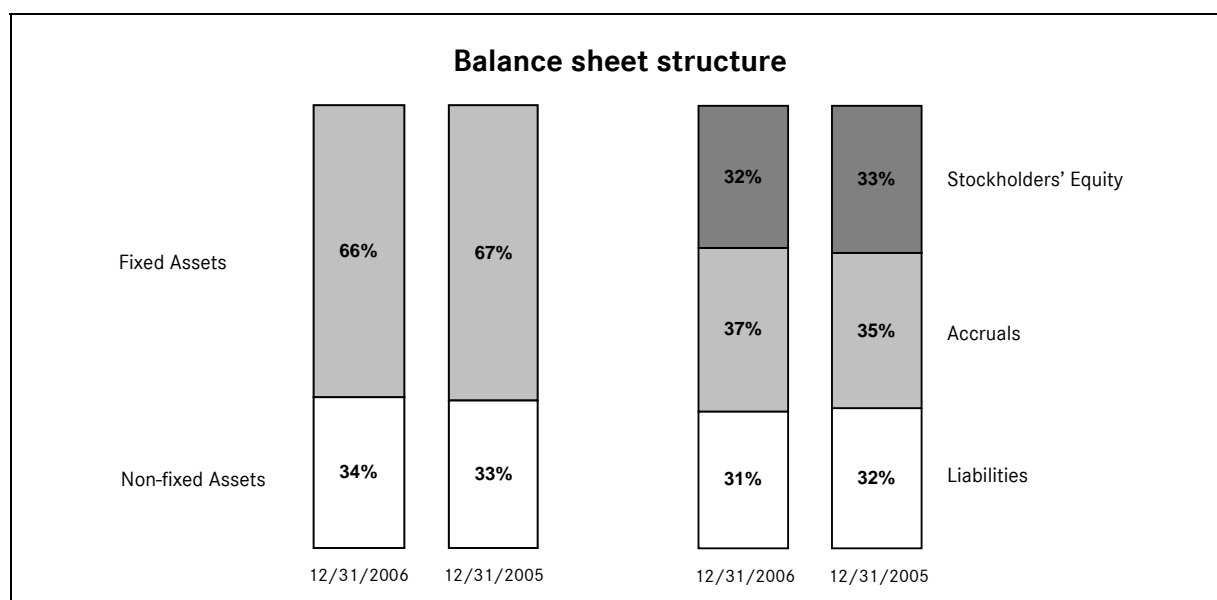
ger cars by more than 70 %, and have reduced emissions of particulate matter by more than 95 %.

We have passed an important milestone with our BLUETEC technology: our BLUETEC trucks are already able to fulfill the strict Euro-5 emission limits that will come into force in October 2009. Mercedes-Benz sold 24,900 BLUETEC trucks in the year 2006. And all of our buses have been equipped with BLUETEC as standard equipment since the fall of 2006. And with the first application in passenger cars of BLUETEC technology, our cars fulfill the world's strictest exhaust-emission limits. The Mercedes-Benz E320 BLUETEC launched in the United States and Canada in October 2006 is the cleanest diesel car in the world, due to its combination of optimized engine management and this new technology for exhaust-gas aftertreatment. As of the year 2008, it is planned to gradually launch passenger cars on the European market with BLUETEC technology. A precondition for this is the availability of low-sulfur diesel fuel all over Europe.

Financial Position

Overview: Balance Sheet (Key Ratios)

In € million €	2006	2005	2004
Fixed Assets	41,521	41,201	40,255
<i>Herein Pension Trust</i>	8,875	7,974	6,774
Non-fixed Assets	21,381	20,435	17,802
Stockholders' Equity	20,054	20,522	20,251
Accruals	23,255	21,608	18,608
Liabilities	19,512	19,434	19,181
Total Assets	62,921	61,651	58,073



Increase in total assets

Total assets increased by € 1,270 million (+ 2.1 %) to € 62,921 million. The changes in the balance sheet structure were moderate and within the anticipated parameters.

At 66.0 %, the share of fixed assets in total assets was down on the previous year (p. y. 66.8 %), the share of current assets rose slightly to 34.0 % (p. y. 33.2 %).

Fixed assets rose by € 320 million. Property, plant, and equipment remained virtually constant.

The book value of the Pension Trust in financial assets increased to € 8,875 million (p. y. € 7,974 million). In the financial year, capital of € 64 million was allocated to the Pension Trust.

Lower Equity Ratio

	12/31/2006	12/31/2005	12/31/2004
Capital Stock	2,673	2,647	2,633
Additional paid-in capital	12,356	12,012	11,842
Retained earnings	3,483	4,336	4,257
Unappropriated profit	1,542	1,527	1,519
Stockholders' Equity	20,054	20,522	20,251

After deduction of the dividend distribution for the 2005 financial year, stockholders' equity was down by € 468 million or – 2.3 % in total. With higher total assets, the equity ratio therefore declined to 31.9 % (p. y. 33.3 %) in the reporting year.

The capital stock of the company as of December 31, 2006, was € 2,673 million. This is divided into 1,028 million registered shares. All shares grant the same rights. Each share represents one vote and is decisive for profit participation. Other information, including details of capital stock and authorized capital, can be found in the Notes on pages 10 ff.

The share of accruals rose to 37.0 % (p. y. 35.0 %) and the share of liabilities, which were almost stable, fell from 31.7 % in the previous year to 31.0 % in 2006.

Investments in property, plant and equipment

Investments in property, plant and equipment (not including leased equipment) amounted to € 1,692 million in the reporting year (p. y. € 1,780 million).

This primarily related to asset additions in the Passenger Cars division of € 1,140 million (p. y. € 950 million). Investment activities focused on initial investments for production facilities and axle production for the new C-Class.

Investments in property, plant, and equipment in the Commercial Vehicles division amounted to € 552 million (p. y. € 830 million). In particular, these related to investments for the successor model of the Sprinter and various component and transmission projects.

At € 4,597 million, the **equipment on operating leases** was virtually constant as against the previous year (p. y. € 4,613 million). Additions in the financial year amounted to € 2,785 million (p. y. € 2,795 million).

Non-fixed assets

Current assets increased to € 21,381 million (p. y. € 20,435 million). Inventories declined to € 5,055 million in the past financial year. In particular, this is caused by an inventory reduction in used vehicles. Receivables and other assets also declined from € 12,528 million in the previous year to € 11,261 million in 2006. This is primarily due to a reduction in other assets, which included shares in equity investments available for sale in the previous year.

Cash and cash equivalents rose significantly from € 284 million in the previous year to € 1,933 million in 2006.

Accruals and liabilities

In the financial year, accruals increased by € 1,647 million from € 21,608 million to € 23,255 million. Thereof approx. 19 % (p. y. approx. 25 %) related to current accruals with approx. 81 % (p. y. approx. 75 %) relating to long-term provisions. The accruals reflect the increased risks arising from personnel obligations and sales activities in particular. Pension liabilities account for € 11,850 million of accruals (p. y. € 10,828 million), accrued taxes for approx. € 2,280 million (p. y. € 2,037 million) and other accrued liabilities for € 9,125 million (p. y. € 8,743 million).

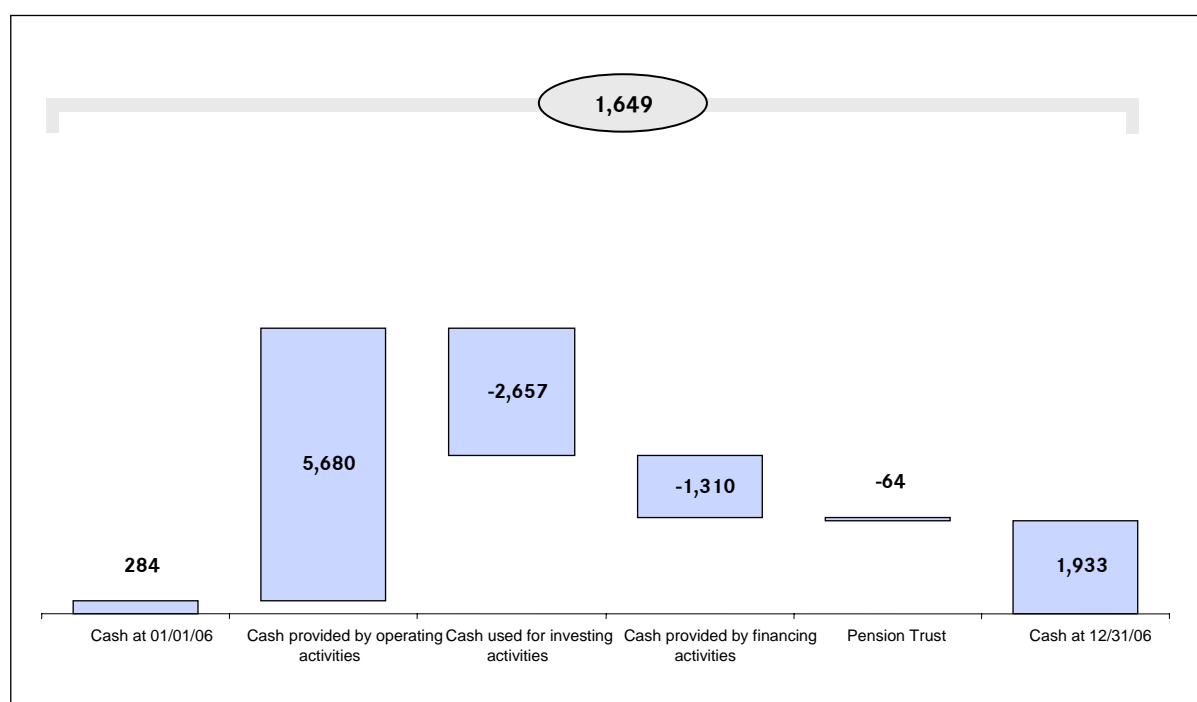
Liabilities increased slightly from € 19,434 million by € 78 million to € 19,512 million.

Contingent liabilities

Further liabilities exist in respect of specific creditors, primarily as a result of payment guarantees. These are reported as contingent liabilities (see Notes on pages 21 f).

Cash flow statement of DaimlerChrysler AG

in € million	2006	2005	2004
Net income / loss	689	1,606	(510)
Depreciation / write-ups:			
- on leased assets	1,098	1,007	951
- on other fixed assets	1,782	1,796	2,419
Gains / losses on:			
- disposal of fixed assets	10	(796)	(250)
- disposal of non-fixed assets	0	0	1
Changes in:			
- Inventories	697	333	(597)
- Receivables	264	(463)	(111)
- Liabilities	(411)	440	(70)
- Accruals	1,643	3,000	1,676
- Other assets / liabilities	(92)	(185)	33
Cash provided by operating activities	5,680	6,738	3,542
Proceeds from disposals of fixed assets	3,029	3,761	2,468
Payments for additions to fixed assets	(5,750)	(7,604)	(7,902)
<i>herein Pension Trust</i>	(64)	(158)	(279)
Cash used for investing activities	(2,721)	(3,843)	(5,434)
Change in commercial paper borrowings, other short-term financial liabilities	(1,016)	(1,280)	(1,313)
Addition to / repayment of long-term financial liabilities	863	(2,403)	4,199
Paid dividend	(1,527)	(1,519)	(1,519)
Issue of treasury stock	370	184	0
Cash flow provided by (used for) financing activities	(1,310)	(5,018)	1,367
Net increase (decrease) in cash and cash equivalents	1,649	(2,123)	(525)
Cash and cash equivalents at beginning of period	284	2,407	2,932
Cash and cash equivalents at end of period	1,933	284	2,407



Notes to the cash flow statement

Cash provided by operating activities declined by € 1,058 million as against the previous year. With earnings significantly lower than in the previous year, this development was also due to the repayment of trade liabilities. Furthermore, accruals did not rise to the same extent as in the previous year. In contrast, the reduction of inventories (in particular reduction of used vehicle inventories) and trade receivables contributed to the cash inflow. Cash provided by operating activities of € 5,680 million and the proceeds from the disposal of non-current assets in the amount of € 3,029 million were used to finance investments in property, plant, and equipment, leased items and financial assets, which accounted for approx. € 5,750 million.

Cash used for investing activities was down by € 1,122 million as against the previous year to

€ 2,721 million, partly as a result of lower investments for CORE in the Passenger Cars division. € 64 million was transferred to the capital resources of the Pension Trust.

Cash used for financing activities amounted to € 1,310 million. This related to the change in financial receivables and liabilities and the payment of the dividend to shareholders. Proceeds of € 370 million were received against treasury stock as a result of employees exercising options.

As a result of the individual cash flows, cash and cash equivalents were up by € 1,649 million.

The rise in liquidity is within the parameters of our requirements and is shown in the diagram below.

	12/31/2006 € million	12/31/2005 € million	12/31/2004 € million
Cash and cash equivalents	1,933	284	2,407
Securities	3,132	1,871	1,963
<u>Gross liquidity:</u>	5,065	2,155	4,370
<u>External liabilities:</u>			
Liabilities to financial institution	(745)	(108)	(1,328)
Notes/Bonds and Commercial Paper	(1,070)	(1,457)	(1,600)
<u>Net liquidity:</u>	3,250	590	1,442

Principles and objectives of financial management

The central financial activities of the entire DaimlerChrysler Group are managed by DaimlerChrysler AG. Therefore, the following statements refer to the DaimlerChrysler Group.

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.

Worldwide financial management is performed 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.

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.

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 cashpooling 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 pro-

vides information about all cash flows from operating and financial activities for a rolling period of twelve months. Resulting financial 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 additional 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 risks 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 regarding the management of risks resulting from fluctuations in foreign exchange rates, interest rates and commodity prices as well as decisions on the 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 de-

financed benchmark indices. Decisions on ordinary and extraordinary capital contributions to the pension funds are centralized worldwide in the Global Pension Committee.

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 risks with financial institutions and issuers of securities arise primarily from the trading of derivative financial instruments and the investments executed as part of our liquidity management. The management of these credit risks is mainly based on an internal limit system, which reflects the creditworthiness of the respective bank or issuer. The credit risk with end customers results from granting them a payment period for goods and services delivered. 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 the 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 that 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 sometimes employed.

DaimlerChrysler's **refinancing measures** are largely determined by the Group's financial services activities. To cover the funding requirement, DaimlerChrysler makes use of a broad spectrum of financial instruments. Depending on the funding requirement and market conditions, DaimlerChrysler issues bonds, commercial paper and financial market instruments secured by receivables in various currencies. Credit lines are also used to cover financing requirements. In 2006, 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, we utilized, the securitization of receivables, mainly receivables from the Financial Services business. Receivables were primarily securitized in the United States, but also in Canada and Germany. At the end of 2006, DaimlerChrysler had short-term and long-term credit lines totaling € 35 billion, of which € 18 billion was not utilized. 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 to cover its refinancing needs at any time.

Financial performance measures

As the parent company of the DaimlerChrysler Group, DaimlerChrysler AG is integrated into the Group control measures in accordance with US GAAP.

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

Value added. For purposes of performance measurement, DaimlerChrysler differentiates between Group and divisional level. Value added is one element of the performance-measurement system at both levels, and is calculated as the difference between the operating result and the cost of capital of the average net assets in that period.

$$\begin{aligned} & \text{Profit Measure} \\ & - (\text{Net Assets} \times \text{cost of capital}) \\ & = \text{Value Added} \end{aligned}$$

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.

$$\begin{aligned} & (\text{Return on Net Assets} - \text{cost of capital}) \\ & \times \text{Net Assets} \\ & = \text{Value Added} \end{aligned}$$

Value added shows to which extent the Group and its divisions achieve or exceed the minimum return requirements of the shareholders and creditors, thus creating additional value. 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 Daimler-

Chrysler Group and towards shareholders and creditors.

Profit measure. The profit measure used at Group level is net operating income (loss), which can be derived from net income (loss). At divisional level, operating profit (loss) is used. Operating profit (loss) is derived from income (loss) before financial income (expense), and reflects the specific earnings responsibility of the divisions.

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 divisional level of the industrial business, net assets are calculated on the basis of the allocable operating components of assets and liabilities. Average net assets are calculated as an average of the net assets at the beginning and at 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 using 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. For the industrial divisions, the cost of capital amounted to 11 % before taxes; for Financial Services, a cost of equity of 14 % before taxes was used.

Return on net assets. The profitability ratio return on net assets (RONA) has 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. To assess the profitability of Financial Services, return on equity (ROE) is used.

Ratings

Development of DaimlerChrysler ratings

Ratings	2006	2005
Short-term Credit Ratings		
Standard & Poor's	A-2	A-2
Moody's	P-2	P-2
Fitch	F2	F2
Dominion	R-1-	R-1-
Long-term Credit Ratings		
Standard & Poor's	BBB	BBB
Moody's	Baa1	A3
Fitch	BBB+	BBB+
Dominion	A-	A-

During the year 2006, the rating agency Standard & Poor's (S&P) kept its long-term rating of BBB and its short-term rating of A-2 unchanged. On August 4, 2006, S&P changed the outlook on the long-term rating from stable to positive. According to S&P, the outlook revision acknowledged the structural improvements at the Mercedes Car Group, which had successfully been tackling its quality problems, and the improvements at the so far unprofitable smart brand. S&P considers that the Mercedes Car Group is on track to reach its announced operating profit target of 7 % return on

sales in 2007. But S&P also mentioned that the progress in this division was somewhat offset by the rapidly declining results at the Chrysler Group. On September 15, 2006, S&P revised its outlook back to stable. This outlook revision followed a reduced operating profit guidance for the Chrysler Group for the third quarter and full-year 2006, as well as a lowered operating profit guidance for the DaimlerChrysler Group for the year 2006. S&P stated that the outlook change reflected the unexpectedly severe decline in profitability at the Chrysler Group.

On September 15, 2006, Moody's Investor Service (Moody's) downgraded the long-term ratings of DaimlerChrysler AG and its subsidiaries from A3 to Baa1, and placed all long-term ratings under review for possible downgrade. The P-2 short-term ratings were affirmed. The downgrade followed DaimlerChrysler's announcement of the reduced forecast for the Chrysler Group's operating profit for the year 2006 and reflected (i) Moody's view that one of the key conditions set for an A3 rating – maintaining the turnaround at the Chrysler Group leading to an operating margin for this division of above 3 % – will not be achieved in the near term; (ii) the negative impact on DaimlerChrysler's overall profitability and cash generation with the expectation of a negative industrial free cash flow (as defined by Moody's) in 2006. The decision to place the ratings under review for possible downgrade was based on the expectation of further financial pressure resulting from (i) the ongoing weak market environment for the Chrysler Group which will probably continue to negatively affect DaimlerChrysler's financial profile; (ii) the effects of shifting consumer trends away from more profitable large SUVs and light trucks with which the Chrysler Group generates most of its revenues to more fuel-efficient, less profitable smaller vehicles; (iii) the potential need for further structural measures to improve the Chrysler Group's operations.

On February 14, 2007, following the presentation of the preliminary earnings figures for the year 2006 and of the Recovery and Transformation Plan for the Chrysler Group, Moody's concluded its ratings review and confirmed its Baa1 rating. The outlook on the rating remained negative.

During the year 2006, Fitch Ratings (Fitch) kept its long-term rating of BBB+ and its short-term rating of F2 unchanged. The outlook on the long-term rating remained stable.

During the year 2006, Dominion Bond Rating Service (Dominion Bond) also kept its long-term rating of A(low) and its short-term rating of R-1(low) unchanged. The outlook on the long-term rating remained negative. Due to the Chrysler Group's difficult competitive situation, Dominion Bond changed its long-term rating from A (low) to BBB (high) on February 14, 2007. It confirmed its short-term rating of R-1 (low).

Supplementary report

Chrysler Group Recovery and Transformation

Plan. On February 14, 2007, DaimlerChrysler announced the Chrysler Group's three-year "Recovery and Transformation Plan". This plan aims to return the Chrysler Group to profitability by 2008 and redesign the business model for the Chrysler Group. The plan identifies a combination of measures designed to increase revenues and reduce costs, including: continuation of the product offensive; workforce reductions by 13,000 employees over three years; reduction of material costs by €1.15 billion; and reduction in production capacity by 400,000 units per year by eliminating work shifts and idling plants.

Further events after the end of the 2006 financial year.

Since the end of the 2006 financial year, there have been no further occurrences that are of major significance to DaimlerChrysler AG and which would lead to a modified assessment of the company's position.

Risk report

Early detection and consistent management of risks in future development

Within the framework of its activities in the Passenger Cars and Commercial Vehicles divisions, as a result of increasingly intensive competition in all markets and as the parent company of the DaimlerChrysler Group, DaimlerChrysler AG is exposed to a large number of risks, which are inextricably linked with corporate business. These risks can have a direct influence on DaimlerChrysler AG or an indirect influence on the parent company of the Group through its subsidiaries.

Nevertheless, it is because of the opportunities that the market offers that we continue to be actively involved in business on the market. Opportunities and risks are generally examined, assessed and monitored throughout the year in the context of our operative planning for the next three years, which we carry out on an annual basis.

Integrated risk management system

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 operating units, the key associated companies and the central departments, and are 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 with 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

The world economy continued along a distinctly expansionary path in 2006. In spite of high raw-material prices (and further price rises for some materials), increased interest rates and a rather tense geopolitical situation, particularly in the Middle East, growth of 3.9 % was achieved in 2006, which was once again well above the long-term average. However, the peak of this global economic cycle was already passed during the first quarter of 2006. Factors that increasingly damp-

ened growth as the year progressed were the rise in cost of capital, the ongoing burden of high or increased raw-material prices, the correction of excessive real-estate prices in some parts of the world, and more restrictive fiscal policies. The smooth return of the global economy to its long-term growth trend that is predicted for the year 2007 by many economists and also by DaimlerChrysler mainly depends upon how these factors develop in the future and whether their dampening effects might be stronger than currently expected. DaimlerChrysler's financial position, cash flows and profitability are therefore still exposed to considerable 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 capital inflows cease or are not available in the required volumes, the country's current-account deficit will have to be corrected. This could, caused by higher interest rates and a drastic depreciation of the US dollar, lead 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 an excessive rise in capital-market interest rates and a fall in asset values (stocks, real estate). Both of these factors would in particular substantially reduce private consumption.

The economy of Western Europe developed positively in 2006. However, it cannot safely be assumed that the positive development of domestic demand, i.e. private consumption and investment, will continue. In Germany in particular, a growth dip seems likely for the year 2007, with the possibility of even a slight decrease in private consumption at worst. This would have negative consequences for

the demand for automobiles. Due to the importance of Western Europe and thus also Germany as sales markets for DaimlerChrysler, this therefore has considerable risk potential for the Group.

To a certain extent, the situation of the Japanese economy is similar, although its risk level has decreased somewhat. A renewed weakening of the Japanese economy would not only significantly 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 risk potential is to be seen in the high level of raw-material prices. If prices were to remain high or actually continue rising, the assumed economic development would 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 primarily in the oil-importing countries. An abrupt and long-term rise in the price of oil could even cause some economies to slip into recession. However, if oil prices fall, this could result in renewed prospects. This could lower company costs and have a positive influence on consumer behavior in private households.

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 activities. Potential economic crises in the other emerging markets in which the Group has important 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 a failure of multilateral trade liberalization, in particular if international free trade was weakened 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 and the battle against terrorism.

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, intense competitive pressure in recent years has led to the ongoing proliferation of special financing offers and price incentives. As a result of intensifying competition in Western Europe, the practice of offering discount financing and price incentives is spreading also in this region. Weaker economic growth and ever tougher competition 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 for used vehicles and thus to falling residual values. Another factor is that in some markets, the United States in particular, higher fuel prices have caused

many consumers to prefer smaller, more fuel-efficient vehicles.

In order to achieve the targeted level of prices, factors such as brand image and product quality are becoming increasingly important, as well as additional technical features resulting from innovative research and development. Furthermore, it is essential for the Group's future profitability to realize efficiency improvements while simultaneously fulfilling DaimlerChrysler's own high quality standards. And another important condition for increasing the profitability of the entire DaimlerChrysler Group is the successful implementation of the new management model and its related activities.

Product quality has a major influence on a customer's decision to buy a particular brand of passenger car or commercial vehicle. At the same time, technical complexity continues to grow as a result of additional features, for example for the fulfillment of various emission and fuel-economy regulations, which increases the danger of vehicle malfunctions. Technical problems could lead to further recall and repair campaigns, or could even necessitate new developments. 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. Derivative financial instruments are employed in some cases, primarily to reduce market price risks relating to the acquisition of precious metals. The volume of derivative contracts

used to secure raw materials in the year under review was negligible. If prices remained at their current high level for a longer period of 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 have been required by automobile manufacturers such as DaimlerChrysler in order to safeguard production and sales. If the situation of important suppliers should continue to deteriorate, this could require further support actions to be taken with a negative effect on earnings. If suppliers experience delivery difficulties, this could have a negative impact on the DaimlerChrysler Group's production and sales of vehicles and thus also on our profitability.

DaimlerChrysler AG's global orientation gives rise to exchange rate, credit, and interest rate risks. DaimlerChrysler AG counteracts these risks by performing appropriate market analyses and using derivative financial instruments. The Passenger Car division is exposed to interest rate risks in particular. This division primarily invoices for export sales in the currency of the import country, whereas the corresponding manufacturing costs are primarily incurred in euros. The Commercial Vehicles division is also exposed to transaction risk, although this is considerably lower due to its global production network. Currency exposure is assessed in the form of centralized foreign exchange management and ongoing foreign exchange forecasts, and is hedged using the appropriate financial instruments, primarily foreign exchange transactions and currency options. The nominal value of currency hedging contracts is € 22,610 million (2005: € 24,366 million) (see Notes for further information).

Interest rate hedging contracts primarily relate to interest rate swaps. They are used to reduce

interest rate risks. The nominal value of interest rate hedging contracts is € 2,313 million (2005: € 4,577 million) (see Notes for further information).

DaimlerChrysler AG forms an integral part of the Group's overall risk management system for exchange rate, credit, and interest rate risks.

Production and business processes could also be disturbed by unforeseeable events such as natural disasters or terrorist attacks. Consumer confidence would be significantly affected and production could be interrupted by supply problems and intensified security measures at territorial borders. 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.

The result of upcoming wage-tariff negotiations with the trade unions could lead to increases in labor costs that exceed the gains in productivity, while ongoing strikes would cause interruptions in production and lower vehicle shipments. In addition, the successful implementation of targeted restructuring measures depends in part on reaching an agreement with the trade unions.

Due to DaimlerChrysler's interest in the 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 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 in the Toll Collect

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 and the non-fulfillment of certain contractually defined parameters, additional alleged offsetting claims by the Federal Republic of Germany beyond such claims already made, or a refusal to grant the final operating permit.

DaimlerChrysler AG bears a proportionate share of the risks of its subsidiaries and associated and affiliated companies in line with its share of their equity capital. For example, sales losses could occur at EADS (European Aeronautic Defence and Space Company EADS N.V.) due to reduced demand from airlines for airplanes. Additional statutory and contractual contingent liabilities (particularly relating to financing) arising from our investments in related companies could also have a negative impact. Due to the continued difficult market situation in the US, particular mention must be made of the further development of the DaimlerChrysler North America Holding Corporation, Auburn Hills, USA.

Ratings

An upgrade or downgrade of individual ratings by the rating agencies could result in rising/falling capital costs due to interest rate changes.

Legal risks

Various legal proceedings, claims and governmental investigations are pending against DaimlerChrysler AG or its subsidiaries on a wide range of topics. We believe that such proceedings in the main constitute ordinary routine litigation incidental to our business. This includes for example vehicle safety, emissions and fuel economy; financial services; dealer, supplier and other contractual relationships; intellectual property rights; product warranties; environmental matters; and shareholder matters. Some of these proceedings allege defects in various components (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 of these proceedings could require us to pay substantial compensatory and punitive damages, or undertake service actions, recall campaigns or other costly actions.

The U.S. Securities and Exchange Commission ("SEC") and the U.S. Department of Justice ("DOJ") are conducting an investigation into possible violations of law by DaimlerChrysler including the anti-bribery, record keeping and internal control provisions of the U.S. Foreign Corrupt Practices Act (FCPA). We have voluntarily shared with the DOJ and the SEC information from our own internal investigation of certain accounts, transactions and payments, primarily relating to transactions involving government entities, and have provided the agencies with information pursuant to outstanding

subpoenas and other requests. We have also had communications with the office of the public prosecutor in Stuttgart, Germany, regarding these matters.

Following is a summary of what we uncovered to date in connection with our internal investigation:

- We have determined that improper payments were made in a number of jurisdictions, primarily in Africa, Asia and Eastern Europe. These payments raise concerns under the FCPA, under German law, and under the laws of other jurisdictions.

- We have identified and self-reported 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.

- We determined that certain payable accounts related to consolidated subsidiaries were not eliminated during consolidation.

- We have taken action designed to address and resolve the issues identified in the course of our investigation to safeguard against the recurrence of improper conduct. This includes establishing a company-wide compliance organization and evaluating and revising our governance policies and our internal control procedures.

We are working towards completing our internal investigation into possible violations of law. Some investigative and remediation work, however, is still ongoing and further issues may arise as we complete our investigation. The DOJ or the SEC 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.

Litigation is subject to many uncertainties and DaimlerChrysler cannot predict the outcome of individual matters with assurance. The relevant companies in the Group, e.g. DaimlerChrysler AG,

establish an accrual in connection with pending or threatened litigation if a loss is probable and can be reasonably estimated. Since these accruals, which are reflected in the Group's Consolidated Financial Statements, represent estimates, it is reasonably possible that the resolution of some of these matters could require us to make payments in excess of the amounts accrued in an amount or range of amounts that could not be reasonably estimated at December 31, 2006. It is also reasonably possible that the resolution of some of the matters for which accruals could not be made, including the arbitration proceeding and investigations mentioned above, may require the Group to make payments in an amount or range of amounts that could not be reasonably estimated at December 31, 2006. 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 and cash flow.

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 DaimlerChrysler for the years 2007 through 2009. This planning is based on premises regarding the economic situation derived from assessments made by renowned economic institutes, and on the targets set by our divisions. The forecasts for future business developments reflect the opportunities and risks offered by the anticipated market conditions and the competitive situation during the planning period.

Our planning for the coming years assumes that the value of the euro will rise against the US dollar and the British pound compared to the average rates for 2006, whereas it will depreciate slightly against the Japanese yen.

The world economy

In 2007, the world economy is not expected to be able to repeat the above-average growth rate recorded in the past year.

The world economy is expected to grow by just over 3%, which is a somewhat lower rate than in 2006, but still a solid rate of expansion. The greatest risks are to be seen in repeated increases in oil and raw-material prices, a bigger-than-expected weakening of economic growth in the United States, a reduction in the United States' high current account deficit and the consequential depreciation of the US dollar.

The anticipated economic slowdown will be primarily triggered by weaker development in the United States, where domestic demand will be dampened by higher interest rates and falling real estate prices. After three years of strong growth, the US economy is expected to expand at a rate of distinctly below 3 %, which is significantly lower than its long-term.

The economies of Western Europe and Japan will also fail to match the solid growth rates that they have recently regained.

In Western Europe, the recent positive revival of domestic demand will probably weaken slightly in 2007, since the two major economies of Germany and Italy will expand more slowly due to their current fiscal policies.

This applies in particular to the German economy, which is expected to grow more slowly than in 2006 (2.7 %) due to the increase in value added tax.

As a result of the global growth slowdown, the emerging markets will also lose a little of their dynamism, but will still record growth rates more than twice as high as in the industrialized countries. The economic region of Northeast Asia will grow the fastest, still dominated by China, but the Indian subcontinent and Eastern Europe should also show strong growth rates.

Automotive markets

Global demand for automobiles will continue to grow in 2007, but generally at a slower pace than in the prior year. In line with the generally weaker development of the world economy, we expect the US market for passenger cars and commercial vehicles to slightly decrease from 17.1 to 17.0 million vehicles. For the car market of Western Europe, the best that can be hoped for is sales of around 14.6 million units, similar to the level of the year 2006. The Japanese market for passenger cars should grow slightly, however. Once again, the major emerging markets are likely to drive global demand for automobiles, with substantial growth expected in 2007.

In the world's markets for commercial vehicles, a cyclical decrease in sales is expected for 2007, accentuated by purchases brought forward to the year 2006 due to upcoming stricter emission regulations in the United States and Japan. There

are increasing indications that the drop in demand in the North American market – particularly for heavy Class 8 trucks – will be particularly sharp compared with the other regions, resulting in unit sales up to 40 % lower than in 2006. We also anticipate significantly lower sales of commercial vehicles in Japan in 2007. On the other hand, in Western Europe, we expect only a slight decrease in demand. In the year 2008, global demand for commercial vehicles is expected to return to normal levels.

Growth in global demand for passenger cars and commercial vehicles in the coming years will continue to be primarily driven by the emerging markets of Asia and South America, and increasingly also Central and Eastern Europe, due to these regions' dynamic growth in purchasing power, improved infrastructures and the general rise in the need for mobility.

The economic conditions also affect the earnings and financial performance of DaimlerChrysler AG. Nevertheless, our expectations for 2007 and 2008 are that we will continue to improve our sales, revenue and earnings levels from the figures recorded in the year under review. The announced headcount reduction measures will initially have a negative impact on earnings. In 2007, we are forecasting a positive development in income from investments in affiliated and related companies.

Mercedes-Benz Passenger Cars

We expect to see an improvement in sales and revenues next year, with significant growth from 2008 onwards as the full impact of the new C-Class, which will be launched in 2007, starts to be felt. The development of new markets, such as China, will also make a contribution to this growth. The company also plans to merge smart gmbh with DaimlerChrysler AG and to manage the smart brand within the Passenger Cars division. The positive

effects of the CORE efficiency improvements program will also serve to improve earnings power.

Mercedes-Benz Commercial Vehicles

Developments within the Commercial Vehicles division are expected to be mixed. Following the extremely high level of demand enjoyed by Truck Group in previous years and sales brought forward to 2006, the Western European market will see a cyclical deterioration as forecast. This will be reflected in a fall in the corresponding sales and revenue figures for 2007. From 2008 onwards, revenue is expected to improve despite a slight reduction in sales. This development can be attributed to structural effects, as growth in the sales of high-revenue products will more than offset the fall in the sales figures for less expensive products. Van is expected to record sales and revenue growth in both 2007 and 2008. The full impact of the successor model to the Sprinter, which was launched in 2006 to a positive response from the market, will be felt in the coming years.

Negative effects due to high raw materials prices will continue to be countered by way of further cost savings and efficiency improvement measures, such as Global Excellence.

Investments in property, plant and equipment

DaimlerChrysler AG expects to invest over € 6 billion in property, plant, and equipment for the years 2007 through 2009 planning period. This expenditure will focus on preparations for the launch of the successor to the E-Class in the Passenger Cars division in 2009. In addition, investments will be made as part of the company's aggregate strategy in the coming years, particularly in the area of diesel engines. In the Commercial Vehicles division, the new emission regulations mean that major investments are also planned for the new generation of heavy truck engines.

Research and development

Over the next three years, we expect to invest over € 10 billion in research and development, thus exceeding the high level recorded in the past year.

The focus of research and development expenditure at DaimlerChrysler AG is on the new models in the Passenger Car and Commercial Vehicles divisions. Important projects in the passenger car area are the successor models for the C-Class and E-Class. Key projects in the commercial vehicles area include new engines which conform to the future emission regulations in the US, Western Europe and Japan, as well as a new platform for the successor models for the Actros, Atego and Axor.

Significant investment is also planned in the area of new technologies aimed at improving the safety, environmental compatibility and fuel economy of road vehicles. The Mercedes-Benz Technology Center at our Sindelfingen site will be expanded for this purpose. This clearly demonstrates DaimlerChrysler's commitment to ensuring that Germany has a sustainable future as a location for automotive and technological development.

Forward-looking statements in the Management Report

This Management Report contains forward-looking statements that reflect our current views about future events. The words "anticipate," "assume," "believe," "estimate," "expect," "intend," "may," "plan," "project", "should" and similar expressions are used to identify forward looking statements. These statements are subject to many risks and uncertainties, including an economic downturn or slow economic growth, especially in Europe or North America; changes in currency exchange rates and interest rates; introduction of competing products and possible lack of acceptance of our products or services; competitive pressures which may limit our ability to reduce sales incentives and raise prices; price increases in fuel, raw materials, and precious metals; disruption of production or delivery of new vehicles due to shortages of materials, labor strikes, or supplier insolvencies; a decline in resale prices of used vehicles; the ability of the Chrysler Group to reduce costs, especially in light of restructuring activities underway at some of our major competitors in the NAFTA region, and to respond to shifts in market demand towards smaller, more fuel efficient vehicles; effective implementation of cost reduction and efficiency optimization programs, including our new management model; the business outlook of our equity investee EADS, including the financial impact of delays in and potentially lower volume of future aircraft deliveries; changes in laws, regulations and government policies, particularly those relating to vehicle emissions, fuel economy and safety, the resolution of pending governmental investigations and the outcome of pending or threatened future legal proceedings; and other risks and uncertainties, some of which we describe under the heading "Risk Report" in this Management Report. If any of these risks and uncertainties materialize, or if the assumptions underlying any of our forward looking statements prove incorrect, then our actual results may be materially different from those we express or imply by such statements. We do not intend or assume any obligation to update these forward looking statements. Any forward looking statement speaks only as of the date on which it is made.

The Annual Financial Statements and the Management Report of DaimlerChrysler AG and the Consolidated Statements of DaimlerChrysler AG for the year 2006 will be published in the general bulletin and deposited at the Commercial Register of the district court Stuttgart.

These documents are the English translation of the German “Jahresabschluss” and “Lagebericht”, which are the sole authoritative version.