

Cross-Divisional Activities

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

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Sustainability at DaimlerChrysler

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

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

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

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

“Sustainability Profile 2005” is our first report on the Group’s manifold activities in the important field of sustainability.



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

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

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

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

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

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

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

You will find a comprehensive summary of our activities in the field of sustainability in the report “DaimlerChrysler Sustainability Profile 2005” and on our website at www.daimlerchrysler.com/sustainability.

Human Resources

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

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

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

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

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

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

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

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

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

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



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

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

Management Development: LEADing the way to success.

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

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

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

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

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

Research and Technology

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

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

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

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

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

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

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

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

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

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

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

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

F 600 HY^{GENIUS} – The new research vehicle with pioneering fuel-cell drive and customer-oriented innovations for safety and driving pleasure.



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

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

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

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

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

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

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

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

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

DaimlerChrysler and the Environment

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

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

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

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

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

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

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

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

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

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

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

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



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

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

Environmentally friendly hybrid buses in everyday use.

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

Alternative fuels as a future energy source. Alternative fuels can make a significant contribution to environmentally compatible mobility due to their more favorable CO₂ balance, as well as reducing dependence on fossil fuels. We are therefore working hard in this area, for example to develop applications for bio-

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

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

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

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

Global Procurement and Supply

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

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

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

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

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

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

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

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

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

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

Global supplier management with Extended Enterprise™.

Our global supplier management is based on three key instruments:

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

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



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

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

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

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

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

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

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

Social Responsibility

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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