

DAIMLERCHRYSLER

Consolidated Financial Statements
as of December 31, 2004
in accordance with
United States Generally Accepted
Accounting Principles (U.S. GAAP)

(supplemented with Management Report and
additional disclosures to be exempt from preparing
Consolidated Financial Statements according German GAAP
as set forth in § 292a German Commercial Code “HGB”)

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Preliminary Note

The accompanying consolidated financial statements (consolidated balance sheets as of December 31, 2004 and 2003, consolidated statements of income (loss), cash flows and changes in stockholders' equity for each of the financial years 2004, 2003 and 2002) were prepared in accordance with US generally accepted accounting principles (US GAAP).

In order to comply with Section 292a of the HGB (German Commercial Code), the consolidated financial statements were supplemented with a consolidated business review report and additional explanations. Therefore, the consolidated financial statements, which have to be filed with the Commercial Register and published in the Federal Gazette, comply with the Fourth and Seventh Directive of the European Community. For the interpretation of these directives we relied on the statement by the German Accounting Standards Committee.

The consolidated financial statements and the consolidated business review report as of December 31, 2004, prepared in accordance with Section 292a of the HGB (German Commercial Code) and filed with the Commercial Register in Stuttgart under the number HRB 19 360, will be provided to shareholders on request.

Statement by the Board of Management

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

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

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

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

/s/ Jürgen E. Schrempp

/s/ Bodo Uebber

Independent Auditors' Report in accordance with German generally accepted auditing standards

We have audited the consolidated financial statements prepared by DaimlerChrysler AG, consisting of the balance sheet, statement of income (loss), statement of changes in stockholders' equity, statement of cash flows and the notes thereto as of and for the year ended December 31, 2004. The preparation and content of the consolidated financial statements according to U.S. generally accepted accounting principles are the responsibility of the management of DaimlerChrysler AG. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the German auditing regulations and German generally accepted auditing standards promulgated by the Institut der Wirtschaftsprüfer (IDW). In addition, our audits comply with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present a true and fair view of the consolidated financial position, the results of operations and the cash flows of DaimlerChrysler AG in accordance with generally accepted accounting principles in the United States of America.

Our audits, which also included an audit of the consolidated business review report for the year ended December 31, 2004 as prepared by management, have not led to any objections. In our opinion, the consolidated business review report presents fairly the business situation and risks relating to the future development of the Group. In addition, we confirm that the consolidated financial statements and the consolidated business review report as of and for the year ended December 31, 2004 satisfy the requirements for an exemption of DaimlerChrysler AG to prepare consolidated financial statements and a consolidated business review report according to German generally accepted accounting principles.

Stuttgart, Germany

February 21, 2005

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

/s/ Wiedmann
Wirtschaftsprüfer

/s/ Krauß
Wirtschaftsprüfer

Report of Independent Registered Public Accounting Firm

The Supervisory Board DaimlerChrysler AG:

We have audited the accompanying consolidated balance sheets of DaimlerChrysler AG and subsidiaries (“DaimlerChrysler”) as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2004. These consolidated financial statements are the responsibility of DaimlerChrysler’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of DaimlerChrysler as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with generally accepted accounting principles in the United States of America.

As described in Note 1 to the consolidated financial statements, DaimlerChrysler changed its method of accounting for stock-based compensation in 2003. As described in Notes 3 and 11 to the consolidated financial statements, DaimlerChrysler also adopted the required portions of FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities - an interpretation of ARB No. 51", in 2003. As described in Note 11 to the consolidated financial statements, DaimlerChrysler adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," in 2002.

Stuttgart, Germany
February 21, 2005

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

/s/ Wiedmann
Wirtschaftsprüfer

/s/ Krauß
Wirtschaftsprüfer

Discussion of Major Differences in Accounting Policies Between These Consolidated Financial Statements and German law

Fundamental differences. German law (“HGB”) and U.S. accounting principles (“U.S. GAAP”) are based on fundamentally different perspectives. While accounting under HGB emphasizes the principle of caution and creditor protection, the availability of relevant information for shareholder decision-making is the chief objective of U.S. GAAP. The comparability of the financial statements - both from year to year and from company to company - and the determination of performance on an accrual basis therefore rank higher under U.S. GAAP than under HGB.

Scope of consolidation. Contrary to HGB, the scope of consolidation under U.S. GAAP also includes entities in which a controlling financial interest is based on variable interests and not on voting interests.

Accruals. In U.S. accounting practice, accruals are principally not presented separately, but are included within liabilities. In order to comply with the stipulations of the EU guidelines, we still list accruals in the balance sheet notwithstanding the American treatment. The possibilities to form accruals are significantly more restrictive under U.S. GAAP than under HGB. Accruals are recognized under U.S. GAAP when an obligation exists towards a third party that is probable to be satisfied and when the anticipated amount of the necessary accrual can be reliably estimated. Accruals for expenses are not allowed under U.S. GAAP.

According to U.S. GAAP, an accrual is principally recognized at the most likely amount to settle the obligation. If there is a range of amounts with each having the same expected likelihood, the lowest amount is recognized. U.S. GAAP requires for certain obligations to recognize a liability at fair value which is primarily determined by market information. If reliable market information is not readily available, DaimlerChrysler uses present value of expected future cash flows.

Unlike HGB, pension provisions are determined in consideration of anticipated wage and salary increases. Rather than using the 6% discount rate employed in German tax law, the relevant interest rates for the amount recognized under U.S. GAAP are determined based on past and anticipated future results.

Goodwill and intangible assets with an indefinite useful life. According to U.S. GAAP, goodwill and intangible assets have to be capitalized. Under U.S. GAAP, Goodwill and intangible assets with an indefinite useful life are not amortized but instead tested for impairment at least annually.

The use of the purchase method of accounting is required for all business combinations. Offsetting goodwill against stockholders’ equity, which is an option under HGB, is not allowed.

Impairment of long-lived assets. According to U.S. GAAP, long-lived assets are impaired when the sum of undiscounted cash flows derived from the use of these assets is lower than the carrying amount. This test for recoverability is required, if events or changes in circumstances indicate that the carrying amount may not be recoverable. HGB does not require the test for recoverability. Instead the carrying amount should be directly compared with the fair value, if events or changes in circumstances indicate that a long-lived asset is impaired.

Discontinued operations. U.S. GAAP requires separate presentation of discontinued operations in the statement of income (loss). According to HGB netting is not allowed and fixed presentation schemes are provided.

Treasury stock. According to U.S. GAAP, treasury stock is deducted from stockholders' equity. On the contrary, HGB requires classification as securities under current assets measured at the lower of cost or fair value. For the same amount a separate reserve should be reclassified from retained earnings and reported as a component of stockholders' equity. Shares determined for redemption should be deducted from stockholders' equity. In these cases capital stock is reduced by the proportionate share and the difference between proportionate share of capital stock and cost should be netted with retained earnings. Any excess cost should be expensed.

Unrealized gains and losses. According to HGB, the "impairity principle" means that only unrealized losses must be included in the balance sheet, while under U.S. GAAP certain unrealized gains also have to be recorded.

This difference specifically applies to the translation of foreign currency amounts and the measurement of derivative financial instruments.

According to HGB, securities are to be measured at the lower of cost or market. In contrast, U.S. GAAP requires that securities are reported at higher market prices as well; the changes in the market value are either to be reflected directly in the statement of income (loss) or in stockholders' equity. For a discussion of the respective amounts see Note 20.

Leasing. According to U.S. GAAP, the capitalization of leased equipment is not based on legal ownership but on the allocation of economic risks and rewards incident to ownership. In a capital lease (sales financing) the risks and opportunities arising from the ownership of leased equipment are primarily realized by the lessee, although the lessee does not acquire legal ownership. U.S. GAAP treats capital leases like a purchase. Consequently, the lessee capitalizes the leased equipment and records a liability. The lessor, in turn, records a receivable from sales financing and revenue from the sale of the leased equipment.

Deferred Taxes. In accordance with U.S. GAAP, assets or liabilities for deferred taxes are recorded for temporary differences between tax valuations and valuations in the consolidated balance sheet. Tax losses carried forward represent an economic benefit because of reduced tax payments in future years. At the time the loss arises, the future or deferred tax advantage is capitalized in relation to its realizability. For a discussion of the relevant amounts see Note 9.

Contingent liabilities. Disclosure requirements for contingent liabilities and commercial commitments differ between US-GAAP and HGB. The following table presents US-GAAP amounts according to the disclosure requirements in §§ 251 and 267 HGB (in millions of euro):

	2004	2003
Guarantees	2,760	2,883
Commitments on bills of exchange	8	61
Contractual guarantees	105	160
Pledges of indebtedness of others	499	738
Total	3,372	3,842

Management Report

of

DaimlerChrysler Group

for fiscal 2004

Management Report

Overview

- The development of global automobile markets was generally positive in 2004. The commercial vehicles sector benefited in particular from lively investment activity in important markets. However, there was only slight growth in the major passenger-car markets of North America, Western Europe and Japan (see page 14).
- DaimlerChrysler sold a total of 4.7 million vehicles in 2004, surpassing the level of the prior year by 8% (see page 14).
- The DaimlerChrysler Group's revenues increased by 4% to €142.1 billion in 2004. Adjusted for currency-translation effects and changes in the consolidated Group, revenues were actually 7% higher than in the prior year (see page 15).
- Group operating profit of €5.8 billion was significantly higher than the target of €5.1 billion (operating profit of the previous year excluding restructuring expenditures at Chrysler Group and the gain realized on the sale of MTU Aero Engines). This increase was primarily due to the significant improvement in earnings posted by the Chrysler Group and the Commercial Vehicles Division. On the other hand, the contribution to Group operating profit from the Mercedes Car Group decreased substantially, while the Services division delivered a contribution at the same level as in the previous year (see page 16).
- Net income rose from €0.4 billion to €2.5 billion. Earnings per share of €2.43 were also significantly higher than in the prior year (see page 21).
- The Board of Management and the Supervisory Board will propose to the shareholders at the Annual Meeting that a dividend of €1.50 per share should be distributed (2003: €1.50). This proposal reflects both the business developments of the year 2004 and the prospects for the coming years (see page 22).
- Cash provided by operating activities of €11.1 billion was below the prior-year level (€13.8 billion). This development was caused by, among other factors, increased cash tied up due to the higher production and sales volumes. There was a negative effect from the weaker US dollar, causing the cash inflow from the American companies translated into euros to fall compared with the prior year (see page 24).
- The credit rating agencies Standard & Poor's, Moody's and Fitch lifted the outlook for their respective DaimlerChrysler credit ratings, in particular as a reflection of more positive developments in the operative business (see page 26).
- Total assets increased compared with December 31, 2003 by €4.4 billion to €182.7 billion. This increase was mainly a result of the full consolidation of Mitsubishi Fuso Truck and Bus Corporation (MFTBC). An additional factor was the positive development of the financial services business (see page 27).
- Assuming a moderate increase in the worldwide demand for automobiles, we expect total unit sales by the DaimlerChrysler Group to increase again in 2005 and the following years (see page 39).
- After a weaker first and second quarter, for the full-year 2005 we expect a slightly higher operating profit than in the previous year. Significant improvements in earnings should be possible from the year 2006 onwards, when the Mercedes Car Group's model offensive will take full effect and additional new models will be available from the Chrysler Group. Challenges may arise, however, from the weak US dollar and high raw-material prices (see page 39).

Note:

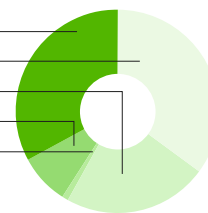
The US dollar values in the tables are not subject to mandatory disclosure and have not been audited. Currency translation was carried out at the rate of €1 = US \$1.3538 (noon buying rate of the Federal Reserve Bank of New York on December 31, 2004).

Business and General Conditions

Consolidated Revenues by Division

In %

Mercedes Car Group	33%
Chrysler Group	35%
Commercial Vehicles	23%
Services	8%
Other Activities	1%



The company

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

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

Of DaimlerChrysler's total revenues of €142.1 billion in 2004, 33% was generated by the Mercedes Car Group, 35% by the Chrysler Group, 23% by Commercial Vehicles, 8% by the Services division and 1% by the Other Activities segment.

The products supplied by the **Mercedes Car Group** range from the high-quality small cars of the smart brand to the premium vehicles of the brands Mercedes-Benz, Mercedes-Benz AMG and Mercedes-Benz McLaren, and the Maybach luxury sedans. Most of these vehicles are produced in Germany, but the division also has production facilities in the United States, France, South Africa, Brazil, India, Malaysia, Thailand, Vietnam and in the future also China. Its most important markets in 2004 were Germany with 32% of unit sales, the other markets of Western Europe (35%), the United States (18%) and Japan (3%).

The **Chrysler Group** develops, produces and distributes passenger cars, minivans, sport-utility vehicles and light trucks of the brands Chrysler, Jeep® and Dodge. In addition, the Chrysler Group manufactures and markets spare parts and accessories of the MOPAR brand. Its production facilities are in the United States, Canada and Mexico. In 2004, 82% of its vehicles were sold in the United States, 8% in Canada and 4% in Mexico. 6% of the vehicles were exported to markets outside the NAFTA region.

Within a worldwide network, DaimlerChrysler's **Commercial Vehicles Division** develops and produces trucks, vans and buses under the brands Mercedes-Benz, Freightliner, Sterling, Western Star, Setra, Thomas Built Buses, American LaFrance, Orion and Mitsubishi Fuso. The product range covers small vans, medium and heavy-duty trucks for local and long-distance deliveries and for construction sites, as well as tourist, urban and overland buses. It also supplies special-purpose vehicles, for fire services for example, as well as the Unimog multi-function vehicle. DaimlerChrysler offers its customers worldwide the right commercial vehicle for every requirement. The division's most important sales markets are North America with 25% of unit sales in 2004, Germany with 16%, the other markets of Western Europe with 23%, Asia with 18%, and South America with 8%.

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

Mercedes Car Group	Chrysler Group	Commercial Vehicles	Services	Other Activities
Mercedes-Benz Passenger Cars	Chrysler	Trucks	Financial Services	Off-Highway
smart	Jeep [®]	Vans	Non-Automotive Business	EADS (33%)
Maybach	Dodge	Buses & Coaches		

The **Other Activities** segment includes our 33% shareholding in the European Aeronautic Defence and Space Company (EADS) as well as the DaimlerChrysler Off-Highway business unit. DaimlerChrysler Off-Highway produces and markets ship and train engines as well as local electricity generators.

Executive Automotive Committee. The Executive Automotive Committee (EAC) serves as a platform for the discussion and implementation of cross-divisional issues, and concentrates on the following areas:

- realization of cross-divisional synergy potential by standardizing processes and systems and developing modular concepts for vehicle components,
- coordination of product concepts and production capacities affecting more than one brand,
- Group-wide planning for the application of new technologies,
- coordination of worldwide sales and marketing activities, and
- protection and further strengthening the identity of all of the Group's passenger car brands.

Activities in China. In view of the growing importance of the Chinese market, DaimlerChrysler's business organization was further developed in the year 2004. In October 2004, we concentrated the responsibility for the China activities of all divisions in the Corporate Development department. In this way, we ensure that the Group has a uniform approach to the market and can better coordinate the divisions' efforts.

Within the context of our various activities in China, we concluded some pioneering agreements in 2004:

On November 26, 2004, a joint-venture agreement was signed between DaimlerChrysler AG and Beijing Automotive Industry Holding Company Ltd. (BAIC) covering the production of C-Class and E-Class sedans by Mercedes-Benz in China. In the medium term, this joint venture for passenger cars with our long-standing partner BAIC in the form of the newly established Beijing Benz-DaimlerChrysler Automotive Co. Ltd. will produce up to 25,000 C-Class and E-Class sedans per annum at a new plant in Beijing. The first of these vehicles are scheduled to come off the assembly line in the fall of 2005. Beijing Benz-DaimlerChrysler Automotive Co. Ltd. will also produce vehicles from the brand portfolio of the Chrysler Group as well as models from Mitsubishi Motors.

In addition, DaimlerChrysler, the Fujian Motor Industry Group and the China Motor Corporation have signed an agreement for the "DaimlerChrysler Vans (China) Ltd." joint venture, which will produce the new Mercedes-Benz Sprinter and the Viano/Vito van family in a new plant in Fuzhou in the province of Fujian. This plant is designed for an annual capacity of around 40,000 units and will start production in the year 2006.

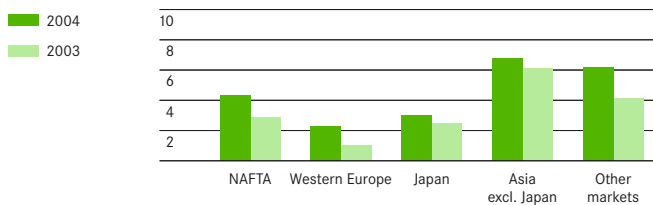
To secure the future of our business activities in the field of trucks and buses, we have initiated a framework agreement covering cooperation between DaimlerChrysler and the company Beiqi Foton Motor Corporation Ltd. It is planned to produce medium and heavy-duty trucks, engines and components at Beiqi Foton's plant in Beijing. BAIC is the biggest shareholder in this company.

We are training new employees in preparation for this expanded production capacity to ensure that the new plants also achieve the Group's high quality level. In addition, the required local supplier industry is also being expanded continuously.

DaimlerChrysler Services will also be active in China, and will support the sales of the Group's brands in China with its own financial services company. A provisional permit to establish these business activities was granted in November 2004.

Economic Growth

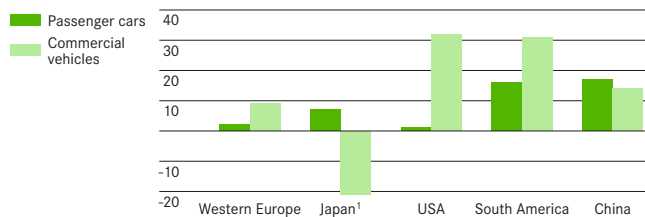
Gross national product, growth rate in %



Source: Global Insight

Global Automotive Markets

Unit sales growth rate 2004/2003



Source: German Association of the Automotive Industry (VDA)

¹ Rate of change for passenger cars distorted due to new market segmentation

Portfolio changes. In March 2004, DaimlerChrysler increased its shareholding in Mitsubishi Fuso Truck and Bus Corporation (MFTBC) from 43% to 65%. MFTBC is a leading supplier of commercial vehicles in Japan and has a strong market position in Southeast Asia.

On April 22, 2004, the Board of Management and the Supervisory Board of DaimlerChrysler decided not to participate in a capital increase planned by Mitsubishi Motors Corporation (MMC), and thus to cease providing MMC with financial support.

As DaimlerChrysler did not participate in the capital increase, at the end of December 2004 our interest in MMC had decreased to 19.7%. This shareholding may decrease further following the conversion into voting shares of preferred stock issued by MMC. As a result of its reduced shareholding, DaimlerChrysler can no longer exercise a significant influence over MMC's business and financial policies. Therefore, since June 30, 2004, our shareholding in MMC is no longer accounted for in the consolidated financial statements using the equity method, but as an investment shown at fair value. DaimlerChrysler and MMC have agreed to continue with shared projects which have been contractually agreed upon. These include:

- the development and production of a four-cylinder in-line engine, the so-called "World Engine Project", by DaimlerChrysler, MMC and Hyundai Motor Company (HMC),
- the production of gasoline engines for smart and Mitsubishi in K lleda, Germany,
- the production of the smart forfour and the Mitsubishi Colt in Born, the Netherlands, and
- the development of a platform for medium-sized passenger cars for MMC and the Chrysler Group.

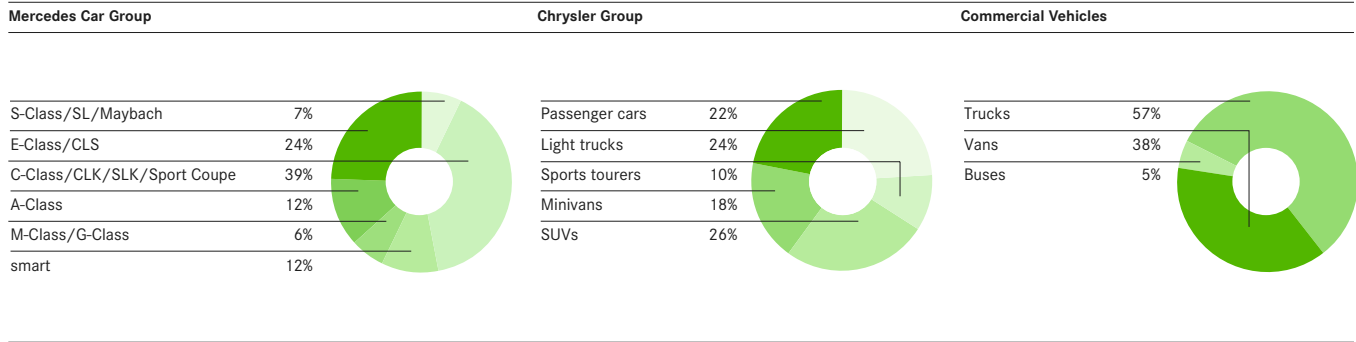
On August 16, 2004, DaimlerChrysler sold its 10.5% shareholding in HMC for €737 million. Due to our majority stake in MFTBC and the progress made in China, cooperation with Hyundai in the field of commercial vehicles had lost strategic importance for DaimlerChrysler. The World Engine Project by DaimlerChrysler, HMC and MMC, and various other shared projects will be continued, however.

The economic situation

World economy. 2004 was one of the years with the strongest growth for the world economy since 1980, despite the significant increase in raw-material prices. This was mainly caused by the dynamic economic developments in the United States, China and Japan. However, the economies in the emerging markets of Asia, Eastern Europe and South America also revived significantly. On the other hand, rates of expansion in large parts of Western Europe were disappointing, especially in Germany, where domestic demand did not yield any perceptible impetus. However, the peak of the worldwide upswing was passed by the middle of the year. Since then, most indicators have pointed toward lower growth rates for the world economy. The rather weaker expansion of both the United States and China have contributed to this development. High raw-material prices have also had a dampening effect on growth via the cost burden for companies and the reduction in purchasing power for private households. However, weighted for each country's share of the Group's revenues, the economic expansion of DaimlerChrysler's sales markets of 3.7% was well above the prior year's growth of 2.3%, and also significantly higher than the long-term trend of about 3%.

During the course of the year, the euro appreciated in value against the US dollar by about 7%; compared with British pound and the Japanese yen there were only small movements.

Percentage of Sales Structure



Automobile markets. In general, global automobile markets developed positively in 2004. The commercial vehicles sector in particular benefited from lively investment activity in important markets. But the major passenger car markets of North America, Western Europe and Japan recorded little growth. High raw-material prices, the related loss in purchasing power and uncertainty among consumers all acted to reduce demand.

The US market for passenger cars and light trucks, in which competition was extremely tough, expanded slightly to 16.9 million vehicles (2003: 16.6 million). The markets of Western Europe also grew slightly to 14.5 million passenger cars (2003: 14.2 million). However, there was still no upturn in the major markets of Germany and France, and the Japanese market has not yet benefited from the country's strong economic growth. The process of recovery continued in the emerging markets of South America and demand also increased overall in the countries of Central and Eastern Europe. Although the demand boom in China weakened perceptibly during the second half of the year, the emerging markets of Asia once again maintained their position as the engine of global automotive expansion.

With the exception of Japan, the world's major international markets for commercial vehicles showed strong growth. In North America, the exceptionally positive market development for medium and heavy-duty trucks continued, so that total unit sales surpassed the prior-year level by 31%. New registrations of commercial vehicles also increased significantly in Western Europe. This was primarily due to replacement purchases and the increased need for transport as a result of growing business relations with the countries of Eastern Europe. On the other hand, the Japanese market declined significantly, reflecting the fact that a large number of purchases had been brought forward to 2003 because of new emission regulations.

Business developments

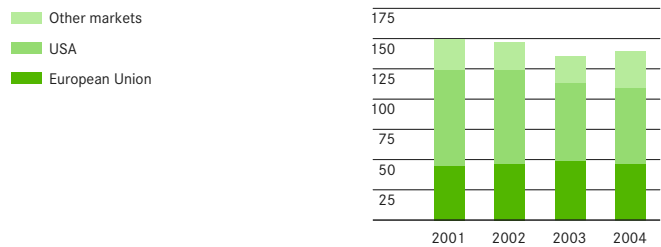
Unit sales. DaimlerChrysler sold a total of 4.7 million vehicles in 2004, surpassing the prior-year result by 8%.

Unit sales by the **Mercedes Car Group** of 1.2 million vehicles were slightly higher than the figure for the prior year. Due in particular to the fact that several new models were not fully available until the end of the year, worldwide unit sales of the Mercedes-Benz brand decreased to 1,074,600 vehicles (2003: 1,092,200). However, with the new vehicles from its product and marketing offensive, the Mercedes-Benz brand gained a much more attractive model range and defended its position as the world's most successful premium brand. The smart brand increased its unit sales by 22% to 152,100 vehicles in the year 2004. This was due to the launch of the smart forfour, the brand's first car with four seats.

In the context of its product offensive, the **Chrysler Group** launched nine new models last year. Due to the market success of the new products, unit sales increased by 5% to 2.8 million vehicles of the Chrysler, Jeep® and Dodge brands. Due to the success of several new products, the Chrysler Group increased its market share in the US to 12.8 % (2003: 12.5%). The Chrysler Group reinforced its market position, particularly in the passenger car, minivan and sports-utility vehicle segments. In the US, the Chrysler 300/300C set segment records with 107,200 vehicles sold in 2004 since the launch in April. The Dodge Magnum sold 39,200 in just eight months of sales, and the new Chrysler and Dodge minivans sold 386,700 vehicles (+3%), due to the market success of the innovative Stow'n Go™ seating and storage system.

Consolidated Revenues

In billions of €



The **Commercial Vehicles Division** increased its unit sales by 42% to 712,200 trucks, vans and buses. Excluding Mitsubishi Fuso Truck and Bus Corporation (MFTBC), which has been fully consolidated in the division since March 31, 2004 with a one-month time lag, and which is included in the division's unit sales with 118,100 vehicles, there would have been a 19% increase to a new record level. This was assisted by favorable market conditions and above all an attractive product range. Growth was particularly strong in the business units Trucks Europe/Latin America (+24% to 137,400 vehicles) and Trucks NAFTA (+28% to 152,400 vehicles). However, the Vans business unit (+13% to 260,700 vehicles) and Buses (+16% to 32,800 vehicles) also increased their unit sales by considerable margins.

Revenues. DaimlerChrysler's total revenues increased by 4% to €142.1 billion in 2004. Adjusted for currency-translation effects and changes in the consolidated Group, revenues were actually 7% higher than in the prior year. The revenues of €49.6 billion generated by the Mercedes Car Group did not quite equal the level of the prior year, primarily due to a lifecycle-related less favorable model mix. The Chrysler Group's revenues of €49.5 billion were at the same level as in the prior year; adjusted for currency-translation effects, the increase actually amounted to 10%. The Commercial Vehicles Division increased its revenues by 30% to €34.8 billion, assisted by the full consolidation of MFTBC since March 31, 2004, but adjusted for this effect there was still an increase of 16%. Due to the weaker US dollar, the revenues generated by the Services division were slightly lower than in the prior year at €13.9 billion. In regional terms, DaimlerChrysler's revenues in the NAFTA region were similar to the prior-year level at €73.3 billion, while in the European Union revenues were 2% lower than in 2003 at €47.4 billion. In the rest of the world we expanded our business volume by 31% to €21.4 billion.

Revenues

In millions	2004	2004	2003
	US \$	€	€
DaimlerChrysler Group	192,319	142,059	136,437
Mercedes Car Group	67,189	49,630	51,446
Chrysler Group	67,010	49,498	49,321
Commercial Vehicles	47,064	34,764	26,806
Services	18,871	13,939	14,037
Other Activities ¹	2,978	2,200	4,084

¹ 2003 figures include discontinued operations (MTU Aero Engines).

Profitability

Operating profit

Operating Profit (Loss) by Segments

In millions	2004	2004	2003
	US \$	€	€
Mercedes Car Group	2,255	1,666	3,126
Chrysler Group	1,932	1,427	(506)
Commercial Vehicles	1,803	1,332	811
Services	1,692	1,250	1,240
Other Activities ¹	617	456	1,329
Eliminations	(509)	(377)	(314)
DaimlerChrysler Group	7,790	5,754	5,686

¹ 2003 figures include discontinued operations (MTU Aero Engines).

DaimlerChrysler recorded an operating profit of €5,754 million in 2004, which was slightly higher than the result of the prior year (€5,686 million). We thus achieved our target of significantly improving on the prior year's operating profit, adjusted to exclude the restructuring expenses at the Chrysler Group (€469 million) and the gain realized on the disposal of MTU Aero Engines (€1,031 million).

Chrysler Group and the Commercial Vehicles Division developed positively, achieving substantial increases in their operating profits compared with the prior year. Commercial Vehicles' earnings improved significantly despite the charge of €475 million for quality and recall actions at Mitsubishi Fuso Truck and Bus Corporation (MFTBC). However, the Mercedes Car Group recorded lower earnings than in 2003. This was due partially to a less favorable model mix, but above all to currency effects and expenses incurred for the launch of new products and to safeguard the products' high quality standards. The Services division further increased its operating profit from the financial services business. This increase more than compensated for the losses from the involvement in Toll Collect, which resulted from the reassessment of the system's total cost and additional expenses to secure

the start of the system. In the Other Activities segment, the agreement reached with Bombardier in September 2004 to settle all disputes connected with the sale of DaimlerChrysler Rail Systems GmbH (Adtranz) led to a gain of €120 million. The prior year's result was positively affected by income of €1,031 million from the sale of the MTU Aero Engines business unit. If these exceptional items are excluded, Other Activities actually improved its operating profit compared with 2003, primarily due to the increased contribution from EADS.

The **Mercedes Car Group's** operating profit of €1,666 million in 2004 was significantly lower than in 2003 (€3,126 million).

Charges on earnings resulted at the Mercedes-Benz Passenger Cars business unit from a slight decrease in unit sales of 2% to a total of 1,074,600 vehicles, an effect that was amplified by shifts in the model mix. Operating profit was also reduced by currency effects due in particular to the appreciation of the euro against the US dollar and expenses for the ongoing comprehensive quality offensive. Additional factors were higher marketing expenses, mainly relating to the launch of the SLK, the CLS-Class and the A-Class.

The smart brand sold a total of 152,100 vehicles in 2004. The increase compared with the prior year was a result of the launch of the smart forfour in the second quarter, which more than compensated for lower sales of the smart fortwo and the smart roadster. Despite higher unit sales, smart recorded a significant operating loss that was larger than its operating loss in 2003. The reasons for this deterioration were higher marketing expenses, launching costs for the smart forfour and increased development expenses.

Operating Profit			
	2004	2004	2003
In millions	US \$	€	€
Industrial Business	5,367	3,964	4,201
Financial Services	2,423	1,790	1,485
DaimlerChrysler Group	7,790	5,754	5,686

The **Chrysler Group** posted an operating profit of €1,427 million in 2004 compared to an operating loss of €506 million in the prior year. The 2004 improvement in profitability was primarily the result of higher worldwide factory unit sales, a lower average sales incentive expense per vehicle and a shift in product mix to higher margin vehicles. Sales incentive expense and product mix were positively affected by the successful launch of nine new products in 2004. In addition, cost reductions that have been achieved from the continued implementation and sustained effects of material cost reduction and efficiency-enhancing programs also contributed to the improvement in operating profit.

Worldwide in 2004, Chrysler Group vehicle shipments totalled 2,779,900 compared with 2,637,900 vehicles in the prior year.

The 2004 operating profit included restructuring charges, incurred in connection with the 2001 turnaround plan and other workforce reduction charges totaling €283 million while the 2003 operating loss included turnaround plan charges of €469 million. The turnaround plan charges recognized in 2004 and 2003 were primarily for costs associated with the idling, closing or disposal of certain manufacturing facilities and related workforce reductions.

The **Commercial Vehicles Division** realized an operating profit of €1,332 million in 2004, thus significantly exceeding the result of the prior year (€811 million). The improved profitability was primarily due to the increase in worldwide unit sales of 42% to 712,200 units. Even without the inclusion of MFTBC, which has been fully consolidated with a one-month time lag since March 31, 2004, there would still have been a strong rise in unit sales of 19%. As well as higher unit sales due to favourable market conditions and a modern product range, the significant increase in operating profit was also caused by the continued implementation and the effects of the initiated efficiency-enhancing programs in the division's business units. The improvements in operating results more than offset charges of €475 million arising at MFTBC due to its quality-improving actions and recall campaigns, which originate from issues during the time before DaimlerChrysler's involvement in the company. The termination of the engine joint venture with Hyundai Motor contributed an additional €60 million to the division's operating profit.

In 2004, the **Services** division generated an operating profit of €1,250 million (2003: €1,240 million). Charges arising from its involvement in Toll Collect were offset by the improved earnings of its Financial Services business unit.

The operating profit of Financial Services increased by €305 million to €1,790 million, mainly as a result of lower risk costs. The overall improvement in the risk management situation in all markets and the measures taken to promote the active risk control of the portfolio contributed to reduced risk costs. In addition, stable interest rate margins were achieved worldwide despite the recent increases in interest rates, especially in the United States. On the other hand, an impairment charge of €102 million was recognized relating to the investment in debis AirFinance.

The division's involvement in Toll Collect caused charges of €472 million in the year 2004 (2003: €241 million). These charges were mainly a result of revaluing the system's total costs and extra operating expenses required to guarantee the start of the system on January 1, 2005.

The **Other Activities** segment provided an operating profit of €456 million in 2004 (2003: €1,329 million). The decrease was almost solely due to the gain on the disposal of MTU Aero Engines of €1,031 million that was realized in 2003.

The contribution to earnings from EADS rose substantially, primarily due to the high operating profit at Airbus, which was caused by higher airplane deliveries resulting from the continued revival of the air-transport industry.

The DaimlerChrysler Off-Highway business unit, which was allocated to Other Activities effective January 1, 2004, also improved its earnings compared with the prior year and thus also made a positive contribution to the segment's operating profit.

While the operating profit of the prior year still included the contribution from Mitsubishi Motors Corporation (MMC) for the entire year, the result for 2004 only includes the Group's proportionate share for the first six months. As DaimlerChrysler did not participate in a capital increase at MMC, it no longer has a significant influence on MMC's business and financial policies and therefore ceased accounting for this investment using the equity-method of accounting as of June 29, 2004. The dilution of the Group's shareholding in MMC resulted in a loss in 2004, which was more than offset by the gains recognized on the hedging of the investment in MMC that had previously been accounted for with no effect on the statement of income. In total, the proportionate share of MMC's operating loss was lower than in 2003.

In the year 2004, a settlement agreement was reached with Bombardier with respect to all disputes relating to the sale of Adtranz, which – taking into account the purchase price adjustment and including additional costs – led to a gain of €120 million. As a result of this agreement, it was possible to realize this gain on the sale of Adtranz that had previously been deferred with no effect on the income statement.

Additionally, also in 2004, an impairment was recognized on the investment of DASA AG in debis AirFinance, leading to a charge of €70 million.

Eliminations with an effect on the income statement resulted primarily from the leasing business in Germany. Any gains or losses arising from vehicle deliveries between the divisions are deemed to be unrealized from the Group perspective and have therefore been eliminated.

Consolidated Statements of Income (Loss)

	2004	2004	2003
In millions	US \$	€	€
Revenues	192,319	142,059	136,437
Cost of sales	(155,100)	(114,567)	(109,926)
Gross profit	37,219	27,492	26,511
Selling, administrative and other expenses	(24,330)	(17,972)	(17,772)
Research and development	(7,660)	(5,658)	(5,571)
Other income	1,211	895	689
Turnaround plan expenses – Chrysler Group	(196)	(145)	(469)
Income before financial income	6,244	4,612	3,388
Impairment of investment in EADS	-	-	(1,960)
Other financial expense, net	(1,458)	(1,077)	(832)
Financial expense, net	(1,458)	(1,077)	(2,792)
Income before income taxes	4,786	3,535	596
Income tax expense	(1,594)	(1,177)	(979)
Minority interests	146	108	(35)
Income (loss) from continuing operations	3,338	2,466	(418)
Income from discontinued operations, net of taxes ¹	-	-	14
Income on disposal of discontinued operations, net of taxes ²	-	-	882
Cumulative effects of changes in accounting principles: transition adjustments resulting from adoption of FIN 46R and SFAS 142, net of taxes	-	-	(30)
Net income	3,338	2,466	448

¹ DaimlerChrysler sold its 100% stake in MTU Aero Engines on December 31, 2003. Therefore the income of MTU Aero Engines is included in the "Income (loss) from discontinued operations."

² Gain on disposal of the MTU Aero Engines Group on December 31, 2003, after taxes.

Reconciliation of Group Operating Profit to Income before Financial Income

	2004	2004	2003
In millions	US \$	€	€
Operating profit	7,790	5,754	5,686
Pension and postretirement benefit expenses, other than current and prior service costs and settlement/curtailment losses	(1,144)	(845)	(870)
Operating (profit) loss from affiliated and associated companies and financial (income) loss from related operating companies	118	87	(5)
Operating profit from discontinued operations	-	-	(84)
Pre-tax gains from the sale of operating businesses and discontinued operations	-	-	(1,031)
Miscellaneous items	(520)	(384)	(308)
Income before financial income	6,244	4,612	3,388

Reconciliation of operating profit to income before financial income

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

The reconciliation item "Operating (profit) loss from affiliated and associated companies and financial (income) loss from related operating companies" includes the contributions to earnings from our operating investments which are reported as a component of financial income (expense), net, in the consolidated statements of income. These contributions are allocated to the operating profit (loss) of the respective divisions. In 2004, this resulted in a negative overall contribution to operating profit of €87 million (2003: positive contribution of €5 million). The decrease was primarily a result of the proportionate share of the loss recorded by Toll Collect, and was only partially offset by a distinct increase in the contribution from EADS compared with the prior year.

Reconciliation by Reportable Segment of Operating Profit to Income (Loss) before Financial Income

	Mercedes Car Group	Chrysler Group	Commercial Vehicles	Services	Other Activities	Total Segments	Eliminations	Daimler- Chrysler Group
In millions of €								
2004								
Operating profit (loss)	1,666	1,427	1,332	1,250	456	6,131	(377)	5,754
Pension and postretirement benefit expenses, other than current and prior service costs and settlement/curtailment losses	(34)	(697)	(55)	(5)	(54)	(845)	-	(845)
Operating (profit) loss from affiliated and associated companies and financial (income) loss from related operating companies	2	9	(9)	549	(539)	12	75	87
Operating profit from discontinued operations	-	-	-	-	-	-	-	-
Pre-tax gains from the sale of operating businesses and discontinued operations	-	-	-	-	-	-	-	-
Miscellaneous items	-	(5)	(364)	(4)	(11)	(384)	-	(384)
Income (loss) before financial income	1,634	734	904	1,790	(148)	4,914	(302)	4,612
2003								
Operating profit (loss)	3,126	(506)	811	1,240	1,329	6,000	(314)	5,686
Pension and postretirement benefit expenses, other than current and prior service costs and settlement/curtailment losses	(136)	(561)	(114)	(5)	(54)	(870)	-	(870)
Operating (profit) loss from affiliated and associated companies and financial (income) loss from related operating companies	(116)	60	(103)	325	(329)	(163)	158	(5)
Operating profit from discontinued operations	-	-	-	-	(84)	(84)	-	(84)
Pre-tax gains from the sale of operating businesses and discontinued operations	-	-	-	-	(1,031)	(1,031)	-	(1,031)
Miscellaneous items	-	(32)	(9)	(17)	(250)	(308)	-	(308)
Income (loss) before financial income	2,874	(1,039)	585	1,543	(419)	3,544	(156)	3,388

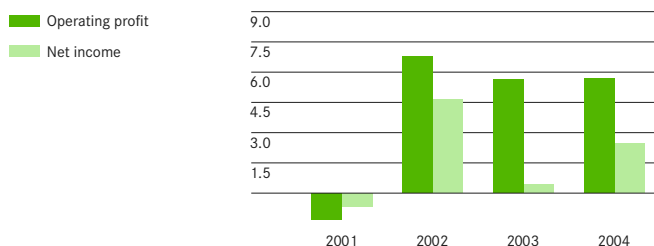
“Operating profit from discontinued operations” shows the operating profit of the MTU Aero Engines business unit, which is included in the separate line “Income from discontinued operations, net of taxes” in the 2003 consolidated statement of income.

“Pre-tax gains from the sale of operating businesses and discontinued operations” shows the pre-tax gain of €1,031 million realized on the sale of the MTU Aero Engines business unit in 2003.

For 2004, the reconciliation item “Miscellaneous items” consists almost solely of the share of minority interests in the expenses for the quality actions and recall campaigns at MFTBC. These expenses were allocated to minority interests and not to operating profit as they were caused by quality problems at MFTBC which arose before the acquisition of shares in that company by Daimler-Chrysler. In the prior year, this reconciliation item almost solely consisted of the settlement of a consolidated class-action case in connection with the merger of Daimler-Benz and Chrysler to form DaimlerChrysler AG. In this regard, a charge of US \$300 million was recognized in the consolidated statement of income in 2003.

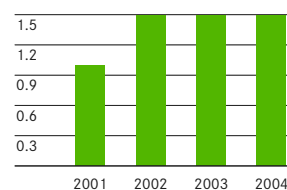
Development of Earnings

In billions of €



Dividend per Share

In €



Financial income

Financial loss for 2004 was €1,077 million, compared with a financial loss of €2,792 million in 2003.

The loss from investments decreased by €1,831 million to a loss of €606 million (2003: loss of €2,437 million), reflecting the impairment recognized on the Group's equity investment in EADS of €1,960 million in the prior year. In 2004, there was a positive effect from the significant increase in the profit contribution from EADS as well as a gain of €252 million from the disposal of the Group's 10.5% equity interest in Hyundai Motor Company (HMC). Charges arose from the proportionate share of the losses recorded by Toll Collect and MMC. The decreased contribution from MMC was caused by charges from the operating business as well as impairments recognized on capitalized deferred tax assets. Together with the effects from the dilution of the Group's interest in MMC and related currency hedging effects, financial income was debited from MMC with a negative amount of €580 million (2003: negative amount of €281 million). As the Group ceased to account for the investment in MMC using the equity method on June 29, 2004, it has had no effect on financial income since that date.

The net interest loss of €300 million was lower than the net interest loss for the prior year (€390 million).

Other financial loss amounted to €171 million (2003: Other financial income of €35 million). The decrease compared with the prior year was due in particular to the write down of loan receivables due from debis AirFinance.

Income taxes

In 2004, the Group recorded an income tax expense of €1,177 million, compared with an expense of €979 million in 2003.

Related to income before income taxes of €3,535 million (2003: €596 million), the effective tax rate was 33.3% after 164.3% in the prior year. In 2004, the effective tax rate was positively affected by the tax-free gain realized on the sale of the 10.5% investment in HMC, higher contributions to earnings from EADS which are almost tax-free, and tax-free gains included in net periodic pension costs and net postretirement benefit costs. Non-tax deductible losses arising from our investments in MMC and debis AirFinance partially offset this development.

The high effective tax rate in the prior year was primarily due to the fact that the impairment recognized on the carrying value of the Group's investment in EADS was not tax deductible. In combination with the low pre-tax earnings, this impairment caused a substantial increase in the arithmetical tax rate. In 2003, the effective tax rate was also increased by the non-tax-deductible losses of the equity-method investments.

Additional information on income taxes can be found in Note 9 to the consolidated financial statements.

Net income

The DaimlerChrysler Group recorded net income of €2,466 million in 2004, compared with €448 million in the prior year.

The increase in net income of €2,018 million resulted from earnings improvements in the operating business and also from a higher financial income, which had been significantly impacted in the prior year by, among other factors, the impairment of the book value of the Group's investment in EADS (€1,960 million).

Based on the reported net income, earnings per share amounted to €2.43 (2003: €0.44).

Value-based Performance Measures

In connection with the sale of the MTU Aero Engines business unit in 2003, the income of this business unit was presented as "Income from discontinued operations, net of taxes" in accordance with the US accounting standard SFAS 144. The after-tax profit of €882 million which resulted from the sale in 2003 is shown in the 2003 consolidated statement of income in a separate line as "Income on disposal of discontinued operations, net of taxes".

The initial application of the consolidation provisions of FIN 46R to special-purpose entities as of December 31, 2003 was reflected in DaimlerChrysler's consolidated statement of income in the prior year as a cumulative effect of a change in accounting principles in an amount of €30 million. This income effect is shown in a separate line in the consolidated statement of income as "Cumulative effects of changes in accounting principles: transition adjustments resulting from the adoption of FIN 46R and SFAS 142, net of taxes".

Dividend

The Board of Management and the Supervisory Board will recommend the distribution of €1,519 million of unappropriated profits of DaimlerChrysler AG or €1.50 per share (determined in accordance with German GAAP and after a withdrawal of €2,029 million from retained earnings) to the shareholders for approval at the annual meeting, which will be held on April 6, 2005. This proposal takes account not only of the development of operating profit and cash flow in 2004, but also of our expectations for the coming years.

Management and control tools

The performance measures used at the DaimlerChrysler Group provide for the decentralization of corporate responsibility to the divisions and business units and create enhanced transparency between the various areas of the Group.

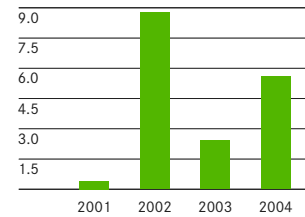
For purposes of financial controlling, DaimlerChrysler differentiates between the Group level and the level of the divisions and business units. Value added is one element of the control system on both levels and is determined as the difference between the operating result and the weighted average cost of capital employed. This ratio determines the extent to which the Group and its divisions/ business units have satisfied or exceeded the minimum required rate of return of the shareholders and creditors, thus creating value added. The methodology of value added is based on the figures provided by the external reporting in accordance with US GAAP. This secures transparency both within the DaimlerChrysler Group and towards shareholders and creditors.

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

The capital employed (net assets) is determined at Group level on the liabilities side from the balance sheet components of stockholders' equity (including minority interests) and the financial liabilities and accrued pension obligations of the industrial business. At the industrial divisions/business units level, the net assets are determined on the basis of the allocable operating components of assets and liabilities. The average capital employed is ultimately determined as an average of the capital employed at the beginning and at the end of the financial year. In the financial services business, financial controlling takes place on an equity basis, in line with the usual practice in the banking business.

Return on Net Assets (RONA) DaimlerChrysler Group (after taxes)

in %



The profitability ratio, return on net assets (RONA) has a special significance as a fundamental component of value added. By examining the ratio of net operating income to average capital employed, a statement can be made about the profitability of the Group or the divisions/business units using standard units of measure. To assess the profitability of the financial services business, return on equity (ROE) is used.

The required rate of return on capital employed and thus the cost of capital are derived from the minimum returns that investors expect on their invested capital. Due to the long-term financing character, non-funded pension obligations are included in addition to equity and borrowings in the determination of the Group's cost of capital. The cost of equity is determined according to the capital-asset pricing model, using the interest rate for long-term, risk-free securities (i.e. government bonds, fixed-interest bonds) plus a risk premium for an investment in shares reflecting the specific risks of the DaimlerChrysler Group. The cost of borrowed capital is derived from the required rate of return for obligations entered into by the Group with outside sources supplying the capital. The capital costs for the non-funded pension obligations are calculated on the basis of the discount rates used pursuant to US GAAP. The Group's cost of capital is then a result of the weighted average of the individual required rates of return, and amounted to 8% after taxes in 2004. At the level of the industrial divisions/business units, the cost of capital amounted to 13% before taxes; for the financial services business a return on equity of 14% before taxes was used. Primarily due to the sustained fall in interest rates, the Group's cost of capital has been reduced to 7% after taxes at the beginning of 2005. For the industrial divisions/business units, this will result in a cost of capital before taxes of 11%. The return on equity before taxes required for the financial services business remains unchanged at 14%.

Development of return on net assets

Net operating income amounted to €3.2 billion in 2004, compared with €1.5 billion in the prior year. In combination with a decrease in average net assets of €3.7 billion to €56.3 billion, this resulted in a return on net assets (RONA) for the Group of 5.6% after taxes (2003: 2.4%). Value added thus improved by €2.0 billion to minus €1.3 billion. Calculated with cost of capital of 7% value added would have been minus €0.8 billion.

With a RONA of 12.3% in 2004, the Mercedes Car Group did not achieve the minimum required rate of return. The considerable decrease compared with the prior year is primarily due to changes in the model mix and negative currency effects. Operating profit was further reduced by increased marketing expenses and expenses for the continuation of the comprehensive quality offensive. In addition, average net assets increased due to the business expansion at smart. The Chrysler Group's RONA increased from minus 4.4% in 2003 to plus 16.4% in 2004. This substantial improvement was partially the result of lower net assets, but in particular of increased unit sales, lower expenditures for sales promotion actions and a shift in sales towards vehicles with higher margins. The Commercial Vehicles Division achieved a RONA of 13.8% and thus surpassed the minimum required rate of return. The increased operating profit was due not only to higher unit sales, but also to the effect of the efficiency improving measures initiated by the division. At Financial Services, lower risk costs and stable interest-rate margins led to an increase in return on equity to 22.0% (2003: 17.7%) so that the minimum required rate of return was again significantly surpassed.

Liquidity and Capital Resources

Net Assets and Return on Net Assets

	2004	2003	2004	2003
	(Annual average, in billions of €)		%	
	Net assets		Return on net assets	
DaimlerChrysler Group, (after taxes)	56.3	60.0	5.6	2.4
Industrial divisions, (before interest and taxes)				
Mercedes Car Group	13.5	12.8	12.3	24.3
Chrysler Group	8.7	11.6	16.4	(4.4)
Commercial Vehicles	9.7	7.0	13.8	11.5
Other Activities ¹	4.7	6.4	13.4	22.4
	Stockholders' equity		Return on equity ²	
Financial Services	8.1	8.4	22.0	17.7

¹ The Other Activities segment contains the Off-Highway business unit and the equity investment in EADS. In 2003, the segment also included the MTU Aero Engines business unit and the equity investment in MMC.

² Before taxes.

Net assets are derived from the consolidated balance sheet, as illustrated by the following table.

Net Assets ¹ of the DaimlerChrysler Group

	2004	2003
In millions	€	€
Stockholders' equity ²	31,479	31,913
Minority interests	909	470
Financial liabilities of the industrial segment	8,680	11,779
Pension provisions of the industrial segment	13,867	13,416
Net assets	54,935	57,578

¹ Represents the value at year-end; the average for the year was € 56.3 billion (2003: € 60.0 billion).

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

Reconciliation to Net Operating Income

	2004	2003
In millions	€	€
Net income (loss)	2,466	448
Minority interests	(108)	35
Interest expense related to industrial activities, after taxes	295	377
Interest cost of pensions related to industrial activities, after taxes	512	607
Net operating income	3,165	1,467

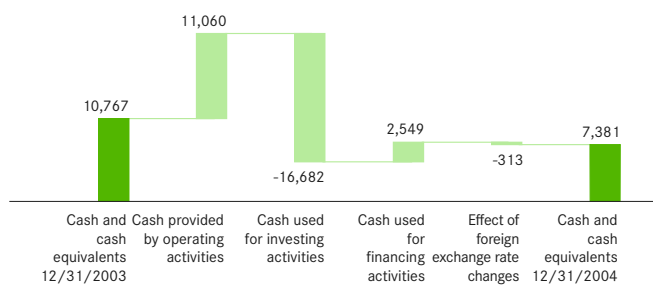
Cash flow

Cash provided by operating activities of €11.1 billion was below the prior-year level (€13.8 billion). This development was caused by, among other factors, increased working capital. This increase was due in particular to higher inventories than in the prior year, which primarily related to the market launch of new products, the higher level of production compared with the end of 2003 and the partially difficult market situation. The funds released by trade liabilities as a result of the higher level of production only partially compensated for the total effect on working capital compared to the prior year. In addition, cash provided by operating activities was reduced by exchange rate effects from the weaker US dollar, causing the cash inflow from the American companies translated into euros to fall compared with the prior year. Furthermore, there were changes from higher income taxes paid in 2004 compared to 2003 and from (net) contributions made by DaimlerChrysler to pension and health-care funds of €1.6 billion (€1.4 billion). Accordingly, the development of cash provided by operating activities of the Industrial Business corresponded with the effects mentioned above and decreased to €3.8 billion (2003: €6.8 billion).

Cash used for investing activities increased by €3.1 billion to €16.7 billion. This increase was primarily attributable to the financial services business, due to higher investments in new equipment on operating leases and lower proceeds from the sale of equipment on operating leases. The net change in receivables from Financial Services was similar to the high level of the prior year. There were opposing effects reducing the cash outflow for investing activities with regard to property, plant and equipment as well as investments in subsidiaries and associated companies. For property, plant and equipment, these effects came from lower additions almost solely due to exchange rate movements, as well as higher inflows from the sale of equipment, including the sale of production plants by the Chrysler Group in connection with its turnaround plan. The gradual acquisition of shares in MFTBC resulted in lower payments than in the prior year. Taking into consideration the addition to cash resulting from the first time consolidation of MFTBC (€0.4 billion), there was nearly no change in cash due to the shares purchased in 2004.

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

In millions of €



In 2003, payments of €0.8 billion were made for the acquisition of shares in MFTBC. The inflows from the sale of businesses included in cash used for investing activities contributed a total of €1.2 billion (2003: €1.2 billion). In 2004, these inflows were mainly related to the disposal of the Group's shares in HMC (€0.7 billion). In the prior year, the corresponding inflows were primarily a result of the sale of MTU Aero Engines (€0.9 billion).

Cash provided by financing activities in 2004 was affected by the (net) increase in financial liabilities and the dividend distribution of €1.5 billion. Overall, there was a cash inflow of €2.5 billion (2003: €2.5 billion), including income from the early termination of cross currency hedges in an amount of €1.3 billion (2003: €0.6 billion).

As a total of the individual cash flows, and with consideration of exchange rate effects, **cash and cash equivalents** with an original maturity of three months or less decreased by €3.4 billion to €7.4 billion compared with December 31, 2003. Total liquidity, which also includes long-term investments and securities, decreased as intended from €14.3 billion to €11.7 billion.

Refinancing

DaimlerChrysler's refinancing activities during 2004 were primarily determined by the ongoing controlled growth of the Group's financial services activities. To cover a relatively low requirement for additional funding compared with the prior year and to refinance debts becoming due, DaimlerChrysler used a broad spectrum of financial and capital-market instruments spanning its global network of regional holding and finance companies.

In 2004, DaimlerChrysler issued benchmark public US dollar and euro transactions. There were also smaller national and international issues of medium-term note programs in the form of private placements. In addition, the securitization of receivables, mainly in the field of financial services, was utilized by the Group as a source of funding on an ongoing basis, particularly in the United States. In 2004, DaimlerChrysler sold receivables due from end customers of €9,329 million (2003: €9,557 million), and receivables due from dealers of €35,414 million (2003: €46,678 million). With these transactions, the Group generated cash inflows of €11,360 million and €35,393 million, respectively (2003: €10,018 million and €46,623 million) and income of €79 million and €157 million, respectively (2003: €249 million and €196 million).

At the end of 2004, DaimlerChrysler had short-term and long-term committed credit lines totaling €35.2 billion, of which €18.3 billion was not utilized at that time. These credit lines include a US \$18 billion syndicated global credit facility with international banks in a total of three tranches: The first tranche comprises a 5-year line with a maturity until May 2008, allowing DaimlerChrysler AG and various of the Group's subsidiaries to draw a total of US \$7 billion under this facility. DaimlerChrysler North America Holding can draw a total of US \$6 billion under a 364-day facility with a maturity lasting until May 2005. In December 2004, DaimlerChrysler took advantage of the very good situation

in the credit market and refinanced the third tranche of this global credit facility earlier than it was necessary. The originally seven-year tranche with a volume of US \$5 billion and a maturity lasting until July 2006 was transformed into a new facility of DaimlerChrysler AG with the same volume and a maturity of an initial five years, i.e. until December 2009. After 12 or 24 months, with the consent of the banks, this maturity can be extended by another year until December 2010 or 2011.

DaimlerChrysler's self-financing strength and the combination of liquid reserves, short-term and long-term committed credit lines and the possibility to generate cash inflows through the securitization of receivables give the Group sufficient flexibility to cover its refinancing needs at any time.

Rating

	2004	2003
Credit rating, short-term		
Standard & Poor's	A-2	A-2
Moody's	P-2	P-2
Fitch	F2	F2
Dominion Bond	R-1-	R-1-
Credit rating, long-term		
Standard & Poor's	BBB	BBB
Moody's	A3	A3
Fitch	BBB+	BBB+
Dominion Bond	A-	A-

On June 14, 2004, Moody's Investors Service (Moody's) confirmed DaimlerChrysler's short-term rating of P-2 and its long-term rating of A3 and lifted the outlook from negative to stable. The improved outlook is based on the assessment by Moody's that DaimlerChrysler is well positioned worldwide and that Mercedes-Benz has a very good market position in the premium segment.

Above all, the progress made with the restructuring of the Chrysler Group, but also in the Commercial Vehicles Division, caused Fitch Ratings (Fitch) to lift its outlook for DaimlerChrysler's long-term ratings from stable to positive on June 24, 2004. At the same time, Fitch confirmed its long-term rating of BBB+ and its short-term rating of F2.

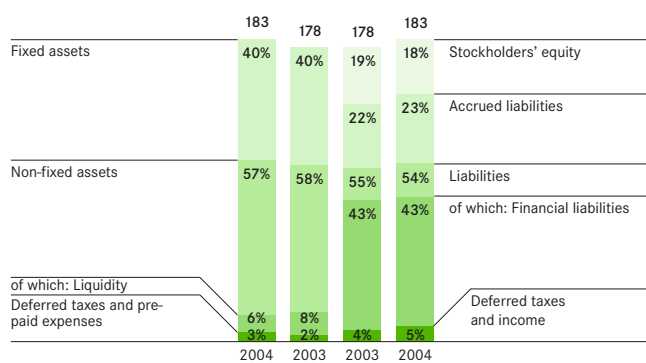
Due in particular to the improvement in the Chrysler Group's operating profit, on August 11, 2004, Standard & Poor's lifted its outlook for DaimlerChrysler's long-term rating from negative to stable. Its long-term rating of BBB and its short-term rating of A-2 were confirmed.

The Canadian organization Dominion Bond Rating Service did not alter its long-term rating of A- or its short-term rating of R-1-.

Financial Position

Balance Sheet Structure

In billions of €



Consolidated balance sheet

The Group's total assets increased by 2% compared with the prior year to €182.7 billion (2003: €178.3 billion). The increase was due in part to the full consolidation of MFTBC, and in particular to the expansion of the leasing and sales financing business in the Services division. Opposing effects arose from currency translation due to the appreciation of the euro against the US dollar. The assets and liabilities of our US companies were translated into euros using the exchange rate of €1 = US \$1.3621 as of December 31, 2004 (prior year: €1 = US \$1.2630 as of December 31, 2003). This higher exchange rate resulted in correspondingly lower balance sheet amounts in euros. In total, currency effects caused a €7.4 billion reduction in total assets; if exchange rates had remained at their 2003 year-end levels, total assets would have increased by €11.8 billion. On the assets side, property, plant and equipment increased by 3% to €34.0 billion, primarily due to the full consolidation of MFTBC. This factor was in part offset by opposing effects from depreciation and disposals of fixed assets, particularly at the Chrysler Group, and also from currency translation. Financial assets amounted to €7.0 billion on the balance sheet date (2003: €8.8 billion). In addition to the sale of shares in HMC and the lower book value of the investment in MMC, the reduction was caused by the elimination of the book value of MFTBC due to the full consolidation of this company.

Leased equipment increased, due in particular to the expansion of the vehicle-leasing business, by €2.3 billion to €26.7 billion. Currency translation had an opposing effect of €1.3 billion.

Inventories – less advance payments received – increased compared with the prior year and reached a level of €16.8 billion (2003: €15.0 billion). This increase was partly due to the full consolidation of MFTBC.

Receivables from Financial Services increased by €4.1 billion to €56.8 billion. Adjusting for currency translation effects results in an increase of €6.9 billion. In total, the leasing and sales financing business accounted for €83.5 billion, or 46%, of total assets.

The decrease in other assets to €12.9 billion resulted principally from the redemption and valuation of derivatives. The market values of retained interests in sold receivables also decreased due to the declining ABS portfolio.

Total liquidity decreased, as intended, by 18% to €11.7 billion, and comprised cash and cash equivalents (€7.8 billion) and marketable securities (€3.9 billion). Liquid funds are actively managed within the Group to ensure a minimum level of corporate liquidity.

The change in the balance of deferred tax assets and liabilities was a result of the full consolidation of MFTBC, but primarily of changes in deferred taxes due to the minimum pension liability and the valuation of derivative financial instruments (with no effect on the income statement).

Stockholders' equity decreased to €33.5 billion (2003: €34.5 billion). The decrease was mainly due to the dividend distribution for the 2003 financial year, the change of the minimum pension liability, currency translation, and the fair value accounting of derivative financial instruments (with no effect on the income statement). Conversely, stockholders' equity was increased by net income. The equity ratio, adjusted for the proposed dividend distribution for the 2004 financial year (€1.5 billion), declined by 1 percentage point to 17.5% (2003: 18.5%). The equity ratio for the Industrial Business amounted to 25.3% (2003: 26.1%). The decrease in these ratios was partly attributable to the full consolidation of MFTBC.

The increase in minority interests to €0.9 billion (2003: €0.5 billion) was almost solely due to the full consolidation of MFTBC, 35% of whose stock was held by outside shareholders on the balance sheet date.

Balance Sheet Structure of the Industrial Business

In billions of €



Accrued liabilities increased by €2.4 billion to €41.6 billion. The development of other accrued liabilities was primarily due to higher accruals for product guarantees, partly related to the quality actions and recall campaigns at MFTBC and the quality offensive at the Mercedes Car Group. Conversely, other accrued liabilities were reduced by currency translation effects. The increased accruals for pension obligations and health care were mainly caused by the reduced discount factors and the full consolidation of MFTBC. The development was partially offset by opposing effects from currency translation and contributions to the pension funds.

The Group's financial liabilities reached €76.6 billion as of the balance-sheet date (2003: €75.7 billion). This development is related to the increased funding requirements of the leasing and sales-financing business. The increase in financial liabilities was partially offset by currency translation effects.

Trade liabilities and other liabilities increased by €1.2 billion to €21.6 billion, primarily due to the full consolidation of MFTBC.

Financing of pensions and similar obligations

At the end of 2004, the Group's **pension obligations** of €34.4 billion (2003: €32.1 billion) were covered by fund assets of €27.8 billion (2003: €26.3 billion). This led to an underfunded status of €6.6 billion at the end of the year (end of 2003: underfunded by €5.8 billion). The decrease in the financing status resulted primarily from an increase of the pension obligations due to the decrease of the discount rate in 2004 and the first-time consolidation of MFTBC, partially offset by the increase of the plan assets due to further contributions totaling €1.6 billion (2003: €2.1 billion) and ongoing good performance of the stock markets in 2004. The realized yields on the Group's German and foreign plan assets in 2004 were 8.2% and 13.7%, respectively (2003: 14.6% and 23.0%). Taking into consideration the balance sheet pension accruals of €5.6 billion (2003: €5.0 billion), pension obligations were underfunded at the end of 2004 by €1.0 billion (end of 2003: underfunded by €0.8 billion).

The **other postretirement benefit obligations** totaled €14.4 billion at the end of 2004 (end of 2003: €14.9 billion), and were covered by fund assets in an amount of €1.6 billion (2003: €1.5 billion). The financing status was thus undercovered by €12.8 billion (2003: €13.4 billion). The improvement compared with the prior year was primarily a result of the reduced obligations due to the effects of the Medicare Act in the US. There was an opposing effect from the decrease of the discount rate and the adjustment of assumed inflation rates in 2004, and also from the normal annual increase of obligations less payments to beneficiaries. Taking into consideration the balance sheet accruals of €8.0 billion (2003: €8.2 billion), the postretirement benefit obligations were underfunded by a total of €4.8 billion at the end of 2004 (end of 2003: €5.2 billion).

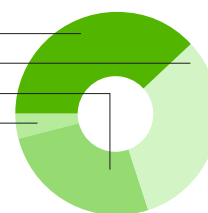
Additional information on pension plans and similar obligations can be found in Note 25a to the consolidated financial statements.

Factor Input

Purchasing Volume by Division

In %

Mercedes Car Group	38
Chrysler Group	32
Commercial Vehicles	26
Other Activities	4



Capital expenditure

Last year, the DaimlerChrysler Group invested a total of €6.4 billion in property, plant and equipment (2003: €6.6 billion). The focus of the investments of €2.3 billion by the Mercedes Car Group was on expanding the plants in Rastatt and Tuscaloosa for the production of the new A-Class and M-Class vehicle families, production preparations for the next S-Class model, and the expansion of production facilities for the new diesel and gasoline engines. The Chrysler Group's investments of €2.6 billion were primarily applied to prepare for the production of nine new models launched in 2004 and at least five additional models to come in the year 2005. Furthermore, investments were made in the plants in order to enhance their efficiency and flexibility in production. Important projects in the Commercial Vehicles division, which invested a total of €1.2 billion, included the new Euro-4 trucks engines and preparations for the successor to the Sprinter.

Investments in Property, Plant and Equipment

In millions	2004	2004	2003
	US \$	€	€
DaimlerChrysler Group	8,645	6,386	6,614
Mercedes Car Group	3,172	2,343	2,939
Chrysler Group	3,584	2,647	2,487
Commercial Vehicles	1,603	1,184	958
Services	123	91	76
Other Activities ¹	181	134	169

¹ 2003 figures include discontinued operations (MTU Aero Engines).

Research and development

Research and development expenditure totaled €5.7 billion in 2004 (2003: €5.6 billion). Of this total, €2.6 billion was accounted for by the Mercedes Car Group. This division's most important projects were the B-Class and R-Class sports tourers and the successors to the M-Class and S-Class models. Research and development work at the Chrysler Group was influenced by the product offensive; efficiency improvements were achieved once again in terms of the yield on the funds applied. R&D expenditure of €1.6 billion by the Chrysler Group was lower than the prior-year level. €1.2 billion was applied for research and development by Commercial Vehicles (2003: €0.9 billion), where the increase over the prior year was primarily a result of consolidating Mitsubishi Fuso Truck and Bus Corporation. The division's most important projects included the successor to the Sprinter and the new engine family for heavy trucks. Some additional areas of R&D activities at DaimlerChrysler were new drive-system technologies, especially hybrid drives and fuel cells, and electronic systems designed to enhance traffic safety.

Research and Development Expenditure

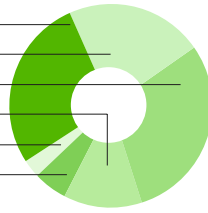
In millions	2004	2004	2003
	US \$	€	€
DaimlerChrysler Group	7,660	5,658	5,571
Mercedes Car Group	3,566	2,634	2,687
Chrysler Group	2,125	1,570	1,689
Commercial Vehicles	1,660	1,226	946
Other Activities ¹	309	228	420

¹ 2003 figures include discontinued operations (MTU Aero Engines).

Employees by Division

DaimlerChrysler Group 384,723

Mercedes Car Group	105,857
Chrysler Group	84,375
Commercial Vehicles	114,602
Sales Organization	48,029
Services	11,224
Other Activities	20,636



The Workforce

Procurement

Worldwide, DaimlerChrysler purchased goods and services for €101.4 billion in 2004 (2003: €99.7 billion). 38% of our purchasing volume was accounted for by the Mercedes Car Group, 32% by the Chrysler Group, 26% by the Commercial Vehicles division and 4% by the other units. In order to manage this purchasing volume efficiently while maintaining proximity to suppliers, our procurement is organized on a global scale with activities all over the world.

In cooperation with our suppliers, we are currently concentrating on three areas of action in order to achieve the best overall results: Global Scale, Global Supply Base and Global Processes. By bundling purchasing volumes and selectively placing orders with due consideration of cost-risk factors, we can optimize our cost position and further increase our efficiency.

With the goal of maintaining business relations with the world's best suppliers and to strengthen the global reach of our procurement activities, we have further developed the Extended Enterprise® supplier program. A key component of Extended Enterprise® is an assessment system with which we can analyze the performance of our suppliers' procurement and supply activities from a global perspective.

With our global procurement management, long-term supplier contracts with key suppliers and close cooperation with proven partners, we have created a broad range of instruments to safeguard supplies to our plants and to limit the effects on our production materials of continually rising prices even in the currently difficult situation of the international raw-material markets.

Employment situation. At December 31, 2004, DaimlerChrysler employed 384,723 people worldwide (end of 2003: 362,063). Of this total, 185,154 were employed in Germany (2003: 182,739) and 98,119 in the United States (2003: 102,391). Employment rose sharply in the Commercial Vehicles division in particular, due to new recruitment in Europe and North America and above all the consolidation of Mitsubishi Fuso Truck and Bus Corporation (MFTBC) with 18,281 employees. Staffing levels also rose in the Mercedes Car Group, the Services division and the joint sales organization for Mercedes-Benz passenger cars and commercial vehicles. The workforce at Chrysler Group decreased primarily due to the disposal of component plants. Adjusted for changes in the consolidated Group, the DaimlerChrysler workforce grew by 2%.

Securing the Future 2012. On July 23, 2004, DaimlerChrysler's management and employee representatives in Germany reached an agreement entitled "Securing the Future 2012". This agreement will help to improve competitiveness and enhance labor flexibility, and thus also to protect jobs. It will allow annual cost savings totalling €500 million in the medium-term.

Since the end of the 2004 financial year, apart from the aforementioned developments, there have been no further occurrences which are of major significance to DaimlerChrysler and which would lead to a modified assessment of the Group's position. The course of business in the first two months of 2005 confirms the statements made in the following chapter "Outlook".

Risk management

Within the framework of their global activities and as a result of increasingly intensive competition in all markets, DaimlerChrysler's divisions and business units are exposed to a large number of risks, which are inextricably linked with corporate business. 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 and complies with the Group's principles of corporate governance. It is an integral part of the overall planning, control and reporting process in all relevant legal entities and central functions, and aims to systematically identify, assess, control and document risks. Taking defined risk categories into account, risks are identified by the management of the divisions and business units, the key associated companies and the central departments, and assessed regarding their probability of occurrence and possible extent of damage. The assessment of the possible extent of damage usually takes place in terms of the risks' effect on operating profit. The communication and reporting of relevant risks is controlled by value limits set by management. The responsible persons also have the task of developing, and initiating as required, measures to avoid, reduce and hedge risks. The development of 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 risks to the Board of Management and the Supervisory Board.

The Group's risk management system enables corporate management to identify key risks at an early stage and to initiate suitable countermeasures. By carrying out targeted audits, the Internal Audit department monitors compliance with the statutory framework and the Group's internal guidelines as defined in the Risk Management Manual, and if required, initiates appropriate action. In addition, the auditor tests 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

2004 was a year of strong growth for the world economy, although there was still a significant degree of uncertainty regarding future economic developments. A key indicator of this uncertainty is the sustained increase in the price of gold, which is normally only in such high demand as a safe investment in times of crisis. By the middle of 2004, the rate of global expansion had already weakened. Against the backdrop of high raw material prices, the United States' enormous current account deficit, and the sustained appreciation of the euro, doubts have also increased as to whether the soft landing of the world economy with a return to long-term growth rates, as expected by most economists, will actually take place. DaimlerChrysler's assets, finances and earnings are thus exposed to additional substantial economic risks. Due to the high importance of the United States for the world economy, an isolated massive slowdown of economic expansion in the US would also have negative consequences.

The biggest individual risk for the world economy must be seen in a continuation of the high oil price, or even further increases, as well as in the enormous deficit of the United States. Worldwide growth could be dampened by 0.5 to 1.0 percentage point if the oil price remains above the mark of US \$45 per barrel for much longer. With a long-term rise in the price of oil above US \$55 per barrel, some economies could even slip into a recession. If a correction of the US current account deficit would take place with a drastic devaluation of the US dollar, this could, in combination with rising interest rates, lead to significantly lower global growth.

The disappointing economic development of the European Union, especially in Germany, has a considerable risk potential due to the region's importance as a sales market for DaimlerChrysler. The situation of the Japanese economy is similar: although it expanded much faster than expected in 2004, its structural problems are far from solved. A renewed weakening of the Japanese economy would not only reduce the Group's exports to Japan, but would also put a substantial burden on the earnings trend of our subsidiary Mitsubishi Fuso Truck and Bus Corporation. In addition, another economic downturn in Japan could have a negative impact on the emerging markets of Asia. The Group's strategic expansion plans in Asia would be negatively affected by such a development.

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 trade and investment with China, such a slump would not only have serious consequences for the whole of the Asian continent, but could also cause significant growth losses for the world economy, with negative effects on DaimlerChrysler's projects. Potential economic crises in the emerging markets in which the Group has production facilities could also be of particular relevance. Crises in emerging markets where the Group is solely active in a sales function, however, 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 significant delay in multi-lateral trade liberalization, and in particular due to the weakening of the World Trade Organization in favor of regional trade blocks or a return to protectionist tendencies.

Industry- and company-specific risks

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

In view of increasing price pressure, the fulfillment of DaimlerChrysler's own high quality standards is extremely important for the Group's future profitability. Product quality has a key impact on a customer's decision to buy a particular brand of passenger car or commercial vehicle. Technical problems could lead to further recall and repair campaigns, or can even necessitate new developments which have to be homologated. Furthermore, deteriorating product quality can also lead to higher warranty and goodwill costs.

Legal and political frameworks also have a considerable influence 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 already in the phase of product development.

DaimlerChrysler counteracts procurement risks through targeted commodity and supplier risk management. But in view of recent increases in raw material prices, especially steel and oil, the effects of these measures are limited. If price pressure in our procurement markets remain at their current high level for a long period, or actually rise further, there will be a consequential impact on the Group's profitability. Production and business processes could also be affected by unforeseeable events such as natural disasters or terrorist attacks on our facilities or data centers. Security measures and emergency plans have been prepared for such eventualities, as well as for the protection of DaimlerChrysler's intellectual property.

DaimlerChrysler's Services division mainly comprises the provision of financing and leasing for Group products, insurance and services in the field of fleet management. The international orientation of this business and the raising of capital are linked with credit, exchange rate and interest rate risks. DaimlerChrysler counteracts these risks by means of appropriate market analyses and the use of derivative financial instruments. The DaimlerChrysler Bank's full banking license and its risk exposure have no significant effects at Group level.

Due to the DaimlerChrysler Group's involvement in the development of a system to record and charge tolls for the use of highways by certain trucks in Germany, we are exposed to a number of risks which could have negative effects on the Group's financial condition, operating results and cash flows. The development and operation of the electronic toll collection system is the responsibility of the operator company, Toll Collect GmbH, in which DaimlerChrysler holds a 45% ownership interest and which is included in the consolidated financial statements using the equity method of accounting. Besides the stake in the consortium, the equity interests 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. After the original start of the system planned for August 31, 2003 was not possible due to technical problems, the toll system successfully went into operation on January 1, 2005 with slightly reduced functionality. Risks can arise primarily due to lower tolls derived from the system and a delay

in the start of the system with full functionality, which is scheduled for January 1, 2006. Additional information on the electronic toll collection system and the related risks can be found in the Notes to the consolidated financial statements: Note 3 (Significant Equity Method Investments), Note 31 (Legal Proceedings) and Note 32 (Contingent Obligations and Commercial Commitments).

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

Foreign exchange rate, interest rate, equity price and commodity price risk

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

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

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

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

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

The following table shows values-at-risk figures for DaimlerChrysler's 2004 and 2003 portfolio of derivative financial instruments used to hedge the underlying currency exposure. We have computed the average exposure based on an end-of-quarter basis.

Value-at-Risk				
	12.31. 2004	Average for 2004	12.31. 2003	Average for 2003
In millions of €				
Exchange rate sensitive derivative financial instruments ¹	148	256	381	398

¹ Forward foreign exchange contracts, foreign exchange swap contracts, currency options.

The average and period-end values-at-risk of derivative financial instruments used to hedge exchange rate risk decreased in 2004, primarily as a result of lower foreign exchange rate volatilities and the strengthening of the euro especially against the US dollar. In addition, the values-at-risk decreased due to the reduced foreign exchange derivatives' volume.

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

The strengthening of the euro against nearly all major currencies in which DaimlerChrysler conducts business imposed a heavier burden on operating profit than in the previous year, despite foreign exchange hedging activities. If the euro remains strong for an extended period or further strengthens relative to the other, for the Group crucial currencies, this could have an even greater negative impact on the Group's profitability and financial situation in the year 2005 and beyond.

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

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

The following table shows value-at-risk figures for DaimlerChrysler's 2004 and 2003 portfolio of interest rate sensitive financial instruments. We have computed the average exposure based on an end-of-quarter basis.

Value-at-Risk				
	12.31. 2004	Average for 2004	12.31. 2003	Average for 2003
In millions of €				
Interest-rate-sensitive financial instruments	73	75	115	148

In 2004, the average and period-end value-at-risk of our portfolio of interest rate sensitive financial instruments decreased, primarily due to less volatile interest rates, a stronger euro and a reduced mismatch in terms of interest rate maturities between both the fixed interest receivables from the Group's leasing and sales financing business and the respective funding of that business.

Management of equity price risks. DaimlerChrysler holds investments in equity securities, but presently only to a minor extent. The corresponding market risk in 2004 was not, and is not currently, material to the Group. Thus, DaimlerChrysler does not separately present the value-at-risk figures for the remaining equity price risk. According to international banking standards, DaimlerChrysler does not include investments in equity securities which the Group classifies as long term investments in the equity price risk assessment.

Management of commodity price risks. Associated with DaimlerChrysler's business operations, the Group is exposed to changes in prices of commodities. For example, prices for steel used in the manufacturing of vehicle components increased sharply in 2004. DaimlerChrysler addresses those procurement risks by a concerted commodity and supplier risk management.

To a minor extent, DaimlerChrysler uses derivative commodity instruments, primarily to reduce market risks arising from the purchase of precious metals. The risk resulting from derivative commodity instruments in 2004 was not and is currently not significant to the Group. Therefore DaimlerChrysler does not separately present the value-at-risk figures for its derivative commodity instruments.

Legal risks

Various legal proceedings are pending against the Group. DaimlerChrysler believes that in the main, these proceedings constitute ordinary, routine litigation that is incidental to our business. However, the possibility cannot be ruled out that the final resolution of some of these lawsuits could cause DaimlerChrysler to incur substantial costs and cash outflows. Although the final resolution of any such lawsuit could have a material effect on the Group's earnings in a particular reporting period, DaimlerChrysler believes that any resulting obligations are unlikely to have a sustained effect on the Group's assets, finances or earnings. Information on various legal proceedings can be found in Note 31 to the consolidated financial statements.

Overall risk

There are no discernible risks that could jeopardize the continued existence of the company.

Outlook

The world economy

Global conditions indicate that the growth of the world economy will be lower in 2005 than in the prior year. In the United States, rising interest rates, the end of fiscal-policy stimulus and slower expansion of domestic demand are likely to dampen growth. Domestic demand should revive slightly in Western Europe, but the region's total economic growth rate will probably remain unchanged due to the lower contribution from foreign trade. Following its expansion of the last two years, the Japanese economy will probably slow down. Neither will the emerging markets be immune from the weaker economic momentum; in particular, the economies of Asia and South America will grow at lower rates than hitherto. In China, the administrative measures taken to restrain the country's economy, which was overheating last year, will increasingly take effect. Overall, we anticipate global economic growth of slightly more than 3% in 2005 and similar rates in the following years. The return to a sustained and stable growth trend will only be possible if raw-material prices do not rise again significantly, however.

Automobile markets

Parallel to the slowdown in the world's economic expansion, the growth in global demand for automobiles should be rather lower in 2005 than in 2004. While demand for passenger cars in the emerging markets is likely to rise significantly once again, we expect the North American market for passenger cars and light trucks and the passenger-car markets of Western Europe and Japan to remain at the level of 2004.

The expansion of worldwide demand for commercial vehicles should continue, although at a rather lower rate than in 2004. The North American market for heavy-duty trucks and the markets for commercial vehicles in the emerging economies are likely to show further growth, while demand in Western Europe should continue at the same high level as in 2004.

In the coming years, the expansion of global demand for automobiles will primarily take place in the emerging markets of Asia and South America, and probably also Eastern Europe – a result of the dynamic growth in purchasing power and the rising need for mobility in these regions. The limited scope for growth in the major automobile markets of North America, Europe and Japan combined with high production capacity will further intensify competition in all market segments. DaimlerChrysler therefore assumes that there will be no relaxation of price competition in the United States or Europe. Additional factors will be stricter environmental and safety regulations, the fulfillment of which will cause substantial costs for all producers. Against this backdrop, the ability to set oneself apart from the competition by means of innovation and strong brands will become increasingly important. Another success factor in international competition will be a worldwide presence with the possibility to participate in the growth of the emerging markets and to achieve cost advantages from larger production volumes.

DaimlerChrysler's divisions

Despite the weak growth of major markets, the **Mercedes Car Group** plans to increase its unit sales in 2005 and the following years. This will be primarily based on the renewal and expansion of the division's model range. With entirely new vehicles such as the B-Class and the R-Class, we will add the market segment of sports tourer starting in the year 2005. The new S-Class will be available in the fall of 2005; with this car we intend to further extend the innovation and technology leadership of the Mercedes Car Group in the premium segment. For all of the products of the Mercedes-Benz brand, quality is the top priority. For this reason, our quality offensive is being pushed forward with great determination. The Mercedes Car Group's profitability is to be improved over the long term as a result of the CORE program, which was started in February 2005. In this way we intend to achieve a return on sales of 7% by 2007. The competi-

tive situation of the smart business unit is to be strengthened as a result of its sales offensive in Europe's major markets. The possibility of launching the smart in additional international markets is being intensively investigated at present. In addition we are working on a long-term viable business model for the smart brand, which aims to improve cost structures and increase productivity.

Another strategic focus of the Mercedes Car Group is its presence in Asia, especially in China; in the coming years, we intend to continue expanding this presence within the framework of DaimlerChrysler's Asia strategy.

The **Chrysler Group** is pursuing the following strategy: On the one hand, further progress is to be made in terms of efficiency; on the other hand, we intend to achieve a sustained improvement in our competitive position with innovative new products. The Chrysler Group's attractive new vehicles will help it to close the gap with the world's best competitors in terms of customer awareness, product quality and productivity. At the same time, we aim to set ourselves apart from the competition with our outstanding design and by offering excellent value for money. In 2004 alone, nine new models were launched, and another 16 will follow in 2005 and 2006. In the coming years, markets outside the NAFTA region will increasingly contribute to the growth of the Chrysler Group. For this purpose the Dodge brand will be launched in Europe. At the same time, we are continuing the programs for efficiency improvements and cost reductions. With the new products, unit sales should continue increasing in the years 2005 through 2007.

The **Commercial Vehicles Division** is pursuing the goal of securing and further developing the strong competitive position it attained in 2004. To ensure that this goal is achieved, the strategic initiative "Global Spark" is being consistently implemented. Global Spark is based on three main cornerstones. The first includes the cost-reducing and efficiency-improving programs of the various business units, which will be continued in the coming years.

The second cornerstone of Global Spark consists of deriving appropriate cost advantages from the large volumes that DaimlerChrysler realizes as the world's leading producer of commercial vehicles. The core of this strategy is to use as many identical parts and shared components as possible, and to use existing vehicle concepts for the maximum possible production volumes while protecting the identity of our brands and products. The third Global Spark cornerstone is to further expand our presence in Asia. An important step in this direction was the acquisition of a majority shareholding in Mitsubishi Fuso Truck and Bus Corporation (MFTBC). The activities we have initiated in China will help us to significantly strengthen our position also for commercial vehicles in this market of the future.

The development of the division's unit sales in the coming years will be supported by numerous attractive new models from all its business units. The Commercial Vehicles Division expects to increase unit sales once again in the year 2005 also as a result of the full consolidation of Mitsubishi Fuso Truck and Bus Corporation (MFTBC). A further contribution to higher unit sales in the years 2005 and 2006 is expected to come from purchases being brought forward due to future emission regulations in the United States and Japan.

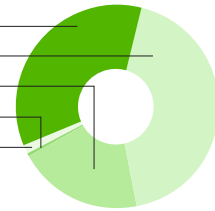
The **Services** division will continue to focus on its business of providing automotive financial services, thus intensifying the function of sales support for the automobile divisions. In close cooperation with the vehicle brands, financial services packages will be prepared, tailored to the specific requirements of each market's customers. In the NAFTA region for example, Chrysler Financial is developing special leasing packages for corporate customers with vehicle fleets through its projects "Business Vehicle Finance" and "Full Service Leasing". DaimlerChrysler Services is thus making an important contribution to strengthening the competitiveness of DaimlerChrysler's vehicle brands in the rapidly growing market for corporate customers. One of the division's key goals is to continue improving its processes over the long term by, among other things, applying the most up-to-date risk-management systems. Following the successful start of

Investments in Property, Plant and Equipment 2005–2007

In billions of €

DaimlerChrysler Group 21.1

Mercedes Car Group	7.4
Chrysler Group	9.1
Commercial Vehicles	4.2
Services	0.1
Other Activities	0.3



the toll system for trucks on autobahns in Germany, Toll Collect intends to change over to the second version of the on-board units on January 1, 2006.

The **DaimlerChrysler Off-Highway** business unit anticipates a moderate recovery for its major markets in the years 2005 through 2007. It aims to increase its market share through product innovations and intensified sales activities. The efficiency and restructuring projects that have already been initiated will be further continued.

EADS expects a distinct recovery in the market for civil aircraft. Due primarily to rising Airbus deliveries, revenues are likely to grow significantly in the coming years. This development will also be assisted by the new A380 wide-body aircraft, of which the first examples are to be delivered to customers before the end of 2006. Despite the situation of tight government budgets in Europe, based on a high order book EADS is further expanding its defense business. The Space unit will continue its positive development in the coming years.

The DaimlerChrysler Group

Assuming a moderate increase in the worldwide demand for automobiles, we expect total unit sales by the DaimlerChrysler Group to increase in 2005 and the following years. Higher unit sales by all divisions will contribute to this development. Revenues should also continue to rise.

After a weaker first and second quarter, for the full-year 2005 we expect a slightly higher operating profit than in the previous year. Significant earnings improvements are to be expected as of the year 2006 and 2007, when the Mercedes Car Group's product offensive takes full effect and additional new models become available from the Chrysler Group. A key contribution to this positive earnings development will also be made by the efficiency-enhancing programs which will be pushed steadily forward in all divisions. The increasing networking of our global activities, the knowledge transfer within the Group, and the cross-divisional projects will also have a positive impact on earnings in the coming years.

A fundamental condition for the targeted increase in earnings is a generally stable economic and political situation and the moderate upturn in the worldwide demand for automobiles expected for the years of 2005 through 2007. Challenges may arise, however, from a continuation of the weak US dollar and high raw-material prices.

Capital expenditure

In the planning period of 2005 through 2007, DaimlerChrysler expects to invest a total of €21 billion in property, plant and equipment. At the Mercedes Car Group, the focus of investment will be on preparations for the successor models to the C-Class, the E-Class and the smart fortwo. Principal investments by the Chrysler Group will be in the modernization of its plants and the continuation of its product offensive. At Commercial Vehicles, major investments are planned for the successor model to the Sprinter, the new Century Class by Freightliner, and the new family of engines for heavy trucks. DaimlerChrysler also plans to invest substantial funds in the context of the Group's involvement in China.

Investments in property, plant and equipment

	2004	2005–2007
In billions	€	€
DaimlerChrysler Group	6.4	21.1
Mercedes Car Group	2.3	7.4
Chrysler Group	2.6	9.1
Commercial Vehicles	1.2	4.2
Services	0.1	0.1
Other Activities	0.1	0.3

Research and Development Expenditure 2005–2007

In billions of €

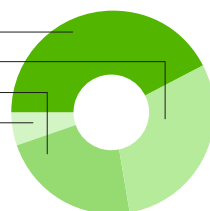
DaimlerChrysler Group 17.0

Mercedes Car Group 7.2

Chrysler Group 5.1

Commercial Vehicles 3.8

Other Activities 0.9



Research and development

For research and development activities, DaimlerChrysler will invest a total of €17 billion in the period of 2005 through 2007, thus maintaining the high level of recent years. The focus of DaimlerChrysler's research and development expenditure is on the new vehicle models from the Mercedes Car Group and the Chrysler Group divisions. Important projects at Commercial Vehicles include new truck engines fulfilling the future emission regulations in the United States, Western Europe and Japan, a new platform for the successor models to the Actros, the Atego and the Axor, and two new trucks from the Mitsubishi Fuso brand.

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

Forward-looking statements in this Annual Report:

This Annual Report contains forward-looking statements that reflect management's current views with respect to future events. The words "anticipate," "assume," "believe," "estimate," "expect," "intend," "may," "plan," "project" and "should" and similar expressions identify forward-looking statements. Such statements are subject to risks and uncertainties, including, but not limited to: an economic downturn in Europe or North America; changes in currency exchange rates and interest rates and in raw-material prices; introduction of competing products; increased sales incentives; and a decline in resale prices of used vehicles. If any of these or other risks and uncertainties occur (some of which are described under the heading "Risk Report" in this Annual Report and under the heading "Risk Factors" in DaimlerChrysler's most recent Annual Report on Form 20-F filed with the Securities and Exchange Commission), or if the assumptions underlying any of these statements prove incorrect, then actual results may be materially different from those expressed or implied by such statements. We do not intend or assume any obligation to update any forward-looking statement, which speaks only as of the date on which it is made.

Research and development expenditure

	2004	2005–2007
In billions	€	€
DaimlerChrysler Group	5.7	17.0
Mercedes Car Group	2.6	7.2
Chrysler Group	1.6	5.1
Commercial Vehicles	1.2	3.8
Other Activities	0.2	0.9

The workforce

Due to the planned development of unit sales and the expected productivity advances, DaimlerChrysler assumes that employee numbers will remain fairly constant in the years of 2005 through 2007, both for the Group as a whole and in the individual divisions.

Consolidated Financial Statements

of

DaimlerChrysler AG

for fiscal 2004

Consolidated Statements of Income (Loss)

	Note	Consolidated			
		2004	2004	Year ended December 31,	
(in millions, except per share amounts)		(Note 1) \$	€	2003	2002
				€	€
Revenues	35.	192,319	142,059	136,437	147,368
Cost of sales	5.	(155,100)	(114,567)	(109,926)	(119,624)
Gross profit		37,219	27,492	26,511	27,744
Selling, administrative and other expenses	5.	(24,330)	(17,972)	(17,772)	(18,166)
Research and development		(7,660)	(5,658)	(5,571)	(5,942)
Other income	6.	1,211	895	689	777
Turnaround plan expenses – Chrysler Group	7.	(196)	(145)	(469)	(694)
Income before financial income		6,244	4,612	3,388	3,719
Impairment of investment in EADS		-	-	(1,960)	-
Other financial income (expense), net (therein loss on issuance of associated company stock of €135 in 2004 and gain on issuance of related company stock of €24 in 2003)		(1,458)	(1,077)	(832)	2,206
Financial income (expense), net	8.	(1,458)	(1,077)	(2,792)	2,206
Income (loss) before income taxes		4,786	3,535	596	5,925
Income tax expense	9.	(1,594)	(1,177)	(979)	(1,115)
Minority interests		146	108	(35)	(15)
Income (loss) from continuing operations		3,338	2,466	(418)	4,795
Income from discontinued operations, net of taxes	10.	-	-	14	82
Income on disposal of discontinued operations, net of taxes	10.	-	-	882	-
Cumulative effects of changes in accounting principles: transition adjustments resulting from adoption of FIN 46R and SFAS 142, net of taxes	11.	-	-	(30)	(159)
Net income (loss)		3,338	2,466	448	4,718
Earnings per share	36.				
Basic earnings per share					
Income (loss) from continuing operations		3.29	2.43	(0.41)	4.76
Income from discontinued operations		-	-	0.01	0.08
Income on disposal of discontinued operations		-	-	0.87	-
Cumulative effects of changes in accounting principles		-	-	(0.03)	(0.16)
Net income		3.29	2.43	0.44	4.68
Diluted earnings per share					
Income (loss) from continuing operations		3.29	2.43	(0.41)	4.74
Income from discontinued operations		-	-	0.01	0.08
Income on disposal of discontinued operations		-	-	0.87	-
Cumulative effects of changes in accounting principles		-	-	(0.03)	(0.15)
Net income		3.29	2.43	0.44	4.67

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

Industrial Business ¹			Financial Services ¹			(in millions, except per share amounts)
2004	Year ended December 31,		2004	Year ended December 31,		
€	2003	2002	€	2003	2002	
128,133	122,397	131,668	13,926	14,040	15,700	Revenues
(103,771)	(98,937)	(106,443)	(10,796)	(10,989)	(13,181)	Cost of sales
24,362	23,460	25,225	3,130	3,051	2,519	Gross profit
(16,741)	(16,374)	(16,451)	(1,231)	(1,398)	(1,715)	Selling, administrative and other expenses
(5,658)	(5,571)	(5,942)	-	-	-	Research and development
833	637	709	62	52	68	Other income
(145)	(469)	(694)	-	-	-	Turnaround plan expenses - Chrysler Group
2,651	1,683	2,847	1,961	1,705	872	Income before financial income
-	(1,960)	-	-	-	-	Impairment of investment in EADS
(1,043)	(775)	2,325	(34)	(57)	(119)	Other financial income (expense), net (therein loss on issuance of associated company stock of €135 in 2004 and gain on issuance of related company stock of €24 in 2003)
(1,043)	(2,735)	2,325	(34)	(57)	(119)	Financial income (expense), net
1,608	(1,052)	5,172	1,927	1,648	753	Income (loss) before income taxes
(442)	(352)	(738)	(735)	(627)	(377)	Income tax expense
113	(30)	(12)	(5)	(5)	(3)	Minority interests
1,279	(1,434)	4,422	1,187	1,016	373	Income (loss) from continuing operations
-	14	82	-	-	-	Income from discontinued operations, net of taxes
-	882	-	-	-	-	Income on disposal of discontinued operations, net of taxes
-	(30)	(124)	-	-	(35)	Cumulative effects of changes in accounting principles: transition adjustments resulting from adoption of FIN 46R and SFAS 142, net of taxes
1,279	(568)	4,380	1,187	1,016	338	Net income (loss)
						Earnings per share
						Basic earnings per share
						Income (loss) from continuing operations
						Income from discontinued operations
						Income on disposal of discontinued operations
						Cumulative effects of changes in accounting principles
						Net income
						Diluted earnings per share
						Income (loss) from continuing operations
						Income from discontinued operations
						Income on disposal of discontinued operations
						Cumulative effects of changes in accounting principles
						Net income

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

Consolidated Balance Sheets

	Note	Consolidated		Industrial Business ¹		Financial Services ¹		
		2004	At December 31, 2004 2003		At December 31, 2004 2003		At December 31, 2004 2003	
(in millions)		(Note 1) \$	€	€	€	€	€	€
Assets								
Goodwill	12.	2,712	2,003	1,816	1,945	1,757	58	59
Other intangible assets	13.	3,616	2,671	2,819	2,602	2,731	69	88
Property, plant and equipment, net	14.	46,031	34,001	32,917	33,835	32,761	166	156
Investments and long-term financial assets	20.	9,535	7,043	8,748	6,767	8,416	276	332
Equipment on operating leases, net	15.	36,160	26,711	24,385	3,099	2,890	23,612	21,495
Fixed assets		98,054	72,429	70,685	48,248	48,555	24,181	22,130
Inventories	16.	22,733	16,792	14,948	15,317	13,560	1,475	1,388
Trade receivables	17.	9,410	6,951	6,081	6,755	5,851	196	230
Receivables from financial services	18.	76,876	56,785	52,638	-	-	56,785	52,638
Other assets	19.	17,497	12,924	15,848	9,209	11,129	3,715	4,719
Securities	20.	5,258	3,884	3,268	3,474	2,801	410	467
Cash and cash equivalents	21.	10,520	7,771	11,017	6,771	9,719	1,000	1,298
Non-fixed assets		142,294	105,107	103,800	41,526	43,060	63,581	60,740
Deferred taxes	9.	5,591	4,130	2,688	3,988	2,527	142	161
Prepaid expenses	22.	1,395	1,030	1,095	953	1,002	77	93
Total assets (thereof short-term 2004: €68,597; 2003: €65,051)		247,334	182,696	178,268	94,715	95,144	87,981	83,124
Liabilities and stockholders' equity								
Capital stock		3,565	2,633	2,633				
Additional paid-in capital		10,887	8,042	7,915				
Retained earnings		40,657	30,032	29,085				
Accumulated other comprehensive loss		(9,701)	(7,166)	(5,152)				
Treasury stock		-	-	-				
Stockholders' equity	23.	45,408	33,541	34,481	25,439	26,361	8,102	8,120
Minority interests		1,231	909	470	885	454	24	16
Accrued liabilities	25.	56,272	41,566	39,172	40,506	38,439	1,060	733
Financial liabilities	26.	103,728	76,620	75,690	8,680	11,779	67,940	63,911
Trade liabilities	27.	17,483	12,914	11,583	12,704	11,359	210	224
Other liabilities	28.	11,788	8,707	8,805	6,095	6,030	2,612	2,775
Liabilities		132,999	98,241	96,078	27,479	29,168	70,762	66,910
Deferred taxes	9.	2,963	2,189	2,736	(3,989)	(3,377)	6,178	6,113
Deferred income	29.	8,461	6,250	5,331	4,395	4,099	1,855	1,232
Total liabilities (thereof short-term 2004: €77,928; 2003: €70,542)		201,926	149,155	143,787	69,276	68,783	79,879	75,004
Total liabilities and stockholders' equity		247,334	182,696	178,268	94,715	95,144	87,981	83,124

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

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

Consolidated Statements of Changes in Stockholders' Equity

	Accumulated other comprehensive loss							Treasury stock	Total
	Capital stock	Additional paid-in capital	Retained earnings	Cumulative translation adjustment	Available-for-sale securities	Derivative financial instruments	Minimum pension liability		
(in millions of €)									
Balance at January 1, 2002	2,609	7,319	26,441	3,850	61	(337)	(906)	-	39,037
Net income	-	-	4,718	-	-	-	-	-	4,718
Other comprehensive income (loss)	-	-	-	(3,238)	(135)	1,402	(6,301)	-	(8,272)
Total comprehensive loss									(3,554)
Stock based compensation	-	57	-	-	-	-	-	-	57
Issuance of shares upon conversion of notes	24	482	-	-	-	-	-	-	506
Purchase of capital stock	-	-	-	-	-	-	-	(49)	(49)
Re-issuance of treasury stock	-	-	-	-	-	-	-	49	49
Dividends	-	-	(1,003)	-	-	-	-	-	(1,003)
Other	-	(39)	-	-	-	-	-	-	(39)
Balance at December 31, 2002	2,633	7,819	30,156	612	(74)	1,065	(7,207)	-	35,004
Net income	-	-	448	-	-	-	-	-	448
Other comprehensive income (loss)	-	-	-	(1,561)	407	1,162	444	-	452
Total comprehensive income									900
Stock based compensation	-	95	-	-	-	-	-	-	95
Issuance of shares upon conversion of notes	-	1	-	-	-	-	-	-	1
Purchase of capital stock	-	-	-	-	-	-	-	(28)	(28)
Re-issuance of treasury stock	-	-	-	-	-	-	-	28	28
Dividends	-	-	(1,519)	-	-	-	-	-	(1,519)
Balance at December 31, 2003	2,633	7,915	29,085	(949)	333	2,227	(6,763)	-	34,481
Net income	-	-	2,466	-	-	-	-	-	2,466
Other comprehensive loss	-	-	-	(691)	(206)	(369)	(748)	-	(2,014)
Total comprehensive income									452
Stock based compensation	-	127	-	-	-	-	-	-	127
Purchase of capital stock	-	-	-	-	-	-	-	(30)	(30)
Re-issuance of treasury stock	-	-	-	-	-	-	-	30	30
Dividends	-	-	(1,519)	-	-	-	-	-	(1,519)
Balance at December 31, 2004	2,633	8,042	30,032	(1,640)	127	1,858	(7,511)	-	33,541

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

Consolidated Statements of Cash Flows *

	2004 (Note 1) \$	Consolidated		
		2004 €	Year ended December 31, 2003 €	2002 €
(in millions)				
Net income (loss)	3,338	2,466	448	4,718
Income (loss) applicable to minority interests	(146)	(108)	35	14
Cumulative effects of changes in accounting principles	-	-	30	159
Gains on disposals of businesses	(380)	(281)	(956)	(2,645)
Impairment of investment in EADS	-	-	1,960	-
Depreciation and amortization of equipment on operating leases	7,371	5,445	5,579	7,244
Depreciation and amortization of fixed assets	7,875	5,817	5,838	6,379
Change in deferred taxes	(803)	(593)	644	268
Equity (income) loss from associated companies	1,263	933	538	16
Change in financial instruments	(372)	(275)	160	214
(Gains) losses on disposals of fixed assets/securities	(704)	(520)	(424)	(595)
Change in trading securities	(35)	(26)	71	257
Change in accrued liabilities	1,820	1,344	1,015	3,312
Turnaround plan expenses – Chrysler Group	196	145	469	694
Turnaround plan payments – Chrysler Group	(296)	(219)	(279)	(512)
Net changes in inventory-related receivables from financial services	(3,324)	(2,455)	(2,670)	(2,107)
Changes in other operating assets and liabilities:				
- Inventories, net	(1,886)	(1,393)	(293)	6
- Trade receivables	328	242	(441)	(305)
- Trade liabilities	1,606	1,186	1,081	(266)
- Other assets and liabilities	(878)	(648)	1,021	(942)
Cash provided by operating activities	14,973	11,060	13,826	15,909
Purchases of fixed assets:				
- Increase in equipment on operating leases	(23,932)	(17,678)	(15,604)	(17,704)
- Purchases of property, plant and equipment	(8,645)	(6,386)	(6,614)	(7,145)
- Purchases of other fixed assets	(696)	(514)	(303)	(315)
Proceeds from disposals of equipment on operating leases	14,172	10,468	11,951	15,112
Proceeds from disposals of fixed assets	1,003	741	643	878
Payments for investments in businesses	(357)	(264)	(1,021)	(560)
Proceeds from disposals of businesses	1,649	1,218	1,209	5,686
Investments in/collections from wholesale receivables	(8,093)	(5,978)	(10,432)	(13,012)
Proceeds from sale of wholesale receivables	8,571	6,331	10,260	12,319
Investments in retail receivables	(41,275)	(30,488)	(28,946)	(34,494)
Collections on retail receivables	23,215	17,148	16,577	19,699
Proceeds from sale of retail receivables	12,903	9,531	9,196	8,546
Acquisitions of securities (other than trading)	(5,701)	(4,211)	(5,175)	(5,305)
Proceeds from sales of securities (other than trading)	4,713	3,481	4,785	5,376
Change in other cash	(111)	(81)	(134)	80
Cash provided by (used for) investing activities	(22,584)	(16,682)	(13,608)	(10,839)
Change in commercial paper borrowings and short-term financial liabilities	3,320	2,453	129	2,678
Additions to long-term financial liabilities	20,325	15,013	16,436	9,964
Repayment of long-term financial liabilities	(18,100)	(13,370)	(12,518)	(17,117)
Dividends paid (including profit transferred from subsidiaries)	(2,094)	(1,547)	(1,537)	(1,015)
Proceeds from issuance of capital stock (including minority interests)	41	30	44	49
Purchase of treasury stock	(41)	(30)	(36)	(49)
Cash provided by (used for) financing activities	3,451	2,549	2,518	(5,490)
Effect of foreign exchange rate changes on cash and cash equivalents (maturing within 3 months)	(424)	(313)	(1,069)	(1,195)
Net increase (decrease) in cash and cash equivalents (maturing within 3 months)	(4,584)	(3,386)	1,667	(1,615)
Cash and cash equivalents (maturing within 3 months)				
At beginning of period	14,576	10,767	9,100	10,715
At end of period	9,992	7,381	10,767	9,100

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

* For other information regarding Consolidated Statements of Cash Flows, see Notes 1, 2, and 30.

Industrial Business ¹			Financial Services ¹			
2004	Year ended December 31,		2004	Year ended December 31,		
	2003	2002		2003	2002	
€	€	€	€	€	€	(in millions)
1,279	(568)	4,380	1,187	1,016	338	Net income (loss)
(113)	30	11	5	5	3	Income (loss) applicable to minority interests
-	30	124	-	-	35	Cumulative effects of changes in accounting principles
(281)	(956)	(2,645)	-	-	-	Gains on disposals of businesses
-	1,960	-	-	-	-	Impairment of investment in EADS
544	609	544	4,901	4,970	6,700	Depreciation and amortization of equipment on operating leases
5,693	5,735	6,257	124	103	122	Depreciation and amortization of fixed assets
(1,211)	194	(498)	618	450	766	Change in deferred taxes
951	539	(78)	(18)	(1)	94	Equity (income) loss from associated companies
(288)	141	205	13	19	9	Change in financial instruments
(524)	(424)	(599)	4	-	4	(Gains) losses on disposals of fixed assets/securities
(29)	82	312	3	(11)	(55)	Change in trading securities
1,198	1,098	3,292	146	(83)	20	Change in accrued liabilities
145	469	694	-	-	-	Turnaround plan expenses - Chrysler Group
(219)	(279)	(512)	-	-	-	Turnaround plan payments - Chrysler Group
(2,455)	(2,670)	(2,107)	-	-	-	Net changes in inventory-related receivables from financial services
						Changes in other operating assets and liabilities:
(1,535)	(502)	172	142	209	(166)	- Inventories, net
210	(500)	(314)	32	59	9	- Trade receivables
1,193	1,082	(97)	(7)	(1)	(169)	- Trade liabilities
(805)	715	(2,187)	157	306	1,245	- Other assets and liabilities
3,753	6,785	6,954	7,307	7,041	8,955	Cash provided by operating activities
						Purchases of fixed assets:
(3,828)	(3,973)	(4,842)	(13,850)	(11,631)	(12,862)	- Increase in equipment on operating leases
(6,298)	(6,539)	(7,052)	(88)	(75)	(93)	- Purchases of property, plant and equipment
(496)	(250)	(250)	(18)	(53)	(65)	- Purchases of other fixed assets
4,514	4,577	4,974	5,954	7,374	10,138	Proceeds from disposals of equipment on operating leases
705	606	828	36	37	50	Proceeds from disposals of fixed assets
(244)	(967)	(532)	(20)	(54)	(28)	Payments for investments in businesses
1,176	1,179	5,168	42	30	518	Proceeds from disposals of businesses
29,911	37,346	38,888	(35,889)	(47,778)	(51,900)	Investments in/collections from wholesale receivables
(27,849)	(34,938)	(37,274)	34,180	45,198	49,593	Proceeds from sale of wholesale receivables
4,457	3,829	3,339	(34,945)	(32,775)	(37,833)	Investments in retail receivables
(3,848)	(3,206)	(2,506)	20,996	19,783	22,205	Collections on retail receivables
(115)	(361)	(108)	9,646	9,557	8,654	Proceeds from sale of retail receivables
(4,210)	(4,963)	(5,250)	(1)	(212)	(55)	Acquisitions of securities (other than trading)
3,445	4,687	5,283	36	98	93	Proceeds from sales of securities (other than trading)
(189)	(207)	(191)	108	73	271	Change in other cash
(2,869)	(3,180)	475	(13,813)	(10,428)	(11,314)	Cash provided by (used for) investing activities
1,481	(1,392)	971	972	1,521	1,707	Change in commercial paper borrowings and short-term financial liabilities
2,661	5,469	1,910	12,352	10,967	8,054	Additions to long-term financial liabilities
(6,953)	(4,229)	(7,696)	(6,417)	(8,289)	(9,421)	Repayment of long-term financial liabilities
(585)	(908)	(434)	(962)	(629)	(581)	Dividends paid (including profit transferred from subsidiaries)
(255)	(220)	(227)	285	264	276	Proceeds from issuance of capital stock (including minority interests)
(30)	(36)	(49)	-	-	-	Purchase of treasury stock
(3,681)	(1,316)	(5,525)	6,230	3,834	35	Cash provided by (used for) financing activities
(291)	(981)	(1,087)	(22)	(88)	(108)	Effect of foreign exchange rate changes on cash and cash equivalents (maturing within 3 months)
(3,088)	1,308	817	(298)	359	(2,432)	Net increase (decrease) in cash and cash equivalents (maturing within 3 months)
						Cash and cash equivalents (maturing within 3 months)
9,469	8,161	7,344	1,298	939	3,371	At beginning of period
6,381	9,469	8,161	1,000	1,298	939	At end of period

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

Consolidated Fixed Assets Schedule

	Acquisition or Manufacturing Costs						Balance at December 31, 2004
	Balance at January 1, 2004	Currency change	Change in consolidated companies	Additions	Reclassifications	Disposals	
(in millions of €)							
Goodwill	3,057	(160)	284	4	(4)	132	3,049
Other intangible assets	3,513	(199)	213	233	(7)	276	3,477
Intangible assets	6,570	(359)	497	237	(11)	408	6,526
Land, leasehold improvements and buildings including buildings on land owned by others	18,701	(430)	2,515	335	381	511	20,991
Technical equipment and machinery	31,867	(1,032)	337	1,146	1,950	1,732	32,536
Other equipment, factory and office equipment	21,077	(674)	268	1,136	1,763	785	22,785
Advance payments relating to plant and equipment and construction in progress	4,946	(237)	10	3,818	(4,196)	73	4,268
Property, plant and equipment	76,591	(2,373)	3,130	6,435	(102)	3,101	80,580
Investments in affiliated companies	1,020	-	(17)	119	1	88	1,035
Loans to affiliated companies	54	-	2	269	-	78	247
Investments in associated companies	5,982	65	(1,262)	682	(279)	859	4,329
Investments in related companies	1,348	-	7	208	279	809	1,033
Loans to associated and related companies	282	(6)	-	-	-	34	242
Long-term securities	353	-	145	114	(1)	-	611
Other loans	246	(2)	4	31	-	21	258
Investments and long-term financial assets	9,285	57	(1,121)	1,423	-	1,889	7,755
Equipment on operating leases	32,448	(1,705)	-	17,889	113	13,665	35,080

1 Currency translation changes with period end rates.

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

Balance at January 1, 2004	Currency change	Change in consolidated companies	Depreciation/Amortization			Balance at December 31, 2004	Book Value ¹		
			Additions	Reclassifica- tions	Disposals		Balance at December 31, 2004	Balance at December 31, 2003	
(in millions of €)									
1,241	(67)	3	–	(1)	130	1,046	2,003	1,816	Goodwill
694	(22)	28	169	(11)	52	806	2,671	2,819	Other intangible assets
1,935	(89)	31	169	(12)	182	1,852	4,674	4,635	Intangible assets
8,931	(169)	531	576	(28)	271	9,570	11,421	9,770	Land, leasehold improvements and buildings including buildings on land owned by others
20,725	(596)	230	2,553	(31)	1,445	21,436	11,100	11,142	Technical equipment and machinery
13,937	(357)	196	2,367	9	655	15,497	7,288	7,140	Other equipment, factory and office equipment
81	(6)	–	2	(1)	–	76	4,192	4,865	Advance payments relating to plant and equipment and construction in progress
43,674	(1,128)	957	5,498	(51)	2,371	46,579	34,001	32,917	Property, plant and equipment
202	–	23	20	–	34	211	824	818	Investments in affiliated companies
8	–	–	2	–	–	10	237	46	Loans to affiliated companies
–	(2)	–	–	–	–	(2)	4,331	5,982	Investments in associated companies
228	–	–	30	–	5	253	780	1,120	Investments in related companies
36	–	–	128	–	–	164	78	246	Loans to associated and related companies
–	–	–	12	–	–	12	599	353	Long-term securities
63	–	–	1	–	–	64	194	183	Other loans
537	(2)	23	193	–	39	712	7,043	8,748	Investments and long-term financial assets
8,063	(399)	–	5,445	63	4,803	8,369	26,711	24,385	Equipment on operating leases

Notes to Consolidated Financial Statements – Basis of Presentation

1. Summary of Significant Accounting Policies

General. The consolidated financial statements of DaimlerChrysler AG and subsidiaries (“DaimlerChrysler” or the “Group”) have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”). All amounts herein are presented in euros (“€”) and, for the year 2004 amounts, also in U.S. dollars (“\$”), the latter being unaudited and presented solely for the convenience of the reader at the rate of €1 = \$1.3538, the Noon Buying Rate of the Federal Reserve Bank of New York on December 31, 2004.

Certain amounts reported in previous years have been reclassified to conform to the 2004 presentation. In 2004, the presentation of the consolidated statements of cash flows was modified with regard to certain receivables from financial services. Further information, including the effects on comparative periods presented in the financial statements, is provided in Note 2.

Commercial practices with respect to certain products manufactured by DaimlerChrysler necessitate that sales financing, including leasing alternatives, be made available to the Group’s customers. Accordingly, the Group’s consolidated financial statements are also significantly influenced by activities of its financial services business. To enhance the readers’ understanding of the Group’s consolidated financial statements, the accompanying financial statements present, in addition to the audited consolidated financial statements, unaudited information with respect to the financial position, results of operations and cash flows of the Group’s industrial and financial services business activities. Such information, however, is not required by U.S. GAAP and is not intended to, and does not represent the separate U.S. GAAP financial position, results of operations and cash flows of the Group’s industrial or financial services business activities. Transactions between the Group’s industrial and financial services business activities principally represent intercompany sales of products, intercompany borrowings and related interest, and other support under special vehicle financing programs. The effects of transactions between the industrial and financial services businesses have been eliminated within the industrial business columns.

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

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

Principles of Consolidation. The accompanying consolidated financial statements include the financial statements of DaimlerChrysler AG and all of its material, majority-owned subsidiaries and certain variable interest entities for which DaimlerChrysler is determined to be the primary beneficiary (see Note 3).

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

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

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

A decline in fair value of an investment in any associated company below its carrying amount that is deemed to be other than temporary results in a reduction in carrying amount of the investment to fair value. The impairment is charged to earnings and a new cost basis for the investment is established.

The European Aeronautic Defence and Space Company EADS N.V. (“EADS”) represents a significant associated company. Because the financial statements of EADS are not made available timely to DaimlerChrysler in order to apply the equity method of accounting, the Group’s proportionate share of the results of operations of this associated company are included in DaimlerChrysler’s consolidated financial statements on a three month lag.

Foreign Currencies. The assets and liabilities of foreign operations where the functional currency is not the euro are generally translated into euro using period-end exchange rates. The resulting translation adjustments are recorded as a component of accumulated other comprehensive loss. The statements of income (loss) and the statements of cash flows are translated using average exchange rates during the respective periods.

The exchange rates of the U.S. dollar, as the significant foreign currency, used in preparation of the consolidated financial statements were as follows:

	2004 €1 =	2003 €1 =	2002 €1 =
Exchange rate at December 31,	1.3621	1.2630	1.0487
Average exchange rates			
First Quarter	1.2497	1.0735	0.8766
Second Quarter	1.2046	1.1355	0.9191
Third Quarter	1.2218	1.1248	0.9838
Fourth Quarter	1.2977	1.1885	0.9989

The assets and liabilities of foreign operations in highly inflationary economies are translated into euro on the basis of period-end rates for monetary assets and liabilities and at historical rates for non-monetary items, with resulting translation gains and losses recognized in earnings. Further, for foreign operations in such economies, depreciation and gains and losses from the disposal of non-monetary assets are determined using historical rates. In all periods presented the Group had foreign operations in one economy that was considered highly inflationary.

Revenue Recognition. Revenue for sales of vehicles, service parts and other related products is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price of the transaction is fixed and determinable, and collectibility is reasonably assured. Revenues are recognized net of discounts, cash sales incentives, customer bonuses and rebates granted. Non-cash sales incentives that do not reduce the transaction price to the customer are classified within cost of sales. Shipping and handling costs are recorded as cost of sales in the period incurred.

DaimlerChrysler uses price discounts (primarily at the Chrysler Group) to adjust market pricing in response to a number of market and product factors, including: pricing actions and incentives offered by competitors, economic conditions, the amount of excess industry production capacity, the intensity of market competition, and consumer demand for the product. The Group may offer a variety of sales incentive programs at any point in time, including: cash offers to dealers and consumers, lease subsidies which reduce the consumer’s monthly lease payment, or reduced financing rate programs offered to consumers.

The Group records as a reduction to revenue at the time of sale to the dealer the estimated impact of sales incentives programs offered to dealers and consumers. This estimated impact represents the incentive programs offered to dealers and consumers as well as the expected modifications to these programs in order for the dealers to sell their inventory.

The Group offers extended, separately priced warranty contracts for certain products. Revenues from these contracts are deferred and recognized into income over the contract period in proportion to the costs expected to be incurred based on historical information. In circumstances in which there is insufficient historical information, income from extended warranty contracts is recognized on a straight-line basis. A loss on these contracts is recognized in the current period, if the sum of expected costs for services under the contract exceeds unearned revenue.

For transactions with multiple deliverables, such as when vehicles are sold with free service programs the Group allocates revenue to the various elements based on their relative fair values, if the separation criteria outlined in Emerging Issues Task Force (“EITF”) 00-21, “Revenue Arrangements with Multiple Deliverables,” are met.

When below market rate loans under special financing programs are used to promote sales of vehicles and the Services segment finances the vehicle, the effect of the rate differential at the contract origination date is deducted from revenues and recorded as unearned income in the consolidated balance sheet. Services amortizes the unearned income balance into earnings using the interest method over the original (contractual) life of the receivables. Upon prepayment or sale of the receivable, the unamortized unearned income is recognized into earnings.

Sales under which the Group guarantees the minimum resale value of the product, such as in sales to certain rental car company customers, are accounted for similar to an operating lease in accordance with EITF 95-1, "Revenue Recognition on Sales with a Guaranteed Minimum Resale Value." The guarantee of the resale value may take the form of an obligation by DaimlerChrysler to pay the deficiency, if any, between the proceeds the customer receives upon resale in an auction and the guaranteed amount or an obligation to reacquire the vehicle after a certain period of time at a set price. Gains or losses from resale of these vehicles are included in gross profit.

Revenue from operating leases is recognized on a straight-line basis over the lease term.

Revenue from sales financing and finance lease receivables is recognized using the interest method. Recognition of revenue is generally suspended when a finance or lease receivable becomes contractually delinquent for periods ranging from 60 to 120 days.

The Group sells significant amounts of finance receivables as asset-backed securities through securitization transactions. The Group sells a portfolio of receivables to a non-consolidated trust and usually remains as servicer for a servicing fee. Servicing fees are recognized on a consistent yield basis over the remaining term of the related receivables sold. In a subordinated capacity, the Group retains residual cash flows, a beneficial interest in principal balances of receivables sold and certain cash deposits provided as credit enhancements for investors. Gains and losses from the sale of finance receivables are recognized in the period in which the sale occurs. In determining the gain or loss for each qualifying sale of finance receivables, the investment in the receivable pool sold is allocated between the portion sold and the portion retained based upon their relative fair values.

Estimated Credit Losses. DaimlerChrysler determines its allowance for credit losses based on an ongoing systematic review and evaluation performed as part of the credit-risk evaluation process. The evaluation performed considers historical loss experience, the size and composition of the portfolios, current economic events and conditions, the estimated fair value and adequacy of collateral and other pertinent factors. Certain homogeneous loan portfolios are evaluated collectively, taking into consideration primarily historical loss experience adjusted for the estimated impact of current economic events and conditions, including fluctuations in the fair value and adequacy of collateral. Other receivables, such as wholesale receivables and loans to large commercial borrowers, are evaluated for impairment individually based on the fair value of the underlying collateral. Credit exposures deemed to be uncollectible are charged against the allowance for doubtful accounts. DaimlerChrysler generally does not originate or purchase receivables for resale. Loans that are classified as held for sale are carried at the lower of cost or market when it is determined that market price for the loan represents the estimated future cash flows on the loan.

Research and Development and Advertising. Research and development and advertising costs are expensed as incurred.

Sales of Newly Issued Subsidiary Stock. Gains and losses resulting from the issuance of stock by a Group subsidiary to third parties that reduce DaimlerChrysler's percentage ownership ("dilution gains and losses") and DaimlerChrysler's share of any dilution gains and losses reported by its investees accounted for under the equity method are recognized in the Group's consolidated statement of income (loss) in the line item "Other financial income (expense), net."

Discontinued Operations. The results of operations of discontinued Group components and gains or losses from their disposal are each presented separately net of tax in the Group's statement of income (loss) for all periods presented. A Group component is considered a discontinued operation if its operations and cash flows have been or will be eliminated from the ongoing activities of the Group as a result of the disposal transaction, the Group will not have any significant subsequent continuing involvement with the component, and the component can be clearly distinguished, operationally and for financial reporting purposes. If not disposed of by the balance sheet date, to qualify as discontinued operations, a component must also meet the conditions to be classified as held for sale. Net assets of a discontinued Group component classified as held for sale are measured at the lower of its carrying amount or fair value less cost to sell. Gains from the sale of a discontinued Group component are recognized in the period realized and reported separately.

Pension and Other Postretirement Plans. The measurement of pension and postretirement benefit liabilities is based upon the projected unit credit method in accordance with Statement of Financial Accounting Standards (“SFAS”) 87, “Employers’ Accounting for Pensions,” and SFAS 106, “Employers’ Accounting for Postretirement Benefits Other Than Pensions,” respectively. As permitted under SFAS 87 and SFAS 106, changes in the amount of either the projected benefit obligation (for pension plans), the accumulated benefit obligation (for other postretirement plans) or differences between actual and expected return on plan assets and from changes in assumptions can result in gains and losses not yet recognized in the Group’s consolidated financial statements. The expected return on plan assets is determined based on the expected long-term rate of return on plan assets and the fair value or market-related value of plan assets. Amortization of an unrecognized net gain or loss is included as a component of the Group’s net periodic benefit plan cost for a year if, as of the beginning of the year, that unrecognized net gain or loss exceeds 10 percent of the greater of (1) the projected benefit obligation (for pension plans) or the accumulated postretirement benefit obligation (for other postretirement plans) or (2) the fair value or market-related value of that plan’s assets. In such case, the amount of amortization recognized by the Group is the resulting excess divided by the average remaining service period of active employees expected to receive benefits under the plan (see Note 25a).

DaimlerChrysler elected retroactive application as of January 1, 2004, to account for subsidies provided under the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (“Medicare Act”). Under certain conditions, the Medicare Act provides for subsidies related to postretirement healthcare benefits that reduce the accumulated postretirement benefit obligation (“APBO”) of companies in the United States. See Note 25a for further information about the impact of the Medicare Act on the Group’s consolidated financial statements.

Earnings Per Share. Basic earnings per share is calculated by dividing income (loss) from continuing operations and net income (loss), respectively, by the weighted average number of shares outstanding. Diluted earnings per share reflects the potential dilution that would occur if all securities and other contracts to issue Ordinary Shares were exercised or converted (see Note 36).

Goodwill and Other Intangible Assets. The Group accounts for all business combinations initiated after June 30, 2001, using the purchase method of accounting. Goodwill represents the excess of the cost of an acquired entity over the fair values assigned to the assets acquired and the liabilities assumed after taking into consideration the types of acquired intangible assets that are required to be recognized and reported separately from goodwill.

Beginning January 1, 2002, goodwill acquired and intangible assets determined to have an indefinite useful life are not amortized, but instead are tested for impairment. Prior to January 1, 2002, goodwill was amortized on a straight-line basis over its estimated useful life of 3 to 40 years, and was assessed for recoverability based on estimated undiscounted future cash flows.

DaimlerChrysler evaluates the recoverability of its goodwill at least annually or when significant events occur or there are changes in circumstances that indicate the fair value of a reporting unit of the Group is less than its carrying value. The Group determines the fair value of each of its reporting units by estimating the present value of their future cash flows. In addition, any recognized intangible asset determined to have an indefinite useful life is tested at least annually for impairment until its life is determined to no longer be indefinite. Intangible assets with estimable useful lives are valued at acquisition cost, are amortized on a straight-line basis over their respective estimated useful lives (2 to 10 years) to their estimated residual values, and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset or asset group may not be recoverable.

Property, Plant and Equipment. Property, plant and equipment is valued at acquisition or manufacturing costs plus the fair value of related asset retirement cost, if any, less accumulated depreciation. Plant and equipment under capital leases are stated at the lower of present value of minimum lease payments or fair value less accumulated amortization. Depreciation expense is recognized using the straight-line method. The costs of internally produced equipment and facilities include all direct costs and allocable manufacturing overhead including depreciation charges as well as the fair value of related asset retirement cost, if any. Costs of the construction of certain long-term assets include capitalized interest, which is amortized over the estimated useful life of the related asset. Property, plant and equipment are depreciated over the following useful lives:

Buildings	10 to 50 years
Site improvements	5 to 40 years
Technical equipment and machinery	3 to 30 years
Other equipment, factory and office equipment	2 to 33 years

Leasing. Leasing includes all arrangements that transfer the right to use specified property, plant or equipment for a stated period of time, even if the right to use such property, plant or equipment is not explicitly described in an arrangement. The Group is a lessee of property, plant and equipment and lessor of equipment, principally passenger cars and commercial vehicles. All leases that meet certain specified criteria intended to represent situations where the substantive risks and rewards of ownership have been transferred to the lessee are accounted for as capital leases. All other leases are accounted for as operating leases. Rent expense on operating lease where the Group is lessee is recognized over the respective lease terms using the straight-line method. Equipment on operating leases where the Group is lessor is carried initially at its acquisition or production cost and is depreciated over the contractual term of the lease, using the straight-line method, to its estimated residual value. The estimated residual value is initially determined using published third party information as well as projections based on historical experience about expected resale values for the types of equipment leased.

Impairment of Long-Lived Assets. Long-lived assets held and used, such as property, plant and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset or asset group to the estimated future undiscounted cash flows expected to be generated by the asset or group of assets. If the carrying amount of an asset or group of assets exceeds its estimated future undiscounted cash flows, an impairment charge is recognized in the Group's financial statements by the amount by which the carrying amount of the asset or group of assets exceeds fair value of the asset or group of assets.

Assets to be disposed of are disclosed separately and are reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated.

Non-fixed Assets. Non-fixed assets represent the Group's inventories, receivables, securities and cash, including amounts to be realized in excess of one year. In the accompanying notes, the portion of assets to be realized in excess of one year has been disclosed.

Inventories. Inventories are valued at the lower of acquisition or manufacturing cost or market, cost being generally determined on the basis of an average or first-in, first-out method ("FIFO"). Certain of the Group's U.S. inventories are valued using the last-in, first-out method ("LIFO"). Manufacturing costs comprise direct material and labor and applicable manufacturing overheads, including depreciation charges.

Marketable Securities and Investments. Securities and certain investments are accounted for at fair value, if fair value is readily determinable. Unrealized gains and losses on trading securities, representing securities bought and held principally for the purpose of near term sales, are included in earnings. Unrealized gains and losses on available-for-sale securities are included as a component of accumulated other comprehensive loss, net of applicable taxes, until realized. All other securities and investments are recorded at cost. A decline in value of any available-for-sale security or cost method investment below cost that is deemed to be other than temporary results in an impairment charge to earnings that reduces the carrying amount of the security or the cost method investment to fair value establishing a new cost basis.

Valuation of Retained Interests in Sold Receivables. DaimlerChrysler retains residual beneficial interests in certain pools of sold and securitized retail and wholesale finance receivables. Such retained interests represent the present value of the estimated residual cash flows after repayment of all senior interests in the sold receivables. The Group determines the value of its retained interests using discounted cash flow modeling upon the sale of receivables and at the end of each quarter. The valuation methodology considers historical and projected principal and interest collections on the sold receivables, expected future credit losses arising from the collection of the sold receivables, and estimated repayment of principal and interest on notes issued to third parties and secured by the sold receivables.

The Group recognizes unrealized gains or losses attributable to the change in the fair value of the retained interests, which are recorded in a manner similar to available-for-sale securities, net of related income taxes as a component of accumulated other comprehensive loss until realized. The Group is not aware of an active market for the purchase or sale of retained interests, and accordingly, determines the estimated fair value of the retained interests by discounting the estimated cash flow releases (the cash-out method) using a discount rate that is commensurate with the risks involved. In determining the fair value of the retained interests, the Group estimates the future rates of prepayments, net credit losses and forward yield curves. These estimates are developed by evaluating the historical experience of comparable receivables and the specific characteristics of the receivables sold, and forward yield curves based on trends in the economy.

An impairment adjustment to the carrying value of the retained interests is recognized in the period a decline in the estimated cash flows below the cash flows inherent in the cost basis of an individual retained interest (the pool-by-pool method) is considered to be other than temporary. Other than temporary impairment adjustments are generally recorded as a reduction of revenue.

Cash Equivalents. The Group's liquid assets are recorded under various balance sheet captions as more fully described in Note 21. For purposes of the consolidated statements of cash flows, the Group considers all highly liquid instruments with original maturities of three months or less to be cash equivalents.

Derivative Instruments and Hedging Activities. DaimlerChrysler uses derivative financial instruments such as forward contracts, swaps, options, futures, swaptions, forward rate agreements, caps and floors for hedging purposes. The accounting of derivative instruments is based upon the provisions of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. On the date a derivative contract is entered into, DaimlerChrysler designates the derivative as either a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge), or a hedge of a net investment in a foreign operation. DaimlerChrysler recognizes all derivative instruments as assets or liabilities on the balance sheet and measures them at fair value, regardless of the purpose or intent for holding them. Changes in the fair value of derivative instruments are recognized periodically either in earnings or stockholders' equity, as a component of accumulated other comprehensive loss, depending on whether the derivative is designated as a hedge of changes in fair value or cash flows. For derivatives designated as fair value hedges, changes in fair value of the hedged item and the derivative are recognized currently in earnings. For derivatives designated as cash flow hedges, fair value changes of the effective portion of the hedging instrument are recognized in accumulated other comprehensive loss on the balance sheet, net of applicable taxes, until the hedged item is recognized in earnings. The ineffective portions of the fair value changes are recognized in earnings immediately. Derivatives not meeting the criteria for hedge accounting are marked to market and impact earnings. SFAS 133 also requires that certain derivative instruments embedded in host contracts be accounted for separately as derivatives.

Further information on the Group's financial instruments is included in Note 33.

Commitments and Contingencies. Liabilities for loss contingencies are recorded when it is probable that a liability to third parties has been incurred and the amount can be reasonably estimated. Liabilities for loss contingencies are regularly adjusted as further information develops or circumstances change.

The accrued liability for expected warranty-related costs is established when the product is sold, upon lease inception, or when a new warranty program is initiated. Estimates for accrued warranty costs are primarily based on historical experience. Because portions of the products sold and warranted by the Group contain parts manufactured (and warranted) by suppliers, the amount of warranty costs accrued also contains an estimate of recoveries from suppliers.

The accrued liability for sales incentives is based on the estimated cost of the sales incentive programs and the number of vehicles held in dealers' inventory. The majority of vehicles held in dealers' inventory are sold to consumers within the next quarter and the sales incentives accrued liability is adjusted to reflect recent actual experience.

In accordance with Financial Accounting Standards Board ("FASB") Interpretation ("FIN") 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others – an interpretation of FASB Statements No. 5, 57 and 107 and rescission of FASB Interpretation No. 34" DaimlerChrysler recognizes, at inception of a guarantee, a liability for the fair value of the non-contingent portion of the obligation due to the issuance of the guarantee. DaimlerChrysler applies these provisions for guarantees issued or modified after December 31, 2002. If performance under the guarantee is probable and the amount can be reasonably estimated, a liability for the contingent obligation is recognized for any guarantee regardless of its date of issuance. Further information on the Group's obligations under guarantees is included in Note 25b and 32.

DaimlerChrysler records the fair value of an asset retirement obligation in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets and subsequently adjusts the carrying amount for changes in expected cash flows and the passage of time.

Deposits from Direct Banking Business. Demand deposit accounts are classified as financial liabilities. Interest paid on demand deposit accounts is recognized in cost of sales as incurred.

Stock-Based Compensation. DaimlerChrysler adopted the fair value recognition provisions of SFAS 123, "Accounting for Stock-Based Compensation," prospectively to all employee awards granted, modified, or settled after January 1, 2003. Compensation expense for all stock-options granted prospectively from December 31, 2002, has been measured principally at the grant date based on the fair value of the equity award using a modified Black-Scholes option-pricing model. Compensation expense is recognized over the employee service period with an offsetting credit to equity (paid-in capital). DaimlerChrysler options granted prior to January 1, 2003, continue to be accounted for using the intrinsic value based approach under Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. Compensation expense under APB 25 was measured at the grant date based on the difference between the strike price of the equity award and the fair value of the underlying stock as of the date of grant. The following table illustrates the effect on net income and earnings per share if the fair value based method had been applied to all outstanding and unvested awards in each period.

	Year ended December 31,		
	2004	2003	2002
(in millions of €)			
Net income	2,466	448	4,718
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	81	81	47
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(113)	(164)	(161)
Pro forma net income	2,434	365	4,604
Earnings per share (in €):			
Basic	2.43	0.44	4.68
Basic – pro forma	2.40	0.36	4.57
Diluted	2.43	0.44	4.67
Diluted – pro forma	2.40	0.36	4.54

Further information on stock-based compensation is included in Note 24.

New Accounting Standards Not Yet Adopted. In November 2003 and March 2004, the EITF reached partial consensus on EITF 03-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.” EITF 03-1 addresses the meaning of other than temporary impairment and its application to investments classified as either available-for-sale or held-to-maturity under SFAS 115, “Accounting for Certain Investments in Debt and Equity Securities,” and investments accounted for under the cost method. The EITF agreed on certain quantitative and qualitative disclosures about unrealized losses pertaining to securities classified as available-for-sale or held-to-maturity. In addition, EITF 03-1 requires certain disclosures about cost method investments. The recognition and measurement provisions of EITF 03-1 have been deferred until additional guidance is issued. The disclosures required by EITF 03-1 have been included in Note 20.

In November 2004, the FASB issued SFAS 151, “Inventory Costs, an amendment of ARB No. 43, Chapter 4” to clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) should be recognized as current period charges and to require the allocation of fixed production overheads to the costs of conversion based on the normal capacity of the production facilities. SFAS 151 is effective prospectively for inventory costs incurred during fiscal years beginning after June 15, 2005. DaimlerChrysler is currently determining the effect of SFAS 151 on the Group’s consolidated financial statements but does not expect the effect to be material.

In December 2004, the FASB issued SFAS 123 (revised 2004), “Share-Based Payment” (“SFAS 123R”). SFAS 123R establishes accounting guidance for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity’s equity instruments or that may be settled by the issuance of those equity instruments. Equity-classified awards are measured at grant date fair value and are not subsequently remeasured. Liability-classified awards are remeasured to fair value at each balance-sheet date until the award is settled. SFAS 123R applies to all awards granted after July 1, 2005, and to awards modified, repurchased or cancelled after that date using a modified version of prospective application. DaimlerChrysler is currently determining the effect of SFAS 123R on the Group’s consolidated financial statements.

2. Presentation of Receivables from Financial Services in Consolidated Statements of Cash Flows

In prior periods, DaimlerChrysler reported the effects of all receivables from financial services as investing activities for purposes of presentation in the consolidated statements of cash flows as well as the accompanying information about cash flows of the financial services business. This policy, when applied to receivables from financial services related to sales of the Group’s products to its customers, had the effect of presenting an investing cash outflow and an operating cash inflow even though there was no cash flow on a consolidated basis. In the current year, based on concerns raised by the staff of the “Securities and

Exchange Commission”, management has decided to report the cash flow related effects of those receivables from financial services which relate to sales of the products to customers within operating cash flows in the consolidated statements of cash flows. This presentation results in the elimination of the inter-company activity between the industrial business and financial services business. Management also determined to revise the presentation in the consolidated statements of cash flows for the years 2003 and 2002 to achieve a comparable presentation for all periods presented herein.

The cash flow related effects of receivables from financial services that are unrelated to the Group’s inventory or involve investments in loans or finance leases to retail customers of a dealer-customer continue to be reported within cash used for investing activities.

The balance of cash and cash equivalents at December 31, 2003 and 2002 and the total net increase or decrease in cash and cash equivalents and cash provided by or used for financing activities for the years ended December 31, 2003 and 2002 remained unchanged. The impact of the reclassification on the captions within the consolidated statements of cash flows with respect to the years 2003 and 2002 is:

	Year ended December 31,	
	2003	2002
(in millions of €)		
Cash provided by operating activities, as previously reported	16,496	18,016
Amount reclassified from investing activities	(2,670)	(2,107)
Cash provided by operating activities, after reclassification	13,826	15,909
Cash used for investing activities, as previously reported	(16,278)	(12,946)
Amount reclassified to operating activities	2,670	2,107
Cash used for investing activities, after reclassification	(13,608)	(10,839)

3. Scope of Consolidation, Certain Variable Interest Entities and Significant Equity Method Investments

Scope of Consolidation

DaimlerChrysler comprises, besides DaimlerChrysler AG, 485 (2003: 440) German and non-German subsidiaries as well as 4 (2003: 4) companies (variable interest entities) that have been consolidated in accordance with the requirements of FIN 46R. A total of 105 (2003: 100) companies are accounted for in the consolidated financial statements using the equity method of accounting. During 2004, 74 subsidiaries were included in the consolidated financial statements for the first time. A total of 29 subsidiaries were no longer included in the consolidated group. The effects of changes in the Group’s consolidated balance sheets and the consolidated statements of income (loss), if material, are explained further in the notes to the consolidated financial statements. In addition, 3 (2003: 3) companies administering pension funds whose assets are subject to restrictions have not been included in the consolidated financial statements. The impact of non-consolidated subsidiaries (affiliated companies) and investments that were not accounted for using the equity method of accounting (associated companies) on the consolidated financial position, results of operations or cash flows of the Group was neither material for individual companies nor in the aggregate.

Consolidated Special Purpose Entities

DaimlerChrysler applied the provisions of FASB Interpretation No. 46 (revised December 2003) "Consolidation of Variable Interest Entities" ("FIN 46R"), to special purpose entities as of December 31, 2003, and to all other entities as of March 31, 2004. The implementation of FIN 46R resulted in the consolidation of several entities, among them primarily leasing arrangements that were off-balance in the past and qualify as special purpose entities as defined in FIN 46R. DaimlerChrysler is the primary beneficiary of those structures and, accordingly, consolidated them effective December 31, 2003. Under the leasing arrangements, variable interest entities were established and owned by third parties.

The variable interest entities raised funds by issuing either debt or equity securities to third party investors. The variable interest entities used the debt and equity proceeds to purchase property and equipment, which is leased by the Group and used in the normal course of business. At the end of the lease term, DaimlerChrysler generally has the option to purchase the property and equipment or re-lease the property and equipment under new terms. Total assets of those consolidated entities total €0.7 billion and €0.4 billion and total liabilities amount to €0.8 billion and €0.4 billion as of December 31, 2004 and 2003, respectively. The cumulative effect of consolidating these special purpose entities on the Group's consolidated statement of income (loss) in 2003 was €(30) million, net of taxes of €35 million (€(0.03) per share). The assets consist primarily of property, plant and equipment that generally serves as collateral for the entities' long-term borrowings. The creditors of these entities do not have recourse to the general credit of the Group, except to the extent of guarantees provided.

Further significant Variable Interest Entities

DaimlerChrysler also holds variable interests in a number of other entities, but determined that it is not the primary beneficiary of those entities. The discussion below under the headline "Significant Equity Method Investments" and Note 34 provide disclosure about variable interest entities accounted for under the equity method of accounting and for multiseller conduits, respectively. Additionally, DaimlerChrysler has equity or other variable interests in a number of other entities where it is not the primary beneficiary, among them investments accounted for using the cost method, which comprise of dealers, suppliers and service providers. Total assets and total liabilities of these entities amounted to €0.4 billion and €0.5 billion as of December 31, 2004, and €0.3 billion and €0.3 billion as of December 31, 2003, respectively. The maximum exposure to loss arising from DaimlerChrysler's involvement with those entities totaled €0.1 billion and €0.2 billion as of December 31, 2004 and 2003, respectively.

Significant Equity Method Investments

EADS. At December 31, 2004, the European Aeronautic Defence and Space Company EADS N.V. ("EADS") was the most significant investment accounted for under the equity method. The Group's legal ownership percentage in EADS as of December 31, 2004, was 30.2%.

On July 7, 2004, DaimlerChrysler entered into a securities lending agreement with Deutsche Bank AG concerning 22,227,478 EADS shares (2.8% of the voting stock). The securities lending has several tranches with terms ranging between three and four years. As collateral, DaimlerChrysler received a lien on a securities account of equivalent value as the shares loaned by DaimlerChrysler. Because this transaction does not meet the criteria of a sale, the loaned shares continue to be carried as investments on the balance sheet and, accordingly, our proportionate share of EADS' income is still accounted at a percentage of 33.0%.

As of September 30, 2003, DaimlerChrysler determined that the decline in fair value below the carrying value of its investment in EADS was other-than-temporary. To evaluate the fair value of the investment the Group used the market price of a share of EADS common stock, multiplied by the number of shares owned. In making that determination, DaimlerChrysler considered the duration and severity of the decline and the reasons for the decline. Although EADS is involved in a variety of businesses, it is primarily an aircraft manufacturer because of its Airbus division, which manufactures commercial aircraft and represents more than 60 % of EADS' revenues. As a consequence, EADS' share price declined as a result of the negative outlook for the airline industry in the aftermath of the terrorist attacks at September 11, 2001, the outbreak of the SARS disease, the war in Iraq and the decline of the U.S. dollar compared to the euro which further depressed market participants' expectations for the commercial airline industry. Consequently, DaimlerChrysler reduced the carrying value of its investment in EADS by €1.96 billion to its market value, based on the quoted market price, which approximated €3.5 billion at that time. As a result of the impairment a new cost basis was established.

DaimlerChrysler's equity in the earnings or losses of EADS was €249 million, €(1,845) million and €281 million in 2004, 2003 and 2002, respectively, including investor-level adjustments. DaimlerChrysler's equity in the earnings or losses of EADS is shown in the Group's statements of income (loss) within "Financial income (expense), net," except for the other-than-temporary impairment of €1,960 million in 2003, which is included in a separate caption within "Financial income (expense), net." The 2002 result excludes the Group's proportionate share of EADS' transitional goodwill impairment charge of €114 million in 2002 that resulted from the adoption of SFAS 142 and was reported in DaimlerChrysler's consolidated statement of income (loss) in the line item "cumulative effects of changes in accounting principles."

The carrying amount of DaimlerChrysler's investment in EADS at December 31, 2004 and 2003 was €3,854 million and €3,583 million, respectively. DaimlerChrysler's share of the underlying reported net assets of EADS exceeded the carrying value of DaimlerChrysler's investment at December 31, 2004 and 2003, by €1,899 million, primarily as a result of the impairment write down recognized in the third quarter of 2003. The market value at December 31, 2004, of DaimlerChrysler's investment in EADS based on quoted market prices was €5,704 million.

The following table presents summarized U.S. GAAP financial information for EADS, which are the basis for applying the equity method in the Group's consolidated financial statements:

EADS			
	2004	2003	2002
(in millions of €)			
Income statement information ¹			
Revenues	30,977	27,650	28,769
Net income	753	348	521
Balance sheet information ²			
Fixed assets	29,331	27,305	
Non-fixed assets	26,099	24,804	
Total assets	55,430	52,109	
Stockholders' equity	17,434	16,611	
Minority interests	1,971	1,717	
Accrued liabilities	9,299	8,055	
Other liabilities	26,726	25,726	
Total liabilities and stockholders' equity	55,430	52,109	

¹ For the period October 1 to September 30.

² Balance sheet information as of September 30.

MMC. On April 22, 2004, the Board of Management and the Supervisory Board of DaimlerChrysler AG decided to withdraw from providing any financial support to Mitsubishi Motors Corporation ("MMC") and not to participate in a recapitalization of MMC anticipated to occur in July 2004. At the time of this decision, DaimlerChrysler held 37% of MMC's voting stock and 3 of the 8 members of MMC's board of directors (approximately 38% representations) were its representatives.

Between DaimlerChrysler's Board vote on April 22, 2004, and the MMC shareholder meeting on June 29, 2004, MMC worked with its other significant shareholders, lenders and potential investors on a restructuring plan that included a recapitalization of MMC which was presented for vote at the June 29 shareholder meeting. DaimlerChrysler was not party to those discussions nor did DaimlerChrysler participate in any of the measures set forth in the restructuring plan; however, DaimlerChrysler's concurrence to the measures was required as its ownership level at such time provided it with veto powers.

On June 29, 2004, the shareholders of MMC approved the restructuring plan which resulted in a new investor obtaining a 33.3% interest in MMC's voting stock, thereby becoming MMC's largest shareholder, and in the issuance of three classes of convertible preferred instruments to other investors and some existing MMC shareholders (not including DaimlerChrysler).

The new investor that acquired a 33.3% voting interest entered into a contractual agreement with MMC that awarded it the unilateral right to make significant operating decisions. In addition, the new shareholder has acted in concert with other large institutional shareholders who together with the new shareholder own a majority of the voting stock. Accordingly, such Japanese shareholder groups who acted in concert in the recapitalization are in a position to control MMC.

The MMC board of directors includes 12 board members in total, with the DaimlerChrysler's representation down to 2 board members (16.7% representations) which does no longer enable DaimlerChrysler to block or veto any matters coming to a vote at board level.

DaimlerChrysler's ownership interest in voting stock was diluted from 37.0% to 24.7%. The dilution below one-third is significant because Japanese laws require a one-third minimum quorum to afford a shareholder protective rights, e.g. in cases of the dissolution of the company, the sale of all or substantial part of the business of the company, or agreements to merge with other companies. As a result, DaimlerChrysler no longer has the blocking and veto rights that DaimlerChrysler believes are an essential factor in exercising significant influence by ownership interest. DaimlerChrysler surrendered significant rights by agreeing not to oppose the restructuring plan. Upon conversion of the mandatory convertible preferred instruments issued to other MMC investors, DaimlerChrysler's interest in MMC's voting stock will be further diluted to below 11%.

Furthermore, all executive officers appointed by DaimlerChrysler resigned and all other DaimlerChrysler expatriates, in total more than 50 managers that were assigned to our investee, left MMC prior to June 30, 2004, and returned to DaimlerChrysler. Even prior to the June 29, 2004 shareholder meeting, an announcement was made on May 24, 2004 informing MMC employees that our assignees were released from their managerial responsibilities and have delegated their responsibilities to other managers, none of whom is our representative.

Based on the factors outlined above, DaimlerChrysler lost its ability to significantly influence MMC's operating and financial policies. Consequently, as of the annual shareholders' meeting of MMC on June 29, 2004, DaimlerChrysler ceased to account for its investment in MMC using the equity method and has since accounted for MMC shares as a marketable security at fair value (see Note 20).

Through December 31, 2004, the Group's interest in the voting stock of MMC had been further reduced to 19.7%. The carrying amount of the Group's investment in MMC at December 31, 2004 and 2003, was €459 million and €959 million, respectively.

Through June 29, 2004, the results from MMC are included in the Group's consolidated statements of income using the equity method of accounting. The Group's proportionate share in the negative results of MMC through June 29, 2004, 2003 and 2002, were €(655) million, €(281) million and €(88) million, respectively. The amount for 2004 includes the effects from the dilution of the Group's interest in MMC of €(135) million and related realized gains from currency hedging of the net investment of €195 million (after tax €120 million). These effects from the dilution as well as these realized gains from currency hedging are reflected in DaimlerChrysler's consolidated statement of income (loss) in the line item "financial income (expense), net".

The following table presents summarized U.S. GAAP financial information for MMC, which were the basis for applying the equity method in the Group's consolidated financial statements:

MMC			
	2004	2003	2002
(in millions of €)			
Income statement information ¹			
Revenues	9,858	27,129	27,847
Net loss	(1,730)	(759)	(238)
Balance sheet information ²			
Fixed assets		7,287	
Non-fixed assets		10,237	
Total assets		17,524	
Stockholders' equity		1,116	
Minority interests		114	
Accrued liabilities		4,077	
Other liabilities		12,217	
Total liabilities and stockholders' equity		17,524	

¹ 2004 for the period October 1, 2003 to March 31, 2004; 2003 and 2002 for the period October 1 to September 30, respectively.

² Balance sheet information as of September 30. For 2004 no balance sheet information provided due to change from equity method to marketable security.

Toll Collect. In December 2002, DaimlerChrysler Services AG ("DaimlerChrysler Services"), Deutsche Telekom AG ("Deutsche Telekom"), and Compagnie Financière et Industrielle des Autoroutes S.A. ("Cofiroute") (together the "Consortium") entered into a partnership agreement to develop and in the framework of a separate joint venture company to install and operate a system for the electronic collection of tolls. This was based on a contract entered into in September 2002 between DaimlerChrysler Services, Deutsche Telekom and Cofiroute as well as the Federal Republic of Germany to develop, install and operate a system for electronic collection of tolls from all commercial vehicles over 12t GVW using German highways ("Operating Agreement"). DaimlerChrysler Services and Deutsche Telekom each hold a 45% equity interest and Cofiroute holds the remaining 10% equity interest in both the consortium (Toll Collect GbR) and the joint venture company (Toll Collect GmbH) (together "Toll Collect"). Cofiroute's risks and obligations are limited to €70 million. DaimlerChrysler Services and Deutsche Telekom are currently jointly obliged to indemnify Cofiroute for amounts exceeding this limitation. DaimlerChrysler Services accounts for its investment in Toll Collect using the equity method of accounting. The Group has a significant variable interest in Toll Collect, a variable interest entity, but determined that it is not the primary beneficiary and therefore not required to consolidate Toll Collect.

Toll Collect has not yet generated any revenues after its formation in 2002. Toll Collect's net loss for the years ended December 31, 2004, 2003 and 2002, was €1,071 million, €206 million and €45 million, respectively. At December 31, 2004 and 2003, Toll Collect's current assets totaled €77 million and €114 million, its non-current assets totaled €458 million and €818 million, its current liabilities totaled €296 million and €883 million, its non-current liabilities totaled €1,173 million and €71 million, and its equity totaled €(934) million and €(22) million, respectively. Toll Collect's assets were primarily comprised of equipment representing the toll collection system and its liabilities were primarily comprised of bank debt and amounts due to subcontractors.

The Group's involvement with Toll Collect is comprised of its equity interest and certain guarantees to fund Toll Collect GmbH and to support the obligations of Toll Collect GmbH towards the Federal Republic of Germany relating to the completion and operation of the toll collection system. As a result of an analysis of the Operating Agreement and the supplement thereto and the activities of Toll Collect GmbH, DaimlerChrysler recognized losses of €480 million, €261 million and €20 million in 2004, 2003 and 2002, respectively. The aggregate losses recognized exceeded DaimlerChrysler's investment. After reducing the carrying amount of the investment to zero in 2003, DaimlerChrysler recognized an amount of €480 million and €65 million which is included in accrued liabilities on DaimlerChrysler's consolidated balance sheets as of December 31, 2004 and 2003, respectively, as a result of DaimlerChrysler's exposure under the aforementioned guarantees. The losses attributed to Toll Collect are included in Financial income (expense), net, in DaimlerChrysler's 2004, 2003 and 2002 statements of income.

The most significant assumptions used in its accounting for the investment in Toll Collect relate to the launch date of the toll collection system, the estimated cost to design and construct the system, and the operation of the system. According to the Operating Agreement, the toll collection system was to be operational no later than August 31, 2003. Delays in the expected launch date of the toll collection system resulted in a loss of revenue for Toll Collect and in payments of contractual penalties for delays. In addition, cost overruns related to the design and construction of the toll collection system that will not be reimbursed by the Federal Republic of Germany resulted in additional losses.

On February 19, 2004, the Federal Republic of Germany sent an advance notice of termination to the Toll Collect consortium. In subsequent negotiations, on February 29, 2004, the consortium members reached an agreement with the Federal Republic of Germany to continue the Toll Collection project. According to the additional agreement (supplement to the Operating Agreement), notarized in April 2004, the Federal Republic of Germany and the consortium members agreed on introducing toll collection on January 1, 2005, with on-board units ("OBUs") that allow for slightly less than full technical performance in accordance with the technical specification (start of phase 1). Subject to an extension of phase 1 up to one year under certain circumstances, the toll collection system will be installed and operated with full effectiveness as specified in the Operating Agreement no later than January 1, 2006 (start of phase 2).

Penalties, revenue reductions and other provisions under the supplement to the Operating Agreement and the Operating Agreement itself are described in more detail below.

Revenue reductions and other provisions under the supplement of the Operating Agreement:

- During phase 1, Toll Collect GmbH or the consortium will be liable for any shortfall of net toll proceeds (i.e., excess of tolls over the fees payable to Toll Collect GmbH) of the Federal Republic of Germany. However, such liability will be limited to €1 billion per year but in any event will not exceed €83.4 million per month.
- Due to the slightly reduced technical functionality during phase 1, the Federal Republic of Germany will pay Toll Collect GmbH only 95% of the fees which would otherwise be payable under the Operating Agreement.
- However, if the total toll revenues received by the Federal Republic of Germany from the toll collection system in any month of operation during phase 1 are less than 80% of the projected toll collection revenues for this month, the fees will be subject to a sliding scale based on the actual toll revenues collected. No fees will be paid if during phase 1 the revenues collected for the respective month do not exceed 20% of the projected toll collection revenues for this month plus €83.4 million.

Penalties and revenue reductions under the Operating Agreement. Failure to perform various obligations under the Operating Agreement may result in penalties, additional revenue reductions and damage claims that could become significant over time. However, penalties and revenue reductions are capped at €75 million per year during phase 1, at €56.25 million for the first nine months following the end of phase 1, at €150 million per year thereafter until the final operational permit has been issued, and at €100 million per year following issuance of the final operational permit. These cap amounts are subject to a 3% increase for every year of operation. Contractual penalties, revenue reductions and recourse claims in the case of third party liability of the Federal Republic of Germany are not subject to the liability cap of €1 billion per year in phase 1.

The Operating Agreement calls for submission of all disputes related to the toll collection system to arbitration. The Federal Republic of Germany has initiated arbitration proceedings against DaimlerChrysler Services AG, Deutsche Telekom AG and the consortium by serving an introductory writ. The Federal Republic of Germany is seeking damages, including contractual penalties and reimbursement of lost revenues, that allegedly arose from delays in the operability of the toll collection system. See Note 31 for additional information.

Each of the consortium members (including DaimlerChrysler Services) have provided guarantees supporting the obligations of Toll Collect GmbH towards the Federal Republic of Germany relating to the completion and operation of the toll collection system, which are subject to specific triggering events. In addition, DaimlerChrysler AG has guaranteed bank loans obtained by the consortium. The guarantees are described in detail below:

- *Guarantee of bank loan.* DaimlerChrysler AG issued a guarantee to third parties up to a maximum amount of €600 million, which represents a 50% share of security to bank loans obtained by the consortium.
- *Guarantee of obligations.* Towards the Federal Republic of Germany the consortium members have jointly and severally guaranteed the obligations of Toll Collect GmbH resulting from the operating agreement concerning the delivery and operation of the toll collection system. This guarantee expires one year after the successful launch of the completed toll collection system, which is scheduled for January 1, 2006.

– *Equity Maintenance Undertaking.* The consortium members have the obligation to contribute, on a joint and several basis, additional funds to Toll Collect GmbH as may be necessary for Toll Collect GmbH to maintain a minimum equity (based on German GAAP) of 15% of total assets (20% until August 31, 2004). This funding obligation will terminate on August 31, 2015, when the Operating Agreement expires, or earlier if the agreement is terminated. Additional funding needs may arise if Toll Collect GmbH is subject to revenue reductions caused by underperformance, if the Federal Republic of Germany is successful in claiming lost revenues against Toll Collect GmbH for any period the system was not fully operational or if Toll Collect GmbH incurs penalties that may become payable under the above mentioned agreements. If such penalties, revenue reductions and other events reduce Toll Collect GmbH's equity to a level that is below the minimum equity percentage agreed upon, the consortium members are obligated to fund Toll Collect GmbH's operations to the extent necessary to reach the required minimum equity.

While DaimlerChrysler's maximum future obligation resulting from the guarantee of the bank loan can be determined (€600 million), the Group is unable to accurately estimate its maximum exposure to loss resulting from the guarantee of obligations and the guarantee in form of the equity maintenance undertaking due to the various uncertainties described above. Therefore, in addition to the maximum exposure from the guarantee of the bank loan and the risks already provided for under the established accruals, the Group's exceeding maximum exposure to loss could be material.

After the accession of Toll Collect GmbH to the Operating Agreement on December 14, 2004, then on December 15, 2004, Toll Collect received the special preliminary operating permit for operating the toll collection system during phase 1 by the government; the system was successfully launched with phase 1 functionality on January 1, 2005.

debis AirFinance. In November 1995, DaimlerChrysler assumed a 45% equity ownership interest in debis AirFinance ("dAF"), an Amsterdam registered Private Limited Liability Company that was established for purposes of leasing aircraft and related technical equipment to airlines and financial intermediaries. Several banks hold the remaining ownership interests in dAF. DaimlerChrysler holds significant variable interests in dAF, a variable interest entity, but determined that the Group is not the primary beneficiary of that entity and therefore is not required to consolidate dAF. DaimlerChrysler accounts for its investment in dAF under the equity method.

Revenues of dAF were €323 million in 2004, €340 million in 2003 and €528 million in 2002. At December 31, 2004 and 2003, total assets of dAF were €2,517 million and €2,626 million, financial liabilities totaled €1,803 million and €1,783 million, total liabilities were €2,400 million and €2,521 million, and equity totaled €117 million and €105 million, respectively.

DaimlerChrysler's involvement with dAF consists primarily of its equity interest and also subordinated loans receivable and unsecured loans that have been provided to dAF. In the fourth quarter of 2004, DaimlerChrysler recorded impairment charges of €222 million relating to its investment which are based on estimates of the fair value of DaimlerChrysler's proportionate share of dAF's underlying equity and of the loans provided to dAF. DaimlerChrysler believes that its maximum exposure to loss as a result of its involvement with dAF is primarily limited to the remaining carrying value of its total investments (including loans) in dAF of €291 million at December 31, 2004.

Other Equity Method Investments that are also Variable Interest Entities. Furthermore, DaimlerChrysler holds significant variable interests in a number of other companies, accounted for using the equity method, but determined that it is not the primary beneficiary of those entities. Total assets and total liabilities of these entities amounted to €0.6 billion and €0.4 billion as of December 31, 2004, and €0.6 billion and €0.4 billion as of December 31, 2003, respectively. The maximum exposure to loss arising from DaimlerChrysler's involvement with those entities totaled €0.3 billion and €0.3 billion as of December 31, 2004 and 2003, respectively.

4. Acquisitions and Dispositions

Acquisitions. On March 14, 2003, as part of the Group's global commercial vehicle strategy, DaimlerChrysler acquired from MMC a 43% non-controlling interest in Mitsubishi Fuso Truck and Bus Corporation ("MFTBC") for €764 million in cash plus certain direct acquisition costs. MFTBC is involved in the development, design, manufacture, assembly and sale of small, mid-size and heavy-duty trucks and buses, primarily in Japan and other Asian countries. Also, on March 14, 2003, ten Mitsubishi Group companies entered into a separate share sale and purchase agreement with MMC pursuant to which they purchased from MMC 15% of MFTBC's shares for approximately €266 million in cash. On March 18, 2004, DaimlerChrysler acquired from MMC an additional 22% interest in MFTBC for €394 million in cash, thereby reducing MMC's interest in MFTBC to a non-controlling 20%. The aggregate amount paid by DaimlerChrysler for its 65% controlling interest in MFTBC was €1,251 million consisting of consideration paid plus direct acquisition costs in 2003 and 2004 (€770 million and €394 million, respectively) plus a re-allocation of €87 million of the initial purchase price of MMC pertaining to MFTBC and previously included in the Group's investment in MMC which was an equity method investee of DaimlerChrysler when the business combination with MFTBC was consummated. DaimlerChrysler has included the consolidated results of MFTBC beginning at the consummation date in the Group's Commercial Vehicles segment. Prior to then, the Group's proportionate share of MFTBC's results are included in the Commercial Vehicles segment using the equity method of accounting (see Note 35).

Subsequent to the acquisition of the controlling interest in MFTBC, a number of quality problems concerning MFTBC vehicles spanning production years since July 1974 were identified. During the second and third quarter of 2004, DaimlerChrysler was able to comprehensively assess those quality issues and define necessary technical solutions and a course of action to perform them. The estimates of cost in the interim periods of 2004 were based on the status of the investigation and DaimlerChrysler's best estimate of the probable costs to be incurred to address and remedy the identified quality issues.

Of the €1.1 billion recorded by MFTBC, (i) €0.1 billion was recognized in "Financial income (expense), net" on the statement of income representing DaimlerChrysler's proportionate share of the results of MFTBC which is included on a one month lag relating to amounts attributed to refinements to estimates that were made before MFTBC was fully consolidated, (ii) €0.7 billion to cost of sales representing the sum of the 43% attributed to the March 2003 investment (for which the purchase price allocation period is closed) and the 35% of the costs attributed to minority shareholders of MFTBC; (iii) €0.2 billion to goodwill attributed to the 22% interest acquired in 2004; and (iv) €0.1 billion to deferred tax assets.

Due to the complexity of the issues, the investigation of these quality issues and evaluation of the extent of required product recalls and other quality measures is not finalized and DaimlerChrysler may need to revise or refine the approach. MFTBC expects to be able to complete the majority of the field campaigns by the end of 2005.

DaimlerChrysler assigned €95 million of the aggregate preliminary purchase price to registered trademarks that are not subject to amortization, €81 million to technology with a useful life of 10 years, €49 million to other identifiable intangible assets and €14 million to acquired in-process R&D that was expensed in the periods the investments were made. In addition, DaimlerChrysler assigned €6,206 million to tangible assets acquired and €5,469 million to liabilities assumed. The remaining €275 million were allocated to goodwill of the Commercial Vehicles segment and is not expected to be deductible for tax purposes.

The following table is prepared on a pro forma basis for 2004 and 2003, as though DaimlerChrysler acquired its controlling interest in MFTBC as of the beginning of the periods presented. The pro forma amounts include charges for acquired in-process R&D.

	2004	2003
<i>(in millions of € except earnings per share)</i>		
Revenues	143,950	142,999
Income (loss) from continuing operations	2,449	(407)
Net income	2,449	459
Earnings (loss) per share from continuing operations		
Basic	2.42	(0.40)
Diluted	2.41	(0.40)

The pro forma results above are not necessarily indicative of what would have occurred if DaimlerChrysler's acquisition of a controlling interest in MFTBC had been in effect for the periods presented. They do not reflect any synergies that are expected to be achieved from combining the operations of DaimlerChrysler and MFTBC, and are not intended to be a projection of future results.

DaimlerChrysler believes that it has valid claims as a result of representations and warranties by the seller (MMC) in connection with the purchase of its controlling interest in MFTBC and is currently in discussions with MMC regarding these issues. If DaimlerChrysler receives consideration from MMC as a result of the ongoing discussions, it will be recognized when realized and allocated to income and goodwill consistent with the accounting for the quality issues subsequent to the business combination.

Dispositions. At December 31, 2004, the Group classified fixed assets with a carrying amount of €92 million as held for sale which are included in property, plant and equipment, net, in the consolidated balance sheet.

In May 2004, as part of the realignment of its strategic alliance with Hyundai Motor Company ("HMC"), DaimlerChrysler terminated discussions with HMC regarding the formation of a commercial vehicles joint venture. Also in May 2004, DaimlerChrysler sold its non-controlling 50% interest in DaimlerHyundai Truck Corporation ("DHTC") to HMC for a total pretax gain of €60 million (€27 million is recognized in other income and €33 million is recognized in financial income (expense), net), which is attributed to the Commercial Vehicles segment. In August 2004, as part of the realignment of its strategic alliance with HMC, DaimlerChrysler sold its 10.5% stake in HMC for €737 million in cash, resulting in a pretax gain of €252 million that is included in financial income (expense), net, of the unaudited condensed consolidated statements of income.

On December 31, 2003, as part of the Group's ongoing strategy to focus on its core automotive business, DaimlerChrysler sold its 100% equity interest in MTU Aero Engines GmbH ("MTU Aero Engines") to Kohlberg, Kravis and Roberts & Co. Ltd. ("KKR"), an investment company. The sales price for the operative business of MTU Aero Engines amounted to €1,450 million. Excluding cash, cash equivalents and debts, which remain at MTU Aero Engines, the net sales price amounted to €1,052 million. Consideration received by DaimlerChrysler included a note receivable from KKR and cash of €877 million. As a result of this transaction, DaimlerChrysler paid a compensation of \$250 million to United Technologies Corporation, the parent company of Pratt & Whitney, in January 2004. In 2003, DaimlerChrysler realized a gain of €882 million from this sale, net of taxes of €149 million. The operating results and cash flows from MTU Aero Engines' business are included in DaimlerChrysler's consolidated financial statements through December 31, 2003. However the operating results and gain are presented as discontinued operations in accordance with SFAS 144 (see Note 10). The following classes of assets and liabilities were part of this disposal group in 2003: €366 million fixed assets, €805 million current assets, €378 million liabilities and €863 million accrued liabilities.

In November 2003, as part of the Group's ongoing strategy to focus on its core automotive business, DaimlerChrysler sold a 60% interest in Mercedes-Benz Lenkungen GmbH, its 100% interest in Mercedes-Benz Lenkungen U.S. LLC and its 100% interest in the steering activities of DaimlerChrysler do Brasil Ltda. to ThyssenKrupp Automotive AG ("ThyssenKrupp") for €42 million in cash. DaimlerChrysler's remaining 40% interest in Mercedes-Benz Lenkungen GmbH is subject to put and call options held by DaimlerChrysler and ThyssenKrupp, respectively, of approximately €28 million. The sales resulted in an aggregate pretax gain of €11 million which is included in other income of the Commercial Vehicles segment. DaimlerChrysler's remaining 40% interest in Mercedes-Benz Lenkungen GmbH is accounted for using the equity method. The following assets and liabilities were part of this disposal group in 2003: €30.3 million fixed assets, €114.9 million current assets, €33.2 million liabilities and €63.2 million accrued liabilities.

In September 2003, as part of the Group's ongoing strategy to focus on its core automotive business, DaimlerChrysler sold its 50% interest in CTS Fahrzeug-Dachsysteme GmbH to Porsche AG for €55 million in cash, resulting in a pretax gain of €50 million which is included in financial income (expense), net, of the Mercedes Car Group segment. Prior to the sale, DaimlerChrysler accounted for CTS Fahrzeug-Dachsysteme GmbH using the cost method.

In the fourth quarter of 2002, as part of the Group's ongoing strategy to focus on its core automotive business, DaimlerChrysler entered into an agreement to sell a 51% controlling interest in VM Motori S.p.A. and its 100% ownership interest in Detroit Diesel Motores do Brasil Ltda., both wholly-owned subsidiaries of DaimlerChrysler. The transactions were completed by the fourth quarter of 2003. Based on the agreed purchase price of €26 million, DaimlerChrysler recorded an impairment charge in 2002 for long-lived assets and goodwill related to the disposal groups and long-lived assets and goodwill to be retained. The total asset impairment and goodwill impairment charges recognized in 2002 were €1 million and €40 million, respectively, which are included in other expenses of the Other Activities segment. DaimlerChrysler accounts for its remaining 49% interest in VM Motori S.p.A. using the equity method.

In April 2002, DaimlerChrysler exercised its option to sell to Continental AG the Group's remaining 40% interest in Conti Temic microelectronic GmbH (Automotive Electronics activities), which had been accounted for using the equity method, for €215 million in cash. The sale resulted in a pretax gain of €128 million that is included in financial income (expense), net, of the Other Activities segment.

In January 2002, DaimlerChrysler exercised its option to sell to Deutsche Telekom the Group's 49.9% interest in T-Systems ITS, which had been accounted for using the equity method, for €4,694 million in cash. The sale, which was part of DaimlerChrysler's ongoing strategy to focus on its core automotive business, was consummated in March 2002 with the termination of the information technology joint venture, resulting in a pretax gain of €2,484 million that is included in the financial income of the Services segment.

Notes to Consolidated Statements of Income (Loss)

5. Functional Costs and Other Expenses

Selling, administrative and other expenses are comprised of the following:

	Year ended December 31,		
	2004	2003	2002
(in millions of €)			
Selling expenses	11,403	11,763	11,981
Administration expenses	6,008	5,351	5,346
Goodwill amortization and impairments	-	-	40
Other expenses	561	658	799
	17,972	17,772	18,166

In 2004, selling expenses include advertising costs of €2,748 million (2003: €2,965 million, 2002: €2,811 million).

In 2003, DaimlerChrysler recognized an impairment charge amounting to €77 million related to certain long-lived assets (primarily property, plant and equipment) at a production facility in Brazil. The charge is included in cost of sales of the Mercedes Car Group segment.

In 2002, DaimlerChrysler recognized an impairment charge amounting to €201 million. Moderate demand and strong competition in the European market for commercial vehicles resulted in idle capacity at one of the Group's German assembly plants. Consequently, DaimlerChrysler determined that it does not expect to recover the carrying value of certain long-lived assets (primarily manufacturing equipment and tooling) at this plant. The charge is included in cost of sales of the Commercial Vehicles segment.

In October 2002, DaimlerChrysler entered into an agreement to sell to GE Capital a significant portion of its portfolio of corporate aircraft, consisting of finance lease receivables and owned aircraft currently under operating leases, over a period of approximately 12 months beginning November 2002. The agreement contained provisions for DaimlerChrysler to receive a share of future payments throughout the remaining terms of the contracts in the portfolio. In connection with the agreement, the Group classified as held for sale at December 31, 2002, finance lease receivables with a carrying value of €493 million and equipment under operating leases with a carrying value of €40 million. The agreement with GE Capital was not consummated as of December 31, 2002. Due primarily to adverse economic conditions, the Group reassessed the recoverability of its leasing portfolio as of December 31, 2002. Based on the results of this reassessment, the Services segment recognized impairment losses of €191 million in other expenses and €20 million in cost of sales. DaimlerChrysler consummated the GE Capital transaction in 2003 pursuant to which the Services segment sold finance lease receivables totaling €113 million and equipment under operating leases totaling €14 million for cash to GE Capital. During 2004, the Group also sold finance lease receivables totaling €24 million (2003: €191 million) and operate leases totaling €17 million (2003: €5 million) to other investors. At December 31, 2004, after adjustments for cash received and currency translation effects, finance lease receivables of €15 million (2003: €98 million) are classified as held for sale. At December 31, 2003, equipment under operating leases totaling €17 million are classified as held for sale. Held for sale and held for use finance lease receivables and equipment under operating leases are classified in the December 31, 2004 and 2003 balance sheets as receivables from financial services and equipment on operating leases, net, respectively.

In 2002, due to declining resale prices of used passenger cars and commercial vehicles in North America, DaimlerChrysler recognized impairment charges totaling €256 million upon re-evaluation of the recoverability of the carrying value of its leased vehicles. This re-evaluation was performed using product specific cash flow information. As a result, the carrying values of these leased vehicles were determined to be impaired as the identifiable undiscounted future cash flows were less than their respective carrying values. In accordance with SFAS 144, the resulting impairment charges, recorded as a component of cost of sales in the Services segment, represent the amount by which the carrying values of such vehicles exceeded their respective fair market values.

As discussed in Note 7, the DaimlerChrysler Supervisory Board approved a multi-year turnaround plan for the Chrysler Group in February 2001. The related charges are presented as a separate line item on the accompanying consolidated statements of income (loss) and are not reflected in cost of sales or selling, administrative and other expenses.

Personnel expenses included in the statement of income (loss) are comprised of:

	Year ended December 31,		
	2004	2003	2002
<i>(in millions of €)</i>			
Wages and salaries	18,750	18,897	19,701
Social security and payroll costs	3,294	3,178	3,132
Net pension cost (see Note 25a)	948	837	152
Net postretirement benefit cost (see Note 25a)	1,173	1,290	1,119
Other expenses for pensions and retirements	51	85	59
	24,216	24,287	24,163

Number of employees (annual average):

	2004	2003	2002
Hourly employees	229,763	226,989	232,304
Salaried employees	134,949	129,656	125,110
Trainees/apprentices	14,307	14,039	13,263
	379,019	370,684	370,677

Information on the remuneration to the current and former members of the Board of Management and to the current members of the Supervisory Board is included in Note 38.

6. Other Income

Other income consists of the following:

	Year ended December 31,		
	2004	2003	2002
<i>(in millions of €)</i>			
Gains of sales of property, plant and equipment	94	58	48
Rental income, other than relating to financial services	100	110	197
Gains on sales of companies	128	11	-
Income from employee leasing programs	68	71	81
Reimbursement of contract costs	-	17	63
Government subsidies	30	63	56
Other miscellaneous items	475	359	332
	895	689	777

Other miscellaneous items consist of reimbursements under insurance policies, income from licenses, reimbursements of certain non-income related taxes and customs duties, income from various employee canteens and other miscellaneous items.

As result of the settlement agreement in connection with the sale of DaimlerChrysler Rail Systems GmbH (Adtranz) in 2004, a gain of €120 million which had been deferred since 2001 was realized as other income (see Note 31).

7. Turnaround Plan for the Chrysler Group

In 2001, the DaimlerChrysler Supervisory Board approved a multi-year turnaround plan for the Chrysler Group. Key initiatives for the multi-year turnaround plan included a workforce reduction and an elimination of excess capacity. The workforce reduction affected represented and non-represented hourly and salary employees. To eliminate excess capacity, the Chrysler Group has eliminated shifts and reduced line speeds at certain manufacturing facilities, and adjusted volumes at component, stamping and powertrain facilities. Additionally, the Chrysler Group has or is in the process of idling, closing or disposing of certain manufacturing plants.

The net charges recorded for the plan in 2004 were €145 million (€89 million net of taxes) and are presented as a separate line item on the accompanying consolidated statements of income (loss) (€139 million and €6 million would have otherwise been reflected in cost of sales and selling, administrative and other expenses, respectively). The 2004 charges and adjustments were for costs associated with the closing or disposition of manufacturing facilities in 2003 to 2005.

The net charges recorded for the plan in 2003 were €469 million (€288 million net of taxes) and are presented as a separate line item on the accompanying consolidated statements of income (loss) (€462 million and €7 million would have otherwise been reflected in cost of sales and selling, administrative and other expenses, respectively). The 2003 charges and adjustments were recorded for costs associated with the closing, significant downsizing or sale of certain manufacturing facilities in 2003 to 2005, related workforce reduction measures as well as revisions of estimates based on information available or actual settlements.

The net charges recorded for the plan in 2002 were €694 million (€439 million net of taxes) and are presented as a separate line item on the accompanying consolidated statements of income (loss) (€680 million and €14 million would have otherwise been reflected in cost of sales and selling, administrative and other expenses, respectively). The 2002 charges and adjustments were for costs associated with the idling, closing or disposal of certain manufacturing facilities in 2002 and 2003 and ongoing workforce reduction measures as well as revisions of estimates based upon information currently available for actual settlements.

The net charges recorded for the plan in 2001 were €3,064 million (€1,934 million net of taxes), including €1,374 million related to workforce reductions, €984 million related to asset write-downs and €706 million related to other costs.

The pre-tax amounts for turnaround plan charges are comprised of the following:

	Workforce reductions	Asset write-downs	Other costs/credits	Total
(in millions of €)				
Reserve balance at January 1, 2002	506	-	510	1,016
Additional charges	353	269	99	721
Adjustments	(41)	30	(16)	(27)
Net charges	312	299	83	694
Payments	(297)	-	(215)	(512)
Amount charged against assets	-	(299)	(6)	(305)
Amount recognized by and transferred to the employee benefit plans	(152)	-	-	(152)
Currency translation adjustments	(89)	-	(67)	(156)
Reserve balance at December 31, 2002	280	-	305	585
Additional charges	182	234	26	442
Adjustments	27	15	(15)	27
Net charges	209	249	11	469
Payments	(151)	-	(128)	(279)
Amount charged against assets	-	(249)	(3)	(252)
Amount recognized by and transferred to the employee benefit plans	(108)	-	-	(108)
Currency translation adjustments	(32)	-	(37)	(69)
Reserve balance at December 31, 2003	198	-	148	346
Additional charges/(gains)	175	6	(55)	126
Adjustments	(21)	37	3	19
Net charges/(gains)	154	43	(52)	145
Payments	(119)	-	(100)	(219)
Amount charged against assets	-	(43)	65	22
Amount recognized by and transferred to the employee benefit plans	(57)	-	-	(57)
Currency translation adjustments	(16)	-	(1)	(17)
Reserve balance at December 31, 2004	160	-	60	220

The Chrysler Group sold the Dayton Thermal Products facility on May 1, 2002 to a joint venture company with Behr America, Inc. and maintained a minority interest for two years. The Chrysler Group sold its remaining minority interest in the joint venture to Behr America for net book value on May 1, 2004. In addition, the Chrysler Group sold its Graz, Austria plant to Magna International Inc. ("Magna") on July 12, 2002. The exit costs of these two plant sales were previously provided for in the turnaround plan charges.

In January 2003, the Chrysler Group contributed its New Castle machining and forging facility to NC-M Chassis Systems LLC, a joint venture company formed with Metaldyne Corporation (“Metaldyne”). The Chrysler Group owned 60% of the common stock of the joint venture company and Metaldyne owned the remaining 40%. In December 2003, Metaldyne exercised its option to purchase Chrysler Group’s 60% interest in the NC-M Chassis Systems LLC joint venture company in exchange for cash and Metaldyne subordinated debt and preferred equity securities. The subordinated debt and preferred equity securities were valued at fair market value by an investment bank. The loss on the sale of the interest in the NC-M Chassis Systems LLC totaled €39 million and was included in the turnaround plan charges.

In April 2004, the Chrysler Group sold its Huntsville, Alabama operations to Siemens VDO Automotive Electronics Corporation resulting in a pre-tax loss of €45 million. The exit costs associated with this sale were previously provided for in the turnaround plan charges.

In September 2004, the Chrysler Group sold its New Venture Gear (“NVG”) operations to Magna for consideration of €347 million consisting of cash, notes receivable and preferred shares of Magna’s newly established subsidiary. The notes receivable and preferred shares were valued at fair market value by an investment bank. This transaction resulted in charges for workforce reduction which were offset by gains from the sale of assets, included in “Other costs/credits” in the table above. The sale is not expected to have a significant impact on the financial results. The final purchase price adjustments are expected to be completed in the first half of 2005. Also in 2004, the Chrysler Group committed to a plan for the closure of one other facility. The exit costs of these actions are provided for in the turnaround plan charges.

Workforce reduction charges in 2004, 2003 and 2002 were €154 million, €209 million and €312 million respectively. The charges of the voluntary early retirement programs, accepted by 503, 1,827 and 3,175 employees in 2004, 2003 and 2002, respectively, are formula driven based on salary levels, age and past service. In addition, 5,417, 1,355 and 5,106 employees were involuntarily affected by the plan in 2004, 2003 and 2002, respectively. The amount of involuntary severance benefits paid and charged against the liability was €51 million, €20 million and €199 million in 2004, 2003 and 2002, respectively. The amount recognized by and transferred to the employee benefit plans represents the cost of the special early retirement programs and the curtailment of prior service costs actuarially recognized by the pension and postretirement health and life insurance benefit plans.

As a result of the planned idling, closing, significant downsizing or sale of certain manufacturing facilities, the ability to recover the carrying values of certain long-lived assets at these plants were determined to be impaired. Accordingly, the Chrysler Group recorded impairment charges of €43 million, €249 million and €299 million in 2004, 2003 and 2002, respectively. The impairment charges represent the amount by which the carrying values of the property, plant, equipment and tooling exceeded their respective fair market values.

Other costs primarily included supplier contract cancellation costs, facility deactivation costs and accruals related to divestiture actions. Additionally, as noted above, other costs for 2004 included gains resulting from the sale of assets associated with the NVG transaction.

The Chrysler Group expects to make cash payments of \$0.2 billion in 2005 for the previously recorded charges. The Chrysler Group may recognize additional adjustments to the turnaround plan charges in 2005 primarily relating to the sale or closure of selected operations.

8. Financial Income (Expense), net

	Year ended December 31,		
	2004	2003	2002
(in millions of €)			
Income from investments of which from affiliated companies €36 (2003: €37; 2002: €44)	86	37	73
Gains, net from disposals of investments and shares in affiliated and associated companies	291	44	2,645
Gains (loss) from the dilution of shares in affiliated companies and investments accounted for under the equity method	(135)	24	-
Impairment of investment in EADS (Note 3)	-	(1,960)	-
Write-down of investments and shares in affiliated companies	(50)	(44)	(63)
Loss from companies included at equity	(798)	(538)	(17)
Income (loss) from investments, net	(606)	(2,437)	2,638
Other interest and similar income of which from affiliated companies €5 (2003: €20; 2002: €9)	490	521	720
Interest and similar expenses of which from affiliated companies €32 (2003: €16; 2002: €21)	(790)	(911)	(1,040)
Interest expense, net	(300)	(390)	(320)
Income (loss) from securities and long-term receivables of which from affiliated companies €2 (2003: €1; 2002: €7)	18	(15)	84
Write-down of securities and long-term receivables	(122)	(19)	(71)
Other, net	(67)	69	(125)
Other financial income (loss), net	(171)	35	(112)
	(1,077)	(2,792)	2,206

In 2004, the dilution of DaimlerChrysler’s interest in MMC resulted in a loss of €135 million which is reflected in “Gain (loss) from the dilution of shares in affiliated companies and investments accounted for under the equity method”. Realized gains from DaimlerChrysler’s currency hedging of the net investment in MMC of €195 million are included in “Loss from companies included at equity”.

In 2003, MTU Friedrichshafen GmbH, a fully consolidated company of the Group, created a new company, MTU CFC Solutions GmbH ("MTU CFC"), and contributed all of its fuel cell activities into a new company for 100% ownership interest. Also in 2003, MTU CFC issued new shares to RWE Fuel Cells GmbH for a capital contribution. MTU Friedrichshafen GmbH did not participate in this increase in share capital causing the ownership interest of MTU Friedrichshafen GmbH in MTU CFC to dilute to 74.9%. As a result of this transaction, DaimlerChrysler realized a gain of €24 million, which is included in "gain (loss) from the dilution of shares in affiliated companies and investments accounted for under the equity method."

The Group capitalized interest expenses related to qualifying construction projects of €70 million (2003: €100 million; 2002: €147 million).

9. Income Taxes

Income before income taxes consists of the following:

	Year ended December 31,		
	2004	2003	2002
(in millions of €)			
Germany	448	(736)	4,205
Non-German countries	3,087	1,332	1,720
	3,535	596	5,925

The income (loss) in Germany includes the income (loss) from companies included at equity if the shares of those companies are held by German companies. In 2003, the write-down of the investment in EADS of €1,960 million is also included.

Income tax expense is comprised of the following components:

	Year ended December 31,		
	2004	2003	2002
(in millions of €)			
Current taxes			
Germany	847	766	1,141
Non-German countries	923	(432)	(286)
Deferred taxes			
Germany	(502)	172	(441)
Non-German countries	(91)	473	701
	1,177	979	1,115

For German companies, the deferred taxes at December 31, 2004 were calculated using a federal corporate tax rate of 25% (2003: 25%; 2002: 26.5% for deferred taxes expected to reverse in 2003 and 25% for deferred taxes expected to reverse after 2003). Deferred taxes were also calculated with a solidarity surcharge of 5.5% for each year on federal corporate taxes plus the after federal tax benefit rate for trade tax of 12.125% (2003: 12.125%; 2002: 11.842% for deferred taxes expected to reverse in 2003 and 12.125% for deferred taxes expected to reverse after 2003). Including the impact of the surcharge and the trade tax, the tax rate applied to German deferred taxes amounted to 38.5% (2003: 38.5%; 2002: 39.8% for deferred taxes expected to reverse in 2003 and 38.5% for deferred taxes expected to reverse after 2003).

In 2003, the German government enacted new tax legislation which, among other changes, provides that, beginning January 1, 2004, 5% of dividends received from German companies and 5% from certain gains from the sale of shares in affiliated and unaffiliated companies are no longer tax-free while losses from the sale of shares in affiliated and unaffiliated companies continue to be non-deductible. The change in tax legislation resulted in a deferred tax expense due to the deferred tax liabilities on the unrealized gains. The effect of the increase in the deferred tax liabilities of the Group's German companies was recognized in the year of enactment and as a result, a deferred tax expense of €64 million was included in the consolidated statement of income (loss) in 2003.

In 2002, the German government enacted new tax legislation for the purpose of financing the flood disaster which, among other changes, increased the Group's statutory corporate tax rate for German companies from 25% to 26.5%, effective only for the calendar year 2003. The effect of the increase in the tax rate on the deferred tax assets and liabilities of the Group's German companies was recognized in the year of enactment and as a result, a net charge of €3 million was included in the consolidated statement of income (loss) in 2002.

The effect of the tax law changes in Germany in 2003 and 2002 are reflected separately in the reconciliations presented below.

A reconciliation of expected income tax expense to actual income tax expense determined using the applicable German corporate tax rate for the calendar year of 25% (2003: 26.5%; 2002: 25%) plus a solidarity surcharge of 5.5% on federal corporate taxes payable plus the after federal tax benefit rate for trade taxes of 12.125% (2003: 11.842%; 2002: 12.125%) for a combined statutory rate of 38.5% in 2004 (2003: 39.8%; 2002: 38.5%) is as follows:

	Year ended December 31,		
	2004	2003	2002
(in millions of €)			
Expected expense for income taxes	1,361	237	2,281
Foreign tax rate differential	(357)	(489)	(247)
Gains from sales of business interests (T-Systems ITS, TEMIC)	-	-	(1,012)
Trade tax rate differential	(43)	(37)	(34)
Non-deductible impairment of investment in EADS	-	780	-
Tax effect of equity method investments	291	159	1
Tax free income and non-deductible expenses	(88)	269	178
Effect of changes in German tax laws	-	64	3
Dividend distribution credit at DCAG	-	-	(57)
Other	13	(4)	2
Actual expense for income taxes	1,177	979	1,115

In 2002, income tax credits from dividend distribution reflected the tax benefit from the 2001 dividend distribution of €1.00 per Ordinary Share paid in 2002.

The Group has various open income tax years unresolved with the taxing authorities in various jurisdictions. The open years are either currently under review by certain taxing authorities or not yet under examination. The Group believes it has adequately accrued for any future income taxes that may be owed for all open years. In 2003, the line “foreign tax rate differential” above included a tax benefit and related interest of €571 million which resulted in connection with agreements reached with the U.S. tax authorities on a claim pertaining to additional research and development credits for tax years 1986 through 1998. In 2003, the line “tax free income and non-deductible expenses” included a tax expense and related interest of €318 million pertaining primarily to tax costs associated with developments resulting from the examination by the German tax authorities of the Group’s German tax returns for the years 1994 to 1998.

Deferred income tax assets and liabilities are summarized as follows:

	At December 31,	
	2004	2003
(in millions of €)		
Property, plant and equipment	699	637
Investments and long-term financial assets	2,678	2,387
Equipment on operating leases	651	727
Inventories	671	565
Receivables	834	658
Net operating loss and tax credit carryforwards	2,643	3,252
Pension plans and similar obligations	4,315	4,121
Other accrued liabilities	5,460	4,573
Liabilities	3,000	2,454
Deferred income	1,371	1,069
Other	151	92
	22,473	20,535
Valuation allowances	(429)	(485)
Deferred tax assets	22,044	20,050
Intangible assets	(852)	(942)
Property, plant and equipment	(3,798)	(3,702)
Equipment on operating leases	(6,699)	(6,333)
Receivables	(4,540)	(4,158)
Prepaid expenses	(370)	(366)
Pension plans and similar obligations	(2,096)	(2,124)
Other accrued liabilities	(148)	(166)
Taxes on undistributed earnings of non-German subsidiaries	(307)	(331)
Liabilities	(887)	(1,020)
Other	(406)	(956)
Deferred tax liabilities	(20,103)	(20,098)
Deferred tax assets (liabilities), net	1,941	(48)

At December 31, 2004, the Group had corporate tax net operating losses (“NOLs”) amounting to €1,705 million (2003: €2,991 million), trade tax NOLs amounting to €81 million (2003: €40 million) and tax credit carryforwards amounting to €1,640 million (2003: €1,700 million). The corporate tax NOLs mainly relate to losses of U.S. companies and are partly limited in their use to the Group. Of the total amount of corporate tax NOLs at December 31, 2004, €297 million expire at various dates from 2005 through 2009, €1,076 million expire in 2024 and €332 million can be carried forward indefinitely. The tax credit carryforwards relate to U.S. companies and are partly limited in their use to the Group. Of the total amount of credit carryforwards at December 31, 2004 €99 million expire from 2005 through 2019, €993 million expire in 2024 and €548 million can be carried forward indefinitely. The trade tax NOLs are not limited in their use.

The valuation allowances, which relate to deferred tax assets of foreign companies that management believes will more likely than not expire without benefit decreased by €56 million from December 31, 2003 to December 31, 2004. In future periods management’s estimate of the amount of the deferred tax assets considered realizable may change, and hence the valuation allowances may increase or decrease.

Net deferred income tax assets and liabilities in the consolidated balance sheets are as follows:

	At December 31, 2004		At December 31, 2003	
	Total	thereof non-current	Total	thereof non-current
(in millions of €)				
Deferred tax assets	4,130	1,861	2,688	1,982
Deferred tax liabilities	(2,189)	(2,099)	(2,736)	(595)
Deferred tax assets (liabilities), net	1,941	(238)	(48)	1,387

DaimlerChrysler recorded deferred tax liabilities for non-German withholding taxes of €222 million (2003: €239 million) on €4,434 million (2003: €4,782 million) in cumulative undistributed earnings of non-German subsidiaries and additional German tax of €85 million (2003: €92 million) on the future payout of these foreign dividends to Germany because as of today, the earnings are not intended to be permanently reinvested in those operations.

The Group did not provide income taxes or non-German withholding taxes on €9,626 million (2003: €7,891 million) in cumulative earnings of non-German subsidiaries because the earnings are intended to be indefinitely reinvested in those operations. It is not practicable to estimate the amount of unrecognized deferred tax liabilities for these undistributed foreign earnings.

In 2004, the U.S. government enacted the American Jobs Creation Act of 2004 ("Act"), that provides for a special one-time tax deduction of 85 percent of certain earnings of non-U.S. subsidiaries that are repatriated to the U.S., provided certain criteria are met. DaimlerChrysler North America Holding Corporation ("DCNAH"), a wholly-owned U.S. subsidiary of DaimlerChrysler, is analyzing the provisions of the Act and the feasibility of several alternative scenarios for the potential repatriation of a portion of the earnings of DCNAH's non-U.S. subsidiaries. Completion of the evaluation is subject to the attainment of clarifying guidance and legislative technical corrections of key elements of the repatriation provisions of the Act. The evaluation is expected to be completed within a reasonable period of time following the publication of the additional clarifying language and enactment into law of needed technical corrections. The range of reasonably possible amounts being considered for repatriation to the U.S., is zero to \$2.7 billion. The related potential income tax expense ranges from zero to \$0.2 billion.

Including the items charged or credited directly to related components of stockholders' equity and the expense (benefit) of discontinued operations and from changes in accounting principles, the expense (benefit) for income taxes consists of the following:

(in millions of €)	Year ended December 31,		
	2004	2003	2002
Expense for income taxes of continuing operations	1,177	979	1,115
Expense for income taxes of discontinued operations	-	202	62
Income tax benefit from changes in accounting principles	-	(35)	-
Stockholders' equity for items in accumulated other comprehensive loss	(754)	1,055	(2,699)
Stockholders' equity for U.S. employee stock option expense in excess of amounts recognized for financial purposes	(9)	-	-
	414	2,201	(1,522)

In 2004, tax benefits of €2 million (2003: €105 million) from the reversal of deferred tax asset valuation allowances at subsidiaries of MMC were recorded as a reduction of the investor level goodwill relating to the Group's investment in MMC.

10. Discontinued Operations

The results of MTU Aero Engines and the gain on sale are reported as discontinued operations and the Group's consolidated financial statements for all prior periods have been adjusted to reflect this presentation. However, for segment reporting purposes, the revenues and operating profit of MTU Aero Engines is included in the Other Activities segment revenues and operating profit in 2003 and 2002 (see Notes 4 and 35).

The operating results of the discontinued operations are as follows:

(in millions of €)	Year ended December 31,	
	2003	2002
Revenues	1,933	2,215
Income before income taxes	67	143
Income taxes	(53)	(62)
Minority interests	-	1
Earnings from discontinued operations	14	82

11. Cumulative Effects of Changes in Accounting Principles

Variable Interest Entities. DaimlerChrysler adopted the provisions of FIN 46R pertaining to the consolidation of variable interest entities that are special purpose entities as of December 31, 2003, and to all other entities as of March 31, 2004 (see Note 3). The cumulative effect of adopting FIN 46R was a reduction of net income of €30 million, net of taxes of €35 million (€0.03 per share), recognized in the consolidated statement of income (loss) in 2003.

Goodwill and Other Intangible Assets. DaimlerChrysler adopted SFAS 142, "Goodwill and Other Intangible Assets" on January 1, 2002. The after-tax transitional goodwill impairment charge recognized in the consolidated statement of income (loss) in 2002 by DaimlerChrysler was €159 million (€0.16 per share), which represents the Group's proportionate share of the transitional goodwill impairment charges from equity method investees, primarily EADS (see Note 12).

Notes to Consolidated Balance Sheets

12. Goodwill

Information with respect to changes in the Group's goodwill is presented in the Consolidated Fixed Asset Schedule included herein.

Changes in the carrying amount of goodwill as of December 31, 2004 compared to the previous year relate mainly to the initial consolidation of MFTBC (€253 million). Additions to goodwill relating to the other acquisitions amounted to €4 million (2003: €46 million). The remaining changes in the carrying amount of goodwill relate to currency translation adjustments and dispositions of businesses.

At December 31, 2004 and 2003, the carrying value of goodwill, excluding investor level goodwill, allocated to the Group's reporting segments are:

	2004	2003
(in millions of €)		
Mercedes Car Group	177	160
Chrysler Group	898	969
Commercial Vehicles	670	425
Services	62	62
Other Activities	196	200
Total	2,003	1,816

In connection with the transitional impairment evaluation required by SFAS 142, DaimlerChrysler performed an assessment of whether there was an indication that goodwill was impaired as of January 1, 2002. To accomplish this, DaimlerChrysler (1) identified its reporting units, (2) determined the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units, and (3) determined the fair value of each reporting unit. DaimlerChrysler completed this first step of the transitional assessment for all of the Group's reporting units by June 30, 2002 and determined that there was no indication that goodwill had been impaired as of January 1, 2002. Accordingly, no transitional goodwill impairment charge was necessary.

Companies accounted for by DaimlerChrysler using the equity method, such as EADS, were also subject to the transitional impairment evaluation requirements of SFAS 142. DaimlerChrysler's proportionate share of its equity method investees' (primarily EADS) transitional goodwill impairment charge was €159 million (€0.16 per share). This transitional impairment charge and the related per share amount are reported as the cumulative effect of a change in accounting principles in the Group's consolidated statement of income (loss) for the year ended December 31, 2002 (see Note 11).

DaimlerChrysler's investor level goodwill in companies accounted for using the equity method was €51 million at December 31, 2004 (2003: € 559 million). Such goodwill is not subject to the impairment tests required by SFAS 142. Instead, the total investment, including investor level goodwill, will continue to be evaluated for impairment when conditions indicate that a decline in fair value of the investment below the carrying amount is other than temporary.

13. Other Intangible Assets

Information with respect to changes in the Group's other intangible assets is presented in the Consolidated Fixed Asset Schedule included herein.

Other intangible assets comprise:

	At December 31,	
	2004	2003
(in millions of €)		
Other intangible assets subject to amortization		
Gross carrying amount	1,309	1,047
Accumulated amortization	(806)	(694)
Net carrying amount	503	353
Other intangible assets not subject to amortization	2,168	2,466
	2,671	2,819

DaimlerChrysler's other intangible assets subject to amortization represent concessions, industrial property rights and similar rights (€260 million) as well as software developed or obtained for internal use (€204 million). The additions in 2004 of €215 million (2003: €178 million) with a weighted average useful life of 5 years primarily include software developed or obtained for internal use. The aggregate amortization expense for the years ended December 2004, 2003 and 2002, was €169 million, €178 million and €175 million, respectively.

Estimated aggregate amortization expense for other intangible assets for the next five years is:

	2005	2006	2007	2008	2009
(in millions of €)					
Amortization expense	165	105	62	40	30

Other intangible assets not subject to amortization represent primarily intangible pension assets.

14. Property, Plant and Equipment, net

Information with respect to changes in the Group's property, plant and equipment is presented in the Consolidated Fixed Assets Schedule included herein.

Property, plant and equipment includes buildings, technical equipment and other equipment capitalized under capital lease agreements of €245 million (2003: €195 million). Depreciation expense and impairment charges on assets under capital lease arrangements were €34 million (2003: €19 million; 2002: €15 million).

Future minimum lease payments due from property, plant and equipment under capital leases at December 31, 2004 amounted to €520 million and are due as follows:

	2005	2006	2007	2008	2009	there- after
(in millions of €)						
Future minimum lease payments	96	81	46	34	32	231

The reconciliation of future minimum lease payments from capital lease agreements to the corresponding liabilities is as follows:

	December 31, 2004
(in millions of €)	
Amount of future minimum lease payments	520
Less interests included	147
Liabilities from capital lease agreements	373

15. Equipment on Operating Leases, net

Information with respect to changes in the Group's equipment on operating leases is presented in the Consolidated Fixed Assets Schedule included herein. Of the total equipment on operating leases, €26,017 million represent automobiles and commercial vehicles (2003: €23,653 million).

Noncancellable future lease payments due from customers for equipment on operating leases at December 31, 2004 amounted to €11,922 million and are due as follows:

	2005	2006	2007	2008	2009	there- after
(in millions of €)						
Future lease payments	5,650	3,661	1,743	594	149	125

16. Inventories

(in millions of €)	At December 31,	
	2004	2003
Raw materials and manufacturing supplies	1,746	1,569
Work-in-process	2,545	2,280
Finished goods, parts and products held for resale	12,792	11,350
Advance payments to suppliers	75	59
	17,158	15,258
Less: Advance payments received	(366)	(310)
	16,792	14,948

Certain of the Group's U.S. inventories are valued using the LIFO method. If the FIFO method had been used instead of the LIFO method, inventories would have been higher by €601 million (2003: €614 million). For the years 2004, 2003 and 2002, certain inventory quantities were reduced, which resulted in a liquidation of LIFO inventory carried at lower costs which prevailed in prior years. The effect of the liquidation was to decrease cost of sales by €9 million, €9 million and €42 million in 2004, 2003 and 2002, respectively.

At December 31, 2004, inventories include €295 million of company cars of DaimlerChrysler pledged as collateral to the DaimlerChrysler Pension Trust e.V. The pledge was made in 2004 due to new requirement to provide collateral for certain vested employee benefits in Germany.

17. Trade Receivables

(in millions of €)	At December 31,	
	2004	2003
Receivables from sales of goods and services	7,542	6,668
Allowance for doubtful accounts	(591)	(587)
	6,951	6,081

As of December 31, 2004, €283 million of the trade receivables mature after more than one year (2003: €172 million).

Changes in the allowance for doubtful accounts for trade receivables were as follows:

(in millions of €)	Year ended December 31,		
	2004	2003	2002
Balance at beginning of year	587	629	646
Charged to costs and expenses	49	23	95
Amounts written off	(160)	(48)	(63)
Currency translation and other changes	115	(17)	(49)
Balance at end of year	591	587	629

18. Receivables from Financial Services

(in millions of €)	At December 31,	
	2004	2003
Receivables from:		
Wholesales	10,670	9,747
Retail	44,202	40,673
Other	3,020	3,483
	57,892	53,903
Allowance for doubtful accounts	(1,107)	(1,265)
	56,785	52,638

Wholesale receivables represent loans for floor financing programs for vehicles sold by the Group's automotive businesses to the dealer or loans for assets purchased by the dealer from third parties, primarily used vehicles traded in by the dealer's customer or real estate such as dealer showrooms.

Retail receivables include loans and finance leases to end users of the Group's products who purchased their vehicle either from a dealer or directly from DaimlerChrysler. The other receivables mainly represent investments in leases involving the purchase of non-automotive assets by parties other than the Group's dealers or retail customers.

Wholesale receivables from the sale of vehicles from the Group's inventory to dealers as well as retail receivables from the sale of DaimlerChrysler's vehicles directly to a retail customer relate to the sale of its inventory. The cash flow effects of such receivables are presented as "net changes in inventory-related receivables from financial services" within the consolidated cash flows from operating activities. All cash flow effects attributable to receivables from financial services that are not related to the sale of inventory to DaimlerChrysler's direct customers are classified as investing activities within the consolidated statements of cash flows.

Receivables from financial services included €15 million and €98 million of receivables classified as held for sale at December 31, 2004 and 2003, respectively.

Included in retail and other receivables are investments in finance leases involving minimum lease payments of €14,072 million and €14,298 million, unearned income of €(2,602) million and €(2,787) million, initial direct costs of €47 million and €63 million and estimated unguaranteed residual values of €660 million and €885 million at December 31, 2004 and 2003, respectively. Finance leases consist of sales-type leases of vehicles to the Group's direct retail customers, direct-financing leases of vehicles to its independent dealers' customers and investments in direct-financing leases involving non-automotive assets.

As of December 31, 2004, receivables from financial services with a carrying amount of €35,598 million mature after more than one year (2003:€33,328 million).

Changes in the allowance for doubtful accounts for receivables from financial services were as follows:

	Year ended December 31,		
	2004	2003	2002
(in millions of €)			
Balance at beginning of year	1,265	1,559	1,602
Charged to costs and expenses	467	553	1,004
Amounts written off	(413)	(492)	(639)
Reversals	(84)	(63)	(36)
Currency translation and other changes	(128)	(292)	(372)
Balance at end of year	1,107	1,265	1,559

Receivables from financial services are generally secured by vehicles or other assets. Contractual payments from the receivables from financial services at December 31, 2004 amounted to €61,300 million and are as follows:

	2005	2006	2007	2008	2009	there- after
	(in millions of €)					
Maturities	23,019	11,769	10,010	6,811	4,111	5,580

Actual cash flows will vary from contractual maturities due to future sales of finance receivables, prepayments and write-offs.

Based on market conditions and liquidity needs, DaimlerChrysler may sell portfolios of wholesale and retail receivables to third parties, which typically results in the derecognition of the transferred receivables from the balance sheet. Retained interests in sold receivables are classified as other assets in the Group's consolidated balance sheets (see Note 19). For additional information on retained interests in sold receivables and the sale of receivables from financial services, see Note 34.

19. Other Assets

	At December 31,	
	2004	2003
(in millions of €)		
Receivables from affiliated companies	1,174	1,172
Receivables from related companies ¹	588	922
Retained interests in sold receivables and subordinated asset backed certificates	2,202	3,157
Other receivables and other assets	9,221	11,485
	13,185	16,736
Allowance for doubtful accounts	(261)	(888)
	12,924	15,848

¹ Related companies include entities which have a significant ownership in DaimlerChrysler or entities in which the Group holds a significant investment.

As of December 31, 2004, €3,494 million of the other assets mature after more than one year (2003: €6,617 million).

Changes in the allowance for doubtful accounts for other assets were as follows:

	Year ended December 31,		
	2004	2003	2002
(in millions of €)			
Balance at beginning of year	888	723	726
Charged to costs and expenses	61	134	28
Amounts written off	(702)	(2)	(11)
Currency translation and other changes	14	33	(20)
Balance at end of year	261	888	723

20. Securities, Investments and Long-Term Financial Assets

Information with respect to the Group's total investments and long-term financial assets is presented in the Consolidated Fixed Assets Schedule included herein. The carrying amounts of participations (investments that are not accounted for under the equity method) and long-term (marketable) securities which are shown among »Investments and long-term financial assets« in the Consolidated Balance Sheets are comprised of the following:

	At December 31,	
	2004	2003
(in millions of €)		
Participations with a quoted market price	503	802
Participations without a quoted market price	277	318
Participations	780	1,120
Long-term securities	599	353

The main changes in investments in related companies were caused by the reclassification of the interest in MMC (see Note 3) and the sale of the stake in HMC (see Note 4).

Investments without a quoted market price were tested for impairment when an impairment indicator has occurred. In 2004, investments without a quoted market price with carrying amounts of €20 million were tested for impairment. As of December 31, 2004, unrealized losses have not occurred. The disclosure of short-term securities is made in the Consolidated Balance Sheets among "Securities" and is recorded separately in available-for-sale and trading:

	At December 31,	
	2004	2003
(in millions of €)		
Available-for-sale	3,725	3,136
Trading	159	132
Short-term securities	3,884	3,268

As of December 31, 2004, the table below shows the (amortized) costs, fair values, gross unrealized holding gains and losses per security class of investments with a quoted market price, long-term and short-term available-for-sale securities. The aggregate amounts of unrealized losses of investments which are in a continuous unrealized loss position for less than 12 months and the aggregate amounts of unrealized losses of investments which are in a continuous unrealized loss position for 12 months or longer are shown separately together with their appropriate fair values.

	Cost	Fair value	Unrealized gain	Unrealized Loss less 1 year		Unrealized Loss 1 year or more		Unrealized Loss total	
				Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
(in millions of €)									
Equity securities	560	948	394	-	-	134	6	134	6
Equity-based funds	175	175	-	-	-	-	-	-	-
Debt securities issued by the German government and other political subdivisions	360	360	1	-	-	1	1	1	1
Debt securities issued by non-German governments	128	132	4	-	-	-	-	-	-
Corporate debt securities	1,718	1,726	12	96	4	-	-	96	4
Mortgage-backed securities	361	361	1	41	1	-	-	41	1
Securities backed by other assets	170	170	-	-	-	-	-	-	-
Other debt securities	819	820	1	-	-	-	-	-	-
Debt-based funds	135	135	-	-	-	-	-	-	-
	4,426	4,827	413	137	5	135	7	272	12

As of December 31, 2003, these values are as follows:

	Cost	Fair value	Unrealized gain	Unrealized Loss less 1 year		Unrealized Loss 1 year or more		Unrealized Loss total	
				Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
(in millions of €)									
Equity securities	600	1,023	423	-	-	-	-	-	-
Equity-based funds	141	141	-	-	-	-	-	-	-
Debt securities issued by the German government and other political subdivisions	248	248	-	-	-	-	-	-	-
Debt securities issued by non-German governments	338	343	5	-	-	-	-	-	-
Corporate debt securities	1,478	1,492	18	228	4	-	-	228	4
Mortgage-backed securities	570	572	3	229	1	-	-	229	1
Securities backed by other assets	132	132	-	-	-	-	-	-	-
Other debt securities	201	205	4	-	-	-	-	-	-
Debt-based funds	133	135	2	-	-	-	-	-	-
	3,841	4,291	455	457	5	-	-	457	5

The estimated fair values of investments in debt securities (excluding debt-based funds), by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty.

	At December 31,	
	2004	2003
(in millions of €)		
Due within one year	1,157	779
Due after one year through five years	1,624	1,366
Due after five years through ten years	330	422
Due after more than ten years	458	425
	3,569	2,992

Proceeds from disposals of long-term and short-term available-for-sale securities were €3,702 million (2003: €2,743 million; 2002: €5,254 million). Gross realized gains from sales of these securities were €254 million (2003: €8 million; 2002: €157 million), while gross realized losses were €3 million (2003: €15 million; 2002: €23 million). The proceeds and realized gains from the sale of the stake in HMC are included in these figures (see Note 4). The proceeds from the sale of the stake in HMC are shown in the Consolidated Statements of Cash Flows among the line item "Proceeds from disposals of businesses", the remaining proceeds are disclosed in the line item "Proceeds from sales of securities (other than trading)."

The unrealized gains included in the 2004 statement of income related to trading securities were €2 million (2003: €10 million; 2002: €6 million). Unrealized losses have not occurred in 2004 (2003: -; 2002: €1 million) for these securities.

DaimlerChrysler uses the weighted average cost method as a basis for determining cost and calculating realized gains and losses.

Other securities classified as cash equivalents were approximately €3.6 billion and €5.3 billion at December 31, 2004 and 2003, respectively, and consisted primarily of repos, commercial paper and certificates of deposit.

21. Liquid Assets

Liquid assets recorded under various balance sheet captions are as follows:

(in millions of €)	At December 31,		
	2004	2003	2002
Cash and cash equivalents ¹			
originally maturing within 3 months	7,381	10,767	9,100
originally maturing after 3 months	390	250	30
Total cash and cash equivalents	7,771	11,017	9,130
Securities	3,884	3,268	3,293
Other	-	-	5
	11,655	14,285	12,428

¹ Cash and cash equivalents are mainly comprised of cash at banks, cash on hand and checks in transit.

22. Prepaid Expenses

Prepaid expenses are comprised of the following:

(in millions of €)	At December 31,	
	2004	2003
Prepaid pension cost	246	260
Other prepaid expenses	784	835
	1,030	1,095

As of December 31, 2004, €435 million of the total prepaid expenses mature after more than one year (2003: €434 million).

23. Stockholders' Equity

Number of Shares Issued and Outstanding as well as Treasury Stock.

DaimlerChrysler had issued and outstanding 1,012,824,191 registered Ordinary Shares of no par value at December 31, 2004 and 2003. Each share represents a nominal value of €2.60 of capital stock.

In 2004, DaimlerChrysler purchased approximately 0.8 million (2003: 1.3 million; 2002: 1.1 million) Ordinary Shares in connection with an employee share purchase plan, of which 0.8 million (2003: 1.3 million; 2002: 1.1 million) were re-issued to employees.

Authorized and Conditional Capital. On April 7, 2004, the annual meeting authorized the Board of Management through October 7, 2005, to acquire treasury stock for certain defined purposes up to a pro rata amount of the share capital attributable to each share of €263 million of capital stock, representing nearly 10% of issued and outstanding capital stock.

On April 9, 2003, the annual meeting authorized the Board of Management through April 8, 2008, upon approval of the Supervisory Board, to increase capital stock by issuing new, no par value registered shares in exchange for cash contributions totaling €500 million as well as by issuing new, no par value registered shares in exchange for non-cash contributions totaling €500 million and to increase capital stock by issuing Ordinary Shares to employees totaling €26 million.

DaimlerChrysler is authorized to issue convertible bonds and notes with warrants in a nominal volume of up to €15 billion prior to April 18, 2005. The convertible bonds and notes with warrants shall grant to the holders or creditors option or conversion rights for new shares in DaimlerChrysler in a nominal amount not to exceed €300 million of capital stock. DaimlerChrysler is also entitled to grant rights for issuing up to 96 million new shares (representing up to a pro rata amount of the share capital attributable to each share of approximately €250 million of capital stock) with respect to the DaimlerChrysler Stock Option Plan by April 18, 2005.

From the Stock Option Plan 1996 on December 31, 2004, outstanding rights in a nominal volume of €0.1 million could result in 46,230 new shares of DaimlerChrysler AG. In 2004 and 2003, no options were exercised from this Plan, while 7,035 Ordinary Shares were issued upon exercise of options from the Stock Option Plan 1996 in 2002.

Convertible Notes. In June 1997, DaimlerChrysler issued 5.75% subordinated mandatory convertible notes due June 14, 2002, with a nominal amount of €66.83 per note. These convertible notes represented at the date of issue a nominal amount of €508 million including 7,600,000 notes which could be converted, subject to adjustment, into 0.86631 newly issuable shares of DaimlerChrysler AG for each note before June 4, 2002. During 2002, 17,927 DaimlerChrysler Ordinary Shares were issued upon exercise. On June 14, 2002, the mandatory conversion date, 7,572,881 notes were converted into 9,506,483 newly issued Ordinary Shares of DaimlerChrysler AG. The conversion price of €52.72 was determined on June 8, 2002, on the basis of the average closing auction price for the shares in Xetra-trading for the period between May 13, 2002, and June 7, 2002. Because this

conversion price was below the adjusted minimum conversion price of €53.19, the number of shares was calculated based on the adjusted minimum conversion price. Thus each shareholder received 1.25643 Ordinary Shares of DaimlerChrysler AG per note. Fractions that remained after aggregation were settled in cash based on a conversion rate of €52.72 amounting to a total cash payment of €0.4 million.

During 1996, DaimlerChrysler Luxembourg Capital S.A., a wholly-owned subsidiary of DaimlerChrysler, issued 4.125% bearer notes with appertaining warrants due July 5, 2003, in the amount of €613 million (with nominal value of €511 each), which entitled the bond holders to subscribe for a total of 12,366,324 shares (7,728,048 of which represents newly issued shares totaling €383 million) of DaimlerChrysler. According to the note agreements the option price per share was €42.67 in consideration of exchange of the notes or €44.49 in cash. The warrants expired on June 18, 2003. In 2003 (until June 18) 20,698 (2002: 50) Ordinary Shares were issued as a result of exercises of warrants. The repayment for the remaining options was made on July 5, 2003.

Comprehensive Income/(Loss). The changes in the components of accumulated other comprehensive loss are as follows:

	Year ended December 31, 2004			Year ended December 31, 2003			Year ended December 31, 2002		
	Pretax	Tax effect	Net	Pretax	Tax effect	Net	Pretax	Tax effect	Net
(in millions of €)									
Unrealized gains (losses) on securities (incl. retained interests):									
Unrealized holding gains (losses)	277	(10)	267	731	(146)	585	122	(77)	45
Reclassification adjustments for (gains) losses included in net income (loss)	(592)	119	(473)	(255)	77	(178)	(223)	43	(180)
Unrealized gains (losses) on securities	(315)	109	(206)	476	(69)	407	(101)	(34)	(135)
Unrealized gains (losses) on derivatives hedging variability of cash flows:									
Unrealized derivative gains (losses)	1,765	(693)	1,072	4,406	(1,682)	2,724	2,417	(952)	1,465
Reclassification adjustments for (gains) losses included in net income (loss)	(2,383)	942	(1,441)	(2,506)	944	(1,562)	(111)	48	(63)
Unrealized derivative gains (losses)	(618)	249	(369)	1,900	(738)	1,162	2,306	(904)	1,402
Minimum pension liability adjustments	(1,224)	476	(748)	662	(218)	444	(10,022)	3,721	(6,301)
Foreign currency translation adjustments	(611)	(80)	(691)	(1,531)	(30)	(1,561)	(3,154)	(84)	(3,238)
Changes in other comprehensive income (loss)	(2,768)	754	(2,014)	1,507	(1,055)	452	(10,971)	2,699	(8,272)

Exchange rate effects on the components of other comprehensive income principally are shown within changes of the cumulative translation adjustment.

Effective October 1, 2004, the Chrysler Group prospectively changed the functional currency of DaimlerChrysler Canada Inc. ("DCCI"), its Canadian subsidiary, from the U.S. dollar to the Canadian dollar. This change resulted from several significant economic and operational changes within DCCI, including a reduction of U.S. sourced components. The initial implementation of this change in functional currency had the effect of increasing the value of the net assets of the Group and the accumulated other comprehensive loss by €179 million.

Miscellaneous. Under the German corporation law (Aktien-gesetz), the amount of dividends available for distribution to shareholders is based upon the unappropriated accumulated earnings of DaimlerChrysler AG (parent company only) as reported in its statutory financial statements determined in accordance with the German commercial code (Handelsgesetzbuch). For the year ended December 31, 2004, DaimlerChrysler management has proposed a distribution of €1,519 million (€1.50 per share) of the 2004 earnings of DaimlerChrysler AG as a dividend to the stockholders.

24. Stock-Based Compensation

The Group currently has two stock option plans, various stock appreciation rights ("SARs") plans and medium term incentive awards. As discussed in Note 1, DaimlerChrysler adopted the provisions of SFAS 123 prospectively for all awards granted after December 31, 2002. Awards granted in previous periods will continue to be accounted for using the provisions of APB 25 and related interpretations.

Stock Option Plans. In April 2000, the Group's shareholders approved the DaimlerChrysler Stock Option Plan 2000 which provides for the granting of stock options for the purchase of DaimlerChrysler Ordinary Shares to eligible employees. Options granted under the Stock Option Plan 2000 are exercisable at a reference price per DaimlerChrysler Ordinary Share determined in advance plus a 20% premium. The options become exercisable in equal installments on the second and third anniversaries from the date of grant. All unexercised options expire ten years from the date of grant. If the market price per DaimlerChrysler Ordinary Share on the date of exercise is at least 20% higher than the reference price, the holder is entitled to receive a cash payment equal to the original exercise premium of 20%.

The table below shows the basic terms of options issued (in millions) under the Stock Option Plan 2000:

Year of Grant	Reference price	Exercise price	Options granted	Options outstanding At December 31, 2004	Options exercisable
2000	€62.30	€74.76	15.2	13.5	13.5
2001	€55.80	€66.96	18.7	17.2	17.2
2002	€42.93	€51.52	20.0	18.9	9.5
2003	€28.67	€34.40	20.5	19.4	-
2004	€36.31	€43.57	18.0	17.5	-

DaimlerChrysler established, based on shareholder approvals, the 1998, 1997 and 1996 Stock Option Plans (former Daimler-Benz plans), which provided for the granting of options for the purchase of DaimlerChrysler Ordinary Shares to certain members of management. The options granted under the plans were evidenced by non-transferable convertible bonds with a principal amount of €511 per bond due ten years after issuance. During certain specified periods each year, each convertible bond could have been converted into 201 DaimlerChrysler Ordinary Shares, if the market price per share on the day of conversion was at least 15% higher than the predetermined conversion price and the options (granted in 1998 and 1997) had been held for a 24 month waiting period.

The basic terms of the bonds and the related stock options issued (in millions) under these plans are as follows:

Bonds granted in	Stated interest rate	Conversion price	Related stock options granted	Stock options outstanding At December 31, 2004	Stock options exercisable
1996	5.9%	€42.62	0.9	-	-
1997	5.3%	€65.90	7.4	5.0	-
1998	4.4%	€92.30	8.2	5.8	-

In the second quarter of 1999, DaimlerChrysler converted all options granted under the 1998 and 1997 Stock Option Plans into SARs. All terms and conditions of the new SARs are identical to the stock options which were replaced, except that the holder of a SAR has the right to receive cash equal to the difference between the exercise price of the original option and the fair value of the Group's stock at the exercise date rather than receiving DaimlerChrysler Ordinary Shares.

Analysis of the stock options issued is as follows (options in millions; per share amounts in €):

	Number of stock options	2004 Average exercise price per share	Number of stock options	2003 Average exercise price per share	Number of stock options	2002 Average exercise price per share
Balance at beginning of year	71.6	55.18	53.1	63.40	33.6	70.43
Options granted	18.0	43.57	20.5	34.40	20.0	51.52
Exercised	-	-	-	-	-	-
Forfeited	(1.4)	40.79	(1.2)	51.83	(0.5)	61.29
Expired	(1.7)	65.92	(0.8)	74.76	-	-
Outstanding at year-end	86.5	52.78	71.6	55.18	53.1	63.40
Exercisable at year-end	40.2	65.92	23.1	71.71	7.6	74.56

For the year ended December 31, 2004, the Group recognized compensation expense on stock options (before taxes) of €119 million (2003: €95 million; 2002: €57 million).

The fair values of the DaimlerChrysler stock options issued in 2004, 2003 and 2002 were measured at the grant date (beginning of April) based on a modified Black-Scholes option-pricing model, which considers the specific terms of issuance. For options granted to the Board of Management in 2004 and for which – according to the recommendations of the German Corporate Governance Code – the Presidential Committee can impose a limit or reserve the right to impose such a limit in the case of exceptional and unpredictable developments, are calculated with the intrinsic value at December 31. The table below presents the underlying assumptions as well as the resulting fair values and total values (in millions of €):

	2004	2003	2002
Expected dividend yield	4.4%	5.6%	2.0%
Expected volatility	33%	35%	30%
Risk-free interest rate	2.6%	2.9%	4.2%
Expected lives (in years)	3	3	3
Fair value per option	€7.85	€6.00	€18.70
Total value by award	131.9	123.0	374.0

Unearned compensation expense (before taxes) of all outstanding and unvested stock options as of December 31, 2004, that are not subject to a possible limitation according the recommendation of the German Corporate Governance Code, totals €125 million (2003: €122 million; 2002: €104 million).

Stock Appreciation Rights Plans. In 1999, DaimlerChrysler established a stock appreciation rights plan (the “SAR Plan 1999”) which provides eligible employees of the Group with the right to receive cash equal to the appreciation of DaimlerChrysler Ordinary Shares subsequent to the date of grant. The stock appreciation rights granted under the SAR Plan 1999 vest in equal installments on the second and third anniversaries from the date of grant. All unexercised SARs expire ten years from the grant date. The exercise price of a SAR is equal to the fair market value of DaimlerChrysler’s Ordinary Shares on the date of grant. On February 24, 1999, the Group issued 11.4 million SARs at an exercise price of €89.70 each (\$98.76 for Chrysler employees), of which 8.6 million SARs are outstanding and exercisable at December 31, 2004.

As discussed above (see “Stock Option Plans”), in the second quarter of 1999 DaimlerChrysler converted all options granted under its existing stock option plans from 1997 and 1998 into SARs.

In conjunction with the consummation of the merger between Daimler-Benz and Chrysler in 1998, the Group implemented a SAR plan through which 22.3 million SARs were issued at an exercise price of \$75.56 each, of which 13.1 million SARs are outstanding and exercisable at December 31, 2004. The initial grant of SARs replaced Chrysler fixed stock options that were converted to DaimlerChrysler Ordinary Shares as of the consummation of the merger. SARs which replaced stock options that were exercisable at the time of the consummation of the merger were immediately exercisable at the date of grant. SARs related to stock options that were not exercisable at the date of consummation of the merger became exercisable in two installments; 50% on the six-month and one-year anniversaries of the consummation date.

A summary of the activity related to the Group's SAR plans as of and for the years ended December 31, 2004, 2003 and 2002 is presented below (SARs in millions; per share amounts in €):

	Number of SARs	2004 Weighted average exercise price	Number of SARs	2003 Weighted average exercise price	Number of SARs	2002 Weighted average exercise price
Outstanding at beginning of year	36.3	74.24	40.3	79.13	42.5	84.75
Granted	-	-	-	-	-	-
Exercised	-	-	-	-	-	-
Forfeited	(3.8)	72.54	(4.0)	75.00	(2.2)	78.31
Outstanding at year-end	32.5	71.37	36.3	74.24	40.3	79.13
SARs exercisable at year-end	32.5	71.37	36.3	74.24	40.3	79.13

Compensation expense or benefit (representing the reversal of previously recognized expense) on SARs is recorded based on changes in the market price of DaimlerChrysler Ordinary Shares. For the years ended December 31, 2004, 2003 and 2002, the Group recognized no compensation expense in connection with SARs, because the options underlying exercise prices were greater than the market price for DaimlerChrysler Ordinary Shares at December 31, 2004.

Medium Term Incentive Awards. The Group grants medium term incentives to certain eligible employees that track, among others, the market value of the DaimlerChrysler Ordinary Shares over three year performance periods. The amount ultimately earned in cash at the end of a performance period is primarily based on the degree of achievement of corporate goals derived from competitive and internal planning benchmarks and the value of DaimlerChrysler Ordinary Shares at the end of three year performance periods. The benchmarks are return on net assets and return on sales. The Group issued 0.7 million medium term incentives in 2004 (2003: 1.3 million; 2002: 1.2 million).

For the year ended December 31, 2004 the Group recognized compensation expense (before taxes) of €12 million (2003: €35 million; 2002: €20 million) in connection with the medium term incentive awards.

25. Accrued Liabilities

Accrued liabilities are comprised of the following:

	2004		At December 31, 2003	
	Total	Due after one year	Total	Due after one year
(in millions of €)				
Pension plans and similar obligations (see Note 25a)	13,923	12,634	13,467	12,275
Income and other taxes	3,134	1,674	2,794	946
Other accrued liabilities (see Note 25b)	24,509	8,609	22,911	8,662
	41,566	22,917	39,172	21,883

a) Pension Plans and Similar Obligations

Pension plans and similar obligations are comprised of the following components:

	At December 31,	
	2004	2003
(in millions of €)		
Pension liabilities (pension plans)	5,606	4,951
Other postretirement benefits	8,021	8,203
Other benefit liabilities	296	313
	13,923	13,467

The increase of the pension liabilities of €0.7 billion resulted primarily from the first-time consolidation of MFTBC.

The decrease in accrued other postretirement benefits of €0.2 billion resulted mainly from lower provisions due to the Medicare Act in the U.S.

DaimlerChrysler implemented in 2001 restructuring plans at Freightliner and Chrysler Group (see Note 7), including certain workforce reduction initiatives. The impacts on the pension and postretirement obligations resulting from settlements and curtailments of these turnaround plans are contained in the following disclosures.

Pension Plans

The Group provides pension benefits to substantially all of its hourly and salaried employees. Plan benefits are principally based upon years of service. Certain pension plans are based on salary earned in the last year or last five years of employment while others are fixed plans depending on ranking (both wage level and position).

Investment Policies and Strategies. At December 31, 2004, plan assets were invested in diversified portfolios that consisted primarily of debt and equity securities, including 2,570,150 of DaimlerChrysler Ordinary Shares in a German Plan with a market value of €91 million. Assets and income accruing on all pension trust and relief funds are used solely to pay pension benefits and administer the plans. The Group's pension asset allocation at December 31, 2004 and 2003, and target allocation for the year 2005, are as follows:

	2005 planned	Plan Assets German Plans 2004	German Plans 2003	2005 planned	Plan Assets Non-German Plans 2004	Non-German Plans 2003
(in % of plan assets)						
Equity securities	57	57	57	67	66	65
Debt securities	36	36	37	23	28	30
Real estate	3	2	3	6	4	4
Other	4	5	3	4	2	1

Every 3-5 years, or more frequently if appropriate, DaimlerChrysler conducts asset-liability studies for the major pension funds. DaimlerChrysler uses the expertise of external investment and actuarial advisors. These studies are intended to determine the optimal long-term asset allocation with regard to the liability structure. The resulting Model Portfolio allocation aims at minimizing the economic cost of defined benefit schemes. At the same time the risks should be limited to an appropriate level.

The Model Portfolio is then expanded to a Benchmark Portfolio. The Benchmark Portfolio matches the asset class weights in the Model portfolio and expands the asset classes by adding of sub-asset-classes with corresponding weights to implement an actual portfolio. By application of Modern Portfolio Theory an optimal one year target allocation is determined. This target allocation is then implemented and the performance in the current year is tracked against the benchmark portfolio.

The entire process is overseen by investment committees which consist of senior financial management especially from treasury and other appropriate executives. The Investment Committees meet regularly to approve the asset allocations, and review the risks and results of the major pension funds and approve the selection and retention of external managers of specific portfolios.

The majority of investments are in international blue chip equities on the one hand and high quality government and corporate bonds on the other hand. To maintain a wide range of diversification and to improve return opportunities, up to approximately 20% of assets are allocated to highly promising markets such as Private Equity, High Yield Debt, Convertibles and Emerging Markets. Internal controlling units monitor all investments strictly and regularly. External depositary banks provide safekeeping of securities as well as reporting of transactions and assets.

Funded Status. The following information with respect to the Group's pension plans is presented by German Plans and non-German Plans (principally comprised of plans in the U.S.):

	At December 31, 2004			At December 31, 2003		
	Total	German Plans	Non-German Plans	Total	German Plans	Non-German Plans
(in millions of €)						
Change in projected benefit obligations:						
Projected benefit obligations at beginning of year	32,132	11,165	20,967	32,949	10,941	22,008
Foreign currency exchange rate changes	(1,351)	-	(1,351)	(3,287)	-	(3,287)
Service cost	681	256	425	600	256	344
Interest cost	1,878	586	1,292	2,029	632	1,397
Plan amendments	67	-	67	657	5	652
Actuarial losses	2,146	1,110	1,036	1,324	124	1,200
Dispositions	-	-	-	(377)	(361)	(16)
Acquisitions and other	794	-	794	334	94	240
Settlement/curtailment loss	192	61	131	29	1	28
Benefits paid	(2,091)	(550)	(1,541)	(2,126)	(527)	(1,599)
Projected benefit obligations at end of year	34,448	12,628	21,820	32,132	11,165	20,967
Change in plan assets:						
Fair value of plan assets at beginning of year	26,328	8,183	18,145	24,544	6,789	17,755
Foreign currency exchange rate changes	(1,252)	-	(1,252)	(2,692)	-	(2,692)
Actual return on plan assets	2,854	664	2,190	4,239	983	3,256
Employer contributions	1,649	638	1,011	2,056	855	1,201
Plan participant contributions	19	-	19	18	-	18
Dispositions	-	-	-	(18)	(7)	(11)
Acquisitions and other	188	-	188	128	-	128
Benefits paid	(1,982)	(466)	(1,516)	(1,947)	(437)	(1,510)
Fair value of plan assets at end of year	27,804	9,019	18,785	26,328	8,183	18,145

A reconciliation of the funded status, which is the difference between the projected benefit obligations and the fair value of plan assets, to the amounts recognized in the consolidated balance sheets is as follows:

	At December 31, 2004			At December 31, 2003		
	Total	German Plans	Non-German Plans	Total	German Plans	Non-German Plans
(in millions of €)						
Funded status	6,644	3,609	3,035	5,804	2,982	2,822
Amounts not recognized:						
Unrecognized actuarial net losses	(11,356)	(4,166)	(7,190)	(10,438)	(3,244)	(7,194)
Unrecognized prior service cost	(2,143)	(2)	(2,141)	(2,545)	(4)	(2,541)
Unrecognized net obligation at date of initial application	-	-	-	(5)	-	(5)
Net assets recognized	(6,855)	(559)	(6,296)	(7,184)	(266)	(6,918)
Amounts recognized in the consolidated balance sheets consist of:						
Prepaid pension cost	(246)	-	(246)	(260)	-	(260)
Accrued pension liability	5,606	2,927	2,679	4,951	2,355	2,596
Intangible assets	(2,074)	-	(2,074)	(2,466)	-	(2,466)
Accumulated other comprehensive loss	(10,141)	(3,486)	(6,655)	(9,409)	(2,621)	(6,788)
Net assets recognized	(6,855)	(559)	(6,296)	(7,184)	(266)	(6,918)

Assumptions. The measurement date for the Group's pension plan assets and obligations is principally December 31. The measurement date for the Group's net periodic pension cost is principally January 1. Assumed discount rates and rates of increase in remuneration used in calculating the projected benefit obligations together with long-term rates of return on plan assets vary according to the economic conditions of the country in which the pension plans are situated.

The following weighted average assumptions were used to determine benefit obligations:

(in %)	German Plans			Non-German Plans		
	2004	2003	2002	2004	2003	2002
Average assumptions:						
Discount rate	4.8	5.3	5.8	5.8	6.2	6.7
Rate of long-term compensation increase	3.0	3.0	3.0	4.5	4.5	5.4

The following weighted average assumptions were used to determine net periodic pension cost:

(in %)	German Plans			Non-German Plans		
	2004	2003	2002	2004	2003	2002
Average assumptions:						
Discount rate	5.3	5.8	6.0	6.2	6.7	7.4
Expected return on plan assets (at the beginning of the year)	7.5	7.5	7.9	8.5	8.5	10.1
Rate of long-term compensation increase	3.0	3.0	3.0	4.5	5.4	5.4

Expected Return on Plan Assets. The expected rate of return for U.S. plans is based on long-term actual portfolio results, historical total market returns and an assessment of the expected returns for the asset classes in the portfolios. The assumptions are based on surveys of large asset portfolio managers and peer group companies of future return expectations over the next ten years. Accordingly, negative returns during one or several years may not significantly change the historical long term rate of return such as to necessitate or warrant revision of the expected long term rate of return for U.S. plans.

A similar process is implemented to determine the expected rate of return on plan assets for German Plans. Both capital market surveys as well as the expertise of major banks and industry professionals are used to determine the expected rate of return on plan assets.

The expected rate of return on plan assets set for 2002 was 7.9% for German Plans and 10.1% for non-German Plans (primarily U.S. plans). During 2002, the Investment Committees of Daimler-Chrysler decided to gradually shift the pension fund portfolio asset distribution towards a mix more heavily weighted with fixed income assets, which by definition, would modestly lower return expectations. Also at that time, the Investment Committees' analysis of market trends caused management to believe that future long-term returns for equities and fixed income assets would be lower than the returns experienced over the previous 25 years. The expected rates of return were therefore lowered to 7.5% for German Plans and 8.5% for non-German Plans as of January 1, 2003 which remained consistent through December 31, 2004.

For 2005 the expected rates of return on plan assets are the same as the rates applied in 2004.

Net Pension Cost. The components of net pension cost were for the years ended December 31, 2004, 2003 and 2002 as follows:

	2004			2003			2002		
	Total	German Plans	Non-German Plans	Total	German Plans	Non-German Plans	Total	German Plans	Non-German Plans
(in millions of €)									
Service cost	681	256	425	600	256	344	610	226	384
Interest cost	1,878	586	1,292	2,029	632	1,397	2,251	629	1,622
Expected return on plan assets	(2,339)	(614)	(1,725)	(2,379)	(509)	(1,870)	(3,287)	(595)	(2,692)
Amortization of:									
Unrecognized net actuarial (gains) losses	372	141	231	226	173	53	77	74	3
Unrecognized prior service cost	292	-	292	287	-	287	291	-	291
Unrecognized net obligation	-	-	-	-	-	-	1	-	1
Net periodic pension cost (benefit)	884	369	515	763	552	211	(57)	334	(391)
Settlement/curtailment loss	64	-	64	74	50	24	209	1	208
Net pension cost (benefit)	948	369	579	837	602	235	152	335	(183)

Contributions. Employer contributions to the Group's defined benefit pension plans were €1,649 million and €2,056 million for the years ended December 31, 2004 and 2003, respectively. The employer contribution to the Group's defined benefit pension plans is expected to approximate €1.5 billion in 2005, of which €0.5 billion is estimated to be needed to satisfy minimum funding and contractual requirements and an additional €1.0 billion is expected to be contributed at the Group's discretion. The Group anticipates that the expected 2005 employer contribution will comprise €1.5 billion in cash.

Estimated Future Pension Benefit Payments. Pension benefits pertaining to the Group's German and non-German plans were €550 million and €1,541 million, respectively during 2004, and €527 million and €1,599 million, respectively during 2003. The total estimated future pension benefits to be paid by the Group's pension plans for the next 10 years approximates €23.0 billion and are expected to be paid as follows:

	2005	2006	2007	2008	2009	2010-2014
(in billions of €)						
German Plans	0.5	0.6	0.6	0.6	0.7	3.7
Non-German Plans	1.5	1.5	1.5	1.6	1.7	8.5
Total	2.0	2.1	2.1	2.2	2.4	12.2

Accumulated Benefit Obligation. For all pension plans that have an accumulated benefit obligation in excess of plan assets, information pertaining to the accumulated benefit obligation and plan assets are presented as follows:

	At December 31, 2004	At December 31, 2003	At December 31, 2002
(in millions of €)			
Projected benefit obligation	33,749	31,487	32,300
Accumulated benefit obligation	32,627	30,547	31,206
Plan Assets	27,141	25,660	23,882

The pretax increase of the minimum pension liability in 2004 resulted in a reduction of stockholder's equity by €1,224 million and is included in other comprehensive income (loss). In 2003 there was a pretax increase of stockholder's equity included in other comprehensive income (loss) of €662 million for the years ended December 31, respectively.

Other Postretirement Benefits

Certain DaimlerChrysler operations in the U.S. and Canada provide postretirement health and life insurance benefits to their employees. Upon retirement from DaimlerChrysler, the employees may become eligible for continuation of these benefits. The benefits and eligibility rules may be modified.

Investment Policies and Strategies. At December 31, 2004, plan assets were invested in diversified portfolios that consisted primarily of debt and equity securities. Assets and income accruing on all pension trust and relief funds are used solely to pay benefits and administer the plans. The Group's other benefit plan asset allocation at December 31, 2004 and 2003, and target allocations for 2005 are as follows:

	2005 planned	2004	2003
(in % of plan assets)			
Equity securities	65	68	68
Debt securities	35	32	32
Real estate	-	-	-

Asset allocation is based on a Benchmark Portfolio designed to diversify investments among the following primary asset classes: U.S. Equity, International Equity and U.S. Fixed Income. The objective of the Benchmark Portfolio is to achieve a reasonable balance between risk and return.

The investment process is overseen by investment committees which consist of senior financial management and other appropriate executives. The Investment Committees meet regularly to approve the asset allocations and review the risks and results of the funds and approve the selection and retention of external managers of specific portfolios.

The majority of investments reflect the asset classes designated by the Benchmark Portfolio. To maintain a wide range of diversification and improve return possibilities, a small percentage of assets (approximately 5%) is allocated to highly promising markets such as High Yield Debt and Emerging Markets. Internal controlling units monitor all investments strictly and regularly. External depository banks provide safekeeping of securities as well as reporting of transactions and assets.

Funded Status. The following information is presented with respect to the Group's postretirement benefit plans:

	At December 31,	
	2004	2003
(in millions of €)		
Change in accumulated postretirement benefit obligations:		
Accumulated postretirement benefit obligations at beginning of year	14,910	15,933
Foreign currency exchange rate changes	(1,053)	(2,553)
Service cost	255	278
Interest cost	863	983
Plan amendments	4	(383)
Actuarial losses	127	1,242
Acquisitions and other	-	198
Settlement/curtailment loss	46	11
Benefits paid	(797)	(799)
Accumulated postretirement benefit obligations at end of year	14,355	14,910
Change in plan assets:		
Fair value of plan assets at beginning of year	1,531	2,232
Foreign currency exchange rate changes	(132)	(490)
Actual gains (losses) on plan assets	160	379
Employer contributions (withdrawals)	-	(673)
Dispositions/Acquisitions	-	137
Benefits paid	(12)	(54)
Fair value of plan assets at end of year	1,547	1,531

A reconciliation of the funded status, which is the difference between the accumulated postretirement benefit obligations and the fair value of plan assets, to the liability recognized for accrued postretirement health and life insurance benefits in pension plans and similar obligations is as follows:

	At December 31,	
	2004	2003
(in millions of €)		
Funded status	12,808	13,379
Amounts not recognized:		
Unrecognized actuarial net losses	(4,721)	(5,114)
Unrecognized prior service cost	(66)	(62)
Net liability recognized	8,021	8,203

Impact of the Medicare Act. In the U.S., the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("Medicare Act") resulted in an overall reduction of the accumulated postretirement benefit obligation for postretirement health and life insurance benefits to €997 million as of January 1, 2004. The impact of the remeasurement of the accumulated postretirement benefit obligation is being amortized over the average service period of employees eligible for postretirement benefits beginning January 1, 2004. Consequently, the net periodic postretirement benefit cost for 2004 has been reduced by €148 million.

Estimated Future Subsidies due to Medicare Act. The total estimated future subsidies due to Medicare Act for the next 10 years approximate €460 million and are expected to be received as follows:

	2005	2006	2007	2008	2009	2010-2014
(in billions of €)						
Medicare Act	-	40	43	45	48	284

Contributions. DaimlerChrysler did not make any contributions to its other postretirement plans in 2004 or 2003 and does not plan to make any contributions in 2005.

Assumptions. Assumed discount rates and rates of increase in remuneration used in calculating the accumulated postretirement benefit obligations together with long-term rates of return on plan assets vary according to the economic conditions of the country in which the plans are situated.

The weighted average assumptions used to determine the benefit obligations of the Group's postretirement benefit plans at December 31 were as follows (in %):

	2004	2003	2002
Average assumptions:			
Discount rate	6.0	6.3	6.8
Health care inflation rate in following (or "base") year	8.0	8.0	10.0
Ultimate health care inflation rate (2011/2008/2008)	5.0	5.0	5.0

The weighted average assumptions used to determine the net periodic postretirement benefit cost of the Group's postretirement benefit plans were as follows (in %):

	2004	2003	2002
Average assumptions:			
Discount rate	6.3	6.8	7.4
Expected return on plan assets (at the beginning of the year)	8.5	8.5	10.5
Health care inflation rate in following (or "base") year	8.0	10.0	6.9
Ultimate health care inflation rate (2008)	5.0	5.0	5.0

U.S. postretirement benefit plan assets utilize an asset allocation substantially similar to that of the pension assets so the expected rate of return is the same for both pension and postretirement benefit plan asset portfolios. Accordingly, the information about the expected rate of return on pension plan assets described above also applies to postretirement plan assets.

The assumptions have a significant effect on the amounts reported for the Group's health care plans. The following schedule presents the effects of a one-percentage-point change in assumed ultimate health care cost inflation rates as from 2011:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
(in millions of €)		
Effect on total of service and interest cost components	156	(126)
Effect on accumulated postretirement benefit obligations	1,720	(1,422)

For 2005 the expected rate of return on plan assets is the same as the rate applied in 2004.

Net Postretirement Benefit Cost. The components of net periodic postretirement benefit cost for the years ended December 31, 2004, 2003 and 2002 were as follows:

	2004	2003	2002
(in millions of €)			
Service cost	255	278	262
Interest cost	863	983	1,062
Expected return on plan assets	(159)	(217)	(345)
Amortization of:			
Unrecognized net actuarial (gains) losses	208	220	38
Unrecognized prior service cost	3	24	76
Net periodic postretirement benefit cost	1,170	1,288	1,093
Settlement/curtailment loss	3	2	26
Net postretirement benefit cost	1,173	1,290	1,119

The components of the reduction of net periodic postretirement benefit cost in 2004 resulting from the Medicare Act were as follows:

	2004
(in millions of €)	
Service cost	19
Interest cost	62
Amortization of unrecognized net actuarial losses	67
Total reduction	148

Estimated Future Postretirement Benefit Payments.

Postretirement benefits paid pertaining to the Group's plans were €797 million and €799 million during 2004 and 2003, respectively. The total estimated future postretirement benefits to be paid by the Group's plans for the next 10 years approximate €9.2 billion and are expected to be paid as follows:

	2005	2006	2007	2008	2009	2010-2014
(in billions of €)						
Other postretirement benefits	0.7	0.8	0.9	0.9	0.9	5.0

Prepaid Employee Benefits. In 1996 DaimlerChrysler established a Voluntary Employees' Beneficiary Association ("VEBA") trust for payment of non-pension employee benefits. At December 31, 2004 and 2003, the VEBA trust had a balance of €2,023 million and €2,017 million, respectively, of which €1,474 million and €1,433 million, respectively, were designated and restricted for the payment of postretirement health care benefits. No contributions to the VEBA trust were made in 2004, 2003 and 2002. DaimlerChrysler does not expect to make any contributions to the VEBA trust in 2005.

b) Other Accrued Liabilities

Other accrued liabilities consisted of the following:

	At December 31,	
	2004	2003
(in millions of €)		
Product guarantees	10,877	9,230
Accrued sales incentives	4,680	5,119
Accrued personnel and social costs	2,784	2,282
Restructuring measures	250	410
Other	5,918	5,870
	24,509	22,911

The Group issues various types of product guarantees under which it generally guarantees the performance of products delivered and services rendered for a certain period or term (see Note 32). The accrued liability for these product guarantees covers expected costs for legally and contractually obligated warranties as well as expected costs for policy coverage, recall campaigns and buy-back commitments. The liability for buyback commitments represents the expected costs related to the Group's obligation, under certain conditions, to repurchase a vehicle from a customer. Buybacks may occur for a number of reasons including litigation, compliance with laws and regulations in a particular region and customer satisfaction issues.

The changes in provisions for those product guarantees are summarized as follows:

(in millions of €)	
Balance at January 1, 2003	9,353
Currency change	(776)
Utilizations	(4,581)
Product guarantees issued in 2003	5,364
Other changes from product guarantees issued in prior periods	(130)
Balance at December 31, 2003	9,230
Currency change and change in consolidated companies	334
Utilizations	(4,712)
Product guarantees issued in 2004	4,807
Other changes from product guarantees issued in prior periods	1,218
Balance at December 31, 2004	10,877

The amount included in the line item “product guarantees issued in 2003 respective 2004” represents the additions to the accruals for product guarantees recognized in the corresponding year for products sold in this year.

The Group also offers customers the opportunity to purchase separately priced extended warranty and maintenance contracts. The revenue from these contracts is deferred at the inception of the contract and recognized into income over the contract period in proportion to the costs expected to be incurred based on historical information. Included in “Deferred income” on the Consolidated Balance Sheets, the deferred revenue from these contracts is summarized as follows:

(in millions of €)	
Balance at January 1, 2003	1,061
Currency change	(170)
Deferred revenue current year	693
Earned revenue current year	(455)
Balance at December 31, 2003	1,129
Currency change	(74)
Deferred revenue current year	538
Earned revenue current year	(478)
Balance at December 31, 2004	1,115

Accruals for restructuring measures comprise certain employee termination benefits and other costs that are directly associated with plans to exit specified activities. The changes in these provisions are summarized as follows:

	Termination benefits	Exit costs	Total liabilities
(in millions of €)			
Balance at January 1, 2002	573	617	1,190
Utilizations, transfers and currency change	(461)	(358)	(819)
Reductions	(57)	(39)	(96)
Additions	323	160	483
Balance at December 31, 2002	378	380	758
Utilizations, transfers and currency change	(355)	(209)	(564)
Reductions	(10)	(27)	(37)
Additions	226	27	253
Balance at December 31, 2003	239	171	410
Utilizations, transfers and currency change	(200)	(39)	(239)
Reductions	(24)	(54)	(78)
Additions	156	1	157
Balance at December 31, 2004	171	79	250

In connection with the Group’s restructuring measures, provisions were recorded in 2004, 2003 and 2002 principally within Chrysler Group (see Note 7). In addition, accruals for restructuring measures were recorded in 2002 within Commercial Vehicles.

Additions to accruals for termination benefits in 2004 amounted to €156 million (2003: €226 million; 2002: €323 million). The amount recorded in 2004 was primarily related to the Chrysler Group’s turnaround plan, which was initiated in 2001.

Termination benefits of €127 million were paid in 2004 (2003: €229 million; 2002: €431 million). These termination benefits were completely charged against previously established liabilities (2003: €228 million; 2002: €359 million).

In connection with its restructuring efforts in 2004, workforce reductions impacted approximately 6,180 employees (2003: 4,410; 2002: 11,500). At December 31, 2004, the Group had liabilities for estimated future terminations of approximately 1,120 employees.

Additions to the accruals for exit costs of €27 million in 2003 and most of the accruals for exit costs in 2002 (€302 million) were related to supplier contract cancellation and facility deactivation costs in connection with the termination of production activities and product programs within the Chrysler Group (see Note 7). The Commercial Vehicles segment accrued €62 million in exit costs in 2002, which were primarily related to costs associated with dealer contract terminations in the U.S. and France. Minor amounts accrued in 2002 were related to several restructuring programs within the Other Activities segment.

The payments for exit costs amounted to €107 million in 2004 (2003: €174 million; 2002: €288 million), of which €101 million (2003: €167 million; 2002: €258 million) were charged against previously established liabilities.

26. Financial Liabilities

	At December 31,	
	2004	2003
(in millions of €)		
Short-term:		
Notes/Bonds	11,122	9,975
Commercial paper	6,824	7,048
Liabilities to financial institutions	10,254	6,183
Liabilities to affiliated companies	438	344
Deposits from direct banking business	2,945	3,041
Loans, other financial liabilities	1,123	475
Liabilities from capital lease and residual value guarantees	1,422	1,189
Short-term financial liabilities (due within one year)	34,128	28,255
Long-term: Maturities		
Notes/Bonds	2006-	
of which due in more than five years	2097	
€10,492 (2003: €11,213)	33,919	37,802
Liabilities to financial institutions	2006-	
of which due in more than five years	2019	
€1,264 (2003: €1,812)	6,807	7,911
Deposits from direct banking business		
of which due in more than five years		
€9 (2003: €22)	179	97
Loans, other financial liabilities		
of which due in more than five years		
€2 (2003: €13)	145	400
Liabilities from capital lease and residual value guarantees		
of which due in more than five years		
€210 (2003: €207)	1,442	1,225
Long-term financial liabilities	42,492	47,435
	76,620	75,690

Weighted average interest rates for notes/bonds, commercial paper, liabilities to financial institutions and deposits from direct banking business are 5.22%, 2.66%, 4.47% and 2.35%, respectively, at December 31, 2004.

Commercial papers are primarily denominated in euros and U.S. dollars and include accrued interest. Liabilities to financial institutions are partly secured by mortgage conveyance, liens and assignment of receivables of approximately €2,232 million (2003: €1,714 million).

DaimlerChrysler Corporation ("DCC") maintains a Trade Payables Agreement with General Electric Capital Corporation ("GECC") to provide financial flexibility to DCC and its suppliers. GECC pays participating suppliers on accelerated payment terms for a discount on the invoiced amount. DCC then pays GECC under the terms of the original invoice from the supplier. To the extent GECC can realize favorable economics from the transactions, they are shared with DCC. The program will terminate in the first half of 2005. The outstanding balance due GECC at December 31, 2004 and 2003 was €410 million and €416 million, respectively, shown within other short term financial liabilities in the table above.

Aggregate nominal amounts of financial liabilities maturing during the next five years and thereafter are as follows:

	2005	2006	2007	2008	2009	there- after
(in millions of €)						
Financial liabilities	34,459	14,095	8,681	4,478	3,051	11,226

At December 31, 2004, the Group had unused short-term credit lines of €9,278 million (2003: €10,700 million) and unused long-term credit lines of €8,981 million (2003: €10,441 million). The credit lines include an \$18 billion revolving credit facility with a syndicate of international banks. The credit agreement is comprised of a multi-currency revolving credit facility which allows DaimlerChrysler AG to borrow up to \$5 billion until 2009, an U.S. dollar revolving credit facility which allows DaimlerChrysler North America Holding Corporation, a wholly-owned subsidiary of DaimlerChrysler AG, to borrow up to \$6 billion available until 2005, and a multi-currency revolving credit facility for working capital purposes which allows DaimlerChrysler AG and several subsidiaries to borrow up to \$7 billion until 2008. A part of the \$18 billion facility serves as back-up for commercial paper drawings.

27. Trade Liabilities

	At December 31, 2004			At December 31, 2003		
	Total	Due after one and before five years	Due after five years	Total	Due after one and before five years	Due after five years
(in millions of €)						
Trade liabilities	12,914	2	-	11,583	-	1

28. Other Liabilities

	At December 31, 2004			At December 31, 2003		
	Total	Due after one and before five years	Due after five years	Total	Due after one and before five years	Due after five years
(in millions of €)						
Liabilities to affiliated companies	354	10	-	316	10	-
Liabilities to related companies	77	-	-	131	-	-
Other liabilities	8,276	542	166	8,358	699	315
	8,707	552	166	8,805	709	315

As of December 31, 2004, other liabilities include tax liabilities of €803 million (2003: €682 million) and social benefits due of €774 million (2003: €753 million).

29. Deferred Income

As of December 31, 2004, €2,088 million of the total deferred income is to be recognized after more than one year (2003: €1,836 million).

Notes to Consolidated Statements of Cash Flows

Other Notes

30. Consolidated Statements of Cash Flows

The following cash flows represent supplemental information with respect to net cash provided by operating activities:

(in millions of €)	Year ended December 31,		
	2004	2003	2002
Interest paid	3,092	3,207	3,615
Income taxes paid (refunded)	1,373	937	(1,178)

For the year ended December 31, 2004, net cash provided by financing activities included proceeds of early terminated cross currency hedges, related to financial liabilities, of €1,304 million (2003: €556 million; 2002: €117 million).

31. Legal Proceedings

Various legal proceedings are pending against the Group. DaimlerChrysler believes that such proceedings in the main constitute ordinary routine litigation incidental to its business.

In November 2003, the official receiver of Garage Bernard Tutrice, S.A., France, a former customer of DaimlerChrysler's French subsidiary, filed a lawsuit against DaimlerChrysler France S.A.S. in the commercial court of Versailles claiming damages alleged to have resulted from tax fraud committed by the former Chairman of Tutrice S.A. In October 2004, the receiver amended its claim and now demands payment of €455 million, which it claims is the equivalent of the total of the unsecured liabilities of Tutrice S.A. The receiver alleges that DaimlerChrysler France did not forward information to the tax authorities necessary to uncover the tax fraud and therefore had contributed to Tutrice S.A.'s insolvency. DaimlerChrysler France had filed proof of debt in Tutrice S.A.'s insolvency proceedings. The former chairman of Tutrice S.A. was convicted of tax fraud in April, 2001. DaimlerChrysler France was a joint plaintiff in the criminal proceedings resulting in the conviction. The criminal court found, that the fraud committed by Tutrice's former chairman also caused damage to DaimlerChrysler France. DaimlerChrysler intends to defend itself against this claim vigorously.

DaimlerChrysler Australia/Pacific Pty. Ltd. ("DCAuP") is subject to a potentially large claim arising out of the financial failure of a customer. The customer, one of DCAuP's largest private clients for buses, had purchased and paid for some 200 buses over the period 1999 to 2000. In April 2003, the customer was placed in receivership and subsequently in liquidation. The customer had obtained finance by purporting to sell to financiers and lease back buses which, in many cases, were either non-existent or already under finance to a third party. Criminal charges are being brought against the directors of the customer. Civil actions claiming damages were issued out of the Supreme Court of New South Wales against DCAuP in April 2004 by the customer's major creditor (National Australia Bank Limited) and in June 2004 by the liquidator. The actions allege that DCAuP, by reason of the conduct of one of its then employees, vicariously engaged in misleading and deceptive conduct which resulted in loss to the

plaintiffs. The allegations are that the employee had furnished to the customer a number of letters on DCAuP letterhead which falsely asserted that the customer had purchased and paid for buses which purported to be identified by either commission numbers or chassis numbers. Many of the buses proved to be fictitious. The letters were produced by the customer to the financier as part of the customer's proof of its title to the identified buses in order to procure funding. The claims are yet to be finally quantified. DaimlerChrysler is vigorously defending both claims.

DaimlerChrysler AG in its capacity as successor of Daimler-Benz AG is a party to a valuation proceeding (Spruchstellenverfahren) relating to a subordination and profit transfer agreement that existed between Daimler-Benz AG and the former AEG AG ("AEG"). In 1988, former AEG shareholders filed a petition to the regional court in Frankfurt claiming that the consideration and compensation stipulated in the agreement was inadequate. In 1994, a court-appointed valuation expert concluded that the consideration provided for in the agreement was adequate. Following a Federal Constitutional Court decision in an unrelated case, the Frankfurt court in 1999 instructed the expert to employ a market value approach in its valuation analysis rather than the capitalized earnings value approach previously used. The court also instructed the expert in 2004 to take into account additional findings of the Federal Supreme Court elaborating further on the valuation issue addressed by the Federal Constitutional Court. In September 2004, the expert delivered the requested valuation opinion. If the new opinion were to be followed by the Frankfurt court, the valuation ratio would increase significantly in favour of the AEG shareholders. DaimlerChrysler believes the original consideration and compensation to be adequate and the second valuation opinion to be unwarranted. DaimlerChrysler intends to defend itself vigorously against the claims in this proceeding.

As previously reported, various legal proceedings are pending against DaimlerChrysler or its subsidiaries alleging defects in various components (including occupant restraint systems, seats, brake systems, tires, ball joints, engines and fuel systems) in several different vehicle models or allege design defects relating to vehicle stability (rollover propensity), pedal misapplication (sudden acceleration), brake transmission shift interlock, or crash-worthiness. 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 personal injuries. Adverse decisions in one or more proceedings could require DaimlerChrysler or its subsidiaries to pay partially substantial compensatory and punitive damages, or undertake service actions, recall campaigns or other costly actions.

Three purported class action lawsuits are pending in various U.S. courts that allege that the paint applied to 1982-1997 model year Chrysler, Plymouth, Jeep® and Dodge vehicles delaminates, peels or chips as the result of defective paint, paint primer, or application processes. Plaintiffs seek compensatory and punitive damages, costs of repair or replacement, attorneys' fees and costs. Seven other previously reported class action lawsuits regarding paint delamination have been dismissed.

In November 2004, a jury awarded \$3.75 million in compensatory damages and \$98 million in punitive damages against DaimlerChrysler Corporation in *Flax v. DaimlerChrysler Corporation*, a case filed in Davidson County Circuit Court in the state of Tennessee. The complaint alleged that the seat back in a 1998 Dodge Grand Caravan was defective and collapsed when the Caravan was struck by another vehicle resulting in the death of an occupant. DaimlerChrysler Corporation has filed motions challenging the verdict and the damage awards. DaimlerChrysler Corporation is defending approximately 25 other complaints involving vehicle seat back strength, including the appeal of a judgment against DaimlerChrysler Corporation in November 2003 for \$3.75 million in compensatory damages and \$50 million in punitive damages in *Douglas v. DaimlerChrysler Corporation*, a case filed in Superior Court in Maricopa County, Arizona. DaimlerChrysler believes it has strong grounds for appealing these verdicts and having the punitive damage awards stricken.

Like other companies in the automotive industry, DaimlerChrysler (primarily DaimlerChrysler Corporation) have experienced a growing number of lawsuits which seek compensatory and punitive damages for illnesses alleged to have resulted from direct and indirect exposure to asbestos used in some vehicle components (principally brake pads). Typically, these suits name many other corporate defendants and may also include claims of exposure to a variety of non-automotive asbestos products. A single lawsuit may include claims by multiple plaintiffs alleging illness in the form of asbestosis, mesothelioma or other cancer or illness. The number of claims in these lawsuits increased from approximately 14,000 at the end of 2001 to approximately 29,000 at the end of 2004. In the majority of these cases, plaintiffs do not specify their alleged illness and provide little detail about their alleged exposure to components in DaimlerChrysler's vehicles. Some plaintiffs do not exhibit current illness, but seek recovery based on potential future illness. DaimlerChrysler believes that many of these lawsuits involve unsubstantiated illnesses or assert only tenuous connections with components in its vehicles, and that there is credible scientific evidence to support the dismissal of many of these claims. Although DaimlerChrysler's expenditures to date in connection with such claims have not been material to its financial condition, it is possible that the number of these lawsuits will continue to grow, especially those alleging life-threatening illness, and that the company could incur significant costs in the future in resolving these lawsuits.

As previously reported, the Antitrust Division of the U.S. Department of Justice, New York Regional Office, opened a criminal investigation in connection with the allegations made in a lawsuit filed in 2002 in the United States District Court for the District of New Jersey against DaimlerChrysler's subsidiary Mercedes-Benz USA, LLC ("MBUSA"), and its wholly-owned subsidiary Mercedes-Benz Manhattan, Inc. The Department of Justice advised those companies in the third quarter of 2003 that it had closed the investigation and will take no further action. The lawsuit, certified as a class action in 2003, alleges that those companies participated in a price fixing conspiracy among Mercedes-Benz dealers. MBUSA and Mercedes-Benz Manhattan will continue to defend themselves vigorously.

As previously reported, DaimlerChrysler received a "statement of objections" from the European Commission on April 1, 1999, which alleged that the Group violated EU competition rules by impeding cross-border sales of Mercedes-Benz passenger cars to final customers in the European Economic Area. In October 2001, the European Commission found that DaimlerChrysler infringed EU competition rules and imposed a fine of approximately €72 million. DaimlerChrysler's appeal against this decision is still pending before the European Court of Justice.

As previously reported, in 2003 approximately 80 purported class action lawsuits alleging violations of antitrust law were filed against DaimlerChrysler and several of its U.S. subsidiaries, six other motor vehicle manufacturers, operating subsidiaries of those companies in both the United States and Canada, the National Automobile Dealers Association and the Canadian Automobile Dealers Association. Some complaints were filed in federal courts in various states and others were filed in state courts. The complaints allege that the defendants conspired to prevent the sale to U.S. consumers of vehicles sold by dealers in Canada in order to maintain new car prices at artificially high levels in the U.S. They seek treble damages on behalf of everyone who bought or leased a new vehicle in the U.S. since January 1, 2001. DaimlerChrysler believes the complaints against it are without merit and plans to defend itself against them vigorously.

As previously reported, DaimlerChrysler's subsidiary, DaimlerChrysler Services North America LLC ("DCSNA") is subject to various legal proceedings in federal and state courts, some of which allege violations of state and federal laws in connection with financing motor vehicles. Some of these proceedings seek class action status, and may ask for compensatory, punitive or treble damages and attorneys' fees. In October 2003, the Civil Rights Division of the Department of Justice and the United States Attorney's Office for the Northern District of Illinois advised that they are initiating an investigation of DCSNA's credit practices that focuses on DCSNA's Chicago Zone Office. The investigation follows a lawsuit filed in February, 2003, against DCSNA in Chicago with the United States District Court for the Northern District of Illinois that alleges that the DCSNA Chicago Zone Office engaged in racially discriminatory credit and collection practices in violation of federal and state laws. In that lawsuit, initially six individuals filed a purported class action complaint on behalf of African-Americans in the region alleging that they were denied vehicle financing based on race. They seek compensatory and punitive damages, and injunctive relief barring discriminatory practices. The lawsuit was later amended to include Hispanic-Americans. DCSNA believes that its practices are fair and not discriminatory. DCSNA intends to defend itself vigorously against these claims.

The Federal Republic of Germany has initiated arbitration proceedings against DaimlerChrysler Services AG, Deutsche Telekom AG and the consortium an introductory writ (see also Notes 3 and 32). The Federal Republic of Germany is seeking damages, including contractual penalties and reimbursement of lost revenues, which allegedly arose from delays in the operability of the toll collection system. Specifically, the Federal Republic of Germany is claiming lost revenues of €3.56 billion plus interest for the period September 1, 2003 through December 31, 2004, and contractual penalties of approximately €1.03 billion plus interest through July 31, 2004. Since some of the contractual penalties are depending on time, the amount claimed as contractual penalties may increase. DaimlerChrysler believes the claims of the Federal Republic of Germany are without merit and intends to defend itself vigorously against these claims.

As previously reported, Freightliner LLC, DaimlerChrysler's North American commercial vehicles subsidiary, acquired in September 2000 Western Star Trucks Holdings Ltd., a Canadian company engaged in the design, assembly, and distribution of heavy duty trucks and transit buses. Prior to its acquisition by Freightliner, Western Star had completed the sale of ERF (Holdings) plc, a company organized in England and Wales and engaged in the assembly and sale of heavy duty trucks, to MAN AG and MAN Nutzfahrzeuge AG for CAD195 million. In September 2002, MAN filed a claim against Freightliner Ltd. (formerly Western Star) with the London Commercial Court for breach of representations and warranties in the share purchase agreement, alleging that ERF's accounts and financial statements were misstated. MAN seeks damages in excess of GBP300 million. Freightliner Ltd. intends to defend itself vigorously against such claims and has filed a contribution claim against Ernst & Young, ERF's auditors, with the London Commercial Court in the second quarter of 2003.

As previously reported, DaimlerChrysler sold DaimlerChrysler Rail Systems GmbH ("Adtranz"), to Bombardier Inc., on April 30, 2001 for \$725 million. In connection with the sale, DaimlerChrysler deferred €300 million of the gain due to uncertainties related to the final purchase price. In July 2002, Bombardier filed a request for arbitration with the International Chamber of Commerce in Paris, and asserted claims for sales price adjustments under the terms of the sale and purchase agreement as well as claims for alleged breaches of contract and misrepresentations. Bombardier sought total damages of approximately €960 million. The original sales agreement limited the amount of such price adjustments to €150 million and, to the extent legally permissible, the amount of other claims to an additional €150 million. On September 28, 2004, DaimlerChrysler and Bombardier concluded a settlement agreement with respect to all claims asserted by Bombardier in connection with the sale of Adtranz. The settlement agreement provided for a purchase price adjustment of €170 million to be paid to Bombardier and the cancellation of all remaining claims and allegations asserted by Bombardier. DaimlerChrysler paid the settlement amount on October 1, 2004. DaimlerChrysler recognized the remaining deferred gain in 2004, which was partially offset by expenses incurred. The €120 million net amount recognized is classified as "Other income" in the consolidated statements of income and is included in operating profit of the Other Activities segment.

As previously reported, in the fourth quarter of 2000, Tracinda Corporation filed a lawsuit in the United States District Court for the District of Delaware against DaimlerChrysler AG and some of the members of its Supervisory Board and Board of Management (Messrs. Kopper, Prof. Schrempp and Dr. Gentz). Shortly thereafter, other plaintiffs filed a number of actions against the same defendants, making claims similar to those in the Tracinda complaint. Two individual lawsuits and one consolidated class action lawsuit were originally pending. The plaintiffs, current or former DaimlerChrysler shareholders, alleged that the defendants violated U.S. securities law and committed fraud in obtaining approval from Chrysler stockholders of the business combination between Chrysler and Daimler-Benz in 1998. In March 2003, the Court granted Mr. Kopper's motion to dismiss each of the complaints against him on the ground that the Court lacked jurisdiction over him. In August 2003, DaimlerChrysler agreed to settle the consolidated class action case for \$300 million (approximately €230 million adjusted for currency effects), and shortly thereafter, DaimlerChrysler concluded a settlement with Glickenhau, one of the two individual plaintiffs. On February 5, 2004, the Court issued a final order approving the settlement of the consolidated class action case and ordering its dismissal. The settlements did not affect the case brought by Tracinda, which claims to have suffered damages of approximately \$1.35 billion. The Tracinda trial was completed on February 11, 2004. There can be no assurance as to the timing of a decision by the court. In addition, a purported class action was filed against DaimlerChrysler AG and some members of its Board of Management in 2004 in the same court on behalf of current or former DaimlerChrysler shareholders who are not citizens or residents of the United States, and who acquired their DaimlerChrysler shares on or through a foreign stock exchange. The Court had previously excluded such persons from the consolidated class action due to practical difficulties in maintaining a class comprising such persons. The complaint contains allegations similar to those in the Tracinda and prior class action complaints.

In 2002, several lawsuits were filed asserting claims relating to the practice of apartheid in South Africa during different time periods before 1994: On November 11, 2002, the Khulumani Support Group (which purports to represent 32,700 individuals) and several individual plaintiffs filed a lawsuit captioned Khulumani v. Barclays National Bank Ltd., Civ. A. No. 02-5952 (E.D.N.Y.) in the United States District Court for the Eastern District of New York against 22 American, European, and Japanese companies, including DaimlerChrysler AG and AEG Daimler-Benz Industrie. On November 19, 2002, a putative class action lawsuit, Ntsebeza v. Holcim Ltd., No. 02-74604 (RWS) (E.D. Mich.), was filed in the United States District Court for the Eastern District of Michigan against four American and European companies, including DaimlerChrysler Corporation. Both cases were consolidated for pretrial purposes with several other putative class action lawsuits, including Digwamaje v. Bank of America, No. 02-CV-6218 (RCC) (S.D.N.Y.), which had been previously filed in the United States District Court for the Southern District of New York. The Digwamaje plaintiffs originally named DaimlerChrysler AG as a defendant, but later voluntarily dismissed DaimlerChrysler from the suit. Khulumani and Ntsebeza allege, in essence, that the defendants knew about or participated in human rights violations and other abuses of the South African apartheid regime, cooperated with the apartheid government during the relevant periods, and benefited financially from such cooperation. The plaintiffs seek monetary and other relief, but do not quantify damages. On November 29, 2004, the Court granted a motion to dismiss filed by a group of defendants, including DaimlerChrysler. Plaintiffs have filed notices of appeal of the Court's decision. In order to address certain procedural matters, plaintiffs and the moving defendants have agreed to withdraw the appeals with the expectation that the notices of appeal would be refiled.

In August 2004, the Securities and Exchange Commission ("SEC") notified DaimlerChrysler AG that it has opened an investigation relating to our compliance with the U.S. Foreign Corrupt Practices Act. The investigation follows the filing of a "whistleblower" complaint with the U.S. Department of Labor ("DOL") under the Sarbanes-Oxley Act by a former employee of our wholly-owned subsidiary DaimlerChrysler Corporation whose employment was terminated in 2004. The terminated employee filed a lawsuit against DaimlerChrysler Corporation in the U.S. District Court for the Eastern District of Michigan in September 2004 which contains substantially the same allegations as in the DOL complaint and additional allegations relating to other federal and state law claims arising from the termination. In November, the DOL dismissed the complaint because it found no reasonable cause to believe that the employee was terminated in violation of the Sarbanes-Oxley Act. DaimlerChrysler is providing information to the SEC in cooperation with its investigation. In addition, in response to an informal request from the SEC, DaimlerChrysler is also voluntarily providing information regarding its implementation of various provisions of the Sarbanes-Oxley Act, including those relating to the process for reporting information to the Audit Committee. This request follows the filing of another whistleblower complaint with the DOL by a former employee of DaimlerChrysler Corporation. The terminated employee filed a lawsuit against DaimlerChrysler Corporation in the U.S. District Court for the Eastern District of Michigan in November 2004 which contains substantially the same allegations as in the DOL complaint.

Litigation is subject to many uncertainties and DaimlerChrysler cannot predict the outcome of individual matters with assurance. It is reasonably possible that the final resolution of some of these matters could require the Group to make expenditures, in excess of established reserves, over an extended period of time and in a range of amounts that DaimlerChrysler cannot reasonably estimate. Although the final resolution of any such matters could have a material effect on the Group's consolidated operating results for a particular reporting period, DaimlerChrysler believes that it should not materially affect its consolidated financial position.

32. Contingent Obligations and Commercial Commitments

Contingent Obligations. Obligations from issuing guarantees as a guarantor (excluding product warranties) are as follows:

	At December 31, Maximum potential future obligations		At December 31, Amount recognized as a liability	
	2004	2003	2004	2003
(in millions of €)				
Guarantees for third party liabilities	2,334	2,647	207	355
Guarantees under buy-back commitments	1,646	1,957	536	583
Performance guarantees and environmental risks	464	513	360	352
Other	128	118	97	109
	4,572	5,235	1,200	1,399

Guarantees for third party liabilities principally represent guarantees of indebtedness of non-consolidated affiliated companies and third parties and commitments by Group companies as to contractual performance by joint venture companies and certain non-incorporated companies, partnerships, and project groups. The term under these arrangements generally covers the range of the related indebtedness of the non-consolidated affiliated companies and third parties or the contractual performance period of joint venture companies, non-incorporated companies, partnerships, and project groups. The parent company of the Group (DaimlerChrysler AG) provides guarantees for certain obligations of its consolidated subsidiaries towards third parties. At December 31, 2004, these guarantees amounted to €48.4 billion. To a lesser extent, consolidated subsidiaries provide guarantees to third parties of obligations of other consolidated subsidiaries. All intercompany guarantees are eliminated in consolidation and therefore are not reflected in the above table.

Guarantees under buy-back commitments principally represent arrangements whereby the Group guarantees specified trade-in or resale values for assets or products sold to non-consolidated affiliated companies and third parties. Such guarantees provide the holder with the right to return purchased assets or products back to the Group in connection with a future purchase of products or services. The table above excludes residual value guarantees related to arrangements for which revenue recognition is precluded due to the Group's obligation to repurchase assets sold to unrelated guaranteed parties.

Performance guarantees principally represent pledges or indemnifications related to the quality or timing of performance by third parties or participations in performance guarantees of consortiums. Performance guarantees typically provide the purchaser of goods or services with the right to be reimbursed for losses incurred or other penalties if the third party or the consortium fails to perform. Amounts accrued under performance guarantees reflect estimates of probable losses resulting from a third party's failure to perform under obligating agreements.

DaimlerChrysler AG and its wholly owned subsidiary DaimlerChrysler Services AG have provided various guarantees towards third parties with respect to the investment in Toll Collect. See Note 3 for detailed information regarding Toll Collect including the guarantees issued. Of the guarantees mentioned in Note 3, only the €600 million guarantee for the bank loan is reflected in the above table in the line "Guarantees for third party liabilities". The other guarantees are not reflected in the above table since the maximum potential future obligation resulting from the remaining guarantees cannot be accurately estimated. Accruals established in this regard are also not included in the above table.

The Group is subject to potential liability under certain government regulations and various claims and legal actions that are pending or may be asserted against DaimlerChrysler concerning environmental matters. The maximum potential future obligation related to certain environmental guarantees cannot be estimated due to numerous uncertainties including the enactment of new laws and regulations, the development and application of new technologies, the identification of new sites for which the Group may have remediation responsibility and the apportionment and collectibility of remediation costs when other parties are involved.

When circumstances indicate that payment is probable and the amount is reasonably estimable, guarantees made by the Group are recognized as a liability in the consolidated balance sheet in accordance with SFAS 5 "Accounting for Contingencies", with an offsetting amount recorded as an expense (contingent obligation). For guarantees issued or modified after December 31, 2002, the Group records guarantees at fair value, unless a higher amount must be accrued for in accordance with SFAS 5 (non-contingent obligations). Both contingent obligations and non-contingent obligations are included in the column "Amount recognized as a liability" in the table above.

On March 11, 2003, DaimlerChrysler signed an agreement with the City of Hamburg, Germany, a holder of approximately 6% of the common shares of DaimlerChrysler Luft- und Raumfahrt Holding Aktiengesellschaft ("DCLRH"), a majority-owned subsidiary of the Group. Pursuant to the terms of the agreement and upon execution of the agreement, DaimlerChrysler will have a call option and the City of Hamburg will have a put option which, upon exercise by either party will require the shares of DCLRH held by the City of Hamburg to be transferred to DaimlerChrysler. In consideration for these shares, DaimlerChrysler was obliged to pay the City of Hamburg a minimum of €450 million in cash or shares of the EADS or a combination of both. The agreement was approved by the Parliament of the Free and Hanseatic City of Hamburg on May 21, 2003. DaimlerChrysler's call option would become exercisable at January 1, 2005. The City of Hamburg's put option would become exercisable at the earlier of October 1, 2007, or upon the occurrence of certain events which are solely within the control of DaimlerChrysler. DaimlerChrysler believes the likelihood that these certain events will occur is remote.

In accordance with FIN 45, the obligations associated with product warranties are not reflected in the above table. See Note 25b for accruals relating to such obligations.

Commercial Commitments. In addition to the above guarantees and warranties, in connection with certain production programs, the Group has committed to purchase various levels of outsourced manufactured parts and components over extended periods at market prices. The Group has also committed to purchase or invest in the construction and maintenance of various production facilities. Amounts under these guarantees represent commitments to purchase plant or equipment at market prices in the future. As of December 31, 2004, commitments to purchase outsourced manufactured parts and components or to invest in plant and equipment are approximately €5.7 billion. These amounts are not reflected in the above table.

The Group also enters into noncancellable operating leases for facilities, plant and equipment. Total rentals under operating leases charged to expense in 2004 in the statement of income (loss) amounted to €902 million (2003: 747 million; 2002: €737 million). Future minimum lease payments under noncancellable lease agreements as of December 31, 2004 are as follows:

	2005	2006	2007	2008	2009	there- after
(in millions of €)						
Operating leases	583	425	343	286	254	1,099

33. Information About Financial Instruments and Derivatives

a) Use of Financial Instruments

The Group conducts business on a global basis in numerous major international currencies and is, therefore, exposed to adverse movements in foreign currency exchange rates. The Group uses among others bonds, medium-term-notes, commercial paper and bank loans in various currencies. As a consequence of using these types of financial instruments, the Group is exposed to risks from changes in interest and foreign currency exchange rates. DaimlerChrysler holds financial instruments, such as financial investments, variable- and fixed-interest bearing securities and to a lesser extent equity securities that subject the Group to risks from changes in interest rates and market prices. DaimlerChrysler manages the various types of market risks by using among others derivative financial instruments. Without these instruments the Group's market risks would be higher. DaimlerChrysler does not use derivative financial instruments for purposes other than risk management.

Based on regulations issued by regulatory authorities for financial institutions, the Group has established guidelines for risk controlling procedures and for the use of financial instruments, including a clear segregation of duties with regard to operating financial activities, settlement, accounting and controlling.

Market risks are quantified according to the "value-at-risk" method which is commonly used among banks. Using historical variability of market data, potential changes in value resulting from changes of market prices are calculated on the basis of statistical methods.

DaimlerChrysler is also exposed to market price risks associated with the purchase of commodities. To a minor degree, DaimlerChrysler uses derivative instruments to reduce market price risks. The risk resulting from derivative commodity instruments is not significant to the Group.

The contract volumes at December 31 of derivative financial instruments used for hedging currency- and interest rate risks are shown in the table below. The contract or notional amounts do not always represent amounts exchanged by the parties and, thus, are not necessarily a measure for the exposure of DaimlerChrysler through its use of derivatives.

	At December 31,	
	2004	2003
(in millions of €)		
Currency contracts	20,226	25,366
Interest rate contracts	38,313	31,577

b) Fair Value of Financial Instruments

The fair value of a financial instrument is the price at which one party would assume the rights and/or duties of another party. Fair values of financial instruments have been determined with reference to available market information at the balance sheet date and the valuation methodologies discussed below. Considering the variability of their value-determining factors, the fair values presented herein are only an indication of the amounts that the Group could realize under current market conditions.

The carrying amounts and fair values of the Group's financial instruments are as follows:

	At December 31, 2004		At December 31, 2003	
	Carrying amount	Fair value	Carrying amount	Fair value
(in millions of €)				
Financial instruments (other than derivative instruments):				
Assets:				
Financial assets	1,610	1,610	1,631	1,631
Receivables from financial services	56,785	57,558	52,638	53,919
Securities	3,884	3,884	3,268	3,268
Cash and cash equivalents	7,771	7,771	11,017	11,017
Liabilities:				
Financial liabilities	76,620	78,594	75,690	77,993
Derivative instruments:				
Assets:				
Currency contracts	1,287	1,287	2,380	2,380
Interest rate contracts	2,667	2,667	3,695	3,695
Liabilities:				
Currency contracts	152	152	267	267
Interest rate contracts	196	196	163	163

The fair value of derivative instruments classified as assets are included in other assets (see Note 19). The fair value of derivative instruments classified as liabilities are included in other accrued liabilities (see Note 25b).

The methods and assumptions used to determine the fair values of financial instruments are summarized below:

Financial Assets and Securities. The fair values of securities were estimated using quoted market prices. The Group has certain equity investments in related and affiliated companies not presented in the table, as these investments are not publicly traded and determination of fair values is impracticable.

Receivables from Financial Services. The carrying amounts of variable rate finance receivables were estimated to approximate their fair values since the contract rates of those receivables approximate current market rates. The fair values of fixed rate finance receivables were estimated by discounting expected cash flows using the current interest rates at which comparable loans with identical maturity would be made as of December 31, 2004 and 2003.

Cash and Other assets. The carrying amounts of Cash and Other assets approximate fair values due to the short-term maturities of these instruments.

Financial Liabilities. The fair value of publicly traded debt was estimated using quoted market prices. The fair values of other long-term bonds were estimated by discounting future cash flows using market interest rates over the remaining term. The carrying amounts of commercial paper and borrowings under revolving credit facilities were assumed to approximate fair value due to their short maturities.

Currency Contracts. The fair values of forward foreign exchange contracts were based on European Central Bank reference exchange rates adjusted for the respective interest rate differentials (premiums or discounts). Currency options were valued on the basis of quoted market prices or on estimates based on option pricing models.

Interest Rate Contracts. The fair values of existing instruments to hedge interest rate risks (e. g. interest rate swap agreements, cross currency interest rate swap agreements) were estimated by discounting expected cash flows using market interest rates over the remaining term of the instrument. Interest rate options are valued on the basis of quoted market prices or on estimates based on option pricing models.

c) Credit Risk

The Group is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments. DaimlerChrysler manages the credit risk exposure to financial institutions through diversification of counterparties and review of each counterparties' financial strength. DaimlerChrysler does not have a significant exposure to any individual counterparty, based on the rating of the counterparties performed by established rating agencies. DaimlerChrysler Services has established detailed guidelines for the risk management process related to the exposure to financial services customers. Additional information with respect to receivables from financial services and allowance for doubtful accounts is included in Note 18.

d) Accounting for and Reporting of Financial Instruments (Other than Derivative Instruments)

The income or expense of the Group's financial instruments (other than derivative instruments), with the exception of receivables from financial services and financial liabilities related to leasing and sales financing activities, is recognized in financial income, net. Interest income on receivables from financial services and gains and losses from sales of receivables are recognized as revenues. Interest expense on financial liabilities related to leasing and sales financing activities are recognized as cost of sales. The carrying amounts of the financial instruments (other than derivative instruments) are included in the consolidated balance sheets under their related captions.

e) Accounting for and Reporting of Derivative Instruments and Hedging Activities

Foreign Currency Risk Management. As a consequence of the global nature of DaimlerChrysler's businesses, its operations and its reported financial results and cash flows are exposed to the risks associated with fluctuations in the exchange rates of the U.S. dollar, the euro and other world currencies. The Group's businesses are exposed to transaction risk whenever revenues of a business are denominated in a currency other than the currency in which the business incurs the costs relating to those revenues. This risk exposure primarily affects the Mercedes Car Group segment. The Mercedes Car Group segment generates its revenues mainly in the currencies of the countries in which cars are sold, but it incurs manufacturing costs primarily in euros. The Commercial Vehicles segment is subject to transaction risk, to a lesser extent, because of its global production network. At Chrysler Group revenues and costs are principally generated in U.S. dollars, resulting in a relatively low transaction risk for this segment. The Other Activities segment was exposed to a low transaction risk resulting primarily from the U.S. dollar exposure of the aircraft engine business, which DaimlerChrysler conducts through MTU Aero Engines. Effective December 31, 2003 DaimlerChrysler sold all its equity interests in MTU Aero Engines.

In order to mitigate the impact of currency exchange rate fluctuations, DaimlerChrysler continually assesses its exposure to currency risks and hedges a portion of those risks through the use of derivative financial instruments. Responsibility for managing DaimlerChrysler's currency exposures and use of currency derivatives is centralized within the Group's Currency Committee. Until the disposition of MTU Aero Engines, effective December 31, 2003, the Currency Committee consisted of two separate subgroups, one for the Group's vehicle businesses and one for MTU Aero Engines. Each subgroup consisted of members of senior management from each of the respective businesses as well as from Corporate Treasury and Risk Controlling. Since January 1, 2004, the Currency Committee consists exclusively of those members who previously formed the subgroup responsible for the vehicle business. Corporate Treasury implements decisions concerning foreign currency hedging taken by the Currency Committee. Risk Controlling regularly informs the Board of Management of the actions of Corporate Treasury based on the decisions of the Currency Committee.

Interest Rate and Equity Price Risk Management. DaimlerChrysler holds a variety of interest rate sensitive assets and liabilities to manage the liquidity and cash needs of its day-to-day operations. In addition a substantial volume of interest rate sensitive assets and liabilities is related to the leasing and sales financing business which is operated by DaimlerChrysler Services. In particular, the Group's leasing and sales financing business enters into transactions with customers, primarily resulting in fixed rate receivables. DaimlerChrysler's general policy is to match funding in terms of maturities and interest rates. However, for a limited portion of the receivables portfolio funding does not match in terms of maturities and interest rates. As a result, DaimlerChrysler is exposed to risks due to changes in interest rates. DaimlerChrysler coordinates funding activities of the industrial business and financial services on the Group level. The Group uses interest rate derivative instruments such as interest rate swaps, forward rate agreements, swaptions, caps and floors to achieve the desired interest rate maturities and asset/liability structures.

The Group assesses interest rate risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities. The Group maintains risk management control systems independent of Corporate Treasury to monitor interest rate risk attributable to DaimlerChrysler's outstanding interest rate exposures as well as its offsetting hedge positions. The risk management control systems involve the use of analytical techniques, including value-at-risk analyses, to estimate the expected impact of changes in interest rates on the Group's future cash flows.

The investments in equity securities and the corresponding risks of derivative financial hedging instruments for equities were not material to the Group in the displayed reporting periods.

Information with Respect to Fair Value Hedges. Gains and losses in fair value of recognized assets and liabilities and firm commitments of operating transactions as well as gains and losses on derivative financial instruments designated as fair value hedges of these recognized assets and liabilities and firm commitments are recognized currently in revenues or cost of sales, as the transactions being hedged involve sales or production of the Group's products. Net gains and losses in fair value of both recognized financial assets and liabilities and derivative financial instruments designated as fair value hedges of these financial assets and liabilities are recognized currently in financial income, net.

For the year ended December 31, 2004, net losses of €49 million (2003: €57 million) were recognized in operating and financial income, net, representing principally the component of the derivative instruments' gain or loss excluded from the assessment of hedge effectiveness and the amount of hedging ineffectiveness.

Information with Respect to Cash Flow Hedges. Changes in the value of forward foreign currency exchange contracts and currency options designated and qualifying as cash flow hedges are reported in accumulated other comprehensive loss. These amounts are subsequently reclassified into operating income, in the same period as the underlying transactions affect operating income. Changes in the fair value of derivative hedging instruments designated as hedges of variability of cash flows associated with variable-rate long-term debt are also reported in accumulated other comprehensive loss. These amounts are subsequently reclassified into financial income, net, as a yield adjustment in the same period in which the related interest on the floating-rate debt obligations affect earnings.

For the year ended December 31, 2004, €7 million losses (2003: €11 million), representing principally the component of the derivative instruments' gain/loss excluded from the assessment of the hedge effectiveness and the amount of hedge ineffectiveness, were recognized in operating and financial income, net.

For the year ended December 31, 2004 and 2003, no gains or losses had to be reclassified from accumulated other comprehensive loss into earnings as a result of the discontinuance of cash flow hedges.

It is anticipated that €1,578 million of net gains included in accumulated other comprehensive loss at December 31, 2004, will be reclassified into earnings during the next year.

As of December 31, 2004, DaimlerChrysler held derivative financial instruments with a maximum maturity of 32 months to hedge its exposure to the variability in future cash flows from foreign currency forecasted transactions.

Information with Respect to Hedges of the Net Investment in a Foreign Operation. In specific circumstances, DaimlerChrysler seeks to hedge the currency risk inherent in certain of its long-term investments, where the functional currency is other than the euro, through the use of derivative and non-derivative financial instruments. For the year ended December 31, 2004, net gains of €120 million from hedging the Group's net investment in MMC were reclassified into the income statement. For further information see also the discussion in Note 3. In addition, net losses of €8 million (in 2003 net gains of €48 million) from hedging the Group's net investments in foreign operations were included in the cumulative transition adjustment without affecting DaimlerChrysler's net income in 2004.

34. Retained Interests in Sold Receivables and Sales of Finance Receivables

The fair value of retained interests in sold receivables was as follows:

	At December 31,	
	2004	2003
(in millions of €)		
Fair value of estimated residual cash flows, net of prepayments, from sold receivables, before expected future net credit losses	2,190	2,960
Expected future net credit losses on sold receivables	(369)	(508)
Fair value of net residual cash flows from sold receivables	1,821	2,452
Retained subordinated securities	379	703
Other retained interests	2	2
Retained interests in sold receivables, at fair value	2,202	3,157

At December 31, 2004, the significant assumptions used in estimating the residual cash flows from sold receivables and the sensitivity of the current fair value to immediate 10% and 20% adverse changes are as follows:

	Assumption percentage	Impact on fair value based on adverse	
		10% change	20% change
(in millions of €)			
Prepayment speed, monthly	1.5%	(14)	(32)
Expected remaining net credit losses as a percentage of receivables sold	1.1%	(34)	(69)
Residual cash flow discount rate, annualized	12.0%	(16)	(32)

The effect of a 10% and 20% adverse change in the discount rate used to compute the fair value of the retained subordinated securities would be a decrease of €4 million and €7 million, respectively. Similar changes to the monthly prepayment speed and the expected remaining net credit losses as a percentage of receivables sold for the retained subordinated securities would have no adverse effect on the fair value of the retained subordinated securities.

These sensitivities are hypothetical and should be used with caution. The effect of a variation in a particular assumption on the fair value of the retained interests is calculated without changing any other assumption; in reality, changes in one assumption may result in changes in another, which might magnify or counteract the sensitivities.

Actual and projected credit losses for receivables securitized were as follows:

	Receivables securitized in			
	2001	2002	2003	2004
Actual and projected credit losses				
Percentages as of				
December 31, 2004	2.2%	1.9%	2.0%	2.3%
December 31, 2003	2.5%	2.4%	2.5%	
December 31, 2002	2.4%	2.6%		
December 31, 2001	2.4%			

Static pool losses are calculated by summing the actual and projected future credit losses and dividing them by the original balance of each pool of assets. The amount shown above for each year is a weighted average for all securitizations during that year and outstanding at December 31, 2004. Certain cash flows received and paid to securitization trusts were as follows:

	2004	2003
(in millions of €)		
Proceeds from new securitizations	11,360	10,018
Proceeds from collections reinvested in previous wholesale securitizations	35,393	46,623
Amounts reinvested in previous wholesale securitizations	(35,414)	(46,678)
Servicing fees received	183	219
Receipt of cash flow on retained interest in securitized receivables	686	718

The outstanding balance, delinquencies and net credit losses of sold receivables and other receivables, of those companies that sell receivables, as of and for the years ended December 31, 2004 and 2003, respectively, were as follows:

	2004	Outstanding balance at 2003	2004	Delinquencies > 60 days at 2003	2004	Net credit losses for the year ended 2003
(in millions of €)						
Retail receivables	38,963	44,190	116	201	390	478
Wholesale receivables	15,142	15,246	6	1	3	13
Total receivables managed	54,105	59,436	122	202	393	491
Less: receivables sold	(20,167)	(22,154)	(24)	(35)	(144)	(216)
Receivables held in portfolio	33,938	37,282	98	167	249	275

DaimlerChrysler sells mainly automotive finance receivables in the ordinary course of the business to trusts that are considered Qualifying Special Purpose Entities under SFAS 140 (“QSPEs”) as well as selling to trusts that are multi-seller and multi-collateralized bank conduits. These Trusts are considered to be variable interest entities (“VIEs”). A bank conduit generally receives substantially all of its funding from issuing asset-backed securities that are cross-collateralized by the assets held by the entity. Although its interest in these VIE’s is significant, DaimlerChrysler has concluded that it is not the primary beneficiary of these bank conduits and therefore is not required to consolidate them under FIN 46R.

DaimlerChrysler generally remains as servicer. The Group retains a residual beneficial interest in the receivables sold which is designed to absorb substantially all of the credit, prepayment, and interest-rate risk of the receivables transferred to the trusts. This retained interest balance represents the group’s maximum exposure to loss as a result of its involvement with these entities. The following summarizes the outstanding balance of the receivables sold to the QSPEs and VIEs and the corresponding retained interest balances as of December 31, 2004:

	Receivables sold	Retained interest in sold receivables
(in millions of €)		
Variable interest entities	3,409	516
Qualifying special purpose entities	16,758	1,686
	20,167	2,202

During the year ended December 31, 2004, DaimlerChrysler sold €9,329 million (2003: €9,557 million) and €35,414 million (2003: €46,678 million) of retail and wholesale receivables, respectively. From these transactions, the Group recognized gains of €79 million (2003: €249 million) and €157 million (2003: €196 million) on sales of retail and wholesale receivables, respectively.

In addition to the receivables sold as described above, the Group sells automotive finance receivables for which the group does not retain any residual beneficial interest or credit risk (“whole loan sales”). During the year ended December 31, 2004, the Group sold €965 million of retail receivables in whole loan sales and recognized gains of €14 million. The outstanding balance of receivables serviced in connection with whole loan sales was €1,361 million as of December 31, 2004.

Significant assumptions used in measuring the residual interest resulting from the sale of retail and wholesale receivables were as follows (weighted average rates for securitizations completed during the year) at December 31, 2004 and 2003:

	2004	Retail 2003	2004	Wholesale 2003
Prepayment speed assumption (monthly rate)	1.5%	1.5%	1	1
Estimated lifetime net credit losses (an average percentage of sold receivables)	2.3%	2.5%	0.0%	0.0%
Residual cash flows discount rate (annual rate)	12.0%	12.0%	12.0%	12.0%

1 For the calculation of wholesale gains, the Group estimated the average wholesale loan liquidated in 210 days.

During the year ended December 31, 2004, the fair value of servicing liabilities on sold receivables was €15 million (2003: €18 million), and the fair value of servicing assets was €1 million. These values were determined by discounting expected cash flows at current market rates. During the year ended December 31, 2004, the Group recognized servicing liabilities of €8 million (2003: €10 million) and related amortization of €11 million (2003: €2 million). The Group also recognized servicing assets of €1 million and related amortization of €2 million.

To support the Group's asset-backed commercial paper program in North America, a group of financial institutions has provided contractually committed liquidity facilities aggregating \$5.2 billion which expire in October 2005, and are subject to annual renewal. These liquidity facilities can only be drawn upon by the special purpose entity to which the Group's North American financial services companies will sell receivables under this program. As of December 31, 2004, none of the liquidity facilities have been utilized.

35. Segment Reporting

Information with respect to the Group's reportable segments follows:

Mercedes Car Group. This segment includes activities related mainly to the development, design, manufacture, assembly and sale of passenger cars and off-road vehicles under the brand names Mercedes-Benz, smart and Maybach as well as related parts and accessories.

Chrysler Group. This segment includes the development, design, manufacture, assembly and sale of cars and trucks under the brand names Chrysler, Jeep[®] and Dodge and related automotive parts and accessories.

Commercial Vehicles. This segment is involved in the development, design, manufacture, assembly and sale of vans, trucks, buses and Unimogs as well as related parts and accessories. The products are sold mainly under the brand names Mercedes-Benz, Setra, Freightliner, and Mitsubishi and Fuso. Effective January 1, 2004, the off-highway activities of the Commercial Vehicles segment, which consist of MTU Friedrichshafen Group, the off-highway activities of Detroit Diesel Group and the 49% interest in VM-Motori S.p.A., have been allocated to the Other Activities segment. Prior period amounts have been adjusted accordingly.

Services. The activities in this segment extend to the marketing of services related to financial services (principally retail and lease financing for vehicles and dealer financing), insurance brokerage and trading. This Segment also owns, or holds investments in several companies which provide services in the areas of mobility management, including traffic management, telematics products and toll collection. Through March 2002, this segment includes the Group's equity investment in T-Systems ITS using the equity method of accounting as well as the gain from the sale of that investment.

Other Activities. This segment comprises businesses, operations and investments not allocated to one of DaimlerChrysler's other business segments. It includes the Group's equity method investment EADS, the business unit DC Off-Highway, the real estate and corporate research activities, the holding companies and financing subsidiaries through which the Group refinances the capital needs of the operating businesses in the capital markets. Effective January 1, 2004, the business unit DC Off-Highway was allocated to the Other Activities segment. Prior period amounts have been adjusted accordingly. (See the discussion above under Commercial Vehicles). The Group's equity investment in MMC is included in this segment using the equity method of accounting through June 29, 2004, and thereafter as an investment in related companies, accounted for at fair value. Through December 31, 2003, this segment includes the MTU Aero Engines business unit. Through April 2002, this segment includes the Group's 40% equity interest in the Automotive Electronic activities (Conti Temic Microelectronic) using the equity method of accounting as well as the gain on the sale of that investment.

Management Reporting and Controlling Systems. The Group's management reporting and controlling systems use accounting policies that are substantially the same as those described in Note 1 in the summary of significant accounting policies (U.S. GAAP), except for revenue recognition between the automotive business segments and the Services segment in certain markets.

The Group measures the performance of its operating segments through "operating profit." DaimlerChrysler's consolidated operating profit (loss) is the sum of the operating profits and losses of its reportable segments adjusted for consolidation and elimination entries. Segment operating profit (loss) is computed starting with income (loss) before income taxes, minority interests, discontinued operations, and the cumulative effect of changes in accounting principles, and then adjusting that amount to 1) exclude pension and postretirement benefit income or expenses, other than current and prior year service costs and settlement/curtailment losses, 2) exclude impairment of investment in EADS in 2003, 3) exclude interest and similar income and interest and similar expenses, 4) exclude other financial income (loss), net and 5) include or exclude certain miscellaneous items. In addition, this result is further adjusted to a) include pre-tax income (loss) from discontinued operations, adjusted to exclude or include the reconciling items 1 to 5 described above, b) include pre-tax gain (loss) on the disposal of discontinued operations, and c) include the Group's share of all of the above reconciling items included in the net earnings (losses) of investments accounted for at equity.

Intersegment sales and revenues are generally recorded at values that approximate third-party selling prices.

Revenues are allocated to countries based on the location of the customer. Long-lived assets are disclosed according to the physical location of these assets.

Capital expenditures represent the purchase of property, plant and equipment.

Segment information as of and for the years ended December 31, 2004, 2003 and 2002 follows:

	Mercedes Car Group	Chrysler Group	Commercial Vehicles	Services	Other Activities	Total Segments	Discontinued Operations/ Eliminations	Consolidated
(in millions of €)								
2004								
Revenues	46,082	49,485	32,940	11,646	1,906	142,059	–	142,059
Intersegment sales	3,548	13	1,824	2,293	294	7,972	(7,972)	–
Total revenues	49,630	49,498	34,764	13,939	2,200	150,031	(7,972)	142,059
Operating Profit	1,666	1,427	1,332	1,250	456	6,131	(377)	5,754
Identifiable segment assets	26,907	45,869	20,100	88,036	26,444	207,356	(24,660)	182,696
Capital expenditures	2,343	2,647	1,184	91	134	6,399	(13)	6,386
Depreciation and amortization	1,854	3,368	1,058	4,976	164	11,420	(308)	11,112
2003								
Revenues	48,025	49,321	25,304	11,997	3,723	138,370	(1,933)	136,437
Intersegment sales	3,421	–	1,502	2,040	361	7,324	(7,324)	–
Total revenues	51,446	49,321	26,806	14,037	4,084	145,694	(9,257)	136,437
Operating Profit (Loss)	3,126	(506)	811	1,240	1,329	6,000	(314)	5,686
Identifiable segment assets	24,161	47,147	14,657	83,239	31,139	200,343	(22,075)	178,268
Capital expenditures	2,939	2,487	958	76	169	6,629	(15)	6,614
Depreciation and amortization	1,789	3,927	890	5,087	196	11,889	(290)	11,599
2002								
Revenues	46,796	59,716	25,370	13,765	3,936	149,583	(2,215)	147,368
Intersegment sales	3,374	465	1,396	1,934	422	7,591	(7,591)	–
Total revenues	50,170	60,181	26,766	15,699	4,358	157,174	(9,806)	147,368
Operating Profit (Loss)	3,020	609	(392)	3,060	952	7,249	(395)	6,854
Identifiable segment assets	22,103	52,807	13,839	87,833	35,400	211,982	(24,655)	187,327
Capital expenditures	2,495	3,155	1,186	95	214	7,145	–	7,145
Depreciation and amortization	1,652	4,276	1,159	6,804	208	14,099	(255)	13,844

Mercedes Car Group. In 2003, operating profit of the Mercedes Car Group includes a non-cash impairment charge amounting to €77 million related to certain long-lived assets (primarily property, plant and equipment) at a production facility in Brazil.

Chrysler Group. In 2004, 2003, and 2002, the Chrysler Group recorded charges of €145 million, €469 million and €694 million, respectively, for the Chrysler Group turnaround plan (see Note 7). Additionally, the Chrysler Group recorded €138 million for early retirement incentives and other workforce reductions in 2004. Chrysler Group operating results for 2004 were favourably impacted by an adjustment of €95 million to correct the calculation of an advertising accrual to more accurately reflect expected payments.

In 2003, the Chrysler Group and Services segments agreed to an arrangement regarding the sharing of risks associated with the residual values of certain leased vehicles. In addition, the Chrysler Group and Services segments negotiated reduced pricing on certain retail financing programs offered by the Chrysler Group as sales incentives in 2003. The adjusted pricing reflects the current favorable funding environment as well as Services becoming the exclusive provider of selected discount consumer financing for the Chrysler Group. Both arrangements resulted in a favorable impact of €244 million on the 2003 operating profit of the Chrysler Group, and a corresponding decrease of €244 million on the 2003 operating profit of Services. Neither arrangement had any effect on the Group's consolidated operating results.

Commercial Vehicles. As discussed in Note 4, on March 18, 2004, DaimlerChrysler acquired an additional 22% interest in MFTBC from MMC for €394 million in cash, thereby increasing the Group's ownership interest in MFTBC to a controlling 65%. As a result of the acquisition and first time consolidation of MFTBC in March 2004, the identifiable segment assets of the Commercial Vehicles segment increased by €4.3 billion.

Subsequent to the acquisition of the controlling interest in MFTBC, a number of quality problems of MFTBC vehicles that were produced before DaimlerChrysler first acquired a stake in MFTBC were identified (See Note 4 for additional information). DaimlerChrysler is still in the process of investigating these quality problems and evaluating the extent to which the announced product recalls will have to be accounted for. As of December 31, 2004, DaimlerChrysler made a true-up based on the preliminary evaluation of the probable costs associated with the quality measures and recall campaigns at MFTBC which substantially confirmed the estimates made in the third quarter 2004. Total expenses arising from the recall issues reduced 2004 operating profit of the Commercial Vehicle segment by €475 million. The reduction in operating profit consisted of €70 million classified as financial income (expense), net, in the Group's 2004 statement of operations and €735 million classified as cost of sales, net of €330 million attributed to the minority interests' share in those costs. As expenses attributed to minority interests are not allocated to operating profit, they are included in the line "Miscellaneous items, net" in the reconciliation of total segment operating profit to consolidated income before income taxes, minority interests, and discontinued operations.

The operating loss of the Commercial Vehicles segment for the year ended December 31, 2002, includes €256 million of non-cash impairment charges on fixed assets, €161 million of non-cash turnaround plan and other charges, other than depreciation and amortization.

Services. In 2004 and 2003, the Services segment recorded charges of €472 million and €241 million related to the participation in Toll Collect. The charges in 2004 were mainly the result of revaluing the system's total costs and extra operating expenses required to guarantee the start of the system on January 1, 2005.

In 2004, the operating profit of the services segment includes non-cash impairment charges of €102 million associated with the investment made in dAF.

Capital expenditures for equipment on operating leases for 2004, 2003 and 2002 for the Services segment amounted to €13,850 million, €11,631 million and €12,862 million, respectively.

With respect to two agreements entered into in 2003 with the Chrysler Group segment, the 2003 operating profit of Services were unfavorably impacted by €244 million. See discussion at Chrysler Group above.

In 2002, operating profit of the Services segment includes €10 million from the equity investment in T-Systems ITS, representing the Group's percentage share of the operating profit of T-Systems ITS through March 2002, as well as a gain of €2,484 million from the sale of that investment. In 2002, operating profit of the Services segment also includes impairment charges of €537 million, which primarily relate to equipment on operating leases and receivables from financial services.

Other Activities. In 2004, 2003 and 2002, operating profit of the Other Activities segment includes primarily the Group's share in the gains and losses of the significant investments in EADS and MMC amounting to €548 million (2003: €278 million; 2002: €778 million). 2004 also includes the results from the dilution of the Group's interest in MMC (loss of €135 million) and related currency hedging effects (gain of €195 million). Due to the loss of significant influence on MMC at June 29, 2004, the Group's share in the losses of MMC is only included for the corresponding period. (See Note 3 for additional information). At December 31, 2004, 2003 and 2002, the identifiable assets of the Other Activities segment include €4,313 million, €4,542 million and €5,712 million, respectively, related to the carrying values of the investments in EADS and MMC.

In connection with the sale of Adtranz in 2001, a settlement agreement with Bombardier was reached in 2004 with respect to all claims asserted. This settlement resulted in a favorable impact of €120 million on the 2004 operating profit of the Other Activities segment (See Note 31 for additional information).

In addition, the operating profit of 2004 of the Other Activities segment includes non-cash impairment charges of €70 million associated with the investment made in dAF.

The 2003 operating profit of Other Activities includes a gain of €1,031 million from the sale of MTU Aero Engines. Following the sale transaction, effective December 31, 2003, MTU Aero Engines' assets and liabilities were deconsolidated. Revenues, operating profit, capital expenditures, and depreciation and amortization of the Other Activities segment include MTU Aero Engines through December 31, 2003 (see also Notes 4 and 10).

The reconciliation of total segment operating profit (loss) to consolidated income (loss) before income taxes, minority interests, discontinued operations and cumulative effects of changes in accounting principles is as follows:

	2004	2003	2002
(in millions of €)			
Total segment operating profit	6,131	6,000	7,249
Elimination and consolidation amounts	(377)	(314)	(395)
Total Group operating profit	5,754	5,686	6,854
Pension and postretirement benefit income (expenses), other than current and prior service costs and settlement/curtailment losses	(845)	(870)	257
Impairment of investment in EADS	-	(1,960)	-
Gain from the sale of the 10.5% stake in HMC	252	-	-
Interest and similar income	490	521	720
Interest and similar expenses	(790)	(911)	(1,040)
Other financial income (loss), net	(171)	35	(112)
Miscellaneous items, net	(384)	(308)	(102)
Pre-tax income from discontinued operations, adjusted to exclude or include the above reconciling items	-	(84)	(153)
Pre-tax income on disposal of discontinued operations	-	(1,031)	-
The Group's share of the above reconciling items included in the net losses of investments accounted for at equity	(771)	(482)	(499)
Consolidated income before income taxes, minority interests, cumulative effects of changes in accounting principles and discontinued operations	3,535	596	5,925

Revenues from external customers presented by geographic region are as follows:

	Germany	European Union ¹	United States	Other American countries	Asia	Other countries	Discontinued operations	Consolidated
(in millions of €)								
2004	22,315	25,079	64,232	11,295	10,093	9,045	-	142,059
2003	24,182	24,314	64,757	10,399	6,786	7,932	(1,933)	136,437
2002	23,121	23,425	77,686	12,104	6,284	6,963	(2,215)	147,368

1 Excluding Germany

Germany accounts for €21,209 million of long-lived assets (2003: €21,164 million; 2002: €19,627 million), the United States for €35,250 million (2003: €36,430 million; 2002: €44,758 million) and other countries for €15,970 million (2003: €13,091 million; 2002: €14,344 million).

36. Earnings (Loss) per Share

The computation of basic and diluted earnings (loss) per share for “Income (loss) from continuing operations” is as follows:

	Year ended December 31,		
	2004	2003	2002
(in millions of € or millions of shares, except earnings (loss) per share)			
Income (loss) from continuing operations – basic	2,466	(418)	4,795
Interest expense on convertible bonds and notes (net of tax)	–	–	12
Income (loss) from continuing operations – diluted	2,466	(418)	4,807
Weighted average number of shares outstanding – basic	1,012.8	1,012.7	1,008.3
Dilutive effect of stock options in 2004 and convertible bonds and notes in 2002	1.7	–	5.6
Weighted average number of shares outstanding – diluted	1,014.5	1,012.7	1,013.9
Earnings (loss) per share from continuing operations			
Basic	2.43	(0.41)	4.76
Diluted	2.43	(0.41)	4.74

See Note 23 for shares issued upon conversion of bonds and notes.

Because the Group reported a loss from continuing operations for the year ended December 31, 2003 the diluted loss per share does not include the antidilutive effects of convertible bonds and notes. Had the Group reported income from continuing operations for the year ended December 31, 2003 the weighted average number of shares outstanding would have potentially been diluted by 0.5 million shares resulting from the conversion of bonds and notes.

Stock options to acquire 67.1 million, 71.6 million and 53.1 million DaimlerChrysler Ordinary Shares that were issued in connection with the 2000 Stock Option Plan were not included in the computation of diluted earnings (loss) per share for 2004, 2003 and 2002, respectively, because the options’ underlying exercise prices were higher than the average market prices of DaimlerChrysler Ordinary Shares in these periods.

37. Related Party Transactions

The Group purchases materials, supplies and services from numerous suppliers throughout the world in the ordinary course of its business. These suppliers include companies in which the Group holds an ownership interest and companies that are affiliated with some members of DaimlerChrysler AG’s Supervisory Board or Board of Management.

Mitsubishi Motor Manufacturing of America Inc., a subsidiary of MMC, produces the Dodge Stratus and Chrysler Sebring coupes, and NedCar B.V., another subsidiary of MMC, produces the smart fourfour for the Group. As discussed in Note 3, MMC was an equity method investee of DaimlerChrysler.

DaimlerChrysler has an agreement with McLaren Cars Ltd., a wholly owned subsidiary of McLaren Group Ltd., for the production of the Mercedes McLaren super sports car, which DaimlerChrysler launched into the markets in 2004. The Group owns a 40% equity interest in McLaren Group Ltd.

DaimlerChrysler increased its stake in the Formula 1 engine manufacturer Ilmor Engineering Ltd. from 25% to 55% in the year 2002 and has agreed to gradually acquire the remaining shares by 2005. At December 31, 2004, DaimlerChrysler hold an equity stake of 85%. The company has been renamed Mercedes-Ilmor Ltd. Mercedes-Ilmor Ltd. and DaimlerChrysler have been responsible for the development, design and production of Mercedes-Benz Formula 1 engines since 1993, which DaimlerChrysler supplies to the West McLaren Mercedes team in support of motor sport activities under the Mercedes-Benz brand. DaimlerChrysler has consolidated Mercedes-Ilmor Ltd. since January 1, 2003.

In May 2002, DCC sold its Dayton Thermal Products Plant to Behr Dayton, a joint venture company with Behr America Inc. As of May 1, 2004, DCC sold its remaining minority interest in the joint venture to Behr America Inc. DCC is required to purchase products from the joint venture at competitively-based prices under a supply agreement entered into in connection with the sale. The supply agreement is valid from April 2002 through April 2008. Product pricing was based on the existing cost structure of the Dayton Thermal Products Plant and was comparable to pricing in effect prior to the transaction.

Through some of its subsidiaries, DaimlerChrysler granted a series of loans to dAF. Through DaimlerChrysler's subsidiaries DaimlerChrysler Services AG and DaimlerChrysler Aerospace AG, the Group holds a 45% non-controlling interest in dAF. The total book value of these loans as of December 31, 2004, was €291 million, the highest aggregate amount outstanding during 2004 was €530 million. The interest rates are partially fixed, partially based on Libor.

The Group purchases products and services from T-Systems ITS, an information technology company. As discussed in Note 4, the Group beneficially owned a 49.9% equity interest in T-Systems ITS until March 2002. The Group continues to purchase products from T-Systems ITS.

As discussed in Note 4, in April 2002, DaimlerChrysler exercised its option to sell its 40% interest in Conti Temic microelectronic GmbH to Continental AG. The Group continues to purchase products from Conti Temic microelectronic GmbH.

As described in more detail in Note 3, DaimlerChrysler provides a number of guarantees with respect to Toll Collect, a joint venture in which DaimlerChrysler holds an equity interest of 45%.

In 2004, Dr. Mark Wössner, a member of DaimlerChrysler's Supervisory Board, received payments for the rental of premises to Westfalia Van Conversion GmbH, a wholly owned subsidiary of DaimlerChrysler AG, in the amount of €1 million.

The following represent transactions with shareholders.

DaimlerChrysler incurred expenses of approximately \$595,000 in 2004 for advertising and related marketing activities with a U.S. magazine. Earl G. Graves, member of DaimlerChrysler's Supervisory Board and shareholder of DaimlerChrysler AG, is the Chairman, Chief Executive Officer and sole stockholder of the magazine's ultimate parent company.

Deutsche Bank AG and its subsidiaries provide the Group with various financial and other services for which they were paid reasonable and customary fees. Additionally, DaimlerChrysler provides a €651 million guarantee to Deutsche Bank AG for the company's operation of DaimlerChrysler's corporate credit card program for corporate travel expenses. The guarantee covers the obligations of the company's employees towards Deutsche Bank AG arising from that program in case of employee's default. DaimlerChrysler so far has not incurred any major payments to Deutsche Bank AG from that guarantee.

On July 7, 2004, DaimlerChrysler entered into a securities lending agreement with Deutsche Bank AG concerning 22,227,478 of its shares in EADS (2.8% of the voting stock). As collateral, DaimlerChrysler received a lien on a securities account of equivalent value as the shares loaned by DaimlerChrysler.

38. Compensation and Share Ownership of the Members of the Board of Management and the Supervisory Board and Further Additional Information Concerning German Corporate Governance Code

Compensation. The total compensation paid by Group related companies to the members of the Board of Management of DaimlerChrysler AG is calculated from the amount of compensation paid in cash and from the non-cash benefits in kind. The total compensation in 2004 for the members of the Board of Management of DaimlerChrysler AG amounted to €31.6 million, of which €11.8 million is fixed and €19.8 million is short-term and mid-term incentive compensation components.

In 2004, 1.265 million stock options from the Stock Option Plan 2000 were granted to the members of the Board of Management as a long-term compensation component. Also in 2004, 395,000 performance-based awards were granted to the members of the Board of Management based on a 3 year performance plan. For detailed information on stock-based compensation programs, see Note 24.

The compensation paid in 2004 to the members of the Supervisory Board of DaimlerChrysler AG for services in all capacities to the Group amounted to €2.0 million. The individual compensation paid to the members of the Supervisory Board comprises as follows:

		2004 total
in €		
Name	Capacity	
Hilmar Kopper	Chairman of the Supervisory Board	245,900
Erich Klemm ¹	Deputy Chairman of the Supervisory Board	170,900
Heinrich Flegel	Member of the Supervisory Board	82,700
Nate Gooden ²	Member of the Supervisory Board	79,400
Earl G. Graves	Member of the Supervisory Board	80,500
Victor Halberstadt	Member of the Supervisory Board	82,700
Thomas Klebe ¹	Member of the Supervisory Board and of the Presidential Committee	111,800
Jürgen Langer ¹	Member of the Supervisory Board	82,700
Robert J. Lanigan	Member of the Supervisory Board	80,500
Helmut Lense ¹	Member of the Supervisory Board	82,700
Peter A. Magowan	Member of the Supervisory Board	80,500
William A. Owens	Member of the Supervisory Board	81,600
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	82,700
Manfred Schneider	Member of the Supervisory Board and of the Presidential Committee	109,600
Stefan Schwaab ¹	Member of the Supervisory Board and of the Audit Committee	111,800
Bernhard Walter	Member of the Supervisory Board and Chairman of the Audit Committee (since April 7, 2004)	149,286
Lynton R. Wilson ³	Member of the Supervisory Board	81,600
Mark Wössner	Member of the Supervisory Board	81,600

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

² Mr. Gooden refrained from receiving his compensation and meeting fees. As he requested, these amounts were donated directly to the Hans-Böckler Foundation

³ Mr. Wilson also receives €5,258 for his activity as a member of the Supervisory Board of DaimlerChrysler Canada Inc.

In 2004, disbursements to former members of the Board of Management of DaimlerChrysler AG and their survivors amounted to €17.4 million. An amount of €203.8 million has been accrued for pension obligations to former members of the Board of Management and their survivors. As of December 31, 2004, no advances or loans existed to members of the Board of Management or Supervisory Board of DaimlerChrysler AG.

Directors' Dealings. Pursuant to § 15a of the German Securities Trading Act, members of the Board of Management and the Supervisory Board as well as persons who are in close relationship to them are legally required to disclose significant purchases or sales of Ordinary Shares, options or derivatives of DaimlerChrysler AG and Group related companies (in 2004: EADS). In the fiscal year just ended, the following transaction by members of the Supervisory Board or Board of Management was reported:

Name	Type	ISIN	Date	Number	Price
Uebber, Bodo	Purchase	DE000710000	May 4, 2004	2,000	€37.65

Share Ownership. As of December 31, 2004, the current members of the Board of Management as a group owned 10.4 million Ordinary Shares, options or stock appreciation rights of DaimlerChrysler AG (1.027% of all outstanding shares) and the current members of the Supervisory Board as a group owned 0.1 million Ordinary Shares, options or stock appreciation rights of DaimlerChrysler AG (0.012% of all outstanding shares).

Transactions with Related Parties. For transactions with related parties, which are shareholders of DaimlerChrysler AG, see the last paragraph of Note 37.

39. Additional Information

Scope of consolidation. The scope of consolidation under U.S. GAAP includes majority-owned subsidiaries shown in the list according to § 313 HGB and the following entities which are consolidated based on variable interests and in which DaimlerChrysler does not have an equity interest:

- Equus Leasing B.V., Amsterdam, Netherlands
- Groupement D'Intérêt Economique Spring Rain, Hambach, France
- Molcasa Vermietungsgesellschaft Objekt Smart mbH, Düsseldorf, Germany
- ROSOLA Grundstücksvermietungsgesellschaft m.b.H. & Co. Objekt Peguform KG, Düsseldorf, Germany

The list according to § 313 HGB is available at the Handelsregister Stuttgart, Section HRB 19360.

Expenses and income relating to other fiscal years. Other income and functional costs include together income of €508 million (2003: €397 million), which relate to other fiscal years. In addition, other expenses include €209 million (2003: €135 million) resulting from expenses related to other fiscal years.

Application of § 264 Par. 3 and § 264b HGB (German Law).

Several consolidated companies of DaimlerChrysler AG apply for § 264 Par. 3 and § 264b HGB and the consolidated financial statements of DaimlerChrysler AG release these subsidiaries from the requirement disclose their annual financial statements. The companies (marked with*) apply additionally for the release from the preparation of a management report:

- American Auto Handels GmbH
- Anlagenverwaltung DaimlerChrysler AG & Co. OHG Berlin
- Auto-Henne GmbH
- Chrysler Deutschland GmbH
- Chrysler & Jeep Vertriebs GmbH
- DaimlerChrysler Aerospace AG
- DaimlerChrysler AG & Co. Finanzanlagen OHG
- DaimlerChrysler AG & Co. Wertpapierhandel OHG
- DaimlerChrysler Aviation GmbH
- DaimlerChrysler Immobilien GmbH
- DaimlerChrysler Ludwigsfelde GmbH
- DaimlerChrysler Mitarbeiter Fahrzeuge Leasing GmbH *
- DaimlerChrysler Services AG *
- DaimlerChrysler Services Assekuranz-Makler GmbH *
- DaimlerChrysler Services Customer Center GmbH *
- DaimlerChrysler Services Fleet Management GmbH *
- DaimlerChrysler Services Leasing GmbH *
- DaimlerChrysler Services Mobility Management GmbH
- DaimlerChrysler Services Vorsorge und Versicherungsdienst GmbH *
- DaimlerChrysler Vermögens- und Beteiligungsgesellschaft mbH
- DC-Grund DaimlerChrysler Verwaltungsgesellschaft für Grundbesitz mbH
- DCLRH Beteiligungs- und Verwaltungs GmbH
- EvoBus GmbH
- FGC Service GmbH
- Grundstücksverwaltungsgesellschaft Auto-Henne GmbH & Co. OHG
- Grundstücksverwaltungsgesellschaft Daimler-Benz AG & Co. OHG
- Grundstücksverwaltungsgesellschaft EvoBus GmbH & Co. OHG
- Grundstücksverwaltungsgesellschaft Henne-Unimog GmbH & Co. OHG
- Grundstücksverwaltungsgesellschaft Mercedes-Benz AG & Co. OHG
- Henne-Unimog GmbH
- L' Orange GmbH
- Maschinenfabrik Esslingen AG & Co. OHG
- MDC Equipment GmbH
- Mercedes-AMG GmbH
- Mercedes-Benz Accessories GmbH
- Mercedes-Benz CharterWay GmbH*
- MTU Friedrichshafen GmbH
- smart GmbH

German Corporate Governance Code. The Board of Management and the Supervisory Board of DaimlerChrysler AG have issued a declaration pursuant to § 161 German Stock Corporation Act and have made it available to their shareholders.

Members of the Board of Management

PROF. JÜRGEN E. SCHREMPF

Stuttgart
Chairman of the Board of Management
Appointed until 2008

BODO UEBBER

Stuttgart
Finance & Controlling
Appointed until 2006

DR. RER. POL. ECKHARD CORDES

Stuttgart
Mercedes Car Group
Appointed until 2008

DR. ING. THOMAS WEBER

Stuttgart
Research & Technology
Appointed until 2005

GÜNTHER FLEIG

Stuttgart
Human Resources & Labor Relations Director
Appointed until 2009

DR. ING. DIETER ZETSCHÉ

Auburn Hills
Chrysler Group
Appointed until 2008

DR. PHIL. RÜDIGER GRUBE

Stuttgart
Corporate Development
Appointed until 2007

THOMAS W. LASORDA ¹⁾

Auburn Hills
Chief Operating Officer Chrysler Group
Appointed until 2007

Retired from the Board of Management:

PROF. JÜRGEN HUBBERT

Stuttgart
Executive Automotive Committee
Appointed until 2005

DR. RER. POL. WOLFGANG BERNHARD

Auburn Hills
Chief Operating Officer Chrysler Group
(Retired July 29, 2004)

ANDREAS RENSCHLER

Stuttgart
Commercial Vehicles Division
Appointed until 2007

DR. JUR. MANFRED GENTZ

Stuttgart
Finance & Controlling
(Retired December 16, 2004)

THOMAS W. SIDLIK

Auburn Hills
Global Procurement & Supply
Appointed until 2008

¹⁾ Deputy Member

Stuttgart-Möhringen, February 21, 2005

Board of Management

/s/ Jürgen E. Schrempp

/s/ Andreas Renschler

/s/ Eckhard Cordes

/s/ Thomas W. Sidlik

/s/ Günther Fleig

/s/ Bodo Uebber

/s/ Rüdiger Grube

/s/ Thomas Weber

/s/ Jürgen Hubbert

/s/ Dieter Zetsche

/s/ Thomas W. LaSorda *

* Deputy Member

Members of the Supervisory Board

HILMAR KOPPER

Frankfurt/Main
Chairman of the Supervisory Board
of DaimlerChrysler AG

Chairmanr

ERICH KLEMM *)

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

Deputy Chairman

PROF. DR. HEINRICH FLEGEL *)

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

NATE GOODEN *)

Detroit
Vice President of the International
Union, United Automobile, Aero-
space and Agricultural Implement
Workers of America (UAW)

EARL G. GRAVES

New York
Publisher, Black Enterprise
Magazine

PROF. VICTOR HALBERSTADT

Amsterdam
Professor of Public Economics
at Leiden University, Netherlands

DR. THOMAS KLEBE *)

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

JÜRGEN LANGER *)

Frankfurt/Main
Chairman of the Works Council of
the Frankfurt/Offenbach Dealer-
ship, DaimlerChrysler AG

ROBERT J. LANIGAN

Toledo
Chairman Emeritus of
Owens-Illinois, Inc.
Founding Partner, Palladium
Equity Partners

HELMUT LENSE *)

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

PETER A. MAGOWAN

San Francisco
President of San Francisco Giants

WILLIAM A. OWENS

Kirkland
President and Chief Executive
Officer of Nortel Networks
Corporation

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 Council of
German Metalworkers' Union (IG
Metall)

DR. RER. POL. MANFRED SCHNEIDER

Leverkusen
Chairman of the Supervisory Board
of Bayer AG

STEFAN SCHWAAB *)

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

BERNHARD WALTER

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

LYNTON R. WILSON

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

DR. ING. MARK WÖSSNER

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

Committees of the Supervisory Board:

Committee pursuant to § 27 Para. 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. RER. POL. MANFRED SCHNEIDER
DR. THOMAS KLEBE *)

Audit Committee

BERNHARD WALTER (CHAIRMAN)
HILMAR KOPPER
ERICH KLEMM *)
STEFAN SCHWAAB *)

*) Representative of the employees

Report of the Supervisory Board



In seven meetings during the 2004 financial year, the Supervisory Board dealt in detail with the business situation of DaimlerChrysler and the strategic development of the Group and its divisions. The agendas of the meetings also included various individual issues that were dealt with and discussed together with the Board of Management.

Cooperation between the Supervisory Board and the Board of Management. In its meetings, the Supervisory Board was regularly and fully informed by the Board of Management on the situation of the Group, particularly its business and financial developments, personnel situation, investment plans and questions of fundamental business policy and strategy. The Board of Management presented the Group's key performance figures to the Supervisory Board in the form of monthly reports, and submitted in good time those issues that the Supervisory Board had identified as requiring its specific approval. The Supervisory Board was also kept fully informed of specific matters between its meetings. In addition, the Chairman of the Board of Management informed the Chairman of the Supervisory Board in regular individual discussions about all important developments and forthcoming decisions. The Supervisory Board also convened on several occasions without the Board of Management.

In an environment in 2004 that featured only moderate growth in the "triad" markets, further gains by the euro against the US dollar, and rising raw-material prices, the Supervisory Board dealt in depth with the development of the individual divisions. Additional subjects of repeated discussion included the Group's policy on cooperation with Mitsubishi Motors Corporation (MMC), the development and installation of an electronic toll system for trucks in Germany by Toll Collect GmbH, and various business projects in China.

Issues discussed at the meetings in the year 2004. In the meeting held in February 2004, the Supervisory Board dealt with the audited 2003 financial statements of DaimlerChrysler AG, the 2003 consolidated financial statements, the 2003 management report of DaimlerChrysler AG, the 2003 Group management report and the proposal by the Board of Management on the appropriation of earnings. In this meeting, the Supervisory Board also discussed in detail the situation at MMC. As well as various

matters concerning the Board of Management, a discussion took place on a revised offer to the German federal government concerning the introduction of an electronic toll system for trucks in Germany. Additionally, approval was granted for the sale by DaimlerChrysler Corporation of its New Venture Gear subsidiary.

Three Supervisory Board meetings were held in April 2004. Various Supervisory Board and Board of Management matters were dealt with in the Supervisory Board meeting subsequent to the Annual Meeting. In an extraordinary meeting of the Supervisory Board held in the middle of April, the main topic was a decision on whether to provide further financial support to MMC. Following an intensive exchange of opinions with the Board of Management and within the Supervisory Board, the two Boards decided not to participate in the capital increase planned by MMC, but to continue with current alliance projects as far as possible. In the Supervisory Board meeting held at the end of April, the agenda included the recent developments at MMC and various Board of Management matters, as well as a report about the strategy of DaimlerChrysler Services, a report on the situation of the Mercedes Car Group, and relations with Hyundai Motor Company. Under clearly defined conditions, approval was granted to terminate the truck joint venture and the related truck-engine joint venture with Hyundai Motor Company, and to sell the Group's shares in this company.

The focus of the meeting held in July was on the interim report for the first half of the year. In this context, the business development, structure and strategy of the Commercial Vehicles Division were described and discussed in detail. Another item on the agenda was information concerning the engagement of KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, to conduct the external audit, and on the important audit issues determined by the Audit Committee in conjunction with KPMG. In addition, the Supervisory Board discussed various investments planned by the Group in China. Furthermore, decisions were made concerning negotiations on the acquisition of a majority share in Netherlands Car B.V. and transactions related to the fuel-cell alliance within Ballard Power Systems. Various Board of Management matters were dealt with also in the July meeting.



In the meeting held in September, consultations centered on the development of the Chrysler Group. The Supervisory Board also received information on the progress of the project for the launch of the electronic toll system for trucks in Germany and on the work of the Executive Automotive Committee.

In December, the main subjects for discussion were the operative planning for the period of 2005 through 2007 and the approval of a financing limit for the 2005 financial year. In this context, the Board of Management reported extensively to the Supervisory Board on the company's risk-monitoring system and its results. The Supervisory Board also received information on the formation of various joint ventures in China, and approved several projects in this context. Additional items on the agenda included a report on the Group's global procurement activities and consultations on an altered procedure for the publication of the annual results.

Corporate governance. A number of corporate-governance issues were also dealt with in the December meeting. In this context, pursuant to Section 161 of the German Stock Corporation Act, the declaration of compliance with the German Corporate Governance Code in its version of May 21, 2003 was approved. Finally, there was a detailed discussion of the results of the efficiency evaluation of the Supervisory Board and its committees that was carried out in 2004.

Relating to the decisions on further financial support for Mitsubishi Motors Corporation and for various consultations on Board of Management matters, the Supervisory Board sometimes convened without the presence of the Board of Management.

Any potential conflicts of interest connected with the intended sale of New Venture Gear and the Group's involvement in Toll Collect arising due to other board positions held by some members of the Supervisory Board were avoided, since those members disclosed such positions to the entire Supervisory Board and did not participate in the discussions and voting on those topics.

Report on the committees. The Presidential Committee convened six times in 2004, and dealt in detail with various Board of Management matters. It also discussed the introduction of a new stock-based element of compensation for the Board of Man-

agement, the structure and function of which were discussed with the Supervisory Board and were then presented in summarized form to the Annual Meeting in April 2004. In addition, the Presidential Committee prepared the plenary meetings, dealt with questions of corporate governance, and participated in the efficiency evaluation of the Supervisory Board and its committees that was carried out at the end of the year.

The Audit Committee met six times in 2004. Details of these meetings are given in a separate report of this committee. The Mediation Committee, a body formed in accordance with the stipulations of the German Codetermination Law, was not required to convene last year.

The Supervisory Board was regularly informed about the work and, in particular, the decisions of the committees.

Personnel changes in the Supervisory Board. In April 2004, the Annual Meeting approved the proposal to reappoint the existing members of the Supervisory Board representing the shareholders. In accordance with a suggestion of the German Corporate Governance Code, the Supervisory Board proposed differing terms of office for these members. The Annual Meeting confirmed the proposed terms of office of five years for Messrs. Earl G. Graves, Victor Halberstadt, Peter A. Magowan, William A. Owens, Manfred Schneider, Bernhard Walter, Lynton R. Wilson and Mark Wössner. As proposed, Mr. Hilmar Kopper was appointed for another three years and Mr. Robert J. Lanigan for another two years as representatives of the shareholders. The Supervisory Board then approved the election of Mr. Hilmar Kopper as Chairman of the Supervisory Board, the election of Mr. Manfred Schneider as a member of the Mediation Committee and of the Presidential Committee, and the election of Mr. Hilmar Kopper and Mr. Bernhard Walter as members of the Audit Committee representing the shareholders. Subsequently, the Audit Committee elected Mr. Bernhard Walter as its Chairman.

Personnel changes in the Board of Management. During the year, the Supervisory Board took decisions on various Board of Management matters. At the beginning of the year, it was decided that with effect from December 16, 2004, Mr. Bodo Uebber would become a full member of the Board of Management and

assume responsibility for the area of Finance and Controlling in addition to his responsibility for the DaimlerChrysler Services division. Mr. Thomas W. LaSorda was appointed as successor to Mr. Wolfgang Bernhard as a deputy member of the Board of Management of DaimlerChrysler AG with the position of Chief Operating Officer Chrysler Group, effective May 1, 2004 for a term of three years. Mr. Thomas Weber, responsible for the area of Research and Technology, was appointed as a full member of the Board of Management as of May 1, 2004, and given the additional responsibility for the area of Passenger Car Development at the Mercedes Car Group.

On April 7, 2004, following the Annual Meeting, the Supervisory Board approved the reappointment of Mr. Jürgen E. Schrempp as Chairman of the Board of Management of DaimlerChrysler AG with effect from April 7, 2005 for a term of an additional three years.

The original intention of assigning responsibility for the Mercedes Car Group to Mr. Wolfgang Bernhard – from May 1, 2004 jointly with Mr. Jürgen Hubbert and from August 1, 2004 in sole responsibility – was revised by the Supervisory Board at the end of April, and Mr. Jürgen Hubbert was requested to retain responsibility for this area until further notice. In July, the Supervisory Board approved the early departure of Mr. Wolfgang Bernhard from the Board of Management of DaimlerChrysler AG by mutual consent with effect from July 29, 2004. It was also decided, as of October 1, 2004 to make Mr. Eckhard Cordes responsible for the Mercedes Car Group and Mr. Jürgen Hubbert for the Executive Automotive Committee. At the same time, Mr. Andreas Renschler was appointed as a full member of the Board of Management effective October 1, 2004 for a term of three years, with responsibility for the Commercial Vehicles Division.

Mr. Manfred Gentz, previously responsible for Finance & Controlling, departed from the Board of Management of DaimlerChrysler AG upon the expiry of his term of office on December 15, 2004.

On February 22, 2005, the Supervisory Board approved the reappointment of Mr. Thomas Weber with effect from January 1, 2006 for a term of an additional five years. The area of responsibility of Mr. Thomas Weber remains unchanged.

Audit of the 2004 financial statements. The DaimlerChrysler AG financial statements and the management report for 2004 were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt am Main, and were given an unqualified opinion. The same applies to the consolidated financial statements prepared according to US GAAP, which were supplemented with a group management report and additional notes pursuant to Section 292a of the German Commercial Code (HGB). Also in accordance with Section 292a of the HGB, the US GAAP consolidated financial statements presented in this report grant exemption from the obligation to prepare consolidated financial statements according to German law.

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

Appreciation. The Supervisory Board expresses its gratitude to the management, the departing members of the Board of Management, and in particular the employees of the DaimlerChrysler Group for their outstanding individual efforts and achievements in 2004.

Stuttgart-Möhringen, February 2005
The Supervisory Board

/s/ Hilmar Kopper
Chairman