

# Corporate Governance

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

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

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# Corporate Governance Report

## General conditions

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

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

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

## DaimlerChrysler's corporate bodies

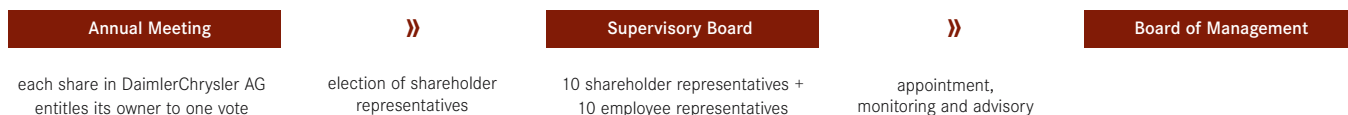
**Shareholders and the Annual Meeting.** The company's shareholders exercise their rights and cast their votes at the Annual Meeting. Each share in DaimlerChrysler AG entitles its owner to one vote. There are no shares with multiple voting rights, no preferred or privileged stock, and no maximum voting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

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

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

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

**Supervisory Board.** In accordance with the German Codetermination Act, the Supervisory Board of DaimlerChrysler AG comprises 20 members. Half of them are elected by the shareholders at the Annual Meeting. The other half comprises members who are elected by the company's employees in Germany. The members representing the shareholders and the members representing the employees are equally obliged by law to act in the company's best interests.



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

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

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

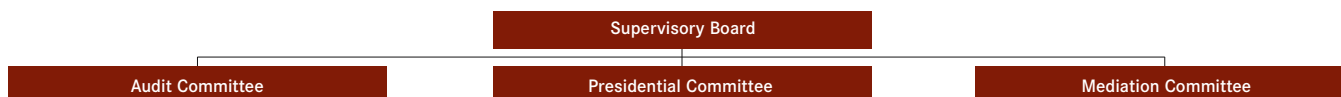
The *Audit Committee* deals with questions of accounting and risk management. It discusses the effectiveness of the internal control systems and regularly receives reports on the work of the Corporate Audit department. It also discusses the interim financial statements and the annual financial statements,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

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

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

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

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



## Principles guiding our actions

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

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

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

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

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

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

**Risk management.** DaimlerChrysler has a risk-management system commensurate with its position as a company with global operations (see pages 58 ff). The risk-management system is one component of the overall planning, controlling and reporting process. Its goal is to enable the company's management to recognize significant risks at an early stage and to initiate appropriate countermeasures in a timely manner. The Chairman of the Supervisory Board has regular contacts with the Board of Management to discuss not only the Group's strategy and business development but also the issue of risk management. The Corporate Audit department monitors adherence to the legal framework and Group standards by means of targeted audits, and, if required, initiates appropriate actions.

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

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

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

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

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

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

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

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

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

## Directors' Dealings

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

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

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

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

# Compensation Report

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

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

## Compensation of the Board of Management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Compensation of the Supervisory Board

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

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

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

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

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

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

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

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

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

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

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

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

# Declaration of Compliance with the German Corporate Governance Code

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Stuttgart, December 2005

The Board of Management

The Supervisory Board

# Report of the Supervisory Board

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

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

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

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

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

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



**Hilmar Kopper**  
Chairman of the Supervisory Board

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Stuttgart-Möhringen, February 2006

The Supervisory Board



Hilmar Kopper  
Chairman

# Members of the Supervisory Board

**Hilmar Kopper**

Frankfurt am Main  
Chairman of the Supervisory Board  
of DaimlerChrysler AG  
Chairman

**Erich Klemm**<sup>1</sup>

Sindelfingen  
Chairman of the Corporate Works  
Council, DaimlerChrysler Group  
and DaimlerChrysler AG  
Deputy Chairman

**Prof. Dr. Heinrich Flegel**<sup>1</sup>

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

**Nate Gooden**<sup>1</sup>

Detroit  
Vice President of the International  
Union, United Automobile, Aerospace  
and Agricultural Implement Workers  
of America (UAW)

**Earl G. Graves**

New York  
Publisher, Black Enterprise Magazine

**Dr. Thomas Klebe**<sup>1</sup>

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

**Arnaud Lagardère**

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

**Jürgen Langer**<sup>1</sup>

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

**Robert J. Lanigan**

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

**Helmut Lense**<sup>1</sup>

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

**Peter A. Magowan**

San Francisco  
President of San Francisco Giants

**William A. Owens**

Kirkland  
Retired President and Chief Executive  
Officer of Nortel Networks Corporation

**Gerd Rheude**<sup>1</sup>

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

**Udo Richter**<sup>1</sup>

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

**Wolf Jürgen Röder**<sup>1</sup>

Frankfurt am Main  
Member of the Executive Board of  
the German Metalworkers' Union  
(IG Metal)

**Dr. rer. pol. Manfred Schneider**

Leverkusen  
Chairman of the Supervisory Board  
of Bayer AG

**Stefan Schwaab**<sup>1</sup>

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

**Bernhard Walter**

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

**Lynton R. Wilson**

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

**Dr.- Ing. Mark Wössner**

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

**Committees of the Supervisory Board:  
Committee pursuant to Section 31,  
Subsection 3 of the German Law  
of Industrial Codetermination**

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

**Presidential Committee**

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

**Audit Committee**

Bernhard Walter (Chairman)  
Hilmar Kopper  
Erich Klemm  
Stefan Schwaab

**Retired from the  
Supervisory Board:**

Prof. Victor Halberstadt  
Amsterdam  
Professor for Public Economics  
at Leiden University, Netherlands  
(retired April 6, 2005)

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

# Report of the Audit Committee



**Bernhard Walter**  
Chairman of the Audit Committee

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

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

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

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

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

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

Stuttgart-Möhringen, February 2006

The Audit Committee

Bernhard Walter  
Chairman