

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001
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.

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Ordinary Shares, no par value	Frankfurt Stock Exchange New York Stock Exchange Chicago Stock Exchange Pacific Stock Exchange Philadelphia Stock Exchange
American Depositary Notes representing 5¾% Subordinated Mandatory Convertible Notes Due June 14, 2002	New York Stock Exchange
Guarantee of the following securities of: DaimlerChrysler North America Holding Corporation 8.50% Notes Due January 18, 2031 7¾% Notes Due September 15, 2006	New York Stock Exchange 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 1,003,271,998
(as of December 31, 2001)

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

TABLE OF CONTENTS

		<u>Page</u>
PART I		
Item 1.	Identity of Directors, Senior Management and Advisers	2
Item 2.	Offer Statistics and Expected Timetable	2
Item 3.	Key Information	2
	Selected Financial Data	2
	Risk Factors	5
Item 4.	Information on the Company	5
	Introduction	5
	Description of Business Segments	7
	Mercedes-Benz Passenger Cars & smart	7
	Chrysler Group	11
	Commercial Vehicles	16
	Services	21
	Other Activities	23
	Supplies and Raw Materials	25
	Government Regulation and Environmental Matters	26
	Introduction of the Euro	29
	Description of Property	30
Item 5.	Operating and Financial Review and Prospects	33
	Accounting Principles	33
	Inflation	34
	Factors Affecting Operations and Financial Reporting	34
	Operating Results	39
	2001 Compared With 2000	41
	2000 Compared With 1999	47
	Liquidity and Capital Resources	52
	Research and Development	55
	Outlook	57
	Cautionary Statement Regarding Forward-Looking Statements	58
Item 6.	Directors, Senior Management and Employees	59
	Supervisory Board	59
	Board of Management	62
	Compensation	65
	Employees and Labor Relations	66
	Share Ownership	67
Item 7.	Major Shareholders and Related Party Transactions	68
Item 8.	Financial Information	69
	Consolidated Financial Statements	69
	Other Financial Information	69
	Separate Financial Statements	69
	Export Sales	70
	Legal Proceedings	70
	Dividend Policy	72
	Significant Changes	72
Item 9.	The Offer and Listing	72

	<u>Page</u>
Item 10. Additional Information	75
Options to Purchase Securities from Registrant or Subsidiaries	75
Memorandum and Articles of Association	76
Material Contracts	80
Exchange Controls	80
Taxation	80
Documents on Display	84
Item 11. Quantitative and Qualitative Disclosures About Market Risk	84
Exchange Rate Risk	85
Interest Rate Risk	86
Equity Price Risk	87
Item 12. Description of Securities Other than Equity Securities	87
PART II	
Item 13. Defaults, Dividend Arrearages and Delinquencies	87
Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds	87
Item 15. [Reserved]	87
Item 16. [Reserved]	87
PART III	
Item 17. Financial Statements	88
Item 18. Financial Statements	88
Item 19. Exhibits	88

Presentation

DaimlerChrysler has prepared the consolidated financial statements included in this Annual Report (the “Consolidated Financial Statements”) in accordance with generally accepted accounting principles in the United States of America which are referred to as U.S. GAAP. See Note 1 to the Consolidated Financial Statements.

Currency Translation

Effective January 1, 1999, Germany and ten other member states of the European Union adopted the euro of the European Monetary Union as their common currency. They also established fixed conversion rates between their existing sovereign currencies and the euro. On January 1, 2001, Greece joined the European Monetary Union. DaimlerChrysler has been preparing its consolidated financial statements in euros since 1999. It also has translated financial information presented in this Annual Report for periods prior to January 1, 1999 from Deutsche Marks or DM into euros using the official fixed conversion rate of DM1.95583 for €1.

For the reader’s convenience, some financial information has been translated from euros into United States dollars (“dollars” or “\$”) at an assumed rate of €1 = \$0.8901. This rate represents the noon buying rate for euros on December 31, 2001 in New York City as certified by the Federal Reserve Bank of New York for customs purposes. The convenience translations do not mean that the euro amounts actually represent the corresponding dollar amounts stated or could be converted into dollars at the assumed rate. The assumed rate also differs from the rates used in the preparation of the Consolidated Financial Statements. Further information about recent rates of exchange between euros and dollars appears in “Item 3. Key Information.”

Cautionary Statement Regarding Forward-Looking Statements

Investors are cautioned that the forward-looking statements contained in this Annual Report involve both risk and uncertainty. A number of important factors could cause actual results or outcomes to differ materially from those anticipated by these statements. See “Cautionary Statement Regarding Forward-Looking Statements” in “Item 5. Operating and Financial Review and Prospects.”

References

In this Annual Report, “DaimlerChrysler,” the “DaimlerChrysler Group” or the “Group” refers to DaimlerChrysler AG and its consolidated subsidiaries.

PART I

Item 1. Identity of Directors, Senior Management and Advisers.

Not applicable.

Item 2. Offer Statistics and Expected Timetable.

Not applicable.

Item 3. Key Information.

SELECTED FINANCIAL DATA

The following table presents selected consolidated financial information of DaimlerChrysler. The table should be read together with “Item 5. Operating and Financial Review and Prospects” and the Consolidated Financial Statements.

The selected consolidated financial data presented below as of and for the years ended December 31, 2001, 2000, 1999, 1998 and 1997 have been taken or are derived from the audited consolidated financial statements of DaimlerChrysler for the relevant periods. The selected consolidated financial data have been prepared in accordance with U.S. GAAP except for the use of the proportionate method of consolidation for a material joint venture in 1998 and 1997. Under U.S. GAAP, joint ventures would be accounted for using the equity method of accounting. DaimlerChrysler AG received permission from the United States Securities and Exchange Commission to prepare its consolidated financial statements with this departure from U.S. GAAP. The business combination of Chrysler and Daimler-Benz consummated in November 1998 was treated as a “pooling of interests” for accounting purposes. Consequently, DaimlerChrysler restated the results of both companies as if they had been combined for all periods presented.

	Year Ended December 31,					
	2001 ¹	2001	2000	1999	1998 ²	1997 ²
	(in millions, except for ordinary share amounts)					
Income Statement Data:						
Revenues	\$ 136,072	€152,873	€162,384	€149,985	€131,782	€117,572
Income (loss) before financial income . . .	(1,457)	(1,637)	4,320	9,324	7,330	5,512
Income (loss) before extraordinary items and cumulative effects of changes in accounting principles	(589)	(662)	2,465	5,106	4,949	6,547 ³
Basic earnings (loss) per share	(0.59)	(0.66)	2.46	5.09	5.16	6.90 ³
Diluted earnings (loss) per share	(0.59)	(0.66)	2.45	5.06	5.04	6.78 ³
Net income (loss)	(589)	(662)	7,894 ⁴	5,746	4,820	6,547 ³
Basic earnings (loss) per share	(0.59)	(0.66)	7.87 ⁴	5.73	5.03	6.90 ³
Diluted earnings (loss) per share	(0.59)	(0.66)	7.80 ⁴	5.69	4.91	6.78 ³
Balance Sheet Data (end of period):						
Total assets	\$ 184,616	€207,410	€199,274	€174,667	€136,149	€124,831
Short-term financial liabilities	30,212	33,942	35,840	36,721	20,475	17,341
Long-term financial liabilities	50,705	56,966	48,943	27,767	19,955	17,034
Capital stock	2,322	2,609	2,609	2,565	2,561	2,391
Stockholders' equity	34,717	39,004	42,409	36,060	30,367	27,960
Other Data:						
Weighted average number of shares outstanding						
Basic	1,003.2	1,003.2	1,003.2	1,002.9	959.3	949.3
Diluted	1,003.2	1,003.2	1,013.9	1,013.6	987.1	968.2

¹ Amounts in this column are unaudited and have been converted from euros into dollars solely for the convenience of the reader at an exchange rate of €1 = \$0.8901, the noon buying rate for euros on December 31, 2001.

² The consolidated financial statements as of December 31, 1998 and 1997 and for the years then ended have been prepared in Deutsche Marks and were translated into euros at the fixed rate of DM1.95583 per euro.

³ Income before extraordinary item and net income for 1997 include €2,490 million of special non-recurring tax benefits. These tax benefits resulted partially from a special distribution which Daimler-Benz Aktiengesellschaft, the predecessor of DaimlerChrysler AG, paid to holders of its ordinary shares and American Depositary Shares on June 15, 1998, and partially from the reversal of valuation allowances previously established on deferred tax assets. The valuation allowances resulted primarily from net operating loss carryforwards of the Daimler-Benz group's German companies that filed a combined tax return (*Organschaft*). The tax benefit resulting from the special distribution was €1,487 million and the tax benefit resulting from the reversal of the valuation allowances was €1,003 million. Without these tax benefits, the basic earnings per ordinary share in 1997 were €4.28 and the diluted earnings per ordinary share were €4.21.

⁴ Net income for 2000 includes €5,516 million of extraordinary gains from the disposals of businesses. Without these gains, the basic earnings per ordinary share in 2000 were €2.37 and the diluted earnings per ordinary share were €2.36.

Dividends

The following table shows in euros and in dollars the dividends paid per DaimlerChrysler ordinary share for the years 2000, 1999 and 1998 and the dividend paid per Daimler-Benz ordinary share for the year 1997. The table also discloses the dividend amount per DaimlerChrysler ordinary share for 2001 proposed by the Supervisory Board and the Board of Management for approval at the annual general meeting of stockholders to be held on April 10, 2002.

The table does not reflect any related tax credits available to German taxpayers who receive dividend payments. Owners of DaimlerChrysler ordinary shares who are United States residents should refer to “Taxation” in “Item 10. Additional Information” for potential German and United States federal income tax consequences of their receipt of dividends from DaimlerChrysler AG.

<u>Year Ended December 31,</u>	<u>Dividend Paid Per Ordinary Share</u>	
1997 ¹	€ 0.80	\$ 0.87
1998	2.35	2.50
1999	2.35	2.22
2000	2.35	2.08

2001 (proposed) ²	€ 1.00	\$ 0.87

¹ The dividend amount shown for the year 1997 is the dividend amount paid by Daimler-Benz Aktiengesellschaft, adjusted for a special distribution Daimler-Benz Aktiengesellschaft paid to holders of its ordinary shares and American Depositary Shares on June 15, 1998.

² The euro amount shown for 2001 was translated into dollars solely for the convenience of the reader at an exchange rate of €1 = \$0.8713, the noon buying rate for euros on February 14, 2002.

See also “Dividend Policy” in “Item 8. Financial Information.”

Exchange Rate Information

The following table shows average, high, low and period-end noon buying rates. For 1997 and 1998, the table reflects the average, high, low and period-end noon buying rates for the Deutsche Mark, shown after conversion into euros at the fixed rate of DM1.95583 per euro. For periods after January 1, 1999, the table shows the average, high, low and period-end noon buying rates for the euro.

<u>Year</u>	<u>Average¹</u>	<u>High</u>	<u>Low</u>	<u>Period-End</u>
	(in \$ per €)			
1997	1.1244	1.2689	1.0398	1.0871
1998	1.1120	1.2178	1.0548	1.1733
1999	1.0588	1.1812	1.0016	1.0070
2000	0.9207	1.0335	0.8270	0.9388
2001	0.8909	0.9535	0.8370	0.8901
2001				
July		0.8797	0.8370	0.8752
August		0.9194	0.8775	0.9090
September		0.9310	0.8868	0.9099
October		0.9181	0.8893	0.8993
November		0.9044	0.8770	0.8958
December		0.9044	0.8773	0.8901
2002				
January		0.9031	0.8594	0.8594
February (through February 14, 2002)		0.8778	0.8613	0.8713

¹ The average of the noon buying rates on the last business day of each month during the relevant year.

On February 14, 2002, the noon buying rate for €1 was \$0.8713.

DaimlerChrysler ordinary shares have traded on the Frankfurt Stock Exchange in euros since the beginning of 1999. Fluctuations in the exchange rate between the euro and the dollar will affect the dollar equivalent of the euro price of DaimlerChrysler ordinary shares reported for trades on the German stock exchanges. For this reason, exchange rate fluctuations are likely to affect the market price of the ordinary shares on the New York Stock Exchange, as well as the dollar amounts received upon conversion of cash dividends paid by DaimlerChrysler AG in euros.

See “Item 5. Operating and Financial Review and Prospects” and “Item 11. Quantitative and Qualitative Disclosures About Market Risk” for a discussion of the effect exchange rate fluctuations have on the business and operations of DaimlerChrysler as well as the hedging techniques used to manage the Group’s exposure to such fluctuations.

RISK FACTORS

For a discussion of risk factors and critical accounting policies, see “Factors Affecting Operations and Financial Reporting” in “Item 5. Operating and Financial Review and Prospects.”

Item 4. Information on the Company.

INTRODUCTION

Organization

DaimlerChrysler AG is a stock corporation organized under the laws of the Federal Republic of Germany. It was incorporated in Germany on May 6, 1998 in the course of the business combination of Daimler-Benz Aktiengesellschaft and Chrysler Corporation. DaimlerChrysler AG has its registered office at Epplestrasse 225, 70567 Stuttgart, Germany, telephone +49-711-17-0. Its agent for U.S. federal securities law purposes is DaimlerChrysler North America Holding Corporation, located at 1000 Chrysler Drive, Auburn Hills, MI 48326-2766.

History

On May 7, 1998, Daimler-Benz Aktiengesellschaft and Chrysler Corporation entered into a business combination agreement, which their stockholders approved on September 18, 1998. Chrysler became a wholly owned subsidiary of DaimlerChrysler AG through a merger transaction completed on November 12, 1998 in which its shareholders received DaimlerChrysler ordinary shares. Following an exchange offer in which more than 98% of Daimler-Benz stockholders exchanged their Daimler-Benz ordinary shares for ordinary shares of DaimlerChrysler AG, Daimler-Benz was merged into DaimlerChrysler AG on December 21, 1998. Accordingly, DaimlerChrysler AG is the successor corporation to Daimler-Benz Aktiengesellschaft and comprises the respective businesses, stockholder groups, managements and other constituencies of Chrysler and Daimler-Benz.

Business Summary and Developments

In 2001, DaimlerChrysler reorganized some of its business segments. Following the exchange in July 2000 of the Group’s controlling interest in DaimlerChrysler Aerospace for a non-controlling (equity method) interest in European Aeronautic Defence and Space Company EADS N.V. (EADS), DaimlerChrysler transferred the remaining businesses of the former Aerospace segment and the investment in EADS to the Other Activities segment. In January 2001, DaimlerChrysler combined the operations of MTU/Diesel Engines, which was previously part of the Other Activities segment, with the Commercial Vehicles’ powertrain business in a new business unit within the Commercial Vehicles segment called DaimlerChrysler Powersystems. DaimlerChrysler has reclassified prior period amounts to conform its segment presentation to the new structure.

DaimlerChrysler AG is the ultimate parent company of the DaimlerChrysler Group. The Group is primarily engaged in the development, manufacture, distribution and sale of a wide range of automotive products, mainly passenger cars and commercial vehicles. It also provides financial and other services relating to the automotive value-added chain. The DaimlerChrysler Group has five business segments:

- **Mercedes-Benz Passenger Cars & smart**
- **Chrysler Group**
- **Commercial Vehicles**
- **Services**
- **Other Activities**

In 2001, DaimlerChrysler continued its strategy of concentrating on the automotive core business and related services. 97% of the Group's revenues in 2001 relate to the automotive business, including financial services. The DaimlerChrysler Group is active primarily in Europe and in the NAFTA region which consists of the United States, Canada and Mexico. Through its alliances with Mitsubishi Motors Corporation and Hyundai Motor Company, the Group expects to increase its presence in the Asian market. It is also a leading commercial vehicle manufacturer in South America. In 2001, DaimlerChrysler derived approximately 53% of its revenues from sales in the United States, 15% from sales in Germany and 15% from sales in other countries of the European Union. See "Operating Results" in "Item 5. Operating and Financial Review and Prospects."

DaimlerChrysler's aggregate capital expenditures for property, plant and equipment were €8.9 billion in 2001, €10.4 billion in 2000, and €9.5 billion in 1999. In 2001, the United States accounted for 47% and Germany for 27% of these capital expenditures. Expenditures on operating leases in 2001 were €18.0 billion, somewhat less than in the two prior years (2000: €19.1 billion; 1999: €19.3 billion). See also "Description of Business Segments" for a description of capital expenditures by business segment.

In October 2000, DaimlerChrysler acquired a 34% equity interest in Mitsubishi Motors Corporation. In June 2001, AB Volvo sold its 3.3% equity interest in Mitsubishi Motors Corporation and its rights in several operational contracts with Mitsubishi Motors Corporation, including all rights resulting from Volvo's cooperation with Mitsubishi Fuso Truck & Bus Company, to DaimlerChrysler. As a result, DaimlerChrysler's equity interest in Mitsubishi Motors Corporation increased to 37.3%.

On October 1, 2000, DaimlerChrysler and Deutsche Telekom AG combined their information technology activities in a joint venture. As part of the transaction, Deutsche Telekom contributed €4.6 billion in cash to DaimlerChrysler's information technology subsidiary debis Systemhaus in return for which Deutsche Telekom received a 50.1% interest in that company. In 2001, debis Systemhaus was renamed T-Systems ITS. In January 2002, DaimlerChrysler decided to exit the joint venture by exercising its option to sell to Deutsche Telekom the Group's 49.9% interest for proceeds of €4.7 billion. The sale is expected to close in March 2002 with the termination of the joint venture.

See also "Material Contracts" in "Item 10. Additional Information." For additional information and a description of other acquisitions and dispositions of businesses during the last three years, see Notes 4 and 11 to the Consolidated Financial Statements.

In 2001, the Group had a net loss of €0.7 billion compared to net income of €7.9 billion in 2000. The 2000 net income includes net gains on dispositions of €5.5 billion, which have been classified as extraordinary under special accounting rules applicable only to transactions occurring within a two-year period following the business combination of Daimler-Benz and Chrysler in November 1998, which was accounted for as a pooling of interests. Additionally, net income in 2000 contains a net expense of €87 million from cumulative effects of changes in accounting principles for derivative financial instruments (SFAS 133) and retained interests in sold receivables (EITF 99-20). Net income (loss) including extraordinary items and cumulative effects of changes in accounting principles decreased by €8.6 billion to a net loss of €0.7 billion in 2001. Before extraordinary items and

cumulative effects of changes in accounting principles DaimlerChrysler had a basic and diluted loss per ordinary share of €0.66 in 2001, compared to basic and diluted earnings per ordinary share in 2000 of €2.46 and €2.45, respectively. Including extraordinary items and cumulative effects of changes in accounting principles, the basic and diluted loss per ordinary share in 2001 remains unchanged at €0.66, compared to basic and diluted earnings per share in 2000 of €7.87 and €7.80, respectively. See “Item 3. Key Information” and “Item 5. Operating and Financial Review and Prospects.”

As of December 31, 2001, DaimlerChrysler AG had 1,003,271,998 shares outstanding and approximately 1.9 million stockholders. Its ordinary shares are traded on various stock exchanges throughout the world, including the Frankfurt Stock Exchange and the New York Stock Exchange.

Significant Subsidiaries

The following table shows the principal significant subsidiaries owned, directly or indirectly, by DaimlerChrysler AG as of December 31, 2001:

<u>Name of company</u>	<u>Percentage Owned</u>
DaimlerChrysler North America Holding Corporation, Auburn Hills, MI, a Delaware corporation . . .	100.0
DaimlerChrysler Corporation, Auburn Hills, MI, a Delaware corporation	100.0
DaimlerChrysler Services North America LLC, Southfield, MI, a Michigan limited liability company	100.0
DaimlerChrysler Motors Corporation, Auburn Hills, MI, a Delaware corporation	100.0
Freightliner LLC, Portland, OR, a Delaware limited liability company	100.0
DaimlerChrysler Services AG, registered in Berlin, Germany	100.0
Micro Compact Car smart GmbH, registered in Renningen, Germany	100.0

DaimlerChrysler AG owns 100% of DaimlerChrysler North America Holding Corporation, DaimlerChrysler Services AG and Micro Compact Car smart GmbH. DaimlerChrysler North America Holding Corporation owns 100% of DaimlerChrysler Corporation and Freightliner LLC. DaimlerChrysler Corporation owns 100% of DaimlerChrysler Services North America LLC and DaimlerChrysler Motors Corporation.

DESCRIPTION OF BUSINESS SEGMENTS

Mercedes-Benz Passenger Cars & smart

Mercedes-Benz passenger cars are world renowned for their innovative technology, highest levels of comfort, quality and safety, and pioneering design. The smart is a micro compact passenger car designed to respond to the challenges of urban mobility and optimum use of resources. Mercedes-Benz Passenger Cars & smart contributed approximately 29% of the Group’s revenues in 2001.

Products

Mercedes-Benz. The Mercedes-Benz passenger car product range consists of the following series:

The S-Class. The S-Class is a line of full-size luxury sedans ranging from the S 320 to the S 600. In addition to various gasoline powered models, this line also includes two diesel engine versions with common-rail technology, the S 320 CDI and the S 400 CDI. A sportier version, the S 55 AMG, and two stretched Pullman sedans based on the S 500 and S 600 complete the line-up. The S-Class has been one of the main contributors over the years to the strength of the Mercedes-Benz brand and its reputation for innovative high-quality luxury automobiles with an uncompromised emphasis on operator and passenger safety and superior resale value.

The CL, a top-of-the-line coupe, represents a unique combination of superior driving performance, comfort and state-of-the-art technology. Customers can choose among three models, the CL 500, the CL 600 and the CL 55 AMG.

In October 2001, DaimlerChrysler introduced a new SL series with an all-new body style in the European markets. The new SL versions, the SL 500 and the SL 55 AMG, feature several technological innovations, including a state-of-the-art vario-roof, an electrohydraulic brake control system and an active suspension system. The new SL series is scheduled to become available in the United States beginning in March 2002.

In 1999, DaimlerChrysler entered into an agreement with McLaren Cars Ltd., a wholly-owned subsidiary of TAG McLaren Holding Ltd., for the design and production of a new high-performance sports car, the SLR. The market launch of the SLR is scheduled for 2003. DaimlerChrysler owns a 40% interest in TAG McLaren Holding Ltd.

The E-Class. The E-Class represents a line of luxury sedans and station wagons. E-Class sedans are available in six gasoline engine versions ranging from the E 200 to the E 55 AMG and four common-rail diesel engine versions. DaimlerChrysler plans to introduce a redesigned E-Class sedan in March 2002 and a new station wagon in 2003.

The C-Class. The C-Class is a line of compact luxury sedans and station wagons. Five gasoline engine versions, ranging from the C 180 to the C 32 AMG, and three common-rail diesel engine versions are available. Following the introduction of a new C-Class sedan in 2000, a redesigned C-Class station wagon and a new C-Class sports coupe entered the market in Europe in March 2001 and in the United States in September 2001. The SLK, a two-seat roadster, the CLK coupe and the CLK convertible complement the C-Class product family. New versions of the CLK coupe and the CLK convertible are scheduled for March 2002 and for 2003, respectively.

The A-Class. The A-Class is a four-door hatchback with front-wheel drive that is available in three gasoline engine versions and two diesel engine versions with common-rail technology. Concurrent with a facelift of the existing model, a long wheelbase version of the A-Class became available in May 2001. The A-Class is not offered in the United States.

The M-Class. The M-Class is a line of four-by-four sport-utility vehicles ranging from the ML 270 CDI to the ML 55 AMG. It combines off-road capabilities with the comfort of a passenger car. DaimlerChrysler produces the M-Class in Tuscaloosa, Alabama, and, since 1999, in Graz, Austria. A facelifted version of the M-Class was introduced in September 2001.

The G-Class. The G-Class is a four-wheel drive cross-country vehicle that has been consistently successful in its market segment since it was introduced in 1979. It comes in a short and long wheelbase version and also as a convertible. Two gasoline engine models and two common-rail diesel engine models are currently available. In December 2001, DaimlerChrysler began to offer the G 500 long wheelbase version in the United States.

Maybach. DaimlerChrysler is developing a high-end luxury limousine under the brand name "Maybach" which it expects to introduce in the fall of 2002.

smart. In 1998, DaimlerChrysler introduced a new micro compact car, the smart City coupe. The smart cdi, a diesel version of the smart, and a smart convertible complement the product family. The two-seat smart offers a trend-setting response to the challenges of urban mobility and optimum use of resources. In New European Driving Cycle (NEDC) tests, the smart cdi achieved a fuel efficiency performance of 3.4 liters per 100 km (approximately 69 miles per gallon). In October 2001, a right-hand drive version of the smart City coupe became available in selected markets. The smart is not offered in the United States.

DaimlerChrysler plans to expand the smart product line by adding a two-seat roadster model and a coupe derivative in 2003 and, beginning in 2004, a four-door model. Mitsubishi Motors Corporation plans to offer a vehicle under its own brand name using the same platform and major components of the smart.

Markets, Sales and Competition

In 2001, the most important markets for the Mercedes-Benz Passenger Cars & smart segment were Germany (35% of unit sales), the remainder of Western Europe (33% of unit sales), the United States (17% of unit sales) and

Japan (4% of unit sales). In Germany, new passenger car registrations for all manufacturers were 3.3 million units, 1% less than in the previous year. In Western Europe (excluding Germany), new registrations of passenger cars increased 1% to 11.5 million units.

The following table shows the distribution of revenues and unit sales for the Mercedes-Benz Passenger Cars & smart segment by geographic market since 1999:

Revenues and Unit Sales

	Year Ended December 31,				
	2001	% change	2000	% change	1999
Revenues¹					
Western Europe	29,226	+11	26,396	+10	23,941
Germany	16,433	+5	15,661	+8	14,506
Other	12,793	+19	10,735	+14	9,435
NAFTA region	11,891	+7	11,112	+21	9,180
United States	11,034	+7	10,303	+21	8,519
Canada and Mexico	857	+6	809	+22	661
Asia	4,236	+9	3,886	+25	3,101
Japan	2,139	-1	2,154	+10	1,951
Other	2,097	+21	1,732	+51	1,150
Other markets	2,352	+2	2,306	+23	1,878
World	<u>47,705</u>	+9	<u>43,700</u>	+15	<u>38,100</u>
Units					
Western Europe	838,800	+6	787,800	+6	741,300
Germany	436,500	-1	440,000	+6	416,800
Other	402,300	+16	347,800	+7	324,500
NAFTA region	229,400	+4	220,600	+4	212,100
United States	213,400	+4	205,700	+4	197,200
Canada and Mexico	16,000	+7	14,900	0	14,900
Asia	93,800	+12	84,100	+12	75,000
Japan	48,100	+12	43,000	-13	49,500
Other	45,700	+11	41,100	+61	25,500
Other markets	67,700	+8	62,400	+20	51,900
World	<u>1,229,700</u>	+6	<u>1,154,900</u>	+7	<u>1,080,300</u>

¹ € in millions.

In 2001, both unit sales and revenues of Mercedes-Benz Passenger Cars & smart continued their upward trend. Passenger car unit sales increased 6% to 1,229,700 vehicles, primarily as a result of the strong performance of the C-Class sedan, station wagon and sports coupe, partially offset by a decline in E-Class unit sales principally caused by the planned market introduction of the successor model in March 2002. In Germany, the segment posted a 1% decrease in unit sales to 436,500 in an overall declining market. At 402,300, unit sales in Western Europe (excluding Germany) were up 16%. This was mainly due to higher demand for passenger cars in the United Kingdom, France, Spain and Italy. In the United States, the most important non-European market for Mercedes-Benz passenger cars, unit sales reached 213,400, 4% more than in 2000. This increase was primarily

the result of an increase in sales of C-Class automobiles and continued strong demand for the S-Class. Unit sales developed positively in Japan (+12% to 48,100) and in Asia (excluding Japan) (+11% to 45,700). For a discussion of changes in revenues, see “Operating Results” in “Item 5. Operating and Financial Review and Prospects.”

In Western Europe, the principal competitors of Mercedes-Benz passenger cars are BMW and Volkswagen (Audi, Bentley, Rolls Royce, VW) and, depending on the market segment, Ford (Jaguar, Land Rover, Volvo), General Motors (Opel, Saab, Vauxhall), Porsche, PSA (Peugeot/Citroen), Renault and Toyota (Lexus). In the United States, the principal competitors include BMW, Ford (Jaguar, Land Rover, Lincoln, Volvo), Honda (Acura), Nissan (Infiniti), Porsche, Toyota (Lexus), Volkswagen (Audi, Bentley, Rolls Royce, VW) and, depending on the market segment, Nissan, Toyota and certain models produced by General Motors (Cadillac, Saab), Mazda and Mitsubishi Motors. Principal competitors of the smart are Daewoo, Fiat, Ford, PSA (Peugeot/Citroen), Renault, Suzuki, Toyota (Daihatsu) and Volkswagen (Audi, Seat, Skoda, VW).

The following table shows, by vehicle line, the number of units sold since 1999:

	<u>Year Ended December 31,</u>		
	<u>2001</u>	<u>2000</u>	<u>1999</u>
Units			
S-Class (including CL and SL)	106,500	108,500	98,300
E-Class	201,400	246,900	246,500
C-Class (including CLK and SLK)	506,700	389,400	354,300
A-Class	190,600	198,400	206,900
M-Class	102,300	105,700	90,000
G-Class	6,000	3,900	4,400
smart	116,200	102,100	79,900
Total	<u>1,229,700</u>	<u>1,154,900</u>	<u>1,080,300</u>

Distribution

DaimlerChrysler distributes Mercedes-Benz passenger cars through a worldwide distribution system covering 166 countries and customs areas. Sales organizations differ in the various sales regions and are tailored to local needs and requirements. In Germany, DaimlerChrysler operates its own wholesale and retail network for Mercedes-Benz passenger cars. In other major European markets and in the United States, Canada and Japan, a Group subsidiary sells Mercedes-Benz passenger cars to an independent dealer network. In other markets, including East Asia, DaimlerChrysler sells its Mercedes-Benz passenger cars principally through independent general distributors. The smart is distributed through selected sales locations within the Mercedes-Benz retail network.

Capital Expenditures; Research and Development

The Mercedes-Benz Passenger Cars & smart segment had €2.1 billion of capital expenditures for fixed assets in 2001. Principal areas of investment were the preparation for production of the upcoming successor models of the E-Class, the CLK and the SL, the new Maybach and the new technology center in Sindelfingen, Germany.

In 2001, research and development projects of the segment included primarily the development of new models, namely the new Maybach, the SLR and the smart roadster, and the upcoming successor models of the E-Class, the A-Class and the M-Class.

The following table shows the capital expenditures for fixed assets and the research and development expenditures of the Mercedes-Benz Passenger Cars & smart segment during the last three years:

	<u>Year Ended December 31,</u>		
	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(€ in millions)		
Capital expenditures for fixed assets	2,061	2,096	2,228
Research and development	2,402	2,241	2,043

Chrysler Group

DaimlerChrysler Corporation, its subsidiaries DaimlerChrysler Canada Inc. and DaimlerChrysler de Mexico S.A. de C.V. and other international automotive affiliates manufacture, assemble and sell cars and trucks under the brand names Chrysler, Jeep® and Dodge. The Chrysler Group segment contributed approximately 41% of DaimlerChrysler’s revenues in 2001.

Turnaround Plan for the Chrysler Group

In February 2001, in response to an increasingly competitive and weakening U.S. automotive market, the Chrysler Group announced a turnaround plan designed to improve its financial performance and market position through the following key initiatives:

- *New Leadership* – Dieter Zetsche, a member of the Board of Management, leads the Chrysler Group as President and Chief Executive Officer, and Wolfgang Bernhard serves as Chief Operating Officer.
- *Supplier Cost Reduction Initiative* – The Chrysler Group requested suppliers to voluntarily reduce by 5% the prices charged for materials and services effective January 1, 2001 and to work closely with the Chrysler Group to identify an additional 10% cost reduction over the period 2001 through 2002.
- *Revenue Enhancement* – The Chrysler Group replaced certain dealer programs with a new performance-based incentive program for 2001 under which dealers may earn cash payments based on levels of achievement compared to pre-assigned monthly retail sales objectives.
- *Workforce Reduction* – The Chrysler Group is reducing its workforce by approximately 20% over the period 2001 through 2003. This reduction, which affects about 26,000 employees, is being achieved through a combination of retirements, special programs, attrition and layoffs.
- *Manufacturing Efficiencies* – In order to reduce excess production capacity and adjust production volumes, the Chrysler Group is idling, closing, or disposing of several manufacturing facilities, eliminating shifts and reducing line speeds at certain facilities and adjusting volumes at component, stamping and power-train facilities.

As part of the turnaround plan, DaimlerChrysler recorded a restructuring charge in 2001 which primarily related to workforce reductions, asset write-downs and contract cancellation costs. The charges recorded for the plan in 2001 were €3.1 billion. For a further discussion of the Chrysler Group’s turnaround plan, see “Operating Results” in “Item 5. Operating and Financial Review and Prospects” and Note 7 to the Consolidated Financial Statements.

Product Creation Process

In 2001, the Chrysler Group implemented a new product creation process intended to facilitate reduced vehicle development times and improved quality. This process utilizes product innovation teams to guide the strategy and execution of its new vehicle development programs. These teams will work within the Chrysler

Development System, which establishes “quality gates” to assure that predetermined objectives are met at every stage of the vehicle development process from creation to production. The product innovation teams are organized as follows:

- *Product Strategy Team* – This team analyzes the strategic issues necessary to develop a business case for a new product or product line, such as customer trends, design ideas, technological innovation and the economic environment.
- *Product Teams* – These teams, which have evolved from the platform team concept, are managed by the Engineering, Manufacturing and Marketing functions. The five product teams are: small vehicles, premium vehicles, family vehicles, activity vehicles and pick-up trucks. This organization provides the product teams with flexibility to adapt to the constantly changing marketplace. A powertrain team will also work closely with the product teams.
- *Component Teams* – These teams, which cross all product teams, are charged with maximizing value for a specific vehicle area or subsystem, while reducing complexity across all vehicle lines, by facilitating more component sharing where appropriate and improving communication with suppliers. These teams will draw on the best practices from Mercedes-Benz Passenger Cars & smart and Mitsubishi Motors Corporation.

Products

The Chrysler Group offers the following vehicles:

Neon. Neon is a compact four-door front-wheel drive sedan sold under the Dodge brand name in the U.S. market and under the Chrysler brand name in Canada and all other markets. Neon is generally available with a choice of two 2.0-liter four-cylinder engines and a choice of five-speed manual or four-speed automatic transmission. A 1.6-liter four-cylinder engine with a five-speed manual transmission and a 2.0-liter four-cylinder engine with a four-speed automatic transmission are available in selected markets outside the NAFTA region.

Sebring and Stratus Sedans. The Chrysler Sebring and Dodge Stratus are mid-size front-wheel drive four-door sedans offering contemporary cab-forward styling. Both sedans are offered in the NAFTA region in multiple models and are powered by either a 2.4-liter four-cylinder or a 2.7-liter aluminum V-6 engine. The Sebring is also offered in selected markets outside the NAFTA region with a 2.0-liter four-cylinder or a 2.7-liter aluminum V-6 engine.

Intrepid, Concorde and 300M. Dodge Intrepid is a mid-size front-wheel drive four-door sedan offered with a 2.7-liter or 3.5-liter aluminum V-6 engine. The Intrepid is available only in the NAFTA region. The Chrysler Concorde is a full-size front-wheel drive sedan available in three models and powered by either a 2.7-liter or 3.5-liter aluminum V-6 engine. The Chrysler 300M is a front-wheel drive sport sedan powered by a 3.5-liter aluminum V-6 engine for both the NAFTA region and other markets with an optional 2.7-liter V-6 engine for markets outside the NAFTA region. Concorde and 300M models are available in the NAFTA region and in other selected markets.

Other Cars. Other cars include the Viper models, offered as a two-seat sport roadster or sport coupe, both with a high performance V-10 powertrain; and the Dodge Stratus and Chrysler Sebring, two-door coupes produced by Mitsubishi Motor Manufacturing of America in its Normal, Illinois, assembly plant. Other cars also include the front-wheel drive four-passenger mid-size Chrysler Sebring convertible with a power top. It is available in the NAFTA region with a 2.7-liter aluminum V-6 engine and in other markets with a 2.0-liter four-cylinder engine or a 2.7-liter aluminum V-6 engine. Lastly, the Dodge Atos, produced by Hyundai and sold exclusively in Mexico, is a sub-compact monovolume vehicle equipped with a 1.0-liter four-cylinder engine.

Minivans. The long wheelbase Dodge Grand Caravan and Chrysler Town & Country are equipped with either front-wheel or all-wheel drive. The short wheelbase Dodge Caravan and Chrysler Voyager are equipped with

front-wheel drive. Gasoline engines available on minivans include a 2.4-liter four-cylinder, a 3.3-liter V-6 and a 3.8-liter V-6. For selected markets, a common rail 2.5-liter four-cylinder diesel engine is also available. In 2001, the Chrysler and Dodge minivans continued to lead the market as the best-selling minivans in the world.

PT Cruiser. PT Cruiser is sold under the Chrysler brand and offers the interior volume of a full-size sedan or sport-utility vehicle with a length shorter than many compact cars. The front-wheel drive PT Cruiser is available with a 2.4-liter four-cylinder engine and either a five-speed manual or a four-speed automatic transmission. For other selected markets outside the NAFTA region, a choice of four-cylinder engines includes the 1.6-liter gasoline, 2.0-liter gasoline and 2.2-liter common-rail diesel.

Ram Pick-up. The Dodge Ram 1500 pick-up truck was completely redesigned for the 2002 model year. The Ram 2500/3500 pick-up trucks have been redesigned for the 2003 model year and will be available in the second half of 2002. Ram pick-up trucks are available in standard cab and quad cab body styles. A chassis cab variant is also offered in three wheelbases for various work applications. The gasoline engine lineup includes a 3.7-liter V-6, a 4.7-liter V-8, a 5.9-liter V-8 and an 8.0-liter V-10. A 5.9-liter I-6 diesel is available with a five-speed manual or four-speed automatic transmission, and a diesel high-output version is available with a six-speed manual transmission.

Dakota. The Dakota pick-up truck is available in standard, club and quad cab body styles. Though a mid-size pick-up, the Dakota competes primarily in the compact pick-up truck segment. The engine lineup consists of a 2.5-liter I-4, a 3.9-liter V-6, a 4.7-liter V-8 and a 5.9-liter V-8. Dakota is the only competitor in the compact pick-up truck segment to offer a V-8.

Durango. The Dodge Durango, a five- to eight-passenger sport utility vehicle, was derived from the Dakota platform and competes in the upper-middle sport utility market. The Durango is available with a 4.7-liter or 5.9-liter V-8 engine, packaged in the bold, Dodge Ram-inspired exterior.

Ram Van and Wagon. The Ram Van and Wagon are Dodge's entry in the full-size van/wagon market and are available in two wheelbases and three body configurations. Dodge builds cargo vans, conversion vans and wagons up to 15-passenger capacity. Several tradesman packages, crew vans and small school buses are available.

Jeep® Grand Cherokee. The Grand Cherokee exemplifies four-wheel drive leadership and style with an exceptional balance of power, performance, on-road handling, security and luxury. Grand Cherokee is available in a four-door body style in both two- and four-wheel drive configurations. In the NAFTA region it is offered with a 4.0-liter I-6 or 4.7-liter V-8 engine. Vehicles for the NAFTA region are produced in Detroit, Michigan, and vehicles for sale outside the NAFTA region are produced in Graz, Austria, and are also available with a 2.7-liter I-5 diesel engine.

Jeep® Liberty. Launched in the second quarter of 2001, the all-new Jeep® Liberty continues Jeep® leadership in four-wheel drive capability and adds a new level of on-road refinement through independent front suspension, a new V-6 engine and isolated multi-link rear suspension in addition to a new body style and other features. The Liberty is offered with two- or four-wheel drive, and a 2.4-liter gasoline, 3.7-liter V-6 gasoline or 2.5-liter turbo diesel engine. The Liberty models are built in an all-new facility in Toledo, Ohio. This vehicle is offered as Jeep® Cherokee in selected markets outside the NAFTA region.

Jeep® Wrangler. The Wrangler is the authentic four-wheel drive vehicle that is the icon of the Jeep® brand. Wrangler is offered with four-wheel drive, removable soft and hard top systems, and a choice of four- or six-cylinder gasoline engines.

Markets, Sales and Competition

In 2001, the most important markets for the Chrysler Group were the United States (80% of factory shipments or unit sales), Canada (9% of unit sales) and Mexico (5% of unit sales). Retail sales in the United States

and Canada amounted to 2,518,800 vehicles in 2001, which compares to 2,791,500 in 2000. For 2001, this represents a 13.2% share of the United States and Canada car and truck market, compared to 14.4% in 2000. Industry retail sales in the United States and Canada for 2001 were 19.1 million units, a decrease of 2% over 2000.

The following table shows the distribution of revenues and unit sales for this segment by geographic market since 1999:

Revenues and Unit Sales

	Year Ended December 31,				
	2001	% change	2000	% change	1999
Revenues¹					
NAFTA region	58,210	-7	62,814	+5	59,766
United States	51,548	-8	55,924	+3	54,052
Canada	4,529	-9	4,963	+11	4,473
Mexico	2,133	+11	1,927	+55	1,241
European Union	3,546	+7	3,309	+26	2,620
Other markets	1,727	-23	2,249	+32	1,699
World	<u>63,483</u>	-7	<u>68,372</u>	+7	<u>64,085</u>
Units²					
NAFTA region	2,569,600	-10	2,858,500	-6	3,052,000
United States	2,196,000	-11	2,469,700	-8	2,693,200
Canada	240,600	-10	267,400	0	268,300
Mexico	133,000	+10	121,400	+34	90,500
European Union	105,100	+2	103,000	+10	93,500
Other markets	81,200	-3	83,700	0	83,800
World	<u>2,755,900</u>	-10	<u>3,045,200</u>	-6	<u>3,229,300</u>

¹ € in millions.

² Unit sales represent factory shipments by the Chrysler Group.

In 2001, revenues of the Chrysler Group decreased primarily as a result of a decrease in unit sales, partially offset by an appreciation of the dollar against the euro. Measured in dollars, the currency in which a significant portion of the Chrysler Group's sales are earned, revenues declined by 10%. Total unit sales decreased by 10% to 2,755,900. Unit sales in the United States were down 11% in 2001 to 2,196,000 vehicles, primarily attributable to substantial competitive pressures in the U.S. market, especially in the Chrysler Group's key market segments of upper-middle sport utility vehicles and pick-up trucks. See also "Operating Results" in "Item 5. Operating and Financial Review and Prospects."

In the NAFTA region, principal competitors of the Chrysler Group are General Motors, Ford, Toyota, Honda and Nissan. Intense competition in the NAFTA region is likely to continue. Due to the economic conditions in other markets, particularly in Asia, and a relatively strong U.S. dollar, non-U.S. competitors with excess capacity may intensify their efforts to export vehicles to the NAFTA region.

The following table shows, by vehicle line, the number of units sold since 1999:

	Year Ended December 31,		
	2001	2000	1999
Units¹			
Cars			
Neon	188,400	236,300	251,200
Stratus and Sebring Sedans ²	203,600	197,100	215,400
Intrepid, Concorde and 300M ³	200,000	293,400	338,300
Other	105,900	92,300	101,300
Minivans	591,600	589,000	681,500
PT Cruiser	214,300	141,200	—
Trucks			
Ram Pick-up	375,900	434,700	487,100
Dakota	163,100	195,800	171,100
Durango	132,600	180,900	219,600
Ram Van and Wagon	57,500	77,000	83,100
Jeep [®]			
Grand Cherokee	249,900	336,600	380,100
Liberty/Cherokee	201,300	174,500	200,500
Wrangler	71,800	96,400	100,100
Total	<u>2,755,900</u>	<u>3,045,200</u>	<u>3,229,300</u>

¹ Unit sales represent factory shipments by the Chrysler Group.

² Includes former Cirrus and Breeze sedans.

³ Includes former LHS sedan.

Distribution

In the NAFTA region, new passenger cars and trucks are sold at retail by dealers who have sales and service agreements with DaimlerChrysler Motors Corporation, a 100% owned subsidiary of DaimlerChrysler Corporation. The dealers purchase cars, trucks, parts and accessories from DaimlerChrysler Motors Corporation for sale to retail customers. In the United States, DaimlerChrysler Motors Corporation distributed its products through 4,320 dealers at December 31, 2001, compared to 4,377 at December 31, 2000. In Canada, the dealer network comprised 525 dealers at December 31, 2001, compared to 543 dealers at December 31, 2000. In Mexico, the dealer network comprised 121 dealers at December 31, 2001 and 2000.

Chrysler International Corporation, a 100% owned subsidiary of DaimlerChrysler Corporation, sells vehicles in various other countries through wholly-owned, affiliated and independent distributors and dealers.

Capital Expenditures; Research and Development

In 2001, the Chrysler Group invested €5.1 billion in fixed assets. These capital expenditures related primarily to completion of the launches of the all-new Jeep[®] Liberty and Dodge Ram 1500 pick-up truck and launches of the Viper and the Dodge Ram 2500/3500 pick-up trucks in 2002 as well as the Chrysler Pacifica. The Pacifica is a segment-busting all wheel-drive sports tourer that combines the attributes of a minivan, sport utility vehicle and sedan. A production version of the Pacifica will be revealed later this year and will go on sale in early 2003. This amount also includes expenditures made to improve capacity, upgrade powertrain and component facilities and maintain other existing facilities.

Research and development expenditures in 2001 were primarily for new product development, but also included development costs for improving existing products. These expenditures included compliance costs associated with regulations promulgated by various governmental agencies worldwide.

The following table shows the capital expenditures for fixed assets and the research and development expenditures of the Chrysler Group segment during the last three years:

	<u>Year Ended December 31,</u>		
	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(€ in millions)		
Capital expenditures for fixed assets	5,083	6,339	5,224
Research and development	2,201	2,456	2,000

International Operations/Cooperations

DaimlerChrysler Corporation’s international operations in Europe include the manufacture of the Chrysler Voyager and PT Cruiser at its Eurostar plant located in Graz, Austria. DaimlerChrysler Corporation and Magna International Inc. on February 15, 2002 confirmed a business agreement for the sale of the plant to Magna, subject to certain approvals. Operations in South America include a manufacturing facility in Venezuela, where the Chrysler Neon, Jeep® Cherokee and Jeep® Grand Cherokee are assembled.

International cooperations in Austria include the manufacture of Jeep® Grand Cherokees under an assembly contract with Steyr-Daimler-Puch Fahrzeugtechnik AG & Co KG. The segment’s automotive affiliations in the Asia-Pacific region include the assembly and distribution of Jeep®Cherokees and Grand Cherokees in China by Beijing Jeep® Corporation, Ltd., a minority-owned joint venture. In addition, DaimlerChrysler Corporation has an agreement for the assembly of Jeep® vehicles in Thailand. In Brazil, it participates in a joint venture with Bayerische Motoren Werke AG to manufacture a 1.6-liter gasoline engine for use in both Chrysler Group and BMW vehicles. DaimlerChrysler Corporation also has a minority interest in a company that assembles Jeep® Cherokees in Egypt.

In early 2003 production is projected to begin in Germany of the Chrysler Crossfire two seat coupe, in conjunction with Karmann, a long-time DaimlerChrysler partner.

Commercial Vehicles

DaimlerChrysler manufactures and sells commercial vehicles under the brand names Mercedes-Benz, Freightliner, Sterling, Setra, Thomas Built Buses, American La France, Western Star and Orion. With facilities throughout the world, the Group has a very strong network for the production and assembly of commercial vehicles and core components. It also has a worldwide distribution and service network. Commercial Vehicles contributed approximately 17% of the Group’s revenues in 2001.

Turnaround Plan for Freightliner

In the NAFTA region, Commercial Vehicles operates its truck business through Freightliner LLC. In October 2001, due to a substantial downturn in demand in North America, Freightliner announced a four-point turnaround plan designed to return the business to sustainable profitability. The turnaround plan includes the following four main elements:

- *Material Cost Savings* – Freightliner targets direct material expenditures for a reduction of 10% by 2004 based on design changes, optimized workflow between Freightliner and its supplier base, improved conditions for existing supplier agreements and a more standardized and modular contenting of vehicles. This does not include a 4% reduction that was achieved with the suppliers in 2001.
- *Production Cost Savings* – Freightliner expects to achieve a reduction in production costs of up to 15% until 2004 as a result of various plant closures and efficiency improvements, including the following: the closing of the Woodstock, Ontario school bus assembly plant in the fourth quarter of 2001; the planned closing of the Kelowna, British Columbia truck assembly plant in 2002; and the overhaul of its parts manufacturing operations. At present, this includes negotiations to spin off the parts business as well as to close the Portland based parts plant. Plant closures and efficiency improvements are expected to result in the reduction of at least 1,600 hourly employees.

- *Overhead Reductions* – Freightliner plans to reduce its salaried workforce by 1,100 employees or 25%. Effective January 2002, the salaries and wages of both salaried and hourly employees were reduced by 5% and changes were made to health and welfare benefits. Additional savings are expected with respect to non-manpower expenses.
- *Improvements to the Business Model* – A revised business model focuses on securing profitable business rather than accumulating market share. More specifically, this model emphasizes applying more stringent criteria to new truck pricing and residual value commitments in leasing transactions and streamlining the cost of the used truck operations.

See also “Operating Results” in “Item 5. Operating and Financial Review and Prospects” and Note 5 to the Consolidated Financial Statements.

Products

Vans. Worldwide, DaimlerChrysler currently offers three series of Mercedes-Benz vans between 2 metric tons (t) and 7.5t gross vehicle weight (GVW). These are the Sprinter, which was supplemented by a 6t GVW version in 2001, the Vito/V-Class and the Vario. DaimlerChrysler manufactures its Mercedes-Benz vans in Germany and Spain for all markets excluding South America. DaimlerChrysler manufactures Mercedes-Benz vans in Argentina for the South American markets. In spring 2001, DaimlerChrysler launched the Sprinter van in North America under the Freightliner brand name. In February 2002, DaimlerChrysler added a new Mercedes-Benz compact van, the Vaneo. The Vaneo can be employed for commercial purposes as well as for private use.

Trucks. The current European Mercedes-Benz truck lines consist of the Actros in the heavy weight categories, the Atego in the medium and heavy weight category, the Axor, a new semi-trailer truck which was launched in January 2002 and is positioned between the Actros and the Atego, and the Econic, a vehicle that can be adapted for a variety of special applications. Complementing this line-up is the Unimog, a four-wheel drive vehicle which is designed for special purpose applications such as street maintenance, some construction industry uses, fire-fighting, forestry and agriculture.

In Turkey, the Group produces Atego and Axor trucks for the local market. Mercedes-Benz do Brasil develops and produces Mercedes-Benz trucks for the South American markets. DaimlerChrysler supplies the African, Asian and Australian continents through its European and North American factories and manufacturing operations in Nigeria, Indonesia, Iran, Saudi Arabia and China.

Freightliner manufactures trucks in Classes 5 through 8 (from 16,000 lbs. GVW to 33,000 lbs. GVW and over) under the Freightliner, Sterling and Western Star brand names for the U.S. and Canadian markets. Through American La France, Freightliner is active in the market for custom fire truck chassis. Freightliner also manufactures chassis for trucks, buses and motorhomes in Classes 3 through 7 (from 10,000 lbs. GVW to 33,000 lbs. GVW).

Buses. The bus product lines consist of complete buses for city, intercity and touring purposes, school buses and bus chassis which are completed by local bus builders in various countries. The segment’s operating companies develop their own bus designs based on national requirements and adapt their models to the specific market needs of each region. Moreover, numerous cooperation partners throughout the world manufacture buses or bus chassis under license. In Europe, DaimlerChrysler markets buses under the Mercedes-Benz and Setra brand names. In October 2001, a jury of 14 European bus and coach journalists voted the new Setra TopClass 400 coach “Coach of the Year 2002.” The Group offers buses under the Setra, Thomas Built Buses and Orion brand names in the United States and in Canada, and under the Mercedes-Benz brand name in Mexico.

DaimlerChrysler Powersystems. In January 2001, DaimlerChrysler combined the businesses of the former Powertrain business unit, Detroit Diesel Cooperation and MTU Motoren- und Turbinen-Union Friedrichshafen in a new business unit called DaimlerChrysler Powersystems. This business unit designs, manufactures and sells on- and off-highway diesel engines, transmissions, axles and steering systems under the brand names Mercedes-Benz, Detroit Diesel, DISCOS and MTU. It sells these components to members of the DaimlerChrysler Group and to third party customers.

In July 2001, DaimlerChrysler and Hyundai Motor Company formed Daimler-Hyundai Truck Corporation, a 50-50 joint venture for the manufacture and sale of engines for commercial vehicles. Operations of the joint venture are scheduled to begin in 2004. DaimlerChrysler also holds a 10% equity interest in Hyundai Motor Company in support of this joint effort.

In June 2001, DaimlerChrysler acquired AB Volvo's 3.3% interest in Mitsubishi Motors Corporation, including all rights resulting from Volvo's cooperation with Mitsubishi Fuso Truck & Bus Company. In combination with this acquisition, in December 2001, selected Mercedes-Benz commercial vehicle dealerships assumed marketing responsibility from Volvo for Mitsubishi Motors' light-duty truck model "Canter" in the United Kingdom, France, Italy, Sweden and Poland. The "Canter" is marketed separately from Mercedes-Benz products.

Markets, Sales and Competition

The market for commercial vehicles depends significantly on general economic conditions since they directly influence transportation needs and the availability of funds for capital investment. In 2001, overall market sales of commercial vehicles decreased in Western Europe (-1%), especially in the Netherlands, Germany and Belgium, despite increased demand in France, Italy and the United Kingdom. The contraction in market volume in Western Europe was largely the result of lower sales of trucks. In the NAFTA region, due to a severe economic downturn, sales for all manufacturers fell approximately 28% to 328,200 vehicles in the Class 6 through 8 categories which are particularly important for the Freightliner, Sterling and Western Star brands. In several South American countries, demand for commercial vehicles dropped significantly, especially in Argentina due to its financial and economic crisis. Sales in Turkey also went down as a result of an economic slowdown.

In Germany, registrations of new commercial vehicles decreased 6% to 313,000 units. In 2001, DaimlerChrysler sold 22% of its commercial vehicles in the German market. The remaining Western European market accounted for an additional 34% of the segment's 2001 unit sales. Outside Western Europe, the NAFTA region and South America are the most important markets for Commercial Vehicles.

The following table shows the distribution of revenues and unit sales for the Commercial Vehicles segment by geographic market since 1999:

Revenues and Unit Sales

	Year Ended December 31,				
	2001	% change	2000	% change	1999
Revenues¹					
Western Europe	14,415	-1	14,578	+7	13,626
Germany	7,227	-5	7,599	+4	7,325
Other	7,188	+3	6,979	+11	6,301
NAFTA region	9,463	-9	10,347	-1	10,477
United States	8,076	-8	8,826	-4	9,231
Canada	716	-7	773	-8	844
Mexico	671	-10	748	+86	402
South America	1,456	-16	1,734	+24	1,394
Brazil	943	-20	1,186	+32	897
Other	513	-6	548	+10	497
Other markets	3,238	+3	3,145	+49	2,112
World	<u>28,572</u>	-4	<u>29,804</u>	+8	<u>27,609</u>
Units					
Western Europe	275,800	-2	281,500	+2	275,300
Germany	106,000	-6	113,100	-1	114,500
Other	169,800	+1	168,400	+5	160,800
NAFTA region	105,900	-31	153,700	-20	193,000
United States	89,400	-32	131,700	-23	171,800
Canada	6,300	-36	9,900	-23	12,800
Mexico	10,200	-16	12,100	+44	8,400
South America	43,000	-15	50,700	+14	44,600
Brazil	33,800	-9	37,100	+23	30,100
Other	9,200	-32	13,600	-6	14,500
Other markets	68,200	+8	63,100	+50	42,000
World	<u>492,900</u>	-10	<u>549,000</u>	-1	<u>554,900</u>

¹ € in millions.

Worldwide unit sales of the Commercial Vehicles segment decreased significantly to 492,900 in 2001 compared to 549,000 vehicles in 2000. While sales of vans increased 3% to 257,800 in 2001, sales of trucks and buses were 23% and 12% lower at 191,800 units and 43,300 units, respectively.

In Germany, DaimlerChrysler sold 106,000 units, 6% less than in the previous year, primarily due to a decrease in demand for trucks and buses. In Western Europe (excluding Germany), unit sales increased 1% from 168,400 in 2000 to 169,800 in 2001. This slight improvement resulted primarily from higher van sales, especially in France, Italy and the United Kingdom. In 2001, DaimlerChrysler's Western European market share for vans between 2t and 6t GVW remained at 19%. With a combined Western European market share of 26% in both 2001 and 2000, the Mercedes-Benz and Setra bus brands maintained their position as market leader in the Western European market. In the category of trucks over 6t GVW, DaimlerChrysler had a Western European market share of 22% (2000: 23%).

In the United States, retail sales in the Class 6/7 segment for all manufacturers decreased 23% to 134,100 vehicles (2000: 173,800 units). In the Class 8 heavy duty truck segment unit sales for all manufacturers fell from 211,500 in 2000 to 139,600 in 2001, a 34% decline. In line with this market trend, the Group's U.S. commercial vehicle sales declined 32% to 89,400 units. The increase of DaimlerChrysler's market share in the U.S. Class 8 segment from 36% in 2000 to 39% is partly due to the acquisition of Western Star in September 2000. In the Class 6/7 segment, the Group was able to increase its market share from 24% in 2000 to 27% in 2001.

In 2001, sales of trucks for all manufacturers in Brazil increased 6% to 63,100 units. In Argentina, overall market sales fell 65% to 3,400 units due to the financial and economic crisis. DaimlerChrysler was able to defend its leadership position in the market for trucks above 6t GVW with market shares of 34% in Brazil and 35% in Argentina (2000: 37% and 36%).

For a discussion of changes in revenues, see "Operating Results" in "Item 5. Operating and Financial Review and Prospects."

The primary sales market for Mercedes-Benz vans is Western Europe. Principal competitors in this market are Renault, Fiat with the brands Fiat and IVECO, Volkswagen and Ford.

In the truck market segment, competitors vary in each geographical region. In DaimlerChrysler's two most important truck markets, Western Europe and the NAFTA region, its principal competitors are the following:

<u>Western Europe (over 6t GVW)</u>	<u>NAFTA Region (Classes 5 through 8)</u>
Volvo/Renault	Navistar
Fiat (IVECO)	Paccar (Kenworth/Peterbilt)
MAN	Volvo/Renault (Mack)
Scania	General Motors
Paccar (DAF)	Ford

Principal competitors in the bus sector (over 8t GVW) include Irisbus (Renault, Iveco, Heuliez, Karosa, Ikarus), Neoman (MAN, Neoplan), Volvo, Dennis and Scania in Western Europe and Volvo, Scania and Volkswagen in South America.

The following table shows, by vehicle category, the unit sales of the Commercial Vehicles segment since 1999:

	<u>Year Ended December 31,</u>		
	<u>2001</u>	<u>2000</u>	<u>1999</u>
Units			
Vans ¹	257,800	249,300	226,400
Trucks ²	191,800	250,500	283,800
Buses	43,300	49,200	44,700
Total	<u>492,900</u>	<u>549,000</u>	<u>554,900</u>

¹ Including sales of pickup trucks (L 200/Pajero) manufactured by DaimlerChrysler South Africa under an agreement with Mitsubishi Motors Corporation.

² Including chassis manufactured by Freightliner for motorhomes and walk-in-vans.

Distribution

In Germany, DaimlerChrysler operates a wholesale and a retail network for its commercial vehicles. In other major European markets, subsidiaries of DaimlerChrysler AG provide the wholesale function to a network of independent dealers. Outside Europe, commercial vehicles are generally sold by the sales organization of the related production company or through independent general distributors.

Capital Expenditures; Research and Development

Capital expenditures of the Commercial Vehicles segment for fixed assets amounted to €1.5 billion in 2001. Principal areas of investment were the preparation for the production of the new compact van Vaneo, the successor model of the Vito, successor models to the Freightliner Business Class, and new diesel engines.

Research and development projects focused on new products, especially a new Freightliner truck, and successor models of existing product lines, primarily the Vito.

The table below shows the capital expenditures for fixed assets and the research and development expenditures of the Commercial Vehicles segment during the last three years:

	Year Ended December 31,		
	2001	2000	1999
	(€ in millions)		
Capital expenditures for fixed assets	1,484	1,128	809
Research and development	1,015	974	880

Services

DaimlerChrysler conducts its services business through its wholly-owned subsidiary DaimlerChrysler Services AG. The services activities consist primarily of financial services supporting the Group's automotive core business along the automotive value chain. Services contributed approximately 10% of Group revenues in 2001.

The following table shows the revenues generated by Services since 1999:

	Year Ended December 31,		
	2001	2000	1999
	(€ in millions)		
Financial Services	16,851	15,088	10,015
IT Services ¹	—	2,438	2,917
Total	<u>16,851</u>	<u>17,526</u>	<u>12,932</u>

¹ As a result of the disposition of DaimlerChrysler's controlling interest in its IT subsidiary in October 2000, revenues for 2000 only include the activities for the first nine months of the year.

On October 1, 2000, DaimlerChrysler and Deutsche Telekom combined their information technology activities in a joint venture. As part of the transaction, Deutsche Telekom contributed €4.6 billion in cash to DaimlerChrysler's information technology subsidiary debis Systemhaus (now known as T-Systems ITS) in return for which Deutsche Telekom received a 50.1% interest in that company. Following this transaction, the Group accounted for its 49.9% interest in T-Systems ITS using the equity method of accounting. In January 2002, DaimlerChrysler decided to exit the joint venture by exercising its option to sell to Deutsche Telekom the Group's 49.9% interest for proceeds of €4.7 billion. The sale is expected to close in March 2002 with the termination of the joint venture. See also "Material Contracts" in "Item 10. Additional Information" and Notes 11 and 34 to the Consolidated Financial Statements.

Following a decision of DaimlerChrysler's Board of Management in 2001, DaimlerChrysler and GE Capital reached an agreement in January 2002 for GE Capital to purchase a portion of DaimlerChrysler's Capital Services portfolio in the United States. DaimlerChrysler will receive approximately €1.3 billion for the sale. DaimlerChrysler expects the transaction to be completed in the first quarter of 2002.

Financial Services. Financial Services is one of the leading financial services providers in the world outside the banking and insurance sector. Financial Services offers customized financing and leasing packages,

primarily in connection with the sale of DaimlerChrysler automotive products. In addition to consumer and dealer automotive financing, it also provides dealer facility development and management, fleet management and insurance-related activities such as direct insurance (mainly dealer property and casualty insurance) and insurance and reinsurance brokerage.

Markets, Sales and Competition

The following table shows the distribution of Services' revenues by geographic market since 1999:

	Year Ended December 31,		
	2001	2000¹	1999
	(€ in millions)		
European Union	4,646	6,073	5,705
Germany	3,182	4,139	4,196
Other	1,464	1,934	1,509
NAFTA region	11,596	10,643	6,356
United States	9,868	9,229	5,491
Canada and Mexico	1,728	1,414	865
Other markets	609	810	871
World	<u>16,851</u>	<u>17,526</u>	<u>12,932</u>

¹ As a result of the disposition of DaimlerChrysler's controlling interest in its IT subsidiary in October 2000, revenues for 2000 include IT activities only for the first nine months of the year.

In 2001, Financial Services focused its activities further on offering services in connection with the sale of DaimlerChrysler's automotive products. It generated approximately 69% of its total 2001 business volume in the NAFTA region, 19% in Germany and 9% in other European Union countries. For a discussion of changes in revenues, see "Operating Results" in "Item 5. Operating and Financial Review and Prospects."

The Financial Services business unit processed approximately 2,019,000 new leasing and finance contracts in 2001 with a total value of €54.9 billion, a slight decrease of approximately 3% in new contract value compared to 2000 when it processed approximately 2,095,000 new contracts with a total value of €56.8 billion. The decrease in total value is primarily the result of reduced contract volume in the non-automotive area. The average monthly payment for new vehicle installment sale contracts in 2001 was €706. The average new contract balance amounted to €27,171 and the average original term was 45 months.

The following table shows the number and total value of new leasing and finance contracts as well as the total number and value of contracts of Financial Services outstanding at December 31, 2001:

	<u>New Contracts</u>	<u>Value (€ in millions)</u>	<u>Total Contracts</u>	<u>Value (€ in millions)</u>
United States ¹	1,224,259	35,702	4,155,076	93,221
Germany ¹	266,944	6,312	573,302	11,509
Canada ¹	153,713	3,442	483,906	8,089
Netherlands	16,630	469	45,716	5,094
United Kingdom ¹	41,148	1,288	106,493	2,598
Italy	62,107	1,406	145,563	2,469
Mexico	59,782	1,134	109,953	2,069
Japan ¹	27,951	947	77,006	1,664
France	34,384	817	72,551	1,536
Australia ¹	14,227	422	34,589	949
Other ¹	<u>118,315</u>	<u>2,932</u>	<u>275,192</u>	<u>2,630</u>
Total	<u>2,019,460</u>	<u>54,871</u>	<u>6,079,347</u>	<u>131,828</u>

¹ Includes portfolios of activity conducted by Financial Services which have been included in several asset-backed receivables transactions in these countries.

Competitors in the leasing and financial services area include leasing and finance subsidiaries of banks and financial institutions and of other automobile manufacturers to the extent they do not limit their leasing and financial services activities to their own automobile brands.

In Germany, DaimlerChrysler Services plans to offer an expanded range of financial services through the DaimlerChrysler Bank GmbH. The DaimlerChrysler Bank is expected to start operations as a fully licensed bank in 2002 and plans to offer its services primarily to customers and employees of DaimlerChrysler.

DaimlerChrysler Services and the City of Berlin operate a traffic management center that collects and uses traffic data, especially for traffic routing. DaimlerChrysler Services plans to expand further its activities in the area of mobility management services along DaimlerChrysler's automotive value chain. DaimlerChrysler Services is part of a consortium with Deutsche Telekom and Cofiroute which is in negotiation with the German government regarding electronic toll collection to be imposed on commercial vehicles over 12t GVW using German highways (*Autobahnen*). Austria expects to introduce a similar toll collection system for commercial vehicles, and DaimlerChrysler Services intends to submit a bid as part of a consortium with Deutsche Telekom, Cofiroute, Efon and Alpine in the first quarter of 2002.

Capital Expenditures

In 2001, capital expenditures for fixed assets, largely data processing equipment, decreased to €112 million (2000: €282 million). Additions to equipment on operating leases amounted to €14.3 billion (2000: €15.6 billion).

Other Activities

Revenues of this segment originate mainly from the MTU Aero Engines business unit. Operating results of this segment also include DaimlerChrysler's share in the operating results of its equity method investments in European Aeronautic Defence and Space Company EADS N.V. (EADS), in Mitsubishi Motors Corporation and in TEMIC TELEFUNKEN microelectronic GmbH (now known as Conti Temic microelectronic GmbH) and its subsidiaries (TEMIC). The segment also contains DaimlerChrysler's real-estate activities, corporate research and the Group's holding and finance companies.

In 2001, this segment contributed approximately 3% of DaimlerChrysler's total revenues. The following table shows the revenues generated by this segment since 1999:

	<u>Year Ended December 31,</u>		
	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(€ in millions)		
MTU Aero Engines	2,487	2,106	1,740
Former aerospace activities (excluding MTU Aero Engines) ¹ . . .	—	3,281	7,451
Automotive Electronics ²	294	1,067	890
Rail Systems ³	1,086	3,900	3,562
Other Businesses ⁴	640	261	441
Total	<u>4,507</u>	<u>10,615</u>	<u>14,084</u>

¹ As a result of DaimlerChrysler's disposition in July 2000 of all of its aerospace activities with the exception of the aero engines business, revenues for 2000 include these activities only for the first half of 2000.

² As a result of DaimlerChrysler's disposition of its controlling interest in the TEMIC automotive electronics activities in April 2001, revenues for 2001 include these activities only through March 31, 2001.

³ As a result of DaimlerChrysler's disposition of its rail systems activities effective May 1, 2001, revenues for 2001 include these activities only through April 30, 2001.

⁴ The revenues in this category principally derive from real estate projects (including Potsdamer Platz) and headquarters services functions.

For a discussion of changes in revenues, see "Operating Results" in "Item 5. Operating and Financial Review and Prospects."

In July 2000, DaimlerChrysler combined the aerospace activities operated by its subsidiary DaimlerChrysler Aerospace AG (Dasa), with the businesses of the French aerospace company Aerospatiale Matra S.A. and the Spanish aerospace company Construcciones Aeronauticas S.A. (CASA) in EADS. As part of the transaction, DaimlerChrysler exchanged its controlling interest in DaimlerChrysler Aerospace for a 33% equity interest in EADS for which it accounts using the equity method of accounting. DaimlerChrysler retained the aero engines business operated by MTU Aero Engines GmbH.

MTU Aero Engines. The MTU Aero Engines business unit consists of MTU Aero Engines GmbH and its subsidiaries. MTU Aero Engines is mainly involved in the development, production and maintenance of engines for commercial, executive and military aircraft. MTU Aero Engines participates in several international aircraft engine cooperations with other engine manufacturers, including, for example, General Electric, Pratt & Whitney and Rolls Royce. MTU Aero Engines is also one of the leading providers of maintenance and repair services for jet engines.

Automotive Electronics. In April 2001, DaimlerChrysler completed the sale of a 60% interest in TEMIC TELEFUNKEN microelectronic GmbH (now known as Conti Temic microelectronic GmbH) and its subsidiaries to Continental AG. The sale agreement confers on Continental the option to acquire from the Group, and on DaimlerChrysler the option to sell to Continental, the Group's remaining 40% interest in TEMIC. The DaimlerChrysler option is exercisable from April 1, 2002 through July 31, 2004. The Continental option is exercisable from November 1, 2004 through October 31, 2005. DaimlerChrysler accounts for its remaining interest in TEMIC using the equity method of accounting. Through TEMIC, DaimlerChrysler conducted its Automotive Electronics activities which focused on electronic systems for engines, safety systems and applications that enhance driving comfort.

Rail Systems. Following the closing of the sale of its subsidiary DaimlerChrysler Rail Systems GmbH (Adtranz) to the Canadian company Bombardier Inc. on April 30, 2001, DaimlerChrysler transferred control over the operations of Adtranz to Bombardier on May 1, 2001. Accordingly, the operating activities of Adtranz are

reflected in the Consolidated Financial Statements of DaimlerChrysler through April 30, 2001. Adtranz' products and services included people movers, light rail vehicles, metros, diesel and electric regional and intercity multiple units, electric and diesel locomotives, high speed trains and customer support. See also "Other Financial Information – Legal Proceedings" in "Item 8. Financial Information."

Markets, Sales and Competition

The following table sets forth the distribution of revenues of this segment by geographic market since 1999:

	Year Ended December 31,		
	2001¹	2000²	1999
	(€ in millions)		
European Union	2,068	7,168	10,793
Germany	1,377	2,944	4,876
Other	691	4,224	5,917
NAFTA region	2,012	2,285	2,095
United States	1,804	2,054	1,913
Canada and Mexico	208	231	182
Asia	167	325	476
Other markets	260	837	720
World	<u>4,507</u>	<u>10,615</u>	<u>14,084</u>

¹ The decrease in 2001 revenues is primarily due to DaimlerChrysler's disposition in 2000 of all of its aerospace activities with the exception of the aero engines business, and the sale in 2001 of its rail systems activities and a controlling interest in the Automotive Electronics activities.

² The decrease in 2000 revenues is primarily due to DaimlerChrysler's disposition in July 2000 of all of its aerospace activities with the exception of the aero engines business. As a result, revenues from aerospace activities (excluding the aero engines business) are only included for the first half of the year.

SUPPLIES AND RAW MATERIALS

In 2001, the DaimlerChrysler Group purchased goods and services from suppliers around the world with a total value of approximately €106.5 billion (2000: €113.3 billion). Mercedes-Benz Passenger Cars & smart accounted for 33% of total purchase volume, Chrysler Group for 43%, Commercial Vehicles for 19%, Services for 2%, and Other Activities for 3%. DaimlerChrysler enters into long-term supply agreements for the purchase of various commodities used to manufacture vehicles. It also purchases commodities on the spot market from time to time.

DaimlerChrysler operates its worldwide procurement and supply activities through a single Global Procurement and Supply function. It employs the Extended Enterprise[®] concept to maximize the efficiency of supply networks by involving not only the first tier supplier but also sub-suppliers, raw material suppliers, and transportation carriers. DaimlerChrysler increasingly uses e-business activities in the fields of electronic purchasing (e-procurement) and management of logistics processes (supply network collaboration). In particular, DaimlerChrysler, and also Ford, General Motors, Nissan, PSA and Renault work closely with Covisint, a joint venture company that operates a business-to-business (B2B) Internet marketplace offering e-procurement services to participants in the automotive industry.

In 2001, prices for steel products declined slightly due to reduced demand. Aluminum and copper prices decreased due to weaker demand and slowing global economies. Resin (plastic) prices fluctuated with the price of oil and demand. Material shortages and substantial price increases were avoided due to close cooperation with suppliers under the Extended Enterprise[®] concept.

Prices for precious metals declined on average throughout the automotive industry. To minimize the dependence on these highly volatile materials, DaimlerChrysler's purchasing and engineering initiatives improved existing processes and researched alternative materials and processes.

GOVERNMENT REGULATION AND ENVIRONMENTAL MATTERS

Government regulation of the automobile industry is extensive. Laws in various jurisdictions regulate the emission levels, fuel economy, noise, and safety of vehicles, as well as the levels of pollutants generated by the plants that produce them. The cost of complying with these regulations can be significant, and DaimlerChrysler expects to incur significant compliance costs in the future. However, DaimlerChrysler management recognizes leadership in environmental protection as an increasingly important competitive factor in the marketplace.

Vehicle Emissions

U.S. Standards. Federal. The Clean Air Act directs the Environmental Protection Agency (EPA) to establish and enforce national ambient air quality standards. As part of that directive, the EPA has imposed tailpipe emission control standards on passenger cars and light trucks, including minivans, sport utility vehicles, and pickup trucks. The standards in effect for model year 1994-2003 passenger cars and light trucks are known as Tier 1 standards. Manufacturers are obligated to recall vehicles that fail to meet those standards for ten years or 100,000 miles, whichever occurs first.

The EPA also adopted Tier 2 standards that establish identical stringent tailpipe emission requirements for passenger cars and light trucks. Tier 2 standards, which will be phased in over model years 2004-2009, extend to 120,000 miles the obligation to recall vehicles that fail to meet the standards. The Tier 2 standards present a significant technological challenge to the automobile industry, particularly with respect to diesel engines. Manufacturers, including DaimlerChrysler, will not be able to sell vehicles in the United States that do not meet the standards. Complying with these new standards will require further research and development achievements on the part of the automotive industry.

Separate standards are in effect for heavy-duty commercial vehicles. More stringent standards will apply in model year 2004, and even more stringent standards have been adopted beginning in model year 2007.

California Standards. The State of California sets its own stringent emission control standards for passenger cars and trucks under the low emission vehicle program run by the California Air Resources Board (CARB). The standards in effect for model years 1993-2003 will be succeeded by more restrictive standards to be phased in over model years 2004-2007. Meeting these new standards will require significant progress in the development of engine, exhaust, and fuel technologies.

An important part of California's low emissions vehicle program is the introduction of zero-emission vehicles. Beginning with model year 2003, up to 10% of the passenger cars and light trucks produced and delivered for sale each year by a large-volume manufacturer in California must be certified as zero-emission vehicles that produce no emissions of regulated pollutants (the "ZEV mandate"). In December 2001, CARB amended the ZEV mandate regulations to, among other things, limit the use of credits generated under the program in connection with neighborhood electric vehicles. The California Office of Administrative Law then invalidated the amendments based on CARB's failure to follow procedural requirements. In response, CARB announced that it would re-promulgate the amendments by May 2002, and that the ZEV mandate regulations in effect in 1999, which are more stringent in certain respects than the regulations as proposed to be amended, would apply in the interim. DaimlerChrysler Corporation and other vehicle manufacturers and dealers have filed lawsuits in state and federal court challenging the legality of both the proposed amendments and the reversion to the 1999 regulations.

Other states may either adopt the California standards, or participate in the national low emission vehicle program established by the U.S. automotive industry and subsequently adopted as a rule by the EPA. That program requires manufacturers to sell low emission vehicles nationwide beginning with the 2001 model year. The states of Maine, Massachusetts, New York and Vermont have adopted the California standards, including the requirement for zero-emission vehicles.

DaimlerChrysler participates in a consortium of vehicle manufacturers, electric utilities and the U.S. Department of Energy, which was formed to develop battery technology that would qualify electric vehicles as zero-emission vehicles. Development of a commercially viable electric vehicle will require further intensive

research. Compared to conventional vehicles, electric vehicles today cost significantly more, have a much more limited range between recharges, require a long time to recharge, and lack a nationwide infrastructure of recharging stations. Without new battery technology, manufacturers, including DaimlerChrysler, may be forced to take costly actions such as reducing the number of non-zero-emission vehicles they sell in California or selling electric vehicles below cost.

DaimlerChrysler Corporation has held discussions with CARB and the EPA about the performance of the catalytic converters in certain of its 1991-1999 model year vehicles, and the on-board diagnostic systems used to monitor catalytic converter function in certain of its 1996-2001 model year vehicles. DaimlerChrysler Corporation would incur significant costs if it were required to repair or replace these emission control devices.

European Standards. Current vehicle emission control standards in the European Union are generally no more restrictive than U.S. standards. However, the EU Commission and the European Parliament have adopted a directive that establishes increasingly stringent emission standards for passenger and light commercial vehicles for model years 2000 (EURO 3) and 2005 and thereafter (EURO 4). Under the directive, manufacturers will be obligated to recall vehicles that fail to meet those standards for five years or 80,000 kilometers, whichever occurs first. Standards for heavy commercial vehicles have been adopted by the EU Commission and the European Parliament for model years 2000 (EURO 3), 2005 (EURO 4, stage 1) and 2008 and thereafter (EURO 4, stage 2). DaimlerChrysler believes that its passenger cars and commercial vehicles will comply with the European standards.

Vehicle Fuel Economy

U.S. Standards. Under the federal Motor Vehicle Information and Cost Savings Act, a manufacturer is subject to significant penalties for each model year its vehicles do not meet Corporate Average Fuel Economy standards, commonly referred to as the CAFE standards. CAFE standards for passenger cars and light-duty trucks are currently 27.5 miles per gallon and 20.7 miles per gallon, respectively. A manufacturer earns credits by exceeding CAFE standards. Credits earned for the three preceding model years and credits projected to be earned for the next three model years can be used to meet CAFE standards in the current model year, except that credits earned in respect of cars may not be used for trucks.

DaimlerChrysler expects to meet current U.S. domestic fleet CAFE standards for both passenger cars and light-duty trucks, although it will likely use credits to meet the standard for light-duty trucks. However, increased demand for larger light-duty trucks could jeopardize its ability to comply with that standard and require it to take additional costly steps, including the sale of ethanol flexible fuel vehicles.

More stringent CAFE standards may be adopted as a way of reducing “green house gas” carbon dioxide emissions by increasing fuel economy. These emissions are said to contribute to global warming, which has become a matter of international concern. In 2001, the United States withdrew from the Kyoto Protocol to the United Nations Framework Convention on Climate Change, which called for the United States to reduce its fossil energy use substantially during years 2008-2012. Nevertheless, the United States is considering ways to achieve reductions in fossil energy use, including more stringent CAFE standards, higher fuel costs and restrictions on fuel usage. These actions could be costly to DaimlerChrysler and could significantly restrict the products it is able to offer in the United States.

In addition to conventional gasoline powered vehicles, DaimlerChrysler manufactures vehicles that operate on compressed natural gas, liquid petroleum gas, and electricity, and flexible fuel vehicles capable of operating on both gasoline and ethanol blend fuels.

European Standards. The European Union signed and announced that it will ratify the Kyoto Protocol. The European Union will therefore have to reduce carbon dioxide emissions substantially during years 2008-2012. In 1999, the European Union entered into a voluntary agreement with the European automotive manufacturers association which establishes an emission target of 140 grams of carbon dioxide per kilometer for the average new car sold in the European Union in 2008. That target represents an average reduction in passenger vehicle fuel

usage of 25 percent, measured from 1995 levels. The European Union has reaffirmed its goal of reducing carbon dioxide emissions from new passenger cars to an average of 120 grams per kilometer by 2010. Vehicle manufacturers have agreed to reexamine in 2003 whether further reductions are possible by 2010. Achievement of these reductions will require European vehicle manufacturers, including DaimlerChrysler, to improve engine and overall efficiency and reduce vehicle weight. In addition, the European Union and the European automotive manufacturers association are expected to enter into a voluntary agreement for light commercial vehicles in 2002.

Vehicle Safety

The U.S. National Traffic and Motor Vehicle Safety Act of 1966 requires new vehicles and original equipment sold in the United States to meet various safety standards established by authority of the National Highway Traffic Safety Administration (NHTSA). The Safety Act also requires manufacturers to recall vehicles found to have safety related defects and to repair them without charge. The cost of such recalls can be substantial depending on the nature of the repair and the number of vehicles affected.

In general, vehicle safety regulations in Canada are similar to those in the United States. Vehicles sold in Europe are subject to comparable vehicle safety regulations established by the European Union or by individual countries. In 1999, the EU Commission proposed to expand existing vehicle safety regulations by a directive on pedestrian protection. In 2001, the EU Commission proposed a voluntary agreement that would replace the proposed directive and enforce pedestrian protection earlier. The European Union and the European automotive manufacturers association are expected to enter into such agreement in 2002. Countries in South America and Asia have also established vehicle safety regulations.

In 2001, NHTSA completed its Interim Final Rule relating to advanced airbag systems. The rule imposes a new regimen of tests with stringent new injury criteria, and sets forth a compliance phase-in schedule mandating that 35% of all vehicles produced by a manufacturer for the 2004 model year, 65% for the 2005 model year, and 100% for the 2006 and 2007 model years, meet the new safety standard. These standards add to the cost and complexity of designing and producing new motor vehicles and original motor vehicle equipment.

The Transportation Recall Enhancement, Accountability and Documentation Act (the TREAD Act) was enacted in the United States on November 1, 2000. NHTSA is in the process of implementing the mandates of the TREAD Act, which include: a tire pressure warning system; a consumer information program based on a dynamic rollover test; upgraded tire safety standards; and the development of a system of collecting from manufacturers information relating to vehicle performance and customer complaints to assist in the early identification of potential vehicle defects. The implementation of such mandates is likely to impose significant additional cost and complexity to the vehicle development process. The TREAD Act also increases NHTSA's authority to impose civil penalties for noncompliance and specifies possible criminal penalties.

Stationary Source Regulation

DaimlerChrysler's assembly, manufacturing and other operations in the United States must meet a substantial number of regulatory requirements under various federal laws, including the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Pollution Prevention Act of 1990 and the Toxic Substances Control Act. State laws parallel and, in some cases, impose more stringent requirements than federal law. Together these laws impose severe restrictions on airborne and waterborne emissions and discharges of pollutants, the handling of hazardous materials, and the disposal of wastes. Similar requirements apply to its operations in Europe and Canada. Increasing governmental regulation and environmental enforcement is likely in Mexico.

Environmental Matters

In the United States, the EPA and various state agencies have notified DaimlerChrysler Corporation that it may be a potentially responsible party for the cost of cleaning up hazardous waste storage or disposal facilities pursuant to the Comprehensive Environmental Response, Compensation and Liability Act and other federal and

state environmental laws. A number of lawsuits allege that DaimlerChrysler Corporation violated environmental laws and seek to recover costs associated with remedial action. It is only one of a number of potentially responsible parties who may be found to be jointly and severally liable for remediation costs. As of December 31, 2001, DaimlerChrysler Corporation may incur remediation costs at 156 sites in connection with the foregoing matters and other remediation issues at its active or deactivated facilities.

Pollution remediation is also a potentially significant issue in Germany at some older sites, including plants and the Group's own service outlets. These remediation issues involve ten principal sites.

Estimates of future costs of such environmental matters are inevitably imprecise 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 DaimlerChrysler may have remediation responsibility and the apportionment and collectibility of remediation costs among responsible parties. DaimlerChrysler establishes reserves for these environmental matters when the loss is probable and reasonably estimable. It is possible that final resolution of some of these matters may require DaimlerChrysler to make expenditures in excess of established reserves, over an extended period of time and in a range of amounts that cannot be reasonably estimated. Although final resolution of any such matters could have a material effect on DaimlerChrysler's consolidated operating results for the particular reporting period in which an adjustment of the estimated reserve is recorded, DaimlerChrysler believes that any resulting adjustment should not materially affect its consolidated financial position.

In 2000, the EU Commission issued a directive that requires automobile manufacturers to take back all end-of-life passenger cars (up to 9 seats) and trucks (up to 3.5t total weight) sold after July 1, 2002 and, beginning January 1, 2007, all end-of-life passenger cars including those sold before July 1, 2002. This directive stipulates that automotive manufacturers incur all, or a significant part of, the costs of recycling such vehicles. The directive affects all end-of-life-vehicles in the European Union and imposes additional costs on automobile manufacturers which could be significant. In Germany, automobile manufacturers are currently required to take back up to twelve year old passenger cars free of charge. Older vehicles and batteries are also taken back for disposal or recycling but manufacturers are allowed to charge their costs. In addition, German manufacturing facilities are subject to enhanced noise restrictions.

DaimlerChrysler is committed to reducing the environmental impact of its operations and products beyond currently applicable regulatory requirements where this is technically and financially feasible. DaimlerChrysler's policy is environmental protection in pursuit of sustainable development. This policy is laid down in the Group's environmental guidelines and designed to further minimize the environmental effects generally associated with the type of manufacturing operations conducted by DaimlerChrysler. DaimlerChrysler has installed environmental management systems in both its plant operations and its development departments to consider environmental effects already at the planning stage of a new manufacturing process or product. DaimlerChrysler publishes environmental reports summarizing the use of resources and measures undertaken to minimize further the environmental impact of the Group's products and operations.

INTRODUCTION OF THE EURO

On January 1, 1999, eleven member states of the European Union – Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain – introduced the euro as their common legal currency for “paperless” transactions (European Monetary Union). Since then, funds denominated in the currency of one participating member state are converted into the currency of another participating member state based on a fixed conversion rate. On January 1, 2001, Greece joined the European Monetary Union. On January 1, 2002, the euro also became the official legal tender for cash transactions in all member states of the European Monetary Union. By February 28, 2002, the euro will be the sole legal tender for the member states participating in the European Monetary Union. The national currencies of those member states will then be withdrawn from circulation.

DaimlerChrysler has adopted the euro as its corporate currency throughout its operations as of January 1, 1999. The introduction of the euro necessitated changes in information technology and other systems in order to accommodate the use of the euro in financial reporting. DaimlerChrysler adapted all of its internal processes and systems operating in the currencies of the participating member states to the euro.

Due to its significant manufacturing and transactional activity within Europe, DaimlerChrysler has already realized benefits from the euro by capitalizing on the greater market transparency and efficiency resulting from the introduction of a single European currency. Productivity gains with respect to products manufactured and sold in the euro zone are no longer offset by exchange rate fluctuations. As sales and production costs are both calculated in euro, it is easier for DaimlerChrysler to monitor its price competitiveness in the euro zone. In addition, the introduction of the euro produces the following effects:

Business and Competitive Implications. The euro leads to greater market efficiency and fosters a more competitive economic environment within and among the participating member states. The fact that the pricing of products and services is more transparent through the use of a single common currency continues to lead to increased price harmonization within the euro zone. See also “Factors Affecting Operations and Financial Reporting” in “Item 5. Operating and Financial Review and Prospects.”

Currency and Foreign Exchange Exposure. Transition to the euro with its fixed exchange rates among national currencies of the participating member states has eliminated the need for exchange transactions in those currencies. For DaimlerChrysler, this has led to savings in transaction and hedging costs of at least €50 million annually.

DESCRIPTION OF PROPERTY

At December 31, 2001, the DaimlerChrysler Group had 108 manufacturing facilities worldwide; 17 are located in Germany and 46 in the United States. Most of the remaining facilities are in Mexico, Canada, France, Brazil, South Africa and Spain. The Group also has other properties, including office buildings, spare parts centers, research laboratories, testing tracks and warehouses, mainly in Germany and in the United States. The Group owns most of its manufacturing facilities and other properties.

The following table shows a list of all principal production and other facilities of the DaimlerChrysler Group throughout the world:

Production Facilities

Mercedes-Benz Passenger Cars & smart

Germany

- Berlin Manufacturing plant for engines and components
- Bremen Bodywork and assembly plant
- Hamburg Manufacturing plant for axles and components
- Rastatt Bodywork and assembly plant
- Sindelfingen Bodywork and assembly plant
- Stuttgart-Untertürkheim Manufacturing plant for engines, axles and gearboxes

United States

- Tuscaloosa, Alabama Bodywork and assembly plant

Brazil

- Juiz de Fora Bodywork and assembly plant

France

- Hambach Bodywork and assembly plant

South Africa

- East London Bodywork and assembly plant

Chrysler Group

United States

- Belvidere, Illinois Bodywork, assembly and stamping plant
- Dayton, Ohio Manufacturing plant for thermal products
- Detroit, Michigan Bodywork and assembly plants, manufacturing plants for engines, axles and glass
- Fenton, Missouri Bodywork and assembly plants
- Huntsville, Alabama Manufacturing plant for automotive electronics
- Indianapolis, Indiana Foundry for engine blocks
- Kenosha, Wisconsin Manufacturing plant for engines
- Kokomo, Indiana Transmission plants, aluminum die castings plant
- New Castle, Indiana Forging, machining and assembly plant for components
- Newark, Delaware Bodywork and assembly plant
- Sterling Heights, Michigan Bodywork and assembly plant, stamping and subassembly plant
- Toledo, Ohio Bodywork and assembly plants, machining plant for components
- Trenton, Michigan Manufacturing plant for engines
- Twinsburg, Ohio Stamping and subassembly plant
- Warren, Michigan Bodywork and assembly plant, stamping and subassembly plant

Austria

- Graz Bodywork and assembly plant

Canada

- Bramalea Bodywork, assembly and stamping plant
- Windsor Bodywork and assembly plants

Mexico

- Mexico City Bodywork and assembly plant
- Saltillo Bodywork and assembly plant, engine plant
- Toluca Bodywork and assembly plant, engine plant

Commercial Vehicles

Germany

- Düsseldorf Bodywork and assembly plant, manufacturing plant for steering systems
- Friedrichshafen Manufacturing plant for diesel engines
- Gaggenau Bodywork and assembly plant, manufacturing plant for axles and transmissions
- Kassel Manufacturing plant for axles
- Ludwigsfelde Bodywork and assembly plant
- Mannheim Bodywork and assembly plant, manufacturing plant for engines
- Ulm Bodywork and assembly plant
- Würth Bodywork and assembly plant

United States

- Cleveland, North Carolina Bodywork and assembly plant
- High Point, North Carolina Bodywork and assembly plant
- Mt. Holly, North Carolina Bodywork and assembly plant
- Portland, Oregon Bodywork and assembly plant
- Redford, Michigan Assembly plant, manufacturing plant for engines

Argentina

- Buenos Aires Bodywork and assembly plant

Brazil

- São Bernardo do Campo Bodywork and assembly plant

Canada

- Kelowna Bodywork and assembly plant
- St. Thomas Bodywork and assembly plant

Mexico

- Santiago Tianguistenco Assembly plant

Spain

- Barcelona Manufacturing plant for engines, transmissions and axles
- Vitoria Bodywork and assembly plant

Turkey

- Aksaray Bodywork and assembly plant, manufacturing plant for engines and axles
- Hosdere Assembly plant

Other Activities**Germany**

- München Manufacturing plant for aircraft engines
- Hannover Maintenance plant for commercial aircraft engines
- Ludwigsfelde Maintenance plant for commercial aircraft engines and industrial gas turbines

Other Facilities**Germany**

- Berlin Potsdamer Platz real estate project, including DaimlerChrysler Services headquarters
- Stuttgart-Möhringen DaimlerChrysler headquarters
- Ulm Research center

United States

- Auburn Hills, Michigan DaimlerChrysler headquarters and technology center

DaimlerChrysler Corporation entered into an agreement with Behr America, Inc. in February 2002 for the sale of the Dayton thermal products facility to a joint venture company in which DaimlerChrysler Corporation will maintain a minority interest for two years. The transaction is subject to regulatory approval. In addition, DaimlerChrysler Corporation and Magna International Inc. on February 15, 2002 confirmed a business agreement for the sale of the plant in Graz, Austria, subject to certain approvals.

At year-end 2001, the total amount of indebtedness secured by mortgages and other security interests on the Group's principal facilities was €1.6 billion, which related to the Potsdamer Platz real estate project.

DaimlerChrysler believes that the Group's principal manufacturing facilities and other significant properties are in good condition and that they are adequate to meet the needs of the DaimlerChrysler Group.

As part of its strategic planning process, DaimlerChrysler periodically reviews worldwide capacity requirements, especially in North and South America. In addition, Chrysler Group and Freightliner have announced that they plan to close or sell several plants in connection with their respective turnaround plans. See "Description of Business Segments – Chrysler Group" and "Description of Business Segments – Commercial Vehicles."

Item 5. Operating and Financial Review and Prospects.

ACCOUNTING PRINCIPLES

U.S. GAAP

DaimlerChrysler has prepared its Consolidated Financial Statements in accordance with U.S. GAAP. See Note 1 to the Consolidated Financial Statements.

Operating Profit

The Group measures the performance of its operating segments through “Operating Profit.” Segment Operating Profit is defined as income (loss) before financial income included in the consolidated statement of income (loss), modified to exclude pension and postretirement benefit expenses other than service costs, to include pretax operating income (loss) from affiliated and associated companies, to include financial income (loss) from related companies, and to include or exclude certain miscellaneous items. See Note 32 to the Consolidated Financial Statements.

New Accounting Pronouncements

In September 2000, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities – a replacement of FASB Statement No. 125.” This statement revised the standards of accounting for securitizations and other transfers of financial assets and collateral and requires certain financial statement disclosures. SFAS 140 was effective for transactions occurring after March 31, 2001. Adoption of this replacement standard did not have a material effect on DaimlerChrysler’s consolidated financial statements.

During 2000, the Emerging Issues Task Force reached a final consensus on Issue 00-14, “Accounting for Certain Sales Incentives.” The issue requires that an entity recognizes sales incentives at the latter of (1) the date at which the related revenue is recorded by the entity or (2) the date at which the sales incentive is offered. The issue also requires that when recognized, the reduction in or refund of the selling price of the product or service resulting from any cash sales incentive should be classified as a reduction of revenue. If the sales incentive is a free product or service delivered at the time of the sale, the cost of the free product or service should be classified as cost of sales. The consensus reached in the issue was effective for DaimlerChrysler in its financial statements beginning April 1, 2001. DaimlerChrysler applied the consensus prospectively in 2001. The adoption of Issue 00-14 did not have a material impact on the Group’s consolidated financial statements.

In July 2001, the FASB issued SFAS 141, “Business Combinations,” and SFAS 142, “Goodwill and Other Intangible Assets.” SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. 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. SFAS 142 requires that goodwill no longer be amortized, but instead tested for impairment at least annually. SFAS 142 also requires recognized intangible assets with a definite useful life to be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of,” and subsequently, SFAS 144 after its adoption (see below). Any recognized intangible asset determined to have an indefinite useful life is not amortized, but instead tested for impairment in accordance with SFAS 142 until its life is determined to no longer be indefinite.

DaimlerChrysler adopted the provisions of SFAS 141 as of July 1, 2001, and SFAS 142 is effective January 1, 2002. Goodwill that was acquired in a business combination completed after June 30, 2001, and any intangible asset determined to have an indefinite useful life that was acquired after June 30, 2001 were not amortized. Goodwill acquired in business combinations completed before July 1, 2001, and intangible assets with indefinite useful lives acquired before July 1, 2001, were amortized until December 31, 2001.

SFAS 142 requires the Group to evaluate its existing intangible assets and goodwill and to make any necessary reclassifications in order to conform with the new separation requirements at the date of adoption. Upon adoption of SFAS 142, the Group is also required to reassess the useful lives and residual values of all intangible assets and make any necessary amortization period adjustments by March 31, 2002.

In connection with the transitional impairment evaluation, SFAS 142 requires DaimlerChrysler to perform an assessment of whether there is an indication that goodwill is impaired as of January 1, 2002. To accomplish this, DaimlerChrysler is currently (1) identifying its reporting units, (2) determining 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) determining the fair value of each reporting unit. This first step of the transitional assessment is required to be completed by June 30, 2002. If the carrying value of any reporting unit exceeds its fair value, then detailed fair values for each of the assigned assets (excluding goodwill) and liabilities will be determined to calculate the amount of goodwill impairment, if any. This second step is required to be completed as soon as possible, but no later than December 31, 2002. Any transitional impairment loss resulting from the adoption will be recognized as the effect of a change in accounting principle in the Group's statement of income (loss). Because of the extensiveness of the efforts needed to comply with the adoption of these statements, it is not practicable to reasonably estimate the impact on the Group's financial statements.

In June 2001, the FASB issued SFAS 143, "Accounting for Asset Retirement Obligations." The statement applies to legal obligations associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and subsequently allocated to expense over the asset's useful life. The Group expects to adopt SFAS 143 on January 1, 2003. DaimlerChrysler is currently determining the impact of the adoption of SFAS 143.

In August 2001, the FASB issued SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 retains the current requirement to recognize an impairment loss only if the carrying amounts of long-lived assets to be held and used are not recoverable from their expected undiscounted future cash flows. However, goodwill is no longer required to be allocated to these long-lived assets when determining their carrying amounts. SFAS 144 requires that a long-lived asset to be abandoned, exchanged for a similar productive asset, or distributed to owners in a spin-off be considered held and used until it is disposed. SFAS 144 requires the depreciable life of an asset to be abandoned be revised. SFAS 144 requires all long-lived assets to be disposed of by sale be recorded at the lower of its carrying amount or fair value less cost to sell and to cease depreciation (amortization). Therefore, discontinued operations are no longer measured on a net realizable value basis, and future operating losses are no longer recognized before they occur. SFAS 144 is effective January 1, 2002. The adoption of SFAS 144 is not expected to have a material impact on the Group's financial statements.

INFLATION

The rates of inflation on an annual average basis in Germany during 2001, 2000 and 1999 were 2.5%, 1.9% and 0.6%, respectively. The inflation rates on an annual average basis in the United States for those years were 2.8%, 3.4% and 2.2%, respectively. The effects of inflation on the Group's operations have not been significant in recent years.

FACTORS AFFECTING OPERATIONS AND FINANCIAL REPORTING

DaimlerChrysler conducts activities in all major markets and most significant national economies in the world, generating cash flows in a variety of currencies, principally the euro, the dollar and the yen. From time to time the Group's operations are affected by various risks that result from fluctuating economic, political, social, industry, business and financial conditions, particularly in its primary markets of Europe and North America. In general, the Group's long-term profitability is significantly dependent on its ability to continue its capital

expenditure and vehicle development programs, to market its vehicles successfully in an increasingly competitive environment, to effectively implement its turnaround plans at Chrysler Group and Freightliner and to offer attractive leasing and finance opportunities to its customers. Reported results of the Group's operations are also subject to some uncertainty arising from judgmental factors influencing the selection and consistent application of accounting principles and methods.

Risk Factors

Economic

- DaimlerChrysler derives substantial revenues from the United States and Western Europe. A significant U.S. automotive industry-wide decline in vehicle sales could result if the current recession in the U.S. economy persists for a prolonged period of time and if consumer confidence is not restored. This factor could also lead to a further slow-down of economic growth and a corresponding significant reduction in vehicle demand in Western Europe. Consumer confidence and the U.S. and global economies overall are further subject to uncertainties arising from the September 11 terrorist attacks, the subsequent war on terrorism and the anticipation of possible future attacks. If current slow economic conditions and the uncertain political climate continue or deteriorate, and consumer confidence is not restored, DaimlerChrysler's future sales and operating results could suffer a significant adverse effect.
- An economic decline in Asia, continued adversity in Japanese economic conditions or a major economic downturn in Korea could delay DaimlerChrysler's strategic expansion in emerging Asian markets, which is an important feature of the Group's long-term strategic plan for growth. Due to weak economic conditions in Asia and a relatively strong U.S. dollar, Asian competitors with excess capacity may intensify their efforts to export vehicles to North America.
- DaimlerChrysler maintains production facilities and sales and finance companies in South America. To the extent that uncertainties continue to surround the economic situation in Argentina and those uncertainties negatively affect other economies in South America important to DaimlerChrysler, such as Brazil, future sales and operating results could be adversely affected.

Industry and Business

- A prolonged economic downturn in North America or Europe, or both, would intensify competitive pricing pressure because of automotive industry overcapacity, and manufacturers of passenger cars and commercial vehicles could be forced to decrease production, reduce capacity and increase sales incentives further. Industry-wide sales are expected to decline in North America from prior year levels, and competition in North America is expected to intensify further. The financial performance of Chrysler Group and Freightliner will depend, in large part, on the success of their turnaround plans in addressing these possible developments. The profitability of DaimlerChrysler will be adversely affected if Chrysler Group and Freightliner do not successfully implement their turnaround plans.
- Revenues and operating results of the Chrysler Group derive principally from the U.S. and Canadian automotive markets. In 2001, retail industry sales (including fleet sales) of new cars and trucks in the U.S. and Canada decreased slightly compared to 2000. The decrease from 2000 to 2001 might have been greater if it were not for the introduction of more extensive sales incentives, such as zero percent financing, beginning in September 2001. These sales incentives may have influenced customers to accelerate into 2001 purchases otherwise planned for 2002. In the absence of continued sales incentives, retail industry sales may decrease more significantly in 2002 than in 2001.
- The price transparency and harmonization resulting from the introduction of the euro and the development of alternative distribution channels such as the internet may help generate further pricing pressure within the automotive industry. A decision of the European Commission not to extend the current "block

exemption” regulation (*Gruppenfreistellungsverordnung*), which allows automobile manufacturers to use selective and exclusive distribution networks until September 2002, may also negatively affect automobile manufacturers in the European Union.

- Meeting consumer demand with new vehicles developed over increasingly shorter product development cycle times is critical to the success of automobile manufacturers. DaimlerChrysler’s ability to strengthen its position within its traditional product and market segments while expanding into additional market segments with innovative new products will play an important role in determining its future success. A general shift in consumer preferences towards smaller, low-margin vehicles, which could result from, among other things, government regulations, environmental concerns or increasing fuel prices, could have a negative impact on DaimlerChrysler’s profitability. Potential delays in bringing new vehicles to market and lack of market acceptance of its new models would adversely affect DaimlerChrysler’s financial results.
- Product quality significantly influences the consumer’s decision to purchase passenger cars and commercial vehicles. Component parts or assembly defects could require DaimlerChrysler to publicly undertake service actions or recall campaigns. Such actions could require DaimlerChrysler to expend considerable resources in correcting these problems and could influence purchasing decisions of potential purchasers of DaimlerChrysler vehicles, thereby negatively affecting DaimlerChrysler’s future sales and profitability. See “Critical Accounting Policies.”
- In an increasingly competitive market environment, DaimlerChrysler and other automobile manufacturers may be forced to increase efficiency by further reducing costs along the automotive value chain, including suppliers. Pricing pressure on suppliers, however, has the potential to create additional quality risks.
- The automotive industry is subject to extensive government regulation. Laws in various jurisdictions regulate the occupant safety and environmental impact of vehicles, including emission levels, fuel economy and noise, as well as the levels of pollutants generated by the plants that produce them. The cost of complying with these regulations could be significant, and DaimlerChrysler expects to incur such compliance costs in the future. New legislation, such as the Transportation Recall Enhancement, Accountability and Documentation Act (the TREAD Act) in the United States and the European Union’s directive on end-of-life vehicle recycling, will also subject DaimlerChrysler to additional expense, which could be significant in the future.
- To the extent that sales incentives in the North American market remain an integral part of sales promotion, resale prices of used vehicles and, correspondingly, the carrying value of leased vehicles may experience further downward pressure. See “Critical Accounting Policies.”
- Financial services offered in connection with the sale of vehicles also involve risks relating to increased cost of capital and consumer and dealer insolvencies. A prolonged recession in the U.S. or European economies may affect DaimlerChrysler’s future credit losses on lease and finance receivables. See “Critical Accounting Policies.”

Financial

- DaimlerChrysler’s businesses, operations and reported financial results and cash flows are exposed to the risks associated with fluctuations in the exchange rates of the dollar, the euro and other world currencies. 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.
- In order to manage the liquidity and cash needs of its day-to-day operations, DaimlerChrysler holds a variety of interest rate sensitive assets and liabilities. These interest rate sensitive assets and liabilities are subject to risks which are, to some extent, reduced by the use of derivative financial instruments.

- In 2001, Moody's Investors Service and Standard & Poor's Ratings Services each lowered its ratings for senior unsecured long-term debt issued or guaranteed by DaimlerChrysler AG and/or revised the outlook in respect of its ratings. In addition, Moody's Investors Service and Standard & Poor's Ratings Services each lowered its ratings for commercial paper issued by DaimlerChrysler AG and its subsidiaries. See "Liquidity and Capital Resources." The downgrades resulted primarily from the decline in operating results at Chrysler Group and Freightliner, increased competitive pressure and lower expectations for vehicle unit sales in North America. Additional downgrades by the ratings agencies would further increase DaimlerChrysler's cost of capital and could negatively affect its businesses, especially the lease and sales financing business which is typically financed with a high proportion of debt.
- To manage liquidity of the Group, DaimlerChrysler depends heavily on the issuance of medium-term debt, principally in the U.S. and European capital markets. Future declines in DaimlerChrysler's operating performance and changes in demand for this type of investment could have an adverse affect on DaimlerChrysler's ability to execute this type of transaction.
- DaimlerChrysler holds non-controlling equity interests in the European Aeronautic Defence and Space Company EADS N.V. (EADS) and in Mitsubishi Motors Corporation. The financial risks related to these investments are discussed below in "Critical Accounting Policies."

Critical Accounting Policies

Reported financial condition and results of operations of the Group are sensitive to accounting methods, assumptions and estimates that underlie preparation of the financial statements. The profile of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered in conjunction with reviewing the Group's financial statements and the discussion below in "Operating Results."

Recoverability of Equipment on Operating Leases

Equipment on operating leases (which consists primarily of passenger cars and commercial vehicles), where DaimlerChrysler is the lessor, is valued at acquisition cost and depreciated over its estimated useful life using the straight-line method to its estimated residual value. DaimlerChrysler utilizes industry published information and its historical experience to determine estimated residual values for these vehicles. DaimlerChrysler evaluates the recoverability of the carrying values of its leased vehicles for impairment when there are indications of significant declines in residual values. At December 31, 2001, the carrying value of equipment on operating leases was €36.0 billion. To the extent that sales incentives remain an integral part of sales promotion (reducing new vehicle prices), resale prices of used vehicles and, correspondingly, the carrying value of DaimlerChrysler's leased vehicles could be subject to further downward pressure. If resale prices of used vehicles decline, future operating results are likely to be adversely affected by incremental charges.

Collectibility of Receivables from Financial Services

Sales financing and finance lease receivables consist of retail installment sales contracts secured by passenger cars and commercial vehicles. At December 31, 2001, such receivables totaled €49.5 billion. Collectibility risks include consumer and dealer insolvencies and insufficient collateral values (less costs to sell) to realize the full carrying values of these receivables. As a matter of policy, DaimlerChrysler maintains an allowance for doubtful accounts representing management's estimate of the amount of asset impairment in the portfolios of finance, trade and other receivables. DaimlerChrysler determines the allowance for doubtful accounts based on a systematic, ongoing review and evaluation performed as part of the credit-risk evaluation process, 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. This evaluation is inherently judgmental and requires material estimates, including the amounts and timing of future cash flows expected to be received, which may be susceptible to significant change.

Although management considers the allowance for doubtful accounts to be adequate based on information currently available, additional provisions may be necessary due to (i) changes in management estimates and assumptions about asset impairment, (ii) information that indicates changes in the expected future cash flows, or (iii) changes in economic and other events and conditions. A prolonged economic downturn in North America and Western Europe could increase the likelihood of credit losses exceeding current estimates. To the extent that sales incentives remain an integral part of sales promotion with the effect of reducing new vehicle prices, resale prices of used vehicles and, correspondingly, the collateral value of DaimlerChrysler's sales financing and finance lease receivables could experience further downward pressure. If these factors require a significant increase in DaimlerChrysler's allowance for doubtful accounts, it could negatively affect future operating results.

Significant Business Concentrations and Recoverability of Long-Lived Assets

DaimlerChrysler has a substantial concentration of its businesses in North America and Western Europe. These businesses are very capital intensive and have required (and will continue to require) significant investments in long-lived assets (property, plant, equipment and intangible assets including goodwill). At December 31, 2001, the carrying value of DaimlerChrysler's property, plant and equipment was €41.2 billion. Recoverability of long-lived assets (except intangible assets) being held and used is measured by a comparison of the carrying amount of an asset (or group of assets) to future net cash flows expected to be generated by the asset (or group of assets). If such assets are considered impaired, the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. At December 31, 2001, the carrying value of intangible assets, including goodwill, was €2.9 billion. Intangible assets are evaluated for recovery based upon projected future cash flows. A prolonged economic downturn in DaimlerChrysler's major markets could intensify pricing pressure because of overcapacity in the automotive industry. Consequently, DaimlerChrysler could be forced to decrease production, reduce capacity and increase sales incentives further. Such events could decrease future estimates of net cash flows expected to be generated to the extent that certain long-lived assets would be considered impaired, negatively affecting future operating results.

Mitsubishi Motors concentrates a substantial portion of its business in Japan and North America. EADS concentrates a substantial portion of its business with the airline industry. These businesses are also very capital intensive and have required (and will continue to require) significant investments in long-lived assets (property, plant, equipment and intangible assets including goodwill). The same accounting policies apply to the long-lived assets that reside within DaimlerChrysler's equity method investments in EADS and Mitsubishi Motors. The risks related to EADS' and Mitsubishi Motors' ability to recover their long-lived assets and the potential impact to DaimlerChrysler are discussed below.

Commercial Vehicle Residual Value Guarantees

Freightliner has made financial commitments to certain customers that guarantee the residual values of commercial vehicles purchased. The guarantees are exercisable by these customers if they subsequently purchase a new commercial vehicle. At December 31, 2001, the total commitment approximated €2.5 billion. DaimlerChrysler's accounting policy is to accrue a liability, in the period it becomes probable that an expected shortfall will occur, for the difference between the residual value guarantee and the expected used truck market value at the date Freightliner must fulfill its commitment. DaimlerChrysler makes these assessments at the time of sale and periodically evaluates and updates them for the duration of the commitment period. In making its accounting estimate, DaimlerChrysler considers current commercial vehicle market value data and actual and expected loss experience. However, actual future loss experience may differ significantly from DaimlerChrysler's current assumptions. A decline in the U.S. economy in general and the commercial vehicle market specifically could significantly increase DaimlerChrysler's financial risk resulting from commitments to guarantee commercial vehicle residual values, thereby adversely affecting future operating results.

Liability for Product Warranties

DaimlerChrysler generally warrants its products against certain manufacturing and other defects. Product warranties are provided for specific periods of time and/or usage of the product and vary depending upon the

nature of the product, the geographic location of its sale and other factors. All product warranties are consistent with commercial practices. DaimlerChrysler's accounting policy is to record an accrued liability for estimated product warranty costs as a component of cost of sales at the time the related sale is recognized. The accrued warranty costs represent management's best estimate at the time of sale of the total costs that DaimlerChrysler will incur to repair or replace product parts that fail while still under warranty. The amount of accrued estimated warranty costs is primarily based on historical experience as to product failures as well as current information on repair costs. Finally, as portions of the products sold and warranted by DaimlerChrysler contain parts manufactured (and warranted) by DaimlerChrysler's suppliers, the amount of warranty costs accrued also contains an estimate as to warranty claim recoveries from suppliers. At December 31, 2001, DaimlerChrysler had accrued €9.1 billion for estimated product warranty claims. The foregoing evaluations are inherently uncertain as they require material estimates and some products' warranty periods extend for up to 7 years. Consequently, actual warranty costs will differ from the estimated amounts, perhaps significantly. If DaimlerChrysler were required to record additional warranty provisions in the future, it would negatively affect operating results.

Realizability of Investments in EADS and Mitsubishi Motors

The carrying values of DaimlerChrysler's 33% ownership interest in EADS and its 37.3% ownership interest in Mitsubishi Motors were €3.8 billion and €1.6 billion, respectively, at December 31, 2001. The carrying values of the equity method investments in EADS and Mitsubishi Motors exceeded their quoted market values at December 31, 2001. DaimlerChrysler's accounting policy is to record a write-down of such investments to realizable value when a decline in fair value below carrying value is other than temporary. In determining if a decline in value is other than temporary, DaimlerChrysler considers the length of time and the extent to which the fair value has been less than the carrying value, the financial condition and prospects of EADS and Mitsubishi Motors, and DaimlerChrysler's ability and intent to retain its investments in EADS and Mitsubishi Motors for a period of time sufficient to allow for any anticipated recovery in market value. As a result of this evaluation, at December 31, 2001, DaimlerChrysler determined there was no need to record a write-down of its investments in EADS and Mitsubishi Motors.

The carrying value of DaimlerChrysler's investment in EADS is primarily dependent on EADS' ability to compete successfully with its Airbus aircraft in the commercial aircraft industry in terms of price, product quality and market acceptance of new models. Significant additional costs for security measures and a continuing decline in air travel currently burden the airline industry. As a result, orders for new aircraft and the exercise rate of existing purchase options may be significantly lower in the future which could adversely affect EADS' expected net cash flows and its ability to recover its long-lived assets. Consequently, DaimlerChrysler's proportionate share of EADS' future operating results and its ability to recover the full amount of its investment in EADS could be adversely affected.

In February 2001, Mitsubishi Motors announced a restructuring plan designed to improve its financial performance and market position. Key initiatives include management changes, workforce reduction, elimination of excess production capacity and reduction of costs of purchased materials. Mitsubishi Motors' ability to execute its restructuring plan is dependent upon its capacity to secure adequate sources of funding to meet its liquidity needs, which could also require additional equity or some form of credit support. Mitsubishi Motors' expected net cash flows and its ability to recover its long-lived assets could also change. Consequently, DaimlerChrysler's proportionate share of Mitsubishi Motors' future operating results and its ability to recover the full amount of its investment in Mitsubishi Motors could be adversely affected if Mitsubishi Motors is not able to implement its restructuring plan successfully.

OPERATING RESULTS

The DaimlerChrysler Group currently operates in five business segments: (1) Mercedes-Benz Passenger Cars & smart; (2) Chrysler Group; (3) Commercial Vehicles; (4) Services; and (5) Other Activities.

In 2001, DaimlerChrysler reorganized some of its business segments. Following the exchange in July 2000 of the Group's controlling interest in DaimlerChrysler Aerospace for a non-controlling (equity method) interest in

European Aeronautic Defence and Space Company EADS N.V. (EADS), DaimlerChrysler transferred the remaining businesses of the former Aerospace segment and the investment in EADS to the Other Activities segment. In January 2001, DaimlerChrysler combined the operations of MTU/Diesel Engines, which was previously part of the Other Activities segment, with the Commercial Vehicles' powertrain business in a new business unit within the Commercial Vehicles segment called DaimlerChrysler Powersystems. DaimlerChrysler has reclassified prior period amounts to conform its segment presentation to the new structure.

The following discussion should be read in conjunction with Notes 1 and 32 to the Consolidated Financial Statements and "Factors Affecting Operations and Financial Reporting." The following table shows revenues and operating profit (loss) for each of the five business segments during the last three fiscal years.

DaimlerChrysler Group
Business Segment Revenues And Operating Profit (Loss)
(€ in millions)

	Year Ended December 31,					
	2001		2000		1999	
	Revenues	Operating Profit (Loss)	Revenues	Operating Profit (Loss)	Revenues	Operating Profit (Loss)
Mercedes-Benz Passenger Cars & smart	47,705	2,951	43,700	2,145	38,100	2,703
Chrysler Group	63,483	(5,281)	68,372	501	64,085	5,051
Commercial Vehicles	28,572	(514)	29,804	1,212	27,609	1,157
Services	16,851	612	17,526	2,457	12,932	2,039
Other Activities	4,507	1,181	10,615	3,590	14,084	241
Eliminations	(8,245)	(267)	(7,633)	(153)	(6,825)	(179)
Total	<u>152,873</u>	<u>(1,318)</u>	<u>162,384</u>	<u>9,752</u>	<u>149,985</u>	<u>11,012</u>

Two transactions in 2001 – one involving DaimlerChrysler's rail systems activities (Adtranz) and the other DaimlerChrysler's Automotive Electronics business (TEMIC) – and three transactions in 2000 – one involving DaimlerChrysler Aerospace, another T-Systems ITS (formerly debis Systemhaus) and, lastly, the purchase of a non-controlling (equity method) interest in Mitsubishi Motors Corporation – significantly affected the year-to-year comparability of revenues and operating profit (loss) in the segments Services and Other Activities. Effective May 1, 2001, DaimlerChrysler transferred control over the operations of Adtranz to the Canadian company Bombardier Inc. On April 1, 2001, DaimlerChrysler sold a 60% controlling interest in TEMIC to Continental AG. In October 2000, Deutsche Telekom made a capital investment in T-Systems ITS for which it received a 50.1% controlling interest in that company. In July 2000, the Group disposed of most of its aerospace activities by exchanging its controlling interest in DaimlerChrysler Aerospace for a 33% interest in EADS.

As a result of these transactions, revenues and operating profit of TEMIC, Adtranz, DaimlerChrysler Aerospace and T-Systems ITS, are included in the Group's totals only through the date of completion of the respective transaction. Thereafter, the operating profit of the Services segment includes DaimlerChrysler's percentage interest in the operating profit of T-Systems ITS (49.9%), while the Other Activities segment includes the Group's percentage interests in the operating results of EADS (33%) and TEMIC (40%). The Group's proportionate share in the operating results of Mitsubishi Motors is included for the full year 2001, but only for the last quarter of 2000. The 2001 operating profit of Other Activities includes gains from the sale of a controlling interest in TEMIC (€0.2 billion) and the sale of Adtranz (€0.3 billion). In 2000, the operating profit of Other Activities included a €3.3 billion gain realized on the disposition of the Group's controlling interest in DaimlerChrysler Aerospace, and the operating profit of Services included a €2.3 billion gain realized as a result of the transaction involving T-Systems ITS.

2001 Compared With 2000

DaimlerChrysler Group

In 2001, Group revenues declined 6% from €162.4 billion to €152.9 billion. Excluding the effects on Group revenues of the transactions involving Adtranz and TEMIC in 2001 and EADS and T-Systems ITS in 2000, Group revenues from ongoing business activities in 2001 declined 1% versus comparable revenues in 2000. Revenues of Mercedes-Benz Passenger Cars & smart rose 9% to €47.7 billion due to strong sales of the C-Class and higher demand in the segment's principal markets outside Germany. Chrysler Group revenues fell 7% to €63.5 billion, primarily as a result of lower unit sales. The decrease in revenues was partially offset by the depreciation of the euro against the dollar. Revenues of Commercial Vehicles decreased 4% to €28.6 billion due to a worldwide decline in demand for trucks and buses. The Services segment contributed revenues of €16.9 billion, a 4% decline (2000: €17.5 billion). Revenues of the Service's segment in 2000 included €2.4 billion attributable to T-Systems ITS which is no longer controlled by DaimlerChrysler. If the revenue share attributable to T-Systems ITS is eliminated from the 2000 figures, revenues of Services increased 12% in 2001. This improvement was mainly the result of a significant increase in 2000 in the number of new leasing and finance contracts. These contracts generated full year revenues for the first time in 2001. Revenues of the Other Activities segment decreased from €10.6 billion to €4.5 billion. The decline was exclusively due to the sales in 2001 of Adtranz and a controlling interest in TEMIC and the part year inclusion in 2000 of revenues of the aerospace activities prior to DaimlerChrysler's exchange of its interest in DaimlerChrysler Aerospace for an equity interest in EADS.

In 2001, cost of sales amounted to €128.4 billion, a decrease of 4%. Cost of sales as a percentage of revenues increased to 84% in 2001 compared to 83% in 2000. This increase was mainly due to higher costs for customer satisfaction, depreciation and amortization at Chrysler Group and charges at Freightliner in connection with its turnaround plan and increased residual value provisions on future truck commitments.

Selling expenses amounted to €11.8 billion in 2001 compared to €11.7 billion in 2000, a 1% increase. The increase resulted mainly from higher unit sales at Mercedes-Benz Passenger Cars & smart. Selling expenses as a percentage of revenues were 8% in 2001 and 7% in 2000.

General administrative expenses in 2001 were €5.5 billion, 6% less than in 2000 (€5.9 billion). This decline was mainly the result of cost reductions at Chrysler Group in connection with its turnaround plan, partially offset by additional expenses incurred in connection with the Freightliner turnaround plan. General administrative expenses as a percentage of revenues remained at last year's level of 4%.

Research and development funded by the Group amounted to €5.9 billion in 2001 compared to €6.3 billion in 2000. The decline in research and development expense is due to the transactions involving Adtranz and TEMIC in 2001 and DaimlerChrysler Aerospace in 2000.

In response to production overcapacity and changing market demand, in February 2001 DaimlerChrysler adopted a comprehensive turnaround plan for the Chrysler Group. See "Item 4. Information on the Company." The charges recorded for the plan in 2001 were €3.1 billion (€1.9 billion net of taxes). The charges appear as a separate line item in the consolidated statement of income (loss) (€2.6 billion and €0.5 billion would have otherwise been reflected in cost of sales and in selling, administrative and other expenses, respectively).

In 2001, DaimlerChrysler had an operating loss of €1.3 billion compared to an operating profit of €9.8 billion in the previous year. The 2001 operating loss includes charges of €3.1 billion relating to the turnaround plan of the Chrysler Group, charges of €0.5 billion relating to Freightliner's turnaround plan and special costs associated with unforeseen market developments, and the Group's proportionate €0.4 billion share of Mitsubishi Motors Corporation's restructuring charges. Group operating results were also negatively affected by an impairment charge of €0.1 billion relating to the Group's e-business activities. Due to the decision of the Argentine government to reform its financial system and monetary policy and to introduce a floating exchange rate against the dollar effective January 11, 2002, the Group recognized a loss of €0.1 billion in 2001. DaimlerChrysler also recorded a charge of €0.2 billion in 2001 relating to the recoverability of lease receivables in anticipation of the intended sale in 2002 of the commercial real estate and asset-backed lending portfolio of Capital Services. The effects of these charges were partially offset by the Group's €0.9 billion share of a gain arising at EADS in

connection with the formation of Airbus SAS. Additional gains resulted from the sale of Adtranz (€0.3 billion), the sale of 60% of TEMIC (€0.2 billion), and the disposal of the Group's remaining 10% equity interest in debitel to Swisscom (€0.3 billion) in 2001.

Operating profit in 2000 includes gains of €3.3 billion from the exchange of the Group's controlling interest in DaimlerChrysler Aerospace for a 33% interest in EADS, €2.3 billion from the disposition of the Group's controlling interest in T-Systems ITS, €0.1 billion from the sale of the fixed installations activities of Adtranz, and €0.1 billion from the dilution of DaimlerChrysler's equity interest in Ballard Power Systems, a Canadian company focusing on fuel cell technology. Group operating profit in 2000 was reduced by a write-down of €0.5 billion on the carrying values of leased vehicles and charges of €0.5 billion relating to the smart brand in connection with the joint development of a new small car platform with Mitsubishi Motors. In addition, DaimlerChrysler recorded a charge in 2000 relating to the adoption of the European Union's directive regarding end-of-life-vehicles (€0.3 billion).

After the elimination of one-time items, which resulted in a net charge of €2.7 billion in 2001 and a net gain of €4.5 billion in 2000, operating profit decreased from €5.2 billion in 2000 to €1.3 billion in 2001. This decline was mainly attributable to significantly lower operating results of the Chrysler Group and Commercial Vehicles caused by the intense competition in the North American automotive markets. The table on page 40 shows the business segment contributions to Group operating profit. The segment discussions of Chrysler Group and Commercial Vehicles on pages 43 and 45 describe in more detail the specific market factors which affected the operating results of these two segments and the one-time items included in the results. Management defines one-time items as significant transactions that are not part of ongoing operations or are expected to be nonrecurring.

Financial income (net) was €0.2 billion in both 2001 and 2000. Financial income (net) in 2001 includes the Group's €0.7 billion share of a gain arising at EADS in connection with the formation of Airbus SAS, and a gain of €0.3 billion from the sale of DaimlerChrysler's remaining 10% interest in debitel to Swisscom. DaimlerChrysler's proportionate €0.2 billion share of the restructuring charges of Mitsubishi Motors and an impairment charge of €0.1 billion relating to the Group's e-business activities partially offset these additions to financial income (net). Higher interest expense from increased debt in the industrial business and the effects of the depreciation of the Argentine peso against the dollar as a result of the economic crisis in Argentina had an additional negative effect. Financial income (net) in 2000 includes an aggregate total loss of €0.2 billion from the Group's equity investments in EADS and Mitsubishi Motors.

In 2001, the Group recorded an income tax benefit of €0.8 billion compared to income tax expense of €2.0 billion in 2000. The income tax benefit in 2001 was generated by a pre-tax loss of €1.5 billion. Income tax expense in 2000 was recorded in respect of pre-tax income of €4.5 billion plus two significant changes in German tax law. The first one called for a reduction, effective January 1, 2001, of the German corporate income tax rate from 40% on retained earnings and 30% on distributed earnings to a uniform 25%. The other change exempted from taxation gains from sales of investments, effective January 1, 2002. These two changes triggered a current revaluation of the Group's net deferred tax assets in Germany the effect of which was additional tax expense in 2000. The changes resulted in a total net income tax charge in 2000 of €0.3 billion. Excluding the effects on net income (loss) of the one-time items described in operating profit (loss) and financial income in 2001 and 2000 as well as the effects of the changes in German tax laws in 2000, the Group's effective tax rate increased from 39.5% in 2000 to 44.3% in 2001. This increase is principally due to negative contributions in 2001 to DaimlerChrysler's operating results from equity method investments which are not subject to tax at DaimlerChrysler and consequently did not generate any associated tax benefits.

In 2001, the Group had a net loss of €0.7 billion compared to net income of €7.9 billion in 2000. The 2000 net income includes net gains on dispositions of €5.5 billion, which have been classified as extraordinary under special accounting rules applicable only to transactions occurring within a two-year period following the business combination of Daimler-Benz and Chrysler in November 1998, which was accounted for as a pooling of interests. Additionally, net income in 2000 contains a net expense of €87 million from cumulative effects of changes in accounting principles for derivative financial instruments (SFAS 133) and retained interests in sold receivables

(EITF 99-20). Net income (loss) including extraordinary items and cumulative effects of changes in accounting principles decreased by €8.6 billion to a net loss of €0.7 billion in 2001. Before extraordinary items and cumulative effects of changes in accounting principles, DaimlerChrysler had a basic and diluted loss per ordinary share of €0.66 in 2001, compared to basic and diluted earnings per ordinary share in 2000 of €2.46 and €2.45, respectively. Including extraordinary items and cumulative effects of changes in accounting principles, the basic and diluted loss per ordinary share in 2001 remains unchanged at €0.66, compared to basic and diluted earnings per share in 2000 of €7.87 and €7.80, respectively.

Mercedes-Benz Passenger Cars & smart

Revenues of the Mercedes-Benz Passenger Cars & smart segment rose €4.0 billion or 9% to €47.7 billion. The increase was mainly the result of the strong performance of the C-Class, partially offset by a decline in unit sales of the E-Class in anticipation of the market introduction of the successor model in March 2002. Total unit sales rose 6% from 1,154,900 in 2000 to 1,229,700 in 2001, primarily due to a 30% increase in unit sales of the C-Class.

At €16.4 billion, revenues in Germany were 5% higher than in 2000, but unit sales declined 1% in an overall declining market. Germany continues to be the most important market for Mercedes-Benz Passenger Cars & smart with 2001 unit sales of 436,500 representing 35% of the segment's worldwide unit sales (2000: 38%).

In the other Western European countries, revenues of Mercedes-Benz Passenger Cars & smart rose 19% to €12.8 billion while unit sales were 16% higher reaching 402,300 units. These increases were primarily due to significantly higher demand for passenger cars in the United Kingdom, France, Spain and Italy. Revenues increased at a comparatively higher rate than unit sales due to a favorable shift in the model mix towards higher priced vehicles. In the United States, revenues increased by €0.7 billion or 7% to €11.0 billion and unit sales rose 4% to 213,400 units. The revenue increase in the United States was mainly due to the substantial increase in demand for C-Class vehicles and the appreciation of the dollar against the euro. At €2.1 billion, revenues in Japan were 1% lower compared to last year despite an increase in unit sales. This was mainly due to the depreciation of the Japanese yen against the euro. In Asia (excluding Japan), revenues increased 21% to €2.1 billion while unit sales climbed 11% to 45,700. The comparatively larger increase in revenues was caused by a favorable shift in the model mix towards higher priced vehicles.

Operating profit of the Mercedes-Benz Passenger Cars & smart segment increased 38% to €3.0 billion (2000: €2.1 billion). The 2000 operating profit included a €0.3 billion charge relating to the adoption of the European Union's directive regarding end-of-life-vehicles and total charges of €0.5 billion relating to the smart brand in connection with the joint development of a small car platform with Mitsubishi Motors. A gain of €0.1 billion relating to the reduction in 2000 of DaimlerChrysler's equity interest in Ballard Power Systems partially offset these charges. If these one-time charges and gains are excluded from the 2000 operating profit, operating profit in 2001 improved by 3% or €0.1 billion. This improvement was mostly the result of higher unit sales, primarily of the new C-Class sedan, sports coupe and station wagon. A shift of consumer interest from the higher priced E-Class to the smaller C-Class models in anticipation of the impending E-Class model change partially offset the positive effect of higher unit sales. Operating profit of the Mercedes-Benz Passenger Cars & smart segment was also negatively affected by pre-production costs related to new or revised passenger car models, especially the successor models of the E-Class, the C-Class sports coupe, the CLK coupe and the A-Class as well as the updated version of the M-Class.

Chrysler Group

The Chrysler Group achieved revenues of €63.5 billion compared with €68.4 billion for 2000. This decrease in revenues is primarily due to a decrease in unit sales, partially offset by an appreciation of the dollar against the euro. Measured in dollars, the currency in which a significant portion of the Chrysler Group's sales are earned, revenues declined by 10%.

In 2001, the Chrysler Group sold 2.76 million units, 10% less than in the prior year. Worldwide factory unit sales decreased due to substantial competitive pressure in the North American market and a softening of vehicle industry sales. This competitive environment particularly affected the key market segments of the Chrysler

Group, including upper-middle sport utility vehicles and pick-up trucks. In the NAFTA region, total sales decreased 10% to 2,569,600 units. Unit sales outside the NAFTA region decreased by 400 units to 186,300 in 2001. The Chrysler Group successfully launched the all-new Jeep Liberty, which it produces in its new assembly plant in Toledo, Ohio, and the all-new Dodge Ram 1500 pick-up truck.

The Chrysler Group's operating loss was €5.3 billion compared to an operating profit of €0.5 billion in 2000. Excluding restructuring charges of €3.1 billion relating to actions taken under the turnaround plan described below, operating results declined €2.7 billion. This decrease resulted primarily from lower factory unit sales, an unfavorable shift in product mix, increased sales incentives, and higher costs for customer satisfaction, depreciation and amortization. The deterioration in operating results was partially offset by cost reduction initiatives and other actions taken as part of the turnaround plan. Improvements resulting from higher vehicle pricing were more than offset by the higher sales incentives.

In February 2001, the Chrysler Group announced a turnaround plan designed to improve its financial performance and market position. Key initiatives over the period 2001 through 2003 include a workforce reduction, elimination of excess plant capacity, reduction of the cost of purchased materials and services, a new dealer performance-based incentive program and the implementation of a product creation process, which reorganized the former platform teams into product innovation teams. By adjusting its cost structure, workforce and production capacity while continuing to develop exciting products, the Chrysler Group expects to position itself for profitable growth in the world automotive markets.

As a result of the turnaround plan, the Chrysler Group recorded restructuring charges of €3.1 billion in 2001 primarily related to workforce reductions, asset write-downs and contract cancellation costs. Additional restructuring costs of up to \$0.9 billion are expected to be recognized in 2002 and 2003, including \$0.3 billion of charges for actions currently identified for 2002. The Chrysler Group expects cash payments of \$0.7 billion in 2002 for the previously recorded charges as well as the currently identified restructuring actions.

Prior to implementing the turnaround plan, the Chrysler Group had forecasted an unadjusted operating loss between €5.5 billion and €5.9 billion for 2001. Turnaround plan actions taken in 2001, generated net savings of €3.6 billion from this forecasted loss by reducing variable and fixed costs within cost of sales and selling, administrative and other expenses. The Chrysler Group surpassed the turnaround plan's cost reduction targets for 2001. This over-achievement was partially offset by an under-achievement of the plan's revenue enhancement target due to substantial competitive pressures in the North American market. The favorable cash impact of such actions and related reductions in capital expenditures totaled €5.4 billion in 2001, net of related cash payments of €0.4 billion relating to restructuring measures.

The Chrysler Group expects to achieve break-even operating results in 2002 (excluding any additional restructuring charges or other one-time actions) and will continue to take the necessary savings and profit improvement actions as part of the turnaround plan to achieve this objective. For a further discussion of the Chrysler Group's turnaround plan, see "Description of Business Segments – Chrysler Group" in "Item 4. Information on the Company."

Revenues and operating results of the Chrysler Group are derived principally from the U.S. and Canadian automotive markets. Retail industry sales (including fleet sales) of new cars and trucks in the U.S. and Canada were 19.1 million units in 2001, compared with 19.4 million units in 2000, a decrease of 2%. Retail industry sales would likely have decreased further were it not for the introduction of more extensive sales incentives, such as zero percent financing, beginning in September 2001. It is reasonably possible that these sales incentives may have influenced customers to accelerate into 2001 purchases otherwise planned for 2002. In the absence of continued costly sales incentives, retail industry sales may decrease more significantly in 2002 than in 2001.

The U.S. and combined U.S. and Canada retail sales and market share data for the Chrysler Group in 2001 and 2000 are shown below:

	Year Ended December 31,		
	2001	2000	Increase/ (Decrease)
U.S. Retail Market¹			
Car sales	558,017	649,373	(91,356)
Car market share	6.6%	7.3%	(0.7%)
Truck sales (including minivans)	1,715,191	1,873,322	(158,131)
Truck market share	19.0%	20.9%	(1.9%)
Combined car and truck sales	2,273,208	2,522,695	(249,487)
Combined car and truck market share	13.0%	14.2%	(1.2%)
U.S. and Canada Retail Market¹			
Combined car and truck sales	2,518,760	2,791,483	(272,723)
Combined car and truck market share	13.2%	14.4%	(1.2%)

¹ All retail sales and market share data include fleet sales.

Retail sales of cars for the Chrysler Group in the U.S. market for 2001 decreased 14% compared to 2000, while retail sales for the Chrysler Group in the U.S. truck market for 2001 decreased 8% compared to 2000. The decrease in retail sales and related market share of cars and trucks is primarily the result of increased competition, particularly in the large car, minivan, upper-middle sport utility and pick-up truck segments. The decrease in the Chrysler Group's truck sales was partially offset by an increase in retail sales in the lower-middle sport utility segment.

Commercial Vehicles

Revenues of the Commercial Vehicles segment decreased 4% to €28.6 billion, and unit sales of 492,900 were 10% lower than in 2000. The change in total unit sales was the result of a 23% decrease in truck sales to 191,800 units and a 12% decline in bus sales to 43,300 units, partially offset by a 3% increase in unit sales of vans to 257,800 units. In 2001, revenues in Germany were 5% lower at €7.2 billion while unit sales decreased 6% to 106,000 vehicles. In Western Europe (excluding Germany), revenues were up 3% reaching €7.2 billion while unit sales rose 1% to 169,800 units in 2001. The increase in unit sales resulted primarily from the success of Mercedes-Benz vans, especially in France, Italy, and the United Kingdom. In Western Europe (including Germany), Mercedes-Benz vans in the categories between 2t and 6t GVW had a market share of 19% in both 2001 and 2000. Also, in the category of trucks over 6t GVW, the Commercial Vehicles segment maintained its position as the market leader in Germany with a market share of 44%, slightly higher than in the previous year (43%). The segment's market share for trucks above 6t GVW in Western Europe (excluding Germany) was 15% (2000: 16%). With a combined Western European market share of 26% in both 2001 and 2000, the Mercedes-Benz and Setra bus brands maintained their position as market leader in Western Europe.

Revenues of the Commercial Vehicles segment in the NAFTA region decreased 9% to €9.5 billion in 2001. This decline was mainly due to a 31% drop in unit sales to 105,900 units, partially offset by the appreciation of the dollar against the euro and the full year inclusion of revenues generated by Detroit Diesel Corporation. Detroit Diesel does not contribute to vehicle unit sales. Revenues were €8.1 billion in the United States and €0.7 billion in Canada, a decrease of 8% and 7%, respectively. Unit sales decreased 32% in the United States and 36% in Canada, primarily as a result of the weak economy which led to significantly lower demand for trucks in the Class 8 heavy duty segment. In Mexico, revenues fell 10% to €0.7 billion and unit sales decreased 16%. Commercial Vehicles was able to sell 43,000 units in South America, a 15% decrease compared to 2000. Revenues in South America fell 16% to €1.5 billion.

In 2001, Commercial Vehicles contributed an operating loss of €0.5 billion compared to an operating profit of €1.2 billion in 2000. The 2001 operating results are burdened by charges of €0.5 billion recorded by Freightliner for its turnaround plan and special costs associated with unforeseen market developments. In the prior year, the segment's operating profit was impacted by a small charge relating to the adoption of the European Union's directive regarding end-of-life vehicles.

Adjusted for these one-time effects, the segment had positive earnings of €0.1 billion in 2001 compared to an operating profit of €1.3 billion in 2000. The sharp contraction of the market for commercial vehicles in the NAFTA region, which led to significant price reductions for new and used vehicles and to a 31% drop in the segment's unit sales, was primarily responsible for the decline in operating profit. The deterioration of used vehicle prices may continue to affect demand for new vehicles and, consequently, may have a further negative impact on the profitability of the Commercial Vehicles segment. Further factors depressing earnings were the drop in demand due to the economic crisis in Argentina and the economic slow-down in Turkey and lower demand for trucks in Western Europe.

For a detailed discussion of the Freightliner turnaround plan, see "Description of Business Segments – Commercial Vehicles" in "Item 4. Information on the Company."

Services

The year-to-year comparability of revenues and operating profit for the Services segment is affected by the transaction involving T-Systems ITS described on page 40.

In 2001, the Services segment recorded revenues of €16.9 billion compared to €17.5 billion in 2000, a 4% decline. Revenues of the Financial Services business unit increased 12% to €16.9 billion (2000: €15.1 billion). Following the transaction involving T-Systems ITS in October 2000, revenues of Financial Services represent all revenues achieved by the Services segment in 2001, compared with 86% in the prior year. Overall, Financial Services processed new leasing and finance contracts in 2001 with a total value of €54.9 billion, a decline of 3% in new contract value compared to 2000. In 2001, Financial Services managed a portfolio of finance receivables of €131.8 billion, a 4% increase over the 2000 portfolio of €126.3 billion. Excluding exchange rate effects, the portfolio volume in 2001 was only slightly higher than in the previous year.

In 2001, Services' activities in the NAFTA region contributed €11.6 billion or 69% of total revenues, a 9% increase over 2000. Services' revenues generated in Germany amounted to €3.2 billion or 19% of total revenues, compared with €4.1 billion or 24% of total revenues in 2000. Revenues originated in the European Union (excluding Germany) amounted to €1.5 billion or 9% of total revenues in 2001 compared to €1.9 billion or 11% of total revenues in 2000.

Operating profit in the Services segment decreased to €0.6 billion from €2.5 billion in 2000. Services' operating profit in 2001 includes a gain of €0.3 billion from the sale of the Group's remaining 10% equity interest in debitel to Swisscom and a charge of €0.1 billion as a result of the depreciation of the Argentine peso against the dollar. Services' operating profit in 2001 also includes a charge of €0.2 billion related to the recoverability of lease receivables in connection with the intended sale in 2002 of the commercial real estate and asset-backed lending portfolio of Capital Services. The 2000 operating profit of the Services segment includes a gain of €2.3 billion resulting from the disposition of DaimlerChrysler's controlling interest in T-Systems ITS, partially offset by charges of €0.5 billion due to an impairment charge on the carrying values of leased vehicles in the NAFTA and U.K. markets. Excluding these effects in 2001 and 2000, Services achieved an operating profit in 2001 of €0.6 billion, which is on the prior year's level. The operations of the Services segment were negatively influenced by the pressure on margins, loss reserves for the receivables of the Commercial Vehicles portfolio and residual value losses of Chrysler Group vehicles. These negative effects were offset by the use of refinancing instruments offering more favorable conditions, benefits from asset/liability management and savings which were realized due to cost reduction measures initiated within the Services segment.

Other Activities

Revenues of the Other Activities segment originate mainly from the MTU Aero Engines business unit. Operating results of this segment also include DaimlerChrysler's share in the operating results of its equity method investments in European Aeronautic Defence and Space Company EADS N.V. (EADS), in Mitsubishi Motors Corporation and in TEMIC TELEFUNKEN microelectronic GmbH (now known as Conti Temic microelectronic GmbH) and its subsidiaries (TEMIC). The segment also contains DaimlerChrysler's real-estate activities, corporate research and the Group's holding and finance companies.

The year-to-year comparability of revenues and operating profit of the Other Activities segment is significantly affected by the transactions involving DaimlerChrysler Aerospace, Adtranz and TEMIC described on page 40.

Revenues decreased by €6.1 billion from €10.6 billion to €4.5 billion. The decrease was mainly due to the sale of Adtranz and the disposition of the Group's controlling interest in TEMIC. Revenues of these business units, which in 2001 amounted to a total of €1.4 billion, are included in the segment's total revenues only through the date of completion of the respective transaction. Similarly, the revenue figure for 2000 includes €3.3 billion in revenues attributable to the former aerospace activities for the first half of the year and revenues of €5.0 billion attributable to Adtranz and TEMIC. Continuing revenues originate mainly from MTU Aero Engines, which recorded an increase in revenues by 18% to €2.5 billion (2000: €2.1 billion).

The €1.2 billion operating profit achieved by the Other Activities segment in 2001 includes the Group's €0.9 billion share of the gain arising at EADS in connection with the formation of Airbus SAS as well as gains of €0.3 billion and €0.2 billion from the transactions involving Adtranz and TEMIC, respectively. These gains were partially offset by the Group's proportionate €0.4 billion share of Mitsubishi Motors' restructuring charges. Operating profit for 2000 includes a gain of €3.3 billion as a result of the exchange of the Group's controlling interest in DaimlerChrysler Aerospace for a 33% interest in EADS and a gain of €0.1 billion from the sale of the fixed installations activities of Adtranz.

2000 Compared With 1999

DaimlerChrysler Group

Group revenues in 2000 increased 8% from €150.0 billion to €162.4 billion. This increase consisted of 12% revenue growth in the Group excluding the IT Services business and the aerospace activities which were not part of the transaction with EADS, offset by a revenue decline due to the disposition of most of DaimlerChrysler's aerospace activities in July 2000 and the disposition of DaimlerChrysler's controlling interest in T-Systems ITS in October 2000. Revenues for the Mercedes-Benz Passenger Cars & smart segment increased 15% to €43.7 billion. Chrysler Group revenues rose 7% to €68.4 billion as a result of the depreciation of the euro against the dollar, absent which Chrysler Group revenues would have been 8% lower than in the previous year. Revenues of Commercial Vehicles went up 8% to €29.8 billion. Services' revenues improved 36% to €17.5 billion. Revenues of the Other Activities segment in 2000 were €3.5 billion below 1999 principally because the year 2000 did not include any revenues from the second half of the year from the aerospace activities disposed of in July 2000.

In 2000, cost of sales amounted to €134.4 billion, a 12% rise. Cost of sales as a percentage of revenues increased to 83% in 2000 compared to 80% in 1999. This increase resulted from higher sales incentives for specific Chrysler Group models which reduced revenues, an impairment charge on the carrying values of leased vehicles in the Services segment and charges related to the smart brand recorded in connection with the planned joint development of a new small car platform with Mitsubishi Motors.

Selling expenses were €11.7 billion in 2000 compared to €10.1 billion in 1999, a 16% increase. The increase was due to higher marketing costs in connection with new product launches. Selling expenses as a percentage of revenues were 7% in both 2000 and 1999. General administrative expenses in 2000 rose 11% over 1999 to €5.9 billion.

Research and development funded by the Group reached €6.3 billion in 2000 compared to €5.7 billion in 1999. In addition, the Group undertook research and development projects for third party customers funded by such parties (mainly the German government and ESA) in the amount of €1.1 billion in 2000 (1999: €1.8 billion). Research and development for third party customers decreased as a result of the disposition of most of DaimlerChrysler's aerospace activities.

In 2000, DaimlerChrysler's operating profit was €9.8 billion compared to €11.0 billion in the previous year, a decrease of 11%. The operating profit of 2000 includes gains of €3.3 billion from the exchange of the Group's controlling interest in DaimlerChrysler Aerospace for a 33% interest in EADS, €2.3 billion from the disposition of the Group's controlling interest in T-Systems ITS, and gains of €0.2 billion from the sale of the fixed installations activities of Adtranz and the dilution of DaimlerChrysler's equity interest in Ballard Power Systems, a Canadian company focusing on fuel cell technology. Group operating profit in 2000 was reduced by a write-down of €0.5 billion on the carrying values of leased vehicles and charges of €0.5 billion related to the smart brand in connection with the planned joint development of a new small car platform with Mitsubishi Motors. In addition, DaimlerChrysler recorded a charge in 2000 relating to the adoption of the European Union's directive for end-of-life-vehicles (€0.3 billion). The 1999 operating profit includes gains from the sales of most of DaimlerChrysler's investment in the telecommunications company debitel amounting to €1.1 billion, partially offset by charges for restructuring measures at Adtranz and other one-time items.

After adjustment for one-time items included in operating profit in both 2000 (€4.5 billion) and 1999 (€0.7 billion), operating profit decreased from €10.3 billion in 1999 to €5.2 billion. This decline was mainly attributable to lower contributions from the Chrysler Group and Services, resulting primarily from the intense competition in the North American automotive market. The business segment contributions to Group operating profit are shown in the table on page 40. One-time items and business developments are described in more detail in the discussion of the segment contributions below. One-time items are defined by management as significant transactions that are not part of ongoing operations or are expected to be nonrecurring.

Financial income (net) decreased from €0.3 billion in 1999 to €0.2 billion in 2000. Financial income (net) in 2000 includes losses of €0.2 billion from the Group's equity investments in EADS and Mitsubishi Motors. Financial income (net) was also negatively affected by increased interest expenses resulting from higher borrowings. Principally as a result of DaimlerChrysler's adoption of SFAS 133, financial income (net) in 2000 was not burdened by losses on derivative financial instruments to the same extent it was in 1999.

Income tax expense decreased from €4.5 billion in 1999 to €2.0 billion in 2000. The decrease in income tax expense was principally the result of lower pre-tax income in 2000. Income tax expense was also affected by changes in German tax laws in 2000 and 1999. In 2000, the German corporate income tax rate was reduced from 40% to 25%. This reduction triggered a current revaluation of the Group's net deferred tax assets in Germany. The other significant change in 2000 is the future exemption from taxation for certain gains from the sale of investments. The changes in 2000 resulted in a net income tax charge of €0.3 billion. In 1999, the German corporate income tax rate was reduced from 45% to 40% and the tax base was broadened, resulting in a net income tax charge of €0.8 billion. Excluding the effects of the changes in German tax laws in both years, the Group's effective tax rate increased slightly from 38.5% in 1999 to 38.8% in 2000.

Group net income increased from €5.7 billion in 1999 to €7.9 billion in 2000. Net income includes net gains on dispositions of €5.5 billion (1999: €0.6 billion) which have been classified as extraordinary and are described above. Net income also contains a net expense of €87 million from cumulative effects of changes in accounting principles for derivative financial instruments (SFAS 133) and retained interests in sold receivables (EITF 99-20). Net income before extraordinary items and cumulative effects of changes in accounting principles decreased by €2.6 billion to €2.5 billion. Basic and diluted earnings per ordinary share (before extraordinary items and cumulative effects of changes in accounting principles) were €2.46 and €2.45 in 2000, compared to €5.09 and €5.06 in 1999, respectively. After extraordinary items and cumulative effects of changes in accounting principles, basic and diluted earnings per ordinary share were €7.87 and €7.80 in 2000, higher than in 1999 when they reached €5.73 and €5.69, respectively.

Mercedes-Benz Passenger Cars & smart

Revenues of the Mercedes-Benz Passenger Cars & smart segment rose €5.6 billion or 15% to €43.7 billion, resulting mainly from the strong performance of the M-Class and the S-Class and the successful introduction of the new C-Class in the European market. In 2000, total unit sales rose 7% to a record level of 1,154,900. At €15.7 billion, revenues in Germany were 8% higher than in 1999 and unit sales rose 6% in an overall declining German market. Germany continues to be the most important market for Mercedes-Benz Passenger Cars & smart with unit sales of 440,000 in 2000 representing 38% of the segment's worldwide unit sales (1999: 39%).

In the other Western European countries, revenues of Mercedes-Benz Passenger Cars & smart rose 14% to €10.7 billion while unit sales were 7% higher reaching 347,800 units. These increases were primarily due to significantly higher demand for passenger cars in France, Italy, Spain and Belgium. In the United States, revenues increased by €1.8 billion or 21% to €10.3 billion and unit sales rose 4% to 205,700 units, setting a unit sales record for the fifth consecutive year in this market. The revenue increase in the United States was mainly due to the appreciation of the dollar against the euro and continued strong demand for higher priced S-Class and M-Class vehicles. At €2.2 billion, revenues in Japan were up 10% despite a 13% decrease in unit sales, mainly due to a favorable change in product mix and the depreciation of the euro against the Japanese yen. In Asia (excluding Japan), revenues jumped 51% to €1.7 billion while unit sales climbed from 25,500 to 41,100.

In 2000, Mercedes-Benz Passenger Cars & smart had an operating profit of €2.1 billion (1999: €2.7 billion). The segment's operating profit decreased as a result of a €0.3 billion charge relating to the end-of-life-vehicle directive adopted by the European Union and charges of €0.5 billion related to the smart brand in connection with the planned joint development of a new small car platform with Mitsubishi Motors. Based, in part, on DaimlerChrysler's recent investment in Mitsubishi Motors Corporation and the corresponding strategic alliance, in the fourth quarter of 2000 management conducted a strategic review of the smart brand, including a review of the Group's small car platform, and concluded that it was necessary to revise the current operating plan of the smart brand, including restructuring of supplier contracts. As a result, the carrying values of the brand's long-lived assets were determined to be impaired. Mercedes-Benz Passenger Cars & smart recorded an impairment charge of €281 million to write off the carrying values of the manufacturing facility, equipment, tooling and related goodwill for the smart brand. In addition, it recorded charges of €255 million related to fixed cost reimbursement agreements with smart suppliers. If the smart brand continues to experience low sales volumes from competition within the small car industry, management expects operating results to continue to be negatively affected. The charges relating to the smart brand and the adoption of the European Union's directive for end-of-life-vehicles were partially offset by a gain of €0.1 billion relating to the reduction of DaimlerChrysler's equity interest in Ballard Power Systems. Adjusted for all these one-time items, operating profit in 2000 improved by 6% to €2.9 billion.

Chrysler Group

The Chrysler Group achieved revenues of €68.4 billion compared with revenues of €64.1 billion for 1999. This increase in revenues is the result of the appreciation of the dollar against the euro and, to a lesser extent, higher vehicle pricing, partially offset by a decrease in unit sales and higher sales incentives. Measured in dollars, the currency in which a significant portion of the Chrysler Group's sales are earned, revenues declined by 8%.

In 2000, the Chrysler Group sold 3.05 million units, 6% lower than the year before. Worldwide factory unit sales decreased in part as a result of intense competition in the U.S. market, particularly in the minivan, sport utility and pick-up segments. Model changeovers and launches of certain new vehicles also contributed to the decrease in volume. Strong sales of the PT Cruiser (141,200 units) which was introduced in 2000 helped to offset the decrease in volume. In the NAFTA region, total sales decreased 6% to 2,858,500 units. Unit sales outside the NAFTA region rose to 186,700 in 2000, an increase of 9,400 units or 5%.

The Chrysler Group's operating profit declined to €0.5 billion in 2000 compared with €5.1 billion in 1999. This decrease resulted primarily from increased sales incentives due to the highly competitive U.S. and Canadian

markets, lower unit sales and an unfavorable change in product mix, and, to a lesser degree, increased fixed costs related to newly introduced products. The operating profit decrease was partially offset by a reduction in profit-based compensation costs and higher vehicle pricing.

Revenues and operating profit of the Chrysler Group are derived principally from the U.S. and Canadian automotive markets. Retail industry sales (including fleet sales) of new cars and trucks in the U.S. and Canada were 19.4 million units in 2000, compared with 19.0 million units in 1999, an increase of 2%.

The U.S. and combined U.S. and Canada retail sales and market share data for the Chrysler Group in 2000 and 1999 are set forth below:

	Year Ended December 31,		
	2000	1999	Increase/ (Decrease)
U.S. Retail Market¹			
Car sales	649,373	745,275	(95,902)
Car market share	7.3%	8.6%	(1.3%)
Truck sales (including minivans)	1,873,322	1,893,286	(19,964)
Truck market share	20.9%	21.7%	(0.8%)
Combined car and truck sales	2,522,695	2,638,561	(115,866)
Combined car and truck market share	14.2%	15.2%	(1.0%)
U.S. and Canada Retail Market¹			
Combined car and truck sales	2,791,483	2,903,378	(111,895)
Combined car and truck market share	14.4%	15.3%	(0.9%)

¹ All retail sales and market share data include fleet sales.

Retail sales of cars for the Chrysler Group in the U.S. market for 2000 decreased 13% compared to 1999, while retail sales for the Chrysler Group in the U.S. truck market for 2000 decreased 1% compared to 1999. The decrease in retail sales and related market share of cars and trucks is a result of increased competition.

Commercial Vehicles

Revenues of the Commercial Vehicles segment rose 8% to €29.8 billion, but unit sales of 549,000 were 1% lower than 1999. The change in total unit sales from 1999 to 2000 consisted of a 10% increase in unit sales of vans (249,300 units) and buses (49,200 units) offset by a 12% decrease in unit sales of trucks (250,500 units). In 2000, revenues in Germany were 4% higher at €7.6 billion while unit sales decreased 1% to 113,100 vehicles. In the other Western European countries, revenues were up 11% reaching €7.0 billion while unit sales rose 5% to 168,400 units in 2000. This increase resulted primarily from the success of Mercedes-Benz vans, especially in France, Spain and Switzerland. In Western Europe (including Germany), Commercial Vehicles maintained market leadership in the category of vans between 2t and 6t GVW with a market share of 19%. In the category of trucks over 6t GVW, Commercial Vehicles maintained its position as the market leader in Germany with a market share of 43% compared to 47% in the previous year. Its market share for trucks above 6t GVW in Western Europe (excluding Germany) remained at 16%. With a combined Western European market share of 26% in 2000 (1999: 25%), the Mercedes-Benz and Setra bus brands improved their position in the Western European market.

Due to the appreciation of the dollar against the euro, revenues of the Commercial Vehicles segment in the NAFTA region decreased only 1% to €10.3 billion in 2000, while unit sales fell 20% to 153,700 units. Revenues were €8.8 billion in the United States and €0.8 billion in Canada, a decrease of 4% and 8%, respectively. Unit sales decreased 23% in both the United States and Canada, primarily as a result of weakening economic conditions which caused lower demand for trucks in the Class 8 heavy duty segment. In Mexico, revenues jumped 86% to

€0.7 billion and unit sales increased 44%. Benefiting from a strong Brazilian market, Commercial Vehicles was able to sell 50,700 units in South America, a 14% increase over 1999. Revenues in South America rose 24% to €1.7 billion.

In 2000, Commercial Vehicles contributed an operating profit of €1.2 billion which was slightly better than 1999. The improvement was primarily a result of overall favorable market conditions in Western Europe, Turkey, Mexico and Brazil, partially offset by difficult market conditions in the United States and Canada, especially in the Class 8 heavy duty truck segment.

Services

The year-to-year comparability of revenues and operating profit for the Services segment is significantly affected by the transaction involving T-Systems ITS described on page 40.

In 2000, Services had revenues of €17.5 billion, a 36% improvement over 1999 (€12.9 billion). Revenues of Financial Services went up 51% to €15.1 billion, contributing 86% of Services' total revenues in 2000 compared with 77% in the prior year. Financial Services processed new leasing and finance contracts in 2000 with a total value of €56.8 billion, an increase of 12% in new contract value compared to 1999. In 2000, Financial Services managed a portfolio of finance receivables of €126.3 billion, a 27% increase over the 1999 portfolio of €99.2 billion. Revenues of IT Services decreased to €2.4 billion from €2.9 billion in the prior year. As a result of the disposition of DaimlerChrysler's controlling interest in T-Systems ITS, revenues for 2000 only include the IT activities prior to October 2000.

In 2000, Services' activities in the NAFTA region contributed €10.6 billion or 61% of total revenues, a 67% increase over 1999. Services' revenues generated in Germany were €4.1 billion or 24% of total revenues, compared with €4.2 billion or 32% of total revenues in 1999. Revenues originated in the European Union (excluding Germany) amounted to €1.9 billion or 11% of total revenues.

Operating profit in the Services segment increased to €2.5 billion from €2.0 billion in 1999. The 2000 operating profit of the Services segment includes a gain of €2.3 billion resulting from the disposition of DaimlerChrysler's controlling interest in T-Systems ITS, partially offset by charges of €0.5 billion due to an impairment charge on the carrying values of leased vehicles in the NAFTA and U.K. markets. Services' operating profit in 1999 included gains on the sale of debitel shares of €1.1 billion, offset by charges of €0.1 billion relating to prior period securitization transactions. Excluding these one-time effects in 2000 and 1999, Services' operating profit declined to €0.6 billion from €1.0 billion in the previous year. The decrease resulted principally from lower margins in Services' operations in the NAFTA market due to declining residual values for leased automobiles, higher costs of capital and more intense competition.

If resale prices of used vehicles continue to decline in the NAFTA and U.K. markets, which declines in 2000 required Services to re-evaluate the recoverability of the carrying values of its leased vehicles and resulted in the impairment charge of €0.5 billion, management expects further negative effects on future operating profit of the Services segment. To the extent that sales incentives remain an integral part of sales promotion with the effect of reducing new car prices, resale prices of used vehicles and, correspondingly, the carrying value of Services' leased vehicles could experience further downward pressure.

Other Activities

The year-to-year comparability of revenues and operating profit for the Other Activities segment is significantly affected by the transaction involving DaimlerChrysler Aerospace described on page 40.

In 2000, revenues of this segment decreased 25% to €10.6 billion. The decrease results from the disposition by DaimlerChrysler of most of its aerospace activities in July 2000. Accordingly, revenues derived from these activities were included in DaimlerChrysler's consolidated results only for the first half of 2000. Revenues of MTU

Aero Engines grew 21% to €2.1 billion in 2000, mainly due to stronger demand for engines and commercial aircraft maintenance. Adtranz and TEMIC could also increase their sales by 9% to €3.9 billion and 20% to €1.1 billion, respectively.

In 2000, the segment achieved an operating profit of €3.6 billion (1999: €0.2 billion). The increase in operating profit is primarily a result of the gain of €3.3 billion from the exchange of the Group's controlling interest in DaimlerChrysler Aerospace for a 33% interest in EADS. The operating activities of all of DaimlerChrysler Aerospace for the first six months and of MTU Aero Engines and EADS for the last six months contributed €0.5 billion to the operating profit of 2000. These gains were partially offset by the Group's share of losses from its equity investment in Mitsubishi Motors.

LIQUIDITY AND CAPITAL RESOURCES

In 2001, 2000 and 1999, DaimlerChrysler utilized funds from operations, external borrowings and sales of finance receivables as asset-backed securities through securitizations to manage its liquidity. DaimlerChrysler used these sources of liquidity primarily to finance capital expenditures and its lease and sales financing business, which typically is financed with a high proportion of debt.

The Group's cash and cash equivalents as of December 31, 2001, 2000 and 1999 amounted to €11.4 billion, €7.1 billion and €9.1 billion. Cash and cash equivalents are primarily held in U.S. dollars (69%) and euros (25%). Cash differs from the liquidity of the Group which also includes securities. Liquidity was €14.5 billion at December 31, 2001 compared to €12.5 billion at the end of 2000 and €18.2 billion at the end of 1999. It is primarily held in U.S. dollars (57%) and euros (36%). As a percentage of total assets, liquidity was 7.0% at December 31, 2001 compared to 6.3% at the end of 2000. See Note 19 to the Consolidated Financial Statements.

Cash provided by operating activities remained substantially unchanged in 2001 at €15.9 billion (2000: €16.0 billion; 1999: €18.0 billion). Cash provided by Mercedes-Benz Passenger Cars & smart was primarily offset by cash used by the Chrysler Group. Operating cash flows of the Chrysler Group were in particular negatively affected by vehicle sales incentives which directly reduce net revenues received. The ability of DaimlerChrysler to maintain or increase the level of cash generation from operations in the future will depend heavily on efforts to increase demand for its products in the worldwide markets and to implement successfully cost reduction measures in connection with the turnaround plans at Chrysler Group and Freightliner.

Another source of cash was provided by the Group's financing activities. Net cash provided by DaimlerChrysler's financial liabilities, including commercial paper borrowings, decreased to €3.8 billion in 2001 compared to €16.9 billion in 2000 and €18.1 billion in 1999. This decrease resulted from a reduced growth of the lease and sales financing business, which typically is financed with a high proportion of debt. Group financial liabilities were €90.9 billion at December 31, 2001 (2000: €84.8 billion), of which €33.9 billion were due within one year (2000: €35.8 billion). The 2001 increase in financial liabilities primarily resulted from changes in exchange rates, especially a depreciation of the euro against the U.S. dollar. The extent to which DaimlerChrysler is able to use external financing as a means of growing the industrial and financial services businesses will depend in large part on its credit ratings, which are discussed in more detail below.

DaimlerChrysler uses a variety of short- and long-term financial instruments, principally notes/bonds (2001: €65.4 billion; 2000: €48.9 billion), commercial paper (2001: €7.5 billion; 2000: €19.9 billion) and borrowings from financial institutions (2001: €15.4 billion; 2000: €13.1 billion). At year-end 2001, financial liabilities were primarily in U.S. dollars (68%), euros and euro zone currencies (17%) and Japanese yen (5%). In general, borrowings by DaimlerChrysler subsidiaries are in the functional currency of those subsidiaries. The aggregate borrowing rate of DaimlerChrysler's outstanding indebtedness was 5.9% for 2001. Approximately 47% of the Group's financial liabilities was at fixed rates. Total Group debt was 43.8% of total stockholders' equity and liabilities in 2001 compared to 42.5% in 2000. See Note 24 for the amounts, maturities and interest rates of the financial liabilities.

Financial liabilities of the Group's financial services entities on a stand-alone basis were €75.2 billion in 2001 and €75.3 billion in 2000, which include financial liabilities to other members of the Group. These intercompany amounts are eliminated upon consolidation into the Group financial statements. Financial liabilities of the financial services entities closely corresponded to the assets being financed (equipment on operating leases and receivables from financial services) which aggregated €82.5 billion in 2001 and €79.3 billion in 2000. Sales of receivables are a significant source of funding for the Group, principally in the United States. Net proceeds from the sales of financial receivables were €76.7 billion in 2001 compared to €63.6 billion in 2000 and €51.8 billion in 1999.

Net cash used for investing activities in 2001 decreased to €13.3 billion compared to €32.7 billion in 2000 (1999: €32.1 billion). In 2001, cash used for the Group's lease and sales financing activities, net of disposals and repayments decreased to €7.9 billion (2000: €19.4 billion; 1999: €21.1 billion). Cash used for the purchase of fixed assets, principally property, plant and equipment was €8.9 billion (2000: €10.4 billion; 1999: €9.5 billion). Cash provided by disposals of businesses, net of acquisitions, amounted to €0.9 billion in 2001 and €47 million in 1999. In 2000, cash used in the acquisitions of businesses and strategic equity investments, net of disposals, amounted to €4.6 billion. In 2001, net cash was primarily provided by the sale of Adtranz and the disposition of a 60% interest in TEMIC. In 2000, net cash was used principally for the acquisitions of Western Star Trucks, Detroit Diesel and a 34% interest in Mitsubishi Motors. See also Note 4 to the Consolidated Financial Statements.

At December 31, 2001 and 2000, the Group had credit lines (short- and long-term) available of €41.5 billion and €40.9 billion, respectively, of which €26.1 billion and €28.0 billion were unused as of such dates. In 2001, the weighted average interest rate payable under DaimlerChrysler's lines of credit was 5.4%. The credit lines include an \$18 billion revolving credit facility with a syndicate of international banks. This 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, a 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 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 2003. A part of the \$18 billion facility serves as a back-up for commercial paper drawings.

The Group can also rely on commercial paper programs denominated in U.S. dollars, Canadian dollars and Australian dollars and on a multi-currency commercial paper program. In the United States, DaimlerChrysler North America Holding Corporation has a \$30.2 billion debt securities shelf registration filed with the U.S. Securities and Exchange Commission, of which \$24.5 billion remained unused as of February 14, 2002.

On February 26, 2001, Moody's Investors Service lowered its ratings for senior unsecured long-term debt issued or guaranteed by DaimlerChrysler AG from A2 to A3 and announced that the current outlook in respect of such ratings is stable. Concurrently, Standard & Poor's Ratings Services lowered its ratings for senior unsecured long-term debt issued or guaranteed by DaimlerChrysler AG from A to A- and announced that the current outlook in respect of such ratings is negative. In addition, Moody's Investors Service lowered its ratings for commercial paper issued by DaimlerChrysler AG and its subsidiaries from Prime-1 to Prime-2 and Standard & Poor's Ratings Services lowered its corresponding rating from A-1 to A-2. On September 19, 2001, Moody's Investors Service revised its outlook in respect of the long-term debt ratings of DaimlerChrysler AG to negative from stable and stated that there is a possibility that DaimlerChrysler AG could be placed on review for possible downgrade. On October 31, 2001, Standard & Poor's Ratings Services lowered its ratings for senior unsecured long-term debt issued or guaranteed by DaimlerChrysler AG from A- to BBB+ and announced that the current outlook in respect of such ratings remains negative. The downgrades described above resulted primarily from the decline in operating results at Chrysler Group and Freightliner, increased competitive pressure and lower expectations for vehicle unit sales in North America. Additional downgrades by the ratings agencies would increase further DaimlerChrysler's cost of capital and could negatively affect its businesses, particularly the lease and sales financing business which is typically financed with a high proportion of debt.

Another potential source of funding available to the Group is the issuance of DaimlerChrysler ordinary shares and bonds convertible into DaimlerChrysler ordinary shares. The Board of Management is authorized, subject to the prior approval of the Supervisory Board, to issue new ordinary shares for cash up to an aggregate nominal amount of €256 million by April 30, 2003. Additionally, the Board of Management is authorized to issue convertible bonds and notes with appertaining warrants in a nominal volume of up to €15 billion and with a term of up to 20 years by April 18, 2005. The convertible bonds and notes with appertaining warrants may 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's policy is to maintain a high degree of flexibility in its funding and investment process by using a broad variety of financial instruments. Depending on its cash needs and market conditions, the Group issues bonds, notes and commercial papers in various currencies and is therefore exposed to changes in interest rates and foreign exchange rates. These types of market risks are hedged with interest rate swaps or cross-currency interest rate swaps. In addition, DaimlerChrysler uses credit facilities in its day-to-day financial management. The Group also holds money market investments and variable-rate or fixed-rate securities as part of its liquidity management. These instruments subject DaimlerChrysler to market risks which are typically hedged with interest rate swaps, forward rate agreements, caps, floors, futures and options.

As a consequence of the global nature of DaimlerChrysler's businesses, its operations and cash flows are exposed to risks associated with fluctuations of foreign exchange rates. The principal derivative financial instruments employed by the Group to hedge foreign currency exposures are forward foreign exchange contracts and currency options.

In accordance with the guidelines established by the Bank for International Settlements, DaimlerChrysler's Corporate Treasury is separated organizationally, physically and in its technical systems from the administrative functions of settlement, financial accounting and controlling. See also "Item 11. Quantitative and Qualitative Disclosures About Market Risk."

Except for qualified special purposes entities which are utilized in asset-backed securitization transactions, DaimlerChrysler has not entered into any significant transactions, arrangements or other relationships with unconsolidated, limited purpose entities. The Group sells significant amounts of finance receivables as asset-backed securities through securitization to accelerate the receipt of cash related to those receivables. In a securitization, the Group sells a portfolio of receivables to a non-consolidated, special purpose entity and remains as servicer, and is paid a servicing fee. In a subordinated capacity, the Group retains residual cash flows, a beneficial interest in principal balances of sold receivables and certain cash deposits provided as credit enhancements for investors. The recoverability of DaimlerChrysler's retained interests in the sold receivables is heavily dependent upon the credit losses, prepayment speed and average interest rate within the sold portfolio.

The following represent the contractual obligations and commercial commitments of DaimlerChrysler as of December 31, 2001:

	Payments due by period			
	Total	Less than 1 year	1 to 5 years	After 5 years
	(€ in millions)			
Contractual obligations				
Financial liabilities (nominal amounts)	90,110	33,900	42,595	13,615
Operating leases	2,828	603	1,412	813
			Total amounts committed	
			(€ in millions)	
Commercial commitments				
Guarantees			3,669	
Notes payable			32	
Contractual guarantees			408	
Pledges of indebtedness of others			430	

In recent years, DaimlerChrysler's sources of liquidity have primarily been provided by operations, funds from capital markets and sales of finance receivables. Management of DaimlerChrysler believes the funding available to it from these and other sources will be sufficient to satisfy its working capital and debt service requirements for the foreseeable future. Management also believes that the Group's liquidity and capital resources give it adequate flexibility to accelerate or decelerate the pace of planned capital spending programs as appropriate to address shorter term business conditions. The Group's capital requirements are primarily dependent on management's business plans regarding the levels and timing of capital expenditures and investments. Subject to developments affecting the Group which cannot be predicted or controlled, management currently intends to reduce slightly the Group's capital expenditures in 2002 compared to 2001.

RESEARCH AND DEVELOPMENT

Innovation in products and production systems and shortening lead times in research and development are essential for the DaimlerChrysler Group to be competitive in its principal markets and to secure technological leadership.

The Research & Technology department of DaimlerChrysler maintains an "Integrated Innovations and Technology Management" process as a systematic and comprehensive approach for formulating a joint technology strategy together with the Group's business units. The mission of the Research & Technology department is to function as a hub for new technologies and concepts in order to support and secure the Group's leading technological position. The Research & Technology department works closely with the business units on projects commissioned by the specific units. Also, a number of research projects funded on the corporate level address the need for long-term research with a Group-wide scope.

DaimlerChrysler Group conducts its research projects through 16 laboratories organized within three primary research areas: Body and Powertrain, Electronics and Mechatronics, and Information and Communication. Body and Powertrain comprises research laboratories in the area of combustion engines and powertrain, alternative energy and drive systems, body and human-machine-interface, surface and functional materials, structural materials, and manufacturing technology. Electronics and Mechatronics includes research laboratories in the area of acoustics and climate comfort, vehicle sensing and communication, mechatronic systems, electrics/electronics architecture and integration, and automotive microsystems. Information and Communication research laboratories focus on autonomous systems and pattern understanding, information technology for engineering, software technology, telematics and e-business, and society and technology.

The main objectives in the development of drive systems continue to be increased fuel efficiency and reduced emissions. In order to achieve these goals, DaimlerChrysler research is simultaneously working on further improving combustion engines, determining the optimal configuration of hybrid drive systems and preparing fuel cell technology for market launch. Research focuses specifically on new combustion methods, improved recharging technology and innovative exhaust gas treatment systems. DaimlerChrysler expects that it will be increasingly important to incorporate so-called smart technology in systems that manage the charging of batteries, fuel combustion or the treatment of exhaust gases. See also "Government Regulation and Environmental Matters."

In 2000, DaimlerChrysler developed fuel cell concept vehicles based on the Mercedes-Benz A-Class and the Jeep® Commander 2 concept car, both operating on methanol converted into hydrogen by an onboard reformer. It intends to introduce its first commercial fuel cell car in 2004. In 2001, DaimlerChrysler developed a fuel cell powered concept vehicle based on the Mercedes-Benz Sprinter van, which is currently being tested under everyday conditions. DaimlerChrysler is also developing fuel cell buses and plans to deliver its first commercial fuel cell bus in late 2002.

DaimlerChrysler is a partner in the "California Fuel Cell Partnership," together with other automotive manufacturers, suppliers, oil companies and U.S. governmental organizations. This project is a collaborative effort to test fuel cell vehicles, gain experience in infrastructure topics, raise public perception for the new technology and investigate the path for commercialization. DaimlerChrysler, Ford Motor Company and Ballard Power Systems Inc. also formed an alliance to develop fuel cell technology for automotive applications. Ballard is conducting the development and is expected to become DaimlerChrysler's and Ford's supplier of fuel cell systems for motor vehicles. DaimlerChrysler holds an equity interest in Ballard.

DaimlerChrysler's corporate research department is currently researching and testing hybrid drive concepts aimed at reducing fuel consumption and emissions without diminishing driving pleasure, comfort or the vehicle's utility value. In 2001, DaimlerChrysler presented a hybrid drive system for the smart called "smart hyper." The "hyper" (*hybrid and performance*) system combines a diesel engine with an electric motor and reduces fuel consumption and emissions significantly.

Through cooperations with world-renowned research institutes and exchange programs for scientists and employees, DaimlerChrysler actively participates in the international exchange of new ideas and concepts. DaimlerChrysler maintains a research and technology center in Palo Alto, California, a vehicle systems technology center in Portland, Oregon, a research center for information and communication technology in Bangalore, India, and a joint venture with the Shanghai Institute of Metallurgy in Shanghai, China. DaimlerChrysler has established internal research audit procedures to ensure the quality, efficiency and effectiveness of its research programs.

In 2001, the DaimlerChrysler Group spent a total of €6.0 billion on research and development (2000: €7.4 billion; 1999: €7.6 billion). The decrease is primarily due to the sale of Adtranz and the disposition of DaimlerChrysler's controlling interest in TEMIC in 2001 and the disposition of all of the aerospace activities except for the aero engines business in July 2000. Research and development costs (including costs reimbursed by third parties) as a percentage of revenues was 3.9% in 2001. Research and development performed for and funded by third parties, which were in prior years primarily related to the aerospace activities, accounted for €0.1 billion (2000: €1.1 billion; 1999: €1.8 billion). Approximately 28,100 people are employed worldwide in the research, development and testing sectors of DaimlerChrysler.

The following table shows the research and development expenditures funded by the Group and expenditures funded by third parties, in prior years principally the German government and the European Space Agency:

	<u>Year Ended December 31,</u>		
	<u>2001¹</u>	<u>2000²</u>	<u>1999</u>
	(€ in millions)		
Research and development			
Group funded projects	5,933	6,337	5,737
Third party projects	<u>75</u>	<u>1,058</u>	<u>1,838</u>
Total	<u>6,008</u>	<u>7,395</u>	<u>7,575</u>

¹ As a result of DaimlerChrysler's disposition of a controlling interest in the TEMIC automotive electronics activities in April 2001, research and development expenditures relating to these activities are only included through March 31, 2001. Research and development expenditures relating to DaimlerChrysler's rail systems activities are only included through April 30, 2001, since control over the operations was transferred to Bombardier Inc. effective May 1, 2001. See "Description of Business Segments – Other Activities" in "Item 4. Information on the Company."

² Research and development expenditures relating to the aerospace activities disposed of in July 2000 are only included for the first half of 2000. See "Description of Business Segments – Other Activities" in "Item 4. Information on the Company."

OUTLOOK

Economic and Market Conditions

Difficult worldwide economic conditions, which further deteriorated following the terrorist attacks on the United States, caused DaimlerChrysler to reexamine and adjust its assumptions for the development of global economic activity, particularly for the year 2002. It now expects that the economic upturn originally forecast for the end of 2001 will likely not begin before the second half of 2002. DaimlerChrysler anticipates global economic growth of 1.4% in 2002, 3.4% in 2003 and 3.2% in 2004. The economies of the United States and Western Europe should return to a path of stable growth in the planning period 2002-2004, while the Japanese economy may only begin to emerge from recession. In the emerging economies of Asia, in South America and in Eastern Europe, DaimlerChrysler does not expect above-average growth before 2003.

In light of this macroeconomic outlook DaimlerChrysler has also revised its projections for the automotive markets. In the year 2002 it now expects a significant decline in demand for passenger cars and light trucks in North America, and a moderate slow-down in Western Europe and Japan. Demand in Western Europe for trucks over 6t GVW is likely to be measurably lower than last year, while the market decline in the United States will likely continue. The worldwide economic recovery expected to begin in the second half of 2002 should have positive effects on the automotive markets, with sales increasing in 2003 and 2004. However, generally difficult market conditions, shorter product lifecycles and high production capacities are likely to intensify competition and increase the pressure to cut costs in all market segments, which in turn should accelerate consolidation in the automotive industry.

Revenues

Based on current vehicle order activity and general market expectations, DaimlerChrysler expects a revenue decline to approximately €142 billion in 2002, mainly as a result of unfavorable market prospects, which will particularly affect Chrysler Group and Commercial Vehicles, but also due to changes in the consolidated Group and projected exchange rate effects. Improved market conditions and, in particular, the introduction of attractive new vehicles should help increase revenues to €156 billion by 2004. This figure assumes a moderate appreciation of the euro against the U.S. dollar, the British pound and the Japanese yen. The most significant growth in revenues is likely to occur in Asia, South America and Eastern Europe.

Business Segments

Further growth at Mercedes-Benz Passenger Cars & smart. Mercedes-Benz Passenger Cars & smart plans to expand its product range in the coming years and enter new market segments in order to provide continued growth throughout the planning period. New products in 2002 will include the new E-Class sedan and the CLK coupe. At the end of 2002, DaimlerChrysler expects to introduce a luxury sedan under the Maybach brand. DaimlerChrysler also plans to expand the smart model range with a roadster in 2003 and a four-seater model in 2004.

Chrysler Group: return to profitability. In the face of a recession in its principal market that resulted in weaker market conditions, Chrysler Group adjusted the assumptions for 2002 underlying its turnaround plan. In particular, it revised volume expectations for the U.S. market from 16 million passenger cars and light trucks to approximately 15 million vehicles. In order to achieve break-even operating results in 2002, Chrysler Group is intensifying and accelerating some of the elements of its turnaround plan. New, innovative models, such as the Chrysler Crossfire and the Chrysler Pacifica, and replacement models of the Dodge Viper and the Dodge Durango should improve Chrysler Group's competitive position in an extremely difficult market environment. Closer cooperation within the DaimlerChrysler Group and with Mitsubishi Motors should also help improve the cost position and margins of Chrysler Group as well as its innovative potential.

Consolidation in the commercial vehicles business. In 2002, Commercial Vehicles expects to adjust its production capacities and cost structures further in anticipation of a worldwide decrease in demand. It will also be a top priority to implement further the Freightliner turnaround plan. In order to strengthen its position as global market leader, Commercial Vehicles plans to present six new or revised vehicles in 2002, including the successor model to the Freightliner Business Class, a new Setra double-decker luxury bus, and revised versions of the successful Mercedes-Benz Actros and Sprinter models. It also plans to introduce new products in the components area, particularly a new engine with turbobrake. Commercial Vehicles intends to achieve additional cost savings and to enter new markets, particularly in Asia, through its cooperations with Mitsubishi Motors and Hyundai.

Continued specialization at Services. Services plans to continue its strategy of focusing on automotive financial services, and expects to improve further its processes and structures in order to secure a sustained increase in profitability. At the same time, it intends to focus its product range more closely on the customers of the Group's various vehicle brands. As part of this strategy, DaimlerChrysler Bank in Germany expects to offer deposit and savings facilities, investment funds and customer credit cards beginning in mid-2002. In addition, Services intends to extend its activities in the areas of automotive and personal insurance, fleet management and telematics services.

Capital Expenditures; Research and Development

In the period 2002-2004 DaimlerChrysler expects to invest €41 billion in property, plant and equipment, and research and development. A large portion of this amount will be allocated to the development and preparation for production of new passenger car and commercial vehicle models. In addition, DaimlerChrysler plans to spend significant amounts on the modernization of manufacturing facilities in the automotive business and on the development of new technologies directed at enhancing the safety, environmental compatibility and economy of road transportation.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements that reflect the current views of DaimlerChrysler management with respect to future events. The words "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "project" and "should" and similar expressions are intended to identify forward-looking statements. Such statements are subject to risks and uncertainties, including, but not limited to: changes in general economic and business conditions, especially an economic downturn in Europe or North America; changes in currency exchange rates and interest rates; introduction of competing products; lack of acceptance of new

products or services, including increased competitive pressures on the general level of sales incentives and pricing flexibility; inability to implement the turnaround plans for the Chrysler Group and Freightliner promptly and successfully, especially an inability to meet revenue enhancement, efficiency and cost reduction initiatives; the ability of Mitsubishi Motors to implement its restructuring plan successfully; and decline in resale prices of used vehicles. If any of these or other risks and uncertainties occur (some of which are described under the heading “Factors Affecting Operations and Financial Reporting”), or if the assumptions underlying any of these statements prove incorrect, then actual results may be materially different from those expressed or implied by such statements. DaimlerChrysler does not intend or assume any obligation to update these forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made.

Item 6. Directors, Senior Management and Employees.

In accordance with the German Stock Corporation Law (*Aktiengesetz*), DaimlerChrysler AG has a Supervisory Board (*Aufsichtsrat*) and a Board of Management (*Vorstand*). The two Boards are separate and no individual may simultaneously be a member of both Boards. The following information is included in respect of all members of DaimlerChrysler AG’s Supervisory Board and its Board of Management.

SUPERVISORY BOARD

Under the German Stock Corporation Law (*Aktiengesetz*), the German Co-determination Law (*Mitbestimmungsgesetz*) and the Memorandum and Articles of Association of DaimlerChrysler AG, the Supervisory Board of DaimlerChrysler AG consists of twenty members. The principal function of the Supervisory Board is to appoint and supervise the Board of Management and to approve mid-term planning and matters not in the ordinary course of business that are of fundamental importance.

The stockholders elect ten members of the Supervisory Board at the annual general meeting and the employees have the right to elect the remaining ten members. The term of a Supervisory Board member expires at the end of the general meeting of stockholders in which the stockholders discharge Supervisory Board members for the fourth fiscal year following the year in which the member was elected. There is no compulsory retirement age for members of the Supervisory Board.

Any member elected by the stockholders in a general meeting may be removed by a majority of the votes cast by the stockholders in a general meeting. Any member of the Supervisory Board elected by the employees may be removed by three-quarters of the votes cast by the relevant class of employees. Under normal circumstances, the Supervisory Board acts by simple majority vote and the Chairman, who is always a representative of the stockholders, has the deciding vote in case of a deadlock.

Effective at the end of the annual general meeting of stockholders held on April 11, 2001, Sir John Browne and Mr. Robert Allen resigned from the Supervisory Board. The stockholders of DaimlerChrysler elected Mr. Earl G. Graves, Chairman and Chief Executive Officer of Earl G. Graves, Ltd. and a former director of Chrysler Corporation, and Prof. Victor Halberstadt, Professor of Public Economics at Leiden University in the Netherlands, as successors. All other current stockholder representatives on the Supervisory Board were elected by the stockholders at the annual general meeting held on May 18, 1999. The current employee representatives were appointed by a court pursuant to Section 104 of the German Stock Corporation Law. In December 2001, Mr. Böhm resigned from his position as a member of the Supervisory Board. The district court in Stuttgart appointed Mr. Richter as his successor representing the employees.

The following table shows the current members of the Supervisory Board, their ages as of February 20, 2002, the year in which they were first elected or appointed, their principal occupation and other supervisory board memberships/directorships they hold. Employee representatives are identified by an asterisk.

Hilmar Kopper, Chairman	Age: First elected: Principal Occupation:	66 1998 (Daimler-Benz AG: 1990) Chairman of the Supervisory Board of Deutsche Bank AG
	Supervisory Board Memberships/ Directorships:	Akzo-Nobel N.V.; Bayer AG; Solvay S.A.; Xerox Corporation; Unilever N.V.
Erich Klemm*, Deputy Chairman	Age: First elected: Principal Occupation:	47 1998 (Daimler-Benz AG: 1988) Chairman of the Corporate Works Council, DaimlerChrysler AG and DaimlerChrysler Group
Manfred Göbels*	Age: First elected: Principal Occupation:	60 1998 (Daimler-Benz AG: 1993) Director, Service and Mobility Concept; Chairman of the Management Representative Committee, DaimlerChrysler Group
Earl G. Graves	Age: First elected: Principal Occupation:	67 2001 Chairman and Chief Executive Officer of Earl G. Graves, Ltd. (Publisher, Black Enterprise magazine); Chairman of Pepsi's Customer Advisory and Ethnic Marketing Committee; Managing Director, Black Enterprise/Greenwich Street Corporate Growth Partners
	Supervisory Board Memberships/ Directorships:	Aetna Life and Casualty Company; AMR Corporation (American Airlines); Federated Department Stores, Inc.; Rohm & Haas Corporation
Prof. Victor Halberstadt	Age: First elected: Principal Occupation:	62 2001 Professor of Public Economics at Leiden University, Netherlands
	Supervisory Board Memberships/ Directorships:	International Advisors Group of Goldman, Sachs & Co.; Investment Committee of ABP Pension Fund; Royal KPN N.V.; TNT Post Group N.V.; Concertgebouw N.V.; Board of Overseers of Koç University, Istanbul; PA Holdings Ltd., London
Robert J. Lanigan	Age: First elected: Principal Occupation:	73 1998 (Chrysler Corporation: 1984) Chairman Emeritus of Owens-Illinois, Inc.; Founder Partner, Palladium Equity Partners
	Supervisory Board Memberships/ Directorships:	IMS Health, Owens-Illinois, Inc.
Helmut Lense*	Age: First elected: Principal Occupation:	50 1998 (Daimler-Benz AG: 1993) Chairman of the Works Council, Untertürkheim Plant, DaimlerChrysler AG

Peter A. Magowan	Age: First elected: Principal Occupation: Supervisory Board Memberships/ Directorships:	59 1998 (Chrysler Corporation: 1986) President of San Francisco Giants Safeway Inc.; Caterpillar Inc.
Gerd Rheude*	Age: First elected: Principal Occupation:	56 1999 Chairman of the Works Council, Wörth Plant, DaimlerChrysler AG
Udo Richter*	Age: First elected: Principal Occupation:	55 2001 Chairman of the Works Council, Bremen Plant, DaimlerChrysler AG
Wolf Jürgen Röder*	Age: First elected: Principal Occupation: Supervisory Board Memberships/ Directorships:	54 2000 Member of the Executive Council, German Metalworkers' Union Robert Bosch GmbH; AOK Baden-Württemberg
Dr. rer. pol. Manfred Schneider	Age: First elected: Principal Occupation: Supervisory Board Memberships/ Directorships:	63 1998 (Daimler-Benz AG: 1993) Chairman of the Board of Management of Bayer AG Allianz AG; Metro AG; RWE AG; Linde AG
Peter Schönfelder*	Age: First elected: Principal Occupation:	52 1998 (Daimler-Benz AG: 1990) Chairman of the Works Council, Augsburg Plant, EADS Deutschland GmbH
Stefan Schwaab*	Age: First elected: Principal Occupation:	49 2000 Vice Chairman of the Works Council, Gaggenau Plant, DaimlerChrysler AG; Vice Chairman of the Corporate Works Council, DaimlerChrysler AG and DaimlerChrysler Group
G. Richard Thoman	Age: First elected: Principal Occupation: Supervisory Board Memberships/ Directorships:	57 1998 (Chrysler Corporation: 1998) Former President and Chief Executive Officer of Xerox Corporation; Senior Advisor to Evercore Partners Union Bancaire Privée; DB Capital Partners Advisory Board
Bernhard Walter	Age: First elected: Principal Occupation: Supervisory Board Memberships/ Directorships:	59 1998 (Daimler-Benz AG: 1998) Former Chairman of the Board of Managing Directors of Dresdner Bank AG Bilfinger + Berger Bauaktiengesellschaft; Deutsche Telekom AG; Henkel KGaA; KG Allgemeine Leasing GmbH & Co.; mg technologies ag; Staatliche Porzellan-Manufaktur Meissen GmbH; Thyssen Krupp AG; Wintershall AG

Lynton R. Wilson	Age: First elected: Principal Occupation:	61 1998 (Chrysler Corporation: 1994) Chairman of the Board of CAE Inc.; Chairman of the Board of Nortel Networks Corporation
	Supervisory Board Memberships/ Directorships:	Imperial Oil Limited; Ontario Power Generation Inc.; Nortel Networks Corp.; DaimlerChrysler Canada Inc.; J.P. Morgan Chase & Co. (International Council)
Dr.-Ing. Mark Wössner	Age: First elected: Principal Occupation:	63 1998 (Daimler-Benz AG: 1998) Former CEO and Chairman of the Supervisory Board of Bertelsmann AG
	Supervisory Board Memberships/ Directorships:	eCircle AG; thorborgnet GmbH & Co. KGaA; Dussmann KGaA; Loewe AG
Bernhard Wurl*	Age: First elected: Principal Occupation:	57 1998 (Daimler-Benz AG: 1979) Head of Department reporting to the Executive Council, German Metalworkers' Union
	Supervisory Board Memberships/ Directorships:	Deutsche Babcock AG
Stephen P. Yokich*	Age: First elected: Principal Occupation:	66 1998 President of International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW)
	Supervisory Board Memberships/ Directorships:	Blue Cross Blue Shield of Michigan (BCBSM)

The Supervisory Board maintains the following standing committees:

- The *Presidential Committee* is responsible for deciding the terms of the service contracts and other contractual arrangements between DaimlerChrysler AG and members of the Board of Management. In particular, the committee determines salaries and incentive compensation awards for members of the Board of Management and establishes corporate goals for performance-based compensation plans. Members of the Presidential Committee are Hilmar Kopper, Erich Klemm, Dr. Manfred Schneider, and Bernhard Wurl. The Presidential Committee held four meetings in 2001.
- The *Financial Audit Committee* recommends the appointment of independent auditors to be elected by the annual general meeting, engages the independent auditors and reviews the scope of external audit services. The Financial Audit Committee also reviews the annual financial statements of DaimlerChrysler AG and the consolidated annual and half-year financial statements of the DaimlerChrysler Group, taking into account the results of the audits and reviews performed by the independent auditors. Members of the Financial Audit Committee are Hilmar Kopper, Erich Klemm, Stefan Schwaab and Bernhard Walter. The Financial Audit Committee held two meetings in 2001.

BOARD OF MANAGEMENT

The Supervisory Board determines the size of the Board of Management, which must have at least two members. Members are appointed by the Supervisory Board for a maximum term of five years and are eligible for reappointment thereafter. The normal retirement age for members of the Board of Management is 65, although it is possible for a member of the Board of Management to continue in office beyond this age with the approval of the Supervisory Board.

Under certain circumstances, such as a serious breach of duty or a vote of no confidence by the stockholders in a general meeting, the Supervisory Board may remove a member of the Board of Management prior to the expiration of his term. A member of the Board of Management may not deal with, or vote on, matters relating to proposals, arrangements or contracts between himself and DaimlerChrysler AG and he is under a duty to disclose any material interest in proposals, arrangements or contracts between DaimlerChrysler AG and third parties.

The current members of the Board of Management, their ages as of February 20, 2002, the year in which they were first appointed, the year in which their terms expire, their current position/area of responsibility and prior positions held within the last five years, are as follows:

Jürgen E. Schrempp	Age:	57
	First appointed:	1998 (Daimler-Benz AG: 1987)
	Term expires:	2005
	Current Position:	Chairman of the Board of Management
	Prior Position(s):	Chairman of the Board of Management of Daimler-Benz AG
Dr. rer. pol. Manfred Bischoff	Age:	59
	First appointed:	1998 (Daimler-Benz AG: 1995)
	Term expires:	2003
	Responsible for:	Aerospace & Industrial Businesses, Board Member Mitsubishi Motors Corporation
	Prior Position(s):	Member of the Board of Management of Daimler-Benz AG and President and Chief Executive Officer of Daimler-Benz Aerospace AG
Dr. rer. pol. Eckhard Cordes	Age:	51
	First appointed:	1998 (Daimler-Benz AG: 1996)
	Term expires:	2003
	Responsible for:	Commercial Vehicles
	Prior Position(s):	Member of the Board of Management of DaimlerChrysler AG – Corporate Development & IT-Management; Member of the Board of Management of Daimler-Benz AG – Corporate Development and Directly Managed Businesses; Deputy Member of the Board of Management of Daimler-Benz AG – Corporate Development and Directly Managed Businesses
Günther Fleig	Age:	53
	First appointed:	1999
	Term expires:	2004
	Responsible for:	Human Resources & Labor Relations Director
	Prior Position(s):	President of DaimlerChrysler France S.A.S., DaimlerChrysler Holding S.A. France and Head of the Corporate Representation Office, France; President of Mercedes-Benz France; Head of European Sales Projects, Mercedes-Benz AG
Dr. iur. Manfred Gentz	Age:	60
	First appointed:	1998 (Daimler-Benz AG: 1983)
	Term expires:	2003
	Responsible for:	Finance & Controlling
	Prior Position(s):	Member of the Board of Management of Daimler-Benz AG – Finance & Controlling, Human Resources

Prof. Jürgen Hubbert	Age: First appointed: Term expires: Responsible for: Prior Position(s):	62 1998 (Daimler-Benz AG: 1987) 2005 Mercedes-Benz Passenger Cars & smart Member of the Board of Management of Daimler-Benz AG – Passenger Cars; Member of the Board of Management of Mercedes-Benz AG – Passenger Cars
Dr. iur. Klaus Mangold	Age: First appointed: Term expires: Responsible for: Prior Position(s):	58 1998 (Daimler-Benz AG: 1995) 2003 Services Member of the Board of Management of Daimler-Benz AG and President and Chief Executive Officer of Daimler-Benz InterServices (debis) AG
Thomas W. Sidlik	Age: First appointed: Term expires: Responsible for: Prior Position(s):	52 1998 (Chrysler Corporation: 1992) 2003 Procurement & Supply Chrysler Group, Board Member Hyundai Motor Company Executive Vice President of Chrysler Corporation – Procurement & Supply; Vice President and Chairman of Chrysler Financial Corporation and General Manager – Small Car Operations
Gary C. Valade	Age: First appointed: Term expires: Responsible for: Prior Position(s):	59 1998 (Chrysler Corporation: 1990) 2003 Global Procurement & Supply Executive Vice President and Chief Financial Officer of Chrysler Corporation
Prof. Klaus-Dieter Vöhringer	Age: First appointed: Term expires: Responsible for: Prior Position(s):	60 1998 (Daimler-Benz AG: 1997) 2003 Research & Technology Member of the Board of Management of Daimler-Benz AG – Research & Technology; Deputy Member of the Board of Management of Mercedes-Benz AG – Powertrain Unit Commercial Vehicles
Dr.-Ing. Dieter Zetsche	Age: First appointed: Term expires: Responsible for: Prior Position(s):	48 1998 (Daimler-Benz AG: 1997) 2003 Chrysler Group Member of the Board of Management of DaimlerChrysler AG – Commercial Vehicles; Member of the Board of Management of DaimlerChrysler AG – Sales and Marketing; Member of the Board of Management of Daimler-Benz AG – Sales and Marketing

Dr. rer. pol. Wolfgang Bernhard (Deputy Member)	Age: First appointed: Term expires: Current Position: Prior Position(s):	41 2000 2003 Chief Operating Officer Chrysler Group CEO of Mercedes-AMG GmbH; General Manager for S-Class assembly at the Sindelfingen Plant
Dr. phil. Rüdiger Grube (Deputy Member)	Age: First appointed: Term expires: Responsible for: Prior Position(s):	50 2001 2004 Corporate Development CEO of Häussler Group; Senior Vice President Corporate Development of DaimlerChrysler AG; Head of Corporate Strategy and Member of the Executive Board of DaimlerChrysler AG; Head of Corporate Strategy and Member of the Executive Board of Daimler-Benz AG

COMPENSATION

Supervisory Board

Members of the Supervisory Board receive a fixed annual amount of €51,129 for serving on the board plus reimbursement of expenses. The Chairman of the Supervisory Board receives twice that amount; the deputy Chairman receives 1.5 times that amount; and members serving on committees of the Supervisory Board receive 1.3 times that amount. Members also receive a flat fee of €1,023 for each meeting of the Supervisory Board. This compensation is fixed in DaimlerChrysler AG's Memorandum and Articles of Association.

The aggregate amount of compensation paid by the DaimlerChrysler Group to all members of the Supervisory Board, as a group, for services in all capacities to the Group for the year ended December 31, 2001 amounted to €2 million. See also Note 5 to the Consolidated Financial Statements.

Board of Management

DaimlerChrysler AG has entered into service agreements with members of the Board of Management. These agreements establish the following four principal elements of compensation:

- *Base Salary* – Base salaries are established based on a comparative analysis of base salaries paid within a selected peer group of international companies.
- *Annual Bonus* – Annual bonuses are based on corporate performance, primarily in relation to profitability. Bonuses are expressed as a percentage of base salary and may be adjusted, upward or downward, based on other corporate objectives, such as shareholder return or revenue growth, and on individual performance.
- *Medium-Term-Incentive* – Members of the Board of Management receive performance-based stock unit awards that track the value of DaimlerChrysler ordinary shares at the beginning of three year performance periods. The amount ultimately earned in cash at the end of a performance period is based on the degree of achievement of corporate goals derived from competitive and internal planning benchmarks, such as return on net assets, return on sales, revenue growth and quality, and the market value of DaimlerChrysler ordinary shares. Board of Management members received 382,505 performance-based stock unit awards in 2001.
- *Stock Options* – Stock option plans provide long-term-incentives based on the appreciation of DaimlerChrysler ordinary shares. DaimlerChrysler granted Board of Management members, as a group, 3.0 million stock options in 2001 under a stockholder approved option plan. Those options are exercisable at a reference price of €55.80 plus a 20% exercise premium. They become exercisable in two equal

installments on April 1, 2003 and on April 1, 2004 and expire on April 1, 2011. 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 additionally entitled to receive a cash payment equal to the original exercise premium of 20% multiplied by the number of stock options exercised. See "Share Ownership."

The aggregate amount of compensation paid by the DaimlerChrysler Group to all members of the Board of Management, as a group, for services in all capacities to the Group for the year ended December 31, 2001 was €22 million. The aggregate amount accrued by the Group during the year ended December 31, 2001 to provide pension, retirement and similar benefits for the members of the Board of Management was €14 million. See also Note 5 to the Consolidated Financial Statements.

In the past, the Supervisory Board has negotiated limited benefits upon termination of a Board of Management member's service prior to the stated expiration date of his service contract. Moreover, if a U.S. member of the Board of Management, who was party to a pre-merger employment contract with Chrysler Corporation, dies during the term of his service agreement, then, in addition to benefits payable under pension and retirement plans, his estate will be entitled to receive an annual bonus payment and a medium-term-incentive payment, pro rated through the date of death, that assumes corporate goals have been achieved. If such member is terminated, or terminates his service with good reason, as defined in the service agreement, then, in addition to the foregoing, he is entitled to receive a severance payment expressed as a multiple of the sum of his base salary and his average bonus over the last three years, together with an additional amount to reimburse him for any excise tax assessable on any amounts so received. The Supervisory Board may also negotiate additional or different terms with Board of Management members at the time their service to DaimlerChrysler terminates.

See also Note 22 to the Consolidated Financial Statements.

EMPLOYEES AND LABOR RELATIONS

At December 31, 2001, the DaimlerChrysler Group employed a workforce of 372,470 people worldwide, which represented a decrease of 11% from year-end 2000. The decrease resulted primarily from workforce reductions in the context of the turnaround plans implemented at Chrysler Group and Freightliner and DaimlerChrysler's dispositions of Adtranz and its controlling interest in TEMIC. In 2000, the decrease in the number of employees was a result of DaimlerChrysler's dispositions of most of its aerospace activities and its controlling interest in T-Systems ITS. See "Description of Business Segments" in "Item 4. Information on the Company."

Of the total number of employees, 191,158 employees were based in Germany and 104,871 in the United States. The following table shows the number of employees at December 31, 2001, 2000 and 1999:

	Employees at December 31,								
	2001			2000			1999		
	Total	Germany	U.S.	Total	Germany	U.S.	Total	Germany	U.S.
Mercedes-Benz									
Passenger Cars &									
smart	102,223	93,055	2,003	100,893	92,099	1,910	99,459	91,698	1,834
Chrysler Group	104,057	4	77,800	121,027	2	90,536	124,837	225	92,044
Commercial Vehicles . . .	96,644	51,927	15,413	101,027	52,161	18,526	95,967	51,009	16,990
Sales organization for									
automotive business . .	38,733	27,020	1,549	36,857	26,048	1,508	34,133	24,086	1,457
Services	9,712	2,440	4,637	9,589	2,321	4,787	26,240	14,183	4,797
Other Activities ¹	21,101	16,712	3,469	47,108	24,230	6,366	86,302	60,032	6,806
DaimlerChrysler Group .	<u>372,470</u>	<u>191,158</u>	<u>104,871</u>	<u>416,501</u>	<u>196,861</u>	<u>123,633</u>	<u>466,938</u>	<u>241,233</u>	<u>123,928</u>

¹ Including holding companies and corporate functions.

On average, the Group had approximately 14,200 temporary employees in 2001.

Almost all the Group's employees in Germany who are members of labor unions belong to the German metalworkers' union (*Industriegewerkschaft Metall*). None of the Group's facilities in Germany is operated on a "closed shop" basis. In Germany, collective bargaining agreements for blue collar workers and for white collar employees below management level are generally negotiated between the regional association of the companies within a particular industry and the respective unions. DaimlerChrysler is a member of the regional associations of employers. Even though the collective bargaining agreement is legally binding only for members of the negotiating parties (employers' associations and trade unions), DaimlerChrysler extends the applicability of the agreement to all employees below senior management level by a pertinent clause in the employment contracts. The most recent agreement for "metalworkers" will expire in February 2002. Employer and union representatives are currently negotiating a new collective bargaining agreement.

In the United States and Canada, most of DaimlerChrysler Corporation's hourly employees and 27% of its salaried employees are represented by unions. Substantially all of these represented employees are represented by the United Automobile, Aerospace, and Agricultural Implement Workers of America (UAW) or the National Automobile, Aerospace and Agricultural Implement Workers of Canada (CAW).

DaimlerChrysler Corporation and the UAW are parties to a four-year collective bargaining agreement that covers more than 58,000 hourly and salaried workers in the United States and expires in September 2003. The agreement provides for an annual base wage increase of 3% each contract year, a one-time lump sum payment of \$1,350 per worker, increases in pension benefit rates, and improvements in certain health care, supplemental unemployment and other benefits. The agreement limits DaimlerChrysler Corporation's ability to close plants, reduce employment levels, or dispose of operations that constitute a UAW bargaining unit, but provides flexibility in establishing job assignments and work rules in order to increase productivity in plants.

In addition, DaimlerChrysler Canada, Ltd. and the CAW are parties to a three-year collective bargaining agreement that covers approximately 11,000 workers in Canada through September 2002. It also provides for an annual base wage increase of 3% each contract year, a one-time lump sum payment of \$1,000 per worker, as well as increases in pension and other benefits.

The Chrysler Group's turnaround plan calls for the reduction of DaimlerChrysler Corporation's total salaried and hourly workforce by approximately 20% (26,000 employees) over the three year period ending 2003, through a combination of retirements, special programs, attrition and layoffs. This reduction was announced following discussions with the UAW and CAW. See "Description of Business Segments – Chrysler Group" in "Item 4. Information on the Company."

SHARE OWNERSHIP

As of December 31, 2001, the current members of the Supervisory Board and the Board of Management as a group owned 190,816 DaimlerChrysler ordinary shares (0.02% of all outstanding shares), and had the right to acquire 4,843,020 ordinary shares under the option plans described below.

Daimler-Benz AG instituted a stockholder approved stock option plan for management board members and other senior executives in 1996. For reasons of German law applicable at the time, the options granted under this plan took the form of conversion rights attached to convertible bonds, with the principal amount corresponding to a stated value (or par value equivalent) of the ordinary shares subject to the option – which was €2.56 per ordinary share in all cases and which the optionee paid in cash at the time he or she received the convertible bond (or option). Conversion rights under the 1996 plan are exercisable during certain three-week window periods on or before July 12, 2006 at a conversion price of €42.62 per DaimlerChrysler ordinary share. Conversion rights are only exercisable if the price per share exceeds a threshold of €49.01.

In 2000, DaimlerChrysler AG instituted a stockholder approved stock option plan for management board members and other senior executives. Options granted in 2000 under this stock option plan are exercisable at a reference price of €62.30 plus a 20% exercise premium. They become exercisable in two equal installments on

April 21, 2002 and on April 21, 2003 and expire on April, 21, 2010. 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 additionally entitled to receive a cash payment equal to the original exercise premium of 20% multiplied by the number of stock options exercised. In May 2000, certain shareholders challenged the approval of the stock option plan 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 (*Revision*) to the Federal Supreme Court (*Bundesgerichtshof*) in July 2001. See "Compensation" for a description of options granted in 2001.

See also Note 22 to the Consolidated Financial Statements.

As part of its value-based management approach, DaimlerChrysler supports employee stock ownership. DaimlerChrysler offers the opportunity to purchase DaimlerChrysler ordinary shares to employees of Group companies incorporated in Germany, Austria, France, Italy, the Netherlands, Portugal, Spain, Switzerland and the United Kingdom. In 2001, each eligible employee of a Group company incorporated in Germany had the right to acquire up to 90 shares with a maximum aggregate discount of €153.39 plus one bonus share. Employees of German Group companies acquired a total of approximately 1,157,000 shares in 2001. The programs established for employees in other European countries follow the German program except for changes resulting from different national legal requirements. In these countries, employees acquired a total of approximately 28,000 shares.

Item 7. Major Shareholders and Related Party Transactions.

MAJOR SHAREHOLDERS

The capital stock of DaimlerChrysler AG consists of ordinary shares, no par value (*Stückaktien*), which are issued in registered form. Under DaimlerChrysler AG's Memorandum and Articles of Association (*Satzung*), each ordinary share represents one vote. Major shareholders do not have different voting rights.

Under the German Securities Trading Act (*Wertpapierhandelsgesetz*), holders of voting securities of a listed German company must notify the company of the level of their holding whenever it reaches, exceeds or falls below specified thresholds. These thresholds are 5%, 10%, 25%, 50% and 75% of a company's outstanding voting rights.

The table below shows, as of December 31, 2001, the number of DaimlerChrysler ordinary shares held by holders of 5% or more of DaimlerChrysler ordinary shares and their percentage ownership:

<u>Identity of Person or Group</u>	<u>Shares Owned</u>	<u>Percent</u>
KARU Beteiligungsverwaltungs GmbH & Co. KG, a wholly owned subsidiary of Deutsche Bank AG ¹	119,818,714	11.9%
Kuwait Investment Authority as agent for the Government of the State of Kuwait	73,169,320	7.3%

¹ Deutsche Bank AG and KARU filed a Schedule 13G/A on February 12, 2002, in which Deutsche Bank reported aggregate beneficial ownership of 141,427,881 shares (14.1% of the shares outstanding), including the shares held by KARU.

As of December 31, 2001, DaimlerChrysler AG had approximately 1.9 million stockholders. Approximately 307,000 were U.S. holders, of which approximately 77,000 were record holders. Based on the share register, U.S. holders held approximately 17% of DaimlerChrysler ordinary shares as of that date.

See also "Share Ownership" in "Item 6. Directors, Senior Management and Employees."

RELATED PARTY TRANSACTIONS

DaimlerChrysler purchases materials, supplies and services from numerous suppliers throughout the world in the ordinary course of business, including firms in which it holds an ownership interest and those with which certain members of the Supervisory Board are affiliated.

Deutsche Bank AG and its subsidiaries provided various financial and other services to the Group in 2001 for which they were paid reasonable and customary fees. KARU Beteiligungsverwaltungs GmbH & Co. KG, a wholly owned subsidiary of Deutsche Bank AG, owns approximately 12% of the outstanding shares of DaimlerChrysler AG. Hilmar Kopper, Chairman of the Supervisory Board of DaimlerChrysler AG, is also Chairman of the Supervisory Board of Deutsche Bank AG.

Mitsubishi Motor Manufacturing of America, a subsidiary of Mitsubishi Motors Corporation, produces the Dodge Stratus and Chrysler Sebring coupes for DaimlerChrysler Corporation. DaimlerChrysler beneficially owns a 37.3% equity interest in Mitsubishi Motors Corporation.

DaimlerChrysler purchases products and services from T-Systems ITS GmbH, an information technology company in which DaimlerChrysler beneficially owned a 49.9% equity interest in 2001. In January 2002, DaimlerChrysler decided to exit the joint venture by exercising its option to sell to Deutsche Telekom the Group's 49.9% interest for proceeds of €4.7 billion. The sale is expected to close in March 2002 with the termination of the joint venture.

DaimlerChrysler entered into 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. The market launch of the SLR is scheduled for 2003. DaimlerChrysler also supplies engines to the West McLaren team in support of motorsport activities under the Mercedes-Benz brand. DaimlerChrysler owns a 40% equity interest in TAG McLaren Holdings Ltd.

In April 2001, DaimlerChrysler sold a 60% controlling interest in the automotive electronics company TEMIC TELEFUNKEN microelectronic GmbH and its subsidiaries to Continental AG. DaimlerChrysler continues to purchase products from TEMIC TELEFUNKEN microelectronic GmbH which was renamed Conti Temic microelectronic GmbH.

DaimlerChrysler Corporation incurred expenses of approximately \$850,000 in 2001 for advertising and related marketing activities with Black Enterprise magazine. Earl G. Graves, member of the Supervisory Board of DaimlerChrysler AG, is the Chairman, Chief Executive Officer and sole stockholder of the magazine's ultimate parent company.

In October 2001, DaimlerChrysler purchased the remaining 51% interest in Westfalia Van Conversion GmbH it did not already own. As part of this transaction, Mark Wössner, member of the Supervisory Board of DaimlerChrysler AG, sold his 17% interest in Westfalia Van Conversion GmbH to DaimlerChrysler.

Item 8. Financial Information.

CONSOLIDATED FINANCIAL STATEMENTS

See "Item 18. Financial Statements" and pages F-i, F-1 through F-64 and page S-1.

OTHER FINANCIAL INFORMATION

Separate Financial Statements

Separate financial statements of significant 50 percent or less owned entities – see "Item 18. Financial Statements."

Export Sales

In 2001, approximately 731,000 or 61% of all passenger cars and commercial vehicles produced by DaimlerChrysler in Germany and approximately 342,000 or 19% of all passenger cars and trucks produced by DaimlerChrysler in the United States were exported to other countries.

Legal Proceedings

Various legal proceedings are pending against the Group. DaimlerChrysler believes that such proceedings, other than the shareholder and forced labor lawsuits discussed below, constitute ordinary routine litigation incidental to its businesses. See also “Government Regulation and Environmental Matters – Environmental Matters” in “Item 4. Information on the Company.”

Various legal proceedings pending against DaimlerChrysler Corporation allege defects in various components (including door and liftgate latches, occupant restraint systems, seats, brake systems, and fuel systems) in several different vehicle models or allege design defects relating to vehicle stability (rollover propensity), pedal misapplication (sudden acceleration), or crashworthiness. Some of these proceedings 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.

In October 2001, the United States Court of Appeal for the Fourth Circuit vacated a previously reported 1997 judgment for \$12.5 million (€14.0 million) in compensatory damages and \$250 million (€281 million) in punitive damages against DaimlerChrysler Corporation in *Jimenez vs. Chrysler Corporation*, a case filed in U.S. District Court in South Carolina. The complaint alleged that the liftgate latch striker of a 1985 Dodge Caravan was defective and opened when the Caravan was struck by another vehicle resulting in the ejection and death of an occupant. The case has been remanded for trial on the limited issue of liability for compensatory damages.

As previously reported, on February 18, 1999, a jury awarded \$54.75 million (€61.5 million) in compensatory damages and \$3.7 million (€4.2 million) in punitive damages to the owners of approximately 75,000 1988^¾-1990 model year Chrysler vehicles in *Crawley vs. Chrysler Corporation*, a class action lawsuit tried in the Court of Common Pleas, Philadelphia, Pennsylvania. The complaint alleged that the air bags in those vehicles were defective because the vent hole positions could cause hand burns when the air bags deploy. DaimlerChrysler Corporation’s appeal is pending.

Four 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. Six other previously reported class action lawsuits regarding paint delamination have been dismissed.

As previously reported, DaimlerChrysler received a “statement of objections” from the European Commission on April 1, 1999, which alleged that it 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 approximately €72 million. DaimlerChrysler has appealed this decision.

As previously reported, 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 certain members of its Supervisory Board and Board of Management (Messrs. Kopper, Schrempp and Gentz). Shortly thereafter, a number of other actions were filed against the same defendants, making similar claims to those in the Tracinda complaint. Two individual lawsuits and one consolidated class action lawsuit are pending. The plaintiffs, current or former DaimlerChrysler shareholders, allege 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. In essence, the complaints allege that by describing the transaction as a “merger of equals” in the proxy statement/prospectus and other statements preceding the special meeting of Chrysler stockholders called to vote on the business combination agreement, the defendants misrepresented that DaimlerChrysler would operate as two equal companies, while they always intended to relegate Chrysler to division status and to replace Chrysler’s management with executives from Daimler-Benz. The complaints generally seek (a) actual damages, including an acquisition premium, (b) “recissory” damages representing the difference between the value of the Chrysler common stock exchanged and the present value of the DaimlerChrysler shares, (c) compensatory and, in the individual actions, punitive damages, (d) an order unwinding the transaction, (e) pre- and post-judgment interest, and (f) such other relief as may be just and proper. In April 2001, all of the pending class action complaints were consolidated into a single consolidated class action complaint that included two claims not previously alleged in any of the complaints. The new claims alleged that DaimlerChrysler had violated U.S. securities laws by making false and misleading statements in 1999 and 2000 regarding its prospects for the year 2000. DaimlerChrysler believes that all pending claims are without merit and intends to defend against them vigorously. On May 9, 2001, DaimlerChrysler filed motions to dismiss all three complaints. The briefing on the motions was concluded and submitted to the court in July 2001. The motions are pending before the court.

DaimlerChrysler and numerous other German companies (including subsidiaries of U.S. companies) were defendants in class action lawsuits which sought to recover compensation on behalf of individuals forced to work for those companies by the Third Reich during World War II. In an effort to resolve such claims, German companies, including DaimlerChrysler, and the German government agreed in 2000 to establish a DM 10 billion “Remembrance, Responsibility and the Future Foundation,” to provide humanitarian assistance to victims of forced labor and other injustices under that regime. The Foundation has been funded in equal parts by the German government and German companies. In conjunction with the establishment of the Foundation, the United States and other countries have agreed to assist in attempting to achieve a final dismissal of all existing and future claims relating to such injustices. All lawsuits filed against DaimlerChrysler in the United States have been dismissed. DaimlerChrysler expects that the remaining cases pending in Germany will be dismissed as a result of new legislation relating to the Foundation.

On April 30, 2001, DaimlerChrysler sold its subsidiary, DaimlerChrysler Rail Systems GmbH (“Adtranz”), to Bombardier, Inc. for cash consideration of \$725 million. Bombardier has 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, and seeks total damages of approximately €1 billion. 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. DaimlerChrysler intends to defend itself vigorously against such claims. The agreement calls for submission of disputes to arbitration and Bombardier has notified DaimlerChrysler that it intends to do so with respect to its claims.

Like other companies in the automotive industry, DaimlerChrysler (primarily DaimlerChrysler Corporation) has 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 certain 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. DaimlerChrysler Corporation believes that many of these lawsuits involve unsubstantiated illnesses or assert only tenuous connections with components in its vehicles. It is possible, however, that the number of these lawsuits will continue to grow and that the company could incur significant costs in the future in resolving these lawsuits.

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

Dividend Policy

The Supervisory Board and the Board of Management propose dividends based on DaimlerChrysler AG's year-end unconsolidated financial statements. The Boards then submit their proposal for approval at the annual general meeting of stockholders, which is generally held during the second quarter of the following year. Shareholders of record on the date of the annual general meeting at which a dividend is declared are entitled to receive the dividend, less any amounts required to be withheld on account of taxes or other governmental charges. DaimlerChrysler AG expects to continue to pay dividends, although there can be no assurance as to the particular amounts that would be paid from year to year. The payment of future dividends will depend upon DaimlerChrysler's earnings, financial condition (including its cash needs), future earnings prospects and other factors. See "Item 5. Operating and Financial Review and Prospects."

Deutsche Bank AG as global paying agent distributes cash dividends payable to holders of ordinary shares. In Germany, the paying agent generally makes the payment to the holder's depot bank which then credits the payment to the stockholder's account. Shareholders in the United States receive payment through The Bank of New York as U.S. paying agent if they are shareholders of record, or payment is credited to their brokerage or other account through the Depository Trust Company system established by U.S. banks and brokers. Unless instructed otherwise, the U.S. paying agent will convert cash dividends payable to shareholders in the United States from euros into U.S. dollars. The U.S. dollar amounts of dividends received by holders of ordinary shares may be affected by fluctuations in exchange rates. See "Dividends" and "Exchange Rate Information" in "Item 3. Key Information."

SIGNIFICANT CHANGES

In January 2002, DaimlerChrysler decided to exit a joint venture with Deutsche Telekom by exercising its option to sell to Deutsche Telekom the Group's 49.9% interest in T-Systems ITS for proceeds of €4.7 billion. The sale is expected to close in March 2002 with the termination of the joint venture.

Following a decision of DaimlerChrysler's Board of Management in 2001, DaimlerChrysler and GE Capital reached an agreement in January 2002 for GE Capital to purchase a portion of DaimlerChrysler's Capital Services portfolio in the United States. DaimlerChrysler will receive approximately €1.3 billion for the sale. The transaction is expected to be completed in the first quarter of 2002.

Item 9. The Offer and Listing.

Trading Markets

The principal trading markets for DaimlerChrysler ordinary shares are the Frankfurt Stock Exchange and the New York Stock Exchange. The ordinary shares are also listed on the other German stock exchanges in Berlin, Bremen, Düsseldorf, Hamburg, Hannover, Munich and Stuttgart, on the Chicago Stock Exchange, the Pacific Stock Exchange and the Philadelphia Stock Exchange, on the stock exchanges in Paris, Tokyo and Toronto, and on the Swiss stock exchange.

As of December 31, 2001, DaimlerChrysler ordinary shares represented approximately 6.8% of the Deutsche Aktienindex (DAX), the leading index of trading on the Frankfurt Stock Exchange, 1.3% of the Dow Jones STOXX 50SM, which covers stocks from 17 European equity markets, and 2.2% of the Dow Jones EURO STOXX 50SM, which covers stocks from the equity markets of those member states of the European Union that introduced the euro as their common legal currency. See also "Introduction of the Euro" in "Item 4. Information on the Company."

The transfer agents for DaimlerChrysler ordinary shares are Deutsche Bank AG in Germany and The Bank of New York in the United States.

Trading on the Frankfurt Stock Exchange

The Frankfurt Stock Exchange, which is operated by Deutsche Börse AG, is the most significant of the eight German stock exchanges. It accounts for the vast majority of the turnover in exchange-traded shares in Germany. As of December 31, 2001, equity securities traded on the Frankfurt Stock Exchange included the shares of 5,777 companies, of which 4,865 were non-German.

Trading on the floor of the Frankfurt Stock Exchange commences each business day at 9:00 a.m. and continues until 8:00 p.m. Central European Time. Markets in listed securities are generally of the auction type, but listed securities also change hands in inter-bank dealer markets both on and off the stock exchange. Price formation is by open outcry, as determined by state appointed specialists (*Amtliche Kursmakler*) who are themselves exchange members, but who do not, as a rule, deal with the public. Prices for active stocks, including those of larger companies, are quoted continuously during stock exchange hours. For all other stocks, a fixed price is determined by auction around mid-session of each trading day. Transactions settle on the second business day following the day of their trade.

DaimlerChrysler ordinary shares are also traded on Xetra (Exchange Electronic Trading), an integrated electronic exchange system operated by Deutsche Börse AG. Xetra is available daily from 9:00 a.m. to 8:00 p.m. Central European Time to brokers and banks which have been admitted to Xetra by the Frankfurt Stock Exchange. Securities traded by this system include liquid stocks, warrants and bonds traded on the floor of the Frankfurt Stock Exchange. Xetra is integrated into the Frankfurt Stock Exchange and is subject to its rules and regulations. In 2001, Xetra accounted for approximately 94% of the DaimlerChrysler ordinary shares trading volume at the Frankfurt Stock Exchange.

Trading activities on the German stock exchanges are monitored by the Federal Supervisory Authority for Securities Trading (*Bundesaufsichtsamt für den Wertpapierhandel*). All orders from customers to buy or sell listed securities must be executed on a stock exchange unless a customer gives specific instructions to the contrary.

The table below shows, for the periods indicated, the Xetra high and low sales prices for the DaimlerChrysler ordinary shares from November 17, 1998, the first day on which DaimlerChrysler ordinary shares officially traded on the Frankfurt Stock Exchange. Since January 4, 1999, the first official trading day of 1999, the prices of shares listed on the German stock exchanges, including the ordinary shares of DaimlerChrysler AG, have been quoted in euros. In order to achieve comparability with the 1998 sales prices quoted in Deutsche Marks, the 1998 sales prices have been converted into euros at the fixed rate of DM1.95583 per euro. The table also shows, for the periods indicated, the Xetra highs and lows of the DAX. The DAX is a continuously updated, capital-weighted performance index of 30 German blue chip companies. In principle, the shares included in the DAX are selected on the basis of their stock exchange turnover and their market capitalization. Adjustments of the DAX are made for capital changes, subscription rights and dividends. See "Exchange Rate Information" in "Item 3. Key Information" with respect to rates of exchange between the U.S. dollar and the DM (translated into euros at the fixed rate of DM1.95583 per euro) and the U.S. dollar and the euro applicable during the periods shown below.

	Price Per DaimlerChrysler Ordinary Share		DAX	
	High	Low	High	Low
	(€)			
Annual highs and lows				
1998 (from November 17, 1998)	85.90	70.61	5,174.42	4,435.94
1999	95.79	63.26	6,992.92	4,601.07
2000	79.97	42.70	8,136.16	6,110.26
2001	58.19	27.24	6,795.14	3,539.18
Quarterly highs and lows				
2000				
First Quarter	79.97	61.55	8,136.16	6,388.91
Second Quarter	72.03	54.61	7,641.53	6,794.08
Third Quarter	63.80	49.95	7,503.32	6,468.46
Fourth Quarter	57.42	42.70	7,185.66	6,110.26
2001				
First Quarter	57.39	43.27	6,795.14	5,351.48
Second Quarter	58.19	48.65	6,337.47	5,383.99
Third Quarter	57.80	27.24	6,131.97	3,539.18
Fourth Quarter	51.25	32.55	5,341.86	4,157.60
Monthly highs and lows				
2001				
July	57.80	53.00	6,131.97	5,551.14
August	56.69	47.00	5,930.45	5,124.69
September	49.53	27.24	5,220.10	3,539.18
October	42.90	32.55	4,874.31	4,157.60
November	51.25	37.85	5,217.47	4,481.55
December	49.89	43.64	5,341.86	4,872.25
2002				
January	51.40	44.52	5,318.73	4,984.20
February (through February 14, 2002)	48.17	41.64	5,165.97	4,730.70

On February 14, 2002 the closing sales price per DaimlerChrysler ordinary share on Xetra was €43.51. This price was equivalent to \$37.91 per ordinary share, translated at the noon buying rate for euros on that date.

Based on turnover statistics supplied by the Frankfurt Stock Exchange, the average daily volume of DaimlerChrysler ordinary shares traded on the exchange (including Xetra) in 2001 was 4.6 million. As of December 31, 2001, the market capitalization of DaimlerChrysler on the Frankfurt Stock Exchange was €48.5 billion.

Trading on the New York Stock Exchange

Official trading of DaimlerChrysler ordinary shares on the New York Stock Exchange commenced on November 17, 1998. DaimlerChrysler ordinary shares trade under the symbol "DCX."

The following table shows, for the periods indicated, the high and low sales prices per DaimlerChrysler ordinary share as reported on the New York Stock Exchange Composite Tape.

	Price Per DaimlerChrysler Ordinary Share	
	High	Low
	(\$)	
Annual highs and lows		
1998 (from November 17, 1998)	99.06	82.38
1999	108.63	65.31
2000	78.69	37.75
2001	52.72	25.60
Quarterly highs and lows		
2000		
First Quarter	78.69	59.88
Second Quarter	68.75	51.81
Third Quarter	57.00	43.67
Fourth Quarter	49.47	37.75
2001		
First Quarter	52.72	41.01
Second Quarter	51.75	42.42
Third Quarter	50.48	25.60
Fourth Quarter	44.68	30.30
Monthly highs and lows		
2001		
July	50.48	45.35
August	49.86	43.07
September	43.83	25.60
October	38.02	30.30
November	44.68	34.98
December	44.00	39.46
2002		
January	45.76	39.40
February (through February 14, 2002)	41.16	36.40

On February 14, 2002, the closing sales price per DaimlerChrysler ordinary share on the New York Stock Exchange as reported on the NYSE Composite Tape was \$37.72.

Item 10. Additional Information.

OPTIONS TO PURCHASE SECURITIES FROM REGISTRANT OR SUBSIDIARIES

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 and exchanged some of their

shareholdings in Dornier for cash and/or holdings in DaimlerChrysler Luft- und Raumfahrt Holding Aktiengesellschaft. To the extent that they have made use of their right to exchange their shareholdings for holdings of DaimlerChrysler Luft- und Raumfahrt Holding Aktiengesellschaft, they have the right to exchange this new shareholding for cash or for ordinary shares of DaimlerChrysler AG. This right has already been partially exercised.

In 1996, DaimlerChrysler Luxembourg Capital S.A., formerly known as Daimler-Benz Capital (Luxembourg) AG, a DaimlerChrysler subsidiary, issued 4 $\frac{1}{8}$ % bearer notes with appertaining warrants due July 5, 2003 with a nominal amount of DM 1,000 (€511) per note. Each note has warrants attached that originally entitled the noteholder to receive 10.254 Daimler-Benz ordinary shares, consisting partially of shares already issued and partially of newly issued shares. In accordance with Section 23 of the German Transformation Act (*Umwandlungsgesetz*) these warrants are now DaimlerChrysler AG warrants which entitle the noteholder to receive 10.30527 DaimlerChrysler ordinary shares. As of February 14, 2002, there were outstanding warrants for approximately 1.1 million new DaimlerChrysler ordinary shares.

In 1997, Daimler-Benz AG issued 5 $\frac{3}{4}$ % subordinated mandatory convertible notes due June 14, 2002 convertible into newly issued Daimler-Benz ordinary shares on or before June 4, 2002. In accordance with Section 23 of the German Transformation Act these notes, including notes represented by American Depositary Notes and DM Book Entry Securities, are now notes of DaimlerChrysler AG, convertible into DaimlerChrysler ordinary shares. If they are not converted by June 4, 2002, the notes will be mandatorily converted into DaimlerChrysler ordinary shares at a conversion rate to be determined on the basis of an average price for the shares on the Frankfurt Stock Exchange during a specified window period. As of February 14, 2002, the maximum number of ordinary shares that would be issued upon exercise of all outstanding conversion rights was approximately 9.5 million.

In addition, DaimlerChrysler Board of Management members and other senior executives of DaimlerChrysler hold options granted under the stock option plans instituted by Daimler-Benz AG in 1996 and by DaimlerChrysler AG in 2000. See “Share Ownership” in “Item 6. Directors, Senior Management and Employees.”

MEMORANDUM AND ARTICLES OF ASSOCIATION

Organization and Register

DaimlerChrysler AG is a stock corporation organized in the Federal Republic of Germany under the Stock Corporation Law (*Aktiengesetz*). DaimlerChrysler AG is registered in the Commercial Register (*Handelsregister*) maintained by the local court in Stuttgart, Germany, under the entry number “HRB 19360.”

Corporate Governance

German stock corporations are principally governed by three separate bodies: the annual general meeting of shareholders, the supervisory board and the board of management. Their roles are defined by German law and by the corporation’s memorandum and articles of association (*Satzung*), and may be described generally as follows:

- *The Annual General Meeting of Shareholders* – ratifies the actions of the corporation’s supervisory board and board of management. It approves the amount of the annual dividend, the appointment of an independent auditor, and certain significant corporate transactions. In corporations with more than 2,000 employees, shareholders and employees elect or appoint an equal number of representatives to the supervisory board. The annual general meeting must be held within the first eight months of each fiscal year.
- *The Supervisory Board* – appoints and removes the members of the board of management and oversees the management of the corporation. Although prior approval of the supervisory board may be required in connection with certain significant matters, the law prohibits the supervisory board from making management decisions.

- *The Board of Management* – manages the corporation’s business and represents it in dealings with third parties. The board of management submits regular reports to the supervisory board about the corporation’s operations and business strategies, and prepares special reports upon request. A person may not serve on the board of management and the supervisory board of a corporation at the same time.

Several additional corporate governance provisions applicable to DaimlerChrysler AG are summarized below.

Objects and Purposes

Section 2 of DaimlerChrysler AG’s Memorandum and Articles of Association states that its object is to pursue, directly or indirectly, business in the fields of development, production and sale of products and rendering of services, especially in the following lines of business: vehicles for use on land; vehicles for use on water, in the air and in space and other products in the fields of transport, aerospace, space, and marine technology; engines and other technological propulsion systems; plants, machinery and equipment for power generation, distribution and utilization; electrical and electronic equipment, plants and systems; communication and information technology, business consulting; financial services of all kinds, insurance brokerage, and activities in the fields of media and expositions; and management and development of real property. The Articles authorize DaimlerChrysler AG to take all actions that serve the attainment of its objects, except that it is not permitted to carry out directly banking and real property transactions that are subject to license requirements.

Directors

Under German law, DaimlerChrysler’s Supervisory Board members and Board of Management members owe a duty of loyalty and care to DaimlerChrysler. They must exercise the standard of care of a prudent and diligent businessman and bear the burden of proving they did so if their actions are contested. Both Boards must consider the interests of DaimlerChrysler AG’s shareholders and its workers and, to some extent, the common interest. Those who violate their duties may be held jointly and severally liable for any resulting damages, unless their actions were validly approved by resolution at a shareholders’ meeting. Further, a Supervisory Board member may not receive a loan from DaimlerChrysler AG unless approved by the Supervisory Board, and may not vote on a matter that concerns ratification of his own acts or in which he has a material interest. See also “Item 6. Directors, Senior Management and Employees” for further information about the Supervisory Board and the Board of Management.

Ordinary Shares

The capital stock of DaimlerChrysler AG consists of ordinary shares, no par value (*Stückaktien*), which are issued in registered form. Record holders of ordinary shares are registered in DaimlerChrysler’s share register (*Aktienregister*). The share register is administered on behalf of DaimlerChrysler AG by Deutsche Bank AG, as transfer agent and registrar in Germany and various other countries, and by The Bank of New York, as transfer agent and registrar in the United States.

Following is a summary of the significant provisions under German law and DaimlerChrysler’s Articles of Association relating to ordinary shares:

- *Capital Increases*. The share capital may be increased in consideration of contributions in cash or in property, or by establishing authorized capital or conditional capital. Authorized capital provides the Board of Management with the flexibility to issue new shares for a period of up to five years, generally to preserve liquidity. Conditional capital allows the Board of Management to issue new shares for specified purposes, including employee stock option plans, mergers, and the issuance of shares upon conversion of option bonds and convertible bonds. Capital increases require an amendment of the Articles of Association approved by 75% of the issued shares present at the shareholders’ meeting at which the increase is proposed. The Board of Management must also obtain the approval of the Supervisory Board before issuing new shares. DaimlerChrysler AG’s Articles of Association do not contain conditions regarding changes in the share capital that are more stringent than the law requires.

- *Redemption.* The share capital may also be reduced by an amendment of the Articles of Association approved by 75% of the issued shares present at the shareholders' meeting.
- *Preemptive Rights.* DaimlerChrysler AG's Articles of Association provide that the preemptive right of shareholders to subscribe (*Bezugsrecht*) for any issue of additional shares, debt instruments convertible into shares or participating debt instruments in proportion to their shareholdings in the existing capital may be excluded under certain circumstances.
- *Liquidation.* If DaimlerChrysler AG were to be liquidated, any liquidation proceeds remaining after all of its liabilities were paid would be distributed to its shareholders in proportion to their shareholdings.
- *No Limitation on Foreign Ownership.* There are no limitations under German law or in DaimlerChrysler AG's Articles of Association on the right of persons who are not citizens or residents of Germany to hold or vote ordinary shares.

Dividends

Dividends in respect of ordinary shares are declared once a year at the annual general meeting of shareholders. The Supervisory Board and the Board of Management ratify the financial statements for each fiscal year and recommend the disposition of all unappropriated profits for approval by shareholders at the meeting, including the amount of net profits to be distributed as a dividend. Shareholders registered in the share register on the date of the meeting are entitled to receive the dividend. Dividends are paid to shareholders in proportion to their percentage ownership of the outstanding capital stock.

The Articles of Association authorize the Board of Management, with the approval of the Supervisory Board, to make an interim payment to shareholders with respect to the unappropriated profit of the prior financial year, if a preliminary closing of the financial statements for that year shows a profit. The interim payment may not exceed 50% of the amount of the foreseeable unappropriated profit, after deducting any amounts required to be added to the disclosed reserves. Furthermore, the interim payment may not exceed 50% of the previous fiscal year's unappropriated profit.

The Articles of Association permit the Board of Management, with the approval of the Supervisory Board, to issue new shares from capital previously approved by the shareholders at any time during the year, and to provide that such new shares are entitled to the entire per ordinary share annual dividend for the year in which they are issued.

Voting Rights

Each ordinary share represents one vote. Cumulative voting is not permitted under German law. DaimlerChrysler AG's Articles of Association provide that resolutions are passed at shareholder meetings by a simple majority of votes cast, unless a higher vote is required by law. German law requires that the following matters, among others, be approved by the affirmative vote of 75% of the issued shares present at the shareholders' meeting at which the matter is proposed:

- changing the objects and purposes provision in the articles of association,
- capital increases and capital decreases,
- excluding preemptive rights of shareholders to subscribe for new shares,
- dissolution,
- a merger into, or a consolidation with, another stock corporation,
- a transfer of all or virtually all of the assets, and
- a change of corporate form.

Shareholder Meetings

The Board of Management, the Supervisory Board, or shareholders owning in the aggregate at least 5% of the issued shares may call a meeting of shareholders. There is no minimum quorum requirement for shareholder meetings. Among other things, the annual general meeting is asked to ratify the actions of the Board of Management and the Supervisory Board during the prior year, approve the disposition of unappropriated profit, and the appointment of an independent auditor. Shareholder representatives to the Supervisory Board are elected at the annual general meeting for terms of approximately five years.

In order to be entitled to participate and vote at the meeting, a shareholder must be registered in the share register on the meeting date, and must also have notified DaimlerChrysler AG no later than on the third day before the meeting date that he or she wishes to attend the meeting. Instead of voting in person at the meeting, shareholders may vote their shares by proxy after having conferred a power of attorney by signing and returning the proxy card mailed to them or via Internet in advance of the meeting. A notice of the meeting including the proxy card, an agenda describing the items to be voted on at the meeting, and a short form of the annual report is sent to the shareholders. As a foreign private issuer, DaimlerChrysler is not required to file a proxy statement under U.S. securities law. The proxy voting process for DaimlerChrysler's shareholders in North America is substantially similar to the process utilized by publicly held companies incorporated in the United States.

Amendments to the Articles of Association may be proposed either by the Supervisory Board and the Board of Management, or by a shareholder or group of shareholders holding a minimum of either 5% of the issued shares or shares representing at least €500,000 of the company's capital stock.

Change in Control

The Articles do not contain any specific provisions that would have an effect of delaying, deferring or preventing a change in control of DaimlerChrysler and that would only apply in the context of a merger, acquisition or corporate restructuring involving DaimlerChrysler AG or any of its subsidiaries. On January 1, 2002, the German Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*) became effective. It requires, among other things, that a bidder seeking control of a company with its corporate seat in Germany and traded on a European Union stock exchange must publish advance notice of a tender offer; submit a draft offer statement to the Federal Supervisory Authority for Securities Trading (*Bundesaufsichtsamt für den Wertpapierhandel*) for review; and obtain certification from a qualified financial institution that adequate financing is in place to complete the offer. Once a bidder has acquired shares representing 30% of the voting power, it must make an offer for all remaining shares of the target. The Takeover Act requires the board of management of the target to refrain from taking any measures that may frustrate the success of the takeover offer. However, the target board of management is permitted to take any action which a prudent and diligent management of a company that is not the target of a takeover bid would also take. Moreover, the target board of management may search for other bidders and, with the prior approval of the supervisory board, may take other defensive measures, provided that both boards act within the parameters of their general authority under the German Stock Corporation Law. The board of management may also adopt specific defensive measures if such measures have been approved by the supervisory board and were specifically authorized by the shareholders no later than 18 months in advance of a takeover bid by resolution of 75% of the votes cast.

Disclosure of Shareholdings

DaimlerChrysler AG's Articles of Association do not require shareholders to disclose their shareholdings. The Securities Trading Act (*Wertpapierhandelsgesetz*), however, requires holders of voting securities of a corporation whose shares are listed on a stock exchange to notify the corporation of the number of shares they hold if that number reaches, exceeds or falls below specified thresholds. These thresholds are 5%, 10%, 25%, 50% and 75% of the corporation's outstanding voting rights.

Currency Conversion – Dividends

Under the transfer agent agreement in place with the U.S. transfer agent, shareholders registered in the share register with addresses in the United States may elect to receive dividends in either euros or U.S. dollars. Unless instructed otherwise, the U.S. transfer agent will convert all cash dividends and other cash distributions it receives in respect of ordinary shares into U.S. dollars before payment to the shareholder. The amount distributed will be reduced by any amounts required to be withheld by DaimlerChrysler AG or the U.S. transfer agent on account of taxes or other governmental charges.

Other

Claims against members of the Supervisory Board or Board of Management may be asserted on behalf of DaimlerChrysler AG if the shareholders' meeting so resolves by simple majority or upon request of shareholders holding in the aggregate at least 10% of the issued shares. The shareholders' meeting or a court of competent jurisdiction, upon request by shareholders holding in the aggregate at least 10% (under special circumstances 5%) of the issued shares or shares representing at least €1,000,000 (under special circumstances €500,000) of the company's capital stock must then appoint a special representative to pursue such a claim.

MATERIAL CONTRACTS

As previously reported in DaimlerChrysler's Annual Report on Form 20-F for the year 2000, DaimlerChrysler and Mitsubishi Motors Corporation established an alliance in October 2000 calling for cooperation in the design, development, production and distribution of passenger cars and light commercial vehicles throughout the world, and DaimlerChrysler acquired a 34% equity interest in Mitsubishi Motors for €2.2 billion. In June 2001, DaimlerChrysler increased its shareholding in Mitsubishi Motors to 37.3% by acquiring AB Volvo's 3.3% equity interest in Mitsubishi Motors.

As previously reported in DaimlerChrysler's Annual Report on Form 20-F for the year 2000, Deutsche Telekom and DaimlerChrysler Services AG formed a joint venture in October 2000 in the area of information technology. Deutsche Telekom contributed €4.6 billion in cash to DaimlerChrysler's information technology subsidiary debis Systemhaus GmbH in return for which Deutsche Telekom received a 50.1% interest in debis Systemhaus (now known as T-Systems ITS). In January 2002, DaimlerChrysler decided to exit the joint venture by exercising its option to sell to Deutsche Telekom the Group's 49.9% interest for proceeds of €4.7 billion. The sale is expected to close in March 2002 with the termination of the joint venture.

EXCHANGE CONTROLS

The euro is a fully convertible currency. There are, except in limited embargo circumstances, currently no legal restrictions in Germany on international capital movements and foreign exchange transactions that would prevent the transfer of capital or remittance of dividends or other payments to shareholders of DaimlerChrysler AG who are not residents or citizens of Germany. For statistical purposes only, every individual or corporation residing in Germany must report to the German Central Bank (*Deutsche Bundesbank*), subject only to immaterial exceptions, any payment received from or made to an individual or a corporation resident outside of Germany (non-residents) if the payment exceeds €12,500 (or the equivalent in a foreign currency). In addition, German residents, except financial institutions, must report any claims against or liabilities payable to non-residents that in the aggregate exceed €1.5 million (or the equivalent in a foreign currency) at the end of any one month.

TAXATION

The following is a discussion of the material United States federal income and German tax consequences to Qualified Holders holding DaimlerChrysler ordinary shares. This discussion is based upon existing United States federal income and German tax law, including legislation, regulations, administrative rulings and court decisions, as in effect on the date of this Annual Report, all of which are subject to change, possibly with retroactive effect. For purposes of this discussion, in general, a "Qualified Holder" means a beneficial owner of DaimlerChrysler

ordinary shares that (1) is a resident of the United States for purposes of the United States-Germany income tax treaty (the "Income Tax Treaty"), which generally includes an individual United States resident, a corporation created or organized under the laws of the United States, any state thereof or the District of Columbia and a partnership, estate or trust, to the extent its income is subject to taxation in the United States as the income of a United States resident, either in its hands or in the hands of its partners or beneficiaries, (2) does not hold DaimlerChrysler ordinary shares as part of the business property of a permanent establishment located in Germany or as part of a fixed base of an individual located in Germany and used for the performance of independent personal services and (3) if not an individual, is not subject to the limitation on benefits restrictions in the Income Tax Treaty. This discussion assumes that the Qualified Holder holds DaimlerChrysler ordinary shares as a capital asset. This discussion does not address all aspects of United States federal income and German taxation that may be relevant to all Qualified Holders in light of their particular circumstances, including, for example, Qualified Holders whose stock was acquired pursuant to the exercise of an employee stock option or otherwise as compensation or Qualified Holders who are subject to special treatment under United States federal income tax laws (for example, financial institutions, insurance companies, tax-exempt organizations and broker-dealers). This discussion also does not address any aspects of state, local or non-United States (other than certain German) tax law.

EACH QUALIFIED HOLDER IS STRONGLY URGED TO CONSULT HIS OR HER TAX ADVISOR AS TO THE UNITED STATES FEDERAL INCOME AND GERMAN TAX CONSEQUENCES OF HOLDING DAIMLERCHRYSLER ORDINARY SHARES, INCLUDING THE PARTICULAR FACTS AND CIRCUMSTANCES THAT MAY BE UNIQUE TO SUCH QUALIFIED HOLDER, AND AS TO ANY OTHER TAX CONSEQUENCES OF HOLDING DAIMLERCHRYSLER ORDINARY SHARES.

Taxation of Dividends

Under German law, German corporations are required to withhold German tax on dividends paid to non-resident stockholders in 2002 at an aggregate rate of 21.1% (consisting of a 20% withholding tax and a 1.1% surcharge). Qualified Holders can obtain a partial refund of this 21.1% aggregate withholding tax under the Income Tax Treaty (subject to certain limitations). Qualified Holders are generally subject to United States federal income tax on dividends paid by German corporations. Subject to applicable limitations of United States federal income tax law, Qualified Holders may be able to claim a foreign tax credit for certain German income taxes paid. The amount of the refund of German withholding tax and the determination of the foreign tax credit allowable against United States federal income tax generally depend on whether or not the Qualified Holder is a United States corporation owning at least 10% of the voting stock of DaimlerChrysler AG (a "10% Holder").

In the case of any Qualified Holder other than a 10% Holder, the 21.1% aggregate German withholding tax on the dividends paid in 2002 is reduced under the Income Tax Treaty to 15% of the gross amount of the dividend. Such Qualified Holders may, therefore, apply for a refund of German withholding tax on dividends paid in 2002 in the amount of 6.1% of the gross amount of the dividend (21.1% aggregate German withholding tax rate minus 15% Income Tax Treaty withholding tax rate). Qualified Holders are not entitled to the dividends received deduction for United States federal income tax purposes with respect to dividends paid by non-United States corporations.

Thus, each \$100 of gross dividend that DaimlerChrysler AG pays in 2002 to a Qualified Holder (other than a 10% Holder) will be subject to a German withholding tax of \$15 after the partial refund of the German withholding tax under the Income Tax Treaty, and the cash received per \$100 of gross dividend will be \$85. For United States federal income tax purposes, the Qualified Holder is generally treated as receiving a total dividend of \$100. The Qualified Holder will include \$100 in gross income and may be entitled to a foreign tax credit of \$15, subject to applicable limitations of United States federal income tax law.

The German corporate imputation system that provided German resident individual shareholders with a tax credit in respect of dividends paid by German corporations was repealed, effective with respect to dividends paid

after 2001. Consequently, Qualified Holders are no longer entitled to the additional 5% treaty refund that was available with respect to dividends paid before 2002. However, the aggregate German withholding tax was reduced from 26.375% to 21.1% with respect to dividends paid after 2001.

In the case of a 10% Holder, the 21.1% aggregate German withholding tax on dividends paid in 2002 is reduced under the Income Tax Treaty to 5% of the gross amount of the dividend. Such 10% Holders may, therefore, apply for a refund of German withholding tax on dividends paid in 2002 in the amount of 16.1% of the gross amount of the dividend (21.1% aggregate German withholding tax rate minus 5% Income Tax Treaty withholding tax rate). Subject to applicable limitations of United States federal income tax laws, a 10% Holder may be entitled to a foreign tax credit for the 5% German withholding tax on dividends and for the portion of the total income taxes (trade income tax and corporation income tax, including any surtax) paid by DaimlerChrysler AG attributable to distributed profits.

Dividends paid in euros to a Qualified Holder of DaimlerChrysler ordinary shares will be included in income in a dollar amount calculated by reference to the exchange rate in effect on the date the dividends are received or treated as received by such holder. If dividends paid in euros are converted into dollars on the date received or treated as received, Qualified Holders generally should not be required to recognize foreign currency gain or loss in respect of each dividend.

Refund Procedures

To claim the refund reflecting the current reduction of the aggregate German withholding tax from 21.1% to 15% (or to 5% for 10% Holders), a Qualified Holder must submit (either directly or, as described below, through the U.S. transfer agent for DaimlerChrysler ordinary shares or the Depository Trust Company) a claim for refund to the German tax authorities, with the original bank voucher (or certified copy thereof) issued by the paying entity documenting the tax withheld within four years from the end of the calendar year in which the dividend is received. Claims for refunds are made on a special German claim for refund form, which must be filed with the German tax authorities: Bundesamt für Finanzen, 53221 Bonn, Germany. The German claim for refund forms may be obtained from the German tax authorities at the same address where the applications are filed or from the Embassy of the Federal Republic of Germany, 4645 Reservoir Road, N.W., Washington, D.C. 20007-1998.

Qualified Holders must also submit to the German tax authorities certification (IRS Form 6166) of their last filed United States federal income tax return. Such certification is obtained from the office of the Director of the Internal Revenue Service Center by filing a request for the certification with the Internal Revenue Service – Philadelphia Service Center, Foreign Certification Request, P.O. Box 16347, Philadelphia, PA 19114-0447. (Additional information, including IRS Publication 686, can be obtained from the Internal Revenue Service website at www.irs.gov.) Requests for certification are to be made in writing and must include the Qualified Holder's name, social security number or employer identification number, tax return form number and tax period for which certification is requested. The Internal Revenue Service will send the certification directly to the German tax authorities if the Qualified Holder authorizes the Internal Revenue Service to do so. This certification is valid for three years and need only be resubmitted in a fourth year in the event of a subsequent application for refund.

The U.S. transfer agent will receive and distribute dividends to Qualified Holders who hold DaimlerChrysler ordinary shares of record and will perform administrative functions necessary to claim the refund reflecting the current reduction in aggregate German withholding tax from 21.1% to 15% (or to 5% for 10% Holders), for such holders. These arrangements may be amended or revoked at any time in the future.

Under a simplified and accelerated refund procedure, the U.S. transfer agent will prepare the German claim for refund forms on behalf of Qualified Holders and file them electronically with the German tax authorities. In order for the U.S. transfer agent to file the claim for refund forms, the U.S. transfer agent will prepare and mail to these Qualified Holders, and the holders will be requested to sign and return to the U.S. transfer agent, (1) a statement authorizing the U.S. transfer agent to perform these procedures and agreeing that the German tax authorities may inform the IRS of any refunds of German taxes and (2) a written authorization to remit the refund of withholding to an account other than that of the Qualified Holder. The U.S. transfer agent will attach the signed

statement and the documentation issued by the paying agency documenting the dividend paid and the tax withheld to the claim for refund form and file them with the German tax authorities. Qualified Holders should also request certification (IRS Form 6166) of their last filed United States federal income tax return from the IRS and have it ready for presentation to the U.S. transfer agent upon request. This certification (IRS Form 6166) may be requested from the Qualified Holder if the Qualified Holder is selected as part of a verifying sample; if in this case, the certification (IRS Form 6166) cannot be presented by the Qualified Holder within a reasonable time, the refund of the German withholding taxes will be denied.

A simplified refund procedure for Qualified Holders whose DaimlerChrysler ordinary shares are registered with brokers participating in the Depository Trust Company is in effect between the Depository Trust Company and the German tax authorities. Under this simplified refund procedure, the Depository Trust Company provides the German tax authorities with electronic certification of the U.S. taxpayer status of such Qualified Holders based on information it receives from its broker participants, and claims a refund on behalf of those Qualified Holders. Accordingly, these Qualified Holders do not need to file refund claim forms through the U.S. transfer agent.

The German tax authorities will issue refunds denominated in euros. The refunds will be issued in the name of the U.S. transfer agent or the Depository Trust Company, as the case may be, which will convert the refunds to dollars and make corresponding refund payments to Qualified Holders and to brokers. The brokers, in turn, will remit corresponding refund amounts to the Qualified Holders holding DaimlerChrysler ordinary shares registered with such brokers. Qualified Holders of DaimlerChrysler ordinary shares who receive a refund attributable to reduced withholding taxes under the Income Tax Treaty may be required to recognize foreign currency gain or loss, which will be treated as ordinary income or loss, to the extent that the dollar value of the refund received or treated as received by the Qualified Holder differs from the dollar equivalent of the refund on the date the dividend on which such withholding taxes were imposed was received or treated as received by the Qualified Holder.

Taxation of Capital Gains

Under the Income Tax Treaty, a Qualified Holder will not be liable for German tax on capital gains realized or accrued on the sale or other disposition of DaimlerChrysler ordinary shares.

Upon a sale or other disposition of DaimlerChrysler ordinary shares, a Qualified Holder will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the amount realized and the Qualified Holder's adjusted tax basis in the DaimlerChrysler ordinary shares. In the case of an individual Qualified Holder of DaimlerChrysler ordinary shares, any such capital gain will generally be subject to a maximum United States federal income tax rate of 20%, if the individual Qualified Holder's holding period in the DaimlerChrysler ordinary shares is more than 12 months.

German Gift and Inheritance Taxes

The United States-Germany estate tax treaty provides that an individual whose domicile is determined to be in the United States for purposes of such treaty will not be subject to German inheritance and gift tax (the equivalent of the United States federal estate and gift tax) on the individual's death or making of a gift unless the DaimlerChrysler ordinary shares (1) are part of the business property of a permanent establishment located in Germany or (2) are part of the assets of a fixed base of an individual located in Germany and used for the performance of independent personal services. An individual's domicile in the United States, however, does not prevent imposition of German inheritance and gift tax with respect to an heir, donee or other beneficiary who is domiciled in Germany at the time the individual died or the gift was made.

The United States-Germany estate tax treaty also provides a credit against United States federal estate and gift tax liability for the amount of inheritance and gift tax paid in Germany, subject to certain limitations, in a case where the DaimlerChrysler ordinary shares are subject to German inheritance or gift tax and United States federal estate or gift tax.

German Capital Tax (*Vermögensteuer*)

The Income Tax Treaty provides that a Qualified Holder will not be subject to German capital tax (*Vermögensteuer*) with respect to the DaimlerChrysler ordinary shares. As a result of a judicial decision, the German capital tax (*Vermögensteuer*) presently is not imposed.

Other German Taxes

There are no German transfer, stamp or other similar taxes that would apply to Qualified Holders upon receipt, purchase, holding or sale of DaimlerChrysler ordinary shares.

United States Information Reporting and Backup Withholding

Dividends on DaimlerChrysler ordinary shares, and payments of the proceeds of a sale of DaimlerChrysler ordinary shares, paid within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding at a 30% rate (for calendar years 2002 and 2003) unless the Qualified Holder (1) is a corporation or other exempt recipient or (2) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred.

DOCUMENTS ON DISPLAY

DaimlerChrysler is subject to the informational requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements, DaimlerChrysler files reports and other information with the Securities and Exchange Commission. Members of the general public may read and copy these materials, including this Annual Report and the exhibits thereto, at the Commission's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511, and 233 Broadway, New York, New York 10274, and may also obtain copies of the materials by mail from the Public Reference Room of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. The public may obtain information on the operation of the Commission's Public Reference Room by calling the Commission in the United States at 1-800-SEC-0330. The Commission also maintains a web site at www.sec.gov that contains reports, proxy statements and other information regarding registrants that file electronically with the Commission. DaimlerChrysler's annual reports and some of the other information submitted by DaimlerChrysler to the Commission may be accessed through this web site. In addition, material filed by DaimlerChrysler can be inspected at the offices of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

Item 11. Quantitative and Qualitative Disclosures About Market Risk.

The DaimlerChrysler Group is exposed to market risks from changes in foreign currency exchange rates, interest rates and equity prices. These changes may adversely affect DaimlerChrysler's operating results and financial condition. The Group seeks to manage these risks through its regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. DaimlerChrysler controls and manages foreign exchange risk, interest rate risk and equity price risk by continually monitoring changes in key economic indicators and market information.

In order to quantify the foreign exchange risk, interest rate risk and equity price risk of the Group on a continuous basis, DaimlerChrysler's risk management control systems employ value-at-risk analyses as recommended by the Bank for International Settlements. The value-at-risk calculations employed by DaimlerChrysler express potential losses in fair values, are based on the variance-covariance-approach and assume a 99% confidence level and a holding period of five days. Estimates of volatilities and correlations are primarily drawn from the RiskMetrics™ datasets and supplemented by additional exchange rate, interest rate and equity price information.

The Group does not use financial instruments for trading or other speculative purposes.

Following organizational standards in the international banking industry, DaimlerChrysler maintains risk management control systems independent of Corporate Treasury and with a separate reporting line.

See also Note 30 to the Consolidated Financial Statements.

EXCHANGE RATE RISK

Transaction Risk and 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 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-Benz Passenger Cars & smart segment. The Mercedes-Benz Passenger Cars & smart 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 also subject to transaction risk, although – because of its global production network – to a minor degree. Since the Chrysler Group segment generates the vast majority of its revenues and costs in dollars, the transaction risk of this segment is relatively low compared to that of the Mercedes-Benz Passenger Cars & smart segment. The Other Activities segment has transaction risk resulting from the dollar exposure of the aircraft engine business conducted through MTU Aero Engines.

Cash inflows and outflows of the business segments balance themselves out if they are denominated in the same currency. Therefore, only the unmatched amounts are subject to transaction risk. The currency exposure of DaimlerChrysler is additionally reduced through the natural hedging potential arising from offsets in the euro exposure of the Chrysler Group with the dollar exposure of the Mercedes-Benz Passenger Cars & smart and Commercial Vehicles segments. In order to provide an additional natural hedge against the remaining transaction risk exposure, DaimlerChrysler attempts to increase cash outflows in the same currencies in which it has a net excess inflow, where possible and appropriate. It achieves this mainly through increased procurement in foreign currencies and by increasing production in those countries which are primary markets for the Group's products.

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. The Currency Committee, which consists of two separate sub-groups, one for the Group's vehicle businesses and one for MTU Aero Engines, is comprised of members of senior management from each of the respective businesses as well as from Corporate Treasury and Risk Controlling. 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. Corporate Treasury is responsible for assessing and managing foreign currency exposures through transactions with international financial institutions. In addition to the currency exposure inherent in the Group's operational business, exchange rate fluctuations can also affect the conversion into euros of profits of subsidiaries located outside the euro zone. This risk is also managed by Corporate Treasury.

The principal derivative financial instruments used by the Group to cover foreign currency exposures are forward foreign exchange contracts and currency options. The policy of the Group is to use a mixture of these instruments depending upon the Group's view of market conditions which is based on fundamental analysis and technical analysis. For a description of the accounting for derivative financial instruments, see Note 30 to the Consolidated Financial Statements.

The following table shows the period-end, high, low and average value-at-risk figures for DaimlerChrysler's 2001 and 2000 portfolio of derivative financial instruments used to hedge the underlying currency exposure.

<u>Value-at-Risk</u>	<u>2001</u>				<u>2000</u>			
	<u>Period-End</u>	<u>High</u>	<u>Low</u>	<u>Average</u>	<u>Period-End</u>	<u>High</u>	<u>Low</u>	<u>Average</u>
				(€ in millions)				
Exchange Rate Risk	368	504	368	430	541	738	502	574

The average and period-end values-at-risk of derivative financial instruments used to hedge exchange rate risk decreased in 2001, primarily as a result of lower foreign exchange rate volatilities and a slightly decreased foreign exchange derivatives' volume.

DaimlerChrysler changed the presentation of exchange rate risk from the sensitivity analysis used in previous reports to value-at-risk to have a uniform method for the measurement of exchange rate risk, interest rate risk and equity price risk that allows comparisons between the different types of market risks.

Effects of Currency Translation

Many subsidiaries of DaimlerChrysler are located outside the euro zone. Since the Group's financial reporting currency is the euro, the income statements of these subsidiaries are translated into euros for inclusion of the results of these subsidiaries in the DaimlerChrysler consolidated financial statements. Period-to-period changes in the average exchange rate for a particular country's currency can significantly affect the translation into euros of both revenues and operating income denominated in that currency. Unlike the effect of exchange rate fluctuations on transaction exposure, the effect of exchange rate translation exposure does not affect the Group's local currency cash flows.

DaimlerChrysler has significant assets, liabilities and operations outside the euro zone which are denominated in local currencies, most importantly DaimlerChrysler North America Holding Corporation and DaimlerChrysler's financial services companies. The long-term currency risk inherent in these investments is subject to continuing assessment and evaluation. This type of risk generally remains unhedged. However, in specific circumstances, DaimlerChrysler seeks to hedge the currency risk inherent in certain of its long-term investments. Effects from currency fluctuations on the translation of net asset amounts into euros will be reflected in the Group's equity position.

INTEREST RATE RISK

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 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. It 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 following table shows the period-end, high, low and average value-at-risk figures for DaimlerChrysler's 2001 and 2000 portfolio of interest rate sensitive financial instruments.

<u>Value-at-Risk</u>	<u>2001</u>				<u>2000¹</u>			
	<u>Period-End</u>	<u>High</u>	<u>Low</u>	<u>Average</u>	<u>Period-End</u>	<u>High</u>	<u>Low</u>	<u>Average</u>
Interest Rate Risk	334	442	126	272	126	163	81	128

¹ Financial instruments attributable to those aerospace activities which were contributed to EADS were only considered prior to July 2000.

In 2001, the average and period-end values-at-risk of DaimlerChrysler's portfolio of interest rate sensitive financial instruments increased significantly, primarily due to higher volatilities and an increased mismatch funding of the Group's leasing and sales financing business.

EQUITY PRICE RISK

DaimlerChrysler also holds investments in equity securities. These securities subject DaimlerChrysler to risks due to changes in quoted market prices. DaimlerChrysler uses derivative financial instruments including futures and options to manage the risks arising from changes in equity prices.

The following table shows the period-end, high, low and average value-at-risk figures for DaimlerChrysler's 2001 and 2000 portfolio of equity securities.

<u>Value-at-Risk</u>	<u>2001</u>				<u>2000</u>			
	<u>Period-End</u>	<u>High</u>	<u>Low</u>	<u>Average</u>	<u>Period-End</u>	<u>High</u>	<u>Low</u>	<u>Average</u>
Equity Price Risk	3	87	3	22	87	105	82	95

In 2001, DaimlerChrysler changed its asset allocation policy and reduced the portfolio of equity securities. Consequently, the average and period-end values-at-risk of the equity portfolio decreased significantly.

Item 12. Description of Securities Other than Equity Securities.

Not applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies.

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds.

None.

Item 15. [Reserved].

Item 16. [Reserved].

PART III

Item 17. Financial Statements.

Not applicable.

Item 18. Financial Statements.

Consolidated financial statements and schedule – see pages F-i, F-1 through F-64 and page S-1.

Separate financial statements for the European Aeronautic Defence and Space Company EADS N.V. (EADS) and for Mitsubishi Motors Corporation will be filed as an amendment to this Form 20-F in accordance with Rule 3-09 of Regulation S-X. DaimlerChrysler expects to file the separate financial statements of EADS no later than June 30, 2002, and the separate financial statements of Mitsubishi Motors Corporation no later than September 30, 2002. Each amendment will be available through the Securities and Exchange Commission's web site at www.sec.gov or DaimlerChrysler's web site at www.daimlerchrysler.com shortly after its filing with the Commission. Summarized financial information for these companies is set forth in Note 3 to the Consolidated Financial Statements.

Item 19. Exhibits.

Documents filed as exhibits to this Annual Report:

- 1.1 Memorandum and Articles of Association (*Satzung*) of DaimlerChrysler AG as amended to date (English translation filed as an Exhibit to DaimlerChrysler AG's Annual Report on Form 20-F for the year ended December 31, 2000, and incorporated herein by reference.)
- 2.1 The total amount of long-term debt securities of DaimlerChrysler AG authorized under any instrument does not exceed 10% of the total assets of the Group on a consolidated basis. DaimlerChrysler AG hereby agrees to furnish to the Commission, upon its request, a copy of any instrument defining the rights of holders of long-term debt of DaimlerChrysler AG or its subsidiaries for which consolidated or unconsolidated statements are required to be filed.
- 4.1 The following agreements (without exhibits and schedules): the Amended and Restated Master Alliance Agreement dated as of September 8, 2000 between DaimlerChrysler AG and Mitsubishi Motors Corporation; the Amended and Restated Standstill Agreement between those parties dated as of September 8, 2000; the Securities Subscription Agreement between DaimlerChrysler AG, Mitsubishi Motors Corporation, and DaimlerChrysler Japan Holding, LTD. dated as of July 28, 2000; the Amendment to the Securities Subscription Agreement dated as of September 8, 2000; and Amendment No. 2 to the Securities Subscription Agreement dated as of September 28, 2000. (Filed as an Exhibit to DaimlerChrysler AG's Annual Report on Form 20-F for the year ended December 31, 2000, and incorporated herein by reference.)
- 4.2 Joint Venture Agreement, dated April 3, 2000, between DaimlerChrysler Services (debis) AG, Deutsche Telekom AG and Rubin Telekommunikationsdienste GmbH, and Option Agreement, dated April 3, 2000, between DaimlerChrysler Services (debis) AG and Deutsche Telekom AG (Filed as an Exhibit to DaimlerChrysler AG's Annual Report on Form 20-F for the year ended December 31, 2000, and incorporated herein by reference.)
- 8.1 Significant subsidiaries owned, directly or indirectly, by DaimlerChrysler AG as of December 31, 2001, as defined in Regulation S-X, §210.1-02(w).
- 10.1 Independent Auditors' Report on Schedule and Consent of KPMG Deutsche Treuhand-Gesellschaft AG.
- 10.2 Independent Auditors' Consent of Deloitte & Touche LLP.
- 10.3 Independent Auditors' Report of Deloitte & Touche LLP on the consolidated financial statements of DaimlerChrysler Corporation.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

Date: February 20, 2002

DAIMLERCHRYSLER AG

By: /s/ JÜRGEN E. SCHREMP

Jürgen E. Schrempp
Chairman of the Board of Management

By: /s/ MANFRED GENTZ

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

DAIMLERCHRYSLER AG
Index to Consolidated Financial Statements and Schedules

	<u>Page</u>
Independent Auditors' Report	F-1
Consolidated Financial Statements:	
Consolidated Statements of Income (Loss) for the years ended December 31, 2001, 2000 and 1999 . .	F-2
Consolidated Balance Sheets at December 31, 2001 and 2000	F-4
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2001, 2000 and 1999	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 2001, 2000 and 1999	F-6
Consolidated Fixed Assets Schedule for the year ended December 31, 2001	F-8
Notes to the Consolidated Financial Statements	F-10
Financial Statement Schedule:	
Allowance for Doubtful Accounts	S-1

Independent Auditors' Report

The Supervisory Board
DaimlerChrysler AG:

We have audited the accompanying consolidated balance sheets of DaimlerChrysler AG and subsidiaries ("DaimlerChrysler") as of December 31, 2001 and 2000, 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, 2001. 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 did not audit the financial statements of DaimlerChrysler Corporation or certain of its consolidated subsidiaries ("DaimlerChrysler Corporation"), which statements reflect total assets constituting 29 percent at December 31, 2000, and total revenues constituting 42 percent and 43 percent for the years ended December 31, 2000 and 1999, of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for DaimlerChrysler Corporation, is based solely on the report of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America. 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 and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of DaimlerChrysler as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with generally accepted accounting principles in the United States of America.

As discussed in Note 10 to the consolidated financial statements, in 2000 DaimlerChrysler adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," and Emerging Issues Task Force Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets."

KPMG Deutsche Treuhand-Gesellschaft AG

Stuttgart, Germany
February 8, 2002

DAIMLERCHRYSLER AG
Consolidated Statements of Income (Loss)

(in millions, except per share amounts)	Note	Consolidated			
		Year ended December 31,			
		2001 (Note 1)	2001	2000	1999
Revenues	32	\$ 136,072	€ 152,873	€ 162,384	€ 149,985
Cost of sales	5	(114,283)	(128,394)	(134,370)	(119,688)
Gross margin		21,789	24,479	28,014	30,297
Selling, administrative and other expenses	5	(16,317)	(18,331)	(18,303)	(16,063)
Research and development		(5,281)	(5,933)	(6,337)	(5,737)
Other income	6	1,079	1,212	946	827
Turnaround plan expenses – Chrysler Group	7	(2,727)	(3,064)	–	–
Income (loss) before financial income		(1,457)	(1,637)	4,320	9,324
Financial income (expense), net (therein gain on issuance of associated company stock of €747 in 2001)	8	137	154	156	333
Income (loss) before income taxes		(1,320)	(1,483)	4,476	9,657
Effects of changes in German tax law		–	–	(263)	(812)
Income taxes		692	777	(1,736)	(3,721)
Total income taxes	9	692	777	(1,999)	(4,533)
Minority interests		39	44	(12)	(18)
Income (loss) before extraordinary items and cumulative effects of changes in accounting principles		(589)	(662)	2,465	5,106
Extraordinary items:	11				
Gains on disposals of businesses, net of taxes (therein gain on issuance of subsidiary and associated company stock of €2,418 in 2000)		–	–	5,516	659
Losses on early extinguishment of debt, net of taxes		–	–	–	(19)
Cumulative effects of changes in accounting principles: transition adjustments resulting from adoption of SFAS 133 and EITF 99-20, net of taxes	10	–	–	(87)	–
Net income (loss)		(589)	(662)	7,894	5,746
Earnings (loss) per share	33				
Basic earnings (loss) per share					
Income (loss) before extraordinary items and cumulative effects of changes in accounting principles		(0.59)	(0.66)	2.46	5.09
Extraordinary items		–	–	5.50	0.64
Cumulative effects of changes in accounting principles		–	–	(0.09)	–
Net income (loss)		(0.59)	(0.66)	7.87	5.73
Diluted earnings (loss) per share					
Income (loss) before extraordinary items and cumulative effects of changes in accounting principles		(0.59)	(0.66)	2.45	5.06
Extraordinary items		–	–	5.44	0.63
Cumulative effects of changes in accounting principles		–	–	(0.09)	–
Net income (loss)		(0.59)	(0.66)	7.80	5.69

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

DAIMLERCHRYSLER AG

Consolidated Statements of Income (Loss)

Industrial Business*			Financial Services*			
Year ended December 31,			Year ended December 31,			
2001	2000	1999	2001	2000	1999	
€ 136,020	€ 147,260	€ 139,929	€ 16,853	€ 15,124	€ 10,056	Revenues
(113,342)	(120,474)	(111,274)	(15,052)	(13,896)	(8,414)	Cost of sales
22,678	26,786	28,655	1,801	1,228	1,642	Gross margin
(16,756)	(17,059)	(15,063)	(1,575)	(1,244)	(1,000)	Selling, administrative and other expenses
(5,933)	(6,337)	(5,737)	–	–	–	Research and development
1,160	842	691	52	104	136	Other income
(3,064)	–	–	–	–	–	Turnaround plan expenses – Chrysler Group
(1,915)	4,232	8,546	278	88	778	Income (loss) before financial income
146	166	327	8	(10)	6	Financial income (expense), net (therein gain on issuance of associated company stock of €747 in 2001)
(1,769)	4,398	8,873	286	78	784	Income (loss) before income taxes
						Effects of changes in German tax law
						Income taxes
743	(2,152)	(4,340)	34	153	(193)	Total income taxes
46	(11)	(16)	(2)	(1)	(2)	Minority interests
(980)	2,235	4,517	318	230	589	Income (loss) before extraordinary items and cumulative effects of changes in accounting principles
						Extraordinary items:
–	5,516	659	–	–	–	Gains on disposals of businesses, net of taxes (therein gain on issuance of subsidiary and associated company stock of €2,418 in 2000)
–	–	(19)	–	–	–	Losses on early extinguishment of debt, net of taxes
–	10	–	–	(97)	–	Cumulative effects of changes in accounting principles: transition adjustments resulting from adoption of SFAS 133 and EITF 99-20, net of taxes
(980)	7,761	5,157	318	133	589	Net income (loss)
						Earnings (loss) per share
						Basic earnings (loss) per share
–	–	–	–	–	–	Income (loss) before extraordinary items and cumulative effects of changes in accounting principles
–	–	–	–	–	–	Extraordinary items
–	–	–	–	–	–	Cumulative effects of changes in accounting principles
–	–	–	–	–	–	Net income (loss)
						Diluted earnings (loss) per share
–	–	–	–	–	–	Income (loss) before extraordinary items and cumulative effects of changes in accounting principles
–	–	–	–	–	–	Extraordinary items
–	–	–	–	–	–	Cumulative effects of changes in accounting principles
–	–	–	–	–	–	Net income (loss)

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

DAIMLERCHRYSLER AG
Consolidated Balance Sheets

(in millions)	Note	Consolidated			Industrial Business*		Financial Services*	
		At December 31,			At December 31,		At December 31,	
		2001 (Note 1)	2001	2000	2001	2000	2001	2000
Assets								
Intangible assets	12	\$ 2,548	€ 2,863	€ 3,113	€ 2,662	€ 2,907	€ 201	€ 206
Property, plant and equipment, net	12	36,641	41,165	40,145	41,016	40,043	149	102
Investments and long-term financial assets	18	11,015	12,375	12,107	11,349	10,967	1,026	1,140
Equipment on operating leases, net	13	32,046	36,002	33,714	3,004	3,047	32,998	30,667
Fixed assets		82,250	92,405	89,079	58,031	56,964	34,374	32,115
Inventories	14	14,913	16,754	16,283	15,338	15,333	1,416	950
Trade receivables	15	5,723	6,430	7,995	6,134	7,617	296	378
Receivables from financial services	16	44,071	49,512	48,673	26	30	49,486	48,643
Other receivables	17	14,409	16,188	14,396	7,512	6,414	8,676	7,982
Securities	18	2,739	3,077	5,378	2,636	4,195	441	1,183
Cash and cash equivalents	19	10,172	11,428	7,127	8,057	6,445	3,371	682
Non-fixed assets		92,027	103,389	99,852	39,703	40,034	63,686	59,818
Deferred taxes	9	2,679	3,010	2,436	2,930	2,350	80	86
Prepaid expenses	20	7,660	8,606	7,907	8,480	7,782	126	125
Total assets (thereof short-term 2001: €68,676; 2000: €71,300)		184,616	207,410	199,274	109,144	107,130	98,266	92,144
Liabilities and stockholders' equity								
Capital stock		\$ 2,322	€2,609	€2,609				
Additional paid-in capital		6,485	7,286	7,286				
Retained earnings		23,536	26,441	29,461				
Accumulated other comprehensive income		2,374	2,668	3,053				
Treasury stock		—	—	—				
Stockholders' equity	21	34,717	39,004	42,409	€ 29,009	€ 35,825	€ 9,995	€ 6,584
Minority interests		371	417	519	403	506	14	13
Accrued liabilities	23	37,001	41,570	36,441	40,534	35,772	1,036	669
Financial liabilities	24	80,917	90,908	84,783	15,701	9,508	75,207	75,275
Trade liabilities	25	12,601	14,157	15,257	13,773	14,875	384	382
Other liabilities	26	9,135	10,262	9,621	7,431	7,068	2,831	2,553
Liabilities		102,653	115,327	109,661	36,905	31,451	78,422	78,210
Deferred taxes	9	4,318	4,851	5,480	(2,212)	(639)	7,063	6,119
Deferred income	27	5,556	6,241	4,764	4,505	4,215	1,736	549
Total liabilities (thereof short-term 2001: €80,874; 2000: €81,516)		149,899	168,406	156,865	80,135	71,305	88,271	85,560
Total liabilities and stockholders' equity		184,616	207,410	199,274	109,144	107,130	98,266	92,144

* 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
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		
Balance at January 1, 1999	2,561	7,274	20,533	(509)	528	—	(20)	—	30,367
Net income	—	—	5,746	—	—	—	—	—	5,746
Other comprehensive income (loss)	—	—	—	2,431	(181)	—	(8)	—	2,242
Total comprehensive income									7,988
Issuance of capital stock	4	63	—	—	—	—	—	—	67
Purchase of capital stock	—	—	—	—	—	—	—	(86)	(86)
Re-issuance of treasury stock	—	—	—	—	—	—	—	86	86
Dividends	—	—	(2,356)	—	—	—	—	—	(2,356)
Other	—	(8)	2	—	—	—	—	—	(6)
Balance at December 31, 1999	2,565	7,329	23,925	1,922	347	—	(28)	—	36,060
Net income	—	—	7,894	—	—	—	—	—	7,894
Other comprehensive income (loss)	—	—	—	1,363	(149)	(408)	6	—	812
Total comprehensive income									8,706
Increase in stated value of capital stock	44	(44)	—	—	—	—	—	—	—
Issuance of capital stock	—	1	—	—	—	—	—	—	1
Purchase of capital stock	—	—	—	—	—	—	—	(88)	(88)
Re-issuance of treasury stock	—	—	—	—	—	—	—	88	88
Dividends	—	—	(2,358)	—	—	—	—	—	(2,358)
Balance at December 31, 2000	2,609	7,286	29,461	3,285	198	(408)	(22)	—	42,409
Net loss	—	—	(662)	—	—	—	—	—	(662)
Other comprehensive income (loss)	—	—	—	565	(137)	71	(884)	—	(385)
Total comprehensive loss									(1,047)
Purchase of capital stock	—	—	—	—	—	—	—	(66)	(66)
Re-issuance of treasury stock	—	—	—	—	—	—	—	66	66
Dividends	—	—	(2,358)	—	—	—	—	—	(2,358)
Balance at December 31, 2001	2,609	7,286	26,441	3,850	61	(337)	(906)	—	39,004

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

DAIMLERCHRYSLER AG
Consolidated Statements of Cash Flows

(in millions)	Consolidated			
	Year ended December 31,			
	2001 (Note 1)	2001	2000	1999
Net income (loss)	\$ (589)	€ (662)	€ 7,894	€ 5,746
Income (loss) applicable to minority interests	(39)	(44)	12	18
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Gains on disposals of businesses	(684)	(768)	(5,568)	(1,181)
Depreciation and amortization of equipment on operating leases	6,457	7,254	6,487	3,315
Depreciation and amortization of fixed assets	6,250	7,022	7,131	6,035
Change in deferred taxes	(942)	(1,058)	1,220	2,402
Equity (income) loss from associated companies	(86)	(97)	244	(23)
Cumulative effects of changes in accounting principles	—	—	87	—
Change in financial instruments	(364)	(409)	(90)	247
(Gains) losses on disposals of fixed assets/securities	(534)	(600)	(455)	(1,215)
Change in trading securities	(4)	(4)	22	495
Change in accrued liabilities	2,515	2,825	1,778	4,001
Turnaround plan expenses – Chrysler Group	2,727	3,064	—	—
Turnaround plan payments – Chrysler Group	(325)	(365)	—	—
Changes in other operating assets and liabilities:				
– inventories, net	(645)	(725)	(876)	(2,436)
– trade receivables	552	620	(731)	(733)
– trade liabilities	(746)	(838)	(424)	1,331
– other assets and liabilities	649	729	(714)	21
Cash provided by operating activities	14,192	15,944	16,017	18,023
Purchases of fixed assets:				
– Increase in equipment on operating leases	(15,978)	(17,951)	(19,117)	(19,336)
– Purchases of property, plant and equipment	(7,918)	(8,896)	(10,392)	(9,470)
– Purchases of other fixed assets	(583)	(655)	(480)	(645)
Proceeds from disposals of equipment on operating leases	9,828	11,042	8,285	6,575
Proceeds from disposals of fixed assets	928	1,043	862	507
Payments for investments in businesses	(731)	(821)	(4,883)	(1,289)
Proceeds from disposals of businesses	1,495	1,680	311	1,336
Change in cash from exchange of businesses	—	—	(1,351)	—
Additions to receivables from financial services	(116,481)	(130,863)	(116,507)	(102,140)
Repayments of receivables from financial services:				
– Finance receivables collected	47,399	53,251	44,276	41,928
– Proceeds from sales of finance receivables	68,237	76,662	63,649	51,843
Acquisitions of securities (other than trading)	(400)	(449)	(7,786)	(4,395)
Proceeds from sales of securities (other than trading)	2,250	2,528	10,224	3,719
Change in other cash	127	142	200	(743)
Cash used for investing activities	(11,827)	(13,287)	(32,709)	(32,110)
Change in commercial paper borrowings and short-term financial liabilities	(11,065)	(12,431)	(3,238)	9,333
Additions to long-term financial liabilities	23,661	26,582	29,257	13,340
Repayment of financial liabilities	(9,252)	(10,394)	(9,152)	(4,611)
Dividends paid (including profit transferred from subsidiaries)	(2,107)	(2,367)	(2,379)	(2,378)
Proceeds from issuance of capital stock (including minority interests)	67	75	112	164
Purchase of treasury stock	(59)	(66)	(88)	(86)
Cash provided by (used for) financing activities	1,245	1,399	14,512	15,762
Effect of foreign exchange rate changes on cash and cash equivalents (maturing within 3 months)	230	259	501	805
Net increase (decrease) in cash and cash equivalents (maturing within 3 months)	3,840	4,315	(1,679)	2,480
Cash and cash equivalents (maturing within 3 months)				
At beginning of period	6,304	7,082	8,761	6,281
At end of period	10,144	11,397	7,082	8,761

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

DAIMLERCHRYSLER AG

Consolidated Statements of Cash Flows (Continued)

Industrial Business*			Financial Services*			
Year ended December 31,			Year ended December 31,			
2001	2000	1999	2001	2000	1999	
€ (980)	€ 7,761	€ 5,157	€ 318	€ 133	€ 589	Net income (loss)
(46)	11	16	2	1	2	Income (loss) applicable to minority interests
(762)	(5,568)	(1,181)	(6)	–	–	Adjustments to reconcile net income (loss) to net cash provided by operating activities:
290	207	68	6,964	6,280	3,247	Gains on disposals of businesses
6,917	7,047	5,966	105	84	69	Depreciation and amortization of equipment on operating leases
(1,595)	590	1,496	537	630	906	Depreciation and amortization of fixed assets
(90)	185	(10)	(7)	59	(13)	Change in deferred taxes
–	(10)	–	–	97	–	Equity (income) loss from associated companies
(365)	(76)	247	(44)	(14)	–	Cumulative effects of changes in accounting principles
(600)	(454)	(1,213)	–	(1)	(2)	Change in financial instruments
3	22	495	(7)	–	–	(Gains) losses on disposals of fixed assets/securities
2,472	1,742	3,913	353	36	88	Change in trading securities
3,064	–	–	–	–	–	Change in accrued liabilities
(365)	–	–	–	–	–	Turnaround plan expenses – Chrysler Group
(549)	(725)	(2,387)	(176)	(151)	(49)	Turnaround plan payments – Chrysler Group
540	(698)	(541)	80	(33)	(192)	Changes in other operating assets and liabilities:
(831)	(498)	1,222	(7)	74	109	– inventories, net
(1,444)	(623)	(147)	2,173	(91)	168	– trade receivables
5,659	8,913	13,101	10,285	7,104	4,922	– trade liabilities
(3,617)	(3,566)	(2,935)	(14,334)	(15,551)	(16,401)	– other assets and liabilities
(8,785)	(10,340)	(9,407)	(111)	(52)	(63)	Cash provided by operating activities
(564)	(422)	(524)	(91)	(58)	(121)	Purchases of fixed assets:
3,951	3,374	3,007	7,091	4,911	3,568	– Increase in equipment on operating leases
991	836	411	52	26	96	– Purchases of property, plant and equipment
(801)	(4,723)	(1,145)	(20)	(160)	(144)	– Purchases of other fixed assets
1,456	298	1,336	224	13	–	Proceeds from disposals of equipment on operating leases
–	(1,351)	–	–	–	–	Proceeds from disposals of fixed assets
207	133	(28)	(131,070)	(116,640)	(102,112)	Payments for investments in businesses
–	–	–	53,251	44,276	41,928	Proceeds from disposals of businesses
–	–	–	76,662	63,649	51,843	Change in cash from exchange of businesses
(229)	(5,594)	(3,958)	(220)	(2,192)	(437)	Additions to receivables from financial services
1,378	8,355	3,333	1,150	1,869	386	Repayments of receivables from financial services:
267	385	(462)	(125)	(185)	(281)	– Finance receivables collected
(5,746)	(12,615)	(10,372)	(7,541)	(20,094)	(21,738)	– Proceeds from sales of finance receivables
1,264	(393)	(260)	(13,695)	(2,845)	9,593	Acquisitions of securities (other than trading)
3,100	2,523	918	23,482	26,734	12,422	Proceeds from sales of securities (other than trading)
(347)	2,324	439	(10,047)	(11,476)	(5,050)	Change in other cash
(2,356)	(2,370)	(2,373)	(11)	(9)	(5)	Cash used for investing activities
(88)	(224)	82	163	336	82	Change in commercial paper borrowings and short-term financial liabilities
(66)	(88)	(86)	–	–	–	Additions to long-term financial liabilities
1,507	1,772	(1,280)	(108)	12,740	17,042	Repayment of financial liabilities
206	471	750	53	30	55	Dividends paid (including profit transferred from subsidiaries)
1,626	(1,459)	2,199	2,689	(220)	281	Proceeds from issuance of capital stock (including minority interests)
6,400	7,859	5,660	682	902	621	Purchase of treasury stock
8,026	6,400	7,859	3,371	682	902	Cash provided by (used for) financing activities
						Effect of foreign exchange rate changes on cash and cash equivalents (maturing within 3 months)
						Net increase (decrease) in cash and cash equivalents (maturing within 3 months)
						Cash and cash equivalents (maturing within 3 months)
						At beginning of period
						At end of period

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

DAIMLERCHRYSLER AG
Consolidated Fixed Assets Schedule

(in millions of €)	Acquisition or Manufacturing Costs						Balance at December 31, 2001
	Balance at January 1, 2001	Currency change	Change in consolidated companies	Additions	Reclassi- fications	Disposals	
Other intangible assets	880	17	(104)	248	52	59	1,034
Goodwill	4,413	170	(724)	137	–	16	3,980
Intangible assets	5,293	187	(828)	385	52	75	5,014
Land, leasehold improvements and buildings including							
buildings on land owned by others	20,306	384	(532)	483	600	242	20,999
Technical equipment and machinery	33,734	1,034	(615)	1,162	3,475	1,844	36,946
Other equipment, factory and office equipment	20,880	627	(313)	1,118	3,386	1,964	23,734
Advance payments relating to plant and equipment and construction in progress	7,301	295	(40)	6,143	(7,513)	272	5,914
Property, plant and equipment	82,221	2,340	(1,500)	8,906	(52)	4,322	87,593
Investments in affiliated companies	912	33	(5)	254	15	150	1,059
Loans to affiliated companies	137	(4)	–	105	–	95	143
Investments in associated companies	8,196	(122)	105	1,072	(3)	674	8,574
Investments in related companies	1,769	42	(56)	490	(12)	362	1,871
Loans to associated and related companies	305	11	–	51	–	26	341
Long-term securities	917	–	–	–	–	548	369
Other loans	193	4	(56)	251	–	24	368
Investments and long-term financial assets	12,429	(36)	(12)	2,223	–	1,879	12,725
Equipment on operating leases²	42,607	2,105	(1)	17,951	–	14,274	48,388

¹ Currency translation changes with period end rates.

² Excluding initial direct costs.

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

DAIMLERCHRYSLER AG
Consolidated Fixed Assets Schedule (Continued)

Balance at January 1, 2001	Depreciation/Amortization					Balance at December 31, 2001	Book Value ¹		
	Currency change	Change in consolidated companies	Additions	Reclassi- fications	Disposals		Balance at December 31, 2001	Balance at December 31, 2000	
453	9	(58)	172	–	34	542	492	427	Other intangible assets
1,727	63	(359)	184	–	6	1,609	2,371	2,686	Goodwill
2,180	72	(417)	356	–	40	2,151	2,863	3,113	Intangible assets
8,602	100	(163)	745	(9)	101	9,174	11,825	11,704	Land, leasehold improvements and buildings including buildings on land owned by others
20,834	497	(383)	3,611	(6)	1,499	23,054	13,892	12,900	Technical equipment and machinery
12,634	299	(224)	3,101	20	1,756	14,074	9,660	8,246	Other equipment, factory and office equipment
6	2	–	123	(5)	–	126	5,788	7,295	Advance payments relating to plant and equipment and construction in progress
42,076	898	(770)	7,580	–	3,356	46,428	41,165	40,145	Property, plant and equipment
120	23	(7)	3	–	9	130	929	792	Investments in affiliated companies
–	–	–	13	–	13	–	143	137	Loans to affiliated companies
–	–	(8)	2	–	(4)	(2)	8,576	8,196	Investments in associated companies
192	–	(30)	51	–	3	210	1,661	1,577	Investments in related companies
–	–	1	–	–	–	1	340	305	Loans to associated and related companies
1	–	–	–	–	–	1	368	916	Long-term securities
9	1	–	1	–	1	10	358	184	Other loans
322	24	(44)	70	–	22	350	12,375	12,107	Investments and long-term financial assets
9,073	488	(1)	7,254	–	4,216	12,598	35,790	33,534	Equipment on operating leases²

DAIMLERCHRYSLER AG
Notes to Consolidated Financial Statements

BASIS OF PRESENTATION

1. Summary of Significant Accounting Policies

General – The consolidated financial statements of DaimlerChrysler AG (“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 shown in euros and for the year 2001 amounts are also presented in U.S. dollars (“\$”), the latter being unaudited and presented solely for the convenience of the reader at the rate of €1 = \$0.8901, the Noon Buying Rate of the Federal Reserve Bank of New York on December 31, 2001.

Certain prior year balances have been reclassified to conform with the Group’s current year presentation.

Commercial practices with respect to the 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 the financial services business. To enhance the readers’ understanding of the Group’s consolidated financial statements, the accompanying financial statements present, in addition to the 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.

Consolidation – All material companies in which DaimlerChrysler has legal or effective control are consolidated. Significant investments in which DaimlerChrysler has 20% to 50% of the voting rights or the ability to exercise significant influence over operating and financial policies (“associated companies”) are accounted for using the equity method. The effects of intercompany transactions have been eliminated.

For business combinations accounted for using the purchase method, all assets acquired and liabilities assumed are recorded at fair value at the date of acquisition.

Foreign Currencies – The assets and liabilities of foreign subsidiaries where the functional currency is not the euro are generally translated using period-end exchange rates while the statements of income (loss) and the statements of cash flows are translated using average exchange rates during the period. Differences arising from the translation of assets and liabilities in comparison with the translation of the previous period are included as a separate component of stockholders’ equity.

The assets and liabilities of foreign subsidiaries operating 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 being recognized in earnings. Further, in such economies, depreciation and gains and losses from the disposal of non-monetary assets are determined using historical rates.

Due to the economic and political situation in Argentina, assets and liabilities of Argentine subsidiaries at December 31, 2001 were translated from Argentine peso (“ARP”) into euro using the first subsequent rate after the balance sheet date at which exchanges could be made (€1 = ARP 1.498). In addition, DaimlerChrysler recognized losses due to lower estimated net realizable values of assets denominated in Argentine peso and to remeasure foreign currency assets and liabilities of Argentine subsidiaries. The total pretax effect recognized in 2001 from these adjustments amounted to €177 million.

DAIMLERCHRYSLER AG

Notes to Consolidated Financial Statements – (Continued)

The exchange rates of the significant currencies of non-euro countries used in preparation of the consolidated financial statements were as follows:

		Exchange rate at December 31,		Annual average exchange rate		
		2001	2000	2001	2000	1999
		€1 =	€1 =	€1 =	€1 =	€1 =
Currency:						
Brazil	BRL	2.05	1.84	2.11	1.69	1.93
Great Britain	GBP	0.61	0.62	0.62	0.61	0.66
Japan	JPY	115.33	106.92	108.69	99.47	121.25
United States	USD	0.88	0.93	0.90	0.92	1.07

Revenue Recognition – Revenue 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. Cash sales incentives are recorded as a reduction of revenue when the related revenue is recorded.

Sales under which the Group conditionally guarantees the minimum resale value of the product are accounted for as operating leases with the related revenues and costs deferred at the time of title passage. Operating lease income is recorded when earned on a straight-line basis. Revenue on long-term contracts is generally recognized under the percentage-of-completion method based upon contractual milestones or performance. Revenue from finance receivables is recorded on the interest method.

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

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 separate component of stockholders' equity 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 expected cash flow releases (the cash-out method) using a discount rate which 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 purchased, and forward yield curves based on trends in the economy. An other-than-temporary impairment adjustment to the carrying value of the retained interests generally is required if the expected cash flows decline below the cash flows inherent in the cost basis of an individual retained interest (the pool-by-pool method). Other-than-temporary impairment adjustments are recorded as a component of revenue.

Estimated Credit Losses – The allowance for doubtful accounts represents management's estimate of the amount of asset impairment in the portfolios of finance, trade and other receivables. The Group determines the allowance for doubtful accounts based on periodical review and evaluation performed as part of the credit-risk

DAIMLERCHRYSLER AG

Notes to Consolidated Financial Statements – (Continued)

evaluation process, historical loss experience, the size and composition of the portfolios, current economic events and conditions, the fair value and adequacy of collateral, and other pertinent factors. Credit exposures deemed to be uncollectible are charged against the allowance for doubtful accounts.

Product-Related Expenses – Provisions for estimated product warranty costs are recorded in cost of sales at the time the related sale is recognized. 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. Expenditures for advertising and sales promotion and for other sales-related expenses are charged to selling expense as incurred.

Research and Development – Research and development costs are expensed as incurred.

Sales of Newly Issued Subsidiary Stock – Gains resulting from the issuance of stock by a Group subsidiary or equity method investment which reduces DaimlerChrysler's percentage ownership ("dilution gains") are recorded in the statement of income (loss).

Earnings Per Share – Basic earnings per share is calculated by dividing net income 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 33). Net income represents the earnings of the Group after minority interests.

Intangible Assets – Purchased intangible assets, other than goodwill, are valued at acquisition cost and are amortized over their respective useful lives (2 to 10 years) on a straight-line basis. Goodwill derived from acquisitions that were completed before July 1, 2001, is capitalized and amortized over 3 to 40 years. The Group periodically assesses the recoverability of its goodwill based upon projected future undiscounted cash flows. Goodwill acquired in business combinations after June 30, 2001, and intangible assets with an indefinite useful life acquired after June 30, 2001, were not amortized in accordance with Statement of Financial Accounting Standards ("SFAS") 142, "Goodwill and Other Intangible Assets" (see *New Accounting Pronouncements*). Goodwill acquired in business combinations that were completed before July 1, 2001, and intangible assets with an indefinite useful life acquired before July 1, 2001, were amortized until December 31, 2001.

Property, Plant and Equipment – Property, plant and equipment is valued at acquisition or manufacturing costs less accumulated depreciation. Depreciation expense is recognized using either the declining balance method until the straight-line method yields larger expenses or the straight-line method. 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. The following useful lives are assumed: buildings—10 to 50 years; site improvements—5 to 33 years; technical equipment and machinery—3 to 30 years; and other equipment, factory and office equipment—2 to 33 years.

For the Group's subsidiaries in Germany, depreciation expense for property, plant and equipment placed in service before January 1, 2001 is being recognized using either the straight-line method or the declining balance method until the straight-line method yields larger expenses. Property, plant and equipment placed in service at these companies after December 31, 2000 is depreciated using the straight-line method of depreciation. This change in accounting principle for new additions beginning January 1, 2001 was made to reflect improvements in the design and flexibility of manufacturing machinery and equipment and improvements in maintenance practices. These improvements have resulted in more uniform productive capacities and maintenance costs over the useful life of an asset, and straight-line depreciation is preferable in these circumstances. The effect of this change on the net loss of 2001 was not significant.

Leasing – 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

DAIMLERCHRYSLER AG

Notes to Consolidated Financial Statements – (Continued)

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. Equipment on operating leases, where the Group is lessor, is valued at acquisition cost and depreciated over its estimated useful life of 1 to 30 years using the straight-line method.

Long-Lived Assets – The Group accounts for long-lived assets in accordance with the provisions of SFAS 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.” This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

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 and liabilities to be realized and settled in excess of one year has been disclosed.

Marketable Securities and Investments – Securities and investments are accounted for at fair value, if readily determinable. Unrealized gains and losses on trading securities, representing securities bought principally for the purpose of near term sales, are included in earnings. Unrealized gains and losses on available-for-sale securities are included in accumulated other comprehensive income, net of applicable taxes. All other securities are recorded at cost. Unrealized losses on all marketable securities and investments that are other than temporary are recognized in earnings.

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.

Financial Instruments – DaimlerChrysler uses derivative financial instruments such as forward foreign exchange contracts, swaps, options, futures, swaptions, forward rate agreements, caps and floors for hedging purposes. Effective January 1, 2000, DaimlerChrysler adopted SFAS 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended by SFAS 137 and 138 (see Note 10). SFAS 133 requires that all derivative instruments are recognized as assets or liabilities on the balance sheet and measured 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 other comprehensive income), 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 until the hedged item is recognized in earnings. The ineffective portion of the fair value changes are recognized in earnings immediately. SFAS 133 also requires that certain derivative instruments embedded in host contracts be accounted for separately as derivatives.

Prior to the adoption of SFAS 133, derivative instruments which were not designated as hedges of specific assets, liabilities, or firm commitments were marked to market and any resulting unrealized gains or losses recognized in earnings. If there was a direct connection between a derivative instrument and an underlying

DAIMLERCHRYSLER AG
Notes to Consolidated Financial Statements – (Continued)

transaction and a derivative was so designated, a valuation unit was formed. Once allocated, gains and losses from these valuation units, which were used to manage interest rate, equity price and currency risks of identifiable assets, liabilities, or firm commitments, did not affect earnings until the underlying transaction was realized.

Further information on the Group's financial instruments is included in Note 30.

Accrued Liabilities – The valuation 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." An accrued liability for taxes and other contingencies is recorded when an obligation to a third party has been incurred, the payment is probable and the amount can be reasonably estimated. Accrued liabilities relating to personnel and social costs are valued at their net present value where appropriate.

Use of Estimates – Preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Due to current economic conditions and events in 2001, it is possible that these conditions and events could have a significant effect on such estimates made by management.

New Accounting Pronouncements – In September 2000, the Financial Accounting Standards Board ("FASB") issued SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125." This statement revised the standards of accounting for securitizations and other transfers of financial assets and collateral and requires certain financial statement disclosures. SFAS 140 was effective for transactions occurring after March 31, 2001. Adoption of this replacement standard did not have a material effect on DaimlerChrysler's consolidated financial statements (see Note 31).

During 2000, the Emerging Issues Task Force reached a final consensus on Issue 00-14, "Accounting for Certain Sales Incentives." The issue requires that an entity recognizes sales incentives at the latter of (1) the date at which the related revenue is recorded by the entity or (2) the date at which the sales incentive is offered. The issue also requires that when recognized, the reduction in or refund of the selling price of the product or service resulting from any cash sales incentive should be classified as a reduction of revenue. If the sales incentive is a free product or service delivered at the time of the sale, the cost of the free product or service should be classified as cost of sales. The consensus reached in the issue was effective for DaimlerChrysler in its financial statements beginning April 1, 2001. DaimlerChrysler applied the consensus prospectively in 2001. The adoption of Issue 00-14 did not have a material impact on the Group's consolidated financial statements.

In July 2001, the FASB issued SFAS 141, "Business Combinations," and SFAS 142. SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. 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. SFAS 142 requires that goodwill no longer be amortized, but instead tested for impairment at least annually. SFAS 142 also requires recognized intangible assets with a definite useful life to be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS 121 and subsequently, SFAS 144 after its adoption (see below). Any recognized intangible asset determined to have an indefinite useful life will not be amortized, but instead tested for impairment in accordance with SFAS 142 until its life is determined to no longer be indefinite.

DaimlerChrysler adopted the provisions of SFAS 141 as of July 1, 2001, and SFAS 142 is effective January 1, 2002. Goodwill that was acquired in a business combination completed after June 30, 2001, and any intangible

DAIMLERCHRYSLER AG

Notes to Consolidated Financial Statements – (Continued)

asset determined to have an indefinite useful life that was acquired after June 30, 2001 were not amortized. Goodwill acquired in business combinations completed before July 1, 2001, and intangible assets with indefinite useful lives acquired before July 1, 2001, were amortized until December 31, 2001.

SFAS 142 requires the Group to evaluate its existing intangible assets and goodwill and to make any necessary reclassifications in order to conform with the new separation requirements at the date of adoption. Upon adoption of SFAS 142, the Group is also required to reassess the useful lives and residual values of all intangible assets and make any necessary amortization period adjustments by March 31, 2002.

In connection with the transitional impairment evaluation, SFAS 142 requires DaimlerChrysler to perform an assessment of whether there is an indication that goodwill is impaired as of January 1, 2002. To accomplish this, DaimlerChrysler is currently (1) identifying its reporting units, (2) determining 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) determining the fair value of each reporting unit. This first step of the transitional assessment is required to be completed by June 30, 2002. If the carrying value of any reporting unit exceeds its fair value, then detailed fair values for each of the assigned assets (excluding goodwill) and liabilities will be determined to calculate the amount of goodwill impairment, if any. This second step is required to be completed as soon as possible, but no later than December 31, 2002. Any transitional impairment loss resulting from the adoption will be recognized as the effect of a change in accounting principle in the Group's statement of income (loss). Because of the extensiveness of the efforts needed to comply with the adoption of these statements, it is not practicable to reasonably estimate the impact on the Group's financial statements.

In June 2001, the FASB issued SFAS 143, "Accounting for Asset Retirement Obligations." The statement applies to legal obligations associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and subsequently allocated to expense over the asset's useful life. The Group expects to adopt SFAS 143 on January 1, 2003. DaimlerChrysler is currently determining the impact of the adoption of SFAS 143.

In August 2001, the FASB issued SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 retains the current requirement to recognize an impairment loss only if the carrying amounts of long-lived assets to be held and used are not recoverable from their expected undiscounted future cash flows. However, goodwill is no longer required to be allocated to these long-lived assets when determining their carrying amounts. SFAS 144 requires that a long-lived asset to be abandoned, exchanged for a similar productive asset, or distributed to owners in a spin-off be considered held and used until it is disposed. SFAS 144 requires the depreciable life of an asset to be abandoned be revised. SFAS 144 requires all long-lived assets to be disposed of by sale be recorded at the lower of its carrying amount or fair value less cost to sell and to cease depreciation (amortization). Therefore, discontinued operations are no longer measured on a net realizable value basis, and future operating losses are no longer recognized before they occur. SFAS 144 is effective January 1, 2002. The adoption of SFAS 144 is not expected to have a material impact on the Group's financial statements.

2. Scope of Consolidation

Scope of Consolidation – DaimlerChrysler comprises 470 German and non-German subsidiaries (2000: 485) and 1 joint venture (2000: 1). A total of 102 (2000: 108) companies are accounted for in the consolidated financial statements using the equity method of accounting. During 2001, 98 subsidiaries were included in the consolidated financial statements for the first time. A total of 113 subsidiaries were no longer included in the consolidated group. Significant effects of changes in the consolidated group on the consolidated balance sheets and the

DAIMLERCHRYSLER AG

Notes to Consolidated Financial Statements – (Continued)

consolidated statements of income (loss) are explained further in the notes to the consolidated financial statements. A total of 296 subsidiaries (“affiliated companies”) are not consolidated as their combined influence on the financial position, results of operations, and cash flows of the Group is not material (2000: 255). The effect of such non-consolidated subsidiaries for all years presented on consolidated assets, revenues and net income (loss) of DaimlerChrysler was approximately 1%. In addition, 5 (2000: 6) companies administering pension funds whose assets are subject to restrictions have not been included in the consolidated financial statements. The consolidated financial statements include 96 associated companies (2000: 74) accounted for at cost and recorded under investments in related companies as these companies are not material to the respective presentation of the financial position, results of operations or cash flows of the Group.

3. Equity Method Investments

At December 31, 2001, 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. (“EADS”)	33.0%
Mitsubishi Motors Corporation (“MMC”)	37.3%

Further information with respect to the transactions which resulted in the Group’s holdings in EADS and MMC is presented in Note 4 (*Acquisitions and Dispositions*) and Note 11 (*Extraordinary Items*). The aggregate quoted market prices as of December 31, 2001, for DaimlerChrysler’s shares in EADS and MMC were €3,637 million and €1,056 million, respectively.

The carrying value of the significant investments exceeded DaimlerChrysler’s share of the underlying reported net assets by approximately €1,049 million at December 31, 2001. The excess of the Group’s initial investment in equity method companies over the Group’s ownership percentage in the underlying net assets of those companies is attributed to fair value adjustments, if any, with the remaining portion classified as goodwill. The fair value adjustments and goodwill are accounted for in the respective equity method investment balances. Under the equity method, investments are stated at initial cost and are adjusted for subsequent contributions and DaimlerChrysler’s share of earnings, losses and distributions. Because the financial statements of EADS and MMC are not available sufficiently timely for the Group to apply the equity method currently, DaimlerChrysler’s share of the earnings or losses of EADS and MMC are recorded on a three month lag. Goodwill relating to the Group’s investments in EADS and MMC was being amortized using an useful life of 20 years until December 31, 2001. After December 31, 2001, such goodwill will no longer be amortized as a result of adopting SFAS 142. The total investment, including goodwill, will continue to be evaluated for impairment when conditions indicate that a decline in fair value below the carrying amount is other than temporary.

DAIMLERCHRYSLER AG

Notes to Consolidated Financial Statements – (Continued)

The following tables present summarized U.S. GAAP financial information for EADS and MMC (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:

EADS

Income statement information:

	<u>Twelve months ended December 31, 2001</u>	<u>For the period from acquisition to December 31, 2000</u>
Revenues	27,004	10,578
Net income (loss)	2,598	(482)

Balance sheet information:

	<u>At December 31, 2001</u>	<u>At December 31, 2000</u>
Fixed assets	26,505	20,563
Non-fixed assets	22,119	21,592
Total assets	<u>48,624</u>	<u>42,155</u>
Stockholders' equity	11,409	9,262
Minority interests	598	328
Accrued liabilities	11,149	10,450
Other liabilities	25,468	22,115
Total liabilities and stockholders' equity	<u>48,624</u>	<u>42,155</u>

MMC

Income statement information:

	<u>Twelve months ended December 31, 2001</u>	<u>For the period from acquisition to December 31, 2000</u>
Revenues	30,057	7,754
Net loss	(1,209)	(124)

Balance sheet information:

	<u>At December 31, 2001</u>	<u>At December 31, 2000</u>
Fixed assets	11,974	12,802
Non-fixed assets	12,697	16,452
Total assets	<u>24,671</u>	<u>29,254</u>
Stockholders' equity	1,528	2,840
Minority interests	(61)	21
Accrued liabilities	5,800	5,626
Other liabilities	17,404	20,767
Total liabilities and stockholders' equity	<u>24,671</u>	<u>29,254</u>

DAIMLERCHRYSLER AG

Notes to Consolidated Financial Statements – (Continued)

4. Acquisitions and Dispositions

On October 18, 2000, DaimlerChrysler acquired a 34% equity interest in MMC for approximately €2,200 million. At the closing date of the transaction, the Group also purchased MMC bonds with an aggregate face value of JPY19,200 million and a stated interest rate of 1.7% for €206 million, which are convertible into shares of MMC stock. The bonds are only convertible by DaimlerChrysler in the event that its ownership percentage would be diluted below 34% upon conversion of previously issued convertible bonds. To the extent not converted, the bonds and accrued interest are due on April 30, 2003. In June 2001, AB Volvo sold its 3.3% interest in MMC, plus its operational contracts with MMC, to DaimlerChrysler for \$297 million (€343 million) increasing DaimlerChrysler's interest in MMC to 37.3%.

In August 2000, DaimlerChrysler signed a sale and purchase agreement with the Canadian company Bombardier Inc. for the sale of 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 sales price of \$725 million was received during 2001. Bombardier has 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 misrepresentation, and seeks total damages of approximately €1 billion. The sale and purchase 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 intends to defend itself vigorously against such claims. The agreement calls for submission of disputes to arbitration and Bombardier has notified DaimlerChrysler that it intends to do this with respect to its claims. Due to uncertainties with respect to the ultimate outcome of these claims, the Group has recognized a partial after-tax gain of €237 million on the sale of Adtranz, representing the maximum possible adjustment to the sales price and the aforementioned maximum amount with respect to any further claims in accordance with the sale and purchase agreement.

In April 2001, DaimlerChrysler completed the sale of 60% of the interest in its Automotive Electronics activities to Continental AG for €398 million, resulting in a pretax gain of €209 million. The agreement confers on Continental the option to acquire from the Group, and DaimlerChrysler the option to sell to Continental, the Group's remaining 40% interest in the Automotive Electronics activities. The DaimlerChrysler option is exercisable from April 1, 2002 through July 31, 2004. The Continental option is exercisable from November 1, 2004 through October 31, 2005. The price for the remaining 40% interest ranges from €225 million to €235 million, depending upon when the option is exercised and various other factors. DaimlerChrysler accounts for the remaining interest in its Automotive Electronics activities using the equity method subsequent to the sale.

In October 2000, DaimlerChrysler acquired all the remaining outstanding shares of Detroit Diesel Corporation for approximately €500 million. The acquisition of the remaining 78.6% interest in Detroit Diesel was accounted for using the purchase method of accounting and resulted in goodwill of approximately €310 million, which was being amortized on a straight-line basis using an useful life of 20 years until December 31, 2001. After December 31, 2001, goodwill will no longer be amortized, but instead tested for impairment at least annually.

In October 2000, DaimlerChrysler and Deutsche Telekom combined their information technology activities in a joint venture. As part of the agreement, Deutsche Telekom received a 50.1% interest in T-Systems ITS (formerly debis Systemhaus) through a capital investment in T-Systems ITS (see Note 11 and Note 34).

In September 2000, DaimlerChrysler purchased a 9% equity interest in Hyundai Motor Company for approximately €450 million. DaimlerChrysler holds a 10% ownership interest at December 31, 2001 and is accounting for its investment in Hyundai as an available-for-sale security.

DAIMLERCHRYSLER AG

Notes to Consolidated Financial Statements – (Continued)

In September 2000, DaimlerChrysler acquired 100% of the outstanding shares of the Canadian company Western Star Trucks Holdings Ltd. for approximately €500 million. The acquisition was accounted for using the purchase method of accounting and resulted in goodwill of approximately €380 million, which was being amortized on a straight-line basis using an useful life of 20 years until December 31, 2001. After December 31, 2001, goodwill will no longer be amortized, but instead tested for impairment at least annually.

Information on the exchange of the Group's controlling interest in DaimlerChrysler Aerospace for shares of EADS and the related initial public offering of EADS in July 2000 is included in Note 11.

Due to an initial public offering in March 1999 as well as to the selling of a substantial portion of its remaining interests in September 1999, DaimlerChrysler Services AG, a wholly-owned subsidiary of DaimlerChrysler, reduced its remaining interest in debitel AG to 10% (see Note 11). In January 2001, the Group sold its remaining 10% interest in debitel AG to Swisscom for net proceeds of €305 million. The transaction resulted in a pretax gain of €292 million which is included in financial income (expense), net.

In the first quarter of 1999, DaimlerChrysler acquired the remaining outstanding shares of Adtranz from Asea Brown Boveri for €441 million.

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,		
	2001	2000	1999
Selling expenses	11,823	11,666	10,087
Administration expenses	5,539	5,921	5,333
Goodwill amortization and write-downs	184	279	215
Other expenses	785	437	428
	<u>18,331</u>	<u>18,303</u>	<u>16,063</u>

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 23b). 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 affect 4,440 hourly and salaried employees.

Based on its investment in MMC and the corresponding strategic alliance entered into in the fourth quarter 2000, DaimlerChrysler conducted a review of its compact car strategy in 2000, and concluded that it was necessary to revise the current strategic plan for the smart brand, including restructuring of supplier contracts. As

DAIMLERCHRYSLER AG

Notes to Consolidated Financial Statements – (Continued)

a result, the carrying values of certain of the brand's long-lived assets were determined to be impaired as the identifiable, undiscounted future cash flows from the operation of such assets were less than their respective carrying values. In accordance with SFAS 121, DaimlerChrysler recorded an impairment charge of €281 million. The impairment charge represents the amount by which the carrying values of such assets exceeded their respective fair market values. The impairment relates principally to the carrying values of the manufacturing facility, equipment and tooling. In addition, charges of €255 million were recorded related to fixed cost reimbursement agreements with MCC smart suppliers. The charges were recorded in cost of sales (€494 million) and other expenses (€42 million) for the year 2000.

In 2000, DaimlerChrysler recorded an impairment charge in cost of sales of approximately €500 million for certain leased vehicles in the Services segment. Declining resale prices of used vehicles in the North American and the U.K. markets required the Group to re-evaluate the recoverability of the carrying values 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 from such vehicles were less than their respective carrying values. In accordance with SFAS 121, the resulting pre-tax impairment charges represent the amount by which the carrying values of such vehicles exceeded their respective fair market values.

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

(in millions of €)	Year ended December 31,		
	2001	2000	1999
Wages and salaries	20,073	21,836	21,044
Social levies	3,193	3,428	3,179
Net pension cost (see Note 23a)	630	327	931
Net postretirement benefit cost (see Note 23a)	1,173	830	783
Other expenses for pensions and retirements	26	79	221
	25,095	26,500	26,158

Number of employees (annual average):

	Year ended December 31,		
	2001	2000	1999
Hourly employees	244,938	270,814	279,124
Salaried employees	122,094	165,117	170,539
Trainees/apprentices	12,512	13,663	13,898
	379,544	449,594	463,561

In 2001, 28 people (2000: 28 people; 1999: 14,851 people) were employed in joint venture companies.

In 2001, the total remuneration paid by Group companies to the members of the Board of Management of DaimlerChrysler AG amounted to €22.0 million, and the remuneration paid to the members of the Supervisory Board of DaimlerChrysler AG for services in all capacities to the Group totaled €2.4 million. Disbursements to former members of the Board of Management of DaimlerChrysler AG and their survivors amounted to €14.7 million. An amount of €155.0 million has been accrued for pension obligations to former members of the Board of Management and their survivors. As of December 31, 2001, no advances or loans existed to members of the Board of Management of DaimlerChrysler AG.

DAIMLERCHRYSLER AG

Notes to Consolidated Financial Statements – (Continued)

6. Other Income

Other income includes gains on sales of property, plant and equipment (€104 million, €106 million and €132 million in 2001, 2000 and 1999, respectively) and rental income, other than relating to financial services leasing activities (€191 million, €178 million and €153 million in 2001, 2000 and 1999, respectively). In 2001, gains on sales of companies of €465 million were recognized in other income.

7. Turnaround Plan for the Chrysler Group

The DaimlerChrysler Supervisory Board approved a multi-year turnaround plan for the Chrysler Group in February 2001. Key initiatives for the turnaround plan over the period 2001 through 2003 include a workforce reduction of 26,000 employees and an elimination of excess capacity. The workforce reduction is being achieved through retirements, special programs, attrition and layoffs. The reduction affected represented and non-represented hourly and salary employees. To eliminate excess capacity, the Chrysler Group is idling, closing or disposing of certain manufacturing plants, eliminating shifts and reducing line speeds at certain manufacturing facilities, and adjusting volumes at component, stamping and powertrain facilities.

The net charges recorded for the plan in 2001 were €3,064 million (€1,934 million net of taxes) and are presented as a separate line item on the accompanying consolidated statement 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 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 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 pretax amounts for turnaround plan charges consisted of the following:

(in millions of €)	Workforce reductions	Asset write-downs	Other costs	Total
Reserve balance at January 1, 2001	—	—	—	—
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	(695)	(984)	(63)	(1,742)
Currency translation adjustment	38	—	21	59
Reserve balance at December 31, 2001	<u>506</u>	<u>—</u>	<u>510</u>	<u>1,016</u>

Workforce reduction charges relate to early retirement incentive programs (€725 million) and involuntary severance benefits (€649 million). The voluntary early retirement programs, accepted by 9,261 employees as of December 31, 2001, are formula driven based on salary levels, age and past service. In addition, 7,174 employees were involuntarily affected by the plan. The amount of involuntary severance benefits paid and charged against the liability in 2001 was €131 million.

DAIMLERCHRYSLER AG

Notes to Consolidated Financial Statements – (Continued)

As a result of the planned idling, closing or disposal of manufacturing facilities, the carrying values of the assets held for use at these plants were determined to be impaired as the identifiable, undiscounted future cash flows from the operation of such assets were less than their respective carrying values. In accordance with the provisions of SFAS 121, the Chrysler Group recorded an impairment charge of €984 million. The impairment charge represents the amount by which the carrying values of the property, plant, equipment and tooling exceeded their respective fair market values as determined by third party appraisals or comparative market analyses developed by the Chrysler Group.

Other costs primarily include supplier contract cancellation costs.

Other key initiatives of the plan include additional cost reduction and revenue enhancing measures. Specifically, in an effort to reduce costs, suppliers are being requested to voluntarily reduce the prices charged for materials and services over the period January 1, 2001 through 2002. Under the revenue enhancement measures of the turnaround plan, certain dealer programs were replaced with a new performance-based incentive program under which dealers may earn cash payments based on levels of achievement compared to pre-assigned monthly retail sales objectives.

8. Financial Income, net

(in millions of €)	Year ended December 31,		
	2001	2000	1999
Income (loss) from investments of which from affiliated companies €(2) (2000: €24; 1999: €41)	24	73	19
Gains, net from disposals of investments and shares in affiliated and associated companies	320	1	41
Write-down of investments and shares in affiliated companies . .	(109)	(54)	(19)
Income (loss) from companies included at equity	97	(244)	23
Income (loss) from investments, net	332	(224)	64
Other interest and similar income of which from affiliated companies €31 (2000: €20; 1999: €17)	1,483	1,268	1,382
Interest and similar expenses	(1,760)	(988)	(729)
Interest income, net	(277)	280	653
Income from securities and long-term receivables	291	161	913
Write-down of securities and long-term receivables	(16)	(3)	(17)
Other, net	(176)	(58)	(1,280)
Other financial income (loss), net	99	100	(384)
	154	156	333

In 2001, EADS, an equity method investment of the Group, 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.

DAIMLERCHRYSLER AG

Notes to Consolidated Financial Statements – (Continued)

In 1999, realized and unrealized net losses on derivative financial instruments of €1,078 million were included in other, net.

The Group capitalized interest expenses related to qualifying construction projects of €275 million (2000: €181 million; 1999: €163 million).

9. Income Taxes

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

(in millions of €)	Year ended December 31,		
	2001	2000	1999
Germany	4,498	2,729	2,688
Non-German countries	(5,981)	1,747	6,969
	(1,483)	4,476	9,657

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

(in millions of €)	Year ended December 31,		
	2001	2000	1999
Current taxes			
Germany	793	(45)	1,074
Non-German countries	(512)	1,160	1,538
Deferred taxes			
Germany	637	1,490	836
Non-German countries	(1,695)	(606)	1,085
	(777)	1,999	4,533

For German companies, the deferred taxes at December 31, 2001 are calculated using a federal corporate tax rate of 25% (2000: 25%; 1999: 40%) plus a solidarity surcharge of 5.5% for each year on federal corporate taxes payable plus the after federal tax benefit rate for trade tax of 12.125% (2000: 12.125%; 1999: 9.3%). Including the impact of the surcharge and the trade tax, the tax rate applied to German deferred taxes amounts to 38.5% (2000: 38.5%; 1999: 51.5%).

In 2000, the German government enacted new tax legislation which, among other changes, reduced the Group's statutory corporate tax rate for German companies from 40% on retained earnings and 30% on distributed earnings to a uniform 25%, effective for the Group's year beginning January 1, 2001. The significant other tax law change is the exemption from tax for certain gains and losses from the sale of shares in affiliated and unaffiliated companies. The effects of the reduction in the tax rate and other changes on the deferred tax assets and liabilities of the Group's German companies were recognized in the year of enactment. As a result, a net charge of €263 million is included in the consolidated statement of income (loss) in 2000. The effects of the reduction in the tax rate resulted in deferred tax expense of €373 million. The exemption from tax for certain gains from the sale of shares resulted in deferred tax benefit of €110 million due to the elimination of the net deferred tax liabilities on the net unrealized gains.

In 1999, the tax laws in Germany were changed including a reduction in the retained corporate income tax rate from 45% to 40% and the broadening of the tax base. The effects of the changes in German tax laws were recognized as a net charge of €812 million in the consolidated statement of income (loss) in 1999. The effects of

DAIMLERCHRYSLER AG

Notes to Consolidated Financial Statements – (Continued)

the reduction in the tax rate on the deferred tax assets and liabilities of the Group's German companies as of December 31, 1998 amounted to €290 million. The broadening of the tax base resulted in tax expense of €522 million.

The effect of the tax law changes in Germany in 2000 and 1999 are reflected separately in the reconciliations presented below.

For the years ending December 31, 2000 and 1999, the German corporate tax law applied a split-rate imputation with regard to the taxation of the earnings of a corporation. In accordance with the tax law in effect for those fiscal years, retained corporate income was initially subject to a federal corporate tax of 40% plus a solidarity surcharge of 5.5% for each year on federal corporate taxes payable. Including the impact of the surcharge, the federal corporate tax rate amounted to 42.2%. Upon distribution of certain retained earnings generated in Germany to stockholders, the corporate income tax rate on the earnings was adjusted to 30%, plus a solidarity surcharge of 5.5% for each year on the distribution corporate tax, for a total of 31.65% for each year, by means of a refund for taxes previously paid. Under the new German corporate tax system, during a 15 year transition period beginning on January 1, 2001, the Group will continue to receive a refund on the distribution of retained earnings which existed as of December 31, 2000.

A reconciliation of expected income taxes to actual income tax expense (benefit) determined using the applicable German corporate tax rate of 25% (2000: 40%; 1999: 40%) plus a solidarity surcharge of 5.5% on federal corporate taxes plus the after federal tax benefit rate for trade taxes of 12.125% (2000: 9.3%; 1999: 9.3%) for a combined statutory rate of 38.5% in 2001 (2000: 51.5%; 1999: 51.5%) is as follows:

(in millions of €)	Year ended December 31,		
	2001	2000	1999
Expected expense (benefit) for income taxes	(571)	2,305	4,973
Tax rate differential with non-German countries	96	(346)	(966)
Gains from sales of business interests (Adtranz, TEMIC, debitel) . .	(191)	–	–
Trade tax rate differential	(50)	(28)	(24)
Changes in valuation allowances on German deferred tax assets . .	29	–	23
Tax effect of equity method investments	(25)	113	(12)
Amortization of non-deductible goodwill	5	52	33
Tax free income and non-deductible expenses	(76)	48	36
Effect of changes in German tax laws	–	263	812
Dividend distribution credit at DC AG	–	(491)	(505)
Other	6	83	163
Actual expense (benefit) for income taxes	<u>(777)</u>	<u>1,999</u>	<u>4,533</u>

In 2000 and 1999, income tax credits from dividend distributions reflected the tax benefits from the dividend distributions of €2.35 per Ordinary Share to be paid for those years.

DAIMLERCHRYSLER AG
Notes to Consolidated Financial Statements – (Continued)

Deferred income tax assets and liabilities are summarized as follows:

(in millions of €)	At December 31,	
	2001	2000
Property, plant and equipment	365	463
Investments and long-term financial assets	2,135	1,986
Equipment on operating leases	689	800
Inventories	697	664
Receivables	1,369	1,400
Net operating loss and tax credit carryforwards	3,078	1,669
Retirement plans	3,682	3,442
Other accrued liabilities	6,340	4,756
Liabilities	1,113	1,114
Deferred income	1,162	1,330
Other	423	427
	21,053	18,051
Valuation allowances	(145)	(335)
Deferred tax assets	20,908	17,716
Property, plant and equipment	(4,095)	(3,609)
Equipment on operating leases	(8,286)	(7,569)
Inventories	(385)	(303)
Receivables	(2,542)	(2,341)
Securities	(448)	(33)
Prepaid expenses	(482)	(481)
Retirement plans	(4,794)	(4,409)
Other accrued liabilities	(673)	(1,010)
Taxes on undistributed earnings of non-German subsidiaries	(514)	(486)
Other	(530)	(519)
Deferred tax liabilities	(22,749)	(20,760)
Deferred tax liabilities, net	(1,841)	(3,044)

At December 31, 2001, the Group had corporate and trade tax net operating losses (“NOLs”) amounting to €4,668 million (2000: €4,061 million) and credit carryforwards amounting to €1,552 million (2000: €776 million), determined in accordance with U.S. GAAP. The corporate tax NOLs and credit carryforwards relate to losses of non-German companies and German non-Organschaft companies and are partly limited in their use to the Group. The valuation allowances on deferred tax assets of German and non-German operations decreased by €190 million. The reduction in the valuation allowance is mainly due to the sale of Adtranz. 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.

DAIMLERCHRYSLER AG

Notes to Consolidated Financial Statements – (Continued)

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

(in millions of €)	At December 31, 2001		At December 31, 2000	
	Total	thereof non-current	Total	thereof non-current
Deferred tax assets	3,010	425	2,436	1,576
Deferred tax liabilities	(4,851)	(4,761)	(5,480)	(4,938)
Deferred tax liabilities, net	<u>(1,841)</u>	<u>(4,336)</u>	<u>(3,044)</u>	<u>(3,362)</u>

DaimlerChrysler recorded deferred tax liabilities for non-German withholding taxes of €371 million (2000: €351 million) on €7,421 million (2000: €7,028 million) in cumulative undistributed earnings of non-German subsidiaries and additional German tax of €143 million (2000: €135 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 €13,899 million (2000: €15,543 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 stockholders' equity and the expense (benefit) for income taxes of extraordinary items and from changes in accounting principles, the expense (benefit) for income taxes consists of the following:

(in millions of €)	Year ended December 31,		
	2001	2000	1999
Expense (benefit) for income taxes before extraordinary items . .	(777)	1,999	4,533
Income tax expense of extraordinary items	—	324	470
Income tax benefit from changes in accounting principles	—	(53)	—
Stockholders' equity for employee stock option expense in excess of amounts recognized for financial purposes	—	—	(31)
Stockholders' equity for items in other comprehensive income . .	(507)	(338)	(155)
	<u>(1,284)</u>	<u>1,932</u>	<u>4,817</u>

10. Cumulative Effects of Changes in Accounting Principles

Beneficial Interests in Securitized Financial Assets: Adoption of EITF 99-20 – As of July 1, 2000, DaimlerChrysler adopted EITF 99-20 which specifies, among other things, how a transferor that retains an interest in a securitization transaction, or an enterprise that purchases a beneficial interest, should account for interest income and impairment. The cumulative effect of adopting EITF 99-20 was a charge of €99 million (net of income tax benefits of €58 million).

Derivative Financial Instruments and Hedging Activities: Adoption of SFAS 133 and SFAS 138 – DaimlerChrysler elected to adopt SFAS 133 on January 1, 2000. Upon adoption of this Statement, DaimlerChrysler recorded a net transition adjustment gain of €12 million (net of income tax expense of €5 million) in the statement of income (loss) and a net transition adjustment loss of €349 million (net of income tax benefit of €367 million) in accumulated other comprehensive income. Adoption of SFAS 138 did not have an impact on the Group's consolidated statement of income (loss).

DAIMLERCHRYSLER AG
Notes to Consolidated Financial Statements – (Continued)

11. Extraordinary Items

In October 2000, Adtranz sold its fixed installations business which primarily focuses on rail electrification and traction power to Balfour Beatty for €153 million resulting in an extraordinary after-tax gain of €89 million (net of income tax expense of €52 million).

In October 2000, DaimlerChrysler and Deutsche Telekom combined their information technology activities in a joint venture. In accordance with an agreement announced on March 27, 2000, Deutsche Telekom received a 50.1% interest in T-Systems ITS through an investment of approximately €4.6 billion for new shares of T-Systems ITS. In 2000, the transaction resulted in an extraordinary after-tax gain of €2,345 million. The agreements also confer on Deutsche Telekom the option to acquire from the Group, and on DaimlerChrysler the option to sell to Deutsche Telekom, the Group's 49.9% interest in T-Systems ITS. DaimlerChrysler accounts for its interest in T-Systems using the equity method. The DaimlerChrysler option was exercised in January 2002 (see Note 34).

In July 2000, the Group exchanged its controlling interest in DaimlerChrysler Aerospace for shares of EADS, which subsequently completed its initial public offering. EADS is a global aerospace and defense company which was established through a merger of Aerospatiale Matra S.A., DaimlerChrysler Aerospace AG and Construcciones Aeronauticas S.A. ("CASA"). DaimlerChrysler accounted for the shares of EADS received in the exchange at their fair value on that date and recorded an extraordinary gain of €3,009 million. The Group accounts for its 33% interest in EADS using the equity method of accounting. DaimlerChrysler has the right to sell all of its ownership interest in EADS to certain French shareholders. This put option may be exercised immediately in the event of a voting deadlock on certain matters or at certain times after three years. The price is based on the average closing mid-market price of EADS shares during the 30 trading days prior to the exercise of the put option.

In 2000, Ballard Power Systems Inc., a developer of fuel cells and related power generation systems, issued additional common shares to its shareholders. DaimlerChrysler elected not to purchase additional shares thereby reducing its ownership interest. The dilution of its ownership interest resulted in an extraordinary gain of €73 million.

In March 1999, DaimlerChrysler Services AG sold a portion of its interests in debitel AG in an initial public offering of its ordinary shares for proceeds of €274 million. In September 1999, DaimlerChrysler Services AG sold an additional portion of its remaining interests in debitel AG to Swisscom for proceeds of €924 million. The sales resulted in an extraordinary after-tax gain of €659 million (net of income tax expense of €481 million) and reduced DaimlerChrysler Services AG's interest in debitel to 10%. See Note 4 for the sale of the remaining 10% interest in 2001.

The gains from each of the foregoing transactions are reported as extraordinary items in the consolidated statements of income (loss) for the years 1999 and 2000 because U.S. GAAP requires such presentation when a significant disposition of assets or businesses occurs within two years subsequent to accounting for a business combination using the pooling-of-interests method.

In 1999 the Group extinguished €51 million of long-term debt resulting in an extraordinary after tax loss of €19 million (net of income tax benefit of €11 million).

NOTES TO CONSOLIDATED BALANCE SHEETS

12. Intangible Assets and Property, Plant and Equipment, net

Information with respect to changes in the Group's intangible assets and property, plant and equipment is presented in the Consolidated Fixed Assets Schedule included herein. Intangible assets represent principally goodwill and intangible pension assets.

DAIMLERCHRYSLER AG

Notes to Consolidated Financial Statements – (Continued)

Property, plant and equipment includes buildings, technical equipment and other equipment capitalized under capital lease agreements of €148 million (2000: €140 million). Depreciation expense and impairment charges on assets under capital lease arrangements were €13 million (2000: €188 million; 1999: €32 million).

13. 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, €35,015 million represent automobiles and commercial vehicles (2000: €32,639 million).

Noncancellable future lease payments due from customers for equipment on operating leases at December 31, 2001 are as follows (in millions of €):

2002	8,560
2003	4,425
2004	2,528
2005	812
2006	244
thereafter	352
	<u>16,921</u>

14. Inventories

(in millions of €)	At December 31,	
	2001	2000
Raw materials and manufacturing supplies	2,251	2,495
Work-in-process	3,038	5,232
thereof relating to long-term contracts and programs in process		
€ – (2000: €1,967)		
Finished goods, parts and products held for resale	11,904	10,726
Advance payments to suppliers	97	309
	<u>17,290</u>	<u>18,762</u>
Less: Advance payments received	(536)	(2,479)
thereof relating to long-term contracts and programs in process		
€110 (2000: €608)		
	<u>16,754</u>	<u>16,283</u>

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 €1,102 million (2000: €1,058 million).

DAIMLERCHRYSLER AG

Notes to Consolidated Financial Statements – (Continued)

15. Trade Receivables

(in millions of €)	At December 31,	
	2001	2000
Receivables from sales of goods and services	7,052	8,506
Long-term contracts and programs, un-billed, net of advance payments received	24	200
	7,076	8,706
Allowance for doubtful accounts	(646)	(711)
	6,430	7,995

As of December 31, 2001, €136 million of the trade receivables mature after more than one year (2000: €261 million).

16. Receivables from Financial Services

(in millions of €)	At December 31,	
	2001	2000
Receivables from:		
Sales financing	38,882	37,193
Finance leases	17,400	19,031
	56,282	56,224
Initial direct costs	248	177
Unearned income	(6,833)	(8,021)
Unguaranteed residual value of leased assets	1,417	1,183
	51,114	49,563
Allowance for doubtful accounts	(1,602)	(890)
	49,512	48,673

As of December 31, 2001, €35,551 million of the financing receivables mature after more than one year (2000: €28,138 million).

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 in each of the years following December 31, 2001 are as follows (in millions of €):

2002	16,820
2003	10,484
2004	9,005
2005	6,932
2006	4,310
thereafter	8,731
	56,282

DAIMLERCHRYSLER AG

Notes to Consolidated Financial Statements – (Continued)

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

17. Other Receivables

(in millions of €)	At December 31,	
	2001	2000
Receivables from affiliated companies	1,250	1,341
Receivables from related companies*	1,041	1,379
Retained interests in sold receivables and subordinated asset backed certificates	5,482	4,816
Other receivables and other assets	9,141	7,817
	16,914	15,353
Allowance for doubtful accounts	(726)	(957)
	16,188	14,396

* 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, 2001, €2,584 million of the other receivables mature after more than one year (2000: €2,101 million).

18. 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. Securities included in non-fixed assets are comprised of the following:

(in millions of €)	At December 31,	
	2001	2000
Debt securities	1,632	2,791
Equity securities	120	601
Equity-based funds	91	397
Debt-based funds	1,234	1,589
	3,077	5,378

DAIMLERCHRYSLER AG

Notes to Consolidated Financial Statements – (Continued)

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, 2001				At December 31, 2000			
	Cost	Fair value	Unrealized		Cost	Fair value	Unrealized	
			Gain	Loss			Gain	Loss
Available-for-sale	2,645	2,613	34	66	4,859	4,918	246	187
Trading	460	464	6	2	451	460	9	–
Securities	3,105	3,077	40	68	5,310	5,378	255	187
Investments and long-term financial assets available- for-sale	731	987	316	60	843	1,304	737	276
	3,836	4,064	356	128	6,153	6,682	992	463

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

(in millions of €)	At December 31, 2001				At December 31, 2000			
	Cost	Fair value	Unrealized		Cost	Fair value	Unrealized	
			Gain	Loss			Gain	Loss
Equity securities	819	1,083	333	69	1,333	1,880	855	308
Debt securities issued by the German government and its agencies	112	112	–	–	122	123	1	–
Municipal securities	27	27	–	–	24	25	1	–
Debt securities issued by non-German governments	131	134	3	–	652	656	5	1
Corporate debt securities	301	305	7	3	536	537	6	5
Equity-based funds	96	91	–	5	323	397	80	6
Debt-based funds	1,239	1,234	–	5	1,692	1,590	14	116
Asset-backed securities	241	247	7	1	178	180	3	1
Other marketable debt securities	410	367	–	43	842	834	18	26
Available-for-sale	3,376	3,600	350	126	5,702	6,222	983	463
Trading	460	464	6	2	451	460	9	–
	3,836	4,064	356	128	6,153	6,682	992	463

DAIMLERCHRYSLER AG
Notes to Consolidated Financial Statements – (Continued)

The estimated fair values of investments in debt securities, 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.

<u>(in millions of €)</u> <u>Available-for-sale</u>	<u>At December 31,</u>	
	<u>2001</u>	<u>2000</u>
Due within one year	1,412	2,704
Due after one year through five years	390	735
Due after five years through ten years	422	430
Due after ten years	202	76
	<u>2,426</u>	<u>3,945</u>

Proceeds from disposals of available-for-sale securities were €2,432 million (2000: €9,422 million; 1999: €2,481 million). Gross realized gains from sales of available-for-sale securities were €419 million (2000: €275 million; 1999: €627 million), while gross realized losses were €144 million (2000: €140 million; 1999: €4 million). DaimlerChrysler uses the specific identification method as a basis for determining cost and calculating realized gains and losses.

Other securities classified as cash equivalents were approximately €7.3 billion and €4.3 billion at December 31, 2001 and 2000, respectively, and consisted primarily of purchase agreements, commercial paper and certificates of deposit.

19. Liquid Assets

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

<u>(in millions of €)</u>	<u>At December 31,</u>		
	<u>2001</u>	<u>2000</u>	<u>1999</u>
Cash and cash equivalents *			
originally maturing within 3 months	11,397	7,082	8,761
originally maturing after 3 months	31	45	338
Total cash and cash equivalents	<u>11,428</u>	<u>7,127</u>	<u>9,099</u>
Securities	3,077	5,378	8,969
Other	20	5	133
	<u>14,525</u>	<u>12,510</u>	<u>18,201</u>

* Cash and cash equivalents are mainly comprised of cash at banks, cash on hand and checks in transit.

The following represents supplemental information with respect to cash flows:

<u>(in millions of €)</u>	<u>Year ended December 31,</u>		
	<u>2001</u>	<u>2000</u>	<u>1999</u>
Interest paid	4,616	5,629	3,315
Income taxes paid (refunded)	(624)	775	1,883

DAIMLERCHRYSLER AG
Notes to Consolidated Financial Statements – (Continued)

20. Prepaid Expenses

Prepaid expenses are comprised of the following:

(in millions of €)	At December 31,	
	2001	2000
Prepaid pension cost	7,584	6,799
Other prepaid expenses	1,022	1,108
	8,606	7,907

As of December 31, 2001, €7,632 million of the total prepaid expenses mature after more than one year (2000: €6,819 million).

21. Stockholders' Equity

Number of Shares Issued and Outstanding

DaimlerChrysler had issued and outstanding 1,003,271,998 registered Ordinary Shares of no par value at December 31, 2001 (2000: 1,003,271,911). Each share represents a nominal value of €2.60 of capital stock.

Treasury Stock

In 2001, DaimlerChrysler purchased approximately 1.4 million (2000: 1.4 million; 1999: 1.2 million) Ordinary Shares in connection with an employee share purchase plan, of which 1.2 million (2000: 1.4 million; 1999: 1.2 million) were re-issued to employees and the remaining 0.2 million in 2001 were resold in the market.

Authorized and Conditional Capital

Through April 30, 2003, the Board of Management is authorized, upon approval of the Supervisory Board, to increase capital stock by a total of up to an aggregate nominal amount of €256 million and to issue Ordinary Shares of up to an aggregate nominal amount of €26 million to employees.

In April 2000, the Group's shareholders agreed to increase the nominal amount of capital stock per share from approximately €2.56 (originating from the conversion of Deutsche Marks into euros) to €2.60. This resulted in an increase of capital stock and an equivalent decrease of additional paid-in capital of €44 million. The conditional and authorized capital as described in the Articles of Association were adjusted accordingly. DaimlerChrysler is authorized to issue convertible bonds and notes with warrants in a nominal volume of up to €15 billion with a term of up to 20 years 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.

DaimlerChrysler is authorized through October 11, 2002, to acquire treasury stock for certain defined purposes up to a maximum nominal amount of €260 million of capital stock, representing approximately 10% of issued and outstanding capital stock.

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 represent at the date of issue a nominal

DAIMLERCHRYSLER AG

Notes to Consolidated Financial Statements – (Continued)

amount of €508 million including 7,600,000 notes which may be converted into 0.86631 newly issuable shares of DaimlerChrysler AG before June 4, 2002. Notes not converted by this date will be mandatorily converted at a conversion rate between 0.86631 and 1.25625 Ordinary Shares of DaimlerChrysler AG per note to be determined on the basis of the average market price for the shares during the last 20 trading days before June 8, 2002. During 2001, 87 (2000: 92; 1999: 665) DaimlerChrysler Ordinary Shares were issued upon exercise.

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 a nominal value of €511 each) entitling 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 is €42.67 in consideration of exchange of the notes or €44.49 in cash. During 2001, no options for the subscription of newly issued DaimlerChrysler Ordinary Shares (2000: 10,416; 1999: 1,517,468) were exercised.

Comprehensive Income

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

(in millions of €)	Year ended December 31,								
	2001			2000			1999		
	Pretax	Tax effect	Net	Pretax	Tax effect	Net	Pretax	Tax effect	Net
Unrealized gains (losses) on securities:									
Unrealized holding gains (losses)	(129)	149	20	(250)	46	(204)	292	(163)	129
Reclassification adjustments for (gains) losses included in net income (loss)	(46)	(111)	(157)	61	(6)	55	(623)	313	(310)
Net unrealized gains (losses) . .	(175)	38	(137)	(189)	40	(149)	(331)	150	(181)
Net gains (losses) on derivatives hedging variability of cash flows:									
Unrealized derivative gains (losses)	(708)	257	(451)	(1,932)	978	(954)	–	–	–
Reclassification adjustments for (gains) losses included in net income (loss)	829	(307)	522	1,113	(567)	546	–	–	–
Net derivative gains (losses) . .	121	(50)	71	(819)	411	(408)	–	–	–
Foreign currency translation adjustments	598	(33)	565	1,474	(111)	1,363	2,431	–	2,431
Minimum pension liability adjustments	(1,436)	552	(884)	8	(2)	6	(13)	5	(8)
Other comprehensive income (loss) .	(892)	507	(385)	474	338	812	2,087	155	2,242

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

Notes to Consolidated Financial Statements – (Continued)

DaimlerChrysler AG or its subsidiary DaimlerChrysler Luft- und Raumfahrt Holding Aktiengesellschaft. Some of the Dornier minority stockholders partially exercised this right in 2001 and exchanged some of their shareholdings in Dornier for cash and/or holdings in DaimlerChrysler Luft- und Raumfahrt Holding Aktiengesellschaft. To the extent that they have made use of their right to exchange their shareholdings for holdings of DaimlerChrysler Luft- und Raumfahrt Holding Aktiengesellschaft, they have the right to exchange this new shareholding for cash or for DaimlerChrysler Ordinary Shares. This right has already been partially exercised.

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, 2001, DaimlerChrysler management has proposed a distribution of €1,003 million (€1 per share) of the 2001 earnings of DaimlerChrysler AG as a dividend to the stockholders.

22. Stock-Based Compensation

The Group currently has various stock appreciation rights (“SARs”) plans, two stock option plans and a performance-based stock award plan.

Stock Appreciation-Based 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.

As discussed below, 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. 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

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, 2001, 2000 and 1999 is presented below (SARs in millions):

	2001		2000		1999	
	Number of SARs	Weighted-average exercise price	Number of SARs	Weighted-average exercise price	Number of SARs	Weighted-average exercise price
Outstanding at beginning of year	44.5	€82.87	45.8	€80.25	22.2	€64.58
Granted	—	—	—	—	11.4	89.70
Exchange of stock options for SARs	—	—	—	—	15.2	79.79
Exercised	—	—	—	—	(2.2)	64.91
Forfeited	(2.0)	85.93	(1.3)	78.52	(0.8)	76.07
Outstanding at year-end	<u>42.5</u>	<u>84.75</u>	<u>44.5</u>	<u>82.87</u>	<u>45.8</u>	<u>80.25</u>
SARs exercisable at year-end	<u>42.5</u>	<u>€84.75</u>	<u>33.6</u>	<u>€80.63</u>	<u>26.8</u>	<u>€72.77</u>

The Group grants performance-based stock awards to certain eligible employees with performance periods of three years and track the value of DaimlerChrysler Ordinary Shares. The amount ultimately earned in cash compensation at the end of a performance period is based on the degree of achievement of corporate goals. The Group issued 0.9 million performance-based stock awards in 2001 (2000: 0.7 million; 1999: 0.7 million).

Compensation expense or benefit (representing the reversal of previously recognized expense) on SARs and performance-based stock awards is recorded based on changes in the market price of DaimlerChrysler Ordinary Shares and, in the case of performance-based stock awards, the attainment of certain performance goals. For the year ended December 31, 2001, the Group recognized compensation expense of €17 million and for the years ended December 31, 2000 and 1999, the Group recognized compensation benefits of €44 million and €106 million, respectively, for SARs and performance-based stock awards.

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%. 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 (a Revision) to the Federal Supreme Court (Bundesgerichtshof) in July 2001. Since the approval of the Stock Option Plan 2000, the Group issued 33.9 million options during the years 2001 and 2000 at reference prices of €55.80 and €62.30, respectively.

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

DAIMLERCHRYSLER AG

Notes to Consolidated Financial Statements – (Continued)

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. The specific terms of these plans are as follows:

<u>Bonds granted in</u>	<u>Due</u>	<u>Stated interest rate</u>	<u>Conversion price</u>
1996	July 2006	5.9%	€42.62
1997	July 2007	5.3%	€65.90
1998	July 2008	4.4%	€92.30

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 to eligible employees is as follows (options in millions):

	<u>2001</u>		<u>2000</u>		<u>1999</u>	
	<u>Number of stock options</u>	<u>Average conversion price per share</u>	<u>Number of stock options</u>	<u>Average conversion price per share</u>	<u>Number of stock options</u>	<u>Average conversion price per share</u>
Balance at beginning of year	15.3	€74.65	0.1	€42.62	15.5	€79.63
Options granted	18.7	66.96	15.2	74.76	—	—
Bonds sold	—	—	—	—	—	—
Converted	—	—	—	—	—	—
Forfeited	(0.4)	70.08	—	—	—	—
Repayment	—	—	—	—	(0.2)	79.10
Exchanged for SARs	—	—	—	—	(15.2)	79.79
Outstanding at year-end	<u>33.6</u>	<u>70.43</u>	<u>15.3</u>	<u>74.65</u>	<u>0.1</u>	<u>42.62</u>
Exercisable at year-end	<u>0.1</u>	<u>€42.62</u>	<u>0.1</u>	<u>€42.62</u>	<u>0.1</u>	<u>€42.62</u>

Compensation expense of €19 million was recognized in 2001 in connection with the stock option plans (2000: expense of €13 million). No compensation expense was recognized in 1999.

Miscellaneous

DaimlerChrysler applies APB Opinion 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its stock-based compensation plans. If compensation expense had been based upon the fair value at the grant date, consistent with the methodology prescribed under SFAS 123, "Accounting for Stock Based Compensation," the Group's net loss and basic and diluted loss per share in 2001 would have increased by approximately €72 million (basic loss per share: €0.07; diluted earnings loss per share: €0.07). In 2000, the Group's net income and basic and diluted earnings per share would have been reduced by approximately €12 million (basic earnings per share: €0.01; diluted earnings per share: €0.01). No additional compensation expense would have been recorded for the year ended December 31, 1999 under SFAS 123.

DAIMLERCHRYSLER AG

Notes to Consolidated Financial Statements – (Continued)

The fair value of the DaimlerChrysler stock options issued in 2001 and 2000 was calculated at the grant date based on a trinomial tree option pricing model which considers the terms of the issuance. The underlying assumptions and the resulting fair value per option are as follows (at grant dates):

	2001	2000
Expected dividend yield	4.6%	3.8%
Expected volatility	33.0%	25.0%
Risk-free interest rate	4.2%	4.8%
Expected lives (in years)	3	3
Fair value per option	€12.15	€9.50

23. Accrued Liabilities

Accrued liabilities are comprised of the following:

	At December 31,			
	2001		2000	
	Total	Due after one year	Total	Due after one year
(in millions of €)				
Pension plans and similar obligations (see Note 23a)	12,647	11,650	11,151	10,200
Income and other taxes	2,393	651	2,192	474
Other accrued liabilities (see Note 23b)	26,530	10,104	23,098	7,901
	<u>41,570</u>	<u>22,405</u>	<u>36,441</u>	<u>18,575</u>

a) Pension Plans and Similar Obligations

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

	At December 31,	
	2001	2000
(in millions of €)		
Pension liabilities (pension plans)	2,612	1,838
Accrued postretirement health and life insurance benefits	9,442	8,636
Other benefit liabilities	593	677
	<u>12,647</u>	<u>11,151</u>

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 from settlements and curtailments of these turnaround plans on the pension and postretirement obligations 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).

At December 31, 2001, plan assets were invested in diversified portfolios that consisted primarily of debt and equity securities, including 2.0 million shares of DaimlerChrysler Ordinary Shares with a market value of €93 million in a U.S. plan. Assets and income accruing on all pension trust and relief funds are used solely to pay pension benefits and administer the plans.

DAIMLERCHRYSLER AG
Notes to Consolidated Financial Statements – (Continued)

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.):

(in millions of €)	At December 31, 2001		At December 31, 2000	
	German Plans	Non-German Plans	German Plans	Non-German Plans
Change in projected benefit obligations:				
Projected benefit obligations at beginning of year	<u>9,579</u>	<u>21,878</u>	13,123	19,578
Foreign currency exchange rate changes	—	1,026	—	1,403
Service cost	198	404	242	433
Interest cost	612	1,696	696	1,570
Plan amendments	1	109	2	148
Actuarial (gains) losses	613	563	(732)	(257)
Dispositions	(179)	(765)	(3,365)	(31)
Acquisitions and other	140	25	144	411
Settlement/curtailment loss	2	964	—	—
Benefits paid	<u>(483)</u>	<u>(1,761)</u>	<u>(531)</u>	<u>(1,377)</u>
Projected benefit obligations at end of year	<u>10,483</u>	<u>24,139</u>	<u>9,579</u>	<u>21,878</u>
Change in plan assets				
Fair value of plan assets at beginning of year	<u>7,908</u>	<u>25,962</u>	7,034	25,823
Foreign currency exchange rate changes	—	1,199	—	1,897
Actual return on plan assets	(720)	(1,309)	458	(755)
Employer contributions	713	843	1,419	30
Plan participant contributions	—	25	—	29
Dispositions	—	(865)	(579)	—
Acquisitions and other	—	17	(15)	303
Benefits paid	<u>(398)</u>	<u>(1,747)</u>	<u>(409)</u>	<u>(1,365)</u>
Fair value of plan assets at end of year	<u>7,503</u>	<u>24,125</u>	<u>7,908</u>	<u>25,962</u>

DAIMLERCHRYSLER AG
Notes to Consolidated Financial Statements – (Continued)

A reconciliation of the funded status to the amounts recognized in the consolidated balance sheets is as follows:

(in millions of €)	At December 31, 2001		At December 31, 2000	
	German Plans	Non-German Plans	German Plans	Non-German Plans
Funded status*	2,980	14	1,671	(4,084)
Unrecognized actuarial net gains (losses)	(2,168)	(4,112)	(123)	1,102
Unrecognized prior service cost	(5)	(3,261)	(8)	(3,496)
Unrecognized net obligation at date of initial application	<u>—</u>	<u>(24)</u>	<u>—</u>	<u>(153)</u>
Net liability (asset) recognized	<u>807</u>	<u>(7,383)</u>	<u>1,540</u>	<u>(6,631)</u>
Amounts recognized in the consolidated balance sheets consist of:				
Prepaid pension cost	—	(7,584)	—	(6,799)
Accrued pension liability	2,164	448	1,540	298
Intangible assets	—	(137)	—	(95)
Accumulated other comprehensive income	<u>(1,357)</u>	<u>(110)</u>	<u>—</u>	<u>(35)</u>
Net liability (asset) recognized	<u>807</u>	<u>(7,383)</u>	<u>1,540</u>	<u>(6,631)</u>

* Difference between the projected benefit obligations and the fair value of plan assets.

The measurement dates for the Group's pension plans in Germany are September 30 and in the U.S. are November 30 or December 31. 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 weighted-average assumptions used in calculating the actuarial values for the principal pension plans were as follows (in %):

	German Plans			Non-German Plans		
	2001	2000	1999	2001	2000	1999
Weighted-average assumptions:						
Discount rate	6.0	6.5	6.0	7.4	7.7	7.5
Expected return on plan assets	7.9	7.9	7.7	10.1	10.2	9.8
Rate of compensation increase	3.0	3.0	2.8	5.4	5.5	5.9

DAIMLERCHRYSLER AG
Notes to Consolidated Financial Statements – (Continued)

The components of net pension cost were as follows for the years ended December 31, 2001, 2000 and 1999:

(in millions of €)	2001		2000		1999	
	German Plans	Non-German Plans	German Plans	Non-German Plans	German Plans	Non-German Plans
Service cost	198	404	242	433	267	430
Interest cost	612	1,696	696	1,570	756	1,185
Expected return on plan assets	(649)	(2,750)	(625)	(2,487)	(223)	(1,872)
Amortization of:						
Unrecognized net actuarial (gains) losses	—	(11)	3	(18)	1	41
Unrecognized prior service cost . . .	—	356	1	371	—	214
Unrecognized net obligation	—	148	—	146	—	129
Other	—	—	1	(6)	1	2
Net periodic pension cost (benefit)	161	(157)	318	9	802	129
Settlement/curtailment loss	1	625	—	—	—	—
Net pension cost	162	468	318	9	802	129

The accumulated benefit obligations and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were €10,224 million and €7,934 million, respectively, as of December 31, 2001 and €1,697 million and €343 million, respectively, as of December 31, 2000.

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 periodically.

At December 31, 2001, plan assets were invested in diversified portfolios that consisted primarily of debt and equity securities.

DAIMLERCHRYSLER AG
Notes to Consolidated Financial Statements – (Continued)

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

(in millions of €)	At December 31,	
	2001	2000
Change in accumulated postretirement benefit obligations:		
Accumulated postretirement benefit obligations at beginning of year	12,857	10,527
Foreign currency exchange rate changes	652	829
Service cost	257	208
Interest cost	1,033	873
Plan amendments	(18)	444
Actuarial losses	941	523
Settlement/curtailment loss	186	–
Acquisitions and other	(13)	107
Benefits paid	(800)	(654)
Accumulated postretirement benefit obligations at end of year	15,095	12,857
Change in plan assets:		
Fair value of plan assets at beginning of year	2,995	2,816
Foreign currency exchange rate changes	167	224
Actual losses on plan assets	(181)	(55)
Employer contributions	9	16
Benefits paid	(8)	(6)
Fair value of plan assets at end of year	2,982	2,995

A reconciliation of the funded status 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,	
	2001	2000
Funded status*	12,113	9,862
Unrecognized actuarial net losses	(1,828)	(270)
Unrecognized prior service cost	(843)	(956)
Net liability recognized	9,442	8,636

* Difference between the accumulated postretirement obligations and the fair value of plan assets.

DAIMLERCHRYSLER AG

Notes to Consolidated Financial Statements – (Continued)

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 weighted-average assumptions used in calculating the actuarial values for the postretirement benefit plans were as follows (in %):

	2001	2000	1999
Weighted-average assumptions at December 31:			
Discount rate	7.4	7.7	7.7
Expected return on plan assets	10.5	10.4	10.0
Health care inflation rate in following (or “base”) year	6.9	7.5	5.8
Ultimate health care inflation rate (2005)	5.0	5.0	5.0

The components of net postretirement benefit cost were as follows for the years ended December 31, 2001, 2000 and 1999:

	2001	2000	1999
(in millions of €)			
Service cost	257	208	209
Interest cost	1,033	873	702
Expected return on plan assets	(346)	(308)	(169)
Amortization of:			
Unrecognized net actuarial (gains) losses	(7)	5	10
Unrecognized prior service cost	82	54	31
Other	—	(2)	—
Net periodic postretirement benefit cost	1,019	830	783
Settlement/curtailment loss	154	—	—
Net postretirement benefit cost	1,173	830	783

The following schedule presents the effects of a one-percentage-point change in assumed health care cost trend rates:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
(in millions of €)		
Effect on total of service and interest cost components	170	(140)
Effect on accumulated postretirement benefit obligations	1,681	(1,421)

Prepaid Employee Benefits

In 1996 DaimlerChrysler established a Voluntary Employees’ Beneficiary Association (“VEBA”) trust for payment of non-pension employee benefits. At December 31, 2001 and 2000, the VEBA had a balance of €3,648 million and €3,586 million, respectively, of which €2,848 million and €2,864 million, respectively, were designated and restricted for the payment of postretirement health care benefits. Contributions to the VEBA trust during the year ended December 31, 1999 were €727 million. No contributions to the VEBA trust were made in 2001 and 2000.

DAIMLERCHRYSLER AG
Notes to Consolidated Financial Statements – (Continued)

b) Other Accrued Liabilities

Other accrued liabilities consisted of the following:

(in millions of €)	At December 31,	
	2001	2000
Accrued warranty costs and price risks	9,213	7,715
Accrued losses on uncompleted contracts	549	804
Restructuring	1,190	260
Accrued personnel and social costs	2,386	2,503
Accrued sales incentives	3,771	3,588
Other	9,421	8,228
	26,530	23,098

Accruals for restructuring 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:

(in millions of €)	Termination benefits	Exit costs	Total liabilities
Balance at January 1, 1999	560	75	635
Utilizations and transfers	(321)	21	(300)
Reductions	(15)	(9)	(24)
Additions	183	101	284
Balance at December 31, 1999	407	188	595
Utilizations and transfers	(229)	(56)	(285)
Reductions	(43)	(34)	(77)
Additions	16	11	27
Balance at December 31, 2000	151	109	260
Utilizations and transfers	(947)	(275)	(1,222)
Reductions	(135)	(144)	(279)
Additions	1,504	927	2,431
Balance at December 31, 2001	573	617	1,190

In connection with the Group's restructuring, provisions were recorded for termination benefits of €1,504 million (2000: €16 million; 1999: €183 million), in 2001 principally within Chrysler Group (see Note 7) and Freightliner (see Note 5), in 2000 principally within Mercedes-Benz Passenger Cars & smart and Commercial Vehicles and in 1999 principally within industrial businesses and DaimlerChrysler Aerospace. In connection with these restructuring efforts, the Group effected workforce reductions of approximately 17,700 employees (2000: 2,600; 1999: 2,400) and paid termination benefits of €269 million (2000: €135 million; 1999: €239 million), of which €227 million (2000: €120 million; 1999: €168 million) were charged against previously established liabilities. At December 31, 2001 the Group had liabilities for estimated future terminations for approximately 6,800 employees.

Exit costs in 2001 primarily result from the restructuring within Chrysler Group and Freightliner. In 2000 and 1999 exit costs primarily result from the restructuring of industrial businesses.

DAIMLERCHRYSLER AG
Notes to Consolidated Financial Statements – (Continued)

24. Financial Liabilities

(in millions of €)	At December 31,	
	2001	2000
Notes/Bonds	17,726	8,094
Commercial paper	7,480	19,917
Liabilities to financial institutions	7,183	6,294
Liabilities to affiliated companies	361	345
Loans, other financial liabilities	86	205
Liabilities from capital lease and residual value guarantees	1,106	985
Short-term financial liabilities (due within one year)	33,942	35,840
	Maturities	
Notes/Bonds	2003-2097 47,632	40,773
of which due in more than five years: €10,712 (2000: €7,673)		
Liabilities to financial institutions	2003-2019 8,194	6,800
of which due in more than five years: €2,702 (2000: €2,088)		
Liabilities to affiliated companies	71	149
of which due in more than five years: €– (2000: €–)		
Loans, other financial liabilities	82	118
of which due in more than five years: €66 (2000: €51)		
Liabilities from capital lease and residual value guarantees	987	1,103
of which due in more than five years: €209 (2000: €226)		
Long-term financial liabilities	56,966	48,943
	90,908	84,783

Weighted average interest rates for notes/bonds, commercial paper and liabilities to financial institutions are 6.3%, 3.3% and 5.4%, respectively, at December 31, 2001.

Commercial paper is denominated in euros and U.S. dollars and includes accrued interest. Bonds and liabilities to financial institutions are largely secured by mortgage conveyance, liens and assignment of receivables of approximately €1,804 million (2000: €1,858 million).

Aggregate nominal amounts of financial liabilities maturing during the next five years and thereafter are as follows (in millions of €):

	2002	2003	2004	2005	2006	there- after
Financial liabilities	33,900	15,953	9,372	8,849	8,421	13,615

At December 31, 2001, the Group had unused short-term credit lines of €5,796 million (2000: €15,216 million) and unused long-term credit lines of €20,322 million (2000: €12,819 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, a 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

DAIMLERCHRYSLER AG

Notes to Consolidated Financial Statements – (Continued)

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 2003. A part of the \$18 billion facility serves as a back-up for commercial paper drawings.

25. Trade Liabilities

(in millions of €)	At December 31, 2001			At December 31, 2000		
	Total	Due after one year	Due after five years	Total	Due after one year	Due after five years
Trade liabilities	14,157	12	1	15,257	33	1

26. Other Liabilities

(in millions of €)	At December 31, 2001			At December 31, 2000		
	Total	Due after one year	Due after five years	Total	Due after one year	Due after five years
Liabilities to affiliated companies	416	—	—	536	1	1
Liabilities to related companies	293	—	—	794	—	—
Other liabilities	9,553	828	232	8,291	1,283	161
	<u>10,262</u>	<u>828</u>	<u>232</u>	<u>9,621</u>	<u>1,284</u>	<u>162</u>

As of December 31, 2001, other liabilities include tax liabilities of €620 million (2000: €683 million) and social benefits due of €877 million (2000: €713 million).

27. Deferred Income

As of December 31, 2001, €1,911 million of the total deferred income is to be recognized after more than one year (2000: €1,057 million).

OTHER NOTES

28. Litigation and Claims

A number of shareholder lawsuits, including a class action lawsuit, are pending in the United States against DaimlerChrysler and certain members of its Supervisory Board and Board of Management. The lawsuits allege that the defendants violated U.S. securities law and committed fraud in obtaining approval from Chrysler stockholders for the business combination between Chrysler and Daimler-Benz AG in 1998. The class action lawsuit also alleges that DaimlerChrysler made false and misleading statements in 1999 and 2000 regarding its prospects for the year 2000. The complaints seek relief ranging from substantial monetary damages to rescinding the business combination. DaimlerChrysler believes that these claims are without merit and is defending itself against them vigorously. Motions to dismiss all lawsuits are pending before the court.

Various other claims and legal proceedings have been asserted or instituted against the Group, including product liability and other lawsuits, some of which purport to be class actions. In the event of adverse decisions in these proceedings, DaimlerChrysler could be required to pay substantial compensatory and punitive damages, or undertake service actions, recall campaigns or other costly actions. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. It is reasonably possible that the final resolution of some of these matters may require the Group to make expenditures, in excess of established reserves, over an extended period of time and in a range of amounts that cannot be reasonably estimated. The term “reasonably possible” is used herein to mean that the chance of a future transaction or event occurring is

DAIMLERCHRYSLER AG

Notes to Consolidated Financial Statements – (Continued)

more than remote but less than likely. Although the final resolution of any such matters could have a material effect on the Group’s consolidated operating results for the particular reporting period in which an adjustment of the estimated reserve is recorded, the Group believes that any resulting adjustment should not materially affect its consolidated financial position.

29. Commitments and Contingencies

Contingent liabilities not recognized on the consolidated balance sheets are presented at their contractual values and include the following:

(in millions of €)	At December 31,	
	2001	2000
Guarantees	3,669	8,018
Notes payable	32	21
Contractual guarantees	408	354
Pledges of indebtedness of others	430	455
	4,539	8,848

Contingent 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.

DaimlerChrysler is subject to potential liability under government regulations and various claims and legal actions which are pending or may be asserted against DaimlerChrysler concerning environmental matters. Estimates of future costs of such environmental matters are inevitably imprecise 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 DaimlerChrysler may have remediation responsibility and the apportionment and collectibility of remediation costs among responsible parties.

DaimlerChrysler establishes reserves for these environmental matters when a loss is probable and reasonably estimable. It is reasonably possible that the final resolution of some of these matters may require DaimlerChrysler to make expenditures, in excess of established reserves, over an extended period of time and in a range of amounts that cannot be reasonably estimated. Although the final resolution of any such matters could have a material effect on DaimlerChrysler’s consolidated operating results for the particular reporting period in which an adjustment of the estimated reserve is recorded, DaimlerChrysler believes that any resulting adjustment should not materially affect its consolidated financial position.

DaimlerChrysler periodically initiates voluntary service actions and recall actions to address various customer satisfaction, safety and emissions issues related to vehicles it sells. DaimlerChrysler establishes reserves for product warranty, including the estimated cost of these service and recall actions, when the related sale is recognized. The estimated future costs of these actions are based primarily on prior experience. Estimates of the future costs of these actions are inevitably imprecise due to numerous uncertainties, including the enactment of new laws and regulations, the number of vehicles affected by a service or recall action, and the nature of the corrective action which may result in adjustments to the established reserves. It is reasonably possible that the ultimate cost of these service and recall actions may require DaimlerChrysler to make expenditures, in excess of established reserves, over an extended period of time and in a range of amounts that cannot be reasonably estimated. Although the ultimate cost of these service and recall actions could have a

DAIMLERCHRYSLER AG

Notes to Consolidated Financial Statements – (Continued)

material effect on DaimlerChrysler's consolidated operating results for the particular reporting period in which an adjustment of the estimated reserve is recorded, DaimlerChrysler believes that any such adjustment should not materially affect its consolidated financial position.

In connection with certain production programs the Group has committed to certain levels of outsourced manufactured parts and components over extended periods at market prices. The Group may be required to compensate suppliers in the event the committed volumes are not purchased. The Group has also committed to investments in the construction and maintenance of production facilities to a usual extent.

Total rentals under operating leases, charged as an expense in the statement of income (loss), amounted to €819 million (2000: €881 million; 1999: €964 million). Future minimum lease payments under noncancellable rental and lease agreements which have initial or remaining terms in excess of one year at December 31, 2001 are as follows (in millions of €):

	<u>Operating leases</u>
2002	603
2003	457
2004	369
2005	307
2006	279
thereafter	813

30. 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 also issues bonds, commercial paper and medium-term-notes in various currencies. As a consequence of issuing 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 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 derivative financial instruments. Without these instruments the Group's market risks would be higher.

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.

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 estimation of the amounts that the Group could realize under current market conditions.

DAIMLERCHRYSLER AG
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, 2001		At December 31, 2000	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial instruments (other than derivative instruments):				
Assets:				
Financial assets	1,209	1,209	1,930	1,930
Receivables from financial services	49,512	49,678	48,673	49,377
Securities	3,007	3,007	5,378	5,378
Cash and cash equivalents	11,428	11,428	7,127	7,127
Other	20	20	5	5
Liabilities:				
Financial liabilities	90,908	94,513	84,783	86,265
Derivative instruments:				
Assets:				
Currency contracts	477	477	306	306
Interest rate contracts	1,011	1,011	556	556
Equity contracts	4	4	3	3
Liabilities:				
Currency contracts	806	806	1,257	1,257
Interest rate contracts	1,434	1,434	1,004	1,004
Equity contracts	4	4	1	1

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

The methods and assumptions used to determine the fair values of other 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, 2001 and 2000.

The fair values of residual cash flows and other subordinated amounts arising from receivable sale transactions were estimated by discounting expected cash flows at current interest rates.

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

DAIMLERCHRYSLER AG
Notes to Consolidated Financial Statements – (Continued)

Interest Rate Contracts – The fair values of existing instruments to hedge interest rate risks (e. g. 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.

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.

Equity Contracts – The fair values of existing instruments to hedge equity price risk (e. g. futures or options) were determined on the basis of quoted market prices or on estimates based on option pricing models.

c) Credit Risk

The Group is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments. Counterparties to the Group's financial instruments represent, in general, international financial institutions. DaimlerChrysler does not have a significant exposure to any individual counterparty, based on the rating of the counterparties performed by established rating agencies. The Group believes the overall credit risk related to utilized derivatives is insignificant.

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-Benz Passenger Cars & smart segment. The Mercedes-Benz Passenger Cars & smart segment generates its revenues mainly in the currencies of the countries in which cars are sold, but it incurs manufacturing costs primarily in euros.

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. The Currency Committee, which consists of two separate subgroups, one for the Group's vehicle businesses and one for MTU Aero Engines, is comprised of members of senior management from each of the respective businesses as well as from Corporate Treasury and Risk

DAIMLERCHRYSLER AG

Notes to Consolidated Financial Statements – (Continued)

Controlling. 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 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.

DaimlerChrysler does not enter into these types of derivative financial instruments for purposes other than risk management.

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 both DaimlerChrysler's outstanding or forecasted 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 investments in equity securities. These securities subject DaimlerChrysler to risks due to changes in quoted market prices. DaimlerChrysler uses derivative financial instruments including futures and options to manage the risks arising from changes in equity prices.

The Group assesses equity price risk by continually monitoring changes in key economic, industry and market information and maintains risk management control systems independent of Corporate Treasury to monitor risks attributable to both DaimlerChrysler's investments 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 potential loss and manage the risks of the Group's investments.

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 principally recognized currently in revenues, as the principal transactions being hedged involve sales 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, 2001, net losses of €17 million (2000: net gains of €15 million) were recognized in revenues 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.

DAIMLERCHRYSLER AG
Notes to Consolidated Financial Statements – (Continued)

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 of forecasted transactions are reported in accumulated other comprehensive income. These amounts are subsequently reclassified into earnings, as a component of the value of the forecasted transaction, in the same period as the forecasted transaction affects earnings. Changes in the fair value of interest rate swaps designated as hedging instruments 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, 2001, net losses of €12 million (2000: net losses of €3 million), 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 revenues and financial income, net.

Also included in earnings are gains of €1 million for the year ended December 31, 2001 (2000: gains of €2 million), reclassified from accumulated other comprehensive income as a result of the discontinuance of foreign currency cash flow hedges because it was probable that the original forecasted transaction would not occur.

It is anticipated that €101 million of net losses included in accumulated other comprehensive income at December 31, 2001, will be reclassified into earnings during the next year.

As of December 31, 2001, DaimlerChrysler held derivative financial instruments with a maximum maturity of 44 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, 2001, net gains of €53 million (2000: net gains of €104 million) hedging the Group's net investments in certain foreign operations were included in the cumulative translation adjustment.

f) Accounting for and Reporting of Financial Instruments (Prior to Adoption of SFAS 133)

For periods prior to January 1, 2000, financial instruments, including derivatives, purchased to offset the Group's exposure to identifiable and committed transactions with price, interest or currency risks were accounted for together with the underlying business transactions ("hedge accounting"). Gains and losses on forward contracts and options hedging firm foreign currency commitments were deferred off-balance sheet and were recognized as a component of the related transactions, when recorded (the "deferral method"). However, a loss was not deferred if deferral would have lead to the recognition of a loss in future periods.

In the event of an early termination of a currency exchange agreement designated as a hedge, the gain or loss continued to be deferred and was included in the settlement of the underlying transaction.

Interest differentials paid or received under interest rate swaps purchased to hedge interest risks on debt were recorded as adjustments to the effective yields of the underlying debt ("accrual method").

DAIMLERCHRYSLER AG

Notes to Consolidated Financial Statements – (Continued)

In the event of an early termination of an interest rate related derivative designated as a hedge, the gain or loss was deferred and recorded as an adjustment to interest income, net over the remaining term of the underlying financial instrument.

All other financial instruments, including derivatives, purchased to offset the Group's net exposure to price, interest or currency risks, but which were not designated as hedges of specific assets, liabilities or firm commitments were marked to market and any resulting unrealized gains and losses were recognized currently in financial income, net. The carrying amounts of derivative instruments were included under other assets and accrued liabilities.

Derivatives purchased by the Group under macro-hedging techniques, as well as those purchased to offset the Group's exposure to anticipated cash flows, did not generally meet the requirements for applying hedge accounting and were, accordingly marked to market at each reporting period with unrealized gains and losses recognized in financial income, net. When the Group met the requirements for hedge accounting and designated the derivative financial instrument as a hedge of a committed transaction, subsequent unrealized gains and losses were deferred and recognized along with the effects of the underlying transaction.

31. 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,	
	2001	2000
Fair value of estimated residual cash flows, net of prepayments, from sold receivables, before expected future net credit losses	5,311	4,319
Expected future net credit losses on sold receivables	(787)	(389)
Fair value of net residual cash flows from sold receivables	4,524	3,930
Restricted cash accounts	2	202
Retained subordinated securities	956	684
Retained interests in sold receivables, at fair value	5,482	4,816

At December 31, 2001, 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%	(8)	(14)
Estimated net credit losses as a percentage of receivables sold	1.3%	(66)	(132)
Residual cash flow discount rate, annualized	12.0%	(65)	(127)

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 interest 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.

DAIMLERCHRYSLER AG
Notes to Consolidated Financial Statements – (Continued)

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

<u>Actual and projected credit losses percentages as of:</u>	<u>Receivables securitized in</u>			
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
December 31, 2001	2.8%	2.2%	1.7%	2.4%
December 31, 2000	2.1%	1.1%	1.2%	
December 31, 1999	1.6%	1.0%		

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, 2001.

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

<u>(in millions of €)</u>	<u>2001</u>	<u>2000</u>
Proceeds from new securitizations	18,219	15,883
Proceeds from collections reinvested in previous wholesale securitizations	56,040	46,285
Amounts reinvested in previous wholesale securitizations	(56,040)	(46,122)
Servicing fees received	353	283
Receipt of cash flows on retained interest in securitized receivables . .	580	435

The outstanding balance, delinquencies and net credit losses of sold receivables and other receivables, of those financial services businesses that sell receivables, as of and for the years ended December 31, 2001 and 2000, respectively, were as follows:

<u>(in millions of €)</u>	<u>Outstanding balance at</u>		<u>Delinquencies > 60 days at</u>		<u>Net credit losses for the year ended</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
Retail receivables	58,224	46,377	584	232	691	576
Wholesale receivables	17,448	17,747	24	19	18	2
Total receivables managed	<u>75,672</u>	<u>64,124</u>	<u>608</u>	<u>251</u>	<u>709</u>	<u>578</u>
Less: receivables sold	<u>(42,763)</u>	<u>(37,904)</u>	<u>(182)</u>	<u>(117)</u>	<u>(310)</u>	<u>(251)</u>
Receivables held in portfolio	<u>32,909</u>	<u>26,220</u>	<u>426</u>	<u>134</u>	<u>399</u>	<u>327</u>

During the year ended December 31, 2001, DaimlerChrysler sold €19,290 million (2000: €17,122 million) and €57,372 million (2000: €38,778 million) retail and wholesale receivables, respectively. From these transactions, the Group recognized gains of €414 million (2000: €181 million) and €182 million (2000: €156 million) on sales of retail and wholesale receivables, respectively.

DAIMLERCHRYSLER AG

Notes to Consolidated Financial Statements – (Continued)

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, 2001 and 2000:

	Retail		Wholesale	
	2001	2000	2001	2000
Prepayment speed assumption (monthly)	1.0-1.5%	1.0-1.5%	*	*
Estimated remaining lifetime net credit losses (an average percentage of sold receivables)	2.4%	1.2%	0.0%	0.0%
Residual cash flows discount rate (annual rate)	12.0%	12.0%	10.0%	10.0%

* For the calculation of wholesale gains, the Group estimated the average wholesale loan liquidated in 210 days.

32. Segment Reporting

In 2001, DaimlerChrysler reorganized some of its business segments resulting in changes in the composition of its reportable segments. Following the exchange in July 2000 of the Group's controlling interest in DaimlerChrysler Aerospace for a non-controlling equity method interest in EADS, DaimlerChrysler transferred the remaining businesses of the former Aerospace segment and the investment in EADS to the Other Activities segment. In January 2001, DaimlerChrysler combined the operations of MTU/Diesel Engines, which was previously part of the Other Activities segment, with the Mercedes-Benz powertrain business in a new Powersystems business unit within Commercial Vehicles segment. DaimlerChrysler has reclassified prior period amounts to conform its segment presentation to the new structure. Information with respect to the Group's industry segments follows:

Mercedes-Benz Passenger Cars & smart. This segment includes activities related mainly to the development, manufacture and sale of passenger cars and off-road vehicles under the brand names Mercedes-Benz and smart as well as related parts and accessories.

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

Commercial Vehicles. This segment is involved in the development, manufacture 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 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. 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. For the exercise in January 2002 of DaimlerChrysler's option to sell its interest, see Note 34.

Other Activities. Represents principally the industrial businesses including MTU Aero Engines and the Group's equity method investments in MMC, EADS and Automotive Electronics. Other Activities also contains corporate research, real estate activities and holding and financing companies.

The Group's management reporting and controlling systems 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." Segment Operating Profit is defined as income (loss) before financial income included in the consolidated statement of income (loss), modified to exclude pension and

DAIMLERCHRYSLER AG
Notes to Consolidated Financial Statements – (Continued)

postretirement benefit expenses other than service costs, to include pretax operating income (loss) from affiliated and associated companies, to include financial income (loss) from related companies, and to include or exclude certain miscellaneous items.

Sales and revenues related to transactions between segments are generally recorded at values that approximate third-party selling prices.

Revenues are allocated to countries based on the location of the customer; long-term assets are allocated according to the location of the respective units.

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

Segment information as of and for the years ended December 31, 2001, 2000 and 1999 follows:

(in millions of €)	Mercedes Benz Passenger Cars & smart	Chrysler Group	Commercial Vehicles	Services	Other Activities	Eliminations	Consolidated
2001							
Revenues	44,002	62,676	27,084	14,975	4,136	–	152,873
Intersegment sales	3,703	807	1,488	1,876	371	(8,245)	–
Total revenues	47,705	63,483	28,572	16,851	4,507	(8,245)	152,873
Operating Profit (Loss)	2,951	(5,281)	(514)	612	1,181	(267)	(1,318)
Identifiable segment assets	20,558	63,325	16,232	100,570	31,200	(24,475)	207,410
Capital expenditures	2,061	5,083	1,484	112	168	(12)	8,896
Depreciation and amortization	1,853	5,364	922	7,071	197	(217)	15,190
2000							
Revenues	40,822	67,405	28,521	15,322	10,314	–	162,384
Intersegment sales	2,878	967	1,283	2,204	301	(7,633)	–
Total revenues	43,700	68,372	29,804	17,526	10,615	(7,633)	162,384
Operating Profit (Loss)	2,145	501	1,212	2,457	3,590	(153)	9,752
Identifiable segment assets	19,355	53,660	15,879	94,369	34,298	(18,287)	199,274
Capital expenditures	2,096	6,339	1,128	282	547	–	10,392
Depreciation and amortization	2,038	3,878	847	6,603	425	(204)	13,587
1999							
Revenues	35,592	63,666	26,328	10,662	13,737	–	149,985
Intersegment sales	2,508	419	1,281	2,270	347	(6,825)	–
Total revenues	38,100	64,085	27,609	12,932	14,084	(6,825)	149,985
Operating Profit (Loss)	2,703	5,051	1,157	2,039	241	(179)	11,012
Identifiable segment assets	17,611	49,825	12,498	77,266	37,955	(20,488)	174,667
Capital expenditures	2,228	5,224	809	324	886	(1)	9,470
Depreciation and amortization	1,580	3,346	715	3,348	527	(187)	9,329

DAIMLERCHRYSLER AG

Notes to Consolidated Financial Statements – (Continued)

Capital expenditures for equipment on operating leases for 2001, 2000 and 1999 for the Services segment amounted to €14,334 million, €15,551 million and €16,401 million, respectively.

The Operating Profit of the Mercedes-Benz Passenger Cars & smart segment for the year ended December 31, 2000, includes €470 million of non-cash charges related to the adoption of the European Union's directive regarding end-of-life vehicles and related to fixed cost reimbursement agreements with MCC smart suppliers.

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, 2001, includes €353 million of non-cash turnaround plan and other charges, other than depreciation and amortization.

For the years ended December 31, 2001 and 2000, Operating Profit of the Services segment includes €41 million and €1 million, respectively, from the equity investment in T-Systems ITS, representing the Group's percentage share of the Operating Profit of T-Systems ITS. In addition, Operating Profit of the Services segment for the year ended December 31, 2000, includes a €2,315 million gain on the transaction involving T-Systems ITS (see Note 11). For the year ended December 31, 1999, Operating Profit of the Services segment includes pretax gains on the sales of shares in debitel of €1,140 million (see Note 11). At December 31, 2001 and 2000, the identifiable assets of the Services segment includes €2,193 million and €2,152 million, respectively, of the investment in T-Systems ITS.

For the year ended December 31, 2001, Operating Profit of the Other Activities segment includes €694 million from EADS and MMC, the significant companies accounted for using the equity method, including a €876 million gain from the formation of Airbus SAS. For the year ended December 31, 2000, Operating Profit of the Other Activities segment includes €3,259 million from EADS and MMC, including a €3,303 million gain in connection with the exchange of the Group's controlling interest in DaimlerChrysler Aerospace for shares in EADS (see Note 11). At December 31, 2001 and 2000, the identifiable assets of the Other Activities segment includes €5,393 million and €5,143 million, respectively, of investments in these equity method investees.

A reconciliation to Operating Profit (Loss) follows:

(in millions of €)	<u>2001</u>	<u>2000</u>	<u>1999</u>
Income (loss) before financial income	(1,637)	4,320	9,324
Pension and postretirement benefit expenses other than service costs	(450)	(228)	379
Operating income (loss) from affiliated, associated and related companies	516	(35)	17
Gains on disposals of businesses	292	5,832	1,140
Miscellaneous	(39)	(137)	152
Consolidated Operating Profit (Loss)	<u>(1,318)</u>	<u>9,752</u>	<u>11,012</u>

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

(in millions of €)	<u>Germany</u>	<u>European Union*</u>	<u>United States</u>	<u>Other American countries</u>	<u>Asia</u>	<u>Other countries</u>	<u>Consolidated</u>
2001	23,157	22,483	81,132	13,585	6,208	6,308	152,873
2000	25,988	24,360	84,503	14,762	5,892	6,879	162,384
1999	28,393	21,567	78,104	11,727	4,796	5,398	149,985

* Excluding Germany.

DAIMLERCHRYSLER AG

Notes to Consolidated Financial Statements – (Continued)

Germany accounts for €20,584 million of long-term assets (2000: €17,450 million; 1999: €14,711 million), the United States for €58,850 million (2000: €51,996 million; 1999: €43,036 million) and other countries for €12,971 million (2000: €19,633 million; 1999: €12,701 million).

33. Earnings (Loss) per Share

The computation of basic and diluted earnings (loss) per share for “Income (loss) before extraordinary items and cumulative effects of changes in accounting principles” is as follows:

(in millions of € or millions of shares, except earnings (loss) per share)	Year ended December 31,		
	2001	2000	1999
Income (loss) before extraordinary items and cumulative effects of changes in accounting principles – basic	(662)	2,465	5,106
Interest expense on convertible bonds and notes (net of tax) . .	—	18	18
Income (loss) before extraordinary items and cumulative effects of changes in accounting principles – diluted	(662)	2,483	5,124
Weighted average number of shares outstanding – basic	1,003.2	1,003.2	1,002.9
Dilutive effect of convertible bonds and notes	—	10.7	10.7
Weighted average number of shares outstanding – diluted	1,003.2	1,013.9	1,013.6
Earnings (loss) per share before extraordinary items and cumulative effects of changes in accounting principles			
Basic	(0.66)	2.46	5.09
Diluted	(0.66)	2.45	5.06

Because the Group reported a loss before extraordinary items and cumulative effects of changes in accounting principles for the year ended December 31, 2001, the diluted loss per share does not include the antidilutive effects of convertible bonds and notes. Had the company reported income before extraordinary items and cumulative effects of changes in accounting principles for the year ended December 31, 2001, the weighted average number of shares outstanding would have potentially been diluted by 10.7 million shares resulting from the conversion of bonds and notes.

Stock options issued in 2001 and 2000 were not included in the computation of diluted earnings per share for the years ended December 31, 2001 and 2000, because the options’ underlying exercise prices were greater than the average market prices for DaimlerChrysler Ordinary Shares on December 31, 2001 and 2000, respectively.

Income tax charges of €263 million and €812 million relating to changes in German tax laws were included in the consolidated statement of income (loss) for the years ended December 31, 2000 and 1999, respectively, and resulted in a reduction of basic and diluted earnings per share of €0.26 and €0.26 in 2000 and €0.81 and €0.80 in 1999, respectively (see Note 9).

34. Subsequent Events

In January 2002, DaimlerChrysler exercised its option to sell to Deutsche Telekom the Group’s 49.9% interest in T-Systems ITS for proceeds of €4.7 billion. The sale is expected to close in March 2002 with the termination of the joint venture.

DAIMLERCHRYSLER AG

Notes to Consolidated Financial Statements – (Continued)

Following a decision of DaimlerChrysler's Board of Management in 2001, DaimlerChrysler and GE Capital reached an agreement in January 2002 for GE Capital to purchase a portion of the DaimlerChrysler's Capital Services portfolio in the United States. DaimlerChrysler will receive approximately €1.3 billion for the sale. The transaction is expected to be completed in the first quarter of 2002.

35. 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
Notes to Consolidated Financial Statements – (Continued)

2001 (in millions of €)	DaimlerChrysler AG (parent company)	DaimlerChrysler North America Holding Corporation	Other subsidiaries (combined)	Consolidating adjustments	DaimlerChrysler AG (consolidated)
Assets					
Intangible assets	84	–	2,779	–	2,863
Property, plant and equipment, net	5,524	–	35,641	–	41,165
Investments and long-term financial assets	38,386	68,287	15,499	(109,797)	12,375
Equipment on operating leases, net	3,234	–	32,836	(68)	36,002
Fixed assets	<u>47,228</u>	<u>68,287</u>	<u>86,755</u>	<u>(109,865)</u>	<u>92,405</u>
Inventories	5,428	–	11,953	(627)	16,754
Trade, finance and other receivables	11,832	3,250	75,866	(18,818)	72,130
Securities	370	–	2,707	–	3,077
Cash and cash equivalents	2,410	5,393	3,625	–	11,428
Non-fixed assets	<u>20,040</u>	<u>8,643</u>	<u>94,151</u>	<u>(19,445)</u>	<u>103,389</u>
Deferred taxes and prepaid expenses	1,979	–	15,093	(5,456)	11,616
Total assets	<u>69,247</u>	<u>76,930</u>	<u>195,999</u>	<u>(134,766)</u>	<u>207,410</u>
Liabilities and stockholders' equity					
Stockholders' equity	39,004	18,556	84,874	(103,430)	39,004
Minority interests	–	–	417	–	417
Accrued liabilities	8,067	1,603	32,306	(406)	41,570
Financial liabilities	14,600	54,417	43,351	(21,460)	90,908
Trade liabilities	3,138	–	11,019	–	14,157
Other liabilities	1,969	2,289	9,930	(3,926)	10,262
Liabilities	<u>19,707</u>	<u>56,706</u>	<u>64,300</u>	<u>(25,386)</u>	<u>115,327</u>
Deferred taxes and deferred income	2,469	65	14,102	(5,544)	11,092
Total liabilities	<u>30,243</u>	<u>58,374</u>	<u>111,125</u>	<u>(31,336)</u>	<u>168,406</u>
Total liabilities and stockholders' equity	<u>69,247</u>	<u>76,930</u>	<u>195,999</u>	<u>(134,766)</u>	<u>207,410</u>
Revenues	54,638	–	136,076	(37,841)	152,873
Cost of sales	(42,464)	–	(123,492)	37,562	(128,394)
Gross margin	12,174	–	12,584	(279)	24,479
Selling, administrative and other expenses	(6,454)	(25)	(12,603)	751	(18,331)
Research and development	(2,821)	–	(3,207)	95	(5,933)
Other income	393	–	1,406	(587)	1,212
Turnaround plan expenses—Chrysler Group	–	–	(3,064)	–	(3,064)
Income (loss) before financial income	3,292	(25)	(4,884)	(20)	(1,637)
Financial income (expense), net	(3,146)	(5,190)	3,095	5,395	154
Income (loss) before income taxes	146	(5,215)	(1,789)	5,375	(1,483)
Income taxes	(808)	1,073	1,227	(715)	777
Minority interests	–	–	44	–	44
Income (loss) before extraordinary items and cumulative effects of changes in accounting principles	(662)	(4,142)	(518)	4,660	(662)
Net income	<u>(662)</u>	<u>(4,142)</u>	<u>(518)</u>	<u>4,660</u>	<u>(662)</u>

DAIMLERCHRYSLER AG
Notes to Consolidated Financial Statements – (Continued)

2001 (in millions of €)	DaimlerChrysler AG (parent company)	DaimlerChrysler North America Holding Corporation	Other subsidiaries (combined)	Consolidating adjustments	DaimlerChrysler AG (consolidated)
Cash provided by (used for) operating activities	3,892	(1,097)	11,138	2,011	15,944
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 of securities (other than trading), net	88	2	1,989	–	2,079
Other	(154)	(1,292)	(5,862)	7,450	142
Cash used for investing activities	(2,830)	(1,290)	(16,727)	7,560	(13,287)
Change in financial liabilities	2,198	5,649	5,968	(10,058)	3,757
Dividends paid	(2,358)	–	(1,967)	1,958	(2,367)
Other	–	–	1,480	(1,471)	9
Cash provided by (used for) financing activities	(160)	5,649	5,481	(9,571)	1,399
Effect of foreign exchange rate changes on cash	–	163	96	–	259
Net increase (decrease) in cash and cash equivalents	902	3,425	(12)	–	4,315
Cash and cash equivalents					
At beginning of period	1,508	1,968	3,606	–	7,082
At end of period	2,410	5,393	3,594	–	11,397

DAIMLERCHRYSLER AG
Notes to Consolidated Financial Statements – (Continued)

2000 (in millions of €)	DaimlerChrysler AG (parent company)	DaimlerChrysler North America Holding Corporation	Other subsidiaries (combined)	Consolidating adjustments	DaimlerChrysler AG (consolidated)
Assets					
Intangible assets	47	–	3,066	–	3,113
Property, plant and equipment, net	5,504	–	34,641	–	40,145
Investments and long-term financial assets	41,734	66,688	9,205	(105,520)	12,107
Equipment on operating leases, net	2,832	–	30,939	(57)	33,714
Fixed assets	50,117	66,688	77,851	(105,577)	89,079
Inventories	4,859	–	12,052	(628)	16,283
Trade, finance and other receivables	10,059	958	72,199	(12,152)	71,064
Securities	2,014	2	3,362	–	5,378
Cash and cash equivalents	1,508	1,968	3,651	–	7,127
Non-fixed assets	18,440	2,928	91,264	(12,780)	99,852
Deferred taxes and prepaid expenses	2,367	13	12,355	(4,392)	10,343
Total assets	70,924	69,629	181,470	(122,749)	199,274
Liabilities and stockholders' equity					
Stockholders' equity	42,409	21,838	82,886	(104,724)	42,409
Minority interests	–	–	519	–	519
Accrued liabilities	7,368	654	28,663	(244)	36,441
Financial liabilities	12,402	46,534	36,874	(11,027)	84,783
Trade liabilities	4,160	–	11,097	–	15,257
Other liabilities	1,570	603	9,441	(1,993)	9,621
Liabilities	18,132	47,137	57,412	(13,020)	109,661
Deferred taxes and deferred income	3,015	–	11,990	(4,761)	10,244
Total liabilities	28,515	47,791	98,584	(18,025)	156,865
Total liabilities and stockholders' equity	70,924	69,629	181,470	(122,749)	199,274
Revenues	50,946	–	147,457	(36,019)	162,384
Cost of sales	(39,759)	–	(130,010)	35,399	(134,370)
Gross margin	11,187	–	17,447	(620)	28,014
Selling, administrative and other expenses	(6,197)	(12)	(12,794)	700	(18,303)
Research and development	(2,728)	–	(3,753)	144	(6,337)
Other income	404	–	997	(455)	946
Income (loss) before financial income	2,666	(12)	1,897	(231)	4,320
Financial income (expense), net	6,348	(153)	2,950	(8,989)	156
Income (loss) before income taxes	9,014	(165)	4,847	(9,220)	4,476
Income taxes	(1,141)	1,048	(2,000)	94	(1,999)
Minority interests	–	–	(12)	–	(12)
Income before extraordinary items and cumulative effects of changes in accounting principles	7,873	883	2,835	(9,126)	2,465
Extraordinary items	14	–	5,502	–	5,516
Cumulative effects of changes in accounting principles	7	(6)	(88)	–	(87)
Net income	7,894	877	8,249	(9,126)	7,894

DAIMLERCHRYSLER AG
Notes to Consolidated Financial Statements – (Continued)

2000 (in millions of €)	DaimlerChrysler AG (parent company)	DaimlerChrysler North America Holding Corporation	Other subsidiaries (combined)	Consolidating adjustments	DaimlerChrysler AG (consolidated)
Cash provided by (used for) operating activities	7,370	(1,725)	12,726	(2,354)	16,017
Increase in equipment on operating leases	(2,120)	–	(17,032)	35	(19,117)
Purchases of other fixed assets	(2,267)	–	(8,605)	–	(10,872)
Proceeds from disposals of equipment on operating leases	1,455	–	6,830	–	8,285
Proceeds from disposals of other fixed assets	252	–	610	–	862
Payments for investments in businesses	(3,113)	(3)	(1,854)	87	(4,883)
Proceeds from disposals of businesses	46	12	340	(87)	311
Increase in receivables from financial services, net	(142)	–	(8,447)	7	(8,582)
Dispositions of securities (other than trading), net	519	420	1,499	–	2,438
Other	(336)	(11,367)	(1,633)	12,185	(1,151)
Cash used for investing activities	(5,706)	(10,938)	(28,292)	12,227	(32,709)
Change in financial liabilities	812	14,688	1,568	(201)	16,867
Dividends paid	(2,358)	(390)	(2,968)	3,337	(2,379)
Other	24	–	13,009	(13,009)	24
Cash provided by (used for) financing activities	(1,522)	14,298	11,609	(9,873)	14,512
Effect of foreign exchange rate changes on cash	–	13	488	–	501
Net increase (decrease) in cash and cash equivalents	142	1,648	(3,469)	–	(1,679)
Cash and cash equivalents					
At beginning of period	1,366	320	7,075	–	8,761
At end of period	1,508	1,968	3,606	–	7,082

DAIMLERCHRYSLER AG
Notes to Consolidated Financial Statements – (Continued)

1999 (in millions of €)	DaimlerChrysler AG (parent company)	DaimlerChrysler North America Holding Corporation	Other subsidiaries (combined)	Consolidating adjustments	DaimlerChrysler AG (consolidated)
Revenues	43,052	–	135,124	(28,191)	149,985
Cost of sales	(34,525)	–	(113,274)	28,111	(119,688)
Gross margin	8,527	–	21,850	(80)	30,297
Selling, administrative and other expenses	(5,787)	(13)	(11,008)	745	(16,063)
Research and development	(2,563)	–	(3,318)	144	(5,737)
Other income	657	–	625	(455)	827
Income (loss) before financial income	834	(13)	8,149	354	9,324
Financial income, net	5,895	3,872	703	(10,137)	333
Income before income taxes	6,729	3,859	8,852	(9,783)	9,657
Income taxes	(983)	328	(3,600)	(278)	(4,533)
Minority interests	–	–	(18)	–	(18)
Income before extraordinary items and cumulative effects of changes in accounting principles	5,746	4,187	5,234	(10,061)	5,106
Extraordinary items	–	–	640	–	640
Cumulative effects of changes in accounting principles	–	–	–	–	–
Net income	5,746	4,187	5,874	(10,061)	5,746
Cash provided by (used for) operating activities	5,327	(152)	19,474	(6,626)	18,023
Increase in equipment on operating leases	(2,219)	–	(17,158)	41	(19,336)
Purchases of other fixed assets	(1,901)	–	(8,214)	–	(10,115)
Proceeds from disposals of equipment on operating leases	1,110	–	5,492	(27)	6,575
Proceeds from disposals of other fixed assets	178	–	329	–	507
Payments for investments in businesses	(548)	–	(800)	59	(1,289)
Proceeds from disposals of businesses	398	–	997	(59)	1,336
Increase in receivables from financial services, net	20	–	(8,396)	7	(8,369)
Dispositions (acquisitions) of securities (other than trading), net	(834)	(67)	225	–	(676)
Other	1,097	(17,811)	(2,885)	18,856	(743)
Cash used for investing activities	(2,699)	(17,878)	(30,410)	18,877	(32,110)
Change in financial liabilities	239	18,350	(3,464)	2,937	18,062
Dividends paid	(2,356)	(94)	(4,185)	4,257	(2,378)
Other	63	–	19,460	(19,445)	78
Cash provided by (used for) financing activities	(2,054)	18,256	11,811	(12,251)	15,762
Effect of foreign exchange rate changes on cash	–	25	780	–	805
Net increase in cash and cash equivalents	574	251	1,655	–	2,480
Cash and cash equivalents					
At beginning of period	792	69	5,420	–	6,281
At end of period	1,366	320	7,075	–	8,761

DAIMLERCHRYSLER AG
Allowance for Doubtful Accounts

(in millions of €)	Balance at beginning of 2001	Charged to costs and expenses	Amounts written off	Balance at end of 2001
Receivables from financial services	890	1,495	(783)	1,602
Trade receivables	711	(16)	(49)	646
Other receivables	957	132	(363)	726
	<u>2,558</u>	<u>1,611</u>	<u>(1,195)</u>	<u>2,974</u>
	Balance at beginning of 2000	Charged to costs and expenses	Amounts written off	Balance at end of 2000
Receivables from financial services	599	746	(455)	890
Trade receivables	798	(50)	(37)	711
Other receivables	1,127	169	(339)	957
	<u>2,524</u>	<u>865</u>	<u>(831)</u>	<u>2,558</u>
	Balance at beginning of 1999	Charged to costs and expenses	Amounts written off	Balance at end of 1999
Receivables from financial services	364	510	(275)	599
Trade receivables	857	49	(108)	798
Other receivables	1,249	125	(247)	1,127
	<u>2,470</u>	<u>684</u>	<u>(630)</u>	<u>2,524</u>

DaimlerChrysler AG
Stuttgart, Germany
Auburn Hills, USA
www.daimlerchrysler.com