Management Report

- **Group operating profit of €0.9 billion compared with €1.8 billion in Q3 2005**
- **Net income of €541 million (Q3 2005: €855 million)**
- **Earnings per share of €0.53 (Q3 2005: €0.84)**
- **Revenues below prior-year level at €35.2 billion**
- **Operating profit in the magnitude of €5 billion anticipated for full-year 2006**

Business developments

- The **global economy** expanded at a rate of 3.6% in the third quarter, once again higher than the long-term average. However, economic growth was not as strong as the 4.1% recorded in the first half of the year. The growth slowdown was primarily caused by rising inflation, higher interest rates and the burden of continuing high prices for raw materials. In particular in North America and China, where high growth rates of 3.6% and 10.7% respectively were recorded in the first half of the year, the economic dynamism has now subsided somewhat. Japan, Western Europe and the emerging markets developed positively.

- Parallel to the development of the world economy and due mainly to high prices for oil and fuel, growth in global **demand for automobiles** slowed down in the third quarter compared with the first half of the year. Compared with the third quarter of last year, market volume decreased in the United States, Western Europe and Japan. In the United States, there was a continuation of the shift in demand away from minivans, SUVs and light trucks and towards more fuel-efficient passenger cars. The emerging markets of Asia once again proved to be the engine of worldwide demand for automobiles, led by China and India. Worldwide demand for commercial vehicles remained at a high level, especially in the medium and heavy segments.

- **DaimlerChrysler** sold 1.0 million vehicles worldwide in the third quarter, not equaling the high level recorded in Q3 2005 (-14%).

- **Unit sales** of 307,500 vehicles by the Mercedes Car Group were close to the prior-year level. Unit sales by the Chrysler Group (factory shipments) decreased to 504,400 passenger cars and light trucks (Q3 2005: 663,400). The Truck Group increased its sales by 2% to 141,900 units. Mercedes-Benz Vans and DaimlerChrysler Buses sold 58,800 vans and 8,600 buses and chassis respectively (Q3 2005: 64,200 and 9,200). The Financial Services division increased its new business by 6%; contract volume at the end of the third quarter was similar to the level a year earlier.

- As a result of the lower unit sales, the **Group's revenues** decreased from €38.2 billion to €35.2 billion. Adjusted for currency-translation effects, the decrease was 5%.

- For product-lifecycle reasons, investments in property, plant and equipment of €1.2 billion were lower than in Q3 2005, with decreases in all divisions. Research and development expenditure of €1.3 billion was lower than in the prior-year period.

Profitability

- The **DaimlerChrysler Group's operating profit** amounted to €892 million, below the result of €1,838 million in the third quarter of last year.

- The continuation of the very positive earnings trend at the Mercedes Car Group and the distinct increase in operating profit at the Truck Group only partially compensated for the loss contributed by the Chrysler Group. Financial Services' operating profit also exceeded its strong result in the prior-year period.

- Third-quarter operating profit was reduced by exchange-rate effects reflecting less favorable currency-hedging rates than in Q3 2005.

- Price developments for certain raw materials, such as specific precious metals, also burdened earnings in the third quarter of this year. However, the resulting higher costs of raw materials were offset by active material-cost management.

- The development of the Group's earnings was affected by the special items shown in the following table:

Amounts in millions of €	Q3 2006	Q3 2005
Mercedes Car Group		
Restructuring at smart	40	
Expenses relating to staff reductions in the context of CORE	(47)	
Release of a provision after favorable verdict in a case concerning the infringement of EU competition law		60
Chrysler Group		
Financial support for supplier Collins & Aikman	(10)	(57)
Truck Group		
Impairment American LaFrance		(63)
Van, Bus, Other		
Expenses relating to the new management model	(72)	
Sale of real estate not required for operating purposes	86	

- The **Mercedes Car Group** increased its operating profit by 127% to €991 million.

- This significant increase in earnings is primarily due to the efficiency improvements achieved in the context of the CORE program. An additional factor was that although total unit sales decreased slightly (-3,400 vehicles), earnings were favorably impacted by the improved model mix since the launch of the new S-Class and M/R/GL-Class. Whereas unit sales by the Mercedes-Benz brand increased slightly, unit sales at smart decreased, as expected. Exchange-rate effects had a negative impact on operating profit.

- Staff reductions at Mercedes-Benz Passenger Cars in the context of the CORE program led to charges of €47 million. Within the framework of the headcount reduction program announced in September 2005, approximately 9,300 employees had signed severance agreements or had already left the company. In connection with the restructuring of smart, original estimates had to be adjusted to current developments, which resulted in a gain of €40 million.

- The **Chrysler Group** posted an operating loss of €1,164 million in the third quarter of 2006, compared with an operating profit of €310 million in the same quarter of last year.

- The operating loss was primarily the result of a decrease in worldwide factory unit sales, an unfavorable shift in product and market mix, and negative net pricing. These factors reflect a continuing difficult market environment in the United States as the Chrysler Group faced increased dealer inventory levels from the prior quarter, a shift in consumer demand toward smaller vehicles as a result of higher fuel prices, and increased interest rates.

- In order to reduce the high levels of dealer inventories, we reduced shipments to dealers, which necessitated corresponding production adjustments. Total factory shipments of 504,400 vehicles in the third quarter were 158,900 units lower than in the third quarter of last year. During the third quarter, dealer inventories fell from 648,600 to 534,000 vehicles at September 30, 2006. At the end of third quarter of 2005, dealer inventories had totaled 580,200 vehicles.

- The **Truck Group** posted an operating profit of €556 million (Q3 2005: €354 million).

- This significant increase in earnings was due to higher unit sales (+3,000 vehicles), a high utilization of capacity combined with strong productivity, and an improved model mix. In addition, further efficiency improvements were realized in the context of the Global Excellence program, which more than compensated for the higher expenses incurred for new vehicle projects and for the fulfillment of future emission regulations.

Operating Profit (Loss) by Segment

Amounts in millions of €	Q3 2006	Q3 2005	Change in %	Q1–3 2006	Q1–3 2005	Change in %
Mercedes Car Group	991	436	+127	1,120	(506)	.
Chrysler Group	(1,164)	310	.	(994)	1,106	.
Truck Group	556	354	+57	1,533	1,462	+5
Financial Services	445	408	+9	1,315	1,121	+17
Van, Bus, Other	315	379	-17	897	890	+1
Eliminations	(251)	(49)	-412	(231)	64	.
DaimlerChrysler Group	892	1,838	-51	3,640	4,137	-12

Reconciliation of Group Operating Profit to Income before Financial Income

Amounts in millions of €	Q3 2006	Q3 2005	Change in %	Q1–3 2006	Q1–3 2005	Change in %
Operating profit	**892**	1,838	-51	**3,640**	4,137	-12
Pension and postretirement benefit expenses, other than current and prior service costs and settlement/curtailment losses	**(320)**	(317)	-1	**(932)**	(889)	-5
Operating (profit) loss from affiliated and associated companies and financial (income) loss from related operating companies	**(317)**	(248)	-28	**(853)**	(537)	-59
Miscellaneous items	**6**	(1)	.	**4**	(8)	.
Income before financial income	**261**	1,272	-79	**1,859**	2,703	-31

- **Financial Services** improved its operating profit to €445 million, compared with €408 million in the third quarter of last year.

- This increase in earnings was assisted by the higher volume of new business and improved efficiency. There were opposing effects from increased risk costs, which had been extremely low in the prior-year quarter.

- The **Van, Bus, Other** segment posted a third-quarter operating profit of €315 million (Q3 2005: €379 million), including expenses of €72 million for the implementation of the new management model, mainly for personnel reductions in administrative areas. The sale of real estate properties not required for operating purposes led to a gain of €86 million in the third quarter. The operating profit of the prior-year quarter included a profit contribution from the off-highway business, which was sold in the first quarter of 2006.

- Vans and Buses once again achieved positive contributions to earnings in the third quarter. The operating profit of Mercedes-Benz Vans decreased due to capacity restrictions related to the changeover of production for the new Sprinter model. DaimlerChrysler Buses increased its operating profit as a result of a more favorable model mix and the achieved efficiency improvements.

- The contribution to earnings from EADS amounted to €247 million, which was slightly below the result of €256 million in the prior-year quarter despite higher Airbus deliveries. This was primarily caused by less favorable currency-hedging rates. The delays with the delivery of the Airbus A380 did not affect the profit contribution from EADS in the third quarter, as the results of EADS are consolidated by the DaimlerChrysler Group with a three-month time lag.

- The increase in **eliminations** with an effect on earnings resulted primarily from the leasing business in Germany and the increase in floor plan financing for European dealerships. The resulting profits and losses on the deliveries of vehicles between the divisions were not realized from the Group perspective and were thus eliminated.

- **Financial income** improved to €172 million in the third quarter (Q3 2005: financial loss of €9 million) as a result of higher income from investments and an improved net interest result. The increase in income from investments from €144 million to €199 million was mainly a result of higher contributions to earnings from investments accounted for using the equity method, including a gain of €48 million on the sale of real estate properties not required for operating purposes. The net interest expense amounted to €8 million compared to net interest expense of €120 million in the third quarter of last year; the other financial loss improved from €33 million to €19 million.

- **Net income** amounted to €541 million in the third quarter (Q3 2005: €855 million). The decrease in operating profit was partially offset by increased financial income and a lower tax expense. The recognition by the US tax authorities of tax credits for research and development expenditure and adjustments of deferred tax liabilities led to a tax benefit of €219 million.

- **Earnings per share** amounted to €0.53, compared with €0.84 in the third quarter of 2005.

Cash Flow

- **Cash provided by operating activities** of €8.5 billion was significantly lower than in the first nine months of 2005 (€11.0 billion). The decrease was primarily due to the negative business development at the Chrysler Group, which was only partially offset by the business development at the Mercedes Car Group. Cash provided by operating activities was also reduced by severance payments connected with the headcount reduction at the Mercedes Car Group, payments related to the realignment of smart, and higher tax payments. On the other hand, the slight reduction in contributions to the pension funds had a positive effect on cash provided by operating activities (€0.6 billion; Jan.-Sept. 2005: €0.9 billion). There was also an improvement as a result of the higher proportion of operate-lease contracts in the financial-services business. There were opposing effects on the development of working capital. The significantly lower increase in inventories and trade receivables was nearly offset by negative effects from trade liabilities and inventory-related receivables from financial services.

- **Cash used for investing activities** increased by €2.5 billion to €11.5 billion in the first nine months of this year, due not only to the significant increase in equipment on operating leases, but also to the development of receivables from financial services. The reduction in these receivables as a result of the shift from finance-lease contracts to operate-lease contracts was lower than in the first nine months of 2005. On the other hand, capital expenditure for property, plant and equipment was slightly lower than in the prior-year period, thus reducing cash used for investing activities. In addition to that, proceeds from the sale of businesses were higher than in the first nine months of 2005. The latter was mainly due to the sale of the off-highway business, which gave rise to a net cash inflow of €0.8 billion. The decrease in (net) payments for the purchase of securities also had the effect of reducing cash used for investing activities.

- **Cash provided by financing activities** amounted to €1.0 billion in the period under review. This was primarily the result of the (net) increase in financial liabilities, partially offset by a cash outflow for the distribution of the dividend for the year 2005. The main factors in the first nine months of last year were the dividend distribution and the (net) repayment of financial liabilities.

- Cash and cash equivalents with an original maturity of three months or less decreased by €2.2 billion to €5.4 billion compared with December 31, 2005, taking currency-translation effects into consideration. Total liquidity, which also includes long-term investments and securities, decreased from €12.6 billion to €10.2 billion as a result of optimized processes in the Group's liquidity management.

Financial Position

- Compared with December 31, 2005, total assets decreased by €5.2 billion to €196.4 billion. After adjusting for currency-translation effects of €8.8 billion, there was an increase of €3.6 billion, primarily due to the expansion of the leasing and sales-financing business.

- Equipment on operating leases and receivables from financial services totaled €94.3 billion (December 31, 2005: €95.3 billion), equivalent to 48% of total assets. Without the effects of currency translation, there would have been a significant increase in the size of the portfolio. Within the portfolio, there was a shift from sales-financing contracts to operate-lease contracts. Inventories increased, after adjusting for currency translation. This was a result of the development of production volumes over the year, as was the increase in trade liabilities. The change in other assets was primarily due to an increase in the positive market values of derivative financial instruments. These financial transactions were undertaken to hedge against foreign-exchange risks and the price risks of EADS shares.

- Accrued liabilities decreased, mainly due to the effects of currency translation, which also resulted in lower accrued liabilities for derivative financial instruments used to hedge against foreign-exchange risks. There was also an impact from the utilization of accrued liabilities for product warranties and for taxes. There was a slight rise in other accrued liabilities, however, related to the discontinuation of the smart forfour. After adjusting for currency translation, financial liabilities increased due to the higher refinancing requirement caused by the expansion of the leasing and sales-financing business. The decrease in other liabilities was mainly a result of lower liabilities in connection with the headcount reductions at the Mercedes Car Group.

- Stockholders' equity at September 30, 2006 was slightly higher than at December 31, 2005. The positive effects on stockholders' equity from net income and the valuation of derivative financial instruments (with no effect on earnings) were partially offset by the negative effects of currency translation and the distribution of the dividend for the year 2005.

- The Group's equity ratio at September 30, 2006 was 18.8% (December 31, 2005: 17.3%). The equity ratio for the industrial business was 27.5% (December 31, 2005: 24.8%). The increases in the equity ratios were primarily caused by the decrease in total assets and the net income.

Workforce

- At the end of the third quarter of 2006, DaimlerChrysler employed a workforce of 365,451 people worldwide (end of Q3 2005: 388,014). Of this total, 168,965 were employed in Germany and 95,647 were employed in the United States (end of Q3 2005: 185,288 and 98,945 respectively).

- The size of the workforce decreased compared to employment figures on September 30, 2005, mainly as a result of the sale of the off-highway business with approximately 7,000 employees and the staff reductions at the Mercedes Car Group (-6%). At the Mercedes Car Group, 9,300 employees signed severance agreements or already left the company within one year. In the context of the new management model, the 2,200 employees of the former Corporate Research department, which was previously allocated to the Group level, were transferred into the Mercedes Car Group's Product Development department. The Chrysler Group, Truck Group and Financial Services divisions also employed fewer people at the end of the third quarter than a year earlier.

Events after the end of the third quarter of 2006

- At the beginning of October, EADS announced that delays with the delivery of the Airbus A380 would lead to a shortfall of its operating result compared with previous planning. In line with our equity interest in EADS, DaimlerChrysler's earnings will thus also be affected. In order to counteract the financial impact of these delays, EADS plans to implement a comprehensive program of cost reductions and efficiency improvements.

Outlook

- Due to the positive development of the **world economy** in the first nine months of 2006, DaimlerChrysler anticipates global economic growth of 3.8% in the full year, compared with 3.5% in 2005. Despite rising interest rates and ongoing high raw-material prices, we expect generally positive economic developments in the fourth quarter.

- We expect a slight decrease in worldwide **demand for automobiles** in the fourth quarter and thus slower market growth than in Q4 2005. For full-year 2006, we anticipate market growth of around 3% (2005: 4%). In the United States, the world's largest market, demand is likely to decrease slightly (2005: 16.9 million cars and light trucks). The Japanese market is also expected to be smaller than in 2005 (4.7 million passenger cars), while there should be a moderate increase in demand in Western Europe (2005: 14.5 million passenger cars). Car sales are expected to increase significantly in full-year 2006 in nearly all of the major emerging markets of Asia, South America and Eastern Europe. The strong demand for commercial vehicles, especially in the heavy categories, should continue for the rest of this year, although with lower growth rates. In view of the ongoing overcapacity in the automotive industry, we assume that the situation of intense competitive pressure will continue.

- **DaimlerChrysler** expects unit sales in 2006 to be lower than in the previous year (4.8 million units).

- The Mercedes Car Group anticipates full-year unit sales at least as high as in 2005. We assume that unit sales by Mercedes-Benz will exceed last year's figure as a result of the market success of the brand's new products. We will continue to effectively implement the CORE efficiency-improving program. The positive earnings trend is expected to continue in the fourth quarter.

- Due to intense competition and the shift in demand towards smaller vehicles, the Chrysler Group assumes that unit sales (factory shipments) in 2006 will be lower than in the prior year. Eight new models, many of which are in the growing segments of passenger cars and small SUVs, are now being launched or will be launched this year. The Chrysler Group will implement further cuts in production volumes during the fourth quarter in order to reduce dealer inventories and clear the way for the current product offensive. DaimlerChrysler expects the Chrysler Group to post a loss of approximately €1 billion for the full-year 2006.

- The Truck Group expects full-year unit sales at least to reach 2005 sales figures. Due to positive market developments in our core markets of Europe, the United States and Japan in connection with upcoming new emission regulations, the ongoing strong demand for our products and further improvements in productivity and efficiency, the Truck Group expects to significantly exceed the prior-year's earnings.

- The Financial Services division anticipates a continuation of its stable business development in the remaining months of the year 2006, despite the higher level of interest rates and falling growth in consumption in the United States. Enhanced process quality and efficiency will help to further improve the division's competitive position. Operating profit in full-year 2006 should be higher than in the prior year.

- The Vans unit expects lower unit sales than in 2005 due to the Sprinter model change. Unit sales of buses are likely to exceed the high level of the prior year.

- In connection with the revised delivery planning for the Airbus A380, EADS revoked its original earnings forecast at the beginning of October. EADS has not issued any new earnings guidance since then.

- The **DaimlerChrysler Group's revenues** in full-year 2006 should be slightly higher than in 2005 (€149.8 billion).

- Due to the implementation of the staff-reduction program and the sale of the off-highway activities, the number of persons employed by the DaimlerChrysler Group at the end of 2006 will be significantly lower than the number of 382,700 at the end of last year.

- On September 15, DaimlerChrysler announced that due to the Chrysler Group's unsatisfactory sales situation, the DaimlerChrysler Group's original earnings target for 2006 could not be maintained. For this reason, we reduced the Group's **operating-profit target** to an amount in the magnitude of €5 billion. Although we now have to assume that the profit contribution from EADS will be €0.2 billion lower than originally anticipated because of the delayed delivery of the Airbus A380, we are maintaining this earnings target due to very positive business developments in the divisions Mercedes Car Group, Truck Group and Financial Services.

- This forecast also includes charges for the implementation of the new management model (€0.5 billion), the focus on the smart fortwo (€1 billion) and the staff reductions at the Mercedes Car Group (€0.4 billion). There are positive effects from gains on the disposal of the off-highway business (€0.2 billion), the sale of real estate no longer required for operating purposes (€0.1 billion) and the release of provisions for retirement-pension obligations (€0.2 billion).

Forward-looking statements in this Interim Report:
This interim report contains forward-looking statements that reflect management's current views with respect to future events. The words "anticipate," "assume," "believe," "estimate," "expect," "intend," "may," "plan," "project" and "should" and similar expressions identify forward-looking statements. Such statements are subject to risks and uncertainties, including, but not limited to: an economic downturn in Europe or North America; changes in currency exchange rates, interest rates and in raw material prices; introduction of competing products; increased sales incentives; the effective implementation of our new management model, and the CORE program, including the new business model for smart, at the Mercedes Car Group; renewed pressure to reduce costs in light of restructuring plans announced by our major competitors in NAFTA; the ability of the Chrysler Group to reduce dealer inventories with current incentive programs and respond to a shift in market demand for smaller, more fuel efficient vehicles; lower profit contributions by EADS due to delays in deliveries of the Airbus A380; disruption of production or vehicle deliveries, resulting from shortages, labor strikes or supplier insolvencies; the resolution of pending governmental investigations; and decline in resale prices of used vehicles. If any of these or other risks and uncertainties occur (some of which are described under the heading "Risk Report" in DaimlerChrysler's most recent Annual Report and under the heading "Risk Factors" in DaimlerChrysler's most recent Annual Report on Form 20-F filed with the Securities and Exchange Commission), or if the assumptions underlying any of these statements prove incorrect, then actual results may be materially different from those expressed or implied by such statements. We do not intend or assume any obligation to update any forward-looking statement, which speaks only as of the date on which it is made.