DaimlerChrysler

Answers for questions to come

Annual Report 2001

Key Figures

DaimlerChrysler Group Amounts in millions	01 US $[1])	01	00	99	01:00 Change in %
Revenues	136,072	152,873	162,384	149,985	-6[2])
European Union	40,624	45,640	50,348	49,960	-9
of which: Germany	20,612	23,157	25,988	28,393	-11
North America	81,814	91,916	95,939	87,083	-4
of which: USA	72,216	81,132	84,503	78,104	-4
Other markets	13,634	15,317	16,097	12,942	-5
Employees (at year-end)		372,470	416,501	466,938	-11
Research and development costs	5,348	6,008	7,395	7,575	-19
Investments in property, plant and equipment	7,918	8,896	10,392	9,470	-14
Cash provided by operating activities	14,192	15,944	16,017	18,023	-0
Operating profit (loss)	(1,173)	(1,318)	9,752	11,012	.
Operating profit adjusted[3])	1,197	1,345	5,213	10,316	-74
Net income (loss)	(589)	(662)	7,894	5,746	.
per share (in US $/)	(0.59)	(0.66)	7.87	5.73	.
Net income adjusted[3])	650	730	3,481	6,226	-79
per share (in US $/)[3])	0.65	0.73	3.47	6.21	-79
Total dividend	893	1,003	2,358	2,358	-57
Dividend per share (in)		1.00	2.35	2.35	-57

[1]) Rate of exchange: 1 = US $0.8901 (based on the noon buying rate on Dec. 31, 2001).
[2]) A 1% decrease after adjusting for changes in the consolidated Group.
[3]) Excluding one-time effects, see pages 54-60.

A product range with infinite possibilities

Divisions

Mercedes-Benz Passenger Cars & smart Amounts in millions	01 US $	01 €	00 €	% change
Operating profit	2,627	2,951	2,145	+38
Operating profit adjusted	2,636	2,961	2,874	+3
Revenues	42,462	47,705	43,700	+9
Investments in property, plant and equipment	1,834	2,061	2,096	-2
Research and development	2,138	2,402	2,241	+7
Unit sales		1,229,688	1,154,861	+6
Employees (Dec. 31)		102,223	100,893	+1

Chrysler Group Amounts in millions	01 US $	01 €	00 €	% change
Operating profit (loss)	(4,701)	(5,281)	501	.
Operating profit (loss) adjusted	(1,943)	(2,183)	531	.
Revenues	56,506	63,483	68,372	-7
Investments in property, plant and equipment	4,524	5,083	6,339	-20
Research and development	1,959	2,201	2,456	-10
Unit sales		2,755,919	3,045,233	-10
Employees (Dec. 31)		104,057	121,027	-14

Commercial Vehicles Amounts in millions	01 US $	01 €	00 €	% change
Operating profit (loss)	(458)	(514)	1,212	.
Operating profit adjusted	45	51	1,253	-96
Revenues	25,432	28,572	29,804	-4
Investments in property, plant and equipment	1,321	1,484	1,128	+32
Research and development	903	1,015	974	+4
Unit sales		492,851	548,955	-10
Employees (Dec. 31)		96,644	101,027	-4

Services Amounts in millions	01 US $	01 €	00 €	% change
Operating profit	545	612	2,457	-75
Operating profit adjusted	514	578	641	-10
Revenues	14,999	16,851	17,526	-4
Investments in property, plant and equipment	100	112	282	-60
Employees (Dec. 31)		9,712	9,589	+1

Other Activities Amounts in millions	01 US $	01 €	00 €	% change
Operating profit	1,051	1,181	3,590	-67
Operating profit adjusted	182	205	67	+206
Revenues	4,012	4,507	10,615	-58
Investments in property, plant and equipment	150	168	547	-69
Research and development	347	390	1,753	-78
Employees (Dec. 31)		21,101	47,108	-55

Our Passenger Car Brands

MAYBACH

Mercedes-Benz

smart

DODGE

CHRYSLER

Jeep

Our Commercial Vehicle Brands

Mercedes-Benz

SETRA

FREIGHTLINER

STERLING

WESTERN STAR TRUCKS

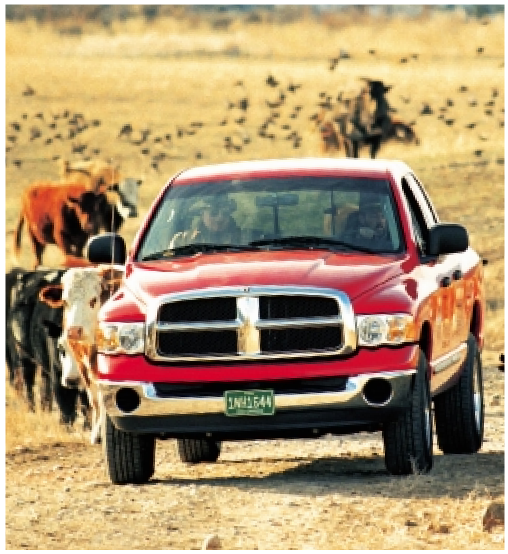
Our Alliance Partner

MITSUBISHI MOTORS

Our Strategic Partner

HYUNDAI

Answers for questions to come



With its strong brand portfolio, its comprehensive product range and its global presence, DaimlerChrysler is a company with almost infinite possibilities.

We aim to enthuse our customers with our products and services, and to apply innovative technology to make the traffic of tomorrow even safer, as well as more economical and environment friendly.

To these ends we focus our global resources and the knowledge, experience and energy of our employees.

Dear Shareholders

No one will forget 2001. The shocking and deeply regrettable tragedies of September 11 have since inspired a set of values and memories that will enshrine forever the lessons of that day.

The attacks unleashed an unprecedented and decisive global response to terrorism. It was an answer strengthened by passionate solidarity and marked by the firm, unbreakable resolve of a united international community.

DaimlerChrysler's reaction during the immediate aftermath was characterized by spontaneous and heartfelt support for all those affected by the attacks. We also expressed our grief and compassion through substantial material aid. Our company remains profoundly and acutely connected to the grim realities of that day.

Notwithstanding this, it was essential for us to meet our commitments for 2001.

Performance in 2001. It is now a matter of record that with an operating profit of €1.3 billion, we reached our anticipated earnings range for 2001.

We are certainly not satisfied with this result, but it should be considered that it was achieved in an extremely difficult environment, particularly in the later part of the year.

For Mercedes-Benz and smart, however, 2001 was an excellent year with new records in revenue, sales and profit. With over 1.1 million vehicles sold, Mercedes-Benz is today the world's leading luxury car brand. The resounding success of the C-Class family and strong demand for the new SL were two of the factors driving growth to unprecedented levels and further enhancing the brand's position. The now well established smart brand also overachieved its sales targets.

At Chrysler Group we implemented our ambitious turnaround program with real signs of success. Despite highly competitive market conditions in 2001, Chrysler Group exceeded the objectives set for its cost reduction program and surpassed slightly the upper end of its earnings' predictions.

In a US market artificially fuelled by high cash discounts and zero percent financing we managed to introduce a selective incentive program. New and extremely appealing products, exemplified by the Jeep Liberty, the Chrysler PT Cruiser and the Dodge Ram, as well as many others in the pipeline, are good reason for optimism at Chrysler Group.

The results of our Commercial Vehicles division, the world's largest manufacturer of vans, trucks and buses, mirrors the downturn in North America and the weakening markets of Europe.

At Freightliner, the new management announced an effective turnaround plan in October. By the end of last year the changes had shown early results. Inventories on new and used trucks were brought back considerably.

Other areas of our Commercial Vehicles division were able to continue their excellent performance. Our van operation, for example, already market leader in Europe, extended its product range by introducing the very successful Sprinter in North America.

At DaimlerChrysler Services, the increased pressure on margins in the US market had a negative impact. Our Services division will continue adding value to the automotive business through even stronger support of our operations. It will also pursue its policy of divesting non-core activities.

Finally, at our strategic partner Mitsubishi Motors Corporation (MMC), we have increased our stake to 37.3%. We now have the potential to cooperate with the Commercial Vehicles division of MMC, as well. The turnaround plans at Mitsubishi Motors are yielding promising results. Initiatives aimed at increasing productivity and quality, along with considerable improvements in cost structures, are under way. The management of MMC is confident that it will reach break-even during that company's current financial year ending March 2002. For the rest of 2002, one will have to take into consideration the extremely difficult market conditions prevailing in Japan.

Group outlook 2002. The global automotive business is currently experiencing the toughening markets the Chrysler Group started to feel as early as 2000. We said then, at the onset of the American industry's downturn, that while Chrysler Group may have to be one of the major automobile manufacturers to enter this valley, we would also be first out. That, we believe, is beginning to happen.

The year in view, however, promises to be another demanding one, with several major economies facing weaker growth. The world economy has moved off a solid base.

Consequently, DaimlerChrysler has reviewed and updated its planning assumptions to take into account the consequences of a weaker economic and market environment. In February 2001, the Group set targets for 2002 and beyond based on assumptions that were reasonable at that time, but which no longer apply.

The reality is that the fundamentals for 2002 have become more uncertain and the task more challenging. Consequently, our current planning is conservative.

DaimlerChrysler nevertheless expects Group operating profit for 2002 to be significantly in excess of twice the level of 2001.

However, we remain confident that we will achieve results similar to those projected in February 2001, although at slightly later dates.

DaimlerChrysler has taken the right steps to deal with the uncertain times that many predict lie ahead.

We are thus confident that our company's strategy, set several years ago, will lead to our targeted occupation of the automotive industry's number one spot.

The strategy. DaimlerChrysler's strategy is based on the four pillars of:

- Global presence through the development of dynamic operations in all important automotive markets, to profit from regional growth and to attract new customers;
- Strong brands, creating efficient and effective market pull at the same time as they promote customer loyalty;
- A broad product range, serving all customer needs, exploring and profiting from new market niches or segments and allowing savings through significant economies of scale; and finally
- Leadership in technology, underpinning DaimlerChrysler's position as the world automotive industry's foremost innovator and providing the key to further product differentiation.

Stunning future products planned for the passenger car and commercial vehicle divisions emphasize the fact that ours remains the most exciting automotive company in the world. Our products are proof of the excellent performance level of DaimlerChrysler.

DaimlerChrysler's mix of premium brands and those suited for a wider market is one of the best balanced in our business. Backed by strong research and development, these brands will be at the cutting edge of technology in their respective segment, offering our customers the best there is in terms of innovation, design, safety, quality, service and the sheer enjoyment of owning one of our products.

Implementation and execution. We are nevertheless conscious that even the best strategy needs energetic commitment to proper execution. For us, 2002 will therefore be another important year of implementation.

What exactly do we mean by implementation? Perhaps it is best described as the productive drawing together and integrating of the many, complex strands that make up the unique fabric of DaimlerChrysler – our most vital process.

In this regard, the impact of DaimlerChrysler's Executive Automotive Committee (EAC) on management of product portfolios, technology, production capacities, as well as sales and marketing activities, has begun to pay off.

The EAC continuously finds ways of saving costs and sharing technological know-how. This process allows us to develop and launch new products faster and even more efficiently.

Another major focus is on multi-brand management. For us, the clear positioning of our brands is a key factor in the success of our automotive business.

We have carefully positioned every one of our brands against its natural competitors. At the same time we have taken care to ensure that all of our brands are clearly separated from each other. Like no other competitor we cover the entire spectrum of products.

In its totality, our brand portfolio is the strongest in the industry. We will build on this advantage.

For 2002, the EAC will maintain its focus on the consistent and rigorous implementation of our strategy.

An unconditional commitment to our shareholders. DaimlerChrysler counts some 370,000 highly creative and multi-talented employees to whom I would like to express my sincere thanks for their outstanding commitment.

These are the people who create the benchmarks that distinguish our company in the many markets it serves. First class execution, high energy levels, innovative thinking and excellent management are the qualities that will see us through the challenges of 2002 and the years that follow.

We continue to rate as one of the world's most respected employers. As a result the company attracts the best people who also understand and endorse DaimlerChrysler's powerful commitment to its shareholders.

Cautious optimism. We emphasize the caliber of these great human assets because of their critical importance in these times.

In our opinion, the difficult economic climate of 2001 has clearly spilled over into 2002. Several factors over which we have little or no control will influence the global automotive industry's short-term performance.

Notwithstanding these uncertainties, we remain confident that our determination and ability to handle short-term demands will deliver outstanding medium to long-term results.

For more than a century we have characteristically met corporate challenges with cool heads and resolved them with a high degree of accomplishment.

This experience, backed by unequalled products and a magnificent team, will help generate the higher levels of profit our shareholders expect and deserve.

Against this background, my colleagues on the Board of Management and I are firmly convinced that the years that lie ahead will bring great success to your company.

Sincerely Yours

Jürgen E. Schrempp

Manfred Bischoff
Age: 59
Aerospace & Industrial Businesses
Board Member Mitsubishi Motors
Corporation
Appointed until 2003

Manfred Gentz
Age: 60
Finance & Controlling
Appointed until 2003

Günther Fleig
Age: 53
Human Resources
& Labor Relations Director
Appointed until 2004

Eckhard Cordes
Age: 51
Commercial Vehicles
Appointed until 2003

Jürgen Hubbert
Age: 62
Mercedes-Benz Passenger Cars & smart
Appointed until 2005

Rüdiger Grube
Age: 50
Corporate Development
Deputy Member of the Board of Management
Appointed until 2004

Jürgen E. Schrempp
Age: 57
Chairman of the Board of Management
Appointed until 2005

Klaus-Dieter Vöhringer
Age: 60
Research & Technology
Appointed until 2003

Klaus Mangold
Age: 58
Services
Appointed until 2003

Gary C. Valade
Age: 59
Global Procurement & Supply
Appointed until 2003

Dieter Zetsche
Age: 48
Chrysler Group
Appointed until 2003

Thomas W. Sidlik
Age: 52
Procurement & Supply Chrysler Group
Board Member Hyundai Motor Company
Appointed until 2003

Wolfgang Bernhard
Age: 41
Chief Operating Officer Chrysler Group
Deputy Member of the Board of Management
Appointed until 2003

Earnings target achieved despite difficult market conditions

- **Successful restructuring programs**
- **Operating profit (adjusted for one-time effects) of €1.3 billion, within the target range**
- **Net loss of €0.7 billion (2000: net income of €7.9 billion); excluding one-time effects, net income of €0.7 billion (2000: €3.5 billion)**
- **Proposed dividend: €1.00 per share (2000: €2.35)**

Earnings impacted by restructuring charges and market weakness. In 2001, DaimlerChrysler achieved an operating profit excluding one-time effects of €1.3 billion (2000: €5.2 billion). This was within the target range announced in February 2001, despite a significantly more difficult environment. Particularly as a result of the charges for turnaround activities at Chrysler Group, Freightliner and Mitsubishi Motors, there were negative one-time effects in a total amount of €2.7 billion. Operating profit in 2000 was influenced by positive one-time effects in a total amount of €4.5 billion. Including one-time effects, there was thus an operating loss of €1.3 billion (2000: operating profit €9.8 billion).

The Mercedes-Benz Passenger Cars & smart division again increased its earnings. The earnings of the Commercial Vehicles and Services divisions decreased, however, and Chrysler Group reported an operating loss excluding one-time effects of €2.2 billion. The main reasons for the decline in earnings at Group level were the extremely competitive US market for passenger cars, minivans and light trucks, the dramatic contraction of demand for heavy trucks in North America, continued pressure on margins in the financial services business, and weakening demand in important markets.

The Group sustained a net loss of €0.7 billion (2000: net income €7.9 billion) and a loss per share of €0.66 (2000: earnings per share €7.87). Excluding one-time effects, both income and earnings per share were positive, but lower than in the prior year at €0.7 billion and €0.73 respectively (2000: €3.5 billion and €3.47 respectively). (see pp. 54-60).

€1.00 dividend. The Board of Management and the Supervisory Board will propose to the shareholders at the Annual Meeting that a dividend of €1.00 per share is distributed (2000: €2.35). The total dividend distribution will therefore amount to €1,003 million (2000: €2,358 million). The dividend level proposed is related to the year's earnings. However, DaimlerChrysler is confident that it will take profits to much higher levels in the future.

Extensive measures to improve profitability. In order to return DaimlerChrysler to a position of strong and sustainable profitability, even with difficult market conditions, and to improve the competitive position of the company, we initiated extensive restructuring programs during the year under review.

Operating Profit

In millions	2001 US $	2001 €	2000 €
DaimlerChrysler Group	(1,173)	(1,318)	9,752
Mercedes-Benz Passenger Cars & smart*)	2,636	2,961	2,874
Chrysler Group*)	(1,943)	(2,183)	531
Commercial Vehicles*)	45	51	1,253
Services*)	514	578	641
Other Activities*)	182	205	67
DaimlerChrysler Group*)	1,197	1,345	5,213

*) adjusted for one-time effects

Chrysler Group's turnaround plan has been implemented faster than we anticipated, with better savings and profitability effects being achieved in 2001 than originally planned. As a result, and despite the negative impact of lower unit sales and revenues, Chrysler Group was able to achieve an operating loss (excluding one-time effects) of €2,183 million, slightly better than we announced on February 26, 2001 (an operating loss in the range of €2.2-2.6 billion).

At Freightliner, our North American truck subsidiary, the cost-cutting measures started in 2000 have been significantly reinforced by a comprehensive turnaround plan which was announced on October 12, 2001. With this plan we should be able to achieve continuously increasing positive effects on profitability, amounting to US $850 million annually from the year 2004.

Key elements are savings on material costs, production costs and fixed costs. Within the framework of measures designed to improve the existing business model, in the future Freightliner will concentrate on generating profitable business rather than increasing market share.

Global economic weakness. Prospects for the world economy deteriorated throughout 2001. Weighted for each country's share of the Group's revenues, economic growth in DaimlerChrysler's sales markets fell to 1.2% from 3.9% in 2000. As a consequence of the general economic weakness in North America, Western Europe, and South America, and the subsequent effects on the world economy of the terrorist attacks on September 11, growth rates were significantly lower than in the prior year. The Japanese economy was in recession and Asian emerging markets were unable to equal their dynamic growth of previous years.

There were only small exchange-rate movements during the period under review. The euro lost 5% of its value against the US $ and 2% against the British pound. However, it appreciated by 8% against the Japanese yen.

Difficult markets worldwide. Competition in the international automotive industry continued to intensify in 2001 for both passenger cars and commercial vehicles in nearly all market segments. This was primarily due to weaker demand in important markets, the resulting drop in capacity utilization and numerous new models in established market segments.

The US market for passenger cars and light trucks shrank by 1% or 0.2 million units to 17.1 million vehicles, despite significant increases in sales incentives. New registrations of passenger cars in Western Europe only equaled the levels of the previous year, particularly due to the weakness of demand in Germany, and the markets of Asia, South America and Eastern Europe did not provide any significant impetus.

The commercial vehicles sector was impacted by the dramatic shrinkage of demand in North America and Argentina. Particularly in the United States, following the weakening of the market for heavy and medium trucks in the prior year (-12%), there was a severe decline in 2001 (-26%). Demand in Western Europe also declined during the course of the year.

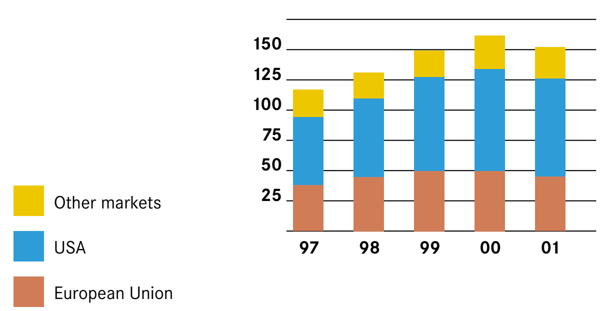
Consolidated revenues close to prior year's figure. In 2001, DaimlerChrysler achieved total revenues of €152.9 billion. Adjusted for changes in the consolidated Group, revenues were nearly at the same level as in 2000.

Revenues

In millions	2001 US $	2001 €	2000 €
DaimlerChrysler Group	136,072	152,873	162,384
Mercedes-Benz Passenger Cars & smart	42,462	47,705	43,700
Chrysler Group	56,506	63,483	68,372
Commercial Vehicles	25,432	28,572	29,804
Services	14,999	16,851	17,526
Other Activities	4,012	4,507	10,615

Consolidated Revenues

In billions of €



DaimlerChrysler Aerospace and debis Systemhaus were partially included in the prior year's figures. In addition, TEMIC (Automotive Electronics) and Adtranz (Rail Systems) were no longer consolidated from April and May 2001 respectively.

While the Mercedes-Benz Passenger Cars & smart division was able to increase revenues by 9%, at Chrysler Group and the Commercial Vehicles division they were lower than in the prior year. Services' revenues also declined slightly, but on a comparable basis there was growth of 12%.

4.5 million vehicles sold. DaimlerChrysler's unit sales of 4.5 million vehicles were lower than in the prior year (4.7 million).

The Mercedes-Benz Passenger Cars & smart division performed very well again, with record unit sales of more than 1.2 million vehicles (+6%), strengthening its position as the leading brand in the premium segment. (see pp. 26-29).

Unit sales by Chrysler Group of the Chrysler, Jeep and Dodge brands fell to 2.8 million vehicles (2000: 3.0 million). (see pp. 30-33).

Unit sales by the Commercial Vehicles division of 492,900 trucks, vans and buses were also lower than the high level of the prior year (549,000). (see pp. 34-37).

Consolidation phase at Services division. In the period under review, the Services division focused even more on sales financing and leasing for the products of the DaimlerChrysler Group. It achieved total revenues of €16.9 billion (2000: €17.5 billion). On a comparable basis (adjusted for the revenues of debis Systemhaus, which were still included at DaimlerChrysler Services in the first nine months of the prior year) the division's revenues climbed by 12%. Total contract volume of €131.8 billion reached the level of the prior year adjusted for exchange-rate effects, while, as planned, we limited our new business to €54.9 billion (2000: €56.8 billion). (see pp. 38-39).

Other Activities fulfill expectations. Despite the negative effects of the terrorist attacks on September 11, MTU Aero Engines was able to continue its positive trend of the previous years and achieved further increases in revenues and earnings. (see pp. 40-41).

EADS should also significantly increase revenues and earnings in its first full financial year. At the end of 2001, its order backlog climbed to a new peak of €183.7 billion. With a total of 1,575 aircraft on order, Airbus further improved its strong position in the world market for civil aircraft. (see pp. 41-42).

As expected, Mitsubishi Motors' revenues and unit sales decreased in the first half of the company's 2001/2002 financial year (ending on March 31, 2002). The restructuring measures are being implemented as planned, and the management expects to break even in the full 2001/2002 financial year. Mitsubishi Motors' long-term competitiveness should improve as a result of an extensive product offensive. (see pp. 42-43).

Concentration on the automotive business. In 2001, DaimlerChrysler maintained its strategy of focusing on the automotive business and related services.

In January 2001, we sold the remaining 10% of the shares of debitel AG to the Swiss telecommunications company, Swisscom.

On April 3, 2001, the European antitrust authorities approved the sale of Adtranz, our Rail Systems business unit, to the aeronautics and rail-technology group, Bombardier. This had been negotiated in August 2000. Adtranz was therefore removed from the DaimlerChrysler Group's consolidation effective May 1, 2001.

On April 9, 2001, we agreed to sell an initial 60% of the shares of TEMIC to Continental. We have an option to sell the remaining 40% to Continental at an agreed price between 2002 and 2005. TEMIC was therefore removed from the consolidated Group effective April 1, 2001 and has since been included at equity in line with our 40% stake. With this sale we have integrated TEMIC into a strong automotive supplier group with a wide range of products, increasing its potential for future growth.

In January 2002, we exercised our contractually agreed option to sell to Deutsche Telekom AG our 49.9% equity interest in T-Systems ITS (formerly debis Systemhaus AG). The sale of this investment is to be concluded by March 2002.

Also in January 2002, DaimlerChrysler and GE Capital agreed that GE Capital would acquire a part of DaimlerChrysler Services' capital services portfolio in the United States. The items to be transferred to GE Capital consist mainly of commercial real estate and the asset-based lending portfolio.

Strong brands efficient processes and innovative technologies

Stronger position in Asia. In the year under review, we enhanced our position in the growth markets of Asia.

In June 2001, we acquired from AB Volvo its 3.3% equity interest in Mitsubishi Motors, including all rights from the previous cooperation agreement between Mitsubishi Motors and Volvo in the field of commercial vehicles. We thus created the right conditions for developing a strong competitive position in the Asian commercial vehicle markets. DaimlerChrysler now holds 37.3% of Mitsubishi Motors' equity. Within the framework of our cooperation with Mitsubishi FUSO, the commercial vehicles division of Mitsubishi Motors, in December 2001 DaimlerChrysler took over the sales of the FUSO light truck, Canter, in selected European markets.

With Hyundai Motor Company (HMC) of South Korea, in which DaimlerChrysler holds a 10% equity interest, we agreed in June on the establishment of a joint venture for the production of medium-class commercial vehicle engines of the Mercedes-Benz 900 series in South Korea. Construction of the production facility started immediately after the contract was signed.

372,470 employees. At the end of 2001, DaimlerChrysler employed 372,470 people. The reduction compared with the prior year was partially due to the fact that TEMIC and Adtranz employees are no longer included in the workforce of the DaimlerChrysler Group. In addition, there were workforce reductions as a result of measures taken to improve profitability, in particular at Chrysler Group and Freightliner. (see pp. 50-51).

Intensive cooperation with suppliers. In 2001, DaimlerChrysler purchased goods and services worldwide worth €106.5 billion. Of this, 33% was accounted for by the Mercedes-Benz Passenger Cars & smart division, 43% by Chrysler Group, 19% by Commercial Vehicles and 5% by the other units. In close cooperation with our suppliers we have succeeded in significantly reducing the prices of materials. Parallel to this, together with our partners we have intensified our efforts to further improve the quality of our products. (see pp. 48-49).

€14.9 billion invested in the future. Last year the DaimlerChrysler Group invested €8.9 billion in property, plant and equipment and €6.0 billion in research and development. Expenditures were reduced as a result of the more efficient cross-divisional concentration of resources that was brought about by the turnaround activities. Major investments were made in the Mercedes-Benz Passenger Cars & smart division to prepare for the production of the new E-Class and the new SL. At Chrysler Group, preparations for the Jeep Liberty and the new Dodge Ram were among the more important projects. In the Commercial Vehicles division the focus was on investments for the production of the Vaneo and the Axor.

DaimlerChrysler's research and development departments employed more than 28,000 people at the end of 2001. In addition to developing new products, priority was given to developing new drive systems and electronic systems to enhance traffic safety. (see pp. 20-25 and 44-45).

Investments in Property, Plant and Equipment

In millions	2001 US $	2001 €	2000 €
DaimlerChrysler Group	7,918	8,896	10,392
Mercedes-Benz Passenger Cars & smart	1,834	2,061	2,096
Chrysler Group	4,524	5,083	6,339
Commercial Vehicles	1,321	1,484	1,128
Services	100	112	282
Other Activities	150	168	547

Research and Development Costs

In millions	2001 US $	2001 €	2000 €
DaimlerChrysler Group	5,348	6,008	7,395
Mercedes-Benz Passenger Cars & smart	2,138	2,402	2,241
Chrysler Group	1,959	2,201	2,456
Commercial Vehicles	903	1,015	974
Other Activities	347	390	1,753

Continuous improvement in profitability

- **DaimlerChrysler Group: significant earnings improvement expected in 2002 and beyond**
- **Executive Automotive Committee (EAC) established as an implementation platform for Group strategy**
- **Further growth at Mercedes-Benz Passenger Cars & smart**
- **Turnaround measures reinforced at Chrysler Group and Freightliner**
- **Services division to continue focusing on automotive business**
- **Investment in products and innovation to secure competitiveness**

Slow recovery of world economy. As a consequence of the generally difficult economic conditions in the world, which have further deteriorated since the terrorist attacks on the United States, we have re-examined and adjusted our assumptions for the development of global economic activity, particularly for the year 2002. We now assume that the economic upturn originally expected for the end of 2001 is only likely to begin in the second half of 2002, and then gather pace. We anticipate 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 within the planning period, whereas the Japanese economy will probably only begin to emerge from recession. We do not expect above-average growth in the emerging economies of Asia, South America or Eastern Europe before 2003.

Intensified competition in the automotive industry. Against this macroeconomic backdrop we have also revised our projections for automotive markets. In the year 2002 we now expect a significant decline in the market for passenger cars and light trucks in North America, and a moderate weakening of demand in Western Europe and Japan. Demand in Western Europe for trucks over 6 tons is likely to be distinctly lower than last year, whereas demand in the US market might continue to fall. The worldwide economic revival expected to begin in the second half of 2002 should have positive effects on automotive markets, with sales increasing in 2003 and 2004. Generally difficult market conditions, shorter product lifecycles and high production capacities will intensify competition and increase the pressure to cut costs in all market segments, which in turn should accelerate consolidation in the industry.

Continuous improvement in profitability at DaimlerChrysler. In order to counteract unfavorable market developments we will continue to implement the restructuring measures introduced in 2001, and will actually strengthen them in some areas. However, the fundamentals have now become more difficult and the task more challenging. DaimlerChrysler nevertheless expects Group operating profit for 2002 excluding one-time effects to exceed twice the 2002 level by a very significant amount. We are confident that we will achieve the results announced in February 2001, but at slightly later dates. Not only the turnaround plans will contribute to this, but also the enhanced coordination of our global activities and the resulting cost reductions, a more favorable market situation, and many attractive new products.

The Outlook section and other sections in this Annual Report contain 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 “Analysis of the Financial Situation” in this Annual Report) , 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.

With new concepts for a successful future

Revenues of €156 billion in the year 2004. On the basis of the current order situation and market expectations, we anticipate revenues of €142 billion in 2002 (2001: €153 billion). The decline of 7% compared with the prior year is mainly due to unfavorable market prospects, which will particularly affect Chrysler Group and the commercial vehicles business, but also to changes in the consolidated Group and the projected exchange-rate effects.

As a result of improving market conditions and primarily due to the introduction of attractive new vehicles, we expect revenues to increase to €156 billion by 2004. This figure assumes a moderate increase in the value of the euro against the US dollar, the British pound and the Japanese yen. The most rapid growth in revenues is likely to be achieved in Asia, South America and Eastern Europe.

EAC: a strategy-implementation platform. The Executive Automotive Committee (EAC) is the platform for the implementation of our strategy, with a focus on the four key pillars of global presence, strong brands, wide product range and technological leadership. Headed by Jürgen E. Schrempp and Jürgen Hubbert, this committee has been used to coordinate the Group's automotive business since the beginning of 2001.

Its goal is the effective exchange of technologies, innovations, components and processes between the divisions. This should result in the continuous improvement of the Group's cost position, while strictly maintaining the identity of individual brands.

Many important decisions were taken by the EAC in 2001, two examples being a common platform for the next-generation Chrysler Neon and Mitsubishi Lancer, and the use of Mercedes-Benz components in the Chrysler Crossfire.

Revenues In billions	Plan 2002 €	Target 2004 €
DaimlerChrysler Group	142	156
Mercedes-Benz Passenger Cars & smart	46	50
Chrysler Group	56	59
Commercial Vehicles	28	33
Services	16	19
Other Activities	2	3

The work of the EAC will continue to support the implementation of our strategy in 2002.
(see pp. 16-17).

Further growth at Mercedes-Benz Passenger Cars & smart. The Mercedes-Benz Passenger Cars & smart division plans to expand its product range in the coming years and penetrate new market segments, in order to ensure continued growth throughout the planning period. New products in 2002 include the new E-Class sedan and the CLK coupe. In addition, at the end of 2002 we will launch a luxury sedan under the Maybach brand, which will once more underscore DaimlerChrysler's leading position in the premium segment. The smart model range will be extended in 2003 with a roadster and in 2004 with a four-seater mini car.

Chrysler Group: return to profitability. Due to unfavorable economic conditions, the assumptions for 2002 underpinning Chrysler Group's turnaround plan have also been adjusted. In particular, expectations for the US market have been revised from 16 million passenger cars and light trucks to approximately 15 million vehicles. In order to break even in 2002 in the face of weaker market conditions, Chrysler Group has intensified and accelerated some aspects of the turnaround plan that was announced on February 26, 2001.

Furthermore, various new, innovative models such as the Dodge Viper, the Chrysler Crossfire, the Chrysler Pacifica and the new Dodge Durango should ensure that Chrysler Group's competitive position improves significantly in an extremely difficult market environment. Closer cooperation both within the DaimlerChrysler Group and with our partner Mitsubishi Motors should also help improve our cost position and margins, as well as the innovative potential of Chrysler Group.

Consolidation in the commercial vehicles business. In 2002, the Commercial Vehicles division will continue to adjust its capacities and cost structures to lower demand worldwide. As announced, another top priority will be to further implement the Freightliner turnaround plan. In order to strengthen its position as global market leader for commercial vehicles, in the year 2002 the division will present six new or revised vehicles, including the successor model in the Freightliner Business Class, the double-decker of the new Setra TOPClass 400 family of luxury buses, and revised versions of the successful Mercedes-Benz models, Actros and Sprinter. Important new products are also planned in the area of components, particularly the launch of the new OM 457 engine with turbobrake. Our long-term strategy is to achieve cost savings by taking more advantage of our position as the world's largest manufacturer of commercial vehicles. We see further potential to reduce costs and penetrate new markets, particularly the growth markets of Asia, as a result of the cooperation with our partners, Mitsubishi Motors and Hyundai.

Continued specialization at Services. The Services division will continue its strategy of focusing on automotive financial services, and will further improve its processes and structures in order to secure a sustained increase in profitability. At the same time, its product range will be more closely oriented towards the customers of the Group's various vehicle brands. Within the context of this strategy, in Germany from the middle of 2002, the DaimlerChrysler Bank will offer deposit and savings facilities, investment funds and customer credit cards, in addition to its existing products. We also intend to extend our activities in the areas of automotive and personal insurance, in fleet management and with telematics services.

Investments in Property, Plant and Equipment

In billions	Plan 2002 €	2002–2004 €
DaimlerChrysler Group	8.0	22.9
Mercedes-Benz Passenger Cars & smart	2.7	8.0
Chrysler Group	3.7	10.4
Commercial Vehicles	1.3	3.8
Services	0.1	0.2
Other Activities	0.2	0.5

Mitsubishi Motors: Growth with new products. Mitsubishi Motors (MMC) will continue to implement its restructuring program, which has already led to significantly better results in the 2001/2002 financial year. At the same time, innovative new models should ensure long-term profitability and growth for the important volume segments. The company will launch a total of 16 new model variants in the financial years from 2001 to 2003, including different variants for Japan, the United States, Europe and Asia. This ambitious plan will be supported by close cooperation between Mitsubishi Motors and DaimlerChrysler and particularly the Chrysler Group. And due to our acquisition of AB Volvo's equity interest in MMC in June 2001, there will also be new possibilities for cooperation between DaimlerChrysler's Commercial Vehicles division and MMC's FUSO unit.

Changed environment in the aeronautics industry. The terrorist attacks on September 11 have significantly altered the economic environment of the aeronautics industry.

Against this background, the MTU Aero Engines business unit anticipates a decline in revenues in the civil aircraft business in 2002. However, MTU Aero Engines aims to ensure its future profitability by means of targeted measures such as the analysis of planned investments, cost and development budgets, as well as the adjustment of existing capacities by flexible staffing. The foundation for this was already laid by expanding the maintenance business and participating in new programs.

EADS has also taken steps to maintain its profitability. These measures include keeping its Airbus manufacturing capacities at the level achieved in 2001 instead of the originally planned expansion, prudent human-resources planning and the accelerated imple-

Impressive premieres: In Detroit DaimlerChrysler presented concept cars by Mercedes-Benz, Jeep® and Dodge.
Left picture: from left to right, Jeep Willys2, Jeep Compass, Dodge Razor, and Dodge M80.
Right picture: Mercedes-Benz Vision GST (Grand Sports Tourer)

mentation of cost-cutting programs. In conjunction with its highly flexible production system, EADS expects that these measures will enable it to remain profitable despite sharper fluctuations in Airbus production. In 2002, EADS expects to deliver 300 Airbus aircraft (2001: 325). The development of the A380 is proceeding as planned.

Investment secures competitiveness. In the planning period of 2002 to 2004, DaimlerChrysler expects to invest €41 billion in property, plant and equipment, and research and development. A large part of this expenditure will be on the development and preparation for production of new passenger car and commercial vehicle models. In addition, we are planning significant spending on the modernization of manufacturing facilities in the automotive business and on the development of new technologies that will enhance the safety, environmental compatibility and economy of road transport.

With our investments and extensive research and development activities, the turnaround plans, and the cross-divisional activities of the Executive Automotive Committee, we are laying the foundations for continuously growing earnings at DaimlerChrysler.

Research and Development Costs

In billions	Plan 2002 €	2002–2004 €
DaimlerChrysler Group	**5.9**	**17.6**
Mercedes-Benz Passenger Cars & smart	**2.4**	**6.9**
Chrysler Group	**2.1**	**6.5**
Commercial Vehicles	**1.0**	**3.1**
Other Activities	**0.4**	**1.1**

Executive Automotive Committee: driving the implementation process

- **Key steering instrument for worldwide automotive business**
- **Preparation of cross-divisional decisions and initiatives**
- **Numerous projects defined and addressed; many already successfully completed**

Successful start for EAC. The Executive Automotive Committee (EAC), which was formed at the beginning of 2001 under the joint leadership of Jürgen E. Schrempp and Jürgen Hubbert, has already introduced several pioneering initiatives and has established itself as an effective, efficient and goal-oriented instrument for coordinating our global automotive business.

The activities of the EAC are intended to optimize and strengthen the Group's entire automotive business. Enormous cost-reducing potential can be realized through joint projects by the Group's three automotive divisions and our partner, Mitsubishi Motors, and through the resulting knowledge transfer.

The variety of DaimlerChrysler's brands is the basis for us to selectively target our customers – and to fulfill their individual wishes. In this context, the task of the EAC is to secure the uniqueness and identity of each individual brand.

To achieve this, the EAC concentrates on the following areas of work:

- Coordinating and optimizing the product portfolio
- Identifying new technologies and innovations and selecting the products and brands in which they will be applied
- Standardizing components
- Steering the global production capacities of the DaimlerChrysler Group
- Coordinating our global sales and marketing activities

Quick and flexible decisions. The EAC meets at monthly intervals.

In the year 2001, 45 projects were defined and analyzed, and reports on their progress were regularly submitted to the Committee. 19 of these projects were either already successfully completed in the first year or are now in their final stages. There are examples of the success of the EAC throughout its whole range of activities.

The overall steering of DaimlerChrysler's automotive business now takes place – with due consideration being paid to our alliance partners – in accordance with standard rules and processes. It is also an advantage that cross-divisional projects are discussed in detail in the EAC. This detailed coordination will enable us to keep ahead of the competition with our next generation of vehicles.

Product portfolio: cross-divisional segment strategy. In some vehicle segments the foundations have already been laid for the realization of synergies between the various products of the Group. For example, engineers from DaimlerChrysler and Mitsubishi Motors are working on a shared design concept for a small car in the so-called B-segment. The smart four-seater and the two Mitsubishi variants that are based on this platform are to be launched as early as 2004.

Another decision was taken to develop a common C-segment platform, with an estimated production volume of more than 500,000 vehicles per year, for the Chrysler Neon and the Mitsubishi Lancer and derived product variants.

Chrysler Group and MMC have also defined a third platform for full-sized sedans in the D-segment, that is, for the successors to their Stratus/Sebring and Galant models.

Definition of a long-term innovation calendar. A Group-wide innovation plan has been prepared as a joint project by the research and development departments. On this basis, the EAC has prioritized and coordinated the current innovation projects. The result is an innovation calendar which defines when each innovation is to be applied in which brand and in which product.

Groundbraking initiatives for the future

Standardization and exchange of components. Under the leadership of the EAC, interdisciplinary component teams of development engineers and purchasing managers have already identified numerous components which can be bought or made in larger numbers in the future, and which will therefore be significantly cheaper. These include electronic control units, batteries and fuel pumps.

A good example of the cross-divisional exchange of components is the Mercedes-Benz five-speed automatic transmission, which will be used in a modified form in Chrysler Group vehicles and for this purpose will be produced at a new gearbox plant in Indiana, USA, starting in the year 2004.

A product example is the Chrysler Crossfire, in which Mercedes-Benz components are also used. In this case in particular, a crucial condition was that the interests of both brands, Chrysler and Mercedes-Benz, were fully taken into consideration.

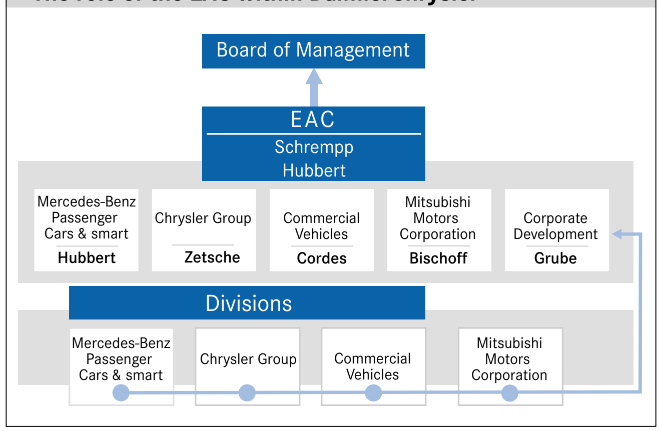
Coordination of sales and marketing activities. Cross-divisional, regional strategies are being developed together with representatives of our global sales and marketing organizations.

An important goal here is to investigate possibilities for standardization, while determining which areas have to remain unique for reasons of brand identity or to protect our customers' interests. Some of the issues to be dealt with are the further development of the distribution network, the organization of after-sales and service activities, and customer communication. The coordination of sales and marketing activities is one of the main tasks of the EAC for 2002.

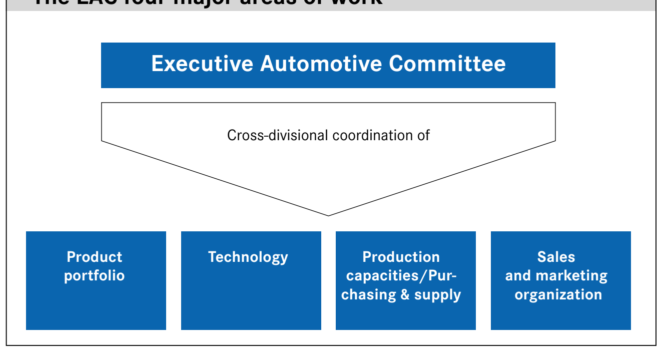
Continued implementation in 2002. The EAC has already proven its worth as a central platform for the implementation of our strategy of encouraging the intensive exchange of technologies, innovations, components and processes within the Group. In this way we can continuously improve our cost position and quality standards, and ultimately also the attractiveness of our products for the customers of DaimlerChrysler.

With this goal in mind, the EAC will successfully continue its work in the year 2002.

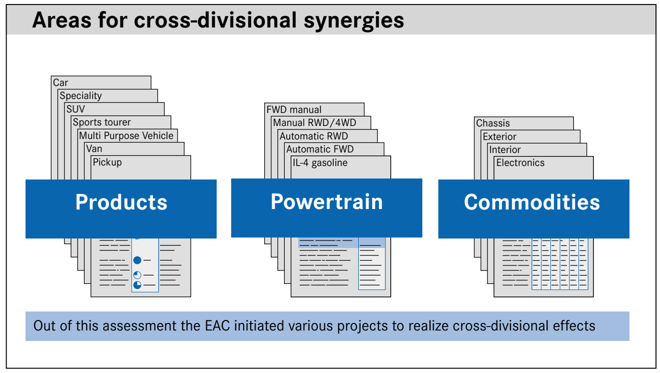
The role of the EAC within DaimlerChrysler



The EAC four major areas of work



Areas for cross-divisional synergies



A Global Company – DaimlerChrysler

- **DaimlerChrysler products are sold in more than 200 countries**
- **Manufacturing facilities in 37 countries**
- **Broad access to the fast-growing Asian markets through our strategic partners Mitsubishi Motors and Hyundai Motor**

Europe

	Production locations	Sales outlets	Revenues in millions of €	Employees
Mercedes-Benz Passenger Cars & smart	8	–	29,894	93,807
Chrysler Group	2	–	3,785	2,261
Commercial Vehicles	17	–	15,313	63,080
Sales Organization Automotive Businesses	–	5,012	–	35,293
Services	–	95	4,768	3,817
Other Activities	2	3	2,221	16,898

NAFTA

	Production locations	Sales outlets	Revenues in millions of €	Employees
Mercedes-Benz Passenger Cars & smart	1	–	11,891	2,111
Chrysler Group	41	–	58,210	101,027
Commercial Vehicles	19	–	9,463	18,615
Sales Organization Automotive Businesses	–	5,522	–	2,200
Services	–	48	11,596	5,231
Other Activities	2	1	2,012	4,030

South America

	Production locations	Sales outlets	Revenues in millions of €	Employees
Mercedes-Benz Passenger Cars & smart	1	–	347	1,508
Chrysler Group	2	–	725	748
Commercial Vehicles	2	–	1,456	12,024
Sales Organization Automotive Businesses	–	691	–	–
Services	–	9	212	305
Other Activities	–	1	72	–

Note:
Unconsolidated revenues of each division (segment revenues)

A global presence
with strong brands and products



Asia

	Production locations	Sales outlets	Revenues in millions of €	Employees
Mercedes-Benz Passenger Cars & smart	3	–	4,236	347
Chrysler Group	2	–	443	16
Commercial Vehicles	2	–	1,170	1,496
Sales Organization Automotive Businesses	–	1,054	–	511
Services	–	3	109	76
Other Activities	–	2	167	173

Australia/Oceania

	Production locations	Sales outlets	Revenues in millions of €	Employees
Mercedes-Benz Passenger Cars & smart	–	–	561	–
Chrysler Group	–	–	152	–
Commercial Vehicles	–	–	396	531
Sales Organization Automotive Businesses	–	343	–	729
Services	–	2	95	132
Other Activities	–	–	15	–

Africa

	Production locations	Sales outlets	Revenues in millions of €	Employees
Mercedes-Benz Passenger Cars & smart	1	–	776	4,450
Chrysler Group	1	–	168	5
Commercial Vehicles	2	–	774	898
Sales Organization Automotive Businesses	–	210	–	–
Services	–	3	71	151
Other Activities	–	–	20	–

The “Vision of Accident-free Driving”

Road accidents are generally regarded as inevitable. However, many of them can be prevented, and DaimlerChrysler, a pioneer in the application of innovative technologies, with its premium brand Mercedes-Benz is pursuing its “Vision of Accident-free Driving.” Our researchers and developers are working towards increasing the safety of future automobile generations to a level which only a few years ago would have been regarded as unattainable: Our objective is to prevent most accidents or at least to alleviate their consequences. In matters of safety, Mercedes-Benz has been at the forefront for decades. And our commitment to the “Vision of Accident-free Driving” should be an encouragement to the entire automotive industry. DaimlerChrysler intends traffic to be safer, more convenient and more environment-friendly overall.

At least every second road accident might be prevented if the vehicles involved were fitted with appropriate driver-assistance systems. The number of fatalities and injuries could thus be drastically reduced over the coming 15 to 20 years. On the other hand, driver-assistance systems should not restrict drivers’ freedom in critical situations or diminish their ultimate responsibility.

Putting critical fractions of a second to use. In the year 2000, some three million people were injured and 42,000 killed in accidents on US roads; during the same period, there were 500,000 injuries and 7,700 fatalities in Germany. Nine out of ten road accidents resulting in injury or death are the result of human error. Even if a driver recognizes a hazard, he or she often lacks sufficient time for an appropriate reaction as a result of the surprise situation.

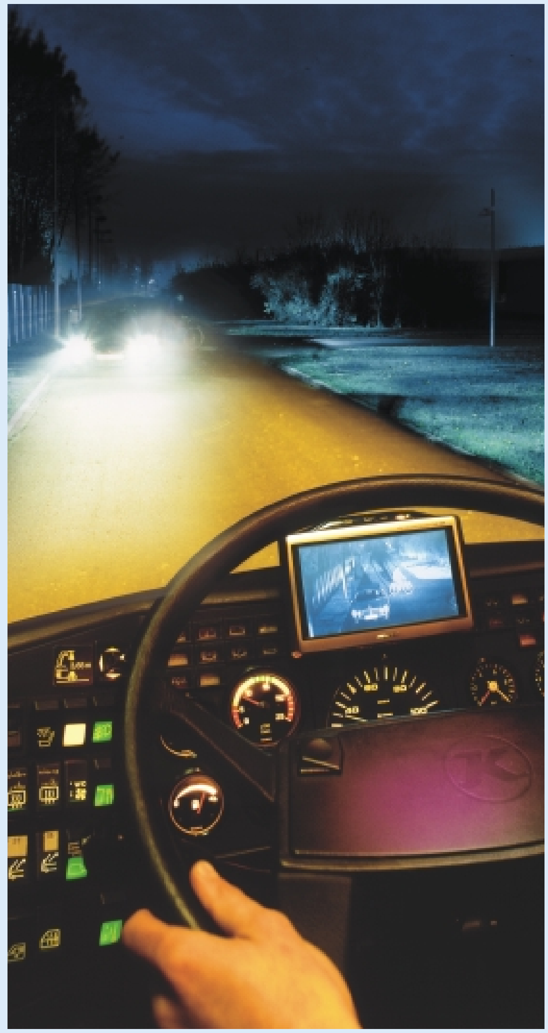
The car of tomorrow will think with you

Electronic systems, on the other hand, have almost no reaction time. In about two-thirds of all road accidents, they could be in a position to recognize certain critical situations in good time. They register the surroundings of the vehicle and transmit this data to a special electronic system, where it is evaluated and interpreted. Such driver assistance systems can help people to perceive hazardous situations and to act safely in road traffic. Sensors can help alert the driver and increase the opportunity to prevent an accident.

Innovation through electronics. Today, 80% of all innovations in the automotive industry are influenced by electronics. Thanks to high-powered microchips and increasingly efficient computer architecture, computation speeds have doubled annually over the past few years and this has been a decisive factor in the development of driver-assistance systems. DaimlerChrysler researchers have made pioneering advances that can interpret images in near real-time. A rapid, efficiently-organized data-processing system is employed which accesses networked tables instead of having to carry out intricate computations. Images can thus be recognized considerably more quickly than with methods used previously.

The reliable recognition of traffic signs also works in conditions of diffuse light and during the night at distances of 30 to 40 meters.

Night vision: Two headlights illuminate the road with beams of invisible infrared light. An infrared video camera captures the reflected light and the image is shown on an LCD screen.

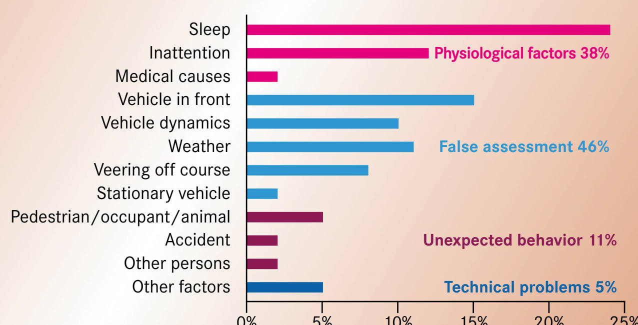


Our researchers also make use of so-called teachable methods. So the emphasis is no longer on drafting and testing, but on the selection and training of certain systems. Like humans, it is possible for systems to learn by example and thus they can become increasingly versatile.

Matching man and machine. Research also makes use of findings from the fields of psychology, anthropology, ergonomics and neurophysiology. Drivers do not react the same way in all situations. When taking evasive action at high speed, for example, drivers tend to exaggerate steering movements. In such a situation, he or she often reacts in a reflex manner. If a driver is trying to read a map or is distracted by a child in the rear seat, he or she could fail to notice other, objectively more important occurrences.

Research in the field of “human-machine interaction” is important for the development of practice-oriented information systems capable of individualization. The goal of such systems is to help drivers become more attentive without diverting their attention from the traffic situation.

Causes of
fatal road accidents*)



*) On highways in Bavaria in 1991
Source: GDV, Institut für Fahrzeugsicherheit, München
(Institut for Automotive Safety, Munich)

DaimlerChrysler is committed to a total safety concept

Pioneers in safety. DaimlerChrysler is an innovator in automotive safety research and increasingly employs assistance systems which help drivers recognize hazardous situations. Mercedes-Benz engineers are now working on new intelligent systems which will enhance active and passive safety even further.

At DaimlerChrysler, safety has consistently been accorded utmost priority from the earliest days of the company’s history. The first safety features were developed by Mercedes-Benz as early as 1939. The safety cell with crumple zones in the front and in the rear of a car as well as improved restrained systems like automatic seat belts, seat belt pretensioners and airbags have long been standard equipment for many of its passenger vehicles. For decades, the company has enhanced the concepts of “passive safety” for mitigating the consequences of an accident and “active safety” for accident prevention. As early as the seventies, pattern recognition – the multidimensional recognitition and interpretation of objects by computer – was a major focus of research at Mercedes-Benz. Advances in brake technology paved the way for the anti-lock braking system (ABS) in 1978: For the first time, sensors were used to monitor the rotation of each wheel and control brake pressure accordingly. This was followed by inventions such as acceleration skid control (ASR), brake assist, and the electronic stability program (ESP). Today, DaimlerChrysler is committed to a holistic safety concept. Active safety in particular still offers considerable potential.

The stereo-vision camera is the sensor for the City Assistant. The picture of the surroundings must be passed on in high definition to image processing for instant evaluation.

The “Vision of Accident-free Driving” today. DaimlerChrysler already offers driver-assistance systems that help increase safety in many of its production passenger cars and commercial vehicles. Crucial stopping distance can be wasted if drivers fail to apply sufficient pressure to the brake pedal in critical situations. Brake Assist recognizes a hazardous situation on the basis of how quickly the driver depresses the pedal, and immediately applies full braking pressure.

Skidding is another critical factor. Sooner than even the most experienced driver, the *Electronic Stability Program (ESP)* recognizes when a vehicle is tending to skid. The system then intervenes to help stabilize the vehicle by issuing precisely-metered braking impulses or by reducing engine output. ESP therefore helps unite the functions of other driving dynamics regulation systems such as brake assist, the anti-lock braking system (ABS) and acceleration skid control (ASR).

Sensotronic Brake Control (SBC) is an electronic system that also helps stabilize vehicles and reduces braking distances. SBC transmits the driver’s braking commands to a microcomputer which calculates the optimum brake force for each wheel. Maximum brake force is applied more rapidly thanks to a high-pressure reservoir and electronically controlled valves.

The electronic brake system encompasses other valuable features such as the dry braking function which eliminates the film of water which forms on the brake disks during wet weather, and the new soft-stop function which allows more gentle stopping in inner-city driving.

We are driven by visions of the future

Distronic, a comfort system, also eases the burden on the driver. A radar sensor located in the radiator grille measures the distance to the vehicle in front. The sensor can observe the traffic scenario up to 150 meters (almost 500 feet) ahead. If the car approaches a recognized vehicle in front too closely, Distronic can automatically disengage the accelerator and – if necessary – gently apply the brakes.

Drifting from a traffic lane on motorways is a major cause of accidents, especially when trucks and buses are involved. The *Lane-departure Warner* can alert the driver to the danger of leaving a recognized lane of traffic with a signal – the distinctive sound of a vehicle crossing a line of marker studs on the road. The driver then steers the vehicle back on course. The vehicle's position is analyzed by a high-powered computer on the basis of camera images and lane markings.

Proven in the test car: In critical situations a driver can react faster with sidesticks than with accelerator and brake pedal.

Our "Vision of Accident-free Driving" tomorrow. Safety systems which are already on board of road vehicles have helped to bring about a considerable reduction in accidents. Even more might be prevented if drivers were supported by additional 'eyes.' Future developments will therefore help enhance visibility, especially at night and in complex traffic situations.

Many accidents occur in darkness, rain, fog and in the dazzling light of oncoming vehicles. With the *Night Vision* infrared system, the driver has a range of vision of up to three times as long as that provided by conventional low-beam headlights. *Night Vision* can help drivers recognize the topography of the road, obstacles and darkly clothed pedestrians 150 meters (almost 500 feet) away. Conventional low-beam headlights, on the other hand, illuminate the road ahead for only 40 meters (130 feet).

Nose-to-tail collisions resulting from driver fatigue or distraction can have devastating consequences. Many accidents, especially those involving heavy trucks, could be prevented by the development of intelligent systems. The so-called *Electronic Crumple Zone* can prevent up to 80% of rear-end collisions involving two trucks and over 30% of all truck accidents on motorways. This system can help brake a vehicle if it approaches the vehicle in front too closely and the driver fails to react.

More efficient road utilization, a 15% reduction in fuel consumption and improved working conditions in the truck cockpit are provided by the *Electronic Drawbar*. This means greater safety for other road users as well. With this system, two trucks are coupled by electronic means: The leading vehicle is driven as usual, while the second truck automatically follows it without a mechanical connection. Either vehicle can terminate the link at any time.

Many minor accidents in inner-city traffic are also avoidable. Relief from stress in this complex environment and in bumper-to-bumper traffic is provided by the *City Assistant*: Vehicles fitted with this system can follow the car in front at a previously selected distance under normal conditions. It can help to identify stop signs, traffic lights, moving objects and pedestrians: Several recognition modules operating in parallel analyze the characteristic shapes and image sequences with the results being conveyed to the driver or directly to the brake and steering systems or the cruise control unit.

With the *Lane-change Assistant*, displays in the exterior mirror warn the driver when detected overtaking vehicles are in his or her ‘blind spot.’ For this purpose, video cameras are fitted behind the rear-view mirror and on the vehicle exterior; the images they provide are analyzed in real-time.

Engineers are investigating how the driver’s peripheral field of vision can be improved with the *Bubble-top Car*. Human beings process 90% of all information visually. A Mercedes-Benz CLK convertible fitted with a glass bubble roof is helping researchers to analyze how often and for how long a driver fixes his or her gaze in a particular direction, and to use this information for example to optimize the contours of the A-pillars or in developing new vehicle concepts.

In the future, the PRE-SAFE occupant-protection concept from Mercedes-Benz can help reduce injury risk in certain critical situations. The protective systems, such as seat belt pretensioners, react within a matter of milliseconds; the human recognition phase, on the other hand, is in the order of seconds. Taking advantage of this reduction in time will open up a new dimension in vehicle-occupant protection. Thus, PRE-SAFE may activate special protective systems such as seat belt pretensioners and automatically adjustable seats in certain critical situations. If no accident occurs, all systems return to their original status. Extendable bumpers, deployable crash boxes or movable interior elements are also being researched. The system is analogous to nature: a falling cat will turn in flight so as to assume the most favorable position on landing.

Infinite possiblities. Driver-assistance systems will be even more efficient once they are capable of processing and transmitting location based data. The telematic control complex PASS (Position Aware Safety Systems), currently being researched, uses an automated

The CLK convertible with a glass bubble roof is used to investigate vision requirements when driving. The test drivers’ viewing behavior can be analyzed with a variety of simulated A columns.

Pedestrians are recognized from their typical leg movements. The system uses picture sequences for identification.

Position Aware Safety Systems (PASS) will optimize car driving: vehicles could automatically help to avoid obstacles that suddenly appear, such as rocks on the road.

exchange of information between traffic participants whose positions are provided by the *Differential Global Positioning System (DGPS)*. The assistance systems on board a vehicle receive all this data, evaluate it and may react by steering or braking. Information on road conditions is acquired by special computers on board the vehicles which build up an increasingly precise database. In the future, vehicles might be able to inform each other of hazards or traffic jams. In addition to enhancing safety, this vehicle-to-vehicle communication will improve route planning.

A further future safety element is provided by the *Drive by Wire* electronic system. Accelerating, braking and steering can be carried out electronically without any mechanical connections. Like aircraft, road vehicles can be controlled by purely electronic means using ‘sidesticks’ – two ergonomically contoured joysticks which perform the functions of the steering wheel and pedals. Mechatronic sensors register how much pressure the driver applies to the sidestick and in which direction, filter out excessively sharp steering movements and give the driver the feeling of direct contact with the road. The sidesticks thus help the driver to brake more rapidly or even to better avoid obstacles. The driver does not tire as quickly and can have a better view of the instruments. The electronically controlled brake system (Brake by Wire) is already available in certain Mercedes-Benz production vehicles.

The “Vision of Accident-free Driving” at DaimlerChrysler: vehicles will become increasingly skilled at understanding their surroundings. They will recognize the traffic in their vicinity, and they may be fitted with microphones so that we can talk to them; they may be able to interpret road signs and react of their own accord when necessary. Their ability to “think along with the driver” will help prevent many accidents or mitigate their consequences. These assistance systems, which are constantly on the alert and are never distracted, will support the driver and make road traffic considerably safer.

Our goal is accident-free road transport

Another record year for Mercedes-Benz and smart

- **Adjusted operating profit adjusted up 3% to €3.0 billion**
- **New sales record of more than 1.2 million units (+6%)**
- **New SL-Class with pioneering technology**
- **Growth continues at smart**

Record sales, revenues and operating profit. The Mercedes-Benz Passenger Cars & smart division increased sales, revenues and operating profit once again in the year under review. Worldwide, 1,229,700 vehicles were sold (2000: 1,154,900). Revenues increased 9% to €47.7 billion (2000: €43.7 billion). Despite higher costs associated with the development and launch of new models and the last full year of the current E-Class, operating profit adjusted for one-time effects increased by 3% to €3.0 billion – also a new record.

Success continues at Mercedes-Benz. The Mercedes-Benz brand posted a new record in 2001 by selling 1,113,500 vehicles, a 6% increase. The C-Class family was particularly successful. The series includes the C-Class sedan, the new version of the station wagon, and the brand new sports coupe, more than 59,000 units of which have already been delivered since the vehicle was launched last spring. The excellent performance of the C-Class more than offset the lifecycle-related decline of the E-Class. The A-Class, which underwent a model update in June and is now also available in a long-wheelbase version, has done very well in the market. The M-Class underwent a substantial model update in the fall of 2001, and unit sales again reached a high level, despite difficult market conditions in the US. With a worldwide market share of more than 50%, the S-Class sedan was once again by far the number-one vehicle in its segment.

The Mercedes-Benz brand continued to grow in nearly all markets in 2001. Sales of Mercedes-Benz vehicles in Western Europe rose 6%. In Germany, despite a weakening market, we nearly equaled our sales level of the previous year, while further increasing market share to 11.9% (2000: 11.8%). We sold 206,600 passenger cars in the US, thereby surpassing the record set in 2000 by 0.5%. In Japan, the success enjoyed by the new C-Class led to a significant increase in new registrations of Mercedes-Benz vehicles (+5%). Sales also developed positively in other regions, particularly in the emerging markets of Asia and Eastern Europe.

First cycle of the product offensive successfully completed. The launch of the new SL in the fall of 2001 marked the successful completion of the first cycle of the product offensive begun in 1993. Sales have more than doubled since the program was initiated. Mercedes-Benz now has one of the youngest model ranges in the premium class, with an average age of only 2.6 years (excluding the G-Class SUV). Completely new models which had no predecessor series in 1993 now account for 46% of total unit sales. The A-Class and M-Class make up 26% of total unit sales.

Amounts in millions	2001 US $	2001 €	2000 €
Operating profit	2,627	2,951	2,145
Operating profit adjusted	2,636	2,961	2,874
Revenues	42,462	47,705	43,700
Investment in property, plant and equipment	1,834	2,061	2,096
Research and development	2,138	2,402	2,241
Production (units)		1,249,951	1,161,601
Unit sales		1,229,688	1,154,861
Employees (Dec. 31)		102,223	100,893

Worldwide luxury brand No.1

A dream come true: The new SL is Mercedes-Benz' interpretation of a thoroughbred sports car – it offers roadster exhilaration combined with maximum safety and supreme comfort.

A continuing passion:
The new E-Class.

The second cycle of the product offensive will also involve penetrating market segments that are new to Mercedes-Benz as a means of ensuring further the profitable growth of our premium vehicles. The “Vision GST” concept car presented at the Detroit Auto Show in January 2002 illustrates the opportunities generated by this approach.

Pioneering innovation in the new SL-Class. In the fall of 2001, Mercedes-Benz embarked on a new chapter in the tradition of the SL roadster by introducing a stylistically fascinating new sports car with state-of-the-art engineering.

The most important technical milestone in the SL is its Sensotronic Brake Control (SBC) electronic-hydraulic braking system. Mercedes-Benz was the first in the world to offer this system. SBC represents the first element of future by-wire systems that use electronic signals to carry out drivers’ commands, instead of conventional mechanical parts or hydraulics.

It works together with the proven electronic stability program (ESP) and the Active Body Control (ABC) chassis system that reduces body movements to a minimum in bends or during braking. (see pp. 20-25). This unique combination of modern electronic chassis systems gives the new SL dynamic handling like no other vehicle as well as offering the highest level of safety.

In addition, the newly developed Vario roof makes driving the SL a truly fascinating experience that combines the driving pleasure of an open roadster with the excellent comfort of a Mercedes-Benz coupe.

Greater efficiency with the Mercedes-Benz Production System. Assembly of the SL at DaimlerChrysler’s plant in Bremen, Germany, is setting new standards, thanks to the new Mercedes-Benz Production System (MPS). With this system the necessary quality gates in production were achieved much earlier than was previously the case due to a higher level of standardization and more extensive integration of production processes into the vehicle development stage. The improved processes enabled us to reach optimal capacity after only four months. We will therefore probably be able to produce 30,000 SLs in 2002.

Mercedes-Benz portal launched. Since September 2001, customers and others interested in the Mercedes-Benz brand have been able to obtain extensive mobility services via the new Mercedes-Benz portal at **www.mercedes-benz.t-online.de** or from a special call center (tel. in Germany: 0190/78 88 80). Services include detailed route planning with up-to-the-minute traffic and weather reports, professional office applications, customizable appointment calendars, an extensive range of information and various transaction and reservation features. The Mercedes-Benz portal is operated by StarMobility GmbH, a joint venture between DaimlerChrysler (51%) and T-Online (49%).

100 years of Mercedes-Benz. In December 1900, Emil Jellinek commissioned Wilhelm Maybach, chief engineer of the Daimler Motoren Gesellschaft (DMG), to build 36 vehicles for resale. Jellinek used the pseudonym Mercedes (his daughter’s name) for his cars when they were driving in races. The numerous racing successes recorded by the “Mercedes cars” led the Daimler Motoren Gesellschaft to begin marketing all of its vehicles under the Mercedes name in 1901. According to Interbrand’s ranking, Mercedes-Benz is today the world’s most valuable premium automobile brand and twelfth among all kinds of brands worldwide.

Successful in motor sports. Mercedes-Benz was among the top brands in motor sports in the year under review. The McLaren-Mercedes team finished second in the Constructors’ Championship of the Formula 1 racing series, which is seen by an average 300 million television viewers and spectators per race. David Coulthard finished second in the Drivers’ Championship, while Mika Häkkinen, in whose placed Kimi Raikkönen will be racing next season, finished fifth. Mercedes-Benz also won eight of ten races in the German Touring Car series, capturing both the drivers’ and the team championships.

smart: unique driving experience and great practicality

More than 116,000 smarts sold. The innovative smart car concept, combining fun and great practicality with a compact yet spacious and safe interior, was particularly successful in 2001. Smart sold 116,200 city coupes and convertibles (up 14%) in the year under review. Increased demand within the smart brand occurred mainly from sales of the smart cdi and smart convertible, selling 27,700 and 23,300 units. The smart cdi remains the best selling and best-priced “three-liter car” (fuel consumption better than 67 miles per US gallon) in Western Europe. Germany is its most important market, with sales of 46,700 vehicles, followed by Italy (30,000), and France (8,700). The successful introduction of the smart in the UK and Greece was followed by its launch in Japan in the year under review. The smart city coupe has been available as a right-hand-drive vehicle since October 2001, and is also now offered as a “kei car” version subject to a lower vehicle tax in Japan.

Upcoming new smart products. Following the presentations of the smart roadster and roadster coupe concept vehicles in 1999 and 2000 respectively, additional future model variants of the smart were presented at the International Auto Show in Frankfurt. Among the highlights was the world premiere of the smart tridion4 show car. The car demonstrates the versatility of the brand and shows that a model with four seats and five doors can still be a true smart. We also introduced an alternative drive concept known as the smart hyper. It features both a diesel engine and an electric motor. This combination allows noticeably lower fuel consumption and emissions than a conventional drive system.

Maybach: new luxury-car brand with tradition. Supreme individuality, stylish elegance and ultimate exclusiveness combined with maximum space and comfort – these are the goals of the newly established Maybach brand. Maybach is to be revitalized as an independent top brand in the ultra-luxury segment. Product development is running according to plan. The Maybach factory will start operations in the fall of 2002, and will use a flexible manufacturing system to produce up to 1,500 limousines a year.

Individually open – from the folding sliding roof to fully convertible: The smart convertible & passion represents a flexible, future-oriented mobility concept.

Unit Sales 2001 *)	1,000 Units	01:00 (in %)
Mercedes-Benz	1,114	+6
of which: A-Class	191	-4
C-Class	507	+30
of which: CLK	65	-20
SLK	42	-19
Sport Coupe	59	.
E-Class	201	-18
S-Class/SL	107	-2
M-Class	102	-3
G-Class	6	+53
smart	116	+14
Mercedes-Benz and smart worldwide	1,230	+6
Europe	854	+7
of which: Germany	436	-1
Western Europe (excluding Germany)	402	+16
NAFTA	229	+4
USA (retail sales)	207	+0
South America	16	-20
Asia/Australia (excluding Japan)	58	+12
Japan (new registrations)	55	+13

*) Group figures, unless otherwise indicated, (including leased vehicles)

Turnaround plan meets expectations

- **Operating loss excluding one-time effects of €2,183 million is lower than previously announced**
- **Better cost reductions and efficiency improvements offset decline in unit sales and revenues**
- **Successful launch of new Jeep Liberty and Dodge Ram**

Earnings goal achieved. Despite the difficult market conditions in North America, Chrysler Group's operating loss excluding one-time effects of €2,183 million (2000: operating profit of €531 million) was lower than the target range set at the beginning of the year (operating loss of €2.2–2.6 billion). The implementation of the turnaround plan achieved cost savings and efficiency improvements that were substantially greater than originally planned, offsetting the negative impact of declining unit sales and revenues. Due to the intensely competitive market situation with further increases in sales incentives, unit sales in the United States fell by 11% to 2,196,000 vehicles, and market share slipped to 13.0% from 14.2% in the prior year.

Worldwide, Chrysler Group sold 2.76 million cars, minivans, SUVs and light trucks in 2001 (2000: 3.05 million). These figures reflect Chrysler Group's short term strategy of improving profits rather than protecting market share at any price. New and additional products will provide for market share growth in the medium to long term. Revenues declined by 7% to €63.5 billion.

Efficiency and creativity in product development. New and attractive products offered at competitive prices are the foundation of the future success of Chrysler Group. Established in 1989, Chrysler Group's Platform Team concept revolutionized the product-creation process for high-volume manufacturers. Building on that experience we have now formed Product Innovation Teams to more closely link the entire organization. This new approach aims for "disciplined pizzazz" at all levels of the product-creation process in order to achieve reduced vehicle development times, improved quality and sustained profitability. At the same time, we will maintain the attractive design and ability to discover new market niches that Chrysler has become known for, and which is the basis for the success of our brands.

The Chrysler Crossfire: from concept to reality. The Chrysler Crossfire concept vehicle continues Chrysler Group's strategy of developing breakthrough vehicle concepts and turning them into reality. Following in the footsteps of the Dodge Viper, Chrysler Prowler and

Amounts in millions	2001 US $	2001 €	2000 €
Operating profit (loss)	(4,701)	(5,281)	501
Operating profit (loss) adjusted	(1,943)	(2,183)	531
Revenues	56,506	63,483	68,372
Investment in property, plant and equipment	4,524	5,083	6,339
Research and development	1,959	2,201	2,456
Production (units)		2,679,411	2,963,822
Unit sales		2,755,919	3,045,233
Employees (Dec. 31)		104,057	121,027

The American way of life...

Convincing for customers: Stunning design and innovative features put the all-new 2002 Dodge Ram 1500 at the head of its class.

North American Car of the Year: The segment-busting Chrysler PT Cruiser with its head-turning design and high versatility.

Chrysler PT Cruiser, the series version of the Crossfire will give the Chrysler brand another exciting and aspirational vehicle. It joins the Chrysler PT Cruiser, 300M and Town & Country in reinforcing the brand's innovative appeal. As an image car, Chrysler Crossfire demonstrates Chrysler Group's flexibility and speed in decision-making. DaimlerChrysler will produce the Chrysler Crossfire together with the Karmann company in Osnabrück, Germany. Many Mercedes-Benz components will be used in this car, which is to be launched in 2003, just 18 months after the production decision was taken in August 2001. The Chrysler Crossfire is a good example of the potential that cross-divisional cooperation initiated by the Executive Automotive Committee is making available to the Group.

214,300 Chrysler PT Cruisers sold. In response to the strong global demand for the PT Cruiser, we have steadily increased production of this innovative and versatile vehicle since it was launched at the beginning of 2000. The popular PT Cruiser offers the interior volume of a full-size sedan or sport-utility vehicle with a length shorter than many compact cars. After unit sales of 141,200 in its first year, 214,300 PT Cruisers were sold in 2001.

In total, the Chrysler brand achieved unit sales of 775,500 vehicles (2000: 694,200).

Successful launch of Jeep® Liberty. The all-new Jeep Liberty provides a distinctive Jeep design that delivers efficient space utilization, enhanced versatility and new levels of innovation, while paying homage to the brand's 60-year heritage. With these best-in-class capabilities, Liberty has gone on to set new sales records each month since its launch in spring 2001 – all without sales incentives. Unit sales of the new Jeep Liberty in North America totaled 141,700 in 2001. In Europe the Liberty was presented under the Cherokee name at the Frankfurt International Motor Show in September 2001.

The Jeep Liberty is produced for the world market at the new Toledo North Assembly Plant (TNAP) in Ohio. DaimlerChrysler began to design TNAP at the time of the merger in 1998. It now represents the culmination of best practices from the company's worldwide manufacturing operations and is a great example of incorporating new technology from Mercedes-Benz.

Unit sales of the Jeep brand were 523,000 vehicles in 2001 (2000: 607,500).

Presentation of pioneering automotive concepts. Building on the momentum of its award-winning Jeep Willys concept vehicle, Chrysler Group designers presented the radical Jeep Willys2 design study concept at the Tokyo Motor Show in October 2001. Willys2 was also designed with unsurpassed imagination and an adventurous flair. Its usefulness and versatility were developed to exist in harmony with nature, while being perfectly suited for the rigors of an active lifestyle.

Other concept vehicles introduced at auto shows in early 2002 were the Dodge M80 pickup truck, the Dodge Razor and the Jeep Compass. Chrysler Group's 2002 concept vehicles all target the Millenial Generation, the next large emerging group of consumers. They were designed to be aspirational, emotional, minimalist and practical. By incorporating many corporate off-the-shelf components, all concepts will be affordable if produced.

Excellent design and convincing functionality

The ultimate SUV: Jeep Liberty combines legendary off-road abilities with on-road comfort.

In addition, the Chrysler Pacifica concept vehicle premieried in early 2002. This all-wheel-drive vehicle is particularly well suited for long trips and combines the spatial comfort of a minivan with the versatility of an SUV as well as the smooth driving qualities of a sedan. A series version of the Chrysler Pacifica, which will be very similar to the concept study, will be presented by Chrysler Group in 2002. Production should then begin in the first half of 2003.

New 2002 Ram continues Dodge brand's success story. The all-new 2002 Ram 1500 was launched in September 2001 and sets new standards for the competition. Compared to the previous model the Dodge Ram was improved significantly in every area, from design to handling, from performance to capability, while maintaining the core qualities of every Ram. This was demonstrated by Four Wheeler magazine's selection of the all-new Dodge Ram for its prestigious "Pickup Truck of the Year" award.

Due to this model changeover and the generally difficult market conditions, however, unit sales by the Dodge brand were 1,457,400 vehicles (2000: 1,695,400).

More than nine million minivans sold. Eighteen years after Chrysler Corporation invented the minivan segment, Chrysler Group celebrated production of the nine-millionth minivan in April 2001. It came off the assembly line at the European manufacturing facility in Graz, Austria. Chrysler Group sells nearly 600,000 minivans a year in more than 70 countries around the world. With three minivan assembly plants, Chrysler Group has the capacity to build more than 2,700 minivans per day. The Dodge and Chrysler brands have over 35% of the minivan segment in the United States, despite having over 15 competitors.

U-Connect – new vehicle communication system. Starting in 2002, DaimlerChrysler will be the first automaker to offer an innovative communication system featuring hands-free voice recognition. An affordable solution designed specifically for Chrysler Group customers. U-Connect is multilingual (English, Spanish and French) and recognizes various voices (up to five). Unlike competing products, U-Connect is based on a customer's mobile telephone and works both inside and outside the vehicle. An after-market version of the new system will be available in the spring of 2002, with factory installation starting in early 2003.

Unit Sales 2001 *)		1,000 units	01:00 (in %)
Total		2,756	- 10
of which:	Passenger Cars	698	- 15
	Light Trucks	596	- 16
	Minivans	592	+ 1
	SUVs**)	870	- 6
USA		2,196	- 11
Canada		241	- 10
Mexico		133	+ 10
Rest of the world		186	- 0

*) Shipments (including leased vehicles)
**) Including the PT Cruiser

Still the world leader

- **Business developments significantly impacted by weak market in North America**
- **Adjusted operating profit slightly positive at €51 million**
- **492,900 commercial vehicles sold (–10%)**
- **Restructuring measures well underway at Freightliner**
- **Strategic partnerships strengthen market presence in Asia**

Consolidation in the Commercial Vehicles division. Despite a difficult year for the sector as a whole, Commercial Vehicles sold 492,900 (2000: 549,000) trucks, buses and vans worldwide of the brands Mercedes-Benz, Freightliner, Sterling, Western Star, Thomas Built Buses, Setra, Orion and American LaFrance. We therefore succeeded in maintaining our position as the world's leading manufacturer of commercial vehicles. Revenues totaled €28.6 billion (-4%). A slight decline in Western Europe (-1% to €14.4 billion) was accompanied by drops in North America (-9% to €9.5 billion) and South America (-16% to €1.5 billion). Operating profit adjusted decreased significantly to €0.1 billion (2000: €1.3 billion). This was primarily due to the losses at Freightliner in the United States, where we introduced an extensive turnaround program in October 2001.

Full-line product range expanded. The Mercedes-Benz truck portfolio was expanded in September 2001 with the introduction of the new Axor truck series, which is positioned between the Actros and the Atego. In addition, the new Setra TopClass 400 luxury coach family has met with a tremendous response. In October, the bus was also honored with the most important international prize in the sector, the "Coach of the Year 2002" award. The range of vans was expanded through the addition of a six-ton variant of the successful Sprinter model and a new version of the vehicle for the North American market. We also introduced the new Vaneo compact van at the International Motor Show in Frankfurt as a premium product in the fast-growing compact-van segment.

Mercedes-Benz Trucks remain successful in a difficult market environment. Unit sales of 107,900 Mercedes-Benz trucks in the year under review were down 11% from 2000. The decline was primarily due to sharply lower demand in the troubled markets of Turkey and Argentina as well as a drop in demand in Western Europe, although this was partially offset by growth in other markets outside Europe. Nevertheless, with 67,300 units sold (2000: 77,700) and a market share of 22% (2000: 23%), Mercedes-Benz was once again the leading brand in Western Europe for trucks over 6 metric tons. Mercedes-Benz Trucks also maintained its leading position in the most important South American markets of Brazil and Argentina, with market shares of 34% (2000: 37%) and 35% (2000: 36%), respectively.

Amounts in millions	2001 US $	2001 €	2000 €
Operating profit (loss)	(458)	(514)	1,212
Operating profit adjusted	45	51	1,253
Revenues	25,432	28,572	29,804
Investments in property, plant and equipment	1,321	1,484	1,128
Research and development	903	1,015	974
Production (units)		494,866	552,471
Unit sales		492,851	548,955
Employees (Dec. 31)		96,644	101,027

Customized transport solutions for our customers

Specific range of application: The new Mercedes-Benz Axor semi-trailer truck is designed to fulfill customer requirements such as low weight, low fuel consumption, attractive price and maximum economy.

The most modern long-distance bus in the world: The Setra TopClass 400 generation of long-distance buses offers innovative technology, high economy and exemplary comfort.

Restructuring at Freightliner, Sterling, and Thomas Built Buses. The collapse of demand in North America led to a substantial reduction in sales of our North American brands in 2001 (-34% to 100,400 units). Our leading position in the segment for Class 8 heavy trucks (15 tons and up) nevertheless remained unchallenged in the US. Our market share for Class 8 vehicles reached 39% (2000: 36%), while in Class 6/7 (from 8.8 to 15 tons), it was 27% (2000: 24%).

To ensure a return to long-term profitability as quickly as possible, Freightliner presented a turnaround program in October. With this plan we should be able to achieve continuously increasing positive effects on profitability, amounting to an annual US $850 million from the year 2004. Numerous measures are already being implemented and showing positive results.

Mercedes-Benz and Setra Buses defend market position. Last year 26,700 complete buses and bus chassis of the Mercedes-Benz and Setra brands were sold worldwide (2000: 27,500), making DaimlerChrysler by far the world's leading bus manufacturer once again. Unit sales in Western Europe (including Turkey) were down 16% on the record year of 2000 to 6,600 vehicles as a result of generally negative market developments, particularly in the segment of tourist buses, and the severe decline of the important Turkish market. In South America, we did not maintain the high sales level of the previous year with unit sales of 11,000 vehicles (2000: 11,900). We nevertheless remained the leader in Western Europe, with a market share of 26% (2000: 26%), as well as in Brazil (52%; 2000: 59%), and Argentina (72%; 2000: 68%).

Mercedes-Benz Vans expand global presence. A total of 243,200 vans were sold in the year under review, thereby surpassing the record set in 2000 by 1%. Unit sales in Western Europe were up 3% to 202,100 vehicles, while market share once again reached 19%. Mercedes-Benz thus maintained its leading position in the 2 - 6 metric ton segment in Western Europe. In South America, where unit sales fell to 7,800 vehicles (2000: 12,000), Mercedes-Benz remained the market leader in the comparable segment. The Mercedes-Benz Sprinter was launched in the US market under the Freightliner brand name in mid 2001 and sales reached more than 2,200 by the end of the year.

Global components strategy continues successfully. DaimlerChrysler is one of the world's leading manufacturers of diesel engines for commercial vehicles. We recently gathered together the worldwide component activities of Mercedes-Benz, MTU/Diesel Engines and Detroit Diesel Corporation in the DaimlerChrysler Powersystems business unit. This has enabled us to more efficiently structure the development, production and marketing of diesel engines and components. Long-term synergies have already been identified and realized, particularly in purchasing.

Our global components strategy, which is designed to increase the share of Group components in our brands, was further pursued throughout 2001. The engine for the Mercedes-Benz Axor truck, for example, is built by a production network involving São Bernardo do Campo, Brazil, and Mannheim, Germany. Further economies of scale will be achieved through the decision to produce transmissions and steering systems along with engines and axles in Brazil. In addition, our operations in the US are being expanded through the establishment of a manufacturing plant for drive shafts and steering systems. The integration of our diesel-engine activities in the off-highway business also had a positive effect. With the added benefit of a clear brand strategy we are present in this market with an attractive, competitive range of diesel engines covering the entire output spectrum.

The world's leading manufacturer of commercial vehicles

The star among the compact vans: The multifunctional Mercedes-Benz Vaneo is a family sedan, recreational vehicle and spacious station wagon all in one.

Strategic partnership with MMC. In June 2001, DaimlerChrysler acquired AB Volvo's 3.3% interest in Mitsubishi Motors Corporation (MMC), including all legal rights arising from the cooperation between Mitsubishi FUSO Truck & Bus Company (MFTB) and Volvo. With worldwide sales of more than 140,000 trucks and buses and a market share of over 30% in Japan, MFTB is particularly well represented in the Asian commercial vehicles market. Being able to work together with MFTB gives us the opportunity to strengthen our position in Japan and other Asian markets over the long term. In December 2001, DaimlerChrysler assumed control of sales and service of MMC's Canter light truck in five countries. The model is now available with its own brand presentation at selected Mercedes-Benz dealerships in the United Kingdom, France, Italy, Sweden and Poland. In the future, our strategy will include joint investment and development programs within the commercial vehicle field.

Engine joint venture with Hyundai. We took the first firm step toward commercial vehicle collaboration with our partner Hyundai in June 2001, by establishing the joint venture "Daimler Hyundai Truck Corporation." The company was set up to produce Series 900 Mercedes-Benz diesel engines in South Korea. A large proportion of Hyundai commercial vehicles will be equipped with these engines in the future. Planning of a production facility in the immediate vicinity of Hyundai's state-of-the-art plant in Chonju was begun shortly after the joint-venture contract was signed.

Unit Sales 2001 *)

	1,000 Units	01:00 (in %)
World	493	-10
of which: Vans (incl. V-Class)	258	+3
Trucks	189	-24
Buses	43	-12
Unimogs	3	+32
Europe	293	-3
of which: Germany	106	-6
Western Europe (excl. Germany)	170	+1
of which: France	36	+6
UK	29	+3
Italy	22	+4
North America	106	-31
of which: USA	89	-32
South America	43	-15
of which: Brazil	34	-9
Asia/Australia	26	+2

*) Wholesale (including leased vehicles).

Financial Services well positioned for the future

- **Adjusted operating profit only slightly below prior year's level despite difficult situation in North America**
- **As expected, new business slightly down from prior year at €54.9 billion**
- **Strategic refocus of Services**

Well positioned with Group-focused financial services. DaimlerChrysler Services is well positioned for the future in the dynamic growth markets of financial and mobility services. The division continues to concentrate on DaimlerChrysler's core automotive business, and uses its innovative products to extend the value chain of the Group's brands. DaimlerChrysler Services also offers fleet management programs, mobility services and target-group focused insurance solutions. Great success has been achieved in using services to support the sales of vehicles by the Mercedes-Benz Passenger Cars & smart, Chrysler Group and Commercial Vehicles divisions. With more than 100 operating companies in 38 countries in the four regions of North America, Europe, Asia/Pacific, and South America/Africa/Middle East, DaimlerChrysler Services is one of the world's leading providers of automotive financial services.

Further increase in revenues at Financial Services. DaimlerChrysler Services posted revenues of €16.9 billion in 2001 (2000: €17.5 billion). Excluding the revenues of debis Systemhaus (IT services), which were fully consolidated in the first nine months of the prior year, revenues increased by 12%. New business was slightly lower than in the prior year at €54.9 billion, as we had anticipated. With a share of €35.7 billion, the US remained DaimlerChrysler Services' most important market for new business (2000: €35.4 billion).

Worldwide contract volume reached €131.8 billion (2000: €126.3 billion); adjusted for exchange-rate effects, the portfolio was around the same size as a year earlier. Again, the largest share was accounted for by North America (€95.0 billion). As a result of the global presence of the Financial Services division, one of every three DaimlerChrysler vehicles sold was financed by DaimlerChrysler Services. The size of the non-automotive portfolio was reduced in 2001.

Adjusted earnings slightly below prior year's level despite difficult market conditions in North America. In 2001, the division achieved an operating profit of €0.6 billion – significantly lower than the previous year (€2.5 billion), which was positively affected by one-time effects totaling €1.8 billion. Operating profit in 2001 included one-time income of €0.3 billion arising from the sale of the remaining debitel AG shares to Swisscom, a Swiss telecommunications company, as well as one-time losses of €0.1 billion caused by the devaluation of the Argentinean peso against the US $ and of €0.2 billion for the sale of parts of the capital services portfolio in the United States that was agreed on in January 2002. Excluding one-time effects, there was an operating profit of €0.6 billion, slightly lower than the level of the prior year. Business was impacted by continuing pressure on margins, provisions for risks associated with the commercial vehicle portfolio, and residual-value losses in connection with Chrysler Group vehicles. Competitive pressures have intensified in the financial services business due to the entry of new companies and the merger of established firms. These negative factors were offset by the efficient utilization of the available refinancing instruments, and by an optimized cost structure resulting from measures designed to improve profitability.

Amounts in millions	2001 US $	2001 €	2000 €
Operating profit	545	612	2,457
Operating profit adjusted	514	578	641
Revenues	14,999	16,851	17,526
Contract volume	117,340	131,828	126,314
Investments in property, plant and equipment	100	112	282
Employees (Dec. 31)		9,712	9,589

Leasing and financing all around the automobile

You can hear the smile. Friendly and competent service-liners look after our customers from the call center in Dallas, USA.

Services focused on core business. Since the beginning of 2001, the Services division has been operating under the DaimlerChrysler corporate brand name, thereby underscoring the important role played by financial services in the sale of Group vehicles. Following a decade of dynamic growth, in 2001 we decided to focus on the consolidation of our operations. In order to boost the earnings of the Services division, we focused our activities even more strongly on supporting the sales of DaimlerChrysler vehicles, while at the same time controlling our growth in the automotive leasing and financing business with a clear focus on profitability.

Against a backdrop of increasing loan defaults and losses on the sale of ex-lease vehicles, a stronger emphasis was laid on the evaluation and control of the risks inherent in our business. We further improved our risk-management system by, among other things, standardizing our credit principles. The losses sustained on the sale of off-lease vehicles primarily involved Chrysler and Freightliner products.

Measures introduced to increase profitability. In order to increase profitability, the division introduced numerous measures to cut costs, boost the efficiency of business processes, and optimize internal routines. The customer-focused coordination of products and services was further improved by means of closer cooperation between the leasing and financing companies and the sales organizations of the automotive divisions. Activities throughout the Services division were also more closely aligned with its goals. In addition, we reduced costs by merging administrative back-office functions in various countries. In order to improve the remarketing of off-lease vehicles, programs have been developed in cooperation with dealers that offer customers various alternatives at the end of the leasing period. This has made it possible to boost customer loyalty.

Activities expanded. In 2001, we further expanded our fleet management operations. We were able to attract new customers by offering innovative fleet programs, particularly in Germany, where our total fleet of managed vehicles increased to more than 110,000 units. Our vehicle financing operations have been concentrated in the new DaimlerChrysler Bank, and after we receive a full banking license DaimlerChrysler Services will further expand its product range. Our goal is to begin offering our customers a range of banking services in 2002 that go beyond those available through the financing and leasing packages of a typical automotive bank.

We expanded our presence in the eastern Mediterranean by establishing a financial services company in Greece.

The Mobility Management Services unit also further expanded its activities, focusing primarily on the development and operation of telematics services for toll-collection systems on highways.

Other Activities

Amounts in millions	2001 US $	2001 €	2000 €
Operating Profit	1,051	1,181	3,590
Operating Profit Adjusted	182	205	67

The Other Activities segment comprises the MTU Aero Engines business unit, our equity interests in EADS, TEMIC, Mitsubishi Motors Corporation, and until April 2001 included the Rail Systems business unit, which was sold last year. It also includes our Corporate Research department, our real estate activities, and the holding and finance companies.

In 2001, the Other Activities segment achieved an operating profit of €1.2 billion (2000: €3.6 billion). This included one-time income totaling €1.0 billion resulting from the sale of Adtranz (€0.3 billion) and 60% of the stock in TEMIC (€0.2 billion), our proportionate share (€0.9 billion) of the gain arising from EADS in connection with the formation of Airbus SAS, and our share of the restructuring charge at Mitsubishi Motors (€0.4 billion). In the year 2000, there was one-time income of €3.5 billion, primarily due to the exchange of a controlling interest in DaimlerChrysler Aerospace for shares in EADS.

Excluding one-time effects, operating profit amounted to €205 million (2000: €67 million).

MTU Aero Engines

Amounts in millions	2001 US $	2001 €	2000 €
Revenues	2,214	2,487	2,105
Incoming Orders	1,943	2,183	2,409
Employees (Dec. 31)		7,839	7,162

Global partnerships. Together with its partners, the MTU Aero Engines business unit develops and produces engines for civil and military applications. It also performs servicing and maintenance on engines at 11 locations worldwide. MTU Aero Engines is the world's largest independent provider of maintenance services for civil aviation engines. The company's customers include users and manufacturers of aircraft engines and industrial gas turbines around the world.

Further growth in revenues and earnings. MTU Aero Engines continued to increase revenues and earnings despite the negative effects of the terrorist attacks of September 11. In 2001, the business unit's revenues grew by 18% to reach €2.5 billion. This was primarily due to an increased demand for civil-aircraft engines and significantly higher revenues by the maintenance plants, but also to the stronger US $. Civil applications particularly benefited from the growth of the CF-6 programs and higher sales of V2500 engines, as well as from strong demand for LM6000 industrial gas turbines. On the military side, MTU Aero Engines delivered the first series production engines for the Eurofighter (EJ200) during the year under review.

Incoming orders at MTU Aero Engines also developed positively again in 2001, reaching a total of €2.2 billion. As expected, they did not match the previous year's extraordinarily high level (2000: €2.4 billion) which was influenced, among other things, by the first series production orders for the Tiger military helicopter. The business unit registered strong demand for CF-6 and V2500 replacement parts in 2001, and also gained new customers for its civil maintenance services for V2500 engines in the US and Middle East markets.

As a result of these positive developments, earnings at MTU Aero Engines GmbH again surpassed the figure for the previous year.

Stronger competitive position in a difficult market

The Eurofighter has two EJ200 jet engines. MTU is the system leader for this engine in Germany.

With the new Airbus A380 family, EADS can introduce new technologies while securing long-term competitiveness in the field of large civil aircraft.

New projects secure growth and competitiveness. MTU Aero Engines is steadily expanding its maintenance business in order to participate in the good growth prospects in that sector. For example, MTU Maintenance Zhuhai - a 50:50 joint venture between MTU Aero Engines and China Southern Airlines – received its business license in April 2001. Starting in November 2002, it will be able to repair engines close to the Asian customer base.

The business unit is also investing in new programs that will strengthen its position as an engine manufacturer. For example, MTU Aero Engines is participating in the GP 7000 engine program for the Airbus A380. In 2001, Air France became the first airline to order GP 7000 engines for the Airbus aircraft it has ordered. We expect this to be followed by orders from other airlines. The PW6000 engine developed with Pratt & Whittney was certified for the Airbus A318 . The first flight of the Airbus A318 took place on January 15, 2002.

EADS

Successfully meeting market challenges. EADS is the world's second largest aerospace and defense company. Since its establishment in July 2000, it has been included in DaimlerChrysler's consolidated financial statements at equity, in proportion to our 33% stake. Despite a difficult market in 2001, particularly following the events of September 11, EADS expects to reach its revenue and earnings targets in its first full year of operation. The company made substantial progress with its two major projects - the Airbus A380 for the civil aircraft market and the Airbus A400M military transport aircraft. EADS also entered into numerous cooperative agreements and partnerships that will result in sustained improvements in its competitiveness.

Repeated strong growth in revenues, incoming orders and earnings. EADS' revenues of €30.8 billion were 27% higher than the pro-forma figure of the prior year (€24.2 billion). A large part of this growth is explained by the fact that since the formation of Airbus SAS, BAe Systems' share of Airbus revenues is also included, which was not the case in the prior year. Adjusted for this effect, revenues rose by 10%. The main factors behind the rise were the above-average increases in revenues at Airbus SAS, which delivered a record 325 aircraft (2000: 311), and in the Military Transport Aircraft and Defence & Civil Systems divisions. Positive effects also came from higher revenues in the Aeronautics division and from changes in the value of the US $. On the other hand, the Space division did not quite equal the prior year's figure.

Incoming orders increased to € 60.2 billion in 2001 (2000: €49.1 billion). Adjusted for the consolidation effect of Airbus SAS, incoming orders rose by 5%.

In the first nine months of 2001, mainly due to the growth in business at Airbus, there was a 32% increase in earnings before taxes and interest (EBIT) to €1.1 billion. The company also expects full-year earnings adjusted for one-time effects and goodwill amortization to be significantly higher than the previous year's figure.

Order backlog at record level. EADS' order backlog reached a new record level of €183.7 billion for 2001 year-end, which is equivalent to the revenues of more than six years. Airbus further consolidated its leading position in the civil-aircraft market with a record order backlog of 1,575 aircraft. In terms of the number of units on order, this corresponds to a market share of 54%. In the defense sector, at the end of December 2001, eight European countries decided to procure 196 military transport aircraft of the type Airbus A400M, with a total value of about €18 billion.

Partnerships strengthen competitiveness. In July 2001, Airbus SAS was established with retroactive effect from January 1, thereby combining into one company all previous activities of the former Airbus consortium. EADS owns 80% of the new company, with the remaining 20% held by BAE Systems.

MBDA, which was established in December 2001, combines the guided missile activities of EADS, BAE Systems and Finmeccanica. EADS has a 37.5% stake in MBDA, which is the world's second largest manufacturer of guided missiles and covers all market segments in the sector.

One of EADS' most important strategic goals is to expand its presence in the US market. To this end, EADS and Northrop Grumman have signed cooperative agreements for the fast-growing sectors of defense electronics and the maintenance and servicing of Airbus fleets in the US. Joint projects with other US partners are also being examined. EADS generated revenues of approximately US $4 billion in the US in 2001.

Mitsubishi Motors

Mitsubishi Motors' worldwide presence. Mitsubishi Motors Corporation (MMC), Japan's fourth-largest auto maker, designs and produces small cars, full-size passenger cars, SUVs, light and heavy trucks, and buses. The company has production plants in 13 countries, including seven assembly and component plants in Japan. More than 50% of all Mitsubishi vehicles are sold outside Japan, primarily in Asia, America and Europe.

Further expansion of alliance with MMC. At the beginning of 2001, DaimlerChrysler had a 34% stake in Mitsubishi Motors Corporation. At that time the field of cooperation was limited to passenger cars and light commercial vehicles. However, in June 2001 we acquired Volvo's 3.3% interest in Mitsubishi Motors, including all legal rights arising from the previous cooperation between Mitsubishi Motors and Volvo in the area of medium and heavy commercial vehicles. We and Mitsubishi Motors thereby placed our alliance on a significantly broader base encompassing all vehicle segments. DaimlerChrysler has included its 37.3% stake in MMC in its consolidated financial statements at equity.

Turnaround measures cut losses. In the first half of the 2001/2002 financial year (which ends on March 31, 2002), sales of Mitsubishi Motors vehicles totaled 658,000 units, lower than the 675,000 units recorded during the same period of the previous financial year. This decline was due to the fact that although sales remained stable in North America, there was a noticeable drop in sales in the Japanese, European and Asian markets.

Revenues according to Japanese GAAP totaled 1,533 billion yen. (€14.2 billion), falling slightly short of the previous year's figure of 1,543 billion yen. As expected, MMC recorded an operating loss in the first half of the 2001/02 financial year of 13.1 billion yen (€121 million). That loss was 44% less than the figure for the first six months of 2000/01 (23.2 billion yen). This significant improvement was largely a result of the turnaround measures introduced in February 2001.

The loss before one-time effects and taxes totaled 27.4 billion yen (€253 million), representing a 7% improvement on the half-year results of 2000/01 (a loss of 29.5 billion yen).

New potential through global alliance

Car of the Year in Japan in the mini-car segment - the Mitsubishi ek Wagon, introduced in October 2001.

The exciting Space Liner concept car gives a preview of Mitsubishi Motors' upcoming minivan generation.

Long-term improvement in earning power. In February 2001, the Board of Management of Mitsubishi Motors Corporation introduced a comprehensive turnaround plan designed to return the company to sustained profitability and long-term growth. Organizational and personnel changes were crucial elements of the rapid and effective implementation of this program. Accordingly, Mitsubishi Motors reduced the number of management levels to four, cut executive management positions by 25%, and replaced approximately 60% of its executive and senior executive officers.

The company also introduced measures designed to reduce material costs, and fixed costs. Mitsubishi Motors is on schedule with regard to fixed costs, and the company is confident it will surpass the 2001/02 cost-cutting targets for materials. The planned workforce reductions (9,500 employees by the end of the 2003 financial year) are also progressing faster than expected. By the end of 2001, 7,500 persons had already left the company, 3,000 more than was originally planned.

Due to the progress achieved with the turnaround plan to date, the MMC Board of Management is confident that the positive developments of the first half of the 2001/02 financial year will continue in the second half. MMC therefore expects to achieve its goals for the financial year 2001/02, which ends on March 31, 2002. As previously announced, MMC should be able to reach breakeven for the 2001/02 financial year.

Growth through new products. In addition to its restructuring measures, Mitsubishi Motors plans to ensure future profitability and long-term growth primarily through the introduction of new, innovative products for key volume segments. Mitsubishi Motors offered a preview of its future model program at the Tokyo Motor Show in October 2001. In addition to the S.U.P. and Space Liner concept cars, the company presented the CZ2 and CZ3, two models very similar to the completely new compact car that will be launched in Japan in late 2002. With this automobile MMC will broaden its range in the important compact-car segment, which is expected to grow substantially in the medium to long term. The vehicle combines space and style, and is both sporty and elegant. In addition to the new compact car's fresh styling, spaciousness and attractive interior, it features an array of other appealing customer benefits.

Last year, MMC launched the Airtrek (a sedan/SUV) and the eK Wagon mini-car in Japan. The all-new eK Wagon sets new standards, especially in terms of safety, in this very important market segment in Japan. Only three months after its market launch in early October, orders for more than 45,000 of this car had been placed.

Close cooperation between operating units and research

- **F 400 Carving: a further design study for the car of the future**
- **Progress with hybrid and fuel-cell drive systems**
- **Focus on lighter materials, lower fuel consumption and reduced emissions for the benefit of customers and the environment**

Taking the lead through innovation. Innovation plays a key role in distinguishing DaimlerChrysler from its competitors. The technological basis for innovation is provided by Corporate Research and the divisional development departments. In 2001, DaimlerChrysler invested €6.0 billion (2000: €7.4 billion) in the research and development of new products and technologies. Expenditure on research and development was lower than in the previous year due to the deconsolidation of Dasa, Temic and Adtranz. At the end of the year, 2,700 people were employed at Corporate Research, while another 25,400 employees worked in the various divisional development departments.

F400 Carving continues the series of innovative concept vehicles. The F 400 Carving concept car first demonstrated at the Tokyo Motor Show incorporates many pioneering innovations. The tilt of the vehicle's wheels can be adjusted by up to 20 degrees, allowing more force to be applied to the road surface. Newly developed asymmetrical tires improve handling characteristics even further. When driving into bends, the vehicle achieves lateral acceleration of up to 1.28 g (g measures accelerative force expressed in terms of the earth's gravitation) thereby enabling it to outperform current sports cars by about 25 percent. The vehicle's safety can be further enhanced through the installation of active safety systems developed by DaimlerChrysler such as the Electronic Stability Program (ESP), Active Body Control (ABC) and Sensotronic Brake Control (SBC). During the development of the F 400 Carving, engineers at DaimlerChrysler Research were able to draw on the expertise gained with previous concept cars such as the F 200 Imagination and the F 300 Life-Jet, particularly with regard to driving safety and handling. The chassis is tuned with the help of an active hydro-pneumatic system that optimally adjusts the vehicle's suspension and shock absorbers to the road surface and the driving situation.

The F 400 Carving is also equipped with a pioneering steering system that does not require conventional mechanical steering technology. The system electronically registers the driver's steering movements and transforms them into commands for the electrically driven steering gear.

Improved drive technology for a mobile future. The main objectives in the development of drive systems continue to be greater fuel efficiency and lower emissions. To achieve these goals, DaimlerChrysler is simultaneously working on improving internal-combustion engines, determining the optimal configuration for hybrid drive systems, and fuel-cell technology.

Research is focusing on new combustion methods, improved recharging technology, and innovative exhaust-gas treatment systems. In the future, smart technology for managing systems that charge batteries, combust fuels, and treat exhaust gases will become significantly more important.

Hybrid drive system being tested. Corporate Research is currently testing and researching hybrid drive concepts aimed at reducing fuel consumption and emissions without diminishing driving pleasure, comfort or a vehicle's utility value.

The "smart hyper," for example, is equipped with an electric motor and a CDI diesel engine that work in tandem by optimally adjusting the output of each to the driving situation. Both drive systems are turned off when the vehicle is not moving, thereby ensuring that no fuel is consumed and no emissions produced. To get the car moving again, the electric motor is turned on first, allowing the smart to travel silently while conserving energy. If greater speed or acceleration is needed, the diesel engine is automatically activated. When the vehicle is braked, the electric motor becomes a generator that recharges the batteries. The hybrid system reduces fuel consumption by more than 10% on average and noticeably improves the vehicle's acceleration. Similar results have been achieved with the "A-Class hyper" and the "Dodge Durango TTR."

Leading-edge technology and a tradition of innovation

Car of the future: The F 400 Carving research vehicle is a concrete example of technologies and innovations to come.

Further development of fuel-cell technology. Our activities in the development of fuel-cell technology are aimed at reducing costs and improving the efficiency of fuel cells and other components.

In addition to working on hydrogen-based drive technology, we are developing innovative direct methanol systems that can easily transform liquid methanol into electric power. DaimlerChrysler has already demonstrated a fuel-cell powered go-cart – the world's first small vehicle to use this technology.

Modern production technology. The extensive use of light materials can significantly reduce fuel consumption and emissions, thereby providing benefits for customers and the environment alike. Depending on the type of engine and its performance, every 100-kg decrease in weight reduces fuel consumption by up to 0.4 liters per 100 kilometers. In addition to new, extremely light materials such as aluminum, magnesium, ceramics and fiber-reinforced plastics, improved high-strength steel components can be employed for far better lightweight construction than is currently possible with conventional steel.

The processing properties of new materials are an important factor that has to be taken into account when using them in production. This not only requires expertise in materials, production technology and new methods of construction, but also the knowledge of how best to combine them. In addition to meeting higher standards with regard to safety, comfort, quality and price, the new materials have to be environmentally compatible. An environmental audit is therefore conducted primarily on the materials used, the amount of energy needed to manufacture the product, the length of the materials' lifecycles, and their recyclability.

Thanks to new simulation software currently being developed at DaimlerChrysler Research, it will become possible to combine technical data on the properties of materials, processes and production techniques with the specifications of individual components. This will allow the wide differences between materials to be evaluated in a virtual environment, thereby eliminating the need for expensive and time-consuming development and the construction of prototypes.

Focus on sustainable and environment friendly mobility

- **Lower fuel consumption with hybrid and fuel-cell technology**
- **Further development of new renewable fuels**
- **Awards received for exemplary environmental reporting**

Efficient use of resources — the key to sustainable mobility. In view of the sharply increasing demand for energy – particularly in developing countries and the emerging markets – as well as continuing climatic changes due to the use of fossil fuels, the importance of environment-friendly energy sources is growing significantly. If we want to safeguard mobility over the long term, we will have to continuously lower fuel consumption while at the same time reducing our dependence on fossil fuels. In order to achieve these goals and strengthen its competitive position over the long run, DaimlerChrysler is investing substantially in new technologies such as hybrid drive systems and fuel cells.

The use of fuel-cell technology leads to significantly greater fuel economy, as vehicles with fuel-cell drive have much higher internal efficiency ratings (the standard measurement for efficiency of energy conversion) than do conventional internal-combustion engines. Currently, fuel cells that operate with hydrogen are 50% more efficient than optimized diesel engines. Our overall goal is to further increase fuel-cell efficiency once again by more than 10% in the next phase of development.

Fuel-cell technology in practical tests. DaimlerChrysler continued its development of fuel cells in 2001, focusing particularly on field tests of fuel-cell driven vehicles.

An important milestone on the road toward the first marketable fuel-cell vehicle was the delivery of the first fuel-cell van – a Mercedes-Benz Sprinter – to the Hermes Versand Service parcel delivery company. The vehicle is equipped with an asynchronous electric motor in the front and pressurized-hydrogen tanks beneath the floor. This concept does not restrict cargo space in any way. It does, however, offer great driver comfort and allows for quiet, high-torque acceleration. And, as is typical of fuel- cell systems, it also ensures zero emissions of CO, NO_x and particulates.

Agreements were reached with ten major European cities to test Mercedes-Benz municipal buses equipped with fuel cells. The first such vehicles will be built at the end of 2002; plans call for the delivery of a total of 30 Citaro city buses throughout Europe by the end of 2003. DaimlerChrysler is therefore the first automobile manufacturer to sell fuel-cell vehicles to its customers.

Pilot projects have also been agreed for passenger cars. In the US, DaimlerChrysler plans to provide 15 vehicles for the California Fuel Cell Partnership project, which aims to demonstrate the suitability of fuel-cell vehicles for practical applications. At the beginning of 2001, the world's first methanol-powered fuel-cell-vehicle equipped with technology suitable for everyday use was tested on public roads in Japan. The vehicle was the NECAR 5 which is based on the Mercedes-Benz A-Class.

First production vehicle with hybrid technology in the near future. Hybrid technology complements long-term fuel-cell development when it comes to the potential for boosting fuel economy in the near term. DaimlerChrysler is therefore accelerating development of a marketable hybrid drive technology and plans to produce various hybrid vehicles, such as the Dodge Durango and the "RAM Contractor Special." The hybrid vehicles under development at DaimlerChrysler improve fuel economy by more than 25% compared to similar vehicles with conventional drive systems.

Active environmental protection for sustainable corporate success

Practical trials in city traffic: The first Mercedes-Benz Sprinter with fuel-cell technology was delivered to a customer in 2001.

Renewable fuels: an opportunity for the future. Technological progress should not be limited to the vehicle itself. Advances also need to be made in the fuels used. The successful establishment of new fuels on the market – from sulfur-free gasoline to biofuels – will require the combined efforts of the automotive industry, oil companies and government authorities. The use of renewable fuels, such as methanol made from biomass, is a promising alternative for substantially reducing CO_2 emissions. At the same time, the extraction and processing of biomass will create new jobs and will thus have a positive economic, ecological and social impact. DaimlerChrysler actively supports the development of biofuels and is helping to finance the construction of a pilot facility for producing bio-methanol and bio-diesel.

We have also achieved important successes with conventionally powered vehicles: The diesel variant of the smart (smart cdi), for example, is the undisputed German market leader in the so-called three-liter segment (fuel consumption better than 67 miles per US gallon) for especially fuel-efficient vehicles.

DaimlerChrysler's environmental commitment honored. In 2001, DaimlerChrysler was honored with a number of awards in recognition of its efforts to promote sustainable mobility. The company's Environmental Report, for example, received the Society of American Engineers' Environmental Communications Prize for the second consecutive year. DaimlerChrysler also received the international Environmental Communication Award from the United Nations Environmental Program (UNEP). In addition, DaimlerChrysler was named the automotive company with the best sustainability reporting by the UNEP partner organization SustainAbility. Finally, DaimlerChrysler was listed in the Dow Jones Sustainability Index as "Sustainability Leader" in the automotive sector.

Utilizing the potential of supplier networks

- **Total purchasing volume of €106.5 billion**
- **Further increase in online transactions**
- **Optimization of processes with suppliers**

Close cooperation with suppliers. DaimlerChrysler purchased goods and services worth €106.5 billion from suppliers in 2001 (2000: €113.3 billion). In 2001, Global Procurement & Supply (GP&S) purchased goods and services totaling €101.2 billion (2000: €103.1 billion) for our automotive divisions, these figures include non-production materials.

Due to competitive pressures, our procurement activities in 2001 again focused on cost-reduction measures. We streamlined processes and achieved significant cost savings through better exploitation of expertise throughout the Group. For example, on the model of Mercedes-Benz we strengthened the links between development and procurement at Chrysler Group.

Savings at the Chrysler Group. The short-term unit-cost reductions set out for 2001 in the Chrysler Group turnaround plan for 2001 were surpassed. This achievement was due to Chrysler Procurement's ability to obtain significant cost reductions from suppliers. The second phase of this program, which is already under way, involves the substantial reduction of long-term system costs.

e-business gains in importance. GP&S uses e-business to optimize and accelerate processes as well as to make them more transparent. e-business enabled significant purchasing cost reductions. We see exceptional potential in the areas of e-procurement and logistics (supply network collaboration). Total e-business was up sharply in 2001.

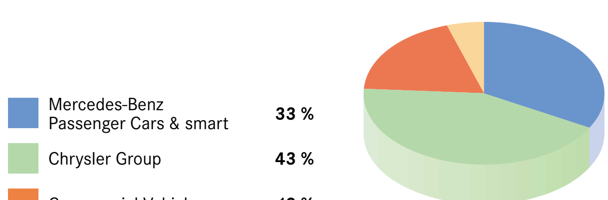
Online bidding again played an important role in procurement. Online bidding facilitates price optimization and provides tremendous time saving. Such bidding events also benefit suppliers by enabling them to better assess their position with respect to their competitors.

In one of the largest online bidding events, we purchased 1,200 different body-in-white parts in 80 different subgroups. Covisint, a company whose shareholders include DaimlerChrysler and several other automotive manufacturers, provided the technology and was also responsible for carrying it out. Covisint is a service company that, among other things, manages an Internet exchange for online bidding events in the US and Europe.

The Supply Network Collaboration unit, which collects precise data on all processes – from supply to production – in near real-time, conducted several promising pilot projects in North America and Europe in 2001.

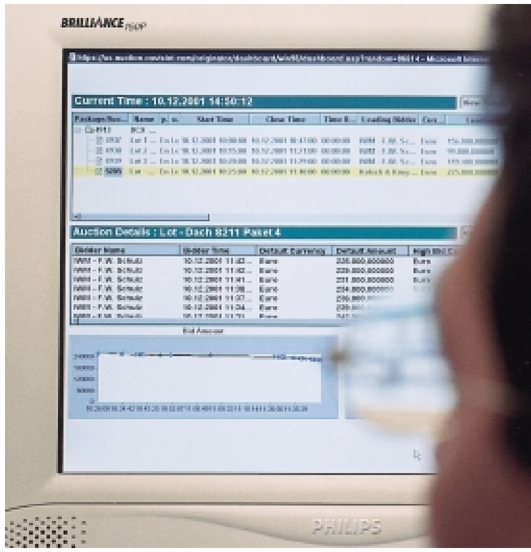
Purchasing Volume

€106.5 bilion (2000: €113.3 billion)



Optimized procurement and logistics through web-based technology

Auction on the Internet:
Online bidding as a modern instrument of global procurement.



Cost reduction through commodity strategies. Commodity strategies also gained significantly in importance in 2001 and are helping us to reach our targets. Such strategies involve the standardized description and definition of material groups and the application of these definitions to derive strategic goals for procurement activities. Sixty material groups were identified in 2000, equivalent to half of total purchasing volume in that year. Another 21 groups were added in 2001.

Assessing supplier potential with the External Balanced Scorecard method. The External Balanced Scorecard method enables DaimlerChrysler to measure the performance of suppliers in terms of quality, system costs, technology and delivery effectiveness in a structured manner. These measurements can then be analyzed and, if necessary, used to develop new approaches to improve weak areas. This method supports the joint goal-agreement process and therefore represents an important instrument for enhancing performance.

We also improved the Global Procurement and Supply Information System (GPSIS), which obtains data worldwide from the operative procurement, logistics and invoicing systems. The system provides valuable performance measures and other information to support the decision-making process at Global Procurement & Supply.

Expanding networks. Intense competition in the automotive industry will continue to have a major impact on the forms of cooperation adopted in supplier networks. Effective management of such networks is of crucial importance for the long-term success of us and our partners. Our goal is to create the world's most effective supply network, and use the tools at our disposal to continue the successful cooperation we have experienced within the framework of our Extended Enterprise® program.

Employees prepared for future challenges

- **Company agreement on long-term working-time accounts boosts motivation and flexibility**
- **Increasing use of internal e-business applications by our employees**
- **372,470 employees worldwide (2000: 416,501); reduction due to consolidation effects and turnaround activities**

Global human-resources strategy implemented. In 2001, we focused primarily on implementing the global human-resources strategy adopted in the previous year. Key activities included supporting turnaround plans, integrating various corporate units, and securing our next generation of managers by attracting top talent. We also focused on the future by developing new human-resources tools designed to cope with an aging society and workforce, and by supporting various activities in Asia through appropriate recruitment activities and assistance for expatriates. Our human-resources strategy supports our employees in creating value for the Group and thus strengthens DaimlerChrysler's position as an attractive employer.

More flexible capacity utilization and working times. The use of tools designed to ensure flexible human-resources management is becoming increasingly important at DaimlerChrysler. This enables us to quickly adapt our capacity utilization to changes in demand so that we can better compensate for seasonal or cyclical variations. In the context of short- and medium-term capacity management, DaimlerChrysler has implemented a range of highly flexible arrangements, including various models for working hours and plant operating times, as well as the use of temporary employment contracts when necessary. In this way we can react promptly to fluctuations in incoming orders while providing sufficient work for our highly qualified core workforce even if orders decline temporarily.

An important element of our long-term human-resources planning was the conclusion of a general labor-management agreement covering long-term worked-hours accounts in Germany: Starting in 2002, this will enable our employees to record additional hours worked in the form of time credits which can later be used for further training, early retirement or time off. This ensures that we have the right amount of manpower in all situations while responding to the needs of all groups of employees.

New e-business applications for human resources. In 2001, we combined all employee-related e-business activities in our "DC eLife" initiative. This means that the workforce will soon be able to access all individual e-business applications through a single registration procedure via the employee portal. The system is gradually being introduced at all of our locations in Germany. Not only does the portal benefit all of the workforce by providing a better general overview, but use of the portal also helps to improve employees' e-business skills. In this way, employees of all age groups are automatically prepared for the e-business applications of the future.

Employees (Dec. 31)	2001	2000
DaimlerChrysler Group	372,470	416,501
Mercedes-Benz Passenger Cars & smart	102,223	100,893
Chrysler Group	104,057	121,027
Commercial Vehicles	96,644	101,027
Sales Organization Automotive Businesses	38,733	36,857
Services	9,712	9,589
Other[1])	21,101	47,108

1) MTU Aero Engines, corporate research department, real estate activities, and holding and finance companies

Qualification and motivation lead to success

Top marks for vocational training: The foundation for our competent and committed workforce.

The ePeople project links up HR processes. Within the framework of the ePeople project, in 2001 we began to raise the efficiency of web-based human-resources processes, to ensure global consistency, and to extensively network our human resources departments. In this way, the ongoing globalization of our company is reflected and supported by our human-resources activities.

Executive development with LEAD. We use the LEAD (Leadership Evaluation And Development) system to standardize executive assessment and development worldwide, and to give the best individuals the possibility to develop their potential throughout the Group. In 2001, this system was applied at all management levels throughout the Group for the first time. As a result we are able to identify management potential at an early stage and utilize it where it is needed, thereby ensuring that our management requirements are optimally covered. LEAD is now firmly anchored in the management culture of DaimlerChrysler.

Securing top talent for DaimlerChrysler. DaimlerChrysler again succeeded in recruiting young, highly qualified individuals in 2001, not least due to the activities of our national and international companies and locations. The focus was on contacts with universities and schools, the networks of access to interns and graduates. By directly approaching specific target groups and executing special applicant programs in various locations we make contact with the best candidates so that we can attract them to our company. Once again, more than 2,800 young people began a training program at DaimlerChrysler in Germany. Some 10,400 people are presently being trained worldwide by DaimlerChrysler in approximately 75 professions or programs of study.

372,470 employees worldwide. At December 31, 2001, DaimlerChrysler employed 372,470 people worldwide (2000: 416,501). 191,158 worked in Germany (2000: 196,861) and 104,871 in the US (2000: 123,633). The decrease in the number of employees by 44,000 was largely due to deconsolidation (primarily Adtranz and TEMIC) and measures taken in connection with turnaround programs.

A thank-you to our employees. We would like to thank all our employees for their initiative, commitment and achievements. We are convinced that their skills, enthusiasm and energy will enable us to successfully shape the future of the Group. We also extend our thanks to the representatives of the employees and of the management committees for their constructive cooperation.

Stock markets depressed by fear of recession

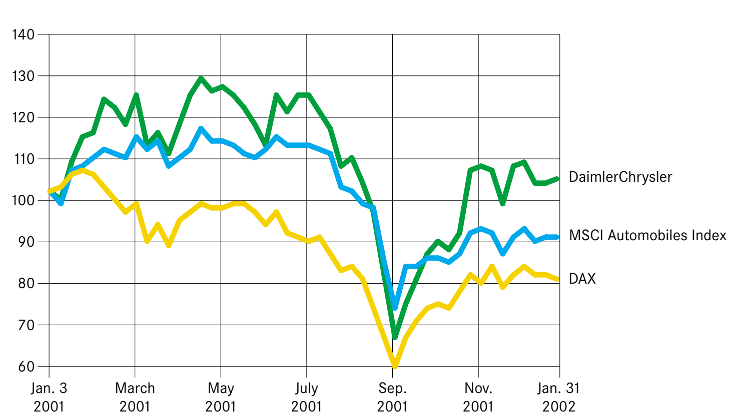
- **Declining stock markets for second consecutive year**
- **Price falls triggered by terrorist attacks in September**
- **Strong recovery in the fourth quarter**
- **MSCI World Index Automobiles down 9% over the year**
- **DaimlerChrysler shares performed better than DAX and MSCI World Index Automobiles in 2001**

Further falls in equity prices. Shareholders' hopes for a stock-market recovery were disappointed in 2001, mainly due to the US recession and the terrorist attacks of September 11. At the same time, economic growth slowed in Europe and Japan.

International share indices reached their lowest point for the year after the attacks in the United States. The bear market was followed by a temporary strong recovery, as investors became convinced that the medium- and long-term economic effects of the attacks would not be as severe as they had initially feared. The fact that the US central bank lowered its Fed Funds Rate eleven times to 1.75%, the lowest level since 1961, was also regarded as positive. In addition, the oil price fell sharply after the events of September 11, and companies worldwide implemented extensive cost-cutting measures, both of which are expected to have positive effects on earnings.

Despite the strong recovery in the fourth quarter, most important share indices declined for the second consecutive year in 2001. (see table on page 53).

Share Price Index

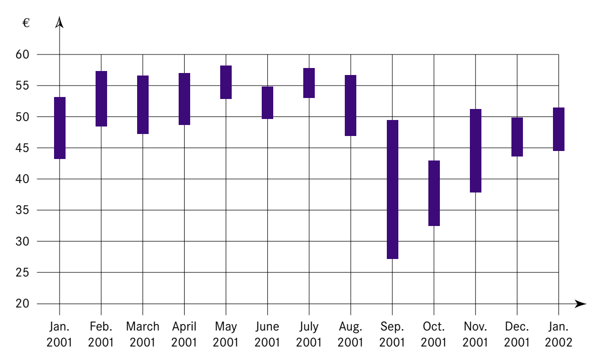


Increase in DaimlerChrysler share price. DaimlerChrysler's stock began 2001 at the low level of €44.41. In most of the first half of the year, the price fluctuated between €50 and its peak for the year of €58.19, which was reached on May 3. However, from the middle of July the price of our shares could not escape the sharp downward trend of the market, especially after the effects of the terrorist attacks, and fell to a low of €27.24 over the two months to September 21. The subsequent 77% recovery to €48.35 by the end of the year was significantly stronger than that of the DAX (+46%) and of the MSCI World Index Automobiles (+24%). During this period, DaimlerChrysler's shares recorded the second highest price rise of all automotive shares. Over the whole of the year, DaimlerChrysler's share price rose by 8%, making it one of only four DAX stocks with an increase in value during 2001. However, by the end of January 2002, our share price had fallen by about 3% in line with a generally weak stock market.

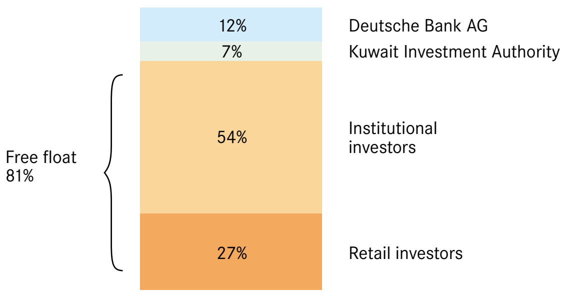
Trading volume in DaimlerChrysler stock worldwide was about 1.3 billion shares in 2001 (2000: 1.0 billion) of which 130 million shares were traded on US stock exchanges (2000: 127 million) and 1,169 million in Germany (2000: 888 million).

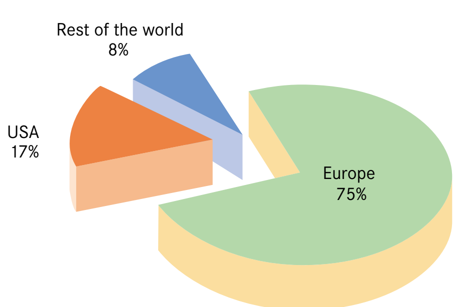
Prize for best communication with investors. At the end of October 2001, DaimlerChrysler received the "Investor Relations Magazine Euro Award 2001" for the best communication with private investors. The prize was awarded in recognition of the Investor Relations department's intensive support work in individual dialogue and organized events, as well as for the quality of the Investor Relations section of the corporate web-site, which is frequently used by both private and institutional investors as well as by analysts.

DaimlerChrysler Share Price (high/low) in €



Shareholders Structure as of Dec. 31, 2001





Development of Important Indices

	Status End of 2001	Status End of 2000	% Change
Dow Jones Industrial Average	10,022	10,787	-7
Nasdaq Composite	1,950	2,471	-21
FTSE 100	5,217	6,223	-16
Nikkei	10,543	13,786	-24
Dow Jones Euro Stoxx 50	3,806	4,772	-20
DAX 30	5,160	6,434	-20
Dow Jones Stoxx Auto Europe	224	226	-1
MSCI World Index Automobiles	83	91	-9
For comparison:			
DaimlerChrysler share (in €)	48.35	44.74	+8

Statistics

December 31	01 US $	01 €	00 €
Capital stock (in millions)	2,322	2,609	2,609
Number of shares (in millions)		1,003.3	1,003.3
Market capitalization (in billions)	41.81	48.51	44.89
Number of shareholders (in millions)		1.9	1.9
Weighting on share index			
DAX 30		6.8%	5.1%
DJ Euro Stoxx 50		2.2%	1.8%
Credit rating, long-term			
Standard & Poor's		BBB+	A
Moody's		A3	A2

Statistics per Share

	01 US $	01 €	00 €
Net income (basic)[1]	0.65	0.73	3.47
Net income (diluted)[1]	0.65	0.73	3.45
Dividend		1.00	2.35
Stockholders' equity (Dec. 31)	34.60	38.88	42.27
Share price: year-end	41.67[2]	48.35[3]	44.74[3]
high	52.72[2]	58.19[3]	79.97[3]
low	25.60[2]	27.24[3]	42.70[3]

[1] Excluding one-time effects
[2] New York Stock Exchange.
[3] Frankfurt Stock Exchange.

Analysis of the Financial Situation

- **Operating loss €1.3 billion (2000: €9.8 billion operating profit); adjusted for one-time effects operating profit of €1.3 billion (2000: €5.2 billion)**
- **Operating result significantly impacted by restructuring measures and intense competition in North America**
- **Net loss €0.7 billion (2000: €7.9 billion net income); adjusted to exclude one-time effects net income of €0.7 billion (2000: €3.5 billion)**

Group operating loss impacted by one-time effects and intense competition in North America. For 2001, DaimlerChrysler reported an operating loss of €1.3 billion, compared to an operating profit of €9.8 billion in the prior year. The year under review was particularly affected by sizeable expenses for restructuring measures and the extremely competitive market in North America. Earnings in both years were significantly influenced by one-time effects.

In February 2001, the Supervisory Board of DaimlerChrysler AG approved the turnaround plan for Chrysler Group, which resulted in a charge of €3.1 billion. In addition, operating profit was impacted by a charge of €0.5 billion at the Freightliner, Sterling and Thomas Built Buses business unit resulting from the initiation of the turnaround plan and special costs associated with unforeseen market developments. Furthermore, as a result of the Group's investment in Mitsubishi Motors, a proportionate share of its restructuring charges amounting to €0.4 billion was recorded in 2001. A charge of €0.2 billion related to the recoverability of lease receivables was recorded on portfolios of Capital Services in 2001. An impairment charge of €0.1 billion relating to e-business activities was recognized and allocated to the segments Mercedes-Benz Passenger Cars & smart, Chrysler Group and Commercial Vehicles. Due to the decision of the Argentine government to reform its financial system and monetary policy, which has resulted in a floating exchange rate against the U.S. dollar since January 2002, the Group recognized a loss of €0.1 billion in 2001, which mainly affected the segments Services and Commercial Vehicles.

A positive impact of €0.9 billion resulted from the Group's share of the one-time gain arising at EADS in connection with the formation of Airbus SAS. In addition, gains resulted from the sale of the Rail Systems business unit to Bombardier (€0.3 billion), from the sale of the remaining equity interest in debitel to Swisscom (€0.3 billion), and from the sale of 60% of the Group's interest in TEMIC to Continental (€0.2 billion).

Last year's operating profit also included one-time effects totaling €4.5 billion.

The one-time effects reported in the 2001 and 2000 financial years are shown by segment in the table on page 55.

Operating Profit (Loss) by Segments

In millions	01 US $	01 €	00 €
Mercedes-Benz Passenger Cars & smart	2,627	2,951	2,145
Chrysler Group	(4,701)	(5,281)	501
Commercial Vehicles	(458)	(514)	1,212
Services	545	612	2,457
Other Activities	1,051	1,181	3,590
Eliminations	(237)	(267)	(153)
DaimlerChrysler Group	(1,173)	(1,318)	9,752
Adjusted for one-time effects	1,197	1,345	5,213

Note: The chapters "Business Review", "Analysis of the Financial Situation" and "Outlook" correspond to the consolidated business review report of DaimlerChrysler Group based on the Financial Statements compiled according to United States generally accepted accounting principles (U.S. GAAP).

Adjusted to exclude one-time effects, the Group recorded an operating profit of €1.3 billion, which was significantly lower than the comparable prior year's operating profit of €5.2 billion. This decline was mainly attributable to the forecasted loss at Chrysler Group and the slightly positive result of Commercial Vehicles. These segments suffered in particular from the intensely competitive situation in the North American markets. A further reduction in operating profit resulted from the Group's share of the operating result at Mitsubishi Motors, which was mainly affected by declining unit sales.

Operating profit of Mercedes-Benz Passenger Cars & smart above previous year's level. The Mercedes-Benz Passenger Cars & smart division achieved an operating profit of €3.0 billion, exceeding the prior year's result by €0.8 billion. Operating profit for 2001 includes an impairment charge allocated to the segment relating to the Group's e-business activities. The prior year's operating profit included one-time charges of €0.7 billion mainly due to the strategic review of the smart brand and the initial application of the European Union's end-of-life vehicle directive.

Adjusted for these one-time effects, the division's operating profit was slightly higher than in the prior year. The continued excellent demand for the S-Class, particularly after the successful market launch of the new SL, and the C-Class, with its strong rise in unit sales for the sedan as well as the new station wagon and sport-coupe launched in March 2001, contributed to the positive development in operating profit. However, this trend was partially offset by a decline in unit sales of E-Class vehicles due to life-cycle changes.

The operating loss at smart was significantly reduced due to further sales increases of the city coupe and smart cabrio.

Operating results of Chrysler Group negatively impacted by restructuring and intense competition. Chrysler Group posted an operating loss of €5.3 billion in 2001 compared to an operating profit of €0.5 billion in 2000. The 2001 operating loss includes restructuring charges of €3.1 billion recorded in connection with the turnaround plan implemented in 2001 in response to an increasingly competitive and weakening U.S. automotive market. The turnaround plan is designed to improve Chrysler Group's financial performance and market position. The restructuring charges primarily related to workforce reductions, asset write-downs and contract cancellation costs. The operating loss also includes impairment charges allocated to Chrysler Group relating to DaimlerChrysler's e-business activities. Operating profit in 2000 included a charge resulting from the initial application of the European Union's end-of-life vehicle directive.

One-Time Effects included in Operating Profit (Loss) by Segments

In millions	01 US$	01 €	00 €
Mercedes-Benz Passenger Cars & smart	(9)	(10)	(729)
Chrysler Group	(2,758)	(3,098)	(30)
Commercial Vehicles	(503)	(565)	(41)
Services	30	34	1,816
Other Activities	870	976	3,523
Eliminations	-	-	-
DaimlerChrysler Group	(2,370)	(2,663)	4,539

Operating Profit (Loss) adjusted for One-time Effects

In millions	01 US $	01 €	00 €
Industrial Business	696	782	4,621
Financial Services	501	563	592
DaimlerChrysler Group	1,197	1,345	5,213

Adjusted to exclude one-time effects, the 2001 operating loss amounted to €2.2 billion (2000: €0.5 billion operating profit). The decline mainly resulted from lower factory unit sales, an unfavorable shift in product mix, increased sales incentives, and higher customer satisfaction, depreciation and amortization costs. The decrease in unit sales, higher sales incentives and decline in market share were mainly attributable to intense competitive pressures in the North American market. This situation particularly affected two of Chrysler Group's historically more profitable market segments of upper-middle sport utility vehicles and pick-up trucks. 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.

Operating profit of Commercial Vehicles impacted by North American market. In 2001, the Commercial Vehicles segment posted an operating loss of €0.5 billion, compared with an operating profit of €1.2 billion in the prior year. The operating loss in 2001 includes one-time charges of €0.5 billion at the Freightliner, Sterling and Thomas Built Buses business unit relating to the initiation of the turnaround plan and special costs associated with unforeseen market developments. In addition, the operating loss includes charges of €0.1 billion mainly relating to the depreciation of the Argentine peso against the U.S. dollar as a result of the economic crisis in Argentina and allocated charges from the Group's e-business activities. In the prior year, the segment's operating profit was impacted by expenses relating to the initial application of the end-of-life vehicle directive passed by the European Union.

Adjusted for these one-time effects, the segment's operating profit was slightly positive (€0.1 billion), compared to an operating profit of €1.3 billion in 2000. This decline in operating profit was primarily caused by the sharp contraction of the market for commercial vehicles in North America, which led to significant price reductions for new and used vehicles and to a 34% decline in unit sales for the Freightliner, Sterling and Thomas Built Buses business unit.

Further factors negatively impacting earnings were the drop in vehicle demand due to the economic crises in Argentina and Turkey and the lower demand for trucks in Western Europe.

The MTU/Diesel Engines business unit – previously included in the Other segment – is reported within the new Powersystems business unit as part of the Commercial Vehicles segment since the beginning of 2001. The respective prior year's results have been reclassified in order to achieve comparability.

Operating result of Services slightly below prior year. The Services division recorded an operating profit of €0.6 billion in 2001 compared to €2.5 billion in the prior year. Those results are influenced by one-time effects in both years. Operating profit for 2001 includes a one-time gain of €0.3 billion from the sale of the remaining 10% equity interest in debitel to Swisscom, which was partially offset by a charge of €0.1 billion relating to the monetary crisis in Argentina. In addition, a charge of €0.2 billion related to the recoverability of lease receivables was recorded in connection with the intended sale of parts of the portfolio of Capital Services in 2002. The operating profit of the prior year was positively impacted by one-time effects totalling €1.8 billion, which was the net result of a dilution gain in connection with Deutsche Telekom's investment in debis Systemhaus and an impairment charge on the carrying value of leased vehicles.

Excluding these one-time effects, operating profit was €0.6 billion in 2001, slightly below prior year's level. The result was negatively influenced by continuing 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 more favorable refinancing instruments, benefits from asset/liability management and savings which were realized due to cost reduction measures initiated within the Services segment.

Operating profit of the Other Activities segment influenced by EADS and Mitsubishi Motors. At the beginning of 2001, the Aerospace segment, which consisted of the equity method investment in EADS and the fully consolidated MTU Aero Engines business unit, was reclassified to the Other Activities segment. The previous year's figures have been adjusted accordingly. This segment also includes our equity method investments in Mitsubishi Motors and TEMIC, as well as holding and finance companies, real-estate activities and the Group's corporate research. The Rail Systems business unit was included in the segment until its disposition to Bombardier.

Consolidated Statements of Income (Loss)

In millions	01 US$	01 €	00 €
Revenues	136,072	152,873	162,384
Cost of sales	(114,283)	(128,394)	(134,370)
Selling, administrative and other expenses	(16,317)	(18,331)	(18,303)
Research and development	(5,281)	(5,933)	(6,337)
Other income	1,079	1,212	946
Turnaround plan expenses – Chrysler Group	(2,727)	(3,064)	-
Income (loss) before financial income	(1,457)	(1,637)	4,320
Financial income, net	137	154	156
Income (loss) before income taxes	(1,320)	(1,483)	4,476
Effects of changes in German tax laws	-	-	(263)
Income taxes	692	777	(1,736)
Total income taxes	692	777	(1,999)
Minority interests	39	44	(12)
Income (loss) before extraordinary items and cumulative effects of changes in accounting principles, net of taxes	(589)	(662)	2,465
Extraordinary items - gains on disposals of businesses, net of taxes	-	-	5,516
Cumulative effects of changes in accounting principles: transition adjustments resulting from adoption of SFAS 133 and EITF 99-20, net of taxes	-	-	(87)
Net income (loss)	(589)	(662)	7,894
Net income (loss) adjusted for one-time effects[1])	650	730	3,481

[1]) 2001: Turnaround plan Chrysler Group, restructuring of Freightliner, Sterling and Thomas Built Buses business unit, Mitsubishi Motors restructuring, charge related to the recoverability of lease receivables of the Capital Service's portfolio, impairment charge relating to e-business activities and the economic crisis in Argentina, gain arising at EADS in the connection with the formation of Airbus SAS, sale of the remaining 10% equity interest in debitel, sale of 60% of the Group's interest in TEMIC, sale of Adtranz.

2000: Exchange of the Group's controlling interest in DaimlerChrysler Aerospace for shares in EADS, investment of Deutsche Telekom in debis Systemhaus, sale of Fixed Installations business, gain from dilution of equity interest in Ballard, repositioning of smart, EU directive regarding the recycling of end-of-life vehicles, impairment on carrying values of leased vehicles, effects of changes in German tax law.

The operating profit of €1.2 billion achieved by the Other Activities segment was below the prior year's level of €3.6 billion. The results of both years were strongly influenced by one-time effects. In 2001, operating profit was positively impacted by EADS (€0.9 billion) due to the Group's share of the one-time gain arising at EADS in connection with the formation of Airbus SAS, from the sale of 60% of the Group's interest in TEMIC to Continental (€0.2 billion) and from the sale of the Rail Systems business unit (€0.3 billion). However, charges of €0.4 billion due to the restructuring program at Mitsubishi Motors had a negative impact on operating profit. In 2000, one-time income totaling €3.5 billion resulted from the exchange of the Group's controlling interest in DaimlerChrysler Aerospace for shares in EADS and from the sale of the Fixed Installations business by the Rails Systems business unit.

Reconciliation to Operating Profit (Loss)

In millions	01 US$	01 €	00 €
Income (loss) before financial income	(1,457)	(1,637)	4,320
+ Pension and postretirement benefit expenses other than service cost	(401)	(450)	(228)
+ Operating income from affiliated, associated and related companies	459	516	(35)
+ Gains on disposals of businesses	260	292	5,832
+ Miscellaneous	(34)	(39)	(137)
Operating profit (loss)	(1,173)	(1,318)	9,752

Adjusted to exclude these one-time effects, the Other Activities segment achieved an operating profit of €0.2 billion in 2001, which is slightly above the comparable result of €0.1 billion in the prior year. The positive contributions from MTU Aero Engines and from EADS, whose earnings were mainly influenced by increased Airbus deliveries, compensated for the Group's proportionate share of the loss at Mitsubishi Motors.

Financial income at prior year's level. Financial income of €0.2 billion was comparable to the prior year. In 2001, financial income was impacted by one-time effects totaling €0.7 billion. Investment income, which primarily reflects the Group's equity method investments in EADS and Mitsubishi Motors, improved mainly due to the gain at EADS in connection with the formation of Airbus SAS. This gain was partially offset by the negative impact from the Group's share of the net loss at Mitsubishi Motors mainly resulting from restructuring expenses recorded in 2001.

In addition, expenses of €0.1 billion resulted from the effects of the depreciation of the Argentine peso against the U.S. dollar due to the economic crisis in Argentina.

The higher interest expense was mainly caused by increased borrowing in the industrial business.

The effects on operating profit of the operative investments were allocated to the respective segment operating profits. In 2001, this resulted in a net positive contribution to operating profit of €0.5 billion, of which €0.7 billion was accounted for by the investments in EADS and Mitsubishi Motors and negative contributions of €0.2 billion by other investments.

Net income after adjustments to exclude one-time effects. The 2001 net loss was €0.7 billion, compared with net income of €7.9 billion in the prior year. The Group reported a loss per share of €0.66 after earnings per share of €7.87 in 2000.

The one-time charges and gains as described in the preceding paragraphs with respect to operating profit and financial income had a net negative effect of €1.4 billion on the net loss in the year under review (2000: €4.8 billion net positive effect). In addition, the prior year was affected by a one-time charge from the write-down of deferred tax assets in connection with the tax reform in Germany and effects on earnings from the first application of Statement of Financial Accounting Standards (SFAS) No. 133 and Emerging Issues Task Force (EITF) No. 99-20. In the prior year, due to accounting regulations on the use of the pooling-of-interest method, gains from the sales of businesses were recorded as extraordinary items.

Net income adjusted for these one-time effects decreased by €2.8 billion to €0.7 billion. Basic earnings per share adjusted for these one-time effects amounted to €0.73, compared with €3.47 in 2000.

Dividend of €1.00 per share. We propose to the Annual Meeting on April 10, 2002, that for 2001 a dividend of €1.00 per share be distributed. The amount to be distributed is €1,003 million.

Performance measures as an important component of corporate management. The performance measures implemented by DaimlerChrysler encourage decentralized responsibility, cross-divisional transparency and capital-market-oriented investment performance in all areas of the Group, thereby supporting management in its tasks of leading and developing the entire company and its individual business units.

For performance purposes, we differentiate between the Group level and the operating levels of the segments and business units. At the Group level, value added is calculated as an absolute performance measure by deducting weighted average cost of capital from net operating income, an after-tax performance measure. For the determination of the Group performance measure, return on net assets (RONA), net operating income is compared to the capital employed by the Group. Return on net assets demonstrates the extent to which the DaimlerChrysler Group achieves or surpasses the rate of return required by its investors. The required rate of return, or the Group's average cost of capital, is defined as the minimum rate of return that investors expect on invested equity and borrowings. These capital costs are mainly determined by long-term, risk-free, fixed-interest bond rates combined with a risk premium for investments in stocks. At the Group level in 2001, a cost-of-capital rate of 9.2% was used, which has been unchanged since 1998. For the industrial divisions and business units, operating profit is used as an earnings measure, a commonly accepted performance measure before interest and taxes, which accurately reflects the areas of responsibility under the control of the business unit management. The industrial businesses also use net assets, defined as assets minus non-interest-bearing liabilities, as a capital basis. The minimum required rate of return on net assets was 15.5% before taxes. For financial services activities, as is usual in this sector, return on equity is applied as a performance measure. The target rate of return on equity was 17% before taxes. The decrease of three percentage points compared to the prior year resulted from a lower average tax rate for Financial Services.

Development of net assets and return on net assets. In 2001, net operating income, which is derived from net income, totaled €1.6 billion excluding one-time effects (€0.3 billion including one-time effects). In connection with an increase in net assets from €6.4 billion to €65.9 billion (annual average), return on net assets for the DaimlerChrysler Group amounted to 2.5% after taxes. The Mercedes-Benz Passenger Car & smart division again significantly surpassed the 15.5% (before taxes) minimum required rate of return. Chrysler Group, Commercial Vehicles and Financial Services did not achieve the minimum required rate of return, primarily due to the unsatisfactory economic situation in North America. During 2001, Chrysler Group and the Freightliner, Sterling, Thomas Built Buses business unit implemented comprehensive programs designed to improve their profitability.

Net Assets and Return on Net Assets[1])

	01	00	01	00
	(annual average, in billions of €)		%	%
	Net Assets		Return on Net Assets	
DaimlerChrysler Group (after taxes)	65.9	59.5	2.5	7.4
Industrial business (before interest and taxes)	54.7	48.8	1.4	9.5
Mercedes-Benz Passenger Cars & smart	11.1	10.9	26.7	26.3
Chrysler Group	26.6	25.0	(8.2)	2.1
Commercial Vehicles	9.2	7.6	0.6	16.5
Services[2])	2.2	1.1	1.9	9.5
Other Industrial Activities[3])	5.6	4.2	7.2	10.8
	Stockholders' Equity		Return on Equity[4])	
Financial Services	9.6	6.2	5.9	9.6

[1]) Adjusted for one-time effects.
[2]) Excluding Financial Services (due to the investment of Deutsche Telekom in debis Systemhaus figures are not comparable with the prior year).
[3]) Due to the addition and disposition of a number of investments, figures are not comparable with the prior year. The other industrial activities include the investments in Mitsubishi Motors (since October 2000) and EADS (since July 2000) as well as MTU Aero Engines. The sold business unit Rail Systems was included through April 2001 and the business unit Automotive Electronics was included through March 2001, thereafter at equity.
[4]) Before taxes.

Due to decreased net operating income and higher net assets, the DaimlerChrysler Group reported a negative value added of €4.4 billion (calculated on the basis of a 9.2% cost of capital after taxes).

Net assets are derived from the consolidated balance sheet, as shown in the following table.

Net Assets[1]) of the DaimlerChrysler Group

In millions	01 €	00 €
Stockholders' equity[2])	39,184	42,713
Minority interests	417	519
Financial liabilities of the industrial segment	15,701	9,508
Pension provisions of the industrial segment	12,608	11,114
Net assets	67,910	63,854

[1]) Represents the value at year-end; the average for the year was €65.9 billion (2000: €59.5 billion).
[2]) Adjusted for the effects from the application of SFAS 133.

Reconciliation to Net Operating Income

In millions	01 €	00 €
Net income (loss)	(662)	7,894
One-time effects	1,392	(4,413)
Net income (loss) adjusted for one-time effects	730	3,481
Minority interests	(44)	12
Interest expense related to industrial activities, after taxes	422	241
Interest cost of pensions related to industrial activities, after taxes	539	649
Net operating income	1,647	4,383

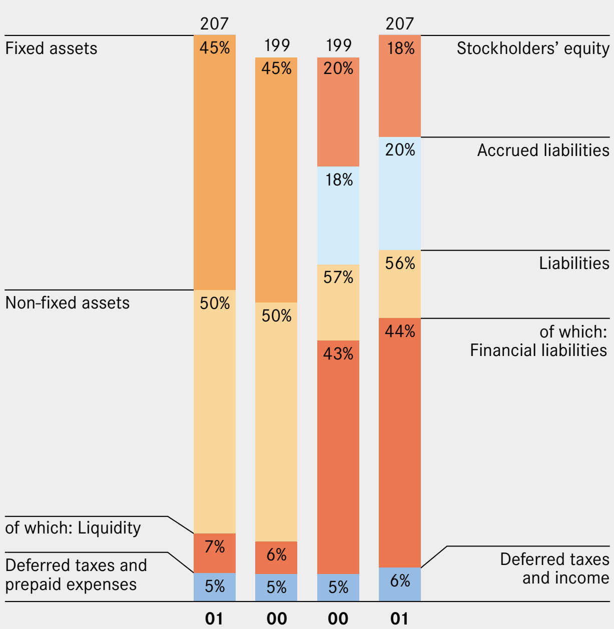
In view of a series of changes both in the Group's capital structure and in the requirements of the capital markets, capital costs were recalculated beginning with the year 2002. The various parameters of capital costs according to the capital-asset-pricing model led to a net reduction in the Group's cost of capital rate to 8% after taxes. This results in a minimum required rate of return of 13% (before taxes) for the industrial business activities, and 14% (before taxes) for financial services activities. The requirements of the business units are derived by benchmarking them against the best comparable companies. In general, they significantly surpass the minimum rate of return and are not affected by changes in capital costs. An adequate cost-of-capital rate encourages investment in value-adding projects and utilizes appropriate growth opportunities. The goal of creating sustained value for our shareholders continues to be pursued.

Increase in total assets. In 2001, the Group's total assets grew by 4% to €207.4 billion. The main reason for this increase was the higher value of the US dollar compared with the prior year. The assets and liabilities of the Group's U.S. companies were translated on December 31, 2001 at an exchange rate of €1 = U.S. dollar 0.881 (2000: €1 = U.S. dollar 0.931), which resulted in correspondingly higher balance sheet positions in euros. Of the aggregate rise in total assets, €6.2 billion was explained by currency effects. The sale of the Rail Systems business unit to Bombardier led to the deconsolidation of Adtranz in April 2001, and therefore to a reduction in total assets of €1.9 billion.

The increases in equipment on operating leases (7%) and receivables from financial services (2%) were mainly caused by the changes in exchange rates. At year end, the two positions totaled €85.5 billion or 41% of our total assets. These asset positions were offset by financial liabilities of €90.9 billion at the end of the year. Currency effects caused €3.0 billion of the increase in financial liabilities.

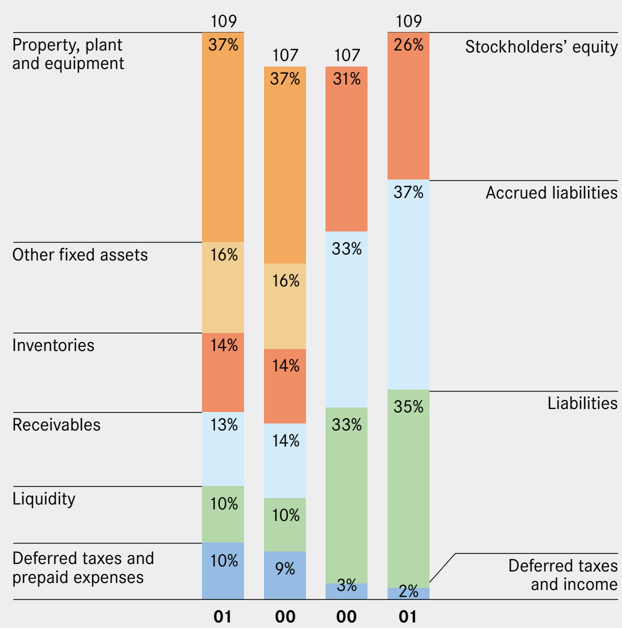
Balance Sheet Structure

In billions of €



Balance Sheet Structure of the Industrial Business

In billions of €



Property, plant and equipment increased by 3% to €41.2 billion during the period under review. The increase resulted mainly from currency effects, which were partially offset by higher depreciation in particular at Chrysler Group in connection with the restructuring activities.

Financial assets increased slightly over the preceding year, reaching an amount of €12.4 billion (2000: €12.1 billion). This increase was primarily due to the one-time gain arising at EADS in connection with the formation of Airbus SAS, which accordingly increased the book value of our equity method investment in EADS. On the other hand, the book value of our equity method investment in Mitsubishi Motors fell due to the negative earnings at that company.

Inventories – net of advance payments received – totaled €16.8 billion (2000: €16.3 billion) in the consolidated balance sheet. As well as the positive currency translation effects (€0.2 billion), the increase in inventories was primarily caused by the market launch of new products in the Mercedes-Benz Passenger Cars & smart segment (€0.9 billion). The deconsolidation of the Adtranz Group had an offsetting effect of €0.5 billion.

Trade receivables and other receivables increased slightly to €22.6 billion (2000: €22.4 billion). A reduction of €1.6 billion in trade receivables occurred mainly due to the deconsolidation of Adtranz (€0.7 billion) and a decrease (€0.3 billion) at the Mercedes-Benz Passenger Cars & smart segment, while other receivables rose by €2.2 billion. Besides positive currency effects, an increase occurred in other receivables because of the higher market values of derivative financial instruments and higher retained interests in sold receivables.

The level of liquid funds rose by 16% to €14.5 billion. This was largely a reflection of the increase in cash and cash equivalents to €11.4 billion (2000: €7.1 billion), which was primarily due to a higher cash flow from receivables sold by the financial services business and a general shift from securities into cash. The value of securities fell by 43% to €3.1 billion.

Stockholders' equity declined by 8% to €39.0 billion (2000: €42.4 billion). This decline was mainly due to the dividend distribution for the 2000 financial year (€2.4 billion) and the net loss of €0.7 billion. The equity ratio, net of dividend distribution, fell by 1.8 percentage points to 18.3%. The equity ratio for the industrial business was 25.7% (2000: 31.2%). The main reason for this decline, aside from the net loss, was a capital increase carried out at Financial Services, with a corresponding reduction in equity in the industrial business.

The Group's accrued liabilities rose by €5.1 billion to €41.6 billion. This increase was primarily the result of higher provisions for warranty claims, additions to accrued liabilities in connection with the turnaround plan at Chrysler Group, and increased risk reserves at the Freightliner, Sterling and Thomas Built Buses business unit. In addition, accrued liabilities rose due to currency effects by a total of €1.1 billion.

Trade liabilities and other liabilities decreased by €0.5 billion to €24.4 billion. Adjusted for positive currency translation effects (€0.7 billion), the decrease was mainly explained by the deconsolidation of Adtranz (€0.8 billion) and the reduction of trade liabilities in the Mercedes-Benz Passenger Cars & smart and Commercial Vehicles divisions.

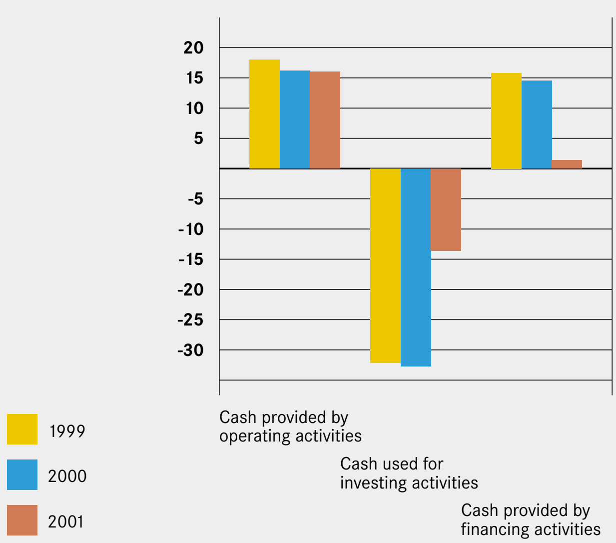
Statement of cash flows impacted by financial services business. Cash provided by operating activities remained substantially unchanged in 2001 at €15.9 billion (2000: €16.0 billion). This resulted from the decrease in cash-effective operating result, which was nearly offset by positive effect of change in working capital.

The substantial decrease in cash used for investing activities to €13.3 billion (2000: €32.7 billion) was primarily impacted by the intentionally lower expansion of the financial services business. For Financial Services, cash used for investing activities declined by €12.6 billion to €7.5 billion (2000: €20.1 billion). This was particularly due to a decrease of €7.6 billion in net additions to receivables from financial services and a €3.4 billion lower increase in equipment on operating lease. The decrease in cash used for investing activities in the industrial business was primarily a result from the net dispositions of businesses in 2001 compared to the net acquisitions of businesses in the previous year.

Due to the reduced growth of the leasing and sales financing business, which is typically financed with a high proportion of debt, cash provided by financing activities decreased from €14.5 billion to €1.4 billion.

Cash and cash equivalents with an original maturity of three months or less increased from €7.1 billion to €11.4 billion in the reporting period. Total liquidity, which also includes long-term investments and securities, increased from €12.5 billion to €14.5 billion.

Cash Flow
In billions of €



Refinancing at the DaimlerChrysler Group. On February 26, 2001, the corporate rating of the DaimlerChrysler Group was reduced by the Standard & Poor's (S&P) rating agency from A to A-, and by Moody's Investors Service (Moody's) from A2 to A3. The simultaneous downgrading of the short-term credit rating from A-1 to A-2 (S&P) and from P-1 to P-2 (Moody's) not only had the effect of making our short-term borrowing (commercial paper) more expensive, but also reduced the volume of commercial paper that can be placed, particularly in the United States. In January 2001, DaimlerChrysler therefore began to replace short-term financing with longer-term borrowings reaffirming the strategy implemented in the second half of 2000 through the issue of a multi-currency, multi-tranche corporate bond in the amount of U.S. dollar 7.1 billion. In March 2001, the Group continued and almost completed this strategy with the issue of a multi-tranche bond totaling €6.5 billion.

After these two large transactions, as the year progressed DaimlerChrysler was able to cover its current financing requirements with smaller transactions in the capital markets. These transactions took place through medium-term note programs in the form of public bonds and private placements. In the area of public bonds, DaimlerChrysler was able to reach new market segments and groups of investors in the international capital markets by means of a first issue of bonds in Polish zloty, Slovakian koruna and Hungarian forint, and in a local capital market with a bond issue in South African rand.

The 364-day tranche of the global credit facility was converted into a 2-year working capital line in 2001. Altogether, the facility established in 1999 comprises three tranches with varying periods totaling U.S. dollar 18 billion. Since its inception, this credit facility has not been utilized.

Primarily as a result of weak demand in the US automotive market, at the end of October 2001, Standard & Poor's again lowered our long-term rating from A- to BBB+. Moody's Investors Services, however, left our rating unchanged at A3.

Early recognition and consistent management of future risks. In view of the global operations of DaimlerChrysler and the increasingly intense competition in all markets, the Group's business units are subject to many risks which are directly connected with entrepreneurial activity. We have developed and used effective monitoring and control systems for the early recognition and assessment of existing risks and the formulation of appropriate responses. With a view to the legal requirements, we have integrated the Group's early-recognition systems into a risk-management system. The risk management system is an integral component of the entire planning, controlling and reporting process and is responsible for systematically identifying, assessing, monitoring and documenting risks. Risks are identified by the management of the business segments and units applying predefined risk categories and assessed in terms of their probability of occurrence and possible extent of damage. The reporting of relevant risks is regulated by limit levels defined by management. Within the framework of risk management, we have developed and implemented measures to avoid and reduce risks and to safeguard against their potential effects. The identified risks are regularly monitored by management.

The risk-management system of the DaimlerChrysler Group aims to ensure that management recognizes significant risks at an early stage and initiates compensating measures. Compliance with the Group's uniform guidelines as defined in the risk management manual is safeguarded by our internal auditors. In addition, the external auditors review the early-recognition system integrated in the risk management system in terms of its fundamental suitability for recognizing at an early stage any developments that might jeopardize the continued existence of the company.

Risks from general economic developments. In 2001, the world economy deteriorated significantly, and expectations for the full-year 2002 are still rather subdued. In view of the unusually high uncertainty concerning economic developments, risks exist for DaimlerChrysler's profit outlook if the upturn we expect for the second half of 2002 does not materialize or is substantially weaker.

A possible cause of prolonged economic decline in the United States would be a renewed loss of confidence among consumers and investors with a downward spiral of expectations. This could lead to a stronger drop in U.S. domestic demand and significant stock-market losses. Due to trading and capital-market links, with such a scenario the assumed economic recovery in the Group's important markets of Western Europe would not occur. Significant growth losses would probably also occur in Asia and South America.

Another potential risk is the possibility of a deeper and longer recession in Japan than has been forecast. This would not only affect one of our important export markets, but would make the restructuring process at Mitsubishi Motors more difficult. A sustained decline of the Japanese economy would also worsen the situation in some of the emerging markets in Asia, which could have a negative impact on our investment in Hyundai Motor Company.

Further local risk potentials lie in a sustained economic decline in certain emerging markets in South America, Asia and Eastern Europe.

Industry- and company-specific risks. In addition to general economic developments and weakening sales markets, a risk factor also arises from increasing competitive pressures. It is no longer only the traditional product features that are decisive for the sales success of a product, but to a greater extent also its price and sales promotion offers. Particularly in the U.S. automotive markets, after the events of September 11, 2001, price incentives on new cars were substantially raised and financing conditions were improved. Because these activities prevented stronger than originally expected market shrinkage, the danger of sustained reductions in margins and lower profitability exists. If the economic upturn does not come as expected, there is also the risk that purchases will be merely brought forward with additional sales incentives, thus increasing the probability of lower unit sales in future periods. This situation could also necessitate further reductions in production capacities in the passenger car and commercial vehicle businesses.

The future success of DaimlerChrysler is particularly dependent on the extent to which traditional product and market segments can be extended and new markets can be penetrated with innovative products. The growth of the various segments depends not least on legislation regulating consumption and emissions, as well as on energy prices. If there is a shift in demand towards smaller vehicles with lower profit margins or the need for significantly higher technological expenditures, the profitability of DaimlerChrysler will be affected.

A further risk could arise connected with stronger international competition due to increasing price transparency, alternative sales channels such as the Internet, or the revision of the European Union block-exemption directive. The directive, which expires at the end of September 2002, allows automobile manufacturers to use selective and exclusive distribution networks. The approval of a revised block-exemption directive is expected by the middle of 2002.

Like other automobile manufacturers, DaimlerChrysler is combating these risks by, among other things, efficiency improvements all along the value chain including changes to the sales organization. Cost reductions by suppliers, however, could result in additional quality risks.

The success of the turnaround plans for Chrysler Group, the Freightliner, Sterling and Thomas Built Buses business unit as well as Mitsubishi Motors depends crucially upon the extent to which management can continue to successfully implement the planned measures despite worsened market conditions.

DaimlerChrysler's financial services business primarily consists of the leasing and financing of Group products, mainly vehicles. Refinancing is carried out to a considerable extent through external capital markets, which involves the risk of interest rate movements. In addition, a risk of default exists in the financing business as well as residual value risks in the leasing business when vehicles are sold by the Group at the end of their leases.

Through our 33% stake in EADS, we also participate indirectly in the company's risks. The success of EADS mainly depends on the competitiveness and market success of the Airbus aircraft. The market for civil aircraft is subject to cyclical fluctuations, as the worldwide volume of orders and deliveries of new aircraft are determined by airlines' profitability and fleet-renewal cycles.

Transparency of market risks. 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 and 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.

Foreign exchange rate management. The international orientation of our business activities results in cash receipts and payments denominated in various currencies. Cash inflows and outflows balance themselves out if they are denominated in the same currency. Within the framework of central currency management, currency exposures are regularly assessed and hedged with suitable financial instruments according to exchange rate expectations, which are constantly reviewed. The net assets of the Group which are invested in subsidiaries and affiliated companies outside the euro zone remain generally not hedged against currency risks. However, in specific circumstances, DaimlerChrysler seeks to hedge the currency risk inherent in certain of its long-term investments.

The following table shows value-at-risk figures for DaimlerChrysler's 2001 and 2000 portfolio of foreign exchange rate sensitive derivative instruments.

Value-at-Risk

In millions of €	12.31.2001	Average for 2001	12.31.2000	Average for 2000
Exchange rate sensitive derivative financial instruments[1])	368	430	541	574

[1]) Forward foreign exchange contracts, foreign exchange swap contracts, currency options.

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.

Asset and liability management. DaimlerChrysler holds a variety of interest rate sensitive assets and liabilities to manage its operative and strategic liquidity requirements. In addition, a substantial volume of interest rate sensitive assets and liabilities is related to the leasing and sales financing business. 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 value-at-risk figures for DaimlerChrysler's 2001 and 2000 portfolio of interest-rate sensitive financial instruments.

Value-at-Risk

In millions of €	12.31.2001	Average for 2001	12.31.2000	Average for 2000
Interest-rate-sensitive financial instruments	334	272	126	128

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 management. 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 value-at-risk figures for DaimlerChrysler's 2001 and 2000 portfolio of equity securities.

Value-at-Risk

In millions of €	12.31.2001	Average for 2001	12.31.2000	Average for 2000
Equity securities and related derivatives	3	22	87	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.

Ratings. During 2001, DaimlerChrysler's long-term corporate rating was lowered from A to BBB+ by the Standard & Poor's (S&P) rating agency and from A2 to A3 by Moody's Investors Service (Moody's). At the same time, our short-term rating was reduced from A-1 to A-2 (by S&P) and from P-1 to P-2 (by Moody's).

A further downgrade would result in rising capital costs.

Legal risks. Like all internationally active automobile manufacturers, the DaimlerChrysler Group is affected by intensifying legal regulations in its various markets concerning the exhaust emissions and fuel consumption of its range of cars as well as their safety standards. Furthermore, there are several actions, in particular relating to product liability, pending against companies of the DaimlerChrysler Group. In the event of adverse decisions in these proceedings, DaimlerChrysler could be required to pay substantial compensatory and punitive damages, or to undertake service actions, recall campaigns or other costly actions.

A number of shareholder lawsuits are pending in the United States against DaimlerChrysler and certain members of its Supervisory Board and Board of Management that allege 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 complaints seek relief ranging from substantial monetary damages to rescinding the business combination. DaimlerChrysler believes that these claims are without merit and is defending against them vigorously.

Overall risk. No risks are apparent that could jeopardize the continued existence of the Group.

Events after the end of the 2001 financial year. 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, which represents a further step towards focusing on the automotive business. The transaction is expected to be completed in the first quarter of 2002.

In January 2002, DaimlerChrysler decided to exit the debis Systemhaus joint venture in March 2002 by exercising its option to sell to Deutsche Telekom the Group's 49.9% interest in T-Systems ITS (formerly debis Systemhaus) for proceeds of €4.7 billion.

No further developments beyond the ones described above have occurred since the end of the 2001 financial year which are of major significance to DaimlerChrysler and would lead to a changed assessment of the Group's position. The course of business in the first two months of 2002 confirms the statements made in the section Outlook.

Preliminary Note

The accompanying consolidated financial statements (consolidated balance sheets as of December 31, 2001 and 2000, consolidated statements of income (loss), cash flows and changes in stockholders' equity for each of the financial years; 2001, 2000 and 1999) were prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP).

In order to comply with Section 292a of the HGB (German Commercial Code), the consolidated financial statements were supplemented with a consolidated business review report and additional explanations. Therefore, the consolidated financial statements, which have to be filed with the Commercial Register and published in the Federal Gazette, comply with the Fourth and Seventh Directives of the European Community. For the interpretation of these directives we relied on the statement by the German Accounting Standards Committee.

The consolidated financial statements and the consolidated business review report as of December 31, 2001 prepared in accordance with Section 292a of the HGB (German Commercial Code) and filed with the Commercial Register in Stuttgart under the number, HRB 19 360, will be provided to shareholders on request.

Statement by the Board of Management

The Board of Management of DaimlerChrysler AG is responsible for preparing the accompanying financial statements.

We have installed effective controlling and monitoring systems to guarantee compliance with accounting principles and the adequacy of reporting. These systems include the use of uniform guidelines groupwide, the use of reliable software, the selection and training of qualified personnel, and regular reviews by our internal auditing department.

Taking the legal requirements into consideration we have integrated the group's early warning systems into a risk management system. This enables the Board of Management to identify significant risks at an early stage and to initiate appropriate measures.

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft audited the consolidated financial statements, which were prepared in accordance with generally accepted accounting principles in the United States of America, and issued an unqualified audit report.

Together with the independent auditors, the Supervisory Board's Financial Audit Committee examined and discussed the consolidated financial statements including the business review report and the auditors' report in depth. Subsequently, the entire Supervisory Board reviewed the documentation related to the financial statements. The result of this examination is included in the Report of the Supervisory Board.

Jürgen E. Schrempp

Manfred Gentz

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."

Stuttgart, Germany
February 8, 2002

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Wiedmann
Wirtschaftsprüfer

Schmid
Wirtschaftsprüfer

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.

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

Consolidated Balance Sheets

(in millions)	Note	Consolidated At December 31, 2001 (Note 1) $	2001 €	2000 €	Industrial Business* At December 31, 2001 €	2000 €	Financial Services* At December 31, 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-therm 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.

Consolidated Statements of Changes in Stockholders' Equity

(in millions of €)	Capital stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss): Cumulative translation adjustment	Available-for-sale securities	Derivative financial instru-ments	Minimum pension liability	Treasury stock	Total
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.

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.

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

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

Consolidated Fixed Assets Schedule

(in millions of €)	Acquisition or Manufacturing Costs						
	Balance at January 1, 2001	Currency change	Change in consolidated companies	Additions	Reclassifications	Disposals	Balance at December 31, 2001
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 leases[2])	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.

Depreciation/Amortization Balance at January 1, 2001	Currency change	Change in consoli-dated companies	Additions	Reclassi-fications	Disposals	Balance at December 31, 2001	Book Value[1] Balance at December 31, 2001	Balance at December 31, 2000	(in millions of €)
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 leases[2]**

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.

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

Currency:		Exchange rate at December 31, 2001 €1 =	2000 €1 =	Annual average exchange rate 2001 €1 =	2000 €1 =	1999 €1 =
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 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 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 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 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 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:

Company	Ownership percentage
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.

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

Balance sheet information:	At December 31, 2001	2000
Fixed assets	26,505	20,563
Non-fixed assets	22,119	21,592
Total assets	48,624	42,155
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	48,624	42,155

MMC

Income statement information:	Twelve months ended December 31, 2001	For the period from acquisition to December 31, 2000
Revenues	30,057	7,754
Net loss	(1,209)	(124)

Balance sheet information:	At December 31, 2001	2000
Fixed assets	11,974	12,802
Non-fixed assets	12,697	16,452
Total assets	24,671	29,254
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	24,671	29,254

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, Volvo AB 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.

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
	18,331	18,303	16,063

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 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 then 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.

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	1,374	984	706	3,064
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	506	–	510	1,016

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.

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

	Year ended December 31,		
(in millions of €)	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.

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 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	(777)	1,999	4,533

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.

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.

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

(in millions of €)	At December 31, 2001 Total	At December 31, 2001 thereof non-current	At December 31, 2000 Total	At December 31, 2000 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	(1,841)	(4,336)	(3,044)	(3,362)

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)
	(1,284)	1,932	4,817

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).

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-System 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.

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
	16,921

14. Inventories

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

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).

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, unbilled, 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

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])	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

[1]) 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

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 Cost	Fair value	Unrealized Gain	Unrealized Loss	At December 31, 2000 Cost	Fair value	Unrealized Gain	Unrealized 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 Cost	Fair value	Unrealized Gain	Unrealized Loss	At December 31, 2000 Cost	Fair value	Unrealized Gain	Unrealized 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

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.

(in millions of €) Available-for-sale	At December 31, 2001	2000
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
	2,426	3,945

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:

(in millions of €)	2001	At December 31, 2000	1999
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	11,428	7,127	9,099
Securities	3,077	5,378	8,969
Other	20	5	133
	14,525	12,510	18,201

*) 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:

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

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 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:

	Year ended December 31,								
	2001			2000			1999		
(in millions of €)	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 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.

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	**42.5**	**84.75**	**44.5**	**82.87**	**45.8**	**80.25**
SARs exercisable at year-end	**42.5**	**€84.75**	**33.6**	**€80.63**	**26.8**	**€72.77**

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 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:

Bonds granted in	Due	Stated interest rate	Conversion price
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):

	2001 Number of stock options	2001 Average conversion price per share	2000 Number of stock options	2000 Average conversion price per share	1999 Number of stock options	1999 Average conversion price per share
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	33.6	70.43	15.3	74.65	0.1	42.62
Exercisable at year-end	0.1	€42.62	0.1	€42.62	0.1	€42.62

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.

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	
(in millions of €)	Total	Due after one year	Total	Due after one year
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
	41,570	22,405	36,441	18,575

a) Pension Plans and Similar Obligations

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

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

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.

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 German Plans	At December 31, 2001 Non-German Plans	At December 31, 2000 German Plans	At December 31, 2000 Non-German Plans
Change in projected benefit obligations:				
Projected benefit obligations at beginning of year	9,579	21,878	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	(483)	(1,761)	(531)	(1,377)
Projected benefit obligations at end of year	10,483	24,139	9,579	21,878
Change in plan assets:				
Fair value of plan assets at beginning of year	7,908	25,962	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	(398)	(1,747)	(409)	(1,365)
Fair value of plan assets at end of year	7,503	24,125	7,908	25,962

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 German Plans	At December 31, 2001 Non-German Plans	At December 31, 2000 German Plans	At December 31, 2000 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	–	(24)	–	(153)
Net liability (asset) recognized	807	(7,383)	1,540	(6,631)
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	(1,357)	(110)	–	(35)
Net liability (asset) recognized	807	(7,383)	1,540	(6,631)

*) 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

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

(in millions of €)	2001 German Plans	2001 Non-German Plans	2000 German Plans	2000 Non-German Plans	1999 German Plans	1999 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.

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.

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:

(in millions of €)	2001	2000	1999
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:

(in millions of €)	1-Percentage Point Increase	1-Percentage Point Decrease
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.

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.

24. Financial Liabilities

(in millions of €)	Maturities	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
Notes/Bonds of which due in more than five years: €10,712 (2000: €7,673)	2003–2097	47,632	40,773
Liabilities to financial institutions of which due in more than five years: €2,702 (2000: €2,088)	2003–2019	8,194	6,800
Liabilities to affiliated companies of which due in more than five years: €– (2000: €–)		71	149
Loans, other financial liabilities of which due in more than five years: €66 (2000: €51)		82	118
Liabilities from capital lease and residual value guarantees of which due in more than five years €209 (2000: €226)		987	1,103
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	thereafter
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 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 Total	Due after one year	Due after five years	At December 31, 2000 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 Total	Due after one year	Due after five years	At December 31, 2000 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
	10,262	828	232	9,621	1,284	162

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 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 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 €)	Operating leases
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.

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

(in millions of €)	At December 31, 2001 Carrying amount	At December 31, 2001 Fair value	At December 31, 2000 Carrying amount	At December 31, 2000 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.

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 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.

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").

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.

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

Actual and projected credit losses Percentages as of:	Receivables securitized in 1998	1999	2000	2001
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:

(in millions of €)	2001	2000
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:

	Outstanding balance at 2001	2000	Delinquencies > 60 days at 2001	2000	Net credit losses for the year ended 2001	2000
Retail receivables	58,224	46,377	584	232	691	576
Wholesale receivables	17,448	17,747	24	19	18	2
Total receivables managed	75,672	64,124	608	251	709	578
Less: receivables sold	(42,763)	(37,904)	(182)	(117)	(310)	(251)
Receivables held in portfolio	32,909	26,220	426	134	399	327

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.

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 2001	2000	Wholesale 2001	2000
Prepayment speed assumption (monthly rate)	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 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

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 €)	2001	2000	1999
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)	(1,318)	9,752	11,012

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

(in millions of €)	Germany	European Union*)	United States	Other American countries	Asia	Other countries	Consolidated
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.

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.

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.

Members of the Supervisory Board

Hilmar Kopper
Frankfurt am Main
Chairman of the Supervisory Board of Deutsche Bank AG
Chairman

Erich Klemm *)
Sindelfingen
Chairman of the Corporate Works Council, DaimlerChrysler Group and DaimlerChrysler AG
Deputy Chairman

Manfred Göbels *)
Stuttgart
Director, Services and Mobility Concept, Chairman of the Management Representative Committee, DaimlerChrysler Group

Earl G. Graves
New York
Chairman and CEO of Earl G. Graves Ltd.
(since April 12, 2001)

Prof. Victor Halberstadt
Amsterdam
Professor of Public Economics at Leiden University,
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(since April 12, 2001)

Robert J. Lanigan
Toledo
Chairman Emeritus of Owens-Illinois, Inc.; Founder Partner, Palladium Equity Partners

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Peter A. Magowan
San Francisco
President of San Francisco Giants

Gerd Rheude *)
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Chairman of the Works Council, Wörth Plant, DaimlerChrysler AG

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Wolf Jürgen Röder *)
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G. Richard Thoman
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Former President and former Chief Executive Officer of Xerox Corporation, Senior Advisor to Evercore Partners

Bernhard Walter
Frankfurt am Main
Former Chairman of the Board of Managing Directors of Dresdner Bank AG

Lynton R. Wilson
Toronto
Chairman of the Board of CAE Inc.; Chairman of the Board of Nortel Networks Corporation

Dr.-Ing. Mark Wössner
Gütersloh
Former CEO and former Chairman of the Supervisory Board of Bertelsmann AG

Bernhard Wurl *)
Frankfurt am Main
Head of Department reporting to the Executive Council, German Metalworkers' Union

Stephen P. Yokich *)
Detroit
President of International Union United Automobile, Aerospace and Agricultural Implement Workers of America (UAW)

Committees of the Supervisory Board:

Committee pursuant to Section 27, Subsection 3 of the German Codetermination Act
Hilmar Kopper (Chairman)
Erich Klemm
Dr. rer. pol. Manfred Schneider
Bernhard Wurl

Presidential Committee
Hilmar Kopper (Chairman)
Erich Klemm
Dr. rer. pol. Manfred Schneider
Bernhard Wurl

Financial Audit Committee
Hilmar Kopper (Chairman)
Erich Klemm
Stefan Schwaab
Bernhard Walter

Retired from the Supervisory Board:

Robert E. Allen
Short Hills, N.J.
Retired Chairman of the Board and Chief Executive Officer of AT&T Corp.
retired April 11, 2001

Willi Böhm *)
Wörth
Senior Manager Wage Accounting, Member of the Works Council, Wörth Plant, DaimlerChrysler AG
retired December 13, 2001

Lord Browne of Madingley
London
Group Chief Executive of BP p.l.c.
retired April 11, 2001

*) Representative of the employees

Report of the Supervisory Board

The Supervisory Board and the Board of Management met in five meetings during the 2001 financial year to discuss intensively the business situation of DaimlerChrysler, the future strategic development of the Group and its divisions, and various other issues.

The Presidential Committee met four times in 2001, primarily to deal with Board of Management issues, and to prepare the meetings of the Supervisory Board. The Financial Audit Committee convened twice with the independent auditors to discuss the financial statements for 2000 and the financial statements for the first half of 2001. The Committee engaged KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, an auditing firm, for the annual audit, and also determined the audit emphasis for 2001. The Mediation Committee, a body stipulated by the German Law of Industrial Codetermination, was not required to convene in 2001.

In each of its meetings the Supervisory Board was fully informed by the Board of Management regarding the situation of the company, particularly its business and financial status, the personnel situation, business developments at the company and its holdings, investment plans and basic business-policy questions. In addition, there was regular monthly reporting in which the company's key performance figures were presented, and written reports were submitted on special matters. The Chairman of the Supervisory Board was also regularly kept informed through separate discussions with the Board of Management.

In 2001, the agendas of the Supervisory Board were dominated by the further implementation of the strategy pursued since 1995 of concentration on the automotive business and related services. The course was set for the company's future also in terms of personnel with the reappointment of Jürgen E. Schrempp and Jürgen Hubbert, and the continuity and stability of top management were secured. Another major topic was the implementation of restructuring measures in various business units. After the terrorist attacks of September 11, their consequences for DaimlerChrysler were discussed in detail. Some of the other matters that were dealt with were personnel questions and the planned successors to important positions, as well as corporate governance at the DaimlerChrysler Group.

The meeting in February 2001 dealt with the 2000 consolidated and individual financial statements, preparations for the Annual Meeting, and medium-term planning including the extent of refinancing for 2001. Particular attention was paid to Chrysler Group's turnaround plan, and the Supervisory Board received detailed reports on the situation at Mitsubishi Motors Corporation (MMC). The current stage of plans to build a small car with MMC was also discussed in this context. Furthermore, the Supervisory Board consented to the sale of a majority interest in the TEMIC Group to Continental AG.

In April 2001, the strategy of the Mercedes-Benz Passenger Cars & smart division was discussed intensively. There was also a detailed report on the implementation of the turnaround plan at Chrysler Group. In addition, the Supervisory Board consented to the acquisition of a 3.3% equity interest in MMC from Volvo and the continuation of existing contracts between Volvo and MMC. This made it possible to extend the strategically important cooperation with MMC from passenger cars to commercial vehicles.

In the July meeting, the Supervisory Board discussed the future strategy of the Commercial Vehicles division, with a focus on the cooperation in Asia with MMC and the South Korean Hyundai Motor Company, particularly in the engine business. The interim report on the first half of 2001 was presented, and information was given on the appointment of KPMG as independent auditors for the 2001 financial year and on the main areas of this audit. At the end of the meeting the Supervisory Board consented to the restructuring of the fuel-cell alliance with Ford and Ballard Power Systems in order to simplify future cooperation in this field.

The meeting at the end of September was dominated by discussion of the consequences of the terrorist attacks in the United States. The Supervisory Board expressed its deep shock and sadness, and emphasized its feelings of solidarity with the victims of the attacks. Future political and economic developments and their significance for the company were intensively discussed with the Board of Management. The situation of the aerospace activities were also on the agenda. In addition, the Supervisory Board was informed of management developments within the Group. In this meeting the Supervisory Board unanimously extended into the year 2005 the appointments of Jürgen E. Schrempp as Chairman of the Board of Management and Jürgen Hubbert as member of the Board of Management with responsibility for the Mercedes-Benz Passenger Cars & smart division. Rüdiger Grube was appointed as deputy member of the Board of Management for a period of three years with responsibility for corporate development.

In December, the Supervisory Board discussed the premises for economic developments in the following years in order to create a basis for the next medium-term planning in February 2002. There was also a presentation on the work of the newly established Executive Automotive Committee (EAC). This focused mainly on the potential for further intensive cooperation between the individual brands and divisions.

The DaimlerChrysler financial statements for 2001 and the business review report were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt/Main, and certified without qualification.

The same applies to the consolidated financial statements according to US GAAP. These are prepared in euros and supplemented by a business review report and additional notes pursuant to Section 292a of the German Commercial Code (HGB). In accordance with Section 292a of the HGB, the US GAAP consolidated financial statements presented in this report grant exemption from the obligation to produce consolidated financial statements according to German law.

All financial statements and the appropriation of earnings proposed by the Board of Management, as well as the auditors' reports, were submitted to the Supervisory Board. They were inspected by the Financial Audit Committee and the Supervisory Board and discussed in the presence of the auditors. The Supervisory Board has declared itself in agreement with the results of the statutory audit and has established that there are no objections to be made.

In its meeting on February 19, 2002, the Supervisory Board took note of the consolidated financial statements for 2001, approved, and thereby adopted, the financial statements of DaimlerChrysler AG for 2001, and consented to the appropriation of earnings proposed by the Board of Management. Further major topics at that meeting were the medium-term corporate planning for 2002-2004, including investment, human resources and earnings objectives, as well as the scope of financing limits for the year 2002.

In April 2001, Mr. Robert E. Allen and Lord Browne of Madingley retired from their positions as members of the Supervisory Board representing the shareholders. In the 2001 Annual Meeting Mr. Earl G. Graves and Prof. Victor Halberstadt were elected as their successors. In December 2001, Mr. Willi Böhm retired from the Supervisory Board after many years as a representative of the employees. Mr. Udo Richter was appointed as his successor.

The Supervisory Board expresses its gratitude to the retired members, the DaimlerChrysler Board of Management and the company's employees for their exceptional individual efforts in the year 2001.

Stuttgart-Möhringen, February 2002

The Supervisory Board

Hilmar Kopper
Chairman

Major Subsidiaries of the DaimlerChrysler Group

	Ownership[1]) in %	Stockholders' equity in millions[2]) of €	Revenues[3]) in millions of € 2001	Revenues[3]) in millions of € 2000	Employment at year-end 2001	Employment at year-end 2000
Mercedes-Benz Passenger Cars & smart						
Micro Compact Car smart GmbH, Renningen	100.0	76	996	775	1,037	728
Mercedes-Benz U.S. International, Inc., Tuscaloosa	100.0	277	3,155	3,025	1,888	1,795
DaimlerChrysler India Private Limited, Poona	100.0	60	62	42	347	329
DaimlerChrysler South Africa (Pty.) Ltd., Pretoria[4])	100.0	221	1,807	1,325	4,450	4,395
Chrysler Group						
DaimlerChrysler Corporation, Auburn Hills[4])	100.0	17,098	63,483	68,372	107,369	125,953
DaimlerChrysler Canada Inc., Windsor	100.0	[6])	15,692	16,277[5])	13,052	17,242
DaimlerChrysler de Mexico S.A. de C.V., Mexico City	100.0	[6])	9,414	8,591[5])	10,287	10,919
Commercial Vehicles						
EvoBus GmbH, Stuttgart[4])	100.0	274	1,986	2,036	10,969	11,302
Mercedes-Benz Lenkungen GmbH, Düsseldorf	100.0	29	261	259	1,295	1,308
Mercedes-Benz España S.A., Madrid	100.0	250	2,752	2,601	5,262	4,950
Detroit Diesel Corporation, Detroit	100.0	484	1,849	2,075	6,342	6,238
Freightliner LLC, Portland[4])	100.0	355	8,072	9,945	12,810	16,332
Mercedes-Benz Mexico S.A. de C.V., Mexico City[4])	100.0	94	626	778	967	1,197
DaimlerChrysler do Brasil Ltda., São Bernardo do Campo	100.0	366	1,731	2,018	10,958	10,865
DaimlerChrysler Argentina S.A., Buenos Aires[4])	100.0	88	322	698	957	1,143
P.T. DaimlerChrysler Indonesia, Jakarta[4])	95.0	56	153	138	1,231	1,251
Mercedes-Benz Türk A.S., Istanbul	66.9	121	478	827	3,364	4,175
MTU Friedrichshafen GmbH, Friedrichshafen	88.4	442	1,128	1,034	6,200	6,028

	Ownership[1]) in %	Stockholders' equity in millions[2]) of €	Revenues[3]) in millions of € 2001	Revenues[3]) in millions of € 2000	Employment at year-end 2001	Employment at year-end 2000
Vehicle Sales Organization						
Mercedes-Benz USA, Inc., Montvale[4])	100.0	272	11,396	10,907	1,549	1,508
DaimlerChrysler France S.A.S., Le Chesnay[4])	100.0	171	3,252	3,002	2,190	1,990
DaimlerChrysler Belgium Luxembourg S.A., Brussels	100.0	71	1,160	1,135	655	622
DaimlerChrysler Nederland B.V., Utrecht[4])	100.0	56	1,193	1,148	679	647
DaimlerChrysler UK Ltd., Milton Keynes[4])	100.0	128	4,769	3,957	1,535	1,120
DaimlerChrysler Danmark AS, Copenhagen	100.0	22	289	286	361	344
DaimlerChrysler Sverige AB, Malmo	100.0	22	459	478	439	421
DaimlerChrysler Italia S.p.A., Rome[4])	100.0	199	2,934	2,676	537	528
DaimlerChrysler Schweiz AG, Zurich	100.0	52	1,128	1,072	419	397
Mercedes-Benz Hellas S.A., Athens	100.0	38	199	222	157	157
DaimlerChrysler Japan Co., Ltd., Tokyo	100.0	97	2,511	2,705	457	412
DaimlerChrysler Australia/Pacific Pty. Ltd., Mulgrave/ Melbourne[4])	100.0	187	967	1,001	729	834
Services						
DaimlerChrysler Services AG, Berlin	100.0	989	0	0	314	309
DaimlerChrysler Bank GmbH, Stuttgart	100.0	545	342	280	1,483	1,024
DaimlerChrysler Services Leasing GmbH, Stuttgart	100.0	36	1,712	1,557	[6])	[6])
DaimlerChrysler Services North America L.L.C., Southfield	100.0	7,654	11,200	4,799	4,341	4,059
Chrysler Capital Company L.L.C., Stamford	100.0	944	112	90	23	46
DaimlerChrysler Insurance Company, Southfield	100.0	173	121	207	97	134
debis Financial Services Inc., Norwalk	100.0	206	348	330	152	185
Other Activities						
MTU Aero Engines GmbH, Munich[4])	100.0	489	2,487	2,106	7,839	7,162
European Aeronautic Defence and Space Company EADS, N.V., Amsterdam[7])	33.0	9,852	14,043	10,585	100,187	88,028
Mitsubishi Motors Corporation, Tokyo[8])	37.3	1,990	14,176	15,296	66,700	72,000

[1]) Relating to the respective parent company.
[2]) Stockholders' equity taken from national financial statements; stockholders' equity converted at year-end exchange rates.
[3]) Converted at average annual exchange rates.
[4]) Preconsolidated financial statements.
[5]) Included in the revenues of the preconsolidated financial statements.
[6]) Included in the consolidated financial statements of the parent company.
[7]) Details based on the financial statements of the group of June 30, 2001 (stockholders' equity at June 30, 2001; revenues in first half of 2001 resp. 2000; employees at June 30, 2001 resp. June 30, 2000)
[8]) Details based on the financial statements of the group of September 30, 2001 (stockholders' equity at September 30, 2001; revenues April through September 2001 resp. 2000; employees at September 30, 2001 resp. September 30, 2000)

Six-Year Summary

Amounts in millions of €	1996	1997	1998	1999	2000	2001
From the statements of income:						
Revenues	101,415	117,572	131,782	149,985	162,384	152,873
Personnel expenses	21,648	23,370	25,033	26,158	26,500	25,095
of which: Wages and salaries	17,143	18,656	19,982	21,044	21,836	20,073
Research and development costs	5,751	6,501	6,693	7,575	7,395	6,008
Operating profit (loss)	6,212	6,230	8,593	11,012	9,752	(1,318)
Operating margin	6.1%	5.3%	6.5%	7.3%	6.0%	(0.9%)
Financial results	408	633	763	333	156	154
Income (loss) before income taxes and extraordinary items	5,693	6,145	8,093	9,657	4,476	(1,483)
Net operating income	–	4,946	6,359	7,032	4,383	1,647
Net operating income as % of net assets (RONA)	–	10.9%	12.7%	13.2%	7.4%	2.5%
Net income (loss)	4,022	6,547	4,820	5,746	7,894	(662)
Net income (loss) per share (€)	4.09	4.28[1])	5.03	5.73	7.87	(0.66)
Diluted net income (loss) per share (€)	4.05	4.21[1])	4.91	5.69	7.80	(0.66)
Net income per share (excluding one-time effects) (€)	4.24	4.28	5.58	6.21	3.47	0.73
Diluted net income per share (excluding one-time effects) (€)	4.20	4.21	5.45	6.16	3.45	0.73
Cash dividend	–	–	2,356	2,358	2,358	1,003
Cash dividend per share (€)	–	–	2.35	2.35	2.35	1.00
Cash dividend including tax credit[2]) per share (€)	–	–	3.36	3.36	3.36	–
From the balance sheets:						
Property, plant and equipment	23,111	28,558	29,532	36,434	40,145	41,165
Leased equipment	7,905	11,092	14,662	27,249	33,714	36,002
Current assets	54,888	68,244	75,393	93,199	99,852	103,389
of which: Liquid assets	12,851	17,325	19,073	18,201	12,510	14,525
Total assets	101,294	124,831	136,149	174,667	199,274	207,410
Stockholders' equity	22,355	27,960	30,367	36,060	42,409	39,004
of which: Capital stock	2,444	2,391	2,561	2,565	2,609	2,609
Accrued liabilities	31,988	35,787	34,629	37,695	36,441	41,570
Liabilities	41,672	54,313	62,527	90,560	109,661	115,327
of which: Financial liabilities	25,496	34,375	40,430	64,488	84,783	90,908
Debt-to-equity ratio	114%	123%	133%	179%	200%	233%
Mid- and long-term provisions and liabilities	36,989	45,953	47,601	55,291	75,349	87,532
Short-term provisions and liabilities	41,950	50,918	58,181	83,315	81,516	80,874
Current ratio	–	85%	79%	66%	67%	64%
Net assets (average of the year)	–	45,252	50,062	53,174	59,489	65,882
Credit rating, long-term						
Standard & Poor's	–	–	A +	A +	A	BBB+
Moody's	–	–	A 1	A 1	A 2	A3
From the statements of cash flows:						
Investments in property, plant and equipment	6,721	8,051	8,155	9,470	10,392	8,896
Investments in leased equipment	4,891	7,225	10,245	19,336	19,117	17,951
Depreciation on property, plant and equipment	4,427	5,683	4,937	5,655	6,645	7,580
Depreciation on leased equipment	1,159	1,456	1,972	3,315	6,487	7,254
Cash provided by operating activities	9,956	12,337	16,681	18,023	16,017	15,944
Cash used for investing activities	(8,745)	(14,530)	(23,445)	(32,110)	(32,709)	(13,287)
From the stock exchanges:						
Share price at year-end Frankfurt (€)	–	–	83.60	77.00	44.74	48.35
New York (US $)	–	–	96.06	78.25	41.20	41.67
Average shares outstanding (in millions)	981.6	949.3	959.3	1,002.9	1,003.2	1,003.2
Average dilutive shares outstanding (in millions)	994.0	968.2	987.1	1,013.6	1,013.9	1,003.2
Average annual number of employees	419,758	421,661	433,939	463,561	449,594	379,544

[1]) Excluding one-time positive tax effects, especially due to extra distribution of €10.23 per share.
[2]) For our stockholders who are taxable in Germany. There is no tax credit from 2001 due to a change in the corporate income tax system.

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Information

Publications for our shareholders:

DaimlerChrysler Annual Report
(German, English)

Form 20-F
(English)

DaimlerChrysler Interim Reports for 1st, 2nd and 3rd quarters (German, English)

DaimlerChrysler Environment Report
(German and English)

The financial statements of DaimlerChrysler Aktiengesellschaft prepared in accordance with German GAAP were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, and an unqualified opinion was rendered thereon.
These financial statements will be published in the Bundesanzeiger (Federal Official Gazette) and filed at the Commercial Register in Stuttgart. The financial statements may be obtained from DaimlerChrysler free of charge.

These publications can be requested from:

DaimlerChrysler AG
70546 Stuttgart
Germany

The information can also be ordered by phone or fax under the following number:
+49 711 17 92287

The complete Annual Report, Form 20-F and the interim reports are available on the Internet. The most important financial charts can also be accessed. Our address is:

www.daimlerchrysler.com

DaimlerChrysler online

Additional information on DaimlerChrysler is available on the Internet: www.daimlerchrysler.com

Financial Diary 2002

Annual Results Press Conference
February 20, 2002
10:00 a.m.
Mercedes-Benz Technology Center (MBTC)
Sindelfingen

Analysts' and Investors' Conference
February 20, 2002
3:00 p.m.
Stuttgart-Möhringen

Annual Meeting
April 10, 2002
10:00 a.m.
Messe Berlin (Berlin Exhibition Center)

Interim Report Q1 2002
April 30, 2002

Interim Report Q2 2002
July 18, 2002

Interim Report Q3 2002
October 23, 2002

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