

Transition to International Financial Reporting Standards (IFRS)

EU directive on the application of IFRS. In July 2002, the European Parliament and the European Council passed a directive on the application of IFRS. All companies oriented towards the capital market that are domiciled in an EU country are obliged to prepare their consolidated financial statements in accordance with IFRS for financial years beginning on or after January 1, 2005. The member states are allowed, however, to postpone the mandatory application of IFRS until 2007 for companies that are only listed with debt certificates or that already apply internationally recognized standards for purposes of stock-exchange listings outside the European Union. The latter is applicable in particular for companies, such as DaimlerChrysler, which are listed on the New York Stock Exchange and therefore prepare their consolidated financial statements in accordance with US GAAP. In Germany, this postponement option was implemented in December 2004 within the context of the Financial Statements Law Reform Act (BilReG). On the basis of current planning, at the beginning of 2007, we will probably prepare and publish our first consolidated financial statements according to IFRS as additional information on the 2006 financial year (including 2005 as a comparative period).

Effects of the differences between IFRS and US GAAP. In September 2002, the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) included a "Short-term Convergence" project in their project plan with the goal of quickly eliminating a number of existing divergences. In the long term, IASB and FASB continue to pursue the goal of reducing or eliminating any remaining differences through joint projects and by coordinating future work programs. In addition, it was agreed that the respective interpretation committees would collaborate on convergence in terms of interpretation and application. DaimlerChrysler supports the ongoing convergence between IFRS and US GAAP. Although progress has already been made on the way to achieving a substantial reduction in the differences between the two systems, significant differences still exist. DaimlerChrysler expects the application of IFRS to have only limited effects on the comparability and continuity of financial reporting. On the basis of the present

regulations, we assume that the number of differences between US GAAP and IFRS with a significant impact on our consolidated financial statements is low, and that primarily the following areas will be affected.

Research and development expenditure. According to US GAAP, research and development costs are generally to be recorded as an expense immediately. According to IFRS, a difference is to be made between research and development. Research costs are to be entered immediately as an expense, whereas development costs that fulfill specific criteria are to be capitalized and amortized.

Qualifying special-purpose entities (QSPE). Qualifying special-purpose entities are established to achieve a defined goal such as conducting a leasing transaction or selling receivables. According to US GAAP, QSPEs are exempt from the obligation to consolidate. But according to IFRS, the general consolidation regulations apply. For DaimlerChrysler, this regulation means that additional special-purpose companies will be consolidated compared with US GAAP, particularly relating to the sale of receivables.

Pension obligations. In conformance with IFRS 1, First-time Adoption of International Financial Reporting Standards, DaimlerChrysler will not apply the provisions of IAS 19, Employee Benefits, retroactively to the period since its performance-related pension plans were created. Accordingly, the net pension obligation or the net pension-plan assets for performance-related pension plans as of January 1, 2005 is based on the actuarially calculated projected benefit obligation, taking future salary increases into consideration (defined-benefit obligation – DBO), less the market value of the plan assets. Differences to the values entered according to US GAAP will be netted off with reserves in the IFRS opening balance sheet. Due to the significance of actuarial losses not yet recognized, which have accumulated at DaimlerChrysler in recent years, this effect resulting from the introduction of IFRS is likely to have the greatest impact on shareholders' equity.

Ten-Year Summary

Amounts in millions of €

From the statements of income:

	1996	1997	1998	1999	2000	2001 ¹	2002 ¹	2003 ¹	2004 ¹	2005
Revenues	100,233	116,057	130,122	148,243	160,278	150,422	147,408	136,437	142,059	149,776
Personnel expenses	21,648	23,370	25,033	26,158	26,500	25,095	24,163	24,287	24,216	25,731
of which: Wages and salaries	17,143	18,656	19,982	21,044	21,836	20,073	19,701	18,897	18,750	19,750
Research and development expenditure	5,616	6,364	6,540	7,438	7,241	5,848	5,942	5,571	5,658	5,649
Operating profit (loss)	6,212	6,230	8,593	11,012	9,752	(1,346)	6,827	5,686	5,754	5,185
Operating margin	6.2%	5.4%	6.6%	7.4%	6.1%	(0.9%)	4.6%	4.2%	4.1%	3.5%
Financial income	120	594	493	278	110	131	2,746	(2,792)	(1,077)	217
Income (loss) before income taxes and extraordinary items	5,406	5,995	7,697	9,473	4,280	(1,703)	6,439	596	3,535	3,438
Net operating income	-	4,946	5,829	6,552	8,796	332	6,116	1,467	3,165	3,635
Net operating income as % of net assets (RONA)	-	10.9%	11.6%	12.3%	14.8%	0.5%	9.4%	2.5%	5.7%	6.6%
Net income (loss)	4,022	6,547	4,820	5,746	7,894	(593)	5,098	448	2,466	2,846
Net income (loss) per share (€)	4.09	4.28 ²	5.03	5.73	7.87	(0.59)	5.06	0.44	2.43	2.80
Diluted net income (loss) per share (€)	4.05	4.21 ²	4.91	5.69	7.80	(0.59)	5.03	0.44	2.43	2.80
Total dividend	-	-	2,356	2,358	2,358	1,003	1,519	1,519	1,519	1,527
Dividend per share (€)	-	-	2.35	2.35	2.35	1.00	1.50	1.50	1.50	1.50
Dividend including tax credit ³ per share (€)	-	-	3.36	3.36	3.36	-	-	-	-	-

From the balance sheets:

Property, plant and equipment	23,111	28,558	29,532	36,434	40,145	41,180	36,285	32,933	34,017	36,739
Leased equipment	7,905	11,092	14,662	27,249	33,714	36,002	28,243	24,385	26,711	34,238
Current assets	54,888	68,244	75,393	93,199	99,852	103,414	104,104	103,881	105,188	109,213
of which: Liquid assets	12,851	17,325	19,073	18,201	12,510	14,536	12,439	14,296	11,666	12,647
Total assets	101,294	124,831	136,149	174,667	199,274	207,616	187,527	178,450	182,872	201,632
Stockholders' equity	22,355	27,960	30,367	36,060	42,422	38,928	35,076	34,486	33,522	36,449
of which: Capital stock	2,444	2,391	2,561	2,565	2,609	2,609	2,633	2,633	2,633	2,647
Accrued liabilities	32,135	36,007	35,057	38,211	36,972	42,476	43,995	39,544	41,938	46,682
Liabilities	41,672	54,313	62,527	90,560	109,661	115,337	99,883	95,745	97,935	104,576
of which: Financial liabilities	25,496	34,375	40,430	64,488	84,783	91,395	78,824	75,311	76,270	80,932
Debt-to-equity ratio	114%	123%	133%	179%	200%	235%	225%	218%	228%	222%
Mid- and long-term provisions and liabilities	36,989	45,953	47,601	55,291	75,336	87,814	79,778	73,422	72,192	78,784
Short-term provisions and liabilities	41,950	50,918	58,181	83,315	81,516	80,874	72,673	70,542	77,158	86,399
Current ratio	-	85%	79%	66%	67%	64%	72%	74%	67%	65%
Net assets (annual average)	-	45,252	50,062	53,174	59,496	66,094	65,128	59,572	55,885	55,301

Amounts in millions of €

	1996	1997	1998	1999	2000	2001 ¹	2002 ¹	2003 ¹	2004 ¹	2005
From the statements of cash flows:										
Investments in property, plant and equipment	6,721	8,051	8,155	9,470	10,392	8,896	7,145	6,614	6,386	6,580
Investments in leased equipment	4,891	7,225	10,245	19,336	19,117	17,951	17,704	15,604	17,678	20,236
Depreciation of property, plant and equipment	4,427	5,683	4,937	5,655	6,645	7,580	6,385	5,841	5,498	6,039
Depreciation of leased equipment	1,159	1,456	1,972	3,315	6,487	7,254	7,244	5,579	5,445	6,341
Cash provided by operating activities ⁴	9,956	12,337	16,681	18,023	16,017	15,944	15,909	13,826	11,060	12,353
Cash used for investing activities ⁴	(8,745)	(14,530)	(23,445)	(32,110)	(32,709)	(13,287)	(10,839)	(13,608)	(16,682)	(11,222)

From the stock exchanges:

Share price at year-end Frankfurt (€)	-	-	83.60	77.00	44.74	48.35	29.35	37.00	35.26	43.14
New York (US \$)	-	-	96.06	78.25	41.20	41.67	30.65	46.22	48.05	51.03
Average shares outstanding (in millions)	981.6	949.3	959.3	1,002.9	1,003.2	1,003.2	1,008.3	1,012.7	1,012.8	1,014.7
Average diluted shares outstanding (in millions)	994.0	968.2	987.1	1,013.6	1,013.9	1,003.2	1,013.9	1,012.7	1,014.5	1,017.7

Rating:

Credit rating, long-term										
Standard & Poor's	-	-	A +	A +	A	BBB+	BBB+	BBB	BBB	BBB
Moody's	-	-	A 1	A 1	A 2	A 3	A 3	A3	A3	A3
Fitch	-	-	-	-	-	-	-	BBB+	BBB+	BBB+
Dominion Bond	-	-	-	-	-	-	-	A-	A-	A-

Average annual number of employees	419,758	421,661	433,939	463,561	449,594	379,544	370,677	370,684	379,019	386,465
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¹ Some amounts and ratios have been adjusted compared with our reporting in previous years. See also Note 1 of the Notes to the Consolidated Financial Statements.

² Excluding one-time positive tax effects, especially due to extra distribution of 10.23 € per share.

³ For our stockholders who are taxable in Germany. There is no tax credit from 2001 due to a change in the corporate income tax system.

⁴ Periods before 2002 not adjusted for the effects of inventory-related receivables from Financial Services.

Glossary

Code of Ethics. The DaimlerChrysler Code of Ethics applies to the members of the Board of Management and senior executives who have a significant influence on planning and reporting in connection with the year-end and quarterly financial statements. The regulations contained in the Code are designed to avoid misconduct and to ensure ethical behavior and the correct disclosure of information on the Group.

Consolidated Group. The consolidated Group is the total of all those companies that are consolidated, i.e. fully consolidated companies and companies consolidated using the equity method.

Corporate governance. The term corporate governance applies to the proper management and monitoring of a company. The structure of corporate governance at DaimlerChrysler AG is determined by Germany's Stock Corporation Act, Codetermination Act and capital-market legislation, as well as international capital-market laws and stock-exchange listing regulations.

Cost of capital. The cost of capital is a product of the average capital invested and the cost-of-capital rate. The cost-of-capital rate is derived from the investors' required rate of return (see page 44).

CSR – corporate social responsibility. A collective term for the social responsibility assumed by companies, including economical, ecological and social aspects.

Equity method. Accounting and valuation method for shareholdings in associated companies and joint ventures, as well as subsidiaries that are not fully consolidated.

Fair value. The amount for which an asset or liability could be exchanged in an arm's length transaction between knowledgeable and willing parties who are independent of each other.

Free float. Free float is the percentage of a company's shares held by shareholders who hold less than 5% of that company's shares in total (see page 25).

Goodwill. Goodwill is the term for the amount by which the price paid for a company exceeds the value of the shareholders' equity of that company when its assets and liabilities are valued at current market value.

IFRS – International Financial Reporting Standards. IFRS is a set of standards and interpretations developed by an independent private-sector committee, the International Accounting Standards Board (IASB). IFRS includes regulations for companies' external accounting and reporting. DaimlerChrysler will probably prepare and publish consolidated financial statements according to IFRS for the first time at the beginning of 2007 for the 2006 financial year (see page 203).

Integrity Code. Our Integrity Code has been in use since 1999 and was revised and expanded in 2003. It sets out a binding framework for the actions of all our employees worldwide.

Net assets. Net assets are the capital invested by the Group and the industrial divisions; they are defined as the total of shareholders' equity plus financial liabilities and the accrued pension liabilities of the industrial business. The relevant capital base for the financial services business is shareholders' equity (see page 44).

Net operating income. Net operating income is the operational profit measure after taxes and the relevant parameter for measuring the Group's operating performance.

Operating profit. Operating profit is the operational profit measure before taxes (see page 39).

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Rating. An assessment of a company's creditworthiness issued by rating agencies.

ROE – return on equity. For the financial services business, return on investment is measured by means of ROE (return on equity). ROE is defined as a quotient of operating profit and shareholders' equity.

RONA – return on net assets. For the Group as a whole and for the industrial divisions, return on investment is measured by means of RONA (return on net assets). RONA is defined as a quotient of net operating income (for the Group) or operating profit (for the industrial divisions) and net assets (see page 45).

Sarbanes-Oxley Act. The Sarbanes-Oxley Act was passed in the United States in 2002. This new law resulted in additional regulations for the protection of investors, including greater responsibility for management and the audit committee. In particular, requirements concerning the accuracy and completeness of published financial information have become stricter, and disclosure and auditing duties have been expanded.

US GAAP – United States Generally Accepted Accounting Principles. The principles of accounting, evaluation and disclosure that are generally followed in the United States and which are applied by DaimlerChrysler.

Value-at-risk. Measures the potential future loss (related to market value) for a given portfolio in a certain period and for which there is a certain probability that it will not be exceeded.

Value added. Value added indicates the extent to which the operational profit measure exceeds the cost of capital. When value added is positive, return on net assets is higher than the cost-of-capital (see page 45).

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Publications for our shareholders:

- Annual Report (German, English)
- Form 20-F (English)
- Interim Reports for the 1st, 2nd and 3rd quarters (German, English)
- Environment Report (German, English)
- Social Responsibility Report (German, English)
- Sustainability Report (German, English)

The financial statements of DaimlerChrysler AG prepared in accordance with German GAAP were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, and an unqualified opinion was rendered thereon. These financial statements are published in the German Federal Gazette and are filed with the Commercial Registry of the Stuttgart District Court.

The aforementioned publications can be requested from:
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The documents can also be ordered by phone or fax using the following number: +49 711 17 92287

www.daimlerchrysler.com/investors

Additional information on the Internet. Special information on our shares and earnings developments can be found in the "Investor Relations" section of our website. It includes the Group's annual and interim reports, the company financial statements of DaimlerChrysler AG, and reports to the US Securities and Exchange Commission (SEC) for all the financial years since 1998. You can also find topical reports, presentations, an overview of various performance measures, information on the share price, and other services.

DaimlerChrysler Worldwide

	Mercedes Car Group	Chrysler Group	Commercial Vehicles	Sales Organization Automotive Businesses	Financial Services	Other Activities
Europe						
Production locations	10	-	19	-	-	3
Sales outlets	-	-	-	5,333	76	209
Revenues in millions of €	30,088	3,060	17,201	-	6,208	1,234
Employees	92,930	244	57,477	42,225	4,602	14,795
NAFTA						
Production locations	1	30	18	-	-	2
Sales outlets	-	-	-	4,965	33	533
Revenues in millions of €	12,043	45,439	12,770	-	8,609	466
Employees	4,472	82,321	26,838	2,777	5,326	1,930
South America						
Production locations	1	2	3	-	-	-
Sales outlets	-	-	-	611	9	59
Revenues in millions of €	202	438	1,932	-	133	38
Employees	1,083	560	13,414	-	279	-
Africa						
Production locations	1	1	1	-	-	-
Sales outlets	-	-	-	232	1	43
Revenues in millions of €	1,358	321	1,410	-	218	27
Employees	5,520	-	1,081	-	505	-
Asia						
Production locations	3	1	9	-	-	-
Sales outlets	-	-	-	1,152	12	151
Revenues in millions of €	5,531	461	6,116	-	109	357
Employees	340	5	18,340	2,643	194	839
Australia/Oceania						
Production locations	-	-	-	-	-	-
Sales outlets	-	-	-	243	4	71
Revenues in millions of €	718	208	679	-	145	163
Employees	-	-	33	1,128	223	600

Note: Unconsolidated revenues of each division (segment revenues).



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