

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 20-F/A  
(Amendment No.1)**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003  
Commission file number 1-12356

**DAIMLERCHRYSLER AG**

(Exact name of Registrant as specified in its charter)

**DAIMLERCHRYSLER AG**

(Translation of Registrant's name into English)

**FEDERAL REPUBLIC OF GERMANY**

**(JURISDICTION OF INCORPORATION OR ORGANIZATION)**

**EPPLESTRASSE 225, 70567 STUTTGART, GERMANY**

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Ordinary Shares, no par value	Frankfurt Stock Exchange New York Stock Exchange Chicago Stock Exchange Pacific Stock Exchange Philadelphia Stock Exchange
<b>Guarantee of the following securities of:</b>	
DaimlerChrysler North America Holding Corporation	
8.50% Notes Due January 18, 2031	New York Stock Exchange
7 3/4% Notes Due September 15, 2006	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act. NONE  
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.  
NONE  
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Ordinary Shares, no par value . . . . . 1,012,824,191  
(as of December 31, 2003)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

The registrant hereby amends its Annual Report on Form 20-F filed February 19, 2004, to provide the following condensed consolidated financial information of the European Aeronautic Defence and Space Company EADS N.V. and subsidiaries ("EADS") for the year ended December 31, 2003:

- Condensed consolidated income statement information;
- Condensed consolidated balance sheet information; and
- Condensed consolidated cash flow information.

DaimlerChrysler is providing the aforementioned condensed consolidated financial information about EADS, prepared using generally accepted accounting principles in the United States of America, in a revised Note 3 to the DaimlerChrysler 2003 Consolidated Financial Statements.

DaimlerChrysler is filing this amendment for the sole purpose of updating "Item 18. Financial Statements," updating Exhibits 12.1, 12.2, 13.1 and 14.1 and changing the page reference under the heading "Consolidated Financial Statements" in "Item 8. Financial Information" from "F-1 through F-90" to "F-1 through F-94."

**Item 18. Financial Statements.**

You can find our Consolidated Financial Statements and schedule on pages F-i, F-1 through F-94.

## SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F/A and that it has duly caused and authorized the undersigned to sign this amendment to its 2003 Annual Report on its behalf.

Date: June 30, 2004

DAIMLERCHRYSLER AG

By: /s/ JÜRGEN E. SCHREMP

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Prof. Jürgen E. Schrempp  
Chairman of the Board of Management

By: /s/ MANFRED GENTZ

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Dr. Manfred Gentz  
Member of the Board of Management  
Finance & Controlling

**DAIMLERCHRYSLER AG**  
**Index to Consolidated Financial Statements**

	<u>Page</u>
Report of Independent Registered Public Accounting Firm .....	F-1
Consolidated Financial Statements:	
Consolidated Statements of Income (Loss) for the years ended December 31, 2003, 2002 and 2001 ..	F-2
Consolidated Balance Sheets at December 31, 2003 and 2002 .....	F-4
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2003, 2002 and 2001 .....	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2002 and 2001 ....	F-6
Consolidated Fixed Assets Schedule for the year ended December 31, 2003 .....	F-8
Notes to the Consolidated Financial Statements .....	F-10

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Supervisory Board  
DaimlerChrysler AG:

We have audited the accompanying consolidated balance sheets of DaimlerChrysler AG and subsidiaries (“DaimlerChrysler”) as of December 31, 2003 and 2002, and the related consolidated statements of income (loss), changes in stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2003. These consolidated financial statements are the responsibility of DaimlerChrysler’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of DaimlerChrysler as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003, in conformity with generally accepted accounting principles in the United States of America.

As described in Note 1 to the consolidated financial statements, DaimlerChrysler changed its method of accounting for stock-based compensation in 2003. As described in Notes 1, 2 and 11 to the consolidated financial statements, DaimlerChrysler also adopted the required portions of FASB Interpretation No. 46 (revised December 2003), “Consolidation of Variable Interest Entities – an interpretation of ARB No. 51,” in 2003. As described in Note 11 to the consolidated financial statements, DaimlerChrysler adopted Statement of Financial Accounting Standards No. 142, “Goodwill and Other Intangible Assets,” in 2002.

KPMG Deutsche Treuhand-Gesellschaft AG

Stuttgart, Germany  
February 18, 2004, except for Note 3 which is as of June 30, 2004

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Consolidated Statements of Income (Loss)**

(in millions, except per share amounts)	Consolidated				
	Year ended December 31,				
	Note	2003 (Note 1)	2003	2002	2001
			€	€	€
Revenues	34.	\$ 171,870	<b>136,437</b>	147,368	150,386
Cost of sales	5.	(138,474)	<b>(109,926)</b>	(119,624)	(126,247)
<b>Gross margin</b>		33,396	<b>26,511</b>	27,744	24,139
Selling, administrative and other expenses	5.	(22,388)	<b>(17,772)</b>	(18,166)	(18,235)
Research and development		(7,018)	<b>(5,571)</b>	(5,942)	(5,848)
Other income (therein gain on issuance of related company stock of € 24 in 2003)	6.	899	<b>713</b>	777	1,201
Turnaround plan expenses – Chrysler Group	7.	(591)	<b>(469)</b>	(694)	(3,064)
<b>Income (expense) before financial income</b>		4,298	<b>3,412</b>	3,719	(1,807)
Impairment of investment in EADS		(2,469)	<b>(1,960)</b>	–	–
Other financial income (expense), net (therein gain on issuance of associated company stock of € 747 in 2001)		(1,078)	<b>(856)</b>	2,206	153
Financial income (expense), net	8.	(3,547)	<b>(2,816)</b>	2,206	153
<b>Income (loss) before income taxes</b>		751	<b>596</b>	5,925	(1,654)
Income tax benefit (expense)	9.	(1,234)	<b>(979)</b>	(1,115)	849
Minority interests		(44)	<b>(35)</b>	(15)	42
<b>Income (loss) from continuing operations</b>		(527)	<b>(418)</b>	4,795	(763)
Income from discontinued operations, net of taxes	10.	18	<b>14</b>	82	101
Income on disposal of discontinued operations, net of taxes	10.	1,111	<b>882</b>	–	–
Cumulative effects of changes in accounting principles: transition adjustments resulting from adoption of FIN 46R and SFAS 142, net of taxes	11.	(38)	<b>(30)</b>	(159)	–
<b>Net income (loss)</b>		564	<b>448</b>	4,718	(662)
<b>Earnings (loss) per share</b>	35.				
Basic earnings (loss) per share					
Income (loss) from continuing operations		(0.52)	<b>(0.41)</b>	4.76	(0.76)
Income from discontinued operations		0.01	<b>0.01</b>	0.08	0.10
Income on disposal of discontinued operations		1.10	<b>0.87</b>	–	–
Cumulative effects of changes in accounting principles		(0.04)	<b>(0.03)</b>	(0.16)	–
Net income (loss)		0.55	<b>0.44</b>	4.68	(0.66)
Diluted earnings (loss) per share					
Income (loss) from continuing operations		(0.52)	<b>(0.41)</b>	4.74	(0.76)
Income from discontinued operations		0.01	<b>0.01</b>	0.08	0.10
Income on disposal of discontinued operations		1.10	<b>0.87</b>	–	–
Cumulative effects of changes in accounting principles		(0.04)	<b>(0.03)</b>	(0.15)	–
Net income (loss)		0.55	<b>0.44</b>	4.67	(0.66)

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

DAIMLERCHRYSLER AG AND SUBSIDIARIES

Consolidated Statements of Income (Loss)

Industrial Business <sup>1</sup>			Financial Services <sup>1</sup>			
Year ended December 31,			Year ended December 31,			
2003	2002	2001	2003	2002	2001	(in millions, except per share amounts)
€		€	€		€	
122,397	131,668	133,533	14,040	15,700	16,853	Revenues
(98,937)	(106,443)	(111,195)	(10,989)	(13,181)	(15,052)	Cost of sales
23,460	25,225	22,338	3,051	2,519	1,801	<b>Gross margin</b>
(16,374)	(16,451)	(16,660)	(1,398)	(1,715)	(1,575)	Selling, administrative and other expenses
(5,571)	(5,942)	(5,848)	—	—	—	Research and development
661	709	1,149	52	68	52	Other income (therein gain on issuance of related company stock of € 24 in 2003)
(469)	(694)	(3,064)	—	—	—	Turnaround plan expenses – Chrysler Group
1,707	2,847	(2,085)	1,705	872	278	<b>Income (expense) before financial income</b>
(1,960)	—	—	—	—	—	Impairment of investment in EADS
(799)	2,325	145	(57)	(119)	8	Other financial income (expense), net (therein gain on issuance of associated company stock of € 747 in 2001)
(2,759)	2,325	145	(57)	(119)	8	Financial income (expense), net
(1,052)	5,172	(1,940)	1,648	753	286	<b>Income (loss) before income taxes</b>
(352)	(738)	815	(627)	(377)	34	Income tax benefit (expense)
(30)	(12)	44	(5)	(3)	(2)	Minority interests
(1,434)	4,422	(1,081)	1,016	373	318	<b>Income (loss) from continuing operations</b>
14	82	101	—	—	—	Income from discontinued operations, net of taxes
882	—	—	—	—	—	Income on disposal of discontinued operations, net of taxes
(30)	(124)	—	—	(35)	—	Cumulative effects of changes in accounting principles: transition adjustments resulting from adoption of FIN 46R and SFAS 142, net of taxes
(568)	4,380	(980)	1,016	338	318	<b>Net income (loss)</b>
—	—	—	—	—	—	<b>Earnings (loss) per share</b>
—	—	—	—	—	—	Basic earnings (loss) per share
—	—	—	—	—	—	Income (loss) from continuing operations
—	—	—	—	—	—	Income from discontinued operations
—	—	—	—	—	—	Income on disposal of discontinued operations
—	—	—	—	—	—	Cumulative effects of changes in accounting principles
—	—	—	—	—	—	Net income (loss)
—	—	—	—	—	—	<b>Diluted earnings (loss) per share</b>
—	—	—	—	—	—	Income (loss) from continuing operations
—	—	—	—	—	—	Income from discontinued operations
—	—	—	—	—	—	Income on disposal of discontinued operations
—	—	—	—	—	—	Cumulative effects of changes in accounting principles
—	—	—	—	—	—	Net income (loss)

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

DAIMLERCHRYSLER AG AND SUBSIDIARIES

Consolidated Balance Sheets

(in millions)	Note	Consolidated			Industrial Business <sup>1</sup>		Financial Services <sup>1</sup>	
		At December 31,			At December 31,		At December 31,	
		2003 (Note 1)	2003	2002	2003	2002	2003	2002
<b>Assets</b>								
Goodwill	12.	\$ 2,288	€ 1,816	€ 2,071	€ 1,757	€ 2,009	€ 59	€ 62
Other intangible assets	13.	3,551	2,819	2,855	2,731	2,755	88	100
Property, plant and equipment, net	14.	41,466	32,917	36,269	32,761	36,111	156	158
Investments and long-term financial assets	20.	11,020	8,748	9,291	8,416	8,922	332	369
Equipment on operating leases, net	15.	30,717	24,385	28,243	2,890	3,313	21,495	24,930
<b>Fixed assets</b>		<b>89,042</b>	<b>70,685</b>	<b>78,729</b>	<b>48,555</b>	<b>53,110</b>	<b>22,130</b>	<b>25,619</b>
Inventories	16.	18,830	14,948	15,642	13,560	13,965	1,388	1,677
Trade receivables	17.	7,660	6,081	6,297	5,851	6,005	230	292
Receivables from financial services	18.	66,308	52,638	52,088	—	10	52,638	52,078
Other receivables	19.	19,964	15,848	17,573	11,129	11,159	4,719	6,414
Securities	20.	4,117	3,268	3,293	2,801	2,911	467	382
Cash and cash equivalents	21.	13,878	11,017	9,130	9,719	8,191	1,298	939
<b>Non-fixed assets</b>		<b>130,757</b>	<b>103,800</b>	<b>104,023</b>	<b>43,060</b>	<b>42,241</b>	<b>60,740</b>	<b>61,782</b>
<b>Deferred taxes</b>	9.	<b>3,386</b>	<b>2,688</b>	<b>3,613</b>	<b>2,527</b>	<b>3,496</b>	<b>161</b>	<b>117</b>
<b>Prepaid expenses</b>	22.	<b>1,379</b>	<b>1,095</b>	<b>962</b>	<b>1,002</b>	<b>866</b>	<b>93</b>	<b>96</b>
<b>Total assets (thereof short-term 2003: € 65,051; 2002: € 65,100)</b>		<b>224,564</b>	<b>178,268</b>	<b>187,327</b>	<b>95,144</b>	<b>99,713</b>	<b>83,124</b>	<b>87,614</b>
<b>Liabilities and stockholders' equity</b>								
Capital stock		3,317	2,633	2,633				
Additional paid-in capital		9,971	7,915	7,819				
Retained earnings		36,638	29,085	30,156				
Accumulated other comprehensive income		(6,490)	(5,152)	(5,604)				
Treasury stock		—	—	—				
<b>Stockholders' equity</b>	23.	<b>43,436</b>	<b>34,481</b>	<b>35,004</b>	<b>26,361</b>	<b>26,384</b>	<b>8,120</b>	<b>8,620</b>
<b>Minority interests</b>		<b>592</b>	<b>470</b>	<b>432</b>	<b>454</b>	<b>414</b>	<b>16</b>	<b>18</b>
<b>Accrued liabilities</b>	25.	<b>49,345</b>	<b>39,172</b>	<b>43,622</b>	<b>38,439</b>	<b>42,619</b>	<b>733</b>	<b>1,003</b>
Financial liabilities	26.	95,347	75,690	79,283	11,779	12,372	63,911	66,911
Trade liabilities	27.	14,591	11,583	12,171	11,359	11,935	224	236
Other liabilities	28.	11,091	8,805	8,843	6,030	6,152	2,775	2,691
<b>Liabilities</b>		<b>121,029</b>	<b>96,078</b>	<b>100,297</b>	<b>29,168</b>	<b>30,459</b>	<b>66,910</b>	<b>69,838</b>
<b>Deferred taxes</b>	9.	<b>3,447</b>	<b>2,736</b>	<b>2,312</b>	<b>(3,377)</b>	<b>(4,425)</b>	<b>6,113</b>	<b>6,737</b>
<b>Deferred income</b>	29.	<b>6,715</b>	<b>5,331</b>	<b>5,660</b>	<b>4,099</b>	<b>4,262</b>	<b>1,232</b>	<b>1,398</b>
<b>Total liabilities (thereof short-term 2003: € 70,542; 2002: € 72,673)</b>		<b>181,128</b>	<b>143,787</b>	<b>152,323</b>	<b>68,783</b>	<b>73,329</b>	<b>75,004</b>	<b>78,994</b>
<b>Total liabilities and stockholders' equity</b>		<b>224,564</b>	<b>178,268</b>	<b>187,327</b>	<b>95,144</b>	<b>99,713</b>	<b>83,124</b>	<b>87,614</b>

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

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

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Consolidated Statements of Changes in Stockholders' Equity**

(in millions of € )	Capital stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)				Treasury stock	Total
				Cumulative translation adjustment	Available-for-sale securities	Derivative financial instruments	Minimum pension liability		
<b>Balance at January 1, 2001</b>	<b>2,609</b>	<b>7,299</b>	<b>29,461</b>	<b>3,285</b>	<b>198</b>	<b>(408)</b>	<b>(22)</b>	<b>—</b>	<b>42,422</b>
Net loss	—	—	(662)	—	—	—	—	—	(662)
Other comprehensive income (loss)	—	—	—	565	(137)	71	(884)	—	(385)
Total comprehensive loss									(1,047)
Stock based compensation	—	20	—	—	—	—	—	—	20
Purchase of capital stock	—	—	—	—	—	—	—	(66)	(66)
Re-issuance of treasury stock	—	—	—	—	—	—	—	66	66
Dividends	—	—	(2,358)	—	—	—	—	—	(2,358)
<b>Balance at December 31, 2001</b>	<b>2,609</b>	<b>7,319</b>	<b>26,441</b>	<b>3,850</b>	<b>61</b>	<b>(337)</b>	<b>(906)</b>	<b>—</b>	<b>39,037</b>
Net income	—	—	4,718	—	—	—	—	—	4,718
Other comprehensive income (loss)	—	—	—	(3,238)	(135)	1,402	(6,301)	—	(8,272)
Total comprehensive loss									(3,554)
Stock based compensation	—	57	—	—	—	—	—	—	57
Issuance of shares upon conversion of notes	24	482	—	—	—	—	—	—	506
Purchase of capital stock	—	—	—	—	—	—	—	(49)	(49)
Re-issuance of treasury stock	—	—	—	—	—	—	—	49	49
Dividends	—	—	(1,003)	—	—	—	—	—	(1,003)
Other	—	(39)	—	—	—	—	—	—	(39)
<b>Balance at December 31, 2002</b>	<b>2,633</b>	<b>7,819</b>	<b>30,156</b>	<b>612</b>	<b>(74)</b>	<b>1,065</b>	<b>(7,207)</b>	<b>—</b>	<b>35,004</b>
Net income	—	—	448	—	—	—	—	—	448
Other comprehensive income (loss)	—	—	—	(1,561)	407	1,162	444	—	452
Total comprehensive income									900
Stock based compensation	—	95	—	—	—	—	—	—	95
Issuance of shares upon conversion of notes	—	1	—	—	—	—	—	—	1
Purchase of capital stock	—	—	—	—	—	—	—	(28)	(28)
Re-issuance of treasury stock	—	—	—	—	—	—	—	28	28
Dividends	—	—	(1,519)	—	—	—	—	—	(1,519)
<b>Balance at December 31, 2003</b>	<b>2,633</b>	<b>7,915</b>	<b>29,085</b>	<b>(949)</b>	<b>333</b>	<b>2,227</b>	<b>(6,763)</b>	<b>—</b>	<b>34,481</b>

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

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**

(in millions)	Consolidated			
	Year ended December 31,			
	2003 (Note 1)	2003	2002	2001
Net income (loss)	\$ 564	€ 448	€ 4,718	€ (662)
Income (loss) applicable to minority interests	44	35	14	(44)
Cumulative effects of changes in accounting principles	38	30	159	–
Gains on disposals of businesses	(1,204)	(956)	(2,645)	(768)
Impairment of investment in EADS	2,469	1,960	–	–
Depreciation and amortization of equipment on operating leases	7,028	5,579	7,244	7,254
Depreciation and amortization of fixed assets	7,354	5,838	6,379	7,022
Change in deferred taxes	811	644	268	(1,058)
Equity (income) loss from associated companies	678	538	16	(97)
Change in financial instruments	202	160	214	(409)
(Gains) losses on disposals of fixed assets/securities	(534)	(424)	(595)	(600)
Change in trading securities	89	71	257	(4)
Change in accrued liabilities	1,279	1,015	3,312	2,825
Turnaround plan expenses – Chrysler Group	591	469	694	3,064
Turnaround plan payments – Chrysler Group	(351)	(279)	(512)	(365)
Changes in other operating assets and liabilities:				
– Inventories, net	(369)	(293)	6	(725)
– Trade receivables	(556)	(441)	(305)	620
– Trade liabilities	1,362	1,081	(266)	(1,298)
– Other assets and liabilities	1,285	1,021	(942)	729
<b>Cash provided by operating activities</b>	<b>20,780</b>	<b>16,496</b>	<b>18,016</b>	<b>15,484</b>
Purchases of fixed assets:				
– Increase in equipment on operating leases	(19,656)	(15,604)	(17,704)	(17,951)
– Purchases of property, plant and equipment	(8,332)	(6,614)	(7,145)	(8,896)
– Purchases of other fixed assets	(382)	(303)	(315)	(655)
Proceeds from disposals of equipment on operating leases	15,055	11,951	15,112	11,042
Proceeds from disposals of fixed assets	810	643	878	1,043
Payments for investments in businesses	(1,286)	(1,021)	(560)	(821)
Proceeds from disposals of businesses	1,523	1,209	5,686	1,680
Additions to receivables from financial services	(135,943)	(107,917)	(123,379)	(130,863)
Repayments of receivables from financial services:				
– Finance receivables collected	59,391	47,147	56,083	53,251
– Proceeds from sales of finance receivables	68,975	54,755	58,247	76,662
Acquisitions of securities (other than trading)	(6,519)	(5,175)	(5,305)	(2,151)
Proceeds from sales of securities (other than trading)	6,028	4,785	5,376	3,531
Change in other cash	(169)	(134)	80	142
<b>Cash used for investing activities</b>	<b>(20,505)</b>	<b>(16,278)</b>	<b>(12,946)</b>	<b>(13,986)</b>
Change in commercial paper borrowings and short-term financial liabilities	163	129	2,678	(11,971)
Additions to long-term financial liabilities	20,704	16,436	9,964	26,582
Repayment of financial liabilities	(15,769)	(12,518)	(17,117)	(10,394)
Dividends paid (including profit transferred from subsidiaries)	(1,936)	(1,537)	(1,015)	(2,367)
Proceeds from issuance of capital stock (including minority interests)	55	44	49	75
Purchase of treasury stock	(45)	(36)	(49)	(66)
<b>Cash provided by (used for) financing activities</b>	<b>3,172</b>	<b>2,518</b>	<b>(5,490)</b>	<b>1,859</b>
Effect of foreign exchange rate changes on cash and cash equivalents (maturing within 3 months)	(1,347)	(1,069)	(1,195)	276
<b>Net increase (decrease) in cash and cash equivalents (maturing within 3 months)</b>	<b>2,100</b>	<b>1,667</b>	<b>(1,615)</b>	<b>3,633</b>
<b>Cash and cash equivalents (maturing within 3 months)</b>				
At beginning of period	11,463	9,100	10,715	7,082
At end of period	13,563	10,767	9,100	10,715

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

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows (Continued)**

Industrial Business <sup>1</sup>			Financial Services <sup>1</sup>			(in millions)
Year ended December 31,			Year ended December 31,			
2003	2002	2001	2003	2002	2001	
€ (568)	€ 4,380	€ (980)	€ 1,016	€ 338	€ 318	Net income (loss)
30	11	(46)	5	3	2	Income (loss) applicable to minority interests
30	124	–	–	35	–	Cumulative effects of changes in accounting principles
(956)	(2,645)	(762)	–	–	(6)	Gains on disposals of businesses
1,960	–	–	–	–	–	Impairment of investment in EADS
609	544	290	4,970	6,700	6,964	Depreciation and amortization of equipment on operating leases
5,735	6,257	6,917	103	122	105	Depreciation and amortization of fixed assets
194	(498)	(1,595)	450	766	537	Change in deferred taxes
539	(78)	(90)	(1)	94	(7)	Equity (income) loss from associated companies
141	205	(365)	19	9	(44)	Change in financial instruments
(424)	(599)	(600)	–	4	–	(Gains) losses on disposals of fixed assets/securities
82	312	3	(11)	(55)	(7)	Change in trading securities
1,098	3,292	2,472	(83)	20	353	Change in accrued liabilities
469	694	3,064	–	–	–	Turnaround plan expenses – Chrysler Group
(279)	(512)	(365)	–	–	–	Turnaround plan payments – Chrysler Group
						Changes in other operating assets and liabilities:
(502)	172	(549)	209	(166)	(176)	– Inventories, net
(500)	(314)	540	59	9	80	– Trade receivables
1,082	(97)	(1,291)	(1)	(169)	(7)	– Trade liabilities
715	(2,187)	(1,444)	306	1,245	2,173	– Other assets and liabilities
9,455	9,061	5,199	7,041	8,955	10,285	<b>Cash provided by operating activities</b>
						Purchases of fixed assets:
(3,973)	(4,842)	(3,617)	(11,631)	(12,862)	(14,334)	– Increase in equipment on operating leases
(6,539)	(7,052)	(8,785)	(75)	(93)	(111)	– Purchases of property, plant and equipment
(250)	(250)	(564)	(53)	(65)	(91)	– Purchases of other fixed assets
4,577	4,974	3,951	7,374	10,138	7,091	Proceeds from disposals of equipment on operating leases
606	828	991	37	50	52	Proceeds from disposals of fixed assets
(967)	(532)	(801)	(54)	(28)	(20)	Payments for investments in businesses
1,179	5,168	1,456	30	518	224	Proceeds from disposals of businesses
–	232	207	(107,917)	(123,611)	(131,070)	Additions to receivables from financial services
						Repayments of receivables from financial services:
–	–	–	47,147	56,083	53,251	– Finance receivables collected
–	–	–	54,755	58,247	76,662	– Proceeds from sales of finance receivables
(4,963)	(5,250)	(1,931)	(212)	(55)	(220)	Acquisitions of securities (other than trading)
4,687	5,283	2,381	98	93	1,150	Proceeds from sales of securities (other than trading)
(207)	(191)	267	73	271	(125)	Change in other cash
(5,850)	(1,632)	(6,445)	(10,428)	(11,314)	(7,541)	<b>Cash used for investing activities</b>
(1,392)	971	1,724	1,521	1,707	(13,695)	Change in commercial paper borrowings and short-term financial liabilities
5,469	1,910	3,100	10,967	8,054	23,482	Additions to long-term financial liabilities
(4,229)	(7,696)	(347)	(8,289)	(9,421)	(10,047)	Repayment of financial liabilities
(908)	(434)	(2,356)	(629)	(581)	(11)	Dividends paid (including profit transferred from subsidiaries)
(220)	(227)	(88)	264	276	163	Proceeds from issuance of capital stock (including minority interests)
(36)	(49)	(66)	–	–	–	Purchase of treasury stock
(1,316)	(5,525)	1,967	3,834	35	(108)	<b>Cash provided by (used for) financing activities</b>
(981)	(1,087)	223	(88)	(108)	53	Effect of foreign exchange rate changes on cash and cash equivalents (maturing within 3 months)
1,308	817	944	359	(2,432)	2,689	<b>Net increase (decrease) in cash and cash equivalents (maturing within 3 months)</b>
						<b>Cash and cash equivalents (maturing within 3 months)</b>
8,161	7,344	6,400	939	3,371	682	<b>At beginning of period</b>
9,469	8,161	7,344	1,298	939	3,371	<b>At end of period</b>

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

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**

**Consolidated Fixed Assets Schedule**

(in millions of € )	Acquisition or Manufacturing Costs						Balance at December 31, 2003
	Balance at January 1, 2003	Currency change	Change in consolidated companies	Additions	Reclassi- fications	Disposals	
Goodwill	3,498	(470)	4	46	(1)	20	3,057
Other intangible assets	3,489	(528)	(21)	662	15	104	3,513
<b>Intangible assets</b>	<b>6,987</b>	<b>(998)</b>	<b>(17)</b>	<b>708</b>	<b>14</b>	<b>124</b>	<b>6,570</b>
Land, leasehold improvements and buildings including							
buildings on land owned by others	19,358	(1,409)	5	376	545	174	18,701
Technical equipment and machinery	33,820	(3,494)	214	1,321	1,575	1,569	31,867
Other equipment, factory and office equipment	22,380	(2,378)	(158)	1,012	1,732	1,511	21,077
Advance payments relating to plant and equipment and construction in progress	5,666	(728)	(28)	3,965	(3,859)	70	4,946
<b>Property, plant and equipment</b>	<b>81,224</b>	<b>(8,009)</b>	<b>33</b>	<b>6,674</b>	<b>(7)</b>	<b>3,324</b>	<b>76,591</b>
Investments in affiliated companies	1,221	(56)	(296)	220	4	73	1,020
Loans to affiliated companies	94	–	(2)	52	–	90	54
Investments in associated companies	6,339	(159)	41	905	46	1,190	5,982
Investments in related companies	1,258	(17)	(34)	296	(50)	105	1,348
Loans to associated and related companies	296	(25)	(6)	71	–	54	282
Long-term securities	197	4	1	151	–	–	353
Other loans	298	(4)	(1)	180	–	227	246
<b>Investments and long-term financial assets</b>	<b>9,703</b>	<b>(257)</b>	<b>(297)</b>	<b>1,875</b>	<b>–</b>	<b>1,739</b>	<b>9,285</b>
<b>Equipment on operating leases</b>	<b>38,090</b>	<b>(4,247)</b>	<b>40</b>	<b>15,604</b>	<b>(7)</b>	<b>17,032</b>	<b>32,448</b>

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

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**

**Consolidated Fixed Assets Schedule**

Balance at January 1, 2003	Currency change	Depreciation/Amortization				Balance at December 31, 2003	Book Value <sup>1</sup>		(in millions of € )
		Change in consolidated companies	Additions	Reclassi- fications	Disposals		Balance at December 31, 2003	Balance at December 31, 2002	
<b>1,427</b>	(187)	4	1	–	4	<b>1,241</b>	<b>1,816</b>	2,071	Goodwill
<b>634</b>	(59)	(14)	178	7	52	<b>694</b>	<b>2,819</b>	2,855	Other intangible assets
<b>2,061</b>	(246)	(10)	179	7	56	<b>1,935</b>	<b>4,635</b>	4,926	<b>Intangible assets</b>
<b>8,830</b>	(509)	31	684	(14)	91	<b>8,931</b>	<b>9,770</b>	10,528	Land, leasehold improvements and buildings including buildings on land owned by others
<b>21,729</b>	(1,891)	(163)	2,647	(32)	1,565	<b>20,725</b>	<b>11,142</b>	12,091	Technical equipment and machinery
<b>14,282</b>	(1,364)	(144)	2,510	44	1,391	<b>13,937</b>	<b>7,140</b>	8,098	Other equipment, factory and office equipment
<b>114</b>	(19)	–	–	(5)	9	<b>81</b>	<b>4,865</b>	5,552	Advance payments relating to plant and equip- ment and construction in progress
<b>44,955</b>	(3,783)	(276)	5,841	(7)	3,056	<b>43,674</b>	<b>32,917</b>	36,269	<b>Property, plant and equipment</b>
<b>139</b>	(2)	31	43	–	9	<b>202</b>	<b>818</b>	1,082	Investments in affiliated companies
<b>7</b>	–	1	–	–	–	<b>8</b>	<b>46</b>	87	Loans to affiliated companies
<b>–</b>	–	–	–	–	–	<b>–</b>	<b>5,982</b>	6,339	Investments in associated companies
<b>244</b>	(1)	–	1	–	16	<b>228</b>	<b>1,120</b>	1,014	Investments in related companies
<b>13</b>	–	1	22	–	–	<b>36</b>	<b>246</b>	283	Loans to associated and related companies
<b>–</b>	–	–	–	–	–	<b>–</b>	<b>353</b>	197	Long-term securities
<b>9</b>	(1)	–	55	–	–	<b>63</b>	<b>183</b>	289	Other loans
<b>412</b>	(4)	33	121	–	25	<b>537</b>	<b>8,748</b>	9,291	<b>Investments and long-term financial assets</b>
<b>9,847</b>	(1,066)	–	5,579	–	6,297	<b>8,063</b>	<b>24,385</b>	28,243	<b>Equipment on operating leases</b>

<sup>1</sup> Currency translation changes with period end rates.

## DAIMLERCHRYSLER AG AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

#### BASIS OF PRESENTATION

##### 1. Summary of Significant Accounting Policies

*General* – The consolidated financial statements of DaimlerChrysler AG and subsidiaries (“DaimlerChrysler” or the “Group”) have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”). All amounts herein are presented in euros (“€”) and, for the year 2003 amounts, also in U.S. dollars (“\$”), the latter being unaudited and presented solely for the convenience of the reader at the rate of € 1 = \$1.2597, the Noon Buying Rate of the Federal Reserve Bank of New York on December 31, 2003.

Certain amounts reported in previous years have been reclassified to conform to the 2003 presentation and to reflect presentation requirements with respect to discontinued operations (see Note 10).

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

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

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

*Principles of Consolidation* – The accompanying consolidated financial statements include the financial statements of DaimlerChrysler AG and all of its material, majority-owned subsidiaries and certain variable interest entities, to the extent required at December 31, 2003, for which DaimlerChrysler is determined to be the primary beneficiary (see section “New Accounting Standards” and Note 2).

All significant intercompany transactions and balances relating to these majority-owned subsidiaries and variable interest entities have been eliminated.

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

*Investments in Associated Companies* – Significant equity investments in which DaimlerChrysler does not have a controlling financial interest, but has the ability to exercise significant influence over the operating and financial policies of the investee (“associated companies”), such as the European Aeronautic Defence and Space Company EADS N.V. (“EADS”), Mitsubishi Motors Corporation (“MMC”), or Mitsubishi Fuso Truck and Bus Corporation (“MFTBC”) are accounted for using the equity method. Because the financial statements of EADS, MMC and MFTBC are not made available timely to DaimlerChrysler in order to apply the equity method of accounting, the Group’s proportionate share of the results of operations of these associated companies are included in DaimlerChrysler’s consolidated financial statements on a three month lag.

The excess of DaimlerChrysler’s initial investment in equity method companies over the Group’s ownership percentage in the underlying net assets of those companies is attributed to certain fair value adjustments with the remaining portion recognized as goodwill (“investor level goodwill”). Through December 31, 2001, prior to the adoption of Statement of Financial Accounting Standards (“SFAS”) 142, “Goodwill and Other Intangible Assets,” investor level goodwill was being amortized on a straight-line basis over 20 years. Subsequent to the adoption of SFAS 142, such investor level goodwill is not being amortized.

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

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

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

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

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

The Group records as a reduction to revenue at the time of sale to the dealer the estimated impact of sales incentives programs offered to dealers and consumers. This estimated impact represents the incentive programs offered to dealers and consumers as well as the expected modifications to these programs in order for the dealers to sell their inventory. The accrued liability for sales incentives is based on the estimated cost of the sales incentive programs and the number of vehicles held in dealers’ inventory. The majority of vehicles held in dealers’ inventory are sold to consumers within the next quarter and the sales incentives accrued liability is adjusted to reflect actual experience.

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

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

Sales under which the Group guarantees the minimum resale value of the product principally result in accounting for the transaction as an operating lease with the related revenues and costs deferred at the time of title passage. Revenue from operating leases is recognized on a straight-line basis over the lease term. Revenue on long-term contracts is generally recognized under the percentage-of-completion method based upon contractual milestones or performance.

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

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

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

*Estimated Credit Losses* – DaimlerChrysler determines its allowance for credit losses based on an ongoing systematic review and evaluation performed as part of the credit-risk evaluation process. The evaluation performed considers historical loss experience, the size and composition of the portfolios, current economic events and conditions, the estimated fair value and adequacy of collateral and other pertinent factors. Certain homogeneous loan portfolios are evaluated collectively, taking into consideration primarily historical loss experience adjusted for the estimated impact of current economic events and conditions, including fluctuations in the fair value and adequacy of collateral. Other receivables, such as wholesale receivables and loans to large commercial borrowers, are evaluated for impairment individually based on the fair value of collateral. Credit exposures deemed to be uncollectible are charged against the allowance for doubtful accounts.

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

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

The Group recognizes unrealized gains or losses attributable to the change in the fair value of the retained interests, which are recorded in a manner similar to available-for-sale securities, net of related income taxes as a component of accumulated other comprehensive income (loss) until realized. The Group is not aware of an active market for the purchase or sale of retained interests, and accordingly, determines the estimated fair value of the retained interests by discounting the estimated cash flow releases (the cash-out method) using a discount rate that is commensurate with the risks involved. In determining the fair value of the retained interests, the Group estimates the future rates of prepayments, net credit losses and forward yield curves. These estimates are developed by evaluating the historical experience of comparable receivables and the specific characteristics of the receivables sold, and forward yield curves based on trends in the economy. An impairment adjustment to the carrying value of the retained interests is recognized in the period a decline in the estimated cash flows below the cash flows inherent in the cost basis of an individual retained interest (the pool-by-pool method) is considered to be other than temporary. Other than temporary impairment adjustments are generally recorded as a reduction of revenue.

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

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

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

*Discontinued Operations* – The results of operations of discontinued Group components and gains or losses from their disposal are each presented separately net of tax in the Group's statement of income (loss) before extraordinary income (loss) and the cumulative effect of changes in accounting principles for all periods presented. A Group component is considered a discontinued operation if its operations and cash flows have been or will be eliminated from the ongoing activities of the Group as a result of the disposal transaction, the Group will not have any significant subsequent continuing involvement with the component, and the component can be clearly distinguished, operationally and for financial reporting purposes. If not disposed of by the balance sheet date, to qualify as discontinued operations, a component must also meet the conditions to be classified as held for sale. Results of discontinued operations are recognized in the period in which they occur.

*Pension and Other Postretirement Plans* – The measurement of pension and postretirement benefit liabilities is based upon the projected unit credit method in accordance with SFAS 87, "Employers' Accounting for Pensions," and SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," respectively. As permitted under SFAS 87 and SFAS 106, changes in the amount of either the projected benefit obligation (for pension plans), the accumulated benefit obligation (for other postretirement plans) or plan assets resulting from experience different from that assumed and from changes in assumptions can result in gains and losses not yet recognized in the Group's consolidated financial statements. The expected return on plan assets is determined based on the expected long-term rate of return on plan assets and the fair value or market-related value of plan assets. Amortization of an unrecognized net gain or loss is included as a component of the Group's net periodic benefit plan cost for a year if, as of the beginning of the year, that unrecognized net gain or loss exceeds

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

10 percent of the greater of (1) the projected benefit obligation (for pension plans) or the accumulated postretirement benefit obligation (for other postretirement plans) or (2) the fair value or market-related value of that plan's assets. In such case, the amount of amortization recognized by the Group is the resulting excess divided by the average remaining service period of active employees expected to receive benefits under the plan (see Note 25a).

*Earnings Per Share* – Basic earnings per share is calculated by dividing income (loss) from continuing operations and net income (loss), respectively, by the weighted average number of shares outstanding. Diluted earnings per share reflects the potential dilution that would occur if all securities and other contracts to issue Ordinary Shares were exercised or converted (see Note 35).

*Goodwill and Other Intangible Assets* – SFAS 141, “Business Combinations,” requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Goodwill represents the excess of the cost of an acquired entity over the fair values assigned to the assets acquired and the liabilities assumed. SFAS 141 also specifies the types of acquired intangible assets that are required to be recognized and reported separately from goodwill and those acquired intangible assets that are required to be included in goodwill.

As a result of the adoption of SFAS 142 as of January 1, 2002, goodwill acquired and intangible assets determined to have an indefinite useful life are not amortized, but instead are tested for impairment. Prior to the adoption of SFAS 142, goodwill was amortized on a straight-line basis over its estimated useful life of 3 to 40 years, and assessed for recoverability based on estimated undiscounted future cash flows.

DaimlerChrysler evaluates the recoverability of its goodwill at least annually or when significant events occur or there are changes in circumstances that indicate the fair value of a reporting unit of the Group is less than its carrying value. The Group determines the fair value of each of its reporting units by estimating the present value of their future cash flows. In addition, any recognized intangible asset determined to have an indefinite useful life is tested at least annually for impairment in accordance with SFAS 142 until its life is determined to no longer be indefinite. SFAS 142 also requires that intangible assets with estimable useful lives be valued at acquisition cost, amortized over their respective estimated useful lives (2 to 10 years) to their estimated residual values, and reviewed for impairment in accordance with SFAS 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.”

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

Companies accounted for by DaimlerChrysler using the equity method, such as EADS and MMC, are also subject to the requirements of SFAS 141 and SFAS 142. DaimlerChrysler's proportionate share of its equity method investees' (primarily EADS) transitional goodwill impairment charge resulting from the adoption of SFAS 142 was € 159 million (€ 0.16 per share). This transitional impairment charge and the related per share amount are reported as the cumulative effect of a change in accounting principles in the Group's consolidated statement of income (loss) for the year ended December 31, 2002 (see Note 11).

*Property, Plant and Equipment* – Property, plant and equipment is valued at acquisition or manufacturing costs less accumulated depreciation. Plant and equipment under capital leases are stated at the lower of present

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

value of minimum lease payments or fair value less accumulated amortization. Depreciation expense is recognized using either the declining balance method until the straight-line method yields larger expenses or the straight-line method. For German Group companies, depreciation expense for property, plant and equipment placed in service before January 1, 2001, is recognized using either the straight-line method or the declining balance method. Property, plant and equipment placed in service at these German Group companies after December 31, 2000, is depreciated using the straight-line method of depreciation. The costs of internally produced equipment and facilities include all direct costs and allocable manufacturing overhead. Costs of the construction of certain long-term assets include capitalized interest, which is amortized over the estimated useful life of the related asset. Property, plant and equipment are depreciated over the following useful lives: buildings –10 to 50 years; site improvements –5 to 40 years; technical equipment and machinery –3 to 30 years; and other equipment, factory and office equipment –2 to 33 years.

As part of its Turnaround Plan objectives (see Note 7), the Chrysler Group has lengthened its platform life-cycles and is aggressively pursuing a strategy to use manufacturing equipment for more than one product launch. The Chrysler Group performed an extensive engineering review of the assets utilized in its manufacturing facilities. These studies resulted in revisions to the estimated remaining useful lives as well as a reduction in estimated salvage values of certain manufacturing machinery, equipment and tooling to better represent the revised platform strategy and the increased use of flexible manufacturing techniques in its facilities. The change in these estimated useful lives and salvage values was applied to existing assets and new additions beginning in 2002. The change in estimates resulted in reduced depreciation and amortization expenses of machinery, equipment and tooling of € 324 million (€ 206 million, net of taxes, or € 0.20 per diluted share) for the year ended December 31, 2002.

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

*Impairment of Long-Lived Assets* – The Group adopted SFAS 144 on January 1, 2002. The adoption of SFAS 144 did not have a significant effect on the Group's consolidated financial statements. In accordance with SFAS 144, long-lived assets held and used, such as property, plant and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset or asset group to the estimated future undiscounted cash flows expected to be generated by the asset or group of assets. If the carrying amount of an asset or group of assets exceeds its estimated future undiscounted cash flows, an impairment charge is recognized in the Group's financial statements by the amount by which the carrying amount of the asset or group of assets exceeds fair value of the asset or group of assets.

Assets to be disposed of are presented separately in the balance sheet (or disclosed in the notes) and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. Assets and liabilities of a disposal group classified as held for sale are presented separately in the appropriate asset and liability sections of the balance sheet (or disclosed in the notes).

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

Prior to the adoption of SFAS 144, DaimlerChrysler accounted for long-lived assets in accordance with SFAS 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of.”

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

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

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

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

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

Further information on the Group’s financial instruments is included in Note 32.

*Commitments and Contingencies* – Liabilities for loss contingencies are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated.

DaimlerChrysler accrues for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Accruals for estimated losses from environmental remediation obligations generally are recognized no later than completion of the remedial feasibility study. Such accruals are adjusted as

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are not discounted to their present value. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable.

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

*New Accounting Standards* – In June 2001, the Financial Accounting Standards Board (“FASB”) issued SFAS 143, “Accounting for Asset Retirement Obligations.” SFAS 143 requires DaimlerChrysler to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or the normal use of the asset. The Group also records a corresponding asset that is depreciated over the life of the asset to be retired. Subsequent to the initial measurement of the asset retirement obligation, the liability is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The Group was required to adopt SFAS 143 on January 1, 2003. The adoption of SFAS 143 did not have a significant impact on the Group’s consolidated financial statements.

In June 2002, the FASB issued SFAS 146, “Accounting for Costs Associated with Exit or Disposal Activities.” SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity.” The provisions of SFAS 146 were effective for exit or disposal activities initiated after December 31, 2002. The adoption of SFAS 146 did not have a significant impact on the Group’s consolidated financial statements.

In November 2002, the Emerging Issues Task Force (“EITF”) reached a final consensus on EITF 00-21, “Revenue Arrangements with Multiple Deliverables.” The scope provisions of EITF 00-21 were slightly modified in May 2003. EITF 00-21 addresses certain aspects for the accounting of revenue arrangements with multiple deliverables by a vendor. EITF 00-21 outlines an approach to determine when a revenue arrangement that contains multiple deliverables should be divided into separate units of accounting and, if separation is appropriate, how the arrangement consideration should be allocated to the identified accounting units. EITF 00-21 became effective for DaimlerChrysler in its financial statements beginning July 1, 2003, and DaimlerChrysler applied the consensus prospectively to all transactions occurring after June 30, 2003. The adoption of EITF 00-21 did not have a significant impact on the Group’s consolidated financial statements.

In November 2002, the FASB issued Interpretation (“FIN”) 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others—an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34.” FIN 45 enhances the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees issued. FIN 45 also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the non-contingent portion of the obligation due to the issuance of the guarantee or, if higher, a probable loss under SFAS 5. The initial recognition and measurement provisions of FIN 45 were applicable to guarantees issued or modified after December 31, 2002, without significant impact to the Group’s consolidated financial statements. The disclosures required by FIN 45 were effective for financial statements of interim and annual periods ending after December 15, 2002 (see Notes 25b and 31).

In December 2002, the FASB issued SFAS 148, “Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123.” SFAS 148 amends SFAS 123, “Accounting for Stock-Based Compensation,” to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 requires disclosures in both interim and annual financial statements of the method of accounting used for stock-based employee compensation and the effect of the method used on reported results (see Note 24 and table presented below).

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

During the second quarter of 2003, DaimlerChrysler adopted the fair value recognition provisions of SFAS 123 prospectively, as permitted by SFAS 148, to all employee awards granted, modified, or settled after January 1, 2003. Compensation expense for all awards granted prospectively from December 31, 2002, will be measured at the grant date based on the fair value of the equity award using a modified Black-Scholes option-pricing model. Compensation expense will be recognized over the employee service period with an offsetting credit to equity (paid-in capital). DaimlerChrysler options granted prior to January 1, 2003, will continue to be accounted for using the intrinsic value based approach under Accounting Principles Board Opinion (“APB”) No. 25, “Accounting for Stock Issued to Employees,” and related Interpretations. Compensation expense under APB 25 was measured at the grant date based on the difference between the strike price of the equity award and the fair value of the underlying stock as of the date of grant. The adoption of the fair value based method for awards granted in April 2003 resulted in additional compensation expense in the Group’s statement of income (loss) of € 37 million for 2003, (€ 23 million, net of taxes, or € 0.02 per share, respectively). The following table illustrates the effect on net income (loss) and earnings (loss) per share if the fair value based method had been applied to all outstanding and unvested awards in each period.

(in millions of € )	Year ended December 31,		
	2003	2002	2001
Net income (loss) . . . . .	448	4,718	(662)
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects . . . . .	81	47	22
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects . . . . .	(164)	(161)	(94)
Pro forma net income (loss) . . . . .	365	4,604	(734)
Earnings (loss) per share (in € ):			
Basic . . . . .	0.44	4.68	(0.66)
Basic – pro forma . . . . .	0.36	4.57	(0.73)
Diluted . . . . .	0.44	4.67	(0.66)
Diluted – pro forma . . . . .	0.36	4.54	(0.73)

In December 2003, the FASB issued FIN 46 (revised December 2003), “Consolidation of Variable Interest Entities” (“FIN 46R”), which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R replaces FIN 46, “Consolidation of Variable Interest Entities,” which was issued in January 2003. DaimlerChrysler applied the unmodified provisions of FIN 46R to “special purpose entities” as of December 31, 2003. DaimlerChrysler will apply FIN 46R to all entities that are not “special purpose entities” as of March 31, 2004.

See Notes 2 and 3 for further information about the impact of FIN 46R on the Group’s consolidated financial statements.

In March 2003, the EITF reached consensus on the remaining issues of EITF 02-9, “Accounting for Changes That Result in a Transferor Regaining Control of Financial Assets Sold.” EITF 02-9 requires the transferor to recognize at fair value financial assets previously sold when control over the financial assets is regained as if the transferor had repurchased the assets, together with a corresponding liability to the transferee. Gain or loss recognition by the transferor is precluded if control is regained over assets sold. EITF 02-9 also applies to any beneficial interest or to qualifying special purpose entities that become non-qualifying. Servicing assets or

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

liabilities and other retained interests continue to be accounted for separately. Loan loss allowances may not be recognized as of the repurchase date. EITF 02-9 is applicable for changes occurring after April 2, 2003, that result in the transferor regaining control over financial assets previously sold. The application of EITF 02-9 did not have a material effect on the Group's consolidated financial statements.

In April 2003, the FASB issued SFAS 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS 149 amends and clarifies accounting for derivative instruments and hedging activities under SFAS 133. SFAS 149 is generally effective for contracts entered into or modified after June 30, 2003. However, the provisions of SFAS 149 that relate to Derivative Implementation Group Issues that have been effective for fiscal quarters that began prior to June 15, 2003, shall continue to be applied in accordance with their respective effective dates. The adoption of SFAS 149 did not have a significant impact on the Group's consolidated financial statements.

In May 2003, the FASB issued SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS 150 amends the accounting and classification for certain financial instruments, such as those used in most stock buy-back programs that previously were accounted for and classified as equity. SFAS 150 requires that certain types of freestanding financial instruments that have characteristics of both liabilities and equity be classified as liabilities with, in most cases, changes in fair value flowing through the income statement. SFAS 150 could affect companies' ratios, performance measures and certain stock buy-back programs. DaimlerChrysler applied the provisions of SFAS 150 immediately to all financial instruments entered into or modified after May 31, 2003, and otherwise to all existing financial instruments as of July 1, 2003. The adoption of SFAS 150 did not have a significant impact on the Group's consolidated financial statements.

In May 2003, the EITF reached a consensus on EITF 01-8, "Determining Whether an Arrangement Contains a Lease." EITF 01-8 clarifies certain provisions of SFAS 13, "Accounting for Leases," with respect to the identification of lease elements in arrangements that do not explicitly include lease provisions. Any lease element identified under EITF 01-8 should be accounted for under current lease accounting literature by lessors and lessees. DaimlerChrysler applied EITF 01-8 prospectively to arrangements newly agreed to, modified, or acquired in a business combination beginning July 1, 2003. Initial adoption of EITF 01-8 did not have a significant impact on the Group's consolidated financial statements.

In November 2003, the EITF reached a partial consensus on EITF 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." EITF 03-1 addresses the meaning of other than temporary impairment and its application to investments classified as either available-for-sale or held-to-maturity under SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities," and investments accounted for under the cost method or the equity method. Although no consensus was reached on how to evaluate when an impairment of securities or investments is other than temporary, the EITF agreed on certain quantitative and qualitative disclosures about unrealized losses pertaining to debt and equity securities classified as available-for-sale or held-to-maturity. The disclosures required by EITF 03-1 are effective for fiscal years ending after December 15, 2003 (see Note 20).

In December 2003, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer." SOP 03-3 is applicable to loans and debt securities with characteristics of loans acquired in a transfer (including business combinations) and limits recognition and display of the accretible yield to the excess of cash flows expected to be collected over the initial investment. The SOP prohibits carrying over or creation of valuation allowances at initial recognition. Any subsequent increases in cash flows expected to be collected will be recognized prospectively. Any subsequent decreases will be recognized as impairment. The provisions are effective for loans acquired in fiscal years beginning after December 15, 2004. Impairment

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

provisions apply prospectively for loans existing at December 15, 2004, for fiscal subsequent years. DaimlerChrysler is currently determining the effect from application of SOP 03-3 on the Group's consolidated financial statements.

In December 2003, the FASB issued SFAS 132 (revised 2003), "Employers' Disclosure about Pensions and Other Postretirement Benefits (revised 2003)—an amendment of FASB Statements No. 87, 88, and 106," which requires additional disclosures about the Group's defined benefit plan and other postretirement plan assets, obligations, net costs, and cash flows. The Group has adopted the new disclosure requirements as of December 31, 2003 (see Note 25a).

**2. Scope of Consolidation and Certain Variable Interest Entities**

*Scope of Consolidation* – DaimlerChrysler comprises 440 (2002: 451) German and non-German subsidiaries as well as 3 companies (variable interest entities) that have been consolidated in accordance with the requirements of FIN 46R. A total of 100 (2002: 102) companies are accounted for in the consolidated financial statements using the equity method of accounting. During 2003, 22 subsidiaries were included in the consolidated financial statements for the first time. A total of 33 subsidiaries were no longer included in the consolidated group. The effects of changes in the Group's consolidated balance sheets and the consolidated statements of income (loss) are explained further in the notes to the consolidated financial statements. A total of 327 subsidiaries ("affiliated companies") are not consolidated as their combined influence on the consolidated financial position, results of operations, and cash flows of the Group is not material (2002: 305). The effect of such non-consolidated subsidiaries for all periods presented on consolidated assets, revenues and net income (loss) of DaimlerChrysler was approximately 1%. In addition, 3 (2002: 5) companies administering pension funds whose assets are subject to restrictions have not been included in the consolidated financial statements. The consolidated financial statements include 71 associated companies (2002: 112) accounted for at cost and recorded under investments in related companies, as these companies are not material to the respective presentation of the consolidated financial position, results of operations or cash flows of the Group.

*Variable Interest Entities* – As described in Note 1, DaimlerChrysler applied certain provisions of FIN 46R as of December 31, 2003. The implementation of FIN 46R had the following impact on the Group's consolidated financial statements:

*Consolidated Special Purpose Entities* – DaimlerChrysler identified several leasing arrangements that were off-balance in the past and qualify as special purpose entities as defined in FIN 46R. DaimlerChrysler is the primary beneficiary of those structures and, accordingly, consolidated these arrangements effective December 31, 2003. Under these arrangements, variable interest entities were established and owned by third parties. The variable interest entities raised funds by issuing either debt or equity securities to third party investors. The variable interest entities used the debt and equity proceeds to purchase property and equipment, which is leased by the Group and used in the normal course of business. At the end of the lease term, DaimlerChrysler generally has the option to purchase the property and equipment or re-lease the property and equipment under new terms. Total assets and liabilities of those consolidated entities total € 0.4 billion and € 0.4 billion, respectively, as of December 31, 2003. The cumulative effect of consolidating these special purpose entities on the Group's consolidated statement of income (loss) in 2003 was € 30 million, net of taxes of € 35 million (see Note 11). The assets consist primarily of property, plant and equipment that generally serves as collateral for the entities' long-term borrowings. The creditors of these entities do not have recourse to the general credit of the Group, except to the extent of guarantees provided.

*Arrangements with Bank Conduits* – DaimlerChrysler sells automotive receivables to multi-seller and multi-collateralized bank conduits, which are considered variable interest entities, in the ordinary course of business. A bank conduit generally receives substantially all of its funding from issuing asset-backed securities that are

## DAIMLERCHRYSLER AG AND SUBSIDIARIES

### Notes to Consolidated Financial Statements – (Continued)

crosscollateralized by the assets held by the entity. DaimlerChrysler generally remains as servicer. DaimlerChrysler also retains residual beneficial interests in the receivables sold, which are designed to absorb substantially all of the credit, prepayment, and interest-rate risk of the receivables transferred to the conduits. Although its interest in these variable interest entities is significant, DaimlerChrysler has concluded that it is not the primary beneficiary of these bank conduits and therefore is not required to consolidate them under FIN 46R. The outstanding balance of receivables sold to conduits as of December 31, 2003, was approximately € 4.4 billion. The corresponding retained interest balance as of December 31, 2003, was approximately € 0.8 billion, which represents the Group's maximum exposure to loss as a result of its involvement with these variable interest entities.

*Other Significant Interests in Investments, Dealerships, and Executory Contracts* – Additionally, DaimlerChrysler has equity or other interests in a number of other entities, including investments accounted for using the cost method, dealerships, suppliers, and service providers. While DaimlerChrysler holds significant variable interests in those entities, it does not expect that, upon completing its analysis in the first quarter of 2004, it will conclude that it is the primary beneficiary. Total assets and liabilities of these entities were € 0.3 billion and € 0.3 billion, respectively, as of December 31, 2003. DaimlerChrysler's maximum exposure to loss as a result of its involvement with these companies was € 0.2 billion as of December 31, 2003. Individual associated companies included in the Group's consolidated financial statements using the equity method are also subject to the requirements of FIN 46R at the investee level. Because DaimlerChrysler accounts for its equity in the earnings and losses of certain associated companies such as EADS, MMC, and MFTBC on a three-month lag, the initial impact, if any, of adoption of FIN 46R consolidation requirements for special purpose entities at the investee level for these associated companies will be recognized as the cumulative effect of a change in accounting principle in the Group's consolidated statement of income for the three-month period ending March 31, 2004, and the initial impact of the consolidation requirements for all other variable interest entities in the Group's consolidated statement of income for the three-month period ending June 30, 2004.

### 3. Significant Investments and Variable Interest Entities Accounted for Under the Equity Method

*Equity Method Investments* – At December 31, 2003, the significant investments in companies accounted for under the equity method were the following:

<u>Company</u>	<u>Ownership percentage</u>
European Aeronautic Defence and Space Company EADS N.V. . . . . .	33.0%
Mitsubishi Motors Corporation . . . . .	37.0%
Mitsubishi Fuso Truck and Bus Corporation . . . . .	43.0%

Further information with respect to the transactions which resulted in the Group's holdings in EADS, MMC and MFTBC is presented in Note 4 (Acquisitions and Dispositions), Note 8 (Financial Income (expense), net) and Note 11 (Cumulative Effects of Changes in Accounting Principles).

The market values at December 31, 2003, of DaimlerChrysler's investments in EADS and MMC, based on quoted market prices, were € 5,027 million and € 889 million, respectively. Quoted market prices for MFTBC are not available because the shares in MFTBC are not publicly traded.

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

The carrying amounts of DaimlerChrysler's investments in EADS, MMC and MFTBC at December 31, 2003 and 2002, are as follows:

(in millions of € )	At December 31,	
	2003	2002
EADS . . . . .	3,583	4,396
MMC . . . . .	959	1,316
MFTBC <sup>1</sup> . . . . .	831	–

<sup>1</sup> Acquisition in 2003. DaimlerChrysler applied the equity method beginning on March 14, 2003 (see Note 4).

As of September 30, 2003, DaimlerChrysler determined that the decline in market value below the carrying value of its investment in EADS was other-than-temporary. Consequently, DaimlerChrysler reduced the then carrying value of its investment in EADS by € 1.96 billion to its market value, based on the quoted market price, which approximated € 3.5 billion at September 30, 2003 (see Note 8). The impairment charge is included in the Group's consolidated statement of income (loss) in the line item "Financial income (expense), net" in 2003. As a result of the impairment a new cost basis was established.

The carrying value of DaimlerChrysler's investments in MMC and MFTBC exceeded DaimlerChrysler's share of the underlying reported net assets of these investees by approximately € 546 million and € 105 million, respectively, at December 31, 2003. DaimlerChrysler's share of the underlying reported net assets of EADS exceeded the carrying value of DaimlerChrysler's investment at December 31, 2003, by approximately € 1,899 million. These excess amounts are attributable to fair value adjustments at DaimlerChrysler pertaining to certain assets and liabilities of these investee companies, with the remaining portion considered as investor level goodwill.

The following tables present, on a three month lag, summarized U.S. GAAP financial information for EADS, MMC and MFTBC (amounts shown on a 100% basis in millions of € ) which are the basis for applying the equity method in the Group's consolidated financial statements:

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

**EADS:**

**Income statement information<sup>1</sup>**

	<u>2003</u>	<u>2002</u>
Revenues . . . . .	27,650	28,769
Net income . . . . .	348	521

**Balance sheet information<sup>2</sup>**

	<u>2003</u>	<u>2002</u>
Fixed assets . . . . .	27,305	26,254
Non-fixed assets . . . . .	24,804	19,207
Total assets . . . . .	<u>52,109</u>	<u>45,461</u>
Stockholders' equity . . . . .	16,611	13,143
Minority interests . . . . .	1,717	942
Accrued liabilities . . . . .	8,055	8,262
Other liabilities . . . . .	25,726	23,114
Total liabilities and stockholders' equity . . . . .	<u>52,109</u>	<u>45,461</u>

<sup>1</sup> For the period October 1 to September 30.

<sup>2</sup> Balance sheet date as of September 30.

**MMC:**

**Income statement information<sup>1</sup>**

	<u>2003</u>	<u>2002</u>
Revenues . . . . .	27,129	27,847
Net loss . . . . .	(759)	(238)

**Balance sheet information<sup>2</sup>**

	<u>2003</u>	<u>2002</u>
Fixed assets . . . . .	7,287	10,465
Non-fixed assets . . . . .	10,237	11,971
Total assets . . . . .	<u>17,524</u>	<u>22,436</u>
Stockholders' equity . . . . .	1,116	1,422
Minority interests . . . . .	114	121
Accrued liabilities . . . . .	4,077	5,039
Other liabilities . . . . .	12,217	15,854
Total liabilities and stockholders' equity . . . . .	<u>17,524</u>	<u>22,436</u>

<sup>1</sup> For the period October 1 to September 30.

<sup>2</sup> Balance sheet date as of September 30.

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

**MFTBC<sup>1</sup>**

**Income statement information<sup>2</sup>**

	<b>2003</b>
Revenues . . . . .	4,948
Net income . . . . .	130

**Balance sheet information<sup>3</sup>**

	<b>2003</b>
Fixed assets . . . . .	2,531
Non-fixed assets . . . . .	3,515
Total assets . . . . .	6,046
Stockholders' equity . . . . .	1,688
Minority interests . . . . .	13
Accrued liabilities . . . . .	1,215
Other liabilities . . . . .	3,130
Total liabilities and stockholders' equity . . . . .	6,046

- <sup>1</sup> Acquisition in 2003. DaimlerChrysler applied the equity method beginning on March 14, 2003.
- <sup>2</sup> For the period of inception of MFTBC, as a result of the spin-off from MMC, on January 6, 2003, to September 30, 2003 (see Note 4).
- <sup>3</sup> As of balance sheet date September 30, 2003.

DaimlerChrysler's equity in the earnings or losses of EADS, MMC and MFTBC, as well as investor-level adjustments such as other-than-temporary impairment charges made by DaimlerChrysler are included in the Group's consolidated statement of income (loss) in the line item "financial income (expense), net" (see Note 8) and are as follows:

<b>(in millions of € )</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
EADS . . . . .	(1,845) <sup>1</sup>	281 <sup>2</sup>	686 <sup>3</sup>
MMC . . . . .	(281)	(88)	(436)
MFTBC <sup>4</sup> . . . . .	56	–	–

- <sup>1</sup> Includes € 1.96 billion impairment charge on DaimlerChrysler's investment in EADS (see Note 8).
- <sup>2</sup> Excludes DaimlerChrysler's proportionate share of EADS transitional goodwill impairment charge of € 114 million resulting from the adoption of SFAS 142 reported in DaimlerChrysler's consolidated statement of income (loss) in the income statement line item "Cumulative effects of changes in accounting principles" (see Note 1 and Note 11).
- <sup>3</sup> From the issuance of new shares by an EADS subsidiary, DaimlerChrysler recognized its share of a gain in the amount of € 747 million in 2001 (see Note 8).
- <sup>4</sup> Acquisition in 2003. DaimlerChrysler applied the equity method beginning on March 14, 2003.

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

DaimlerChrysler is providing the following condensed consolidated financial information about EADS as of December 31, 2003 and 2002 and for the years ended December 31, 2003, 2002 and 2001 (in millions of €):

Condensed consolidated income statement information:

	<u>Year ended December 31, 2003</u>	<u>Year ended December 31, 2002</u>	<u>Year ended December 31, 2001</u>
Revenues . . . . .	28,641	27,579	26,748
Cost of sales . . . . .	<u>(23,001)</u>	<u>(22,038)</u>	<u>(21,481)</u>
<b>Gross margin . . . . .</b>	<b>5,640</b>	<b>5,541</b>	<b>5,267</b>
Selling, administrative and other expenses . . . . .	(2,444)	(2,448)	(2,884)
Research and development . . . . .	(2,168)	(2,026)	(1,837)
Other income . . . . .	217	299	245
Gains on issuance of subsidiary and associated company stock . . . . .	<u>0</u>	<u>0</u>	<u>2,954</u>
<b>Income before financial income . . . . .</b>	<b>1,245</b>	<b>1,366</b>	<b>3,745</b>
Financial expense, net . . . . .	<u>(4)</u>	<u>(186)</u>	<u>(541)</u>
<b>Income before income taxes . . . . .</b>	<b>1,241</b>	<b>1,180</b>	<b>3,204</b>
Income taxes . . . . .	(494)	(575)	(728)
Minority interests . . . . .	(54)	(24)	10
Cumulative effects of changes in accounting principles . . . . .	<u>10</u>	<u>(346)</u>	<u>0</u>
<b>Net income . . . . .</b>	<b><u>703</u></b>	<b><u>235</u></b>	<b><u>2,486</u></b>

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

Condensed consolidated balance sheet information:

	<u>At December 31, 2003</u>	<u>At December 31, 2002</u>
Goodwill . . . . .	10,797	10,122
Other intangible assets . . . . .	313	195
Property, plant and equipment, net . . . . .	8,562	7,090
Investments and long-term financial assets . . . . .	6,409	6,827
Equipment on operating leases, net . . . . .	<u>2,528</u>	<u>2,736</u>
<b>Fixed assets . . . . .</b>	<b>28,609</b>	<b>26,970</b>
Inventories . . . . .	3,237	2,320
Trade receivables . . . . .	3,452	3,344
Other receivables . . . . .	10,118	5,009
Securities . . . . .	468	799
Cash and cash equivalents . . . . .	<u>6,754</u>	<u>5,247</u>
<b>Non-fixed assets . . . . .</b>	<b>24,029</b>	<b>16,719</b>
Deferred taxes . . . . .	2,700	2,923
Prepaid expenses . . . . .	<u>940</u>	<u>941</u>
<b>Total assets . . . . .</b>	<b><u>56,278</u></b>	<b><u>47,553</u></b>
<b>Stockholders' equity . . . . .</b>	<b>17,958</b>	<b>14,450</b>
<b>Minority interests . . . . .</b>	<b>2,102</b>	<b>1,297</b>
<b>Accrued liabilities . . . . .</b>	<b>9,220</b>	<b>8,333</b>
Financial liabilities . . . . .	6,181	5,737
Trade and other liabilities . . . . .	<u>14,874</u>	<u>13,287</u>
<b>Liabilities . . . . .</b>	<b>21,055</b>	<b>19,024</b>
Deferred taxes . . . . .	3,650	1,977
Deferred income . . . . .	<u>2,293</u>	<u>2,472</u>
<b>Total liabilities . . . . .</b>	<b><u>36,218</u></b>	<b><u>31,806</u></b>
<b>Total liabilities and stockholders' equity . . . . .</b>	<b><u>56,278</u></b>	<b><u>47,553</u></b>

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

Condensed consolidated cash flow information:

	<u>Year ended December 31, 2003</u>	<u>Year ended December 31, 2002</u>	<u>Year ended December 31, 2001</u>
<b>Net cash provided by operating activities . . . . .</b>	<b>4,742</b>	<b>2,752</b>	<b>2,627</b>
Purchases of non-current assets . . . . .	(3,767)	(3,465)	(3,292)
Proceeds from disposal of non-current assets . . . . .	471	1,089	1,252
Change in finance lease receivables . . . . .	(412)	(673)	138
Other . . . . .	(367)	(255)	(364)
<b>Net cash used for investing activities . . . . .</b>	<b>(4,075)</b>	<b>(3,304)</b>	<b>(2,266)</b>
Change in financial liabilities . . . . .	1,199	(629)	(465)
Cash distribution to shareholders . . . . .	(240)	(403)	(404)
Other . . . . .	(40)	(270)	141
<b>Net cash provided by (used for) financing activities . . . . .</b>	<b>919</b>	<b>(1,302)</b>	<b>(728)</b>
Effect of foreign exchange rate changes and other valuation adjustments on cash and cash equivalents . . . . .	(79)	(69)	27
<b>Net increase (decrease) in cash and cash equivalents . . . . .</b>	<b>1,507</b>	<b>(1,923)</b>	<b>(340)</b>
<b>Cash and cash equivalents:</b>			
<b>At beginning of year . . . . .</b>	<b><u>5,247</u></b>	<b><u>7,170</u></b>	<b><u>7,510</u></b>
<b>At end of year . . . . .</b>	<b><u>6,754</u></b>	<b><u>5,247</u></b>	<b><u>7,170</u></b>

*Variable Interest Entities Accounted for Under the Equity Method* – DaimlerChrysler holds significant variable interests in a number of associated companies that are not special purpose entities but that could be “variable interest entities.” If DaimlerChrysler determines that any of these associated companies are variable interest entities and that it is the primary beneficiary of any of them, such entities will be required to be consolidated by the Group as of March 31, 2004 in accordance with FIN 46R. DaimlerChrysler specifically identified two variable interest entities for which the maximum exposure to loss is considered material from a Group perspective – debis AirFinance (“dAF”) and Toll Collect GmbH (“Toll Collect”). DaimlerChrysler has determined, that it is not the primary beneficiary of dAF or Toll Collect and therefore DaimlerChrysler is not required to consolidate them.

In November 1995, DaimlerChrysler assumed a 45% equity ownership interest in dAF, an Amsterdam registered Private Limited Liability Company that was established for purposes of leasing aircraft and related technical equipment to airlines and financial intermediaries. Several banks hold the remaining ownership interests in dAF. dAF’s consolidated total assets, financial liabilities, total liabilities, and net shareholders’ equity at December 31, 2003 were € 2.6 billion, € 1.8 billion, € 2.5 billion and € 0.1 billion, respectively. dAF’s consolidated revenues for the year ended December 31, 2003, were € 0.3 billion. DaimlerChrysler’s involvement with dAF consists primarily of its equity interest and also subordinated loans receivable and unsecured loans that have been provided to dAF. DaimlerChrysler believes that its maximum exposure to loss as a result of its involvement with dAF is primarily limited to the carrying value of its total investments (including loans) in dAF, which was € 0.6 billion at December 31, 2003.

In December 2002, DaimlerChrysler, Deutsche Telekom AG (“Deutsche Telekom”), and Compagnie Financiere et Industrielle des Autoroutes S.A. (“Cofiroute”) (together the “Consortium”) entered into a partnership agreement to develop a system for the electronic collection of tolls and to establish a separate joint

## DAIMLERCHRYSLER AG AND SUBSIDIARIES

### Notes to Consolidated Financial Statements – (Continued)

venture company to perform under a contract entered into in September 2002 between the consortium and the Federal Republic of Germany to build up and operate a toll collection system for the use of German roadways by certain commercial vehicles. DaimlerChrysler has a 45% equity ownership interest, Deutsche Telekom also holds a 45% equity ownership interest and Cofiroute holds the remaining 10% equity ownership interest in both the partnership and the joint venture company (together “Toll Collect”). Toll Collect’s total assets, financial liabilities and total liabilities at December 31, 2003, were € 1.1 billion, € 0.5 billion and € 1.1 billion, respectively. DaimlerChrysler’s involvement with Toll Collect is comprised of its equity interest, receivables and certain guarantees. Due to the risks associated with these guarantees, which are described in more detail in Note 31, DaimlerChrysler reduced its investment in Toll Collect to zero, and recorded an additional accrual of € 0.1 billion. DaimlerChrysler believes that its maximum exposure to loss as a result of its involvement with Toll Collect could exceed the current recognized obligation.

Furthermore, DaimlerChrysler holds significant variable interests in a number of other associated companies, but determined that it is not the primary beneficiary of those entities. Total assets and total liabilities of these entities amounted to € 0.6 billion and € 0.4 billion as of December 31, 2003, respectively. The maximum exposure to loss arising from DaimlerChrysler’s involvement with those entities totaled € 0.3 billion.

#### 4. Acquisitions and Dispositions

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

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

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

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

On January 6, 2003, MMC spun off its "Fuso Truck and Bus" division, creating Mitsubishi Fuso Truck and Bus Corporation ("MFTBC"). On March 14, 2003, as part of the Group's global commercial vehicle strategy, DaimlerChrysler acquired from MMC a 43% non-controlling interest in MFTBC. The final purchase price was € 764 million in cash. Also, on March 14, 2003, ten Mitsubishi Group companies, including Mitsubishi Corporation, Mitsubishi Heavy Industries and Bank of Tokyo-Mitsubishi, entered into a separate share sale and purchase agreement with MMC pursuant to which they purchased from MMC 15% of MFTBC's shares for approximately € 266 million in cash. As a result of these transactions, MMC now retains a 42% non-controlling interest in MFTBC. DaimlerChrysler allocated € 34 million of the total purchase price of its 43% interest in MFTBC to investor-level goodwill (see Note 12). In addition, € 36 million of the purchase price of the Group's investment in MMC, which was allocated to MFTBC's business during initial equity method accounting of MMC in 2000 and 2001, was allocated to the investment in MFTBC of the Commercial Vehicle segment. DaimlerChrysler accounts for its investment in MFTBC using the equity method (see Note 3). The Group's proportionate share of MFTBC's results are included in the Group's Commercial Vehicles segment. As described in Note 38, on January 15, 2004, DaimlerChrysler entered into a purchase agreement with MMC to acquire an additional 22% equity interest in MFTBC at an expected purchase price of approximately € 0.4 billion in cash. This transaction is dependant on the approval of the individual governmental and antitrust authorities of the countries concerned. The Group expects the transaction to be consummated in March 2004 and to consolidate MFTBC in the second quarter of 2004.

During 2003, in separate transactions, the Group acquired 11 (2002: 18) dealerships in Europe, none of which were material. The aggregate purchase price paid in these separate acquisitions amounted to € 56 million (2002: € 86 million) and resulted in additions to goodwill of approximately € 26 million (2002: € 61 million).

In the fourth quarter of 2002, as part of the Group's ongoing strategy to focus on its core automotive business, DaimlerChrysler entered into an agreement to sell a 51% controlling interest in VM Motori S.p.A. and its 100% ownership interest in Detroit Diesel Motores do Brasil Ltda., both wholly-owned subsidiaries of DaimlerChrysler. The transactions were completed by the fourth quarter of 2003. Based on the agreed purchase price of € 26 million, DaimlerChrysler recorded an impairment charge in 2002 for long-lived assets and goodwill related to the disposal groups and long-lived assets and goodwill to be retained. The total asset impairment and goodwill impairment charges recognized in 2002 were € 1 million and € 40 million, respectively, which are included in other expenses of the Commercial Vehicles segment (see also Note 5). The following assets and liabilities were classified as held-for-sale as of December 31, 2002: fixed assets of € 74 million, current assets of € 48 million, liabilities of € 95 million, and accrued liabilities of € 7 million. DaimlerChrysler accounts for its remaining 49% interest in VM Motori S.p.A. using the equity method.

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

In June 2001, as part of the Group's global commercial vehicle strategy, DaimlerChrysler entered into a commercial vehicle joint venture agreement with Hyundai Motor Company ("HMC"). In the first phase of the commercial vehicle joint venture, the Group and HMC established DaimlerHyundai Truck Corporation ("DHTC"). The Group acquired a non-controlling (50%) interest in DHTC for € 44 million in cash. DaimlerChrysler accounts

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

for its investment in DHTC using the equity method. Because DaimlerChrysler is unable to obtain U.S. GAAP information on a timely basis from DHTC, the Group includes its proportionate share of DHTC's results of operations on a three month lag. DHTC was formed to manufacture and distribute engines and engine parts. DaimlerChrysler expects the start of production in mid 2004. The commercial vehicle joint venture agreement with HMC includes an option for DaimlerChrysler to acquire 50% of the commercial vehicle business of HMC for approximately € 400 million in cash. Pursuant to this option, which DaimlerChrysler exercised in December 2002, it is intended HMC would contribute its entire commercial vehicle business to a new legal entity. As of December 31, 2003, discussions regarding the formation of the commercial vehicle joint venture between the Group and HMC are still ongoing and the establishment is therefore indefinite. The purpose of the new commercial vehicle joint venture is to design, produce and distribute commercial vehicles above 4 tons gross vehicle weight (GVW), including buses, as well as components for those vehicles. As of December 31, 2003, the Group held a 10% interest in HMC that was acquired in two installments in September 2000 and in March 2001 for approximately € 484 million in cash. DaimlerChrysler accounts for its investment in HMC as an "investment" at fair value. Unrealized gains and losses are recognized without affecting net income as available-for-sale securities.

Also in June 2001, Volvo AB sold its 3.3% interest in MMC, plus its operational contracts with MMC, to DaimlerChrysler for € 343 million increasing DaimlerChrysler's interest in MMC to 37.3%. As of December 2003, the Group's investment in MMC has been reduced to 37.0% through various rights offerings.

In April 2001, as part of the Group's strategy to focus on its core automotive business, DaimlerChrysler completed the sale of 60% of the interest in its Automotive Electronics activities to Continental AG for € 398 million in cash. The sale resulted in a pretax gain of € 209 million that is included in other income of the Other Activities segment. The following assets and liabilities were included in this disposal group in 2001: € 214 million fixed assets, € 387 million current assets, € 205 million liabilities and € 121 million accrued liabilities. In April 2002, DaimlerChrysler exercised its option to sell to Continental AG the Group's remaining 40% interest in the Automotive Electronics activities, which had been accounted for using the equity method, for € 215 million in cash. The sale resulted in a pretax gain of € 128 million that is included in financial income (expense), net, of the Other Activities segment.

In August 2000, as part of the Group's strategy to focus on its core automotive business, DaimlerChrysler signed a sale and purchase agreement with the Canadian company Bombardier Inc. for the sale of its 100% interest in DaimlerChrysler Rail Systems GmbH ("Adtranz"). With the closing of the transaction on April 30, 2001, control over the operations of Adtranz was transferred to Bombardier on May 1, 2001. Accordingly, the operating results of Adtranz are included in the consolidated financial statements of DaimlerChrysler through April 30, 2001. The Adtranz sales price of \$725 million was received during 2001 (see Note 30). The sale of Adtranz resulted in a pretax gain of € 250 million that is included in other income of the Other Activities segment. The following assets and liabilities were included in this disposal group in 2001: € 945 million fixed assets, € 1,908 million current assets, € 1,076 million liabilities and € 1,213 million accrued liabilities.

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

**Notes to Consolidated Statements of Income (Loss)**

**5. Functional Costs and Other Expenses**

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

(in millions of € )	Year ended December 31,		
	2003	2002	2001
Selling expenses . . . . .	11,763	11,981	11,772
Administration expenses . . . . .	5,351	5,346	5,500
Goodwill amortization and impairments . . . . .	—	40	184
Other expenses . . . . .	658	799	779
	17,772	18,166	18,235

In 2003, selling expenses include advertising costs of € 2,965 million (2002: € 2,811 million, 2001: € 2,944 million).

In 2003, DaimlerChrysler recognized in accordance with the provisions of SFAS 144 an impairment charge amounting to € 77 million related to certain long-lived assets (primarily property, plant and equipment) at a production facility in Brazil. The charge is included in cost of sales of the Mercedes Car Group segment.

In 2002, DaimlerChrysler recognized in accordance with the provisions of SFAS 144 an impairment charge amounting to € 201 million. Moderate demand and strong competition in the European market for commercial vehicles resulted in idle capacity at one of the Group's German assembly plants. Consequently, DaimlerChrysler determined that it does not expect to recover the carrying value of certain long-lived assets (primarily manufacturing equipment and tooling) at this plant. The charge is included in cost of sales of the Commercial Vehicles segment.

In 2002, a goodwill impairment charge of € 40 million was recognized in connection with the contracted sale of controlling interests in two businesses in the Commercial Vehicles segment (see Note 4).

In October 2002, DaimlerChrysler entered into an agreement to sell to GE Capital a significant portion of its portfolio of corporate aircraft, consisting of finance lease receivables and owned aircraft currently under operating leases, over a period of approximately 12 months. The agreement contained provisions for DaimlerChrysler to receive a share of future payments throughout the remaining terms of the contracts in the portfolio. In connection with the agreement, the Group classified as held-for-sale at December 31, 2002, finance lease receivables with a carrying value of € 493 million and equipment under operating leases with a carrying value of € 40 million. The agreement with GE Capital was not consummated as of December 31, 2002. Due primarily to adverse economic conditions, the Group reassessed the recoverability of its leasing portfolio as of December 31, 2002.

Based on the results of this reassessment, the Services segment recognized impairment losses of € 191 million in other expenses and € 20 million in cost of sales. DaimlerChrysler consummated the GE Capital transaction in 2003 pursuant to which the Services segment sold finance lease receivables totaling € 113 million and equipment under operating leases totaling € 14 million for cash to GE Capital.

During 2003, the Group also sold finance lease receivables totaling € 191 million and operate leases totaling € 5 million to other investors. At December 31, 2003, after adjustments for currency translation effects, finance lease receivables of € 98 million and equipment under operating leases totaling € 17 million are classified as held for sale.

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

Held for sale and held for use finance lease receivables and equipment under operating leases are classified in the December 31, 2003 and 2002 balance sheets as receivables from financial services and equipment on operating leases, net, respectively.

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

Following a decision of DaimlerChrysler's Board of Management in the fourth quarter of 2001, DaimlerChrysler, GE Capital and other financial services providers reached an agreement during the six months ended June 30, 2002, to purchase a portion of the DaimlerChrysler's commercial real estate and asset-based lending portfolios in the United States for € 1,260 million. The decision resulted in a charge of € 166 million, which is included in other expenses of the Services segment in 2001.

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

In October 2001, the DaimlerChrysler Board of Management approved a turnaround plan for its North American truck subsidiary Freightliner. The turnaround plan is designed to return Freightliner to sustainable profitability and comprises four main elements: material cost savings, production cost savings, overhead reductions and improvements to the existing business model. The implementation of the turnaround plan resulted in charges of € 310 million, reflecting employee termination benefits of € 83 million, asset impairment charges of € 170 million, and other costs to exit certain activities of € 57 million (see Note 25b). The charges were recorded in cost of sales (€ 173 million) and selling, administrative and other expenses (€ 137 million) in 2001. Employee termination benefits related to voluntary and involuntary severance measures affected hourly and salaried employees. As a result of the voluntary and involuntary measures, 188 hourly and salaried employees were affected by the plan in 2003 (2002: 1,314 and 2001: 1,484). The amount of employee termination benefit paid was € 2 million in 2003 (2002: € 38 million and 2001: € 20 million).

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

(in millions of € )	Year ended December 31,		
	2003	2002	2001
Wages and salaries . . . . .	<b>18,897</b>	19,701	20,073
Social levies . . . . .	<b>3,178</b>	3,132	3,193
Net pension cost (see Note 25a) . . . . .	<b>837</b>	152	630
Net postretirement benefit cost (see Note 25a) . . . . .	<b>1,290</b>	1,119	1,173
Other expenses for pensions and retirements . . . . .	<b>85</b>	59	26
	<b>24,287</b>	24,163	25,095

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

Number of employees (annual average):

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Hourly employees . . . . .	<b>226,989</b>	232,304	244,938
Salaried employees . . . . .	<b>129,656</b>	125,110	122,094
Trainees/apprentices . . . . .	<b>14,039</b>	13,263	12,512
	<b><u>370,684</u></b>	<u>370,677</u>	<u>379,544</u>

In 2001, 28 people were employed in joint venture companies.

Information on the remuneration to the current members of the Supervisory Board and the Board of Management is included in Note 37. In 2003, disbursements to former members of the Board of Management of DaimlerChrysler AG and their survivors amounted to € 12.7 million. An amount of € 163.1 million has been accrued for pension obligations to former members of the Board of Management and their survivors. As of December 31, 2003, no advances or loans existed to members of the Board of Management of DaimlerChrysler AG.

**6. Other Income**

Other income consists of the following:

<b>(in millions of € )</b>	<u>Year ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Gains of sales of property, plant and equipment . . . . .	<b>58</b>	48	100
Rental income, other than relating to financial services . . . . .	<b>110</b>	197	191
Gains on sales of companies . . . . .	<b>11</b>	–	465
Income from employee leasing programs . . . . .	<b>71</b>	81	86
Reimbursement of contract costs . . . . .	<b>17</b>	63	25
Government subsidies . . . . .	<b>63</b>	56	19
Other miscellaneous items . . . . .	<b>383</b>	332	315
	<b><u>713</u></b>	<u>777</u>	<u>1,201</u>

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

In 2003, MTU Friedrichshafen GmbH, a fully consolidated company of the Group, created a new company, MTU CFC Solutions GmbH (“MTU CFC”), and contributed all of its fuel cell activities into a new company for 100% ownership interest. Also in 2003, MTU CFC issued new shares to RWE Fuel Cells GmbH for a capital contribution. MTU Friedrichshafen GmbH did not participate in this increase in share capital causing the ownership interest of MTU Friedrichshafen GmbH in MTU CFC to dilute to 74.9%. As a result of this transaction, DaimlerChrysler realized a gain of € 24 million, which is also included in other miscellaneous income.

**7. Turnaround Plan for the Chrysler Group**

The DaimlerChrysler Supervisory Board approved a multi-year turnaround plan for the Chrysler Group in 2001. Key initiatives for the turnaround plan over the period 2001 through 2003 included a workforce reduction and an elimination of excess capacity. The workforce reduction affected represented and non-represented hourly and salaried employees. To eliminate excess capacity, the Chrysler Group has eliminated shifts and reduced line speeds at certain manufacturing facilities, and adjusted volumes at component, stamping and powertrain facilities.

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

Additionally, the Chrysler Group has or is in the process of idling, closing or disposing of certain manufacturing plants.

The net charges recorded for the plan in the year ended December 31, 2001 were € 3,064 million (€ 1,934 million net of taxes) and are presented as a separate line item on the accompanying consolidated statements of income (loss) (€ 2,555 million and € 509 million would have otherwise been reflected in cost of sales and selling, administrative and other expenses, respectively). The initial charges of € 3,047 million were recorded in February 2001 with the approval of the turnaround plan. Additional charges of € 268 million in 2001 resulted from the subsequent impairment and disposal costs associated with a component plant as well as costs for a special early retirement program. The return to income adjustments of € 251 million in 2001 include revisions of estimates based upon information currently available or actual settlements. These adjustments reflect lower than anticipated costs associated with workforce reduction initiatives, including the involuntary severance benefits, and favorable resolution of supplier contract cancellation claims.

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

The net charges recorded for the plan in 2003, were € 469 million (€ 288 million, net of taxes) and are presented as a separate line item on the accompanying consolidated statements of income (loss) (€ 462 million and € 7 million would have otherwise been reflected in cost of sales and selling, administrative and other expenses, respectively). These additional charges and adjustments were recorded for costs associated with the closing, significant downsizing or sale of certain manufacturing facilities in 2003, 2004 and 2005, related workforce reduction measures as well as revisions of estimates based upon information currently available or actual settlements.

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

The pretax amounts for turnaround plan charges since initiation in the first quarter of 2001 are comprised of the following:

(in millions of € )	<u>Workforce reductions</u>	<u>Asset write-downs</u>	<u>Other costs</u>	<u>Total</u>
<b>Reserve balance at January 1, 2001</b> .....	–	–	–	–
Initial charges .....	1,403	836	808	3,047
Additional charges .....	93	148	27	268
Adjustments .....	(122)	–	(129)	(251)
Net charges .....	<u>1,374</u>	<u>984</u>	<u>706</u>	<u>3,064</u>
Payments .....	(211)	–	(154)	(365)
Amount charged against assets .....	–	(984)	(63)	(1,047)
Amount recognized by and transferred to the employee benefit plans .....	(695)	–	–	(695)
Currency translation adjustment .....	38	–	21	59
<b>Reserve balance at December 31, 2001</b> .....	<u>506</u>	<u>–</u>	<u>510</u>	<u>1,016</u>
Additional charges .....	353	269	99	721
Adjustments .....	(41)	30	(16)	(27)
Net charges .....	<u>312</u>	<u>299</u>	<u>83</u>	<u>694</u>
Payments .....	(297)	–	(215)	(512)
Amount charged against assets .....	–	(299)	(6)	(305)
Amount recognized by and transferred to the employee benefit plans .....	(152)	–	–	(152)
Currency translation adjustment .....	(89)	–	(67)	(156)
<b>Reserve balance at December 31, 2002</b> .....	<u>280</u>	<u>–</u>	<u>305</u>	<u>585</u>
Additional charges .....	<b>182</b>	<b>234</b>	<b>26</b>	<b>442</b>
Adjustments .....	<b>27</b>	<b>15</b>	<b>(15)</b>	<b>27</b>
Net charges .....	<u>209</u>	<u>249</u>	<u>11</u>	<u>469</u>
Payments .....	<b>(151)</b>	–	<b>(128)</b>	<b>(279)</b>
Amount charged against assets .....	–	<b>(249)</b>	<b>(3)</b>	<b>(252)</b>
Amount recognized by and transferred to the employee benefit plans .....	<b>(108)</b>	–	–	<b>(108)</b>
Currency translation adjustment .....	<b>(32)</b>	–	<b>(37)</b>	<b>(69)</b>
<b>Reserve balance at December 31, 2003</b> .....	<u>198</u>	<u>–</u>	<u>148</u>	<u>346</u>

Workforce reduction charges in 2003, 2002 and 2001 relate to early retirement incentive programs (€ 69 million, € 160 million and € 725 million, respectively) and involuntary severance benefits (€ 140 million, € 152 million and € 649 million, respectively). The voluntary early retirement programs, accepted by 1,827, 3,175 and 9,261 employees in 2003, 2002 and 2001, respectively, are formula driven based on salary levels, age and past service. In addition, 1,355, 5,106 and 7,174 employees were involuntarily affected by the plan in 2003, 2002 and 2001, respectively. The amount of involuntary severance benefits paid and charged against the liability was € 20 million, € 199 million and € 131 million in 2003, 2002 and 2001, respectively. The amount recognized by and transferred to the employee benefit plans represents the cost of the special early retirement programs and the curtailment of prior service costs actuarially recognized by the pension and postretirement health and life insurance benefit plans.

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

As a result of the planned idling, closing, significant downsizing or sale of certain manufacturing facilities, the ability to recover the carrying values of certain long-lived assets at these plants were determined to be impaired. Accordingly, the Chrysler Group recorded impairment charges of € 249 million, € 299 million and € 984 million in 2003, 2002 and 2001, respectively. The impairment charges represent the amount by which the carrying values of the property, plant, equipment and tooling exceeded their respective fair market values.

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

In January 2003, DaimlerChrysler Corporation contributed its New Castle machining and forging facility to NC-M Chassis Systems LLC, a joint venture company formed with Metaldyne Corporation (“Metaldyne”). DaimlerChrysler Corporation owned 60% of the common stock of the joint venture company and Metaldyne owned the remaining 40%. In December 2003, Metaldyne exercised its option to purchase DaimlerChrysler Corporation’s 60% interest in the NC-M Chassis Systems LLC joint venture company in exchange for cash and Metaldyne subordinated debt and preferred equity securities. Also in 2003, DaimlerChrysler Corporation committed to a plan for the closure, significant downsizing or sale of two other facilities. The exit costs of these actions are provided for in the turnaround plan charges.

Other costs primarily included supplier contract cancellation and facility deactivation costs.

The Chrysler Group expects cash payments of \$0.3 billion in 2004 for previously recorded charges. The Chrysler Group may recognize charges in 2004 primarily relating to the sale or closure of selected operations.

**8. Financial Income (expense), net**

(in millions of € )	Year ended December 31,		
	2003	2002	2001
Income from investments of which from affiliated companies € 37 (2002: € 44; 2001: € (2)) . . . . .	37	73	24
Gains, net from disposals of investments and shares in affiliated and associated companies . . . . .	44	2,645	320
Impairment of investment in EADS . . . . .	(1,960)	—	—
Write-down of investments and shares in affiliated companies . . . . .	(44)	(63)	(109)
Income (loss) from companies included at equity . . . . .	(538)	(17)	97
<b>Income (loss) from investments, net . . . . .</b>	<b>(2,461)</b>	<b>2,638</b>	<b>332</b>
Other interest and similar income of which from affiliated companies € 20 (2002: € 9; 2001: € 31) . . . . .	521	720	1,040
Interest and similar expenses of which from affiliated companies € 16 (2002: € 21; 2001: € 21) . . . . .	(911)	(1,040)	(1,317)
<b>Interest expense, net . . . . .</b>	<b>(390)</b>	<b>(320)</b>	<b>(277)</b>
Income (loss) from securities and long-term receivables of which from affiliated companies € 1 (2002: € 7; 2001: € 9) . . . . .	(15)	84	291
Write-down of securities and long-term receivables . . . . .	(19)	(71)	(16)
Other, net . . . . .	69	(125)	(177)
<b>Other financial income (loss), net . . . . .</b>	<b>35</b>	<b>(112)</b>	<b>98</b>
	<b>(2,816)</b>	<b>2,206</b>	<b>153</b>

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

DaimlerChrysler recognized an other-than-temporary impairment charge of € 1.96 billion in the Group's consolidated statement of income (loss) for the third quarter of 2003, to write-down its investment in EADS to its quoted market value on that date. On that date, the carrying value of the Group's investment in EADS approximated € 5.5 billion and its fair value (based on quoted market price) approximated € 3.5 billion.

In 2002, the Group sold its 49.9% interest in T-Systems ITS. This sale resulted in a gain of € 2,484 million, which is included in gains from disposals of investments and shares in affiliated and associated companies (see Note 4).

In 2001, EADS created a new company, Airbus SAS, and contributed all of its Airbus activities into the new company for a 100% ownership interest. Also in 2001, Airbus SAS issued new shares to BAe Systems in exchange for all of its Airbus activities. As a result of this transaction, EADS' ownership interest in Airbus SAS, which is consolidated by EADS, was diluted to 80%. DaimlerChrysler recognized under U.S. GAAP its share of the gain resulting from the formation of Airbus SAS in the amount of € 747 million in income (loss) from companies included at equity.

The Group capitalized interest expenses related to qualifying construction projects of € 100 million (2002: € 147 million; 2001: € 275 million).

**9. Income Taxes**

Income (loss) before income taxes consists of the following:

(in millions of € )	Year ended December 31,		
	2003	2002	2001
Germany . . . . .	<b>(736)</b>	4,205	4,301
Non-German countries . . . . .	<b>1,332</b>	1,720	(5,955)
	<b>596</b>	5,925	(1,654)

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

Income tax expense (benefit) is comprised of the following components:

(in millions of € )	Year ended December 31,		
	2003	2002	2001
Current taxes			
Germany . . . . .	<b>766</b>	1,141	705
Non-German countries . . . . .	<b>(432)</b>	(286)	(512)
Deferred taxes			
Germany . . . . .	<b>172</b>	(441)	642
Non-German countries . . . . .	<b>473</b>	701	(1,684)
	<b>979</b>	1,115	(849)

For German companies, the deferred taxes at December 31, 2003, were calculated using a federal corporate tax rate of 25% (2002: 26.5% for deferred taxes which will reverse in 2003 and 25% for deferred taxes which will reverse after 2003; 2001: 25%). Deferred taxes were also calculated with a solidarity surcharge of 5.5% for each year on federal corporate taxes plus the after federal tax benefit rate for trade tax of 12.125% (2002: 11.842% for

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

deferred taxes which will reverse in 2003 and 12.125% for deferred taxes which will reverse after 2003; 2001: 12.125%). Including the impact of the surcharge and the trade tax, the tax rate applied to German deferred taxes amounted to 38.5% (2002: 39.8% for deferred taxes which will reverse in 2003 and 38.5% for deferred taxes which will reverse after 2003; 2001: 38.5%).

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

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

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

A reconciliation of expected income tax expense (benefit) to actual income tax expense (benefit) determined using the applicable German corporate tax rate for the calendar year of 26.5% (2002 and 2001: 25%) plus a solidarity surcharge of 5.5% on federal corporate taxes payable plus the after federal tax benefit rate for trade taxes of 11.842% (2002 and 2001: 12.125%) for a combined statutory rate of 39.8% in 2003 (2002 and 2001: 38.5%) is as follows:

(in millions of € )	<u>Year ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Expected expense (benefit) for income taxes . . . . .	<b>237</b>	2,281	(637)
Tax rate differential with non-German countries . . . . .	<b>(489)</b>	(247)	97
Gains from sales of business interests (T-Systems ITS, TEMIC, Adtranz, debitel) . . . . .	—	(1,012)	(191)
Trade tax rate differential . . . . .	<b>(37)</b>	(34)	(54)
Changes in valuation allowances on German deferred tax assets . . . . .	—	—	29
Non-deductible equity method investment impairment . . . . .	<b>780</b>	—	—
Tax effect of equity method investments . . . . .	<b>159</b>	1	(25)
Amortization of non-deductible goodwill . . . . .	—	—	5
Tax free income and non-deductible expenses . . . . .	<b>269</b>	178	(99)
Effect of changes in German tax laws . . . . .	<b>64</b>	3	—
Dividend distribution credit at DCAG . . . . .	—	(57)	—
Other . . . . .	<b>(4)</b>	2	26
<b>Actual expense (benefit) for income taxes . . . . .</b>	<b><u>979</u></b>	<b><u>1,115</u></b>	<b><u>(849)</u></b>

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

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

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

Deferred income tax assets and liabilities are summarized as follows:

(in millions of € )	At December 31,	
	2003	2002
Property, plant and equipment . . . . .	637	611
Investments and long-term financial assets . . . . .	2,387	2,132
Equipment on operating leases . . . . .	727	956
Inventories . . . . .	565	709
Receivables . . . . .	429	663
Securities . . . . .	522	28
Net operating loss and tax credit carryforwards . . . . .	2,996	3,002
Pension plans and similar obligations . . . . .	3,205	3,424
Other accrued liabilities . . . . .	4,573	4,938
Liabilities . . . . .	1,330	1,733
Deferred income . . . . .	1,069	1,138
Other . . . . .	77	92
	<b>18,517</b>	19,426
Valuation allowances . . . . .	(229)	(241)
<b>Deferred tax assets . . . . .</b>	<b>18,288</b>	19,185
Property, plant and equipment . . . . .	(3,702)	(3,733)
Equipment on operating leases . . . . .	(6,333)	(7,855)
Receivables . . . . .	(3,068)	(2,558)
Securities . . . . .	(736)	(472)
Prepaid expenses . . . . .	(366)	(388)
Pension plans and similar obligations . . . . .	(2,124)	(1,497)
Other accrued liabilities . . . . .	(166)	(112)
Taxes on undistributed earnings of non-German subsidiaries . . . . .	(331)	(399)
Liabilities . . . . .	(1,020)	(567)
Other . . . . .	(490)	(303)
<b>Deferred tax liabilities . . . . .</b>	<b>(18,336)</b>	(17,884)
<b>Deferred tax assets (liabilities), net . . . . .</b>	<b>(48)</b>	1,301

At December 31, 2003, the Group had corporate tax net operating losses (“NOLs”) amounting to € 2,991 million (2002: € 2,346 million), trade tax NOLs amounting to € 40 million (2002: € 2,888 million) and credit carryforwards amounting to € 1,700 million (2002: € 1,788 million). The corporate tax NOLs mainly relate

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

to losses of U.S. companies and are partly limited in their use to the Group. Of the total, corporate tax NOLs amounting to € 126 million expire at various dates from 2005 through 2013, € 2,524 million expire in the year 2023 and € 341 million can be carried forward indefinitely. The credit carryforwards relate to U.S. companies and are partly limited in their use to the Group. Of the total, credit carryforwards amounting to € 58 million expire from 2005 through 2022, € 1,024 million expire in the year 2023 and € 618 million can be carried forward indefinitely. The trade tax NOLs are not limited in their use.

The valuation allowances on deferred tax assets decreased by € 12 million. In future periods, depending upon the financial results, management's estimate of the amount of the deferred tax assets considered realizable may change, and hence the valuation allowances may increase or decrease.

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

(in millions of € )	At December 31, 2003		At December 31, 2002	
	Total	thereof non-current	Total	thereof non-current
Deferred tax assets . . . . .	2,688	1,982	3,613	1,714
Deferred tax liabilities . . . . .	(2,736)	(595)	(2,312)	(1,535)
Deferred tax assets (liabilities), net . . . . .	(48)	1,387	1,301	179

DaimlerChrysler recorded deferred tax liabilities for non-German withholding taxes of € 239 million (2002: € 288 million) on € 4,782 million (2002: € 5,760 million) in cumulative undistributed earnings of non-German subsidiaries and additional German tax of € 92 million (2002: € 111 million) on the future payout of these foreign dividends because the earnings are not intended to be permanently reinvested in those operations.

The Group did not provide income taxes or non-German withholding taxes on € 7,891 million (2002: € 6,950 million) in cumulative earnings of non-German subsidiaries because the earnings are intended to be indefinitely reinvested in those operations. It is not practicable to estimate the amount of unrecognized deferred tax liabilities for these undistributed foreign earnings.

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

(in millions of € )	Year ended December 31,		
	2003	2002	2001
Expense (benefit) for income taxes of continuing operations . . .	979	1,115	(849)
Expense for income taxes of discontinued operations . . . . .	202	62	72
Income tax benefit from changes in accounting principles . . . . .	(35)	–	–
Stockholders' equity for items in accumulated other comprehensive income . . . . .	1,105	(2,699)	(507)
	<b>2,251</b>	<b>(1,522)</b>	<b>(1,284)</b>

In 2003, tax benefits of € 105 million (2002: € 175 million) from the reversal of deferred tax asset valuation allowances at subsidiaries of MMC were recorded as a reduction of the investor level goodwill relating to the Group's investment in MMC.

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

**10. Discontinued Operations**

On December 31, 2003, as a part of its ongoing strategy to focus on its core automotive business, DaimlerChrysler completed the sale of its 100% equity ownership interest in MTU Aero Engines GmbH (“MTU Aero Engines”) to Kohlberg, Kravis and Roberts & Co. Ltd., an investment company resulting in an after tax gain of € 882 million, net of taxes of € 149 million (see Note 4). Pursuant to the requirements of SFAS 144, the results of MTU Aero Engines and the gain on sale are reported as discontinued operations and the Group’s consolidated financial statements for all prior periods have been adjusted to reflect this presentation. However, the operating profit of MTU Aero Engines is included in the Other Activities segment operating profit in 2003, 2002 and 2001 (see Note 34).

The operating results of the discontinued operations are as follows:

(in millions of € )	Year ended December 31,		
	2003	2002	2001
Revenues . . . . .	<b>1,933</b>	2,215	2,487
Income before income taxes . . . . .	<b>67</b>	143	171
Income taxes . . . . .	<b>(53)</b>	(62)	(72)
Minority interests . . . . .	—	1	2
<b>Earnings from discontinued operations . . . . .</b>	<b>14</b>	82	101

**11. Cumulative Effects of Changes in Accounting Principles**

*Variable Interest Entities.* DaimlerChrysler adopted the provisions of FIN 46R pertaining to the consolidation of variable interest entities that are “special purpose entities” as of December 31, 2003 (see Note 2). The cumulative effect of adopting FIN 46R was a reduction of net income of € 30 million, net of taxes of € 35 million (€ 0.03 per share), recognized in the consolidated statement of income (loss) in 2003.

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

**12. Goodwill**

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

In 2003, goodwill of € 26 million (2002: € 61 million) was recorded in connection with the acquisition of dealerships in Europe and € 20 million (2002: € 71 million) was recorded in connection with certain other acquisitions, each of which were immaterial individually and in the aggregate. In 2002, a goodwill impairment charge of € 40 million was recognized in connection with the contracted sales of two businesses in the Commercial Vehicles segment (see Note 4). The remaining changes in the carrying amount of goodwill primarily relate to currency translation adjustments.

At December 31, 2003, the carrying value of goodwill, excluding investor level goodwill, allocated to the Group’s reportable segments are: Mercedes Car Group € 160 million (2002: € 104 million), Chrysler Group €

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements – (Continued)**

969 million (2002: € 1,165 million), Commercial Vehicles € 588 million (2002: € 696 million), Services € 62 million (2002: € 62 million) and Other Activities € 37 million (2002: € 44 million).

Upon adoption of SFAS 142 in 2002, intangible assets relating to distribution rights with a net carrying amount of € 44 million were reclassified from goodwill to other intangible assets.

All goodwill has been allocated to a reporting unit as of December 31, 2003 and 2002.

DaimlerChrysler's investor level goodwill in companies accounted for using the equity method was € 559 million at December 31, 2003 (2002: € 845 million). Such goodwill is not subject to the impairment tests required by SFAS 142. Instead, the total investment, including investor level goodwill, will continue to be evaluated for impairment when conditions indicate that a decline in fair value of the investment below the carrying amount is other-than-temporary.

**Adjusted Prior Period Information**

Net loss and loss per share for the years ended December 31, 2001, adjusted to exclude goodwill amortization expense (including amounts recognized in income (loss) from investments representing investor level equity method goodwill amortization) and investee level goodwill amortization resulting from the Group's investment in EADS, were as follows:

	<u>Year ended December 31, 2001</u>
<b>Net loss (in millions of € ):</b>	
Reported net loss . . . . .	(662)
Goodwill amortization . . . . .	236
Goodwill amortization – investee level . . . . .	168
Adjusted net loss . . . . .	<u>(258)</u>
<b>Loss per share (in € ):</b>	
Reported loss per share – basic . . . . .	(0.66)
Goodwill amortization . . . . .	0.24
Goodwill amortization – investee level . . . . .	0.16
Adjusted loss per share – basic . . . . .	<u>(0.26)</u>
Reported loss per share – diluted . . . . .	(0.66)
Goodwill amortization . . . . .	0.24
Goodwill amortization – investee level . . . . .	0.16
Adjusted loss per share – diluted . . . . .	<u>(0.26)</u>

**13. Other Intangible Assets**

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

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

Other intangible assets comprise:

(in millions of € )	At December 31,	
	2003	2002
Other intangible assets subject to amortization		
Gross carrying amount . . . . .	1,047	1,036
Accumulated amortization . . . . .	(694)	(634)
Net carrying amount . . . . .	353	402
Other intangible assets not subject to amortization . . . . .	2,466	2,453
	2,819	2,855

DaimlerChrysler's other intangible assets subject to amortization represent concessions, industrial property rights and similar rights (€ 188 million) as well as software (€ 121 million). The additions in 2003 of € 178 million (2002: € 175 million) with a weighted average useful life of 4 years primarily include software. Distribution rights amounting to € 44 million were reclassified from goodwill to other intangible assets on January 1, 2002. The aggregate amortization expense for the years ended December 2003, 2002 and 2001, was € 178 million, € 175 million and € 172 million, respectively.

Amortization expense for the gross carrying amount of other intangible assets at December 31, 2003, is estimated to be € 131 million in 2004, € 88 million in 2005, € 51 million in 2006, € 24 million in 2007 and € 8 million in 2008.

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

**14. Property, Plant and Equipment, net**

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

Property, plant and equipment includes buildings, technical equipment and other equipment capitalized under capital lease agreements of € 195 million (2002: € 152 million). Depreciation expense and impairment charges on assets under capital lease arrangements were € 19 million (2002: € 15 million; 2001: € 13 million).

Future minimum lease payments due from property, plant and equipment under capital leases at December 31, 2003, amounted to € 393 million and are as follows:

(in millions of € )	2004	2005	2006	2007	2008	there- after
Future minimum lease payments . . . . .	34	36	35	31	31	226

**15. Equipment on Operating Leases, net**

Information with respect to changes in the Group's equipment on operating leases is presented in the Consolidated Fixed Assets Schedule included herein. Of the total equipment on operating leases, € 23,653 million represent automobiles and commercial vehicles (2002: € 27,361 million).

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements – (Continued)**

Noncancellable future lease payments due from customers for equipment on operating leases at December 31, 2003, amounted to € 11,499 million and are as follows:

(in millions of € )	2004	2005	2006	2007	2008	there- after
Future lease payments . . . . .	5,835	3,254	1,643	447	167	153

**16. Inventories**

(in millions of € )	At December 31,	
	2003	2002
Raw materials and manufacturing supplies . . . . .	<b>1,569</b>	1,900
Work-in-process . . . . .	<b>2,280</b>	2,693
Finished goods, parts and products held for resale . . . . .	<b>11,350</b>	11,567
Advance payments to suppliers . . . . .	<b>59</b>	63
	<b>15,258</b>	16,223
Less: Advance payments received thereof relating to long-term contracts and programs in process € 70 (2002: € 127) . . . . .	<b>(310)</b>	(581)
	<b>14,948</b>	15,642

Certain of the Group's U.S. inventories are valued using the LIFO method. If the FIFO method had been used instead of the LIFO method, inventories would have been higher by € 614 million (2002: € 724 million). For the years ended December 31, 2003, 2002 and 2001, inventory quantities were reduced, which resulted in a liquidation of LIFO inventory carried at lower costs which prevailed in prior years. The effect of the liquidation was to decrease cost of sales by € 9 million, € 42 million and € 29 million in 2003, 2002 and 2001, respectively.

**17. Trade Receivables**

(in millions of € )	At December 31,	
	2003	2002
Receivables from sales of goods and services . . . . .	<b>6,617</b>	6,879
Long-term contracts and programs, unbilled, net of advance payments received . . . . .	<b>51</b>	47
	<b>6,668</b>	6,926
Allowance for doubtful accounts . . . . .	<b>(587)</b>	(629)
	<b>6,081</b>	6,297

As of December 31, 2003, € 172 million of the trade receivables mature after more than one year (2002: € 110 million).

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

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

(in millions of € )	Year ended December 31,		
	2003	2002	2001
Balance at beginning of year . . . . .	629	646	711
Charged to costs and expenses . . . . .	23	95	21
Amounts written off . . . . .	(48)	(63)	(49)
Currency translation and other changes . . . . .	(17)	(49)	(37)
<b>Balance at end of year . . . . .</b>	<b><u>587</u></b>	<b><u>629</u></b>	<b><u>646</u></b>

**18. Receivables from Financial Services**

(in millions of € )	At December 31,	
	2003	2002
Receivables from:		
Sales financing . . . . .	43,079	41,386
Finance leases . . . . .	14,298	16,423
	<u>57,377</u>	57,809
Initial direct costs . . . . .	217	250
Unearned income . . . . .	(4,576)	(5,590)
Unguaranteed residual value of leased assets . . . . .	885	1,178
	<u>53,903</u>	53,647
Allowance for doubtful accounts . . . . .	(1,265)	(1,559)
	<u>52,638</u>	52,088

As of December 31, 2003, € 33,328 million of the financing receivables mature after more than one year (2002: € 34,472 million).

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

(in millions of € )	Year ended December 31,		
	2003	2002	2001
Balance at beginning of year . . . . .	1,559	1,602	890
Provisions for credit losses . . . . .	553	1,004	1,446
Net credit losses . . . . .	(492)	(639)	(783)
Reversals . . . . .	(63)	(36)	(88)
Currency translation and other changes . . . . .	(292)	(372)	137
<b>Balance at end of year . . . . .</b>	<b><u>1,265</u></b>	<b><u>1,559</u></b>	<b><u>1,602</u></b>

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

Sales financing and finance lease receivables consist of retail installment sales contracts secured by automobiles and commercial vehicles. Contractual maturities applicable to receivables from sales financing and finance leases of € 57,377 million at December 31, 2003, are as follows:

(in millions of € )	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>there- after</u>
Maturities . . . . .	21,153	10,596	9,495	6,320	3,283	6,530

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

**19. Other Receivables**

(in millions of € )	<u>At December 31,</u>	
	<u>2003</u>	<u>2002</u>
Receivables from affiliated companies . . . . .	<b>1,172</b>	1,118
Receivables from related companies <sup>1</sup> . . . . .	<b>922</b>	1,265
Retained interests in sold receivables and subordinated asset backed certificates . . . . .	<b>3,157</b>	4,241
Other receivables and other assets . . . . .	<b>11,485</b>	11,672
	<b>16,736</b>	18,296
Allowance for doubtful accounts . . . . .	<b>(888)</b>	(723)
	<b><u>15,848</u></b>	<u>17,573</u>

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

As of December 31, 2003, € 6,617 million of the other receivables mature after more than one year (2002: € 6,851 million).

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

(in millions of € )	<u>Year ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Balance at beginning of year . . . . .	<b>723</b>	726	957
Charged to costs and expenses . . . . .	<b>134</b>	28	50
Amounts written off . . . . .	<b>(2)</b>	(11)	(363)
Currency translation and other changes . . . . .	<b>33</b>	(20)	82
Balance at end of year . . . . .	<b><u>888</u></b>	<u>723</u>	<u>726</u>

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

**20. Securities, Investments and Long-Term Financial Assets**

Information with respect to the Group's investments and long-term financial assets is presented in the Consolidated Fixed Assets Schedule included herein. Short-term securities included in non-fixed assets are comprised of the following:

(in millions of € )	At December 31,	
	2003	2002
Debt securities . . . . .	<b>3,104</b>	3,127
Equity securities . . . . .	<b>30</b>	29
Debt-based funds . . . . .	<b>134</b>	137
	<b>3,268</b>	3,293

Carrying amounts and fair values of debt and equity securities included in securities and investments for which fair values are readily determinable are classified as follows:

(in millions of € )	At December 31, 2003				At December 31, 2002			
	Cost	Fair value	Unrealized Gain	Unrealized Loss	Cost	Fair value	Unrealized Gain	Unrealized Loss
Available-for-sale . . . . .	<b>3,107</b>	<b>3,136</b>	<b>34</b>	<b>5</b>	3,085	3,086	20	19
Trading . . . . .	<b>122</b>	<b>132</b>	<b>10</b>	—	202	207	6	1
Short-term securities . . . . .	<b>3,229</b>	<b>3,268</b>	<b>44</b>	<b>5</b>	3,287	3,293	26	20
Long-term securities . . . . .	<b>246</b>	<b>353</b>	<b>107</b>	—	112	197	85	—
Investments with quoted market price . . . . .	<b>488</b>	<b>802</b>	<b>314</b>	—	488	531	43	—
	<b>3,963</b>	<b>4,423</b>	<b>465</b>	<b>5</b>	3,887	4,021	154	20

None of the aggregate gross unrealized holding losses related to available-for-sale securities, which are presented separately by type of security in the table below, have extended beyond 12 months. DaimlerChrysler considers these impairments to be temporary given the short duration of the respective declines in value and because no facts or circumstances have indicated that such declines are other-than-temporary.

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements – (Continued)**

The aggregate costs, fair values and gross unrealized holding gains and losses per security class are as follows:

(in millions of € )	At December 31, 2003				At December 31, 2002			
	Cost	Fair value	Unrealized Gain	Unrealized Loss	Cost	Fair value	Unrealized Gain	Unrealized Loss
Equity securities . . . . .	600	1,023	423	–	610	733	129	6
Debt securities issued by the German government and other political subdivisions . . . . .	248	248	–	–	566	566	1	1
Debt securities issued by non-German governments . . . . .	338	343	5	–	280	282	2	–
Corporate debt securities	1,478	1,492	18	4	1,152	1,159	8	1
Equity-based funds . . . . .	141	141	–	–	–	–	–	–
Debt-based funds . . . . .	133	135	2	–	147	137	–	10
Mortgage-backed securities . . . . .	570	572	3	1	534	541	8	1
Other marketable debt securities . . . . .	333	337	4	–	396	396	–	–
Available-for-sale . . . . .	3,841	4,291	455	5	3,685	3,814	148	19
Trading . . . . .	122	132	10	–	202	207	6	1
	<b>3,963</b>	<b>4,423</b>	<b>465</b>	<b>5</b>	<b>3,887</b>	<b>4,021</b>	<b>154</b>	<b>20</b>

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

(in millions of € )	At December 31,	
	2003	2002
Due within one year . . . . .	779	1,054
Due after one year through five years . . . . .	1,366	1,021
Due after five years through ten years . . . . .	422	382
Due after ten years . . . . .	425	487
	<b>2,992</b>	<b>2,944</b>

Proceeds from disposals of available-for-sale securities were € 2,743 million (2002: € 5,254 million; 2001: € 3,402 million). Gross realized gains from sales of available-for-sale securities were € 8 million (2002: € 157 million; 2001: € 425 million), while gross realized losses were € 15 million (2002: € 23 million; 2001: € 145 million). DaimlerChrysler uses the weighted average cost method as a basis for determining cost and calculating realized gains and losses.

Other securities classified as cash equivalents were approximately € 5.3 billion and € 4.6 billion at December 31, 2003 and 2002, respectively, and consisted primarily of purchase agreements, commercial papers and certificates of deposit.

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

**21. Liquid Assets**

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

(in millions of € )	At December 31,		
	2003	2002	2001
Cash and cash equivalents <sup>1</sup>			
originally maturing within 3 months . . . . .	<b>10,767</b>	9,100	10,715
originally maturing after 3 months . . . . .	<b>250</b>	30	31
Total cash and cash equivalents . . . . .	<b>11,017</b>	9,130	10,746
Securities . . . . .	<b>3,268</b>	3,293	3,759
Other . . . . .	—	5	20
	<b>14,285</b>	12,428	14,525

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

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

(in millions of € )	Year ended December 31,		
	2003	2002	2001
Interest paid . . . . .	<b>3,207</b>	3,615	4,616
Income taxes paid (refunded) . . . . .	<b>937</b>	(1,178)	(624)

For the year ended December 31, 2003, net cash provided by financing activities included proceeds (payments) of early terminated derivatives of € 556 million (2002: € 117 million; 2001: € - million).

**22. Prepaid Expenses**

Prepaid expenses are comprised of the following:

(in millions of € )	At December 31,	
	2003	2002
Prepaid pension cost . . . . .	<b>260</b>	243
Other prepaid expenses . . . . .	<b>835</b>	719
	<b>1,095</b>	962

As of December 31, 2003, € 434 million of the total prepaid expenses mature after more than one year (2002: € 352 million).

**23. Stockholders' Equity**

*Number of Shares Issued and Outstanding*

DaimlerChrysler had issued and outstanding 1,012,824,191 registered Ordinary Shares of no par value at December 31, 2003 (2002: 1,012,803,493). Each share represents a nominal value of € 2.60 of capital stock.

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

*Treasury Stock*

In 2003, DaimlerChrysler purchased approximately 1.3 million (2002: 1.1 million; 2001: 1.4 million) Ordinary Shares in connection with an employee share purchase plan, of which 1.3 million (2002: 1.1 million; 2001: 1.2 million) were re-issued to employees. The remaining 0.2 million in 2001 were resold in the market.

*Authorized and Conditional Capital*

On April 9, 2003, the annual meeting authorized the Board of Management through April 8, 2008, upon approval of the Supervisory Board, to increase capital stock by issuing new, no par value registered shares in exchange for cash contributions totaling € 500 million as well as by issuing new, no par value registered shares in exchange for non-cash contributions totaling € 500 million and to increase capital stock by issuing Ordinary Shares to employees totaling € 26 million. In addition, DaimlerChrysler AG is authorized through October 9, 2004, to acquire treasury stock for certain defined purposes up to a maximum nominal amount of € 263 million of capital stock, representing approximately 10% of issued and outstanding capital stock.

DaimlerChrysler is authorized to issue convertible bonds and notes with warrants in a nominal volume of up to € 15 billion by April 18, 2005. The convertible bonds and notes with warrants shall grant to the holders or creditors option or conversion rights for new shares in DaimlerChrysler in a nominal amount not to exceed € 300 million of capital stock. DaimlerChrysler is also entitled to grant up to 96,000,000 rights (representing up to a nominal amount of approximately € 250 million of capital stock) with respect to the DaimlerChrysler Stock Option Plan by April 18, 2005.

In 2003, no options were exercised from the Stock Option Plan 1996. In 2002, 7,035 Ordinary Shares of DaimlerChrysler were issued upon exercise of options from this Plan.

*Convertible Notes*

In June 1997, DaimlerChrysler issued 5.75% subordinated mandatory convertible notes due June 14, 2002, with a nominal amount of € 66.83 per note. These convertible notes represented at the date of issue a nominal amount of € 508 million including 7,600,000 notes which could be converted, subject to adjustment, into 0.86631 newly issuable shares of DaimlerChrysler AG for each note before June 4, 2002. During 2002, 17,927 DaimlerChrysler Ordinary Shares were issued upon exercise (2001: 87). On June 14, 2002, the mandatory conversion date, 7,572,881 notes were converted into 9,506,483 newly issued Ordinary Shares of DaimlerChrysler AG. The conversion price of € 52.72 was determined on June 8, 2002, on the basis of the average closing auction price for the shares in Xetra-trading for the period between May 13, 2002 and June 7, 2002. Because this conversion price was below the adjusted minimum conversion price of € 53.19, the number of shares was calculated based on the adjusted minimum conversion price. Thus each shareholder received 1.25643 Ordinary Shares of DaimlerChrysler AG per note. Fractions that remained after aggregation were settled in cash based on a conversion rate of € 52.72 amounting to a total cash payment of € 0.4 million.

During 1996, DaimlerChrysler Luxembourg Capital S.A., a wholly-owned subsidiary of DaimlerChrysler, issued 4.125% bearer notes with appertaining warrants due July 5, 2003, in the amount of € 613 million (with nominal value of € 511 each), which entitled the bond holders to subscribe for a total of 12,366,324 shares (7,728,048 of which represent newly issued shares totaling € 383 million) of DaimlerChrysler. According to the note agreements the option price per share was € 42.67 in consideration of exchange of the notes or € 44.49 in cash. The warrants expired on June 18, 2003. In 2003 (until June 18) 20,698 Ordinary Shares were issued as a result of exercises of warrants (2002: 50; 2001: zero) . The repayment for the remaining options was made on July 5, 2003.

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

*Comprehensive Income*

The changes in the components of accumulated other comprehensive income (loss) are as follows:

	Year ended December 31,								
	2003			2002			2001		
	Pretax	Tax effect	Net	Pretax	Tax effect	Net	Pretax	Tax effect	Net
<b>(in millions of € )</b>									
Unrealized gains (losses) on securities (incl. retained interests):									
Unrealized holding gains (losses) . . . . .	731	(146)	585	122	(77)	45	(129)	149	20
Reclassification adjustments for (gains) losses included in net income (loss) . . . . .	(255)	77	(178)	(223)	43	(180)	(46)	(111)	(157)
Unrealized gains (losses) on securities . . . . .	476	(69)	407	(101)	(34)	(135)	(175)	38	(137)
Unrealized gains (losses) on derivatives hedging variability of cash flows:									
Unrealized derivative gains (losses) . . . . .	4,406	(1,682)	2,724	2,417	(952)	1,465	(708)	257	(451)
Reclassification adjustments for (gains) losses included in net income (loss) . . . . .	(2,506)	944	(1,562)	(111)	48	(63)	829	(307)	522
Unrealized derivative gains (losses) . . . . .	1,900	(738)	1,162	2,306	(904)	1,402	121	(50)	71
Minimum pension liability adjustments . . . . .	662	(218)	444	(10,022)	3,721	(6,301)	(1,436)	552	(884)
Foreign currency translation adjustments . . . . .	(1,481)	(80)	(1,561)	(3,154)	(84)	(3,238)	598	(33)	565
Other comprehensive income (loss) . . . . .	<u>1,557</u>	<u>(1,105)</u>	<u>452</u>	<u>(10,971)</u>	<u>2,699</u>	<u>(8,272)</u>	<u>(892)</u>	<u>507</u>	<u>(385)</u>

*Miscellaneous*

The minority stockholders of Dornier GmbH, a subsidiary of DADC Luft- und Raumfahrt Beteiligungs AG, have the right, exercisable at any time, to exchange their shareholdings in Dornier for cash or holdings in DaimlerChrysler AG or its subsidiary DaimlerChrysler Luft- und Raumfahrt Holding Aktiengesellschaft. Some of the Dornier minority stockholders partially exercised this right in 2001. In 2002, an additional minority shareholder partially exercised his right to transfer his Dornier shares to DaimlerChrysler AG.

Under the German corporation law (Aktiengesetz), the amount of dividends available for distribution to shareholders is based upon the unappropriated accumulated earnings of DaimlerChrysler AG (parent company only) as reported in its statutory financial statements determined in accordance with the German commercial code (Handelsgesetzbuch). For the year ended December 31, 2003, DaimlerChrysler management has proposed a distribution of € 1,519 million (€ 1.50 per share) of the 2003 earnings of DaimlerChrysler AG as a dividend to the stockholders.

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

**24. Stock-Based Compensation**

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

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

*Stock Option Plans*

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

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

Year of Grant	Reference price	Exercise price	Options granted	Options outstanding At December 31, 2003	Options exercisable
2000 . . . . .	€	€			
	62.30	74.76	15.2	<b>14.2</b>	<b>14.2</b>
2001 . . . . .	€	€			
	55.80	66.96	18.7	<b>17.7</b>	<b>8.9</b>
2002 . . . . .	€	€			
	42.93	51.52	20.0	<b>19.6</b>	—
2003 . . . . .	€	€			
	28.67	34.40	20.5	<b>20.0</b>	—

In May 2000, certain shareholders challenged the approval of the Stock Option Plan 2000 at the stockholders' meeting on April 19, 2000. In October 2000, the Stuttgart District Court (Landgericht Stuttgart) dismissed the case and the Stuttgart Court of Appeals (Oberlandesgericht Stuttgart) dismissed an appeal in June 2001. The shareholders appealed the decision of the Stuttgart Court of Appeals to the Federal Supreme Court (Bundesgerichtshof) in July 2001. In March 2002, the Federal Supreme Court decided not to admit the appeal. In April 2002, a constitutional appeal was filed against this decision. The Federal Constitutional Court (Bundesverfassungsgericht) decided in May 2003 not to admit the constitutional appeal.

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

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

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

Bonds granted in	Stated interest rate	Conversion price	Related stock options granted	Stock options outstanding At December	Stock options exercisable 31, 2003
		€			
1996 .....	5.9%	42.62	0.9	.	.
		€			
1997 .....	5.3%	65.90	7.4	<b>5.4</b>	—
		€			
1998 .....	4.4%	92.30	8.2	<b>6.2</b>	—

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

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

	Number of stock options	2003 Average exercise price per share	Number of stock options	2002 Average exercise price per share	Number of stock options	2001 Average exercise price per share
Balance at beginning of year .....	<b>53.1</b>	<b>63.40</b>	33.6	70.43	15.3	74.65
Options granted .....	<b>20.5</b>	<b>34.40</b>	20.0	51.52	18.7	66.96
Exercised .....	—	—	—	—	—	—
Forfeited .....	<b>(1.2)</b>	<b>51.83</b>	(0.5)	61.29	(0.4)	70.08
Expired .....	<b>(0.8)</b>	<b>74.76</b>	—	—	—	—
Outstanding at year-end .....	<b>71.6</b>	<b>55.18</b>	53.1	63.40	33.6	70.43
Exercisable at year-end .....	<b>23.1</b>	<b>71.71</b>	7.6	74.56	0.1	42.62

For the year ended December 31, 2003, the Group recognized compensation expense on stock options (before taxes) of € 95 million (2002: € 57 million; 2001: € 19 million).

The fair values of the DaimlerChrysler stock options issued in 2003, 2002 and 2001 were measured at grant date (beginning of April) based on a modified Black-Scholes option-pricing model, which considers the specific

## DAIMLERCHRYSLER AG AND SUBSIDIARIES

### Notes to Consolidated Financial Statements – (Continued)

terms of issuance. The table below presents the underlying assumptions as well as the resulting fair values and total values (in millions of €):

	2003	2002	2001
Expected dividend yield . . . . .	5.6%	2.0%	4.6%
Expected volatility . . . . .	35%	30%	33%
Risk-free interest rate . . . . .	2.9%	4.2%	4.2%
Expected lives (in years) . . . . .	3	3	3
		€	€
Fair value per option . . . . .	€ 6.00	18.70	12.15
	€	€	€
Total value by award . . . . .	<b>123.0</b>	374.0	227.2

Unearned compensation expense (before taxes) of all outstanding and unvested stock options as of December 31, 2003, totals € 122 million (2002: € 104 million; 2001: € 13 million).

#### *Stock Appreciation Rights Plans*

In 1999, DaimlerChrysler established a Stock Appreciation Rights Plan (the “SAR Plan 1999”) which provides eligible employees of the Group with the right to receive cash equal to the appreciation of DaimlerChrysler Ordinary Shares subsequent to the date of grant. The stock appreciation rights granted under the SAR Plan 1999 vest in equal installments on the second and third anniversaries from the date of grant. All unexercised SARs expire ten years from the grant date. The exercise price of a SAR is equal to the fair market value of DaimlerChrysler’s Ordinary Shares on the date of grant. On February 24, 1999, the Group issued 11.4 million SARs at an exercise price of € 89.70 each, of which 9.7 million SARs are outstanding and exercisable at year-end 2003.

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

In conjunction with the consummation of the merger between Daimler-Benz and Chrysler in 1998, the Group implemented a SAR plan through which 22.3 million SARs were issued at an exercise price of \$75.56 each, of which 15.0 million SARs are outstanding and exercisable at year-end 2003. The initial grant of SARs replaced Chrysler fixed stock options that were converted to DaimlerChrysler Ordinary Shares as of the consummation of the merger. SARs which replaced stock options that were exercisable at the time of the consummation of the merger were immediately exercisable at the date of grant. SARs related to stock options that were not exercisable at the date of consummation of the merger became exercisable in two installments; 50% on the six-month and one-year anniversaries of the consummation date.

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

A summary of the activity related to the Group's SAR plans as of and for the years ended December 31, 2003, 2002 and 2001 is presented below (SARs in millions; per share amounts in €):

	Number of SARs	2003 Weighted- average exercise price	Number of SARs	2002 Weighted- average exercise price	Number of SARs	2001 Weighted- average exercise price
Outstanding at beginning of year . . . . .	40.3	79.13	42.5	84.75	44.5	82.87
Granted . . . . .	—	—	—	—	—	—
Exercised . . . . .	—	—	—	—	—	—
Forfeited . . . . .	<u>(4.0)</u>	<u>75.00</u>	<u>(2.2)</u>	<u>78.31</u>	<u>(2.0)</u>	<u>85.93</u>
Outstanding at year-end . . . .	<u>36.3</u>	<u>74.24</u>	<u>40.3</u>	<u>79.13</u>	<u>42.5</u>	<u>84.75</u>
SARs exercisable at year-end	<u>36.3</u>	<u>74.24</u>	<u>40.3</u>	<u>79.13</u>	<u>42.5</u>	<u>84.75</u>

Compensation expense or benefit (representing the reversal of previously recognized expense) on SARs is recorded based on changes in the market price of DaimlerChrysler Ordinary Shares. For the years ended December 31, 2003, 2002 and 2001, the Group recognized no compensation expense in connection with SARs.

*Medium Term Incentive Awards*

The Group grants medium term incentives to certain eligible employees that track, among others, the market value of the DaimlerChrysler Ordinary Shares over three year performance periods. The amount ultimately earned in cash at the end of a performance period is primarily based on the degree of achievement of corporate goals derived from competitive and internal planning benchmarks and the value of DaimlerChrysler Ordinary Shares at the end of three year performance periods. The benchmarks are return on net assets and return on sales. The Group issued 1.3 million medium term incentives in 2003 (2002: 1.2 million; 2001: 0.9 million).

For the year ended December 31, 2003 the Group recognized compensation expense (before taxes) of € 35 million (2002: € 20 million; 2001: € 17 million) in connection with the medium term incentive awards.

**25. Accrued Liabilities**

Accrued liabilities are comprised of the following:

	At December 31,			
	2003		2002	
	Total	Due after one year	Total	Due after one year
<b>(in millions of €)</b>				
Pension plans and similar obligations (see Note 25a) . . . . .	<b>13,467</b>	<b>12,275</b>	15,909	14,658
Income and other taxes . . . . .	<b>2,794</b>	<b>946</b>	3,621	1,602
Other accrued liabilities (see Note 25b) . . . . .	<b>22,911</b>	<b>8,662</b>	24,092	9,786
	<u><b>39,172</b></u>	<u><b>21,883</b></u>	<u>43,622</u>	<u>26,046</u>

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

**a) Pension Plans and Similar Obligations**

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

(in millions of € )	At December 31,	
	2003	2002
Pension liabilities (pension plans) . . . . .	4,951	7,393
Other postretirement benefits . . . . .	8,203	8,167
Other benefit liabilities . . . . .	313	349
	13,467	15,909

The decrease of the pension liabilities of € 2.4 billion resulted primarily due to the favorable return on plan assets and to the total contributions to the plan assets of € 2.1 billion in 2003.

The unfavorable return on plan assets in 2002 has increased the underfunded status of the Group's accumulated pension benefit obligations as of December 31, 2002. Consequently, DaimlerChrysler recognized additional pension liabilities amounting to € 4.7 billion in 2002, which did not impact the consolidated statement of income in 2002. Of the € 4.7 billion, the Group recognized € 2.3 billion as an intangible pension asset and € 2.4 billion within other comprehensive loss.

The increase in accrued other postretirement benefits results from currency exchange rates changes, additions minus payments and the transfer of € 0.7 billion from the plan assets for other postretirement benefits Voluntary Employees' Beneficiary Association, "VEBA" (VEBA-Trust) to the plan assets for pensions which increased the accrued liabilities.

As described in Note 5 and Note 7, DaimlerChrysler implemented in 2001 restructuring plans at Freightliner and Chrysler Group, including certain workforce reduction initiatives. The impacts on the pension and postretirement obligations resulting from settlements and curtailments of these turnaround plans are contained in the following disclosures.

*Pension Plans*

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

*Investment Policies and Strategies.*

At December 31, 2003, plan assets were invested in diversified portfolios that consisted primarily of debt and equity securities, including 2,505,604 shares of DaimlerChrysler Ordinary Shares in a Canadian plan (14,855 shares) and in a German plan (2,490,749 shares) with a market value of € 0.4 million and of € 92 million, respectively. Assets and income accruing on all pension trust and relief funds are used solely to pay pension

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements – (Continued)**

benefits and administer the plans. The Group's pension asset allocation at December 31, 2003 and 2002, and target allocation for the year 2004, are as follows:

	Plan Assets German Plans			Plan Assets Non-German Plans		
	2004 planned	2003	2002	2004 planned	2003	2002
<b>(in % of plan assets)</b>						
Equity securities . . . . .	58	<b>57</b>	48	64	<b>65</b>	57
Debt securities . . . . .	36	<b>37</b>	41	30	<b>30</b>	36
Real estate . . . . .	3	<b>3</b>	3	5	<b>4</b>	5
Other . . . . .	3	<b>3</b>	8	1	<b>1</b>	2

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

The Model Portfolio is then expanded to a Benchmark Portfolio.

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

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

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

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

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

	At December 31, 2003		At December 31, 2002	
	German Plans	Non- German Plans	German Plans	Non- German Plans
<b>(in millions of € )</b>				
Change in projected benefit obligations:				
Projected benefit obligations at beginning of year	<b>10,941</b>	<b>22,008</b>	10,483	24,139
Foreign currency exchange rate changes . . . . .	—	<b>(3,287)</b>	—	(3,829)
Service cost . . . . .	<b>256</b>	<b>344</b>	226	384
Interest cost . . . . .	<b>632</b>	<b>1,397</b>	629	1,622
Plan amendments . . . . .	<b>5</b>	<b>652</b>	(1)	16
Actuarial losses . . . . .	<b>124</b>	<b>1,200</b>	45	1,199
Dispositions . . . . .	<b>(361)</b>	<b>(16)</b>	—	—
Acquisitions and other . . . . .	<b>94</b>	<b>240</b>	63	37
Settlement/curtailment loss . . . . .	<b>1</b>	<b>28</b>	2	292
Benefits paid . . . . .	<b>(527)</b>	<b>(1,599)</b>	(506)	(1,852)
Projected benefit obligations at end of year . . . . .	<b><u>11,165</u></b>	<b><u>20,967</u></b>	<u>10,941</u>	<u>22,008</u>
Change in plan assets:				
Fair value of plan assets at beginning of year . . .	<b>6,789</b>	<b>17,755</b>	7,503	24,125
Foreign currency exchange rate changes . . . . .	—	<b>(2,692)</b>	—	(3,465)
Actual return on plan assets . . . . .	<b>983</b>	<b>3,256</b>	(1,101)	(1,756)
Employer contributions . . . . .	<b>855</b>	<b>1,201</b>	807	621
Plan participant contributions . . . . .	—	<b>18</b>	—	21
Dispositions . . . . .	<b>(7)</b>	<b>(11)</b>	—	—
Acquisitions and other . . . . .	—	<b>128</b>	—	36
Benefits paid . . . . .	<b>(437)</b>	<b>(1,510)</b>	(420)	(1,827)
Fair value of plan assets at end of year . . . . .	<b><u>8,183</u></b>	<b><u>18,145</u></b>	<u>6,789</u>	<u>17,755</u>

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

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

	At December 31, 2003		At December 31, 2002	
	German Plans	Non- German Plans	German Plans	Non- German Plans
<b>(in millions of € )</b>				
Funded status . . . . .	<b>2,982</b>	<b>2,822</b>	4,152	4,253
Amounts not recognized:				
Unrecognized actuarial net losses . . . . .	<b>(3,244)</b>	<b>(7,194)</b>	(3,837)	(8,762)
Unrecognized prior service cost . . . . .	<b>(4)</b>	<b>(2,541)</b>	(6)	(2,507)
Unrecognized net obligation at date of initial application . . . . .	<b>—</b>	<b>(5)</b>	—	(11)
Net liability (asset) recognized . . . . .	<u><b>(266)</b></u>	<u><b>(6,918)</b></u>	<u>309</u>	<u>(7,027)</u>
Amounts recognized in the consolidated balance sheets consist of:				
Prepaid pension cost . . . . .	—	<b>(260)</b>	—	(243)
Accrued pension liability . . . . .	<b>2,355</b>	<b>2,596</b>	3,484	3,909
Intangible assets . . . . .	—	<b>(2,466)</b>	—	(2,453)
Accumulated other comprehensive income (loss) . . . . .	<b>(2,621)</b>	<b>(6,788)</b>	(3,175)	(8,240)
Net liability (asset) recognized . . . . .	<u><b>(266)</b></u>	<u><b>(6,918)</b></u>	<u>309</u>	<u>(7,027)</u>

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

The following assumptions were used to determine benefit obligations:

	German Plans			Non-German Plans		
	2003	2002	2001	2003	2002	2001
<b>(in %)</b>						
Average assumptions:						
Discount rate . . . . .	<b>5.3</b>	5.8	6.0	<b>6.2</b>	6.7	7.4
Rate of long-term compensation increase . . . . .	<b>3.0</b>	3.0	3.0	<b>4.5</b>	5.4	5.4

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

	German Plans			Non-German Plans		
	2003	2002	2001	2003	2002	2001
<b>(in %)</b>						
Weighted-average assumptions:						
Discount rate . . . . .	<b>5.8</b>	6.0	6.5	<b>6.7</b>	7.4	7.7
Expected return on plan assets (at the beginning of the year) . . . . .	<b>7.5</b>	7.9	7.9	<b>8.5</b>	10.1	10.1
Rate of long-term compensation increase . . . . .	<b>3.0</b>	3.0	3.0	<b>5.4</b>	5.4	5.5

*Expected Return on Plan Assets.* The expected rate of return for U.S. plans is based on long-term actual portfolio results, historical total market returns and an assessment of the expected returns for the asset classes in the portfolios. The assumptions are based on surveys of large asset portfolio managers and peer group companies

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

of future return expectations over the next ten years. Accordingly, negative returns during a one or two year period may not significantly change the historical long-term rate of return such as to necessitate or warrant revision of the expected long-term rate of return.

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

The expected rate of return on plan assets set for 2001 and 2002 was 7.9% for German Plans. The expected rate of return on plan assets set for 2001 and 2002 was 10.1% and 10.1% for non-German Plans (primarily U.S. Plans), respectively. During 2002, the Investment Committees described above decided to gradually shift the pension fund portfolio asset distribution towards a mix more weighted with fixed income assets than in prior years, which by definition would modestly lower return expectations. In addition, at that time, the Investment Committees' analysis of market trends caused management to believe that future long-term returns for equities and fixed income assets would be lower than the returns experienced over the previous 25 years.

Therefore, the expected rates of return were lowered to 7.5% for German Plans and 8.5% for non-German Plans as of January 1, 2003.

For 2004 the expected rates of return on plan assets are identical with the rates applied in 2003.

*Net Pension Cost*

The components of net pension cost were for the years ended December 31, 2003, 2002 and 2001 as follows:

	2003		2002		2001	
	German Plans	Non-German Plans	German Plans	Non-German Plans	German Plans	Non-German Plans
(in millions of € )						
Service cost . . . . .	256	344	226	384	198	404
Interest cost . . . . .	632	1,397	629	1,622	612	1,696
Expected return on plan assets . . . . .	(509)	(1,870)	(595)	(2,692)	(649)	(2,750)
Amortization of:						
Unrecognized net actuarial losses (gains) . . . . .	173	53	74	3	—	(11)
Unrecognized prior service cost . . .	—	287	—	291	—	356
Unrecognized net obligation . . . . .	—	—	—	1	—	148
Net periodic pension cost (benefit) . . . .	552	211	334	(391)	161	(157)
Settlement/curtailment loss . . . . .	50	24	1	208	1	625
Net pension cost (benefit) . . . . .	602	235	335	(183)	162	468

*Contributions*

Employer contributions to the Group's defined benefit pension plans were € 2,056 million and € 1,428 million for the years ended December 31, 2003 and 2002, respectively. The employer contribution to the Group's defined benefit pension plans is expected to approximate € 1.5 billion in 2004, of which € 0.1 billion is estimated to be needed to satisfy minimum funding requirements and an additional € 1.4 billion is expected to be contributed at the Group's discretion. The Group anticipates that the expected 2004 employer contribution will comprise € 1.5 billion in cash.

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

*Estimated Future Pension Benefit Payments*

Pension benefits pertaining to the Group's German and non-German plans were € 527 million and € 1,599 million, respectively during 2003, and € 506 million and € 1,852 million, respectively during 2002. The total estimated future pension benefits to be paid by the Group's pension plans for the next 10 years approximates € 21.2 billion and are expected to be paid as follows:

<b>(in billions of € )</b>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009- 2013</u>
German Plans . . . . .	0.4	0.5	0.5	0.5	0.6	3.5
Non-German Plans . . . . .	1.5	1.5	1.5	1.5	1.6	7.6

*Accumulated Benefit Obligation*

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

<b>(in millions of € )</b>	<u>At December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Projected benefit obligations . . . . .	<b>31,487</b>	32,300	11,122
Accumulated benefit obligations . . . . .	<b>30,547</b>	31,206	10,224
Plan assets . . . . .	<b>25,660</b>	23,882	7,934

The pre-tax decrease in the minimum pension liability in 2003 included in other comprehensive income (loss) was € 662 million and in 2002 and 2001 there was an increase in the minimum pension liability included in other comprehensive income (loss) of € 10,022 million and € 1,436 million for the years ended December 31, respectively.

*Other Postretirement Benefits*

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

*Investment Policies and Strategies*

At December 31, 2003, plan assets were invested in diversified portfolios that consisted primarily of debt and equity securities. Assets and income accruing on all pension trust and relief funds are used solely to pay benefits and administer the plans. The Group's other benefit plan asset allocation at December 31, 2003 and 2002, and target allocations for 2004 are as follows:

<b>(in % of plan assets)</b>	<u>2004 planned</u>	<u>2003</u>	<u>2002</u>
Equity securities . . . . .	65	<b>68</b>	62
Debt securities . . . . .	35	<b>32</b>	37
Real estate . . . . .	—	—	—
Other . . . . .	—	—	1

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

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

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

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

*Funded Status*

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

	<b>At December 31,</b>	
<b>(in millions of € )</b>	<b>2003</b>	<b>2002</b>
Change in accumulated postretirement benefit obligations:		
Accumulated postretirement benefit obligations at beginning of year . . . . .	<b>15,933</b>	15,095
Foreign currency exchange rate changes . . . . .	<b>(2,553)</b>	(2,454)
Service cost . . . . .	<b>278</b>	262
Interest cost . . . . .	<b>983</b>	1,062
Plan amendments . . . . .	<b>(383)</b>	(90)
Actuarial losses . . . . .	<b>1,242</b>	2,863
Settlement/curtailment loss . . . . .	<b>11</b>	59
Acquisitions and other . . . . .	<b>198</b>	7
Benefits paid . . . . .	<b>(799)</b>	(871)
Accumulated postretirement benefit obligations at end of year . . . . .	<b>14,910</b>	15,933
Change in plan assets:		
Fair value of plan assets at beginning of year . . . . .	<b>2,232</b>	2,982
Foreign currency exchange rate changes . . . . .	<b>(490)</b>	(447)
Actual gains (losses) on plan assets . . . . .	<b>379</b>	(294)
Employer contributions (withdrawals) . . . . .	<b>(673)</b>	1
Dispositions/acquisitions . . . . .	<b>137</b>	–
Benefits paid . . . . .	<b>(54)</b>	(10)
Fair value of plan assets at end of year . . . . .	<b>1,531</b>	2,232

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

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

(in millions of € )	At December 31,	
	2003	2002
Funded status . . . . .	<b>13,379</b>	13,701
Amounts not recognized:		
Unrecognized actuarial net losses . . . . .	<b>(5,114)</b>	(4,979)
Unrecognized prior service cost . . . . .	<b>(62)</b>	(555)
Net liability recognized . . . . .	<b>8,203</b>	8,167

The impact of the Medical Drug Act, which became law in December 2003 and was published on January 12, 2004, was not taken into account by DaimlerChrysler in 2003, as there were no final guidelines on the part of the FASB in 2003 on the treatment of the impact in the balance sheet and the statement of earnings. On the basis of actuarial estimates, the Medical Drug Act will result in an overall reduction of the obligations for the postretirement health and life insurance benefits amounting to approximately € 0.7 billion.

*Contributions*

DaimlerChrysler did not make any contributions to its other postretirement plans in 2003 (2002: € 1 million). DaimlerChrysler does not plan to make any contributions in 2004. In 2003 DaimlerChrysler transferred € 0.7 billion from the VEBA-Trust to the non-German pension plan assets.

*Assumptions*

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

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

	2003	2002	2001
Average assumptions:			
Discount rate . . . . .	<b>6.3</b>	6.8	7.4
Health care inflation rate in following (or "base") year . . . . .	<b>8.0</b>	10.0	6.9
Ultimate health care inflation rate (2008) . . . . .	<b>5.0</b>	5.0	5.0

The average assumptions used to determine the net periodic postretirement benefit cost of the Group's postretirement benefit plans for the years ended December 31, were as follows (in %):

	2003	2002	2001
Average assumptions:			
Discount rate . . . . .	<b>6.8</b>	7.4	7.7
Expected return on plan assets (at the beginning of year) . . . . .	<b>8.5</b>	10.5	10.4
Health care inflation rate in following (or "base") year . . . . .	<b>10.0</b>	6.9	7.5
Ultimate health care inflation rate (2008) . . . . .	<b>5.0</b>	5.0	5.0

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

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

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

(in millions of € )	1-Percentage- Point Increase	1-Percentage- Point Decrease
Effect on total of service and interest cost components . . . . .	180	(153)
Effect on accumulated postretirement benefit obligations . . . . .	1,716	(1,564)

For 2004 the expected rate of return on plan assets is identical with the rate applied in 2003.

*Net Postretirement Benefit Cost*

The components of net periodic postretirement benefit cost for the years ended December 31, 2003, 2002 and 2001 were as follows:

(in millions of € )	2003	2002	2001
Service cost . . . . .	<b>278</b>	262	257
Interest cost . . . . .	<b>983</b>	1,062	1,033
Expected return on plan assets . . . . .	<b>(217)</b>	(345)	(346)
Amortization of:			
Unrecognized net actuarial losses (gains) . . . . .	<b>220</b>	38	(7)
Unrecognized prior service cost . . . . .	<b>24</b>	76	82
Net periodic postretirement benefit cost . . . . .	<b><u>1,288</u></b>	<u>1,093</u>	<u>1,019</u>
Settlement/curtailment loss . . . . .	<b>2</b>	26	154
Net postretirement benefit cost . . . . .	<b><u>1,290</u></b>	<u>1,119</u>	<u>1,173</u>

*Estimated Future Postretirement Benefit Payments*

Postretirement benefits paid pertaining to the Group's plans were € 799 million and € 871 million during 2003 and 2002, respectively. The total estimated future postretirement benefits to be paid by the Group's plans for the next 10 years approximate € 9.3 billion and are expected to be paid as follows:

(in billions of € )	2004	2005	2006	2007	2008	2009- 2013
Other postretirement benefits . . . . .	0.7	0.8	0.9	0.9	0.9	5.1

*Prepaid Employee Benefits*

In 1996, DaimlerChrysler established a Voluntary Employees' Beneficiary Association ("VEBA") trust for payment of non-pension employee benefits. At December 31, 2003 and 2002, the VEBA had a balance of € 2,017 million and € 2,833 million, respectively, of which € 1,433 million and € 2,140 million, respectively, were

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

designated and restricted for the payment of postretirement health care benefits. No contributions to the VEBA trust were made in 2003, 2002 and 2001.

**b) Other Accrued Liabilities**

Other accrued liabilities consisted of the following:

(in millions of € )	At December 31,	
	2003	2002
Product guarantees . . . . .	9,230	9,353
Accrued sales incentives . . . . .	5,119	4,813
Accrued personnel and social costs . . . . .	2,282	2,196
Restructuring measures . . . . .	410	758
Other . . . . .	5,870	6,972
	<b>22,911</b>	<b>24,092</b>

The Group issues various types of product guarantees under which it generally guarantees the performance of products delivered and services rendered for a certain period or term (see Note 31). The accrued liability for these product guarantees covers expected costs for legally and contractually obligated warranties as well as expected costs for policy coverage, recall campaigns and buyback commitments. The liability for buyback commitments represents the expected costs related to the Group's obligation, under certain conditions, to repurchase a vehicle from a customer. Buybacks may occur for a number of reasons including litigation, compliance with laws and regulations in a particular region and customer satisfaction issues.

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

(in millions of € )	
Balance at January 1, 2002 . . . . .	9,379
Currency change . . . . .	(1,059)
Utilizations . . . . .	(4,515)
Changes from product guarantees issued in 2002 . . . . .	5,575
Changes from prior period product guarantees issued . . . . .	(27)
Balance at December 31, 2002 . . . . .	9,353
Currency change . . . . .	(776)
Utilizations . . . . .	(4,581)
Changes from product guarantees issued in 2003 . . . . .	5,364
Changes from prior period product guarantees issued . . . . .	(130)
Balance at December 31, 2003 . . . . .	<b>9,230</b>

The amount included in the line item "changes from product guarantees issued in 2003" represents the amount of guaranty expense recognized in 2003 for products sold in 2003.

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

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

<b>(in millions of € )</b>	
Balance at January 1, 2002 . . . . .	1,191
Currency change . . . . .	(190)
Deferred revenue current year . . . . .	574
Earned revenue current year . . . . .	<u>(514)</u>
Balance at December 31, 2002 . . . . .	1,061
Currency change . . . . .	<b>(170)</b>
Deferred revenue current year . . . . .	<b>693</b>
Earned revenue current year . . . . .	<b><u>(455)</u></b>
Balance at December 31, 2003 . . . . .	<b><u>1,129</u></b>

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

<b>(in millions of € )</b>	<b>Termination benefits</b>	<b>Exit costs</b>	<b>Total liabilities</b>
Balance at January 1, 2001 . . . . .	151	109	260
Utilizations, transfers and currency change . . . . .	(947)	(275)	(1,222)
Reductions . . . . .	(135)	(144)	(279)
Additions . . . . .	<u>1,504</u>	<u>927</u>	<u>2,431</u>
Balance at December 31, 2001 . . . . .	573	617	1,190
Utilizations, transfers and currency change . . . . .	(461)	(358)	(819)
Reductions . . . . .	(57)	(39)	(96)
Additions . . . . .	<u>323</u>	<u>160</u>	<u>483</u>
Balance at December 31, 2002 . . . . .	378	380	758
Utilizations, transfers and currency change . . . . .	<b>(355)</b>	<b>(209)</b>	<b>(564)</b>
Reductions . . . . .	<b>(10)</b>	<b>(27)</b>	<b>(37)</b>
Additions . . . . .	<b><u>226</u></b>	<b><u>27</u></b>	<b><u>253</u></b>
Balance at December 31, 2003 . . . . .	<b><u>239</u></b>	<b><u>171</u></b>	<b><u>410</u></b>

In connection with the Group’s restructuring measures, provisions were recorded in 2003 for termination benefits principally within Chrysler Group (see Note 7), and in 2002 and 2001 principally within Chrysler Group (see Note 7) and Commercial Vehicles, especially within Freightliner (see Note 5).

Additions to accruals for termination benefits in 2003 amounted to € 226 million (2002: € 323 million; 2001: € 1,504 million). The amount recorded in 2003 was primarily related to the Chrysler Group’s turnaround plan, which was initiated in 2001.

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

In 2003, new restructuring measures of € 7 million were initiated in the Commercial Vehicles segment. These measures were related to one-time termination benefits in connection with capacity adjustments in the U.S. The amount is presented as additions to accruals for termination benefits in the income statement under item “Other expenses.”

Termination benefits of € 229 million were paid in 2003 (2002: € 431 million; 2001: € 269 million), of which € 228 million (2002: € 359 million; 2001: € 227 million) were charged against previously established liabilities.

In connection with these restructuring efforts, the Group effected in 2003 workforce reductions of approximately 4,410 employees (2002: 11,500; 2001: 17,700). At December 31, 2003, the Group had liabilities for estimated future terminations of approximately 1,100 employees.

Additions to the accruals for exit costs of € 27 million in 2003 and most of the accruals for exit costs in 2002 and 2001 (€ 302 million and € 488 million, respectively) were related to supplier contract cancellation and facility deactivation costs in connection with the termination of production activities and product programs within the Chrysler Group (see Note 7). The Commercial Vehicles segment accrued € 62 million in exit costs in 2002, which were related largely to costs associated with dealer contract terminations in the U.S. and France. The exit costs of € 111 million in 2001 were incurred as a result of lease terminations as well as terminations of selected supplier arrangements and dealer contracts. Minor amounts accrued in 2002 and 2001 were related to several restructuring programs within the Other Activities segment.

The payments for exit costs amounted to € 174 million in 2003 (2002: € 288 million; 2001: € 290 million), of which € 167 million (2002: € 258 million; 2001: € 155 million) were charged against previously established liabilities.

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

**26. Financial Liabilities**

(in millions of € )	At December 31,	
	2003	2002
<b>Short-term:</b>		
Notes/Bonds . . . . .	9,975	12,971
Commercial paper . . . . .	7,048	9,494
Liabilities to financial institutions . . . . .	6,183	5,593
Liabilities to affiliated companies . . . . .	344	339
Deposits from direct banking business . . . . .	3,041	768
Loans, other financial liabilities . . . . .	475	200
Liabilities from capital lease and residual value guarantees . . . . .	1,189	1,134
Short-term financial liabilities (due within one year) . . . . .	<b>28,255</b>	<b>30,499</b>
<b>Long-term:</b>	<u>Maturities</u>	
Notes/Bonds		
of which due in more than five years € 11,213 (2002: € 11,492) . . . . .	2005-2097	37,802
Liabilities to financial institutions		
of which due in more than five years € 1,812 (2002: € 1,911) . . . . .	2005-2020	7,911
Liabilities to affiliated companies		
of which due in more than five years		
€ – (2002: € –) . . . . .		62
Deposits from direct banking business		
of which due in more than five years		
€ 22 (2002: € –) . . . . .		97
Loans, other financial liabilities		
of which due in more than five years		
€ 13 (2002: € 28) . . . . .		400
Liabilities from capital lease and residual value guarantees		
of which due in more than five years		
€ 207 (2002: € 249) . . . . .		1,225
Long-term financial liabilities . . . . .		<b>47,435</b>
		<b>75,690</b>

Weighted average interest rates for notes/bonds, commercial paper and liabilities to financial institutions are 6.04%, 1.84% and 3.51%, respectively, at December 31, 2003.

Commercial papers are primarily denominated in euros and U.S. dollars and include accrued interest. Liabilities to financial institutions are partly secured by mortgage conveyance, liens and assignment of receivables of approximately € 1,714 million (2002: € 1,754 million).

DaimlerChrysler Corporation (“DCC”) maintains a Trade Payables Agreement with General Electric Capital Corporation (“GECC”) to provide financial flexibility to DCC and its suppliers. GECC pays participating suppliers on accelerated payment terms in exchange for a discount on the invoiced amount. DCC then pays GECC under the terms of the original invoice from the supplier. To the extent GECC can realize favorable economics from the transactions, they are shared with DCC. The outstanding balance due GECC at December 31, 2003 and 2002, was € 416 million and € 171 million, respectively, shown within other short term financial liabilities in the table above.

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

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

(in millions of € )	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>thereafter</u>
Financial liabilities . . . . .	27,949	14,551	11,116	3,624	4,581	12,831

At December 31, 2003, the Group had unused short-term credit lines of € 10,700 million (2002: € 11,026 million) and unused long-term credit lines of € 10,441 million (2002: € 10,597 million). The credit lines include an \$18 billion revolving credit facility with a syndicate of international banks. The credit agreement is comprised of a multi-currency revolving credit facility which allows DaimlerChrysler AG and several subsidiaries to borrow up to \$5 billion until 2006, an U.S. dollar revolving credit facility which allows DaimlerChrysler North America Holding Corporation, a wholly-owned subsidiary of DaimlerChrysler AG, to borrow up to \$6 billion available until 2004, and a multi-currency revolving credit facility for working capital purposes which allows DaimlerChrysler AG and several subsidiaries to borrow up to \$7 billion until 2008. A part of the \$18 billion facility serves as a back-up for commercial paper drawings.

**27. Trade Liabilities**

(in millions of € )	<u>At December 31, 2003</u>			<u>At December 31, 2002</u>		
	<u>Total</u>	<u>Due after one year</u>	<u>Due after five years</u>	<u>Total</u>	<u>Due after one year</u>	<u>Due after five years</u>
Trade liabilities . . . . .	<b>11,583</b>	—	<b>1</b>	12,171	1	1

**28. Other Liabilities**

(in millions of € )	<u>At December 31, 2003</u>			<u>At December 31, 2002</u>		
	<u>Total</u>	<u>Due after one year</u>	<u>Due after five years</u>	<u>Total</u>	<u>Due after one year</u>	<u>Due after five years</u>
Liabilities to affiliated companies . . . . .	<b>316</b>	<b>10</b>	—	338	—	—
Liabilities to related companies . . . . .	<b>131</b>	—	—	161	3	—
Other liabilities . . . . .	<b>8,358</b>	<b>699</b>	<b>315</b>	8,344	708	151
	<u><b>8,805</b></u>	<u><b>709</b></u>	<u><b>315</b></u>	<u>8,843</u>	<u>711</u>	<u>151</u>

As of December 31, 2003, other liabilities include tax liabilities of € 682 million (2002: € 827 million) and social benefits due of € 756 million (2002: € 782 million).

**29. Deferred Income**

As of December 31, 2003, € 1,836 million of the total deferred income is to be recognized after more than one year (2002: € 1,989 million).

**OTHER NOTES**

**30. Litigation and Claims**

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

Various legal proceedings pending against DaimlerChrysler's subsidiary DaimlerChrysler Corporation allege defects in various components (including occupant restraint systems, seats, brake systems, ball joints and fuel

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

systems) in several different vehicle models or allege design defects relating to vehicle stability (rollover propensity), pedal misapplication (sudden acceleration), brake transmission shift interlock, or crashworthiness. Some of these proceedings are filed as class action lawsuits that seek repair or replacement of the vehicles or compensation for their alleged reduction in value, while others seek recovery for personal injuries. Adverse decisions in these proceedings could require DaimlerChrysler Corporation to pay substantial compensatory and punitive damages, or undertake service actions, recall campaigns or other costly actions.

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

Like other companies in the automotive industry, DaimlerChrysler (primarily DaimlerChrysler Corporation) have experienced a growing number of lawsuits which seek compensatory and punitive damages for illnesses alleged to have resulted from direct and indirect exposure to asbestos used in some vehicle components (principally brake pads). Typically, these suits name many other corporate defendants and may also include claims of exposure to a variety of non-automotive asbestos products. A single lawsuit may include claims by multiple plaintiffs alleging illness in the form of asbestosis, mesothelioma or other cancer or illness. The number of claims in these lawsuits increased from approximately 14,000 at the end of 2001 to approximately 28,000 at the end of 2003. In the majority of these cases, plaintiffs do not specify their alleged illness and provide little detail about their alleged exposure to components in DaimlerChrysler's vehicles. Some plaintiffs do not exhibit current illness, but seek recovery based on potential future illness. In 2001, DaimlerChrysler and other automobile manufacturers asked the federal bankruptcy court in Delaware overseeing the bankruptcy proceedings of an automotive supplier, Federal-Mogul Corporation, to consolidate all of the asbestos brake cases pending in state courts throughout the U.S. with the asbestos brake litigation involving Federal Mogul supervised by the bankruptcy court. The Group believed that consolidation would reduce the cost and complexity of defending these individual cases. In 2002, the bankruptcy court decided that it did not have the authority to consolidate these cases, and the U.S. Court of Appeals upheld that decision. The U.S. Supreme Court in January 2003 denied DaimlerChrysler's request and that of other manufacturers to review the decision. DaimlerChrysler believes that many of these lawsuits involve unsubstantiated illnesses or assert only tenuous connections with components in its vehicles, and that there is credible scientific evidence to support the dismissal of many of these claims. Although DaimlerChrysler's expenditures to date in connection with such claims have not been material to its financial condition, it is possible that the number of these lawsuits will continue to grow, especially those alleging life-threatening illness, and that the company could incur significant costs in the future in resolving these lawsuits.

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

As previously reported, DaimlerChrysler received a "statement of objections" from the European Commission on April 1, 1999, which alleged that the Group violated EC competition rules by impeding cross-border sales of Mercedes-Benz passenger cars to final customers in the European Economic Area. In October 2001, the European Commission found that DaimlerChrysler infringed EC competition rules and imposed a fine of

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

approximately € 72 million. DaimlerChrysler's appeal against this decision is still pending before the European Court of Justice.

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

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

As a member of a consortium that has agreed to develop, install and operate a toll collection system for German highways, the affiliate of DaimlerChrysler, DaimlerChrysler Services and the other consortium members have received a claim for damages from the Federal Republic of Germany. The government is seeking reimbursement of revenues lost due to the delay in completion of the system. The Federal Republic of Germany is claiming € 156 million per month from September 1 through December 31, 2003, and € 180 million per month thereafter. The Federal Republic of Germany is also seeking contractual penalties of approximately € 680 million, based on a claim that the consortium members did not obtain the government's consent before entering into several sub-suppliers contracts. In addition the Federal Republic of Germany is claiming other time-dependent contractual penalties. DaimlerChrysler believes the government's claims are without merit and DaimlerChrysler intends to defend itself vigorously against these claims. The agreement between the consortium members and the Federal Republic of Germany calls for submission of all disputes related to the toll collection system to arbitration. The Federal Republic of Germany has clearly indicated that it will submit these claims for arbitration.

As reported in DaimlerChrysler's Annual Report as of December 31, 2002, Freightliner LLC, DaimlerChrysler's North American commercial vehicles subsidiary, acquired in September 2000 Western Star Trucks Holdings Ltd., a Canadian company engaged in the design, assembly, and distribution of heavy duty trucks and transit buses. Prior to its acquisition by Freightliner, Western Star had completed the sale of ERF (Holdings) plc, a company organized in England and Wales and engaged in the assembly and sale of heavy duty trucks, to MAN AG and MAN Nutzfahrzeuge AG for CAD195 million. In September 2002, MAN filed a claim against Freightliner Ltd. (formerly Western Star) with the London Commercial Court for breach of representations and warranties in the share purchase agreement, alleging that ERF's accounts and financial statements were misstated. MAN seeks damages in excess of GBP300 million. Freightliner Ltd. intends to defend itself vigorously

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

against such claims and has filed a contribution claim against Ernst & Young, ERF's auditors, with the London Commercial Court in the second quarter of 2003.

As previously reported, on April 30, 2001, DaimlerChrysler sold its subsidiary, DaimlerChrysler Rail Systems GmbH (also known as Adtranz) to Bombardier, Inc. for cash consideration of \$725 million. In July 2002, Bombardier filed a request for arbitration with the International Chamber of Commerce in Paris, and asserted claims for sales price adjustments under the terms of the sale and purchase agreement as well as claims for alleged breaches of contract and misrepresentations. Bombardier seeks total damages of approximately € 960 million. The agreement limits the amount of such price adjustments to € 150 million, and, to the extent legally permissible, the amount of other claims to an additional € 150 million. The Group continues defending against such claims vigorously (see Note 4).

In the fourth quarter of 2000, Tracinda Corporation filed a lawsuit in the United States District Court for the District of Delaware against DaimlerChrysler AG and some of the members of its Supervisory Board and Board of Management (Messrs. Kopper, Prof. Schrempp and Dr. Gentz). Shortly thereafter, other plaintiffs filed a number of actions against the same defendants, making claims similar to those in the Tracinda complaint. Two individual lawsuits and one consolidated class action lawsuit were originally pending. The plaintiffs, current or former DaimlerChrysler shareholders, alleged that the defendants violated U.S. securities law and committed fraud in obtaining approval from Chrysler stockholders of the business combination between Chrysler and Daimler-Benz in 1998. The consolidated class action complaint contained additional allegations that were later dismissed. In March 2003, the Court granted Mr. Kopper's motion to dismiss each of the complaints against him on the ground that the Court lacked jurisdiction over him. In February 2003, the DaimlerChrysler defendants filed motions seeking summary judgment on all claims in the cases on several grounds, including that the claims are barred by the statute of limitations. In June 2003, the Court denied defendants' motion relating to the statute of limitations. In August 2003, DaimlerChrysler agreed to settle the consolidated class action case for \$300 million (approximately € 240 million adjusted for currency effects), and shortly thereafter, DaimlerChrysler concluded a settlement with Glickenhau, one of the two individual plaintiffs. On February 5, 2004, the Court issued a final order approving the settlement of the consolidated class action case and ordering its dismissal. The settlements did not affect the case brought by Tracinda, which claims to have suffered damages in the range of \$856 million to \$1.28 billion. In November 2003, the Court denied the remaining aspects of defendants' motion for summary judgment. The Tracinda case went to trial in December 2003 and continued for approximately two weeks. Trial of the case was suspended with approximately two days of trial time remaining while the parties addressed a discovery issue in a separate hearing. The trial reconvened on February 9, 2004, and was completed February 11, 2004. It is difficult to predict when the Court might render a decision, although DaimlerChrysler doubts it will be before the fourth quarter of 2004.

As previously reported, in 2002 several lawsuits were filed asserting claims relating to the practice of apartheid in South Africa before 1994. More specifically, on November 11, 2002, the Khulumani Support Group (which purports to represent 32,700 individuals) and several individual plaintiffs filed a lawsuit captioned *Khulumani v. Barclays National Bank Ltd.*, Civ. A. No. 02-5952 (E.D.N.Y.) in the United States District Court for the Eastern District of New York against 22 American, European and Japanese companies, including DaimlerChrysler AG and Daimler-Benz Industrie. The lawsuit purports to relate to the period from 1960 to 1993. On November 19, 2002, another putative class action lawsuit, *Ntsebeza v. Holcim Ltd.*, No. 02-74604 (RWS) (E.D. Mich.), was filed in the United States District Court for the Eastern District of Michigan against four American and European companies, including DaimlerChrysler Corporation, and purports to cover the period from 1948 to 1993. Both cases were consolidated for pretrial purposes with several other putative class action lawsuits, including *Digwamaje v. Bank of America*, No. 02-CV-6218 (RCC) (S.D.N.Y.), which had been previously filed in the United States District Court for the Southern District of New York. The *Digwamaje* plaintiffs originally named DaimlerChrysler AG as a defendant, but later voluntarily dismissed DaimlerChrysler from the suit. *Khulumani* and

## DAIMLERCHRYSLER AG AND SUBSIDIARIES

### Notes to Consolidated Financial Statements – (Continued)

Ntsebeza allege, in essence, that the defendants knew about or participated in human rights violations and other abuses of the South African apartheid regime, cooperated with the apartheid government during that period, and benefited financially from such cooperation. Plaintiffs' legal theories include conspiracy, aiding and abetting violations of international law, unjust enrichment, and unfair and discriminatory labor practices. The plaintiffs seek, among other things, declaratory relief, compensatory and punitive damages, attorneys' fees and costs, the disgorgement of purported illicit profits, an accounting, restitution of the value of defendants' purported unjust enrichment, a constructive trust, and the establishment of an "independent historic commission." The plaintiffs do not quantify damages. On July 14, 2003, a group of defendants named in one or more of the consolidated lawsuits, including Khulumani and Ntsebeza, filed a motion to dismiss the complaints. The motion was argued on November 6, 2003, and is currently pending before the Court. DaimlerChrysler intends to continue to defend itself vigorously in these suits.

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

### 31. Contingent Obligations and Commercial Commitments

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

(in millions of € )	At December 31,			
	Maximum potential future obligations		Amount recognized as a liability	
	2003	2002	2003	2002
Guarantees for third party liabilities . . . . .	2,647	2,119	355	370
Guarantees under buy-back commitments . . . . .	1,957	2,663	583	724
Performance guarantees and environmental risks . . . . .	513	581	352	370
Other . . . . .	118	830	109	246
	5,235	6,193	1,399	1,710

Guarantees for third party liabilities principally represent guarantees of indebtedness of non-consolidated affiliated companies and third parties and commitments by Group companies as to contractual performance by joint venture companies and certain non-incorporated companies, partnerships, and project groups. The term under these arrangements generally covers the range of the related indebtedness of the non-consolidated affiliated companies and third parties or the contractual performance period of joint venture companies, non-incorporated companies, partnerships, and project groups. The parent company of the Group (DaimlerChrysler AG) provides guarantees for certain obligations of its consolidated subsidiaries towards third parties. At December 31, 2003, these guarantees amounted to € 51.5 billion. To a lesser extent, consolidated subsidiaries provide guarantees to third parties of obligations of other consolidated subsidiaries. All intercompany guarantees are eliminated in consolidation and therefore are not reflected in the above table.

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

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

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

As described in more detail in Note 3 the Group holds a 45% equity ownership interest in Toll Collect GmbH and has guaranteed, on a joint and several basis with the other equity holders (collectively the "Consortium", individually the "Partners"), certain current and future obligations of Toll Collect.

Pursuant to the Operating Agreement, the Partners have guaranteed, on a joint and several basis, the successful completion and operation of the toll collection system by Toll Collect until August 31, 2004.

In addition, the partners of Toll Collect, on a joint and several basis, have the obligation to fund Toll Collect in order to maintain an equity ratio of Toll Collect of 20% (based on German GAAP) until August 31, 2004, and 15% thereafter ("Equity Maintenance Undertaking") until the Operating Agreement expires. These funding requirements would be triggered by, among other events, losses incurred by Toll Collect due to a further delay in the start of the operation of the toll collection system. The start of operations was initially scheduled for August 31, 2003, but has been delayed.

In the event the toll collection system is not operational in time the partner of the consortium or the operating company are liable to pay penalties pursuant to the Operating Agreement. As the system is not operating yet, the partners started to pay penalties on December 2, 2003. (As Toll Collect did not join to the Operating Agreement, Toll Collect is not obligated under the contract yet.)

The contractual penalties amount to € 250,000 per day until the end of February 2004 and will increase to € 500,000 per day thereafter. Beside these penalties, in our opinion, the Operating Agreement provides for exclusion of any further penalties or liabilities for fault.

Further funding requirements could arise during the operational phase after having obtained the preliminary operating permit through additional penalties or reductions in compensation Toll Collect may be exposed to in the event that in a particular case certain contractual obligations are violated or the toll collection system does not operate effectively after the completion of the system. These penalties are limited during the first nine months following the issuance of the preliminary operating permit, to an aggregate of € 56.25 million, then to € 150 million per annum until the issuance of the final operating permit, and thereafter to € 100 million per annum, with these amounts being increased by 3% per business year of operation. For reductions in compensation the same system of limitations does apply. In case of an intentional violation of contractual duties within the operational phase, the Federal Republic of Germany would be entitled to claim – without any limitation – further damages from Toll Collect. If such penalties, reductions in compensations and other events eventually result in an equity ratio below the ratio agreed upon in the Equity Maintenance Undertaking, the partners are obligated to fund operations to an extent that is sufficient to reach those equity levels.

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

The operating agreement can be terminated by both sides in the case of a violation of specified substantial contractual obligations (such as a failure to meet deadlines or other requirements or a neglect of duties of cooperation). The party concerned has the right to remove the reasons for termination within an appropriate time.

Until funds become available through the operating performance of the toll collection system, Toll Collect will continue to require capital through bridge loans provided by various banks. These loans are guaranteed by DaimlerChrysler AG on a several and independent basis to the extent of the Group's 45% equity interest in Toll Collect. For these guarantees, DaimlerChrysler AG receives market equivalent remuneration from Toll Collect.

Only the guarantee for the bridge loan is included in the above table. The maximum potential future obligations resulting from the remaining guarantees provided for Toll Collect's Obligations have not been included in the above table because those amounts cannot be reasonably estimated.

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

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

When circumstances indicate that payment is probable, guarantees made by the Group are recognized as a liability in the consolidated balance sheet with an offsetting amount recorded as an expense.

The Group periodically initiates voluntary service actions and recall actions to address various customer satisfaction, safety and emissions issues related to vehicles it sells. The Group records a liability for product warranty, including the estimated cost of these service and recall actions, when the related sale is recognized based on historical experience as to product failures as well as current information on repair costs. The Group also enters into extended product warranty arrangements in consideration for a separate arrangement fee. The consideration received in extended product warranty arrangements is deferred and amortized to revenue over the term of the extended warranty period. Costs related to extended product warranty services contracts are expensed as incurred. The ultimate costs associated with product warranty arrangements cannot be estimated due to numerous uncertainties including the enactment of new laws and regulations, the number of vehicles affected by service or recall actions, and the nature of the corrective action which may result in adjustments to the established liabilities (see Note 25b). In accordance with FIN 45, the obligations associated with product warranties are not reflected in the above table.

**Commercial Commitments.** In addition to the above guarantees and warranties, in connection with certain production programs, the Group has committed to purchase various levels of outsourced manufactured

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

parts and components over extended periods at market prices. The Group has also committed to purchase or invest in the construction and maintenance of various production facilities. Amounts under these guarantees represent commitments to purchase plant or equipment at market prices in the future. As of December 31, 2003, commitments to purchase outsourced manufactured parts and components or to invest in plant and equipment are approximately € 8.8 billion. These amounts are not reflected in the above table.

The Group also enters into noncancellable operating leases for facilities, plant and equipment. Total rentals under operating leases charged to expense in 2003 in the statement of income (loss) amounted to € 747 million (2002: € 737 million; 2001: € 819 million). Future minimum lease payments under noncancellable lease agreements as of December 31, 2003 are as follows:

(in millions of € )	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>thereafter</u>
Operating leases . . . . .	554	334	267	206	189	918

**32. Information About Financial Instruments and Derivatives**

a) Use of Financial Instruments

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

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

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

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

b) Fair Value of Financial Instruments

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

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

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

(in millions of € )	At December 31, 2003		At December 31, 2002	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial instruments (other than derivative instruments):				
Assets:				
Financial assets . . . . .	1,631	1,631	1,870	1,870
Receivables from financial services . . . . .	52,638	53,919	52,088	52,622
Securities . . . . .	3,268	3,268	3,293	3,293
Cash and cash equivalents . . . . .	11,017	11,017	9,130	9,130
Other receivables . . . . .	—	—	5	5
Liabilities:				
Financial liabilities . . . . .	75,690	77,993	79,283	84,032
Derivative instruments:				
Assets:				
Currency contracts . . . . .	2,380	2,380	1,759	1,759
Interest rate contracts . . . . .	3,695	3,695	3,776	3,776
Liabilities:				
Currency contracts . . . . .	267	267	105	105
Interest rate contracts . . . . .	163	163	302	302

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

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

**Receivables from Financial Services.** The carrying amounts of variable rate finance receivables were estimated to approximate their fair values since the contract rates of those receivables approximate current market rates. The fair values of fixed rate finance receivables were estimated by discounting expected cash flows using the current interest rates at which comparable loans with identical maturity would be made as of December 31, 2003 and 2002.

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

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

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

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

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

c) Credit Risk

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

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

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

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

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

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

**Interest Rate and Equity Price Risk Management.** DaimlerChrysler holds a variety of interest rate sensitive assets and liabilities to manage the liquidity and cash needs of its day-to-day operations. In addition a substantial volume of interest rate sensitive assets and liabilities is related to the leasing and sales financing

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

business which is operated by DaimlerChrysler Services. In particular, the Group's leasing and sales financing business enters into transactions with customers, primarily resulting in fixed rate receivables. DaimlerChrysler's general policy is to match funding in terms of maturities and interest rates. However, for a limited portion of the receivables portfolio funding does not match in terms of maturities and interest rates. As a result, DaimlerChrysler is exposed to risks due to changes in interest rates. DaimlerChrysler coordinates funding activities of the industrial business and financial services on the Group level. The Group uses interest rate derivative instruments such as interest rate swaps, forward rate agreements, swaptions, caps and floors to achieve the desired interest rate maturities and asset/liability structures.

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

DaimlerChrysler also holds, to a minor extent, investments in equity securities. The corresponding market risk and the risk of derivative financial hedging instruments for equities is and was not material to the Group in the displayed reporting periods.

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

For the year ended December 31, 2003, net losses of € 57 million (2002: net gains of € 34 million) were recognized in operating and financial income, net, representing principally the component of the derivative instruments' gain or loss excluded from the assessment of hedge effectiveness and the amount of hedging ineffectiveness.

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

For the year ended December 31, 2003, € 11 million losses (2002: no gains or losses), representing principally the component of the derivative instruments' gain/loss excluded from the assessment of the hedge effectiveness and the amount of hedge ineffectiveness, were recognized in operating and financial income, net.

For the year ended December 31, 2003 and 2002, no gains or losses had to be reclassified from accumulated other comprehensive income into earnings as a result of the discontinuance of cash flow hedges.

It is anticipated that € 889 million of net gains included in accumulated other comprehensive income at December 31, 2003, will be reclassified into earnings during the next year.

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

As of December 31, 2003, DaimlerChrysler held derivative financial instruments with a maximum maturity of 35 months to hedge its exposure to the variability in future cash flows from foreign currency forecasted transactions.

**Information with Respect to Hedges of the Net Investment in a Foreign Operation.** In specific circumstances, DaimlerChrysler seeks to hedge the currency risk inherent in certain of its long-term investments, where the functional currency is other than the euro, through the use of derivative and non-derivative financial instruments. For the year ended December 31, 2003, net gains of € 48 million (2002: € 127 million) from hedging the Group's net investments in certain foreign operations were included in the cumulative translation adjustment without affecting DaimlerChrysler's net income (loss).

**33. Retained Interests in Sold Receivables and Sales of Finance Receivables**

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

(in millions of € )	At December 31,	
	2003	2002
Fair value of estimated residual cash flows, net of prepayments, from sold receivables, before expected future net credit losses . . . . .	2,960	4,119
Expected future net credit losses on sold receivables . . . . .	(508)	(644)
Fair value of net residual cash flows from sold receivables . . . . .	2,452	3,475
Retained subordinated securities . . . . .	703	764
Other retained interests . . . . .	2	2
Retained interests in sold receivables, at fair value . . . . .	3,157	4,241

During the year, ended December 31, 2003, the Group recorded an impairment charge of € 31 million (2002: € 98 million) to the retained interest in sold receivables resulting from a decline in the expected pool by pool cash flows. This decrease in cash flows was primarily the result of an increase in the estimate of future credit losses.

At December 31, 2003, the significant assumptions used in estimating the residual cash flows from sold receivables and the sensitivity of the current fair value to immediate 10% and 20% adverse changes are as follows:

(in millions of € )	Assumption percentage	Impact on fair value based on adverse	
		10% change	20% change
Prepayment speed, monthly . . . . .	1.5%	(15)	(31)
Expected remaining net credit losses as a percentage of receivables sold . . . . .	1.2%	(50)	(100)
Residual cash flow discount rate, annualized . . . . .	12.0%	(18)	(37)

The effect of a 10% and 20% adverse change in the discount rate used to compute the fair value of the retained subordinated securities would be a decrease of € 9 million and € 17 million, respectively. Similar changes to the monthly prepayment speed and the expected remaining net credit losses as a percentage of receivables sold for the retained subordinated securities would have no adverse effect on the fair value of the retained subordinated securities.

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

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

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

<u>Actual and projected credit losses</u> <u>Percentages as of</u>	<u>Receivables securitized in</u>			
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
December 31, 2003 . . . . .	<b>2.2%</b>	<b>2.5%</b>	<b>2.4%</b>	<b>2.5%</b>
December 31, 2002 . . . . .	2.3%	2.4%	2.6%	
December 31, 2001 . . . . .	1.7%	2.4%		
December 31, 2000 . . . . .	1.2%			

Static pool losses are calculated by summing the actual and projected future credit losses and dividing them by the original balance of each pool of assets. The amount shown above for each year is a weighted average for all securitizations during that year and outstanding at December 31, 2003.

Certain cash flows received and paid to securitization trusts were as follows:

<u>(in millions of € )</u>	<u>2003</u>	<u>2002</u>
Proceeds from new securitizations . . . . .	<b>10,018</b>	10,705
Proceeds from collections reinvested in previous wholesale securitizations . . . . .	<b>46,623</b>	49,888
Amounts reinvested in previous wholesale securitizations . . . . .	<b>(46,678)</b>	(49,965)
Servicing fees received . . . . .	<b>219</b>	304
Receipt of cash flow on retained interest in securitized receivables . . .	<b>718</b>	553

The outstanding balance, delinquencies and net credit losses of sold receivables and other receivables, of those companies that sell receivables, as of and for the years ended December 31, 2003 and 2002, respectively, were as follows:

<u>(in millions of € )</u>	<u>Outstanding balance at</u>		<u>Delinquencies &gt;60 days at</u>		<u>Net credit losses for the year ended</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Retail receivables . . . . .	<b>44,190</b>	48,476	<b>201</b>	506	<b>478</b>	652
Wholesale receivables . . . . .	<b>15,246</b>	16,754	<b>1</b>	—	<b>13</b>	19
Total receivables managed . . . . .	<b>59,436</b>	65,230	<b>202</b>	506	<b>491</b>	671
Less: receivables sold . . . . .	<b>(22,154)</b>	(30,103)	<b>(35)</b>	(160)	<b>(216)</b>	(342)
Receivables held in portfolio . . . . .	<b>37,282</b>	35,127	<b>167</b>	346	<b>275</b>	329

DaimlerChrysler mainly sells automotive finance receivables in the ordinary course of the business to trusts that are considered Qualifying Special Purpose Entities under SFAS 140 (“QSPEs”) as well as selling to trusts that are multi-seller and multi-collateralized bank conduits that may be considered to be Variable Interest Entities (“VIEs”). The Group also retains a residual beneficial interest in the receivables sold which is designed to absorb substantially all of the credit, prepayment, and interest-rate risk of the receivables transferred to the trusts. This retained interest balance represents the Group’s maximum exposure to loss. The following summarizes the

## DAIMLERCHRYSLER AG AND SUBSIDIARIES

### Notes to Consolidated Financial Statements – (Continued)

outstanding balance of the receivables sold to the OSPEs and VIEs and corresponding retained interests balances as of December 31, 2003:

(in millions of € )	<u>Receivables sold</u>	<u>Retained interest in sold receivables</u>
Variable interest entities . . . . .	4,384	783
Qualifying special purpose entities . . . . .	<u>17,770</u>	<u>2,374</u>
	<u>22,154</u>	<u>3,157</u>

During the year ended December 31, 2003, DaimlerChrysler sold € 9,557 million (2002: € 8,653 million) and € 46,678 million (2002: € 49,965 million) of retail and wholesale receivables, respectively. From these transactions, the Group recognized gains of € 249 million (2002: € 162 million) and € 196 million (2002: € 201 million) on sales of retail and wholesale receivables, respectively.

Significant assumptions used in measuring the residual interest resulting from the sale of retail and wholesale receivables were as follows (weighted average rates for securitizations completed during the year) at December 31, 2003 and 2002:

	<u>Retail</u>		<u>Wholesale</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Prepayment speed assumption (monthly rate) . . . . .	<b>1.5%</b>	1.0-1.5%	<sup>1)</sup>	<sup>1)</sup>
Estimated lifetime net credit losses (an average percentage of sold receivables)	<b>2.5%</b>	2.6%	<b>0.0%</b>	0.0%
Residual cash flows discount rate (annual rate) . . . . .	<b>12.0%</b>	12.0%	<b>12.0%</b>	12.0%

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

During the year ended December 31, 2003, the Group recognized net servicing liabilities of € 10 million and related net amortization of € 2 million. There was no servicing asset valuation allowance as of December 31, 2003. The fair value of net servicing liability at December 31, 2003 was € 18 million and was determined by discounting estimated cash flows at current market rates.

To support the Group's asset-backed commercial paper program in North America, a group of financial institutions have provided contractually committed liquidity facilities aggregating \$4.5 billion which expire in November 2004, and are subject to annual renewal. These liquidity facilities can only be drawn upon by the special purpose entity to which the Group's North American financial services companies will sell receivables under this program. As of December 31, 2003, none of the liquidity facilities have been utilized.

### 34. Segment Reporting

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

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

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

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

**Commercial Vehicles.** This segment is involved in the development, design, manufacture, assembly and sale of vans, trucks, buses and Unimogs as well as related parts and accessories. The products are sold mainly under the brand names Mercedes-Benz, Setra and Freightliner.

**Services.** The activities in this segment extend to the marketing of services related to financial services (principally retail and lease financing for vehicles and dealer financing), insurance brokerage, trading and information technology. This Segment also owns, or holds investments in several companies which provide services in the areas of mobility management, including traffic management, telematics products and toll collection.

In October 2000, the information technology activities were contributed into a joint venture. The Group's 49.9% interest in T-Systems ITS is included at equity subsequent to that date. In January 2002, DaimlerChrysler exercised its option to sell to Deutsche Telekom the Group's 49.9% interest in T-Systems ITS. The sale was consummated in March 2002 with the termination of the joint venture.

**Other Activities.** This segment comprises businesses, operations and investments not allocated to one of DaimlerChrysler's other business segments. The segment includes the Group's equity method investments EADS and Mitsubishi Motors Corporation ("MMC"), the real estate and corporate research activities, the holding companies and financing subsidiaries through which the Group refinances the capital needs of the operating businesses in the capital markets. In April 2001, DaimlerChrysler completed the sale of 60% of the interests in its Automotive Electronics activities to Continental AG. The Group's 40% interest in the Automotive Electronics activities ("Conti Temic microelectronic") is included at equity from that date. In April 2002, DaimlerChrysler exercised its option to sell to Continental AG the Group's remaining 40% interest in Conti Temic microelectronic. It also includes the MTU Aero Engines business unit through December 31, 2003.

**Management Reporting and Controlling Systems.** The Group's management reporting and controlling systems use accounting policies that are substantially the same as those described in Note 1 in the summary of significant accounting policies (U.S. GAAP).

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

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

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

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

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

Segment information as of and for the years ended December 31, 2003, 2002 and 2001 follows:

(in millions of € )	Mercedes Car Group	Chrysler Group	Commercial Vehicles	Services	Other Activities	Total Segments	Eliminations	Consolidated
2003								
Revenues . . . . .	48,025	49,321	26,909	11,997	185	136,437	–	136,437
Intersegment sales . . . . .	3,421	–	1,608	2,040	255	7,324	(7,324)	–
Total revenues . . . . .	51,446	49,321	28,517	14,037	440	143,761	(7,324)	136,437
Operating Profit (Loss) . . . . .	3,126	(506)	855	1,240	1,285	6,000	(314)	5,686
Identifiable segment assets	24,161	47,147	16,015	83,239	29,781	200,343	(22,075)	178,268
Capital expenditures . . . . .	2,939	2,487	1,006	76	121	6,629	(15)	6,614
Depreciation and amortization . . . . .	1,789	3,927	935	5,087	151	11,889	(290)	11,599
2002								
Revenues . . . . .	46,796	59,716	26,905	13,765	186	147,368	–	147,368
Intersegment sales . . . . .	3,374	465	1,496	1,934	322	7,591	(7,591)	–
Total revenues . . . . .	50,170	60,181	28,401	15,699	508	154,959	(7,591)	147,368
Operating Profit (Loss) . . . . .	3,020	609	(343)	3,060	903	7,249	(395)	6,854
Identifiable segment assets	22,103	52,807	15,269	87,833	33,970	211,982	(24,655)	187,327
Capital expenditures . . . . .	2,495	3,155	1,263	95	137	7,145	–	7,145
Depreciation and amortization . . . . .	1,652	4,276	1,210	6,804	157	14,099	(255)	13,844
2001								
Revenues . . . . .	44,002	62,676	27,084	14,975	1,649	150,386	–	150,386
Intersegment sales . . . . .	3,703	807	1,488	1,876	371	8,245	(8,245)	–
Total revenues . . . . .	47,705	63,483	28,572	16,851	2,020	158,631	(8,245)	150,386
Operating Profit (Loss) . . . . .	2,951	(5,281)	(514)	612	1,181	(1,051)	(267)	(1,318)
Identifiable segment assets	20,558	63,325	16,232	100,570	31,200	231,885	(24,475)	207,410
Capital expenditures . . . . .	2,061	5,083	1,484	112	168	8,908	(12)	8,896
Depreciation and amortization . . . . .	1,853	5,364	922	7,071	197	15,407	(217)	15,190

In 2003, the Chrysler Group and Services segments agreed to a new arrangement regarding the sharing of risks associated with the residual values of certain leased vehicles. In addition, the Chrysler Group and Services segments negotiated reduced pricing on certain retail financing programs offered by the Chrysler Group as sales incentives in 2003. The adjusted pricing reflects the current favorable funding environment as well as Services becoming the exclusive provider of selected discount consumer financing for the Chrysler Group. Both arrangements resulted in a favorable impact of € 244 million on the 2003 operating results at the Chrysler Group. These arrangements decreased Services 2003 Operating Profit by € 244 million. Both arrangements had no effect on the Group's consolidated operating results.

Capital expenditures for equipment on operating leases for 2003, 2002 and 2001 for the Services segment amounted to € 11,649 million, € 12,862 million and € 14,334 million, respectively.

For the year ended December 31, 2001, Operating Loss of the Chrysler Group segment includes € 1,715 million of non-cash turnaround plan charges, other than depreciation and amortization.

The Operating Loss of the Commercial Vehicles segment for the year ended December 31, 2002, includes € 161 million (2001: € 353 million) of non-cash turnaround plan and other charges, other than depreciation and amortization.

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

For the years ended December 31, 2002 and 2001, Operating Profit of the Services segment includes € 10 million and € 41 million, respectively, from the equity investment in T-Systems ITS, representing the Group's percentage share of the Operating Profit of T-Systems ITS. At December 31, 2001, the identifiable assets of the Services segment includes € 2,193 million of the investment in T-Systems ITS. For the year ended December 31, 2002, Operating Profit of the Services segment includes impairment charges of € 537 million, which primarily relate to equipment on operating leases and receivables from financial services.

For the year ended December 31, 2003, Operating Profit of the Other Activities segment includes € 278 million (2002: € 778 million) from EADS and MMC, the significant companies accounted for using the equity method. For the year ended December 31, 2001, Operating Profit of the Other Activities segment includes € 694 million from EADS and MMC, including a € 876 million gain from the formation of Airbus SAS. Operating Profit of 2003 includes a gain of € 1,031 million from the sale of MTU Aero Engines. The net-proceeds from this sale transaction amounted to € 1,052 million, of which € 175 million have been loaned to the purchaser. Because MTU Aero Engines is recognized as discontinued operations, MTU Aero Engines' revenues are not included in the Other Activities segment revenues for all periods presented. Following the sale transaction, effective December 31, 2003, MTU Aero Engines' assets and liabilities were de-consolidated. Operating Profit, capital expenditures, and depreciation and amortization include MTU Aero Engines until December 31, 2003 (see also Notes 4 and 10).

At December 31, 2003, 2002 and 2001, the identifiable assets of the Other Activities segment include € 4,542 million, € 5,712 million and € 5,393 million, respectively, of investments in these equity method investees.

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

<b>(in millions of € )</b>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Total segment operating profit (loss) . . . . .	<b>6,000</b>	7,249	(1,051)
Elimination and consolidation amounts . . . . .	<b>(314)</b>	(395)	(267)
Total Group operating profit (loss) . . . . .	<b>5,686</b>	6,854	(1,318)
Pension and postretirement benefit income (expenses), other than current and prior service costs and settlement/curtailment losses . . . . .	<b>(870)</b>	257	465
Impairment of investment in EADS . . . . .	<b>(1,960)</b>	–	–
Interest and similar income . . . . .	<b>521</b>	720	1,040
Interest and similar expenses . . . . .	<b>(911)</b>	(1,040)	(1,317)
Other financial income (loss), net . . . . .	<b>35</b>	(112)	98
Miscellaneous items, net . . . . .	<b>(308)</b>	(102)	39
Pre-tax (income) loss from discontinued operations, adjusted to exclude or include the above reconciling items . . . . .	<b>(84)</b>	(153)	(186)
Pre-tax (income) loss on disposal of discontinued operations . . . . .	<b>(1,031)</b>	–	–
The Group's share of the above reconciling items included in the net earnings (losses) of investments accounted for at equity . . . . .	<b>(482)</b>	(499)	(475)
Consolidated income (loss) before income taxes, minority interests, cumulative effects of changes in accounting principles and discontinued operations . . . . .	<u><b>596</b></u>	<u>5,925</u>	<u>(1,654)</u>

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

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

(in millions of € )	Germany	European Union <sup>1</sup>	United States	Other American countries	Asia	Other countries	Consolidated
2003 . . . . .	<b>23,736</b>	<b>24,076</b>	<b>63,798</b>	<b>10,281</b>	<b>6,636</b>	<b>7,910</b>	<b>136,437</b>
2002 . . . . .	22,695	23,199	76,445	11,951	6,137	6,941	147,368
2001 . . . . .	23,980	21,088	79,607	13,336	6,110	6,265	150,386

<sup>1</sup> Excluding Germany.

Germany accounts for € 21,164 million of long-lived assets (2002: € 19,627 million; 2001: € 20,584 million), the United States for € 36,430 million (2002: € 44,758 million; 2001: € 58,850 million) and other countries for € 13,091 million (2002: € 14,344 million; 2001: € 12,971 million).

**35. Earnings (Loss) per Share**

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

(in millions of € or millions of shares, except earnings (loss) per share)	Year ended December 31,		
	2003	2002	2001
Income (loss) from continuing operations – basic . . . . .	<u>(418)</u>	<u>4,795</u>	<u>(763)</u>
Interest expense on convertible bonds and notes (net of tax) . . . . .	–	12	–
Income (loss) from continuing operations – diluted . . . . .	<u>(418)</u>	<u>4,807</u>	<u>(763)</u>
Weighted average number of shares outstanding – basic . . . . .	<u>1,012.7</u>	<u>1,008.3</u>	<u>1,003.2</u>
Dilutive effect of convertible bonds and notes . . . . .	–	5.6	–
Weighted average number of shares outstanding – diluted . . . . .	<u>1,012.7</u>	<u>1,013.9</u>	<u>1,003.2</u>
<b>Earnings (loss) per share from continuing operations</b>			
Basic . . . . .	<u>(0.41)</u>	<u>4.76</u>	<u>(0.76)</u>
Diluted . . . . .	<u>(0.41)</u>	<u>4.74</u>	<u>(0.76)</u>

See Note 23 for shares issued upon conversion of bonds and notes in 2003.

Because the Group reported a loss from continuing operations for the year ended December 31, 2003 and 2001, the diluted loss per share does not include the antidilutive effects of convertible bonds and notes. Had the Group reported income from continuing operations for the year ended December 31, 2003 and 2001, the weighted average number of shares outstanding would have potentially been diluted by 0.5 million and 10.7 million shares resulting from the conversion of bonds and notes, respectively.

Stock options issued in 2003, 2002 and 2001 in connection with the Stock Option Plan 2000 were not included in the computation of diluted earnings per share for all years presented, because the options’ underlying exercise prices were greater than the average market prices for DaimlerChrysler Ordinary Shares for all periods ended at December 31, 2003, 2002 and 2001.

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

**36. Related Party Transactions**

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

Mitsubishi Motor Manufacturing of America, a subsidiary of Mitsubishi Motors Corporation, produces the Dodge Stratus and Chrysler Sebring coupes for the Group. As discussed in Note 3, DaimlerChrysler owns a 37% equity interest in Mitsubishi Motors Corporation.

DaimlerChrysler has an agreement with McLaren Cars Ltd., a wholly owned subsidiary of TAG McLaren Holdings Ltd., for the design and production of a new high-performance sports car, the SLR, which DaimlerChrysler expects to launch in the first six months of 2004. The Group owns a 40% equity interest in TAG McLaren Holdings Ltd.

DaimlerChrysler increased its stake in the Formula 1 engine manufacturer Ilmor Engineering Ltd. from 25% to 55% in the year 2002 and has agreed to gradually acquire the remaining shares by 2005. In September 2003, DaimlerChrysler increased its equity stake to 70%. The company has been renamed Mercedes-Ilmor. Mercedes-Ilmor and DaimlerChrysler have been responsible for the development, design and production of Mercedes-Benz Formula 1 engines since 1993, which DaimlerChrysler supplies to the West McLaren team in support of motor sport activities under the Mercedes-Benz brand. DaimlerChrysler has consolidated Mercedes-Ilmor since January 1, 2003.

In May 2002, DaimlerChrysler Corporation sold its Dayton Thermal Products Plant to Behr Dayton Thermal Products LLC, a joint venture company in which Behr America, Inc. owns a majority interest and DaimlerChrysler Corporation owns a minority interest. DaimlerChrysler Corporation is required to maintain its minority interest in the joint venture company through May 2004 and to purchase products from it at competitively-based prices under a supply agreement entered into in connection with the sale. Provision for the loss on the sale was included in the Chrysler Group Turnaround Plan (see Note 7).

The supply agreement is valid from April 2002 through April 2008. Product pricing was based on the existing cost structure of the Dayton Thermal Products Plant and was comparable to pricing in effect prior to the transaction. The supply agreement included the potential for price reductions in future years based on productivity and other gains by Behr Dayton. There is no minimum purchase volume commitment included in the agreement. DaimlerChrysler Corporation agreed that Behr Dayton would be the exclusive provider of certain climate control components for existing and specific future vehicles through the end of the contract term. There was no value assigned to the supply agreement.

The Group's subsidiaries DaimlerChrysler Coordination Center S.A. (DCCC) and DaimlerChrysler Aerospace AG (DASA) granted a series of loans to debis Air Finance B.V. (dAF). Through DaimlerChrysler's subsidiaries DaimlerChrysler Services AG and DaimlerChrysler Aerospace AG, the Group holds a 45% non-controlling interest in debis Air Finance B.V. The total book value of these loans as of December 31, 2003, was € 524 million, the highest aggregate amount outstanding during 2003 was € 680 million. The interest rates are partially fixed, partially based on Libor.

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

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

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

As described in more detail in Note 31, DaimlerChrysler provides a number of guarantees with respect to Toll Collect GmbH, a joint venture in which DaimlerChrysler holds an equity interest of 45%.

In November 2003, DaimlerChrysler sold 60% of its equity interest in Mercedes-Benz Lenkungen GmbH to ThyssenKrupp Automotive AG. DaimlerChrysler accounts for its remaining 40% equity interest in the company using the equity method of accounting. Mr. Bernhard Walter, a member of DaimlerChrysler's Supervisory Board, abstained from the Supervisory Board voting for the approval of the sale since he is also a member of the Supervisory Board of ThyssenKrupp AG, the parent company of ThyssenKrupp Automotive AG.

In 2003, Dr. Mark Wössner, a member of DaimlerChrysler's Supervisory Board, received payments for the rental of premises to Westfalia Van Conversion GmbH, a wholly owned subsidiary of DaimlerChrysler AG, in the amount of € 1 million.

The following represent transactions with shareholders:

DaimlerChrysler incurred expenses of approximately \$957,000 in 2003 for advertising and related marketing activities with a U.S. magazine. Earl G. Graves, member of DaimlerChrysler's Supervisory Board and shareholder of DaimlerChrysler AG, is the Chairman, Chief Executive Officer and sole stockholder of the magazine's ultimate parent company.

DB Value GmbH, a wholly owned subsidiary of Deutsche Bank AG, owns approximately 11.8% of DaimlerChrysler's outstanding shares. Deutsche Bank AG and its subsidiaries provided the Group with various financial and other services for which they were paid reasonable and customary fees. Additionally, DaimlerChrysler provides a € 672 million guarantee to Deutsche Bank AG for the company's operation of DaimlerChrysler's corporate credit card program for corporate travel expenses. The guarantee covers the obligations of the company's employees towards Deutsche Bank AG arising from that program in case of employee's default. DaimlerChrysler so far has not incurred any major payments to Deutsche Bank AG from that guarantee.

**37. Compensation and share ownership of the members of the Board of Management and the Supervisory Board and further additional information concerning German Corporate Governance Code**

*Remuneration.* The total remuneration paid by Group related companies to the members of the Board of Management of DaimlerChrysler AG are calculated from the amount of compensation paid in cash and from the non-cash benefits in kind. The total remuneration in 2003 for the members of the Board of Management of DaimlerChrysler AG amounted to € 40.8 million, of which € 13.4 million is fixed and € 27.4 million is short-term and mid-term incentive remuneration components. In 2003, no compensation resulted from long-term incentive remuneration components.

In 2003, 3.14 million stock options from the Stock Option Plan 2000 were granted to the members of the Board of Management as a long-term remuneration component. Also in 2003, 503,000 performance-based awards were granted to the members of the Board of Management based on a 3 year performance plan. For detailed information on stock based compensation programs, see Note 24.

The remuneration paid in 2003 to the members of the Supervisory Board of DaimlerChrysler AG for services in all capacities to the Group amounted to € 2.8 million.

*Directors' Dealings.* Pursuant to § 15a of the German Securities Trading Act, members of the Board of Management and the Supervisory Board as well as their spouses and first-grade relatives are legally required to disclose significant purchases or sales of Ordinary Shares, options or derivatives of DaimlerChrysler AG and

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

Group related companies (in 2003: EADS and Maschinenfabrik Esslingen AG). In the fiscal year just ended, no such transactions were reported, which are to be published.

*Share Ownership.* As of December 31, 2003, the current members of the Board of Management as a group owned 10.1 million Ordinary Shares, options or derivatives (SAR) of DaimlerChrysler AG (0.998% of all outstanding shares) and the current members of the Supervisory Board as a group owned 0.1 million Ordinary Shares, options or derivatives (SAR) of DaimlerChrysler AG (0.011% of all outstanding shares).

*Transactions with Related Parties.* For transactions with related parties, which are shareholders of DaimlerChrysler AG, please see last paragraph of Note 36.

**38. Subsequent Events**

On January 15, 2004, DaimlerChrysler entered into a purchase agreement with MMC to acquire an additional 22% equity interest in MFTBC for approximately € 0.4 billion in cash (see Note 4).

On January 27, 2004, the Toll Collect consortium, in which DaimlerChrysler holds a 45% equity interest, presented to the Federal Minister of Transport, Building and Housing a revised proposal for the completion and operation of an electronic toll collection system for commercial vehicles over 12 t GVW in Germany. In intensive negotiations with representatives from the Federal Ministry of Transport, Building and Housing, the parties could not reach a final agreement with respect to the offer submitted. Negotiations between the parties were primarily focused on contract terms pertaining to contractual commitments and possible future contract termination options as well as matters regarding the technical risks associated with the toll collection system. On February 17, 2004, the Federal Minister of Transport, Building and Housing announced that the consortium should formally receive notification of termination of the operating agreement. To avoid contract termination, the consortium has the possibility to reach agreement with the Federal Ministry of Transport, Building and Housing within a time period of two months following the receipt of the notification of termination of the operating agreement. A contract termination could have a substantial negative impact on the Group's operating results and financial condition.

**39. Condensed Consolidating Financial Information**

DaimlerChrysler AG, the parent company of the Group, fully and unconditionally guarantees certain publicly issued debt of its 100% owned subsidiary DaimlerChrysler North America Holding Corporation. The following condensed consolidating financial information for DaimlerChrysler AG, DaimlerChrysler North America Holding Corporation and all other subsidiaries on a combined basis set forth below is intended to provide investors with meaningful and comparable financial information about DaimlerChrysler AG and its subsidiary issuer. Investments and long-term financial assets include the investments in consolidated subsidiaries recorded under the equity method for purposes of the condensed consolidating financial information. Financial income, net includes the income or loss related to such investments.

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

2003 (in millions of €)	DaimlerChrysler AG (parent company)	DaimlerChrysler North America Holding	Other subsidiaries (combined)	Consolidating adjustments	DaimlerChrysler AG (consolidated)
<b>Assets</b>					
Intangible assets	78	–	4,557	–	4,635
Property, plant and equipment, net	6,754	–	26,175	(12)	32,917
Investments and long-term financial assets	28,433	45,768	8,884	(74,337)	8,748
Equipment on operating leases, net	4,270	–	20,320	(205)	24,385
<b>Fixed assets</b>	<u>39,535</u>	<u>45,768</u>	<u>59,936</u>	<u>(74,554)</u>	<u>70,685</u>
Inventories	5,791	–	9,886	(729)	14,948
Trade, finance and other receivables	13,909	3,669	71,858	(14,869)	74,567
Securities	211	342	2,715	–	3,268
Cash and cash equivalents	2,934	4,918	3,165	–	11,017
<b>Non-fixed assets</b>	<u>22,845</u>	<u>8,929</u>	<u>87,624</u>	<u>(15,598)</u>	<u>103,800</u>
Deferred taxes and prepaid expenses	3,734	103	8,339	(8,393)	3,783
<b>Total assets</b>	<u><u>66,114</u></u>	<u><u>54,800</u></u>	<u><u>155,899</u></u>	<u><u>(98,545)</u></u>	<u><u>178,268</u></u>
<b>Liabilities and stockholders' equity</b>					
<b>Stockholders' equity</b>	34,481	10,489	60,765	(71,254)	34,481
Minority interests	–	–	470	–	470
<b>Accrued liabilities</b>	<u>10,112</u>	<u>34</u>	<u>29,135</u>	<u>(109)</u>	<u>39,172</u>
Financial liabilities	11,115	43,292	37,086	(15,803)	75,690
Trade liabilities	3,795	–	7,788	–	11,583
Other liabilities	2,006	985	8,394	(2,580)	8,805
<b>Liabilities</b>	<u>16,916</u>	<u>44,277</u>	<u>53,268</u>	<u>(18,383)</u>	<u>96,078</u>
Deferred taxes and deferred income	4,605	–	12,261	(8,799)	8,067
<b>Total liabilities</b>	<u>31,633</u>	<u>44,311</u>	<u>95,134</u>	<u>(27,291)</u>	<u>143,787</u>
<b>Total liabilities and stockholders' equity</b>	<u><u>66,114</u></u>	<u><u>54,800</u></u>	<u><u>155,899</u></u>	<u><u>(98,545)</u></u>	<u><u>178,268</u></u>
Revenues	56,248	–	117,777	(37,588)	136,437
Cost of sales	(44,808)	–	(101,847)	36,729	(109,926)
<b>Gross margin</b>	<u>11,440</u>	<u>–</u>	<u>15,930</u>	<u>(859)</u>	<u>26,511</u>
Selling, administrative and other expenses	(7,327)	(17)	(11,645)	1,217	(17,772)
Research and development	(3,382)	–	(2,295)	106	(5,571)
Other income	532	–	785	(604)	713
Turnaround plan expenses – Chrysler Group	–	–	(469)	–	(469)
<b>Income (loss) before financial income</b>	<u>1,263</u>	<u>(17)</u>	<u>2,306</u>	<u>(140)</u>	<u>3,412</u>
Impairment of investment in EADS	(1,960)	–	(1,960)	1,960	(1,960)
Other financial income (expense), net	1,225	425	1,267	(3,773)	(856)
Financial income, net	<u>(735)</u>	<u>425</u>	<u>(693)</u>	<u>(1,813)</u>	<u>(2,816)</u>
<b>Income (loss) before income taxes</b>	<u>528</u>	<u>408</u>	<u>1,613</u>	<u>(1,953)</u>	<u>596</u>
Income taxes	(946)	544	(627)	50	(979)
Minority interests	–	–	(35)	–	(35)
<b>Income (loss) from continuing operations</b>	<u>(418)</u>	<u>952</u>	<u>951</u>	<u>(1,903)</u>	<u>(418)</u>
Income from discontinued operations	14	–	14	(14)	14
Income on disposal of discontinued operations	882	–	888	(888)	882
Cumulative effects of changes in accounting principles	(30)	–	(30)	30	(30)
<b>Net income (loss)</b>	<u><u>448</u></u>	<u><u>952</u></u>	<u><u>1,823</u></u>	<u><u>(2,775)</u></u>	<u><u>448</u></u>

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

2003 (in millions of € )	DaimlerChrysler AG (parent company)	DaimlerChrysler North America Holding	Other subsidiaries (combined)	Consolidating adjustments	DaimlerChrysler AG (consolidated)
<b>Cash provided by (used for) operating activities</b> . . . . .	6,318	891	11,847	(2,560)	16,496
Increase in equipment on operating leases . . . . .	(2,934)	–	(12,813)	143	(15,604)
Purchases of property, plant, equipment and other fixed assets . . . . .	(2,507)	–	(4,422)	12	(6,917)
Proceeds from disposals of equipment on operating leases . . . . .	2,277	–	9,674	–	11,951
Proceeds from disposals of fixed assets . . . . .	297	–	346	–	643
Payments for investments in businesses . . . . .	(912)	–	(414)	305	(1,021)
Proceeds from disposals of businesses . . . . .	298	–	1,216	(305)	1,209
(Increase) decrease in receivables from financial services, net . . . . .	(101)	–	(5,919)	5	(6,015)
Disposition (acquisitions) of securities (other than trading), net . . . . .	179	(88)	(481)	–	(390)
Other . . . . .	(1,077)	(1,207)	3,453	(1,303)	(134)
<b>Cash used for investing activities</b> . . . . .	(4,480)	(1,295)	(9,360)	(1,143)	(16,278)
Change in financial liabilities . . . . .	(696)	2,647	(1,725)	3,821	4,047
Dividends paid . . . . .	(1,519)	(442)	(1,601)	2,025	(1,537)
Other . . . . .	1	–	2,150	(2,143)	8
<b>Cash provided by (used for) financing activities</b> . . . . .	(2,214)	2,205	(1,176)	3,703	2,518
Effect of foreign exchange rate changes on cash . . . . .	–	(865)	(204)	–	(1,069)
<b>Net increase (decrease) in cash and cash equiv.</b> . . . . .	(376)	936	1,107	–	1,667
<b>Cash and cash equivalents</b>					
At beginning of period . . . . .	3,100	3,982	2,018	–	9,100
At end of period . . . . .	2,724	4,918	3,125	–	10,767

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

2002 (in millions of € )	DaimlerChrysler AG (parent company)	DaimlerChrysler North America Holding	Other subsidiaries (combined)	Consolidating adjustments	DaimlerChrysler AG (consolidated)
<b>Assets</b>					
Intangible assets . . . . .	95	–	4,831	–	4,926
Property, plant and equipment, net . . . . .	5,973	–	30,296	–	36,269
Investments and long-term financial assets . . . . .	27,736	52,331	12,684	(83,460)	9,291
Equipment on operating leases, net . . . . .	3,722	–	24,713	(192)	28,243
<b>Fixed assets</b> . . . . .	<u>37,526</u>	<u>52,331</u>	<u>72,524</u>	<u>(83,652)</u>	<u>78,729</u>
Inventories . . . . .	5,750	–	10,638	(746)	15,642
Trade, finance and other receivables . . . . .	15,920	4,517	71,591	(16,070)	75,958
Securities . . . . .	369	318	2,606	–	3,293
Cash and cash equivalents . . . . .	3,100	3,982	2,048	–	9,130
<b>Non-fixed assets</b> . . . . .	<u>25,139</u>	<u>8,817</u>	<u>86,883</u>	<u>(16,816)</u>	<u>104,023</u>
<b>Deferred taxes and prepaid expenses</b> . . . . .	<u>2,881</u>	<u>552</u>	<u>8,601</u>	<u>(7,459)</u>	<u>4,575</u>
<b>Total assets</b> . . . . .	<u><u>65,546</u></u>	<u><u>61,700</u></u>	<u><u>168,008</u></u>	<u><u>(107,927)</u></u>	<u><u>187,327</u></u>
<b>Liabilities and stockholders' equity</b>					
<b>Stockholders' equity</b> . . . . .	35,004	11,010	66,573	(77,583)	35,004
<b>Minority interests</b> . . . . .	–	–	432	–	432
<b>Accrued liabilities</b> . . . . .	10,831	158	32,927	(294)	43,622
Financial liabilities . . . . .	11,838	48,427	37,974	(18,956)	79,283
Trade liabilities . . . . .	3,279	–	8,892	–	12,171
Other liabilities . . . . .	1,675	2,105	8,386	(3,323)	8,843
<b>Liabilities</b> . . . . .	<u>16,792</u>	<u>50,532</u>	<u>55,252</u>	<u>(22,279)</u>	<u>100,297</u>
<b>Deferred taxes and deferred income</b> . . . . .	<u>2,919</u>	<u>–</u>	<u>12,824</u>	<u>(7,771)</u>	<u>7,972</u>
<b>Total liabilities</b> . . . . .	<u>30,542</u>	<u>50,690</u>	<u>101,435</u>	<u>(30,344)</u>	<u>152,323</u>
<b>Total liabilities and stockholders' equity</b> . . . . .	<u><u>65,546</u></u>	<u><u>61,700</u></u>	<u><u>168,008</u></u>	<u><u>(107,927)</u></u>	<u><u>187,327</u></u>
Revenues . . . . .	55,430	–	130,202	(38,264)	147,368
Cost of sales . . . . .	(43,890)	–	(113,123)	37,389	(119,624)
<b>Gross margin</b> . . . . .	<u>11,540</u>	<u>–</u>	<u>17,079</u>	<u>(875)</u>	<u>27,744</u>
Selling, administrative and other expenses . . . . .	(6,830)	(16)	(12,279)	959	(18,166)
Research and development . . . . .	(3,272)	–	(2,778)	108	(5,942)
Other income . . . . .	556	–	912	(691)	777
Turnaround plan expenses – Chrysler Group . . . . .	–	–	(694)	–	(694)
<b>Income (loss) before financial income</b> . . . . .	<u>1,994</u>	<u>(16)</u>	<u>2,240</u>	<u>(499)</u>	<u>3,719</u>
Financial income (expense), net . . . . .	3,529	334	4,297	(5,954)	2,206
<b>Income (loss) before income taxes</b> . . . . .	<u>5,523</u>	<u>318</u>	<u>6,537</u>	<u>(6,453)</u>	<u>5,925</u>
Income taxes . . . . .	(728)	730	(1,308)	191	(1,115)
Minority interests . . . . .	–	–	(15)	–	(15)
<b>Income (loss) from continuing operations</b> . . . . .	<u>4,795</u>	<u>1,048</u>	<u>5,214</u>	<u>(6,262)</u>	<u>4,795</u>
Income from discontinued operations . . . . .	82	–	82	(82)	82
Cumulative effects of changes in accounting principles . . . . .	(159)	–	(159)	159	(159)
<b>Net income (loss)</b> . . . . .	<u><u>4,718</u></u>	<u><u>1,048</u></u>	<u><u>5,137</u></u>	<u><u>(6,185)</u></u>	<u><u>4,718</u></u>

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements – (Continued)**

2002 (in millions of € )	DaimlerChrysler AG (parent company)	DaimlerChrysler North America Holding	Other subsidiaries (combined)	Consolidating adjustments	DaimlerChrysler AG (consolidated)
<b>Cash provided by (used for) operating activities</b> . . . . .	7,434	484	13,219	(3,121)	18,016
Increase in equipment on operating leases . . . . .	(2,682)	–	(15,175)	153	(17,704)
Purchases of property, plant, equipment and other fixed assets . . . . .	(2,235)	–	(5,225)	–	(7,460)
Proceeds from disposals of equipment on operating leases . . . . .	2,150	–	12,962	–	15,112
Proceeds from disposals of fixed assets . . . . .	197	–	681	–	878
Payments for investments in businesses . . . . .	(331)	–	(405)	176	(560)
Proceeds from disposals of businesses . . . . .	292	–	5,570	(176)	5,686
(Increase) decrease in receivables from financial services, net . . . . .	(116)	–	(8,942)	9	(9,049)
Disposition (acquisitions) of securities (other than trading), net . . . . .	(14)	(353)	438	–	71
Other . . . . .	(239)	454	230	(365)	80
<b>Cash used for investing activities</b> . . . . .	(2,978)	101	(9,866)	(203)	(12,946)
Change in financial liabilities . . . . .	(2,763)	(1,195)	2,130	(2,647)	(4,475)
Dividends paid . . . . .	(1,003)	–	(7,015)	7,003	(1,015)
Other . . . . .	–	–	1,032	(1,032)	–
<b>Cash provided by (used for) financing activities</b> . . . . .	(3,766)	(1,195)	(3,853)	3,324	(5,490)
Effect of foreign exchange rate changes on cash . . . . .	–	(801)	(394)	–	(1,195)
<b>Net increase (decrease) in cash and cash equiv.</b> . . . . .	690	(1,411)	(894)	–	(1,615)
<b>Cash and cash equivalents</b>					
At beginning of period . . . . .	2,410	5,393	2,912	–	10,715
At end of period . . . . .	3,100	3,982	2,018	–	9,100

**DAIMLERCHRYSLER AG AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements – (Continued)**

2001 (in millions of € )	DaimlerChrysler AG (parent company)	DaimlerChrysler North America Holding	Other subsidiaries (combined)	Consolidating adjustments	DaimlerChrysler AG (consolidated)
Revenues . . . . .	54,638	–	133,588	(37,840)	150,386
Cost of sales . . . . .	(42,464)	–	(121,344)	37,561	(126,247)
<b>Gross margin . . . . .</b>	<b>12,174</b>	<b>–</b>	<b>12,244</b>	<b>(279)</b>	<b>24,139</b>
Selling, administrative and other expenses . . . . .	(6,454)	(25)	(12,507)	751	(18,235)
Research and development . . . . .	(2,821)	–	(3,122)	95	(5,848)
Other income . . . . .	393	–	1,395	(587)	1,201
Turnaround plan expenses – Chrysler Group . . . . .	–	–	(3,064)	–	(3,064)
<b>Income (loss) before financial income . . . . .</b>	<b>3,292</b>	<b>(25)</b>	<b>(5,054)</b>	<b>(20)</b>	<b>(1,807)</b>
Financial income (expense), net	(3,247)	(5,190)	3,094	5,496	153
<b>Income (loss) before income taxes . . . . .</b>	<b>45</b>	<b>(5,215)</b>	<b>(1,960)</b>	<b>5,476</b>	<b>(1,654)</b>
Income taxes . . . . .	(808)	1,073	1,299	(715)	849
Minority interests . . . . .	–	–	42	–	42
<b>Income (loss) from continuing operations . . . . .</b>	<b>(763)</b>	<b>(4,142)</b>	<b>(619)</b>	<b>4,761</b>	<b>(763)</b>
Income from discontinued operations . . . . .	101	–	101	(101)	101
<b>Net income (loss) . . . . .</b>	<b>(662)</b>	<b>(4,142)</b>	<b>(518)</b>	<b>4,660</b>	<b>(662)</b>
<b>Cash provided by (used for) operating activities . . . . .</b>	<b>3,892</b>	<b>(1,097)</b>	<b>10,678</b>	<b>2,011</b>	<b>15,484</b>
Increase in equipment on operating leases . . . . .	(2,496)	–	(15,470)	15	(17,951)
Purchases of property, plant, equipment and other fixed assets . . . . .	(1,987)	–	(7,619)	55	(9,551)
Proceeds from disposals of equipment on operating leases . . . . .	1,986	–	9,056	–	11,042
Proceeds from disposals of fixed assets . . . . .	322	–	776	(55)	1,043
Payments for investments in businesses . . . . .	(1,473)	–	(141)	793	(821)
Proceeds from disposals of businesses . . . . .	881	–	1,592	(793)	1,680
(Increase) decrease in receivables from financial services, net . . . . .	3	–	(1,048)	95	(950)
Disposition (acquisitions) of securities (other than trading), net . . . . .	88	2	1,290	–	1,380
Other . . . . .	(154)	(1,292)	(5,862)	7,450	142
<b>Cash used for investing activities . . . . .</b>	<b>(2,830)</b>	<b>(1,290)</b>	<b>(17,426)</b>	<b>7,560</b>	<b>(13,986)</b>
Change in financial liabilities . . . . .	2,198	5,649	6,428	(10,058)	4,217
Dividends paid . . . . .	(2,358)	–	(1,967)	1,958	(2,367)
Other . . . . .	–	–	1,480	(1,471)	9
<b>Cash provided by (used for) financing activities . . . . .</b>	<b>(160)</b>	<b>5,649</b>	<b>5,941</b>	<b>(9,571)</b>	<b>1,859</b>
Effect of foreign exchange rate changes on cash . . . . .	–	163	113	–	276
<b>Net increase (decrease) in cash and cash equivalents . . . . .</b>	<b>902</b>	<b>3,425</b>	<b>(694)</b>	<b>–</b>	<b>3,633</b>
<b>Cash and cash equivalents</b>					
At beginning of period . . . . .	1,508	1,968	3,606	–	7,082
At end of period . . . . .	2,410	5,393	2,912	–	10,715