Daimler-Benz
Annual Report
1986

Daimler-Benz Highlights

	1985	1986	Change in %
Sales (in millions of D-marks)	**52,409**	**65,498**	**+25.0**
Domestic	18,706	27,838	+48.8
Foreign	33,703	37,660	+11.7
Passenger Car Production	**541,039**	**594,080**	**+ 9.8**
Commercial Vehicle Production	**213,910**	**226,344**	**+ 5.8**
Employees (at year-end)	**231,077**	**319,965**	**+38.5**
Domestic	186,652	257,538	+38.0
of which: Daimler-Benz AG	161,518	166,523	+ 3.1
Foreign	44,425	62,427	+40.5
– in millions of D-marks –			
Personnel Expenses (including old-age pension)	**13,657**	**19,358**	**+41.7**
Investments	**5,492**	**5,580**	**+ 1.6**
Depreciation Allowances	**3,275**	**3,361**	**+ 2.6**
Cash Flow	**5,723**	**7,060**	**+23.4**
Net Income	**1,682**	**1,767**	**+ 5.1**
Total Dividend Amount of Daimler-Benz AG	**491**	**507**	**+ 3.3**
Dividend for each DM-50-Share (in D-marks)	**12.00 + 2.50**	**12.00**	

The figures are given for the worldwide concern, including for the first time AEG in 1986. The consolidation comprise Daimler-Benz AG and those domestic and foreign companies in which Daimler-Benz AG's share interest, directly or indirectly, is more than 50%.

Daimler-Benz Aktiengesellschaft
Stuttgart

Annual Report 1986

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Agenda

for the 91 st Stockholders' Meeting being held on Wednesday, July 1,1987, at 10.00 a.m. in the Hanns-Martin-Schleyer-Halle in Stuttgart-Bad Cannstatt, MercedesstraBe.

91st Stockholders' Meeting

1. Presentation of the audited financial statements as of December 31,1986, the reports of the Board of Management and the Supervisory Board, together with the consolidated financial statements and the consolidated annual report for the year 1986.

2. Resolution for the Disposition of the Unappropriated Surplus.

Board of Management and Supervisory Board propose to distribute the unappropriated surplus of DM 702,003,400

as follows:

3 1/3 %	dividend on the eligible preferred share capital of DM 2,196,000	DM	73,200
DM 12.00	dividend for each eligible common share of DM 50 par value	DM	506,505,384
		DM	506,578,584
Transfer to unallocated retained earnings		DM	134,354,561
Additional expenses at time of ratification of this proposal		DM	61,070,255
Unappropriated surplus		DM	702,003,400

3. Ratification of the Board of Management's Actions.

Board of Management and Supervisory Board propose ratification.

4. Ratification of the Supervisory Board's Actions.

Board of Management and Supervisory Board propose ratification.

5. Election of Auditors for the Business Year 1987.

The Supervisory Board proposes to elect Deutsche Treuhand-Gesellschaft AG, Wirtschaftspruefungsgesellschaft, Frankfurt am Main, as independent auditors for the business year 1987.

Supervisory Board (Aufsichtsrat)

Hermann J. Abs, Frankfurt am Main — Honorary Chairman
Honorary Chairman, Deutsche Bank AG

Dr. rer. pol. Alfred Herrhausen, Frankfurt am Main — Chairman
Member of the Board of Management, Deutsche Bank AG

Herbert Lucy, Mannheim*) — Deputy Chairman
Chairman of the Labor Council, Daimler-Benz AG

Willi Boehm, Kandel*)
Member of the Labor Council, Woerth Plant

Helmut Funk, Stuttgart*)
Chairman of the Labor Council, Untertuerkheim Plant and Main Office

Richard Helken, Achim-Bierden*)
Chairman of the Labor Council, Bremen Plant

Rudolf Kuda, Frankfurt am Main*)
Departmental Manager within the Board of Management, Metal Workers' Union

Hugo Lotze, Reinhardshagen*)
Chairman of the Labor Council, Kassel Plant

Dr. rer. pol. Klaus Mertin, Frankfurt am Main
Member of the Board of Management, Deutsche Bank AG

Dipl.-Ing. Hans-Georg Pohl, Den Haag (since July 2,1986)
President, Shell Europe

Dr. rer. pol. Wolfgang Roeller, Frankfurt am Main
Speaker for the Board of Management, Dresdner Bank AG

Alfred Schaible, Renningen*)
Chairman of the Labor Council, Sindelfingen Plant

Dr. jur. Roland Schelling, Stuttgart
Attorney at Law

Dr. jur. Walter Seipp, Frankfurt am Main
Chairman of the Board of Management, Commerzbank AG

Dr. jur. Johannes Semler, Kronberg/Taunus
Member of the Board of Management, Mercedes-Automobil-Holding AG

Franz Steinkuehler, Frankfurt am Main*)
First Chairman, Metal Workers' Union

Hermann Josef Strenger, Leverkusen (since July 2,1986)
Chairman of the Board of Management, Bayer AG

Prof. Dr. jur. Gerhard Tremer, Graefelfing(since Juiy 2,1986)
Deputy Chairman of the Supervisory Board, Mercedes-Automobil-Holding AG
Member of the Board of Management, Bayerische Landesbank Girozentrale

Dipl.-Ing. Maria-Christine Fuerstin von Urach, Stuttgart*)
Director

Diplom-Kaufmann Guenter Vogelsang, Duesseldorf

Bernhard Wurl, Mainz*)
Departmental Manager within the Board of Management, Metal Worker's Union

Retired from the Supervisory Board on July 2,1986

Dr. phil. Dr. rer. oec. h. c. Marcus Bierich, Stuttgart
Chairman of the Supervisory Board, Mercedes-Automobil-Holding AG
Chairman of the Board of Management, Robert Bosch GmbH

Dr. rer. pol. Friedrich Karl Flick, Duesseldorf

Dr. jur. Heribald Naerger, Muenchen
Member of the Board of Management, Siemens AG

*) Elected by the employees.

Board of Management (Vorstand)

Prof. Dr.-Ing. E. h. Werner Breitschwerdt, Stuttgart — Chairman

Edzard Reuter, Stuttgart — Deputy Chairman
Finance — (since March 11,1987)

Dr.-Ing. Hans Dinger, Muenchen (since July, 1986)
MTU

Heinz Duerr, Frankfurt am Main (since July, 1986)
AEG

Dr. jur. Manfred Gentz, Stuttgart
Employment

Hans-Juergen Hinrichs, Stuttgart
Sales

Dr.-Ing. Rudolf Hoernig, Stuttgart
Research and Technology

Dr. rer. pol. Gerhard Liener, Stuttgart
Commercial Vehicle Division

Prof. Dr.-Ing. E. h. Werner Niefer, Stuttgart
Passenger Car Division

Dr.-Ing. E. h. Johann Schaeffler, Friedrichshafen (since July 1,1986)
Dornier

Dr.-Ing. Peter Sanner, Stuttgart (deputy member)

Retired from the Board of Management on December 31,1986

Walter Ulsamer, Stuttgart
Materials Management

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Business Review

Economic Upturn in the Industrialized Countries

In 1986, the drastic reduction in crude oil prices as well as decreasing interest rates and low inflation rates stimulated capital investments and demand for consumer goods in the Western industrialized countries. However, the fall of the dollar exchange rate and the balance of payments problems, especially in the oil-exporting countries, adversely affected the possibilities of exports from Western Europe and Japan to a growing extent. In the course of the year under review, growth trends of world economies and of world trade leveled off.

In the Federal Republic of Germany, domestic demand was the mainstay of economic activity which derived stimuli from both household spending and the stable demand for capital goods. The generally positive economic climate in 1986 was characterized by monetary stability and higher real purchasing power. In conjunction with the revaluation of the D-mark, this also benefited foreign competitors in the German market. The current account surplus of DM 112 billion was the highest ever reached, yet it was predominantly due to the fall of imported crude oil prices.

Daimler-Benz: Consolidated Sales of more than DM 65 billion

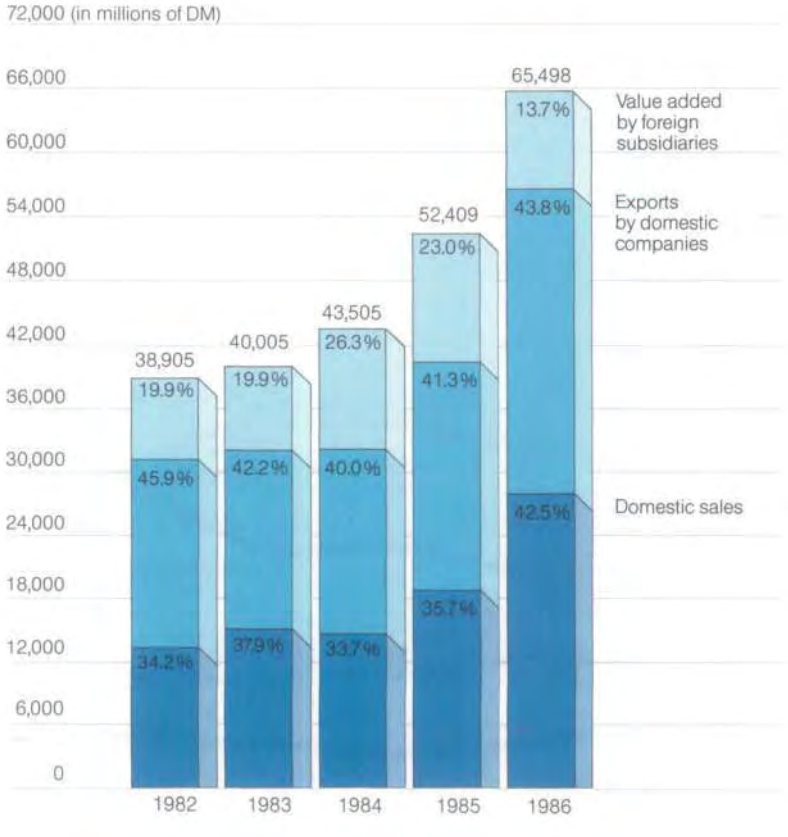
In 1986, Daimler-Benz continued on its successful course, above all because of gratifying car sales. In the commercial vehicle business, our South American companies significantly increased output and sales, while output by the domestic plants continued to decline due to the persistently poor overseas demand. The group's new divisions, AEG, Dornier and MTU, were able to increase both sales and employment.

Consolidated sales came to DM 65.5 billion. The increase of more than DM 13 billion (+ 25%) was largely accounted for by the first-time inclusion of AEG in the consolidated financial statements.

Domestic sales rose 49% to DM 27.8 billion. The domestic companies' export sales came to DM 28.7 billion, an increment of one third. By contrast, the value added by foreign subsidiaries dropped by about a quarter to DM 8.9 billion. This was solely due to the conversion into D-marks.

AEG now being included, the geopraphic structure of consolidated sales gravitated even further towards Europe. The European markets including the Federal Republic of Germany, which were less affected by currency fluctuations, accounted for more than DM 43 billion, that is 65.7% (56.6% in 1985) of consolidated sales.

Consolidated Sales



In view of the substantial increase in volume, the decline in the sales of our North and South American production and sales companies, converted into D-marks, is solely attributable to the changes in monetary parities. North America accounted for 19.9% (24.4% in 1985) and Latin America for 4.0% (5.8% in 1985) of consolidated sales.

In 1986, the car and commercial vehicle divisions exhibited opposing trends. While car sales rose 10% to DM 31.3 billion, commercial vehicle sales declined 12% to DM 17.7 billion. AEG accounted for DM 11.1 billion, MTU for DM 2.8 billion and Dornier for DM 2.1 billion of consolidated sales.

Daimler-Benz AG sales rose to DM 40.6 billion, up 9.5% compared with the previous year. The increase in domestic sales by 14% to DM 19.6 billion was greater than that of export sales which increased by 5.6% to DM 21.0 billion, the latter being solely attributable to cars.

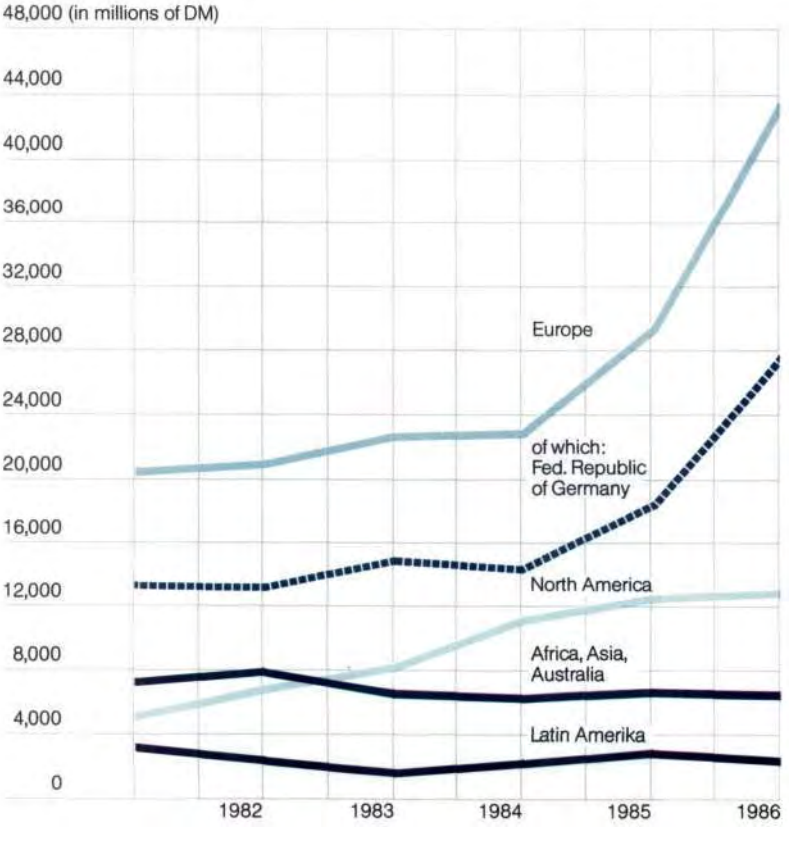
Successful Car Business

Domestic and foreign demand for Mercedes cars remained at a high level in 1986 and once again exceeded our production capacity. In the anniversary year of the automobile, which was very successful for the German car industry as a whole, registrations of new Mercedes cars in the Federal Republic of Germany amounted to 294,649 units, a 10.9% increase over 1985. This was above all due to the great success of the Mercedes mid-series (200 D - 300 E). New car registrations of S-class sedans and coupes also went up. The trend in the demand for the compact series, which now comprises seven different engines, was once again highly gratifying. Daimler-Benz was the first German manufacturer to supply all gasoline-engined models with the three-way catalytic converter with closed-loop system as standard (from the beginning of September 1986). Including the diesel-engined models, this increased the share of low-pollutant cars in the total number of new Mercedes car registrations from 54% to 85% in the course of 1986.

In contrast to the auto industry as a whole, Daimler-Benz was able to further increase car exports as well, namely by 6.5% to 296,225 units. In the majority of Western European countries as well as in the U.S.A. and in Japan, we achieved significant growth, despite market and currency-induced strains.

Output, especially of mid-series cars, was stepped up by 9.8% to 594,080 cars. The export share in output dropped slightly to 49.9% (51.4% in 1985); it thus remains significantly below the auto industry's export share of 58.5% (61.6% in 1985).

Sales by Geographic Areas



Increased Commercial Vehicle Production in the Group

Daimler-Benz has been able to maintain its leading position as the world's largest manufacturer of trucks upwards of 6 tons in what is a keenly contested commercial vehicle business characterized by excess production capacity. In Germany, registrations of new Mercedes commercial vehicles came to 58,311 units, a slight increase over the previous year which is attributable to the higher demand for vans and light trucks. In the revenue and labor-intensive heavy-duty truck business, however, there continued to be a lack of demand especially from the construction industry and from carriers.

Our commercial vehicle exports came to 78,959 units, just below the previous year's volume. Like other truck manufacturers, we were unable to compensate for the decline in the overseas demand for medium-heavy and heavy-duty trucks. Increased demand for vans and light trucks in Europe accounted for the domestic production of 145,757 commercial vehicles, a 1.7% increment over the previous year, yet the number of kits destined for production abroad dropped significantly. The export share in commercial vehicle production declined to 54.2% (55.8% in 1985); this is markedly below the commercial vehicle industry's share of 60.6% (63.7% in 1985).

Thanks to the positive trends at Mercedes-Benz do Brasil and Mercedes-Benz Argentina, output by our foreign companies was boosted by 14% to 80,587 commercial vehicles. Total production within the group came to 226,344 commercial vehicles (+ 5.8%).

Positive Development of the New Affiliated Companies

AEG sales, including internal sales to other subsidiary companies, rose 3% to DM 11.2 billion. Incoming orders were up 7% compared with the previous year. Domestic demand for AEG products and services increased by 11% to DM 7.4 billion, while export orders amounted to DM 4.7 billion **(+ 2%).**

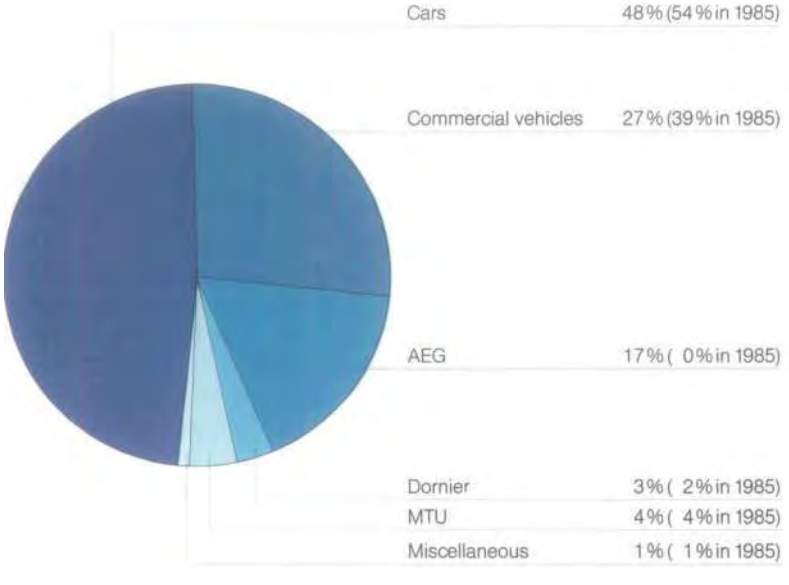
Sales of the Dornier group, which had substantially increased in 1985, once again totaled DM 2.1 billion. Incoming orders amounted to DM 2.1 billion.

The MTU group continued its upward trend with an 8% increase in sales to just under DM 3 billion. At the end of 1986, the group's orders on hand amounted to DM 4.8 billion, with a growing share of orders from civilian areas.

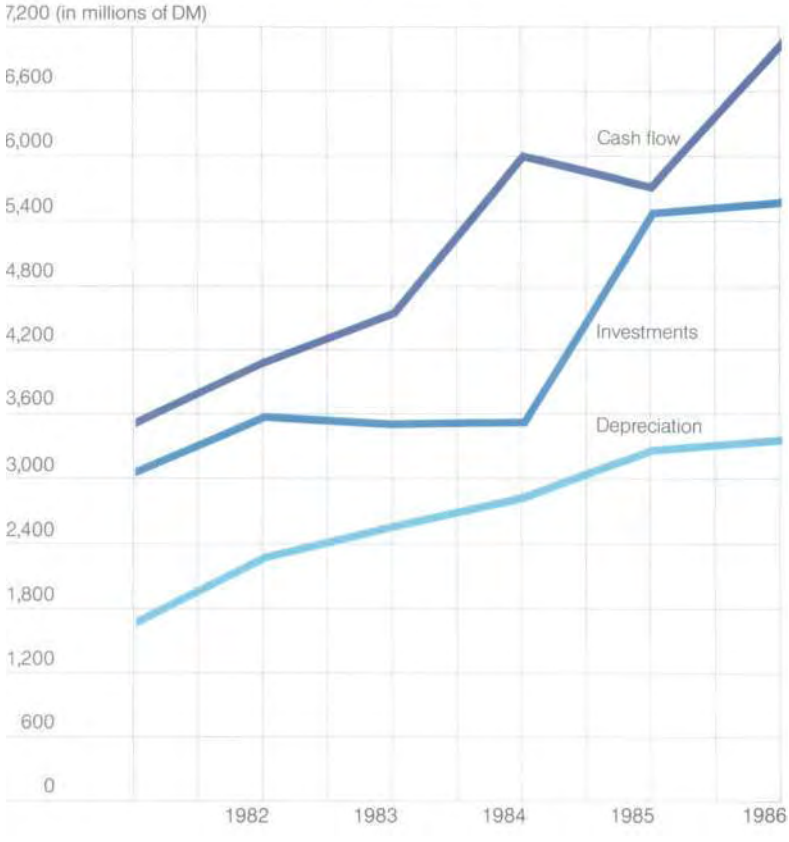
DM 9 Billion Investment to Safeguard the Future

In the year under review, we once again invested substantial funds in the research for, and development of, new products and production facilities.

Consolidated Sales by Divisions



Financing of Investments Within the Group



The group's investment in plant and equipment rose to DM 5.4 billion (DM 4.0 billion in 1985). Of this total, DM1.9 billion were additions to plant and equipment of AEG, included in the consolidated financial statements for the first time. The DM 5.6 billion addition to plant and equipment and financial assets of the group could once again be fully financed with the cash flow that amounted to DM 7.1 billion.

Capital spending at DBAG of DM 1.8 billion was distributed among the individual divisions as follows:

	1985		1986	
	in millions of DM	in %	in millions of DM	in %
Cars	1,179	66	1,120	62
Commercial vehicles	453	26	489	27
Research and technology	39	2	43	2
Sales/retail branches	43	2	81	5
Headquarters	64	4	70	4
	1,778	100	1,803	100

Capital spending once again centered on the car division, i.e. product-related measures and extension of production capacity. Investments in the commercial vehicle division were geared towards further improving the product range and efficiency. The requirements of environmental protection have also been taken into account, not only on the product side but also through modern, environmentally compatible production facilities. Daimler-Benz AG alone spent some DM 75 million on environmental protection measures.

Investments by our foreign subsidiaries engaged in the automotive business came to DM 1.2 billion. Of this total, DM 700 million was spent by the vigorously expanding vehicle leasing companies in the U.S.A. and in Western Europe. Most of the investments in Brazil, Argentina and the U.S.A. went to further develop the vehicle ranges. The Spanish subsidiary invested substantial funds in the production facilities and start-up of the new MB 100 van series.

Investments at AEG, Dornier and MTU totaled just under DM 800 million.

In 1986, more than DM 3.6 billion was spent on research and development within the group. Some 20,000 people are employed in these areas, more than 6% of the total labor force. Over and beyond the exchange of experience, the cooperation with the new subsidiaries has already resulted in a number of joint projects initiated during the year under review.

Synergistic potential lies in a number of fields, above all in electronics, so-called intelligent technology, new energy concepts and energy technology.

In the year under review, Daimler-Benz AG spent DM 1.9 billion (DM 1.7 billion in 1985) on further developing and improving the vehicle ranges. More than 11,000 people are employed in design, testing and research.

In March 1987 a new coupe was launched at the International Geneva Motor Show. It was derived from the 124 series, running gear and engines being largely identical with those of the mid-series sedans. Our commercial vehicle range in the light truck class of 6.5-13 tons gross vehicle weight has been extended by the addition of four-wheel drive versions.

In 1986, AEG spent some DM 900 million - about 8% of the sales revenue - on research and development, the main emphasis being on communications, micro-electronics and so-called expert systems. At Dornier, development expenditure including commissioned research came to DM 514 million, 24% of the sales revenue. Capital spending on Dornier's own projects increased by two-thirds to DM 103 million, the main projects being the further development of the kidney lithotripter and the clinical testing of a cholelithotripter. MTU spent DM 302 million, a little over 10% of the sales revenue, on research and development, centering on new aircraft and internal-combustion engine series.

320,000 Employees Worldwide

At the end of 1986, 319,965 people (231,077 in 1985) were employed within the group. AEG, included for the first time, accounted for 78,199 of this increase by 88,888 employees.

At Daimler-Benz AG, employment increased by 5,005 people to 166,523. New hiring took place predominantly in the car factories as well as in the research, development and testing sectors. Thus, we created some 16,000 new jobs during the last three years. The number of trainees came to 9,450, which is slightly above the previous year's high level.

The foreign production and sales companies engaged in the automotive business increased employment by about 4,000 to 47,896. At the end of the year, Dornier employed 9,557 people (8,755 in 1985) and MTU 16,912 people (15,987 in 1985).

Once Again Gratifying Increase in the Group's Earnings

The earnings generated by Daimler-Benz in 1986 were once again satisfactory. This was largely due to the good car business. We were able to compensate for the impairment caused by the rise in the value of the D-mark in relation to the U.S. dollar and other important currencies by substantial sales increases, the sales of higher-value products, and price adjustments. In the commercial vehicle business, earnings continued to be adversely affected by the competitive situation. Positive contributions to earnings were rendered by the North and South American commercial vehicle manufacturing subsidiaries as well as by Dornier and MTU. AEG was able to further improve its results in 1986. The generated earnings were used to strengthen the company financially.

In the non-operating area, the group's net interest income (excess of interest income over interest expense) came to DM 855 million (DM 1,017 million in 1985). Daimler-Benz AG alone had a net interest income of DM 606 million (DM 662 million in 1985). As in the previous year, we offset the inflationary profits reflected in interest income against the expense arising from the translation of the self-financed liquidity of our subsidiaries engaged in the automotive business in countries with high inflation rates. This figure nonetheless continues to include components which merely compensate for the erosion in the purchasing power of monetary assets.

Consolidated net income increased to DM 1,767 million in 1986 (DM 1,682 million in 1985). Net income of Daimler-Benz AG rose to DM 1,404 million (DM 1,252 million in 1985).

Proposal for the Allocation of Unappropriated Surplus

The gratifying results allowed the group's retained earnings to be further strengthened by the allocation of DM 1,103 million. DM 702 million of Daimler-Benz AG's net income was allocated to retained earnings pursuant to § 58 of the German Company Act.

In July 1986, the Annual General Meeting approved an increase in the basic share capital from DM 1,699 million to DM 1,941 million through the issuance of a stock dividend in the ratio of one share for 7 shares held.

With the approval of the Supervisory Board we used part of the "authorized share capital" of DM 500 million to increase basic share capital by DM 176 million in December of 1986 through the issuance of stock for cash pursuant to a rights offering on the basis of 1 share for 11 shares held, at an issue price of DM 150 per share. The share capital thus increased by DM 530 million to DM 2,118 million. The newly-issued shares from both capital increases are fully entitled to dividends for the business year 1986.

To the Annual General Meeting we propose a dividend of DM 12 per DM 50 share. Because of the increased basic share capital, the total dividend payout increases from DM 491 million to DM 507 million. With the shareholders' approval at the Annual General Meeting, an additional amount of DM 134 million from the unappropriated surplus is to be allocated to retained earnings to further strengthen net equity.

Daimler-Benz: Trends in the First Three Months of 1987

In the first three months of 1987, group sales amounted to DM 15 billion, slightly above the previous year's volume. Daimler-Benz AG sales rose 6% to DM 10 billion.

In the first quarter of 1987, car output was stepped up by 5% to 153,000 units. In Germany, 35,600 commercial vehicles were manufactured; the foreign subsidiaries' production totaled 20,800 vehicles, that is 5% each over the previous year's figures. AEG, Dornier and MTU have been able to continue their gratifying business trends in 1987.

Positive Business Trend Despite More Difficult Conditions

We expect the group's business trend to remain positive through the year 1987. However, risks may be involved in the development of exchange rates and the protectionistic endeavors in some important export countries.

We are planning to step up car production on a moderate scale as well as building a third car plant in Rastatt above all to adapt capacity to qualitative growth which will among other things require new production technologies. The existing plant in Rastatt, which is near the commercial vehicle plants in Gaggenau, Woerth and Mannheim, is to be extended.

In view of the existing excess capacity worldwide, we expect the market and competitive conditions for the commercial vehicle to remain difficult. Production in the German factories can be assumed to remain at 1986's level. By contrast, there are indications of further growth for our foreign commercial vehicle companies. We therefore expect the group's total production and sales to increase slightly.

AEG expects a further increase in sales and earnings and will continue its course of safeguarding the company's future. In view of the orders on hand, Dornier and MTU have reason to expect their business trend to remain positive.

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Outlook – Scenario and Perspectives

Flagging Growth of the World Economy

During the first few months of 1987, the economic climate in most of the Western industrialized countries cooled off noticeably. This is largely attributable to the fall of the U.S. dollar and the resulting impediments to exports to the dollar area. Nonetheless, the generally sound constitution of the world economy entails the opportunity for the industrialized countries to reduce or overcome the foreign-trade imbalance, which has emerged over the last few years, without severe setbacks. The future course of business will depend on the extent to which the currency-related agreements of February 1987 have a lasting impact, and on whether it will be possible to keep the exchange rate structure fairly stable. The situation of the highly-indebted, newly-industrializing and developing countries has been further worsened, harboring additional, considerable risks.

German Economy: Domestic Demand as the Mainstay of Economic Activity

Overall economic development in the Federal Republic of Germany has been curbed by relatively strong foreign-trade influences. The drastic rise of the D-mark against the U.S. dollar as well as against the currencies of the majority of European countries is now taking its toll on foreign trade. Because of the monetary situation, export orders have dropped noticeably, and the pressure of imports on the domestic market is growing. By contrast, domestic demand continues at a high level, with household spending being another supporting factor. Investment activity is flagging, especially in those branches of industry which are dependent on exports. In spite of this, important criteria such as price stability and low interest rates continue to be favorable, so there is the chance of achieving moderate growth for the fifth consecutive year.

Against the background of the currently rather precarious business conditions, overstraining the companies' capacity for performance would involve a great danger of adverse effects on growth and employment. This is why special significance has to be attached to this year's collective bargaining. The costs resulting from a further reduction in working hours, are to be compensated for, as far as possible, through better use of capital-intensive machinery and equipment, in order to avoid impairment of international competitiveness.

Shorter periods of machinery utilization would place particular burdens on the cost structure of automotive production, which has come to require more and more capital, and the disadvantages of the Federal Republic of Germany as a site of production would increase. Even today there are great differences in the working hours in important producing countries. While among German motor manufacturers the actual working time per employee is 1,520 hours per year, it is 1,974 hours in the U.S.A., 2,232 hours in Japan and as much as approx. 3,000 hours in South Korea.

German Motor Industry: Competitive Strength Through Technical Progress

In the Federal Republic of Germany, the motor industry is among the few branches which have been able to increase employment during the last couple of years. Yet in this branch of industry as well as in the economy as a whole, long-term planning as well as entrepreneurial decisions are frequently handicapped by the fact that minorities enforce their opinions and interests on the majority of the population. This not only affects those who are directly involved but, in the final analysis, also endangers the material basis of the economy and of society.

During the last few years, the German motor industry has demonstrated that innovation and modern technology can do a lot more for both employment and the environment than renunciation, governmentally imposed restrictions, or prohibitions. This is borne out by the continuous improvements in safety, fuel economy and envi-

ronmental acceptability which are meanwhile being appreciated by the market. Employment in the motor and suppliers' industries has increased not only because of quantitative growth due to the greater attractiveness of the choice of products, but also and above all because of the significantly increased technical sophistication of the vehicles. The total number of jobs in the Federal Republic of Germany which are directly or indirectly dependent on the motor vehicle is today estimated to be around 4 million.

It should also be mentioned, however, that our branch of industry, which has the highest export ratio, has invested substantial funds to maintain its international competitiveness and safeguard employment. Since 1980, the motor industry has invested more than DM 60 billion in new products and production facilities; for 1987, an investment of another DM 10 billion has been planned. Since the mid-1970's, expenditure in research and development has been raised by an annual average of 14%, a much higher increment than in the economy as a whole.

Changed Competitive Conditions in the Motor Markets

The abrupt parity changes have brought about shifts in the competitive conditions in the international motor markets. There has been an improvement in the price-related competitiveness of the American manufacturers who offer their products almost exclusively in their large domestic market. By contrast, the Japanese motor industry, having established enormous capacities especially for overseas exports during the last few years, has been adversely affected by the exchange rate trends. Particularly aggressive sales campaigns in Europe, and above all in the Federal Republic of Germany, have now been launched to ensure that these capacities are fully utilized.

The attempts of some European countries to defend their companies and jobs by erecting protectionistic barriers for their own markets, or by means of state subsidies, are dangerous if only because of the national industries' dependence on exports. Furthermore, the lack of competition and the shifting of risks prevents the industries from timely adjustment to changed structures. Rather, a united European home market could go a long way towards strengthening stimulating competition as well as providing the European manufacturers with greater scope for fully developing their innovative potential on a greater scale.

As in Japan, the production capacities of the Western European and, above all, of the German motor industries are strongly oriented towards exports, though predominantly to the neighboring continental countries. The overseas export share of production of around 10% is relatively low. The flexibility especially of the German motor industry has benefited substantially from the latter's being forced to hold its own on the German market, which is open to international competition. This flexibility entails competitive advantages for the future which will become even greater as motor vehicles are developed to more sophisticated standards, making creative use of new technological possibilities, and as demand becomes increasingly diversified. Hence, growth potential lies predominantly in the highly motorized industrialized countries where there is growing demand for technically advanced, high-quality vehicles. In countries which are just at the beginning of motorization, having great demand for technically unsophisticated vehicles, the European manufacturers are hardly able to compete in terms of price.

Coping with Technical Change Decisive for the German Industry

The German motor industry's competitiveness will in future depend more than ever before on the extent to which new technologies can be incorporated into products and manufacture. It is particularly the segment of qualitatively and technically advanced vehicles which offers the greatest future potential for the intelligent combination of conventional with new, future-oriented technologies. This applies to microelectronics in general, to new materials and sensor technology. All these technologies provide the basis on which the interaction between man, the environment and technology can be coordinated even better. They thus help us to change our approach from thinking in terms of the product alone to thinking in terms of systems. Likewise, they will go a long way towards meeting the continuously growing demands for safety, for fuel economy and for environmental compatibility. Today, electronic components account on average for only about .5% of the value of a vehicle; by the year 2000, this share will have grown most likely to over 10%. Qualitative growth will therefore continue to gain importance.

"PROMETHEUS" - High Technology Applied to Road Traffic

"PROMETHEUS", initiated by Daimler-Benz AG and now a joint project of numerous European manufacturers, is designed to render a contribution towards applying high technology to road traffic. New information, control and guidance systems are to ensure largely accident-free and smoothly flowing private transport with markedly improved economy and environmental compatibility. Although the implementation stage will extend well into the next century, this project will provide a wealth of new findings which will gradually be incorporated in the vehicles in the more foreseeable future.

High Technology to Promote the "Learning Ability" of Factories

The changes in manufacture brought about by the use of new technologies will be just as radical as in the product. We are at the onset of a cataclysmic development; even today, the quality, flexibility and efficiency of production can be significantly improved by interlinking individual, existing computer-assisted systems. "Computer Integrated Manufacturing" (CIM) provides for a continuous flow of information and materials from the receipt of orders through to quality inspection and vehicle delivery. However, the development in production technology aims at a factory which is not only integrated but also "capable of learning". This requires the design of machinery which is capable of coping independently with both new requirements and malfunction.

Despite progressing automation, there will be no 'deserted' motor vehicle factories in the future, yet there will be changes in the qualifications required of our employees. As in the last few years, the number of people employed in research and development will grow at an above-average rate.

Daimler-Benz: Growth Through Technology and Quality

Daimler-Benz pursues the long-term strategy of safeguarding the company's base and thus the company's future. The integration of new fields of activity is geared towards providing the group with additional stimuli for growth in the long term, as well as towards safeguarding the technical development of the automobile at a level that comes up to our exacting demands. With respect to the opportunities offered by new technologies, we are endeavoring to remain up to date without necessarily intending to use them all ourselves. In other words, we shall not ourselves be producing everything which we are technically capable of.

It is both corporate policy and a tradition at Daimler-Benz to maintain close business relations with a large number of proficient suppliers. We continue to foster this cooperation and are engaged in joint development projects in a variety of fields.

It is especially in car production that this gives us the opportunity to promote qualitative growth, calling for additional investment with the emphasis on product-related measures.

We will continue to orient our model policy to the traditional Mercedes features: distinctiveness and individuality of the product range, top-class engineering and quality, progressiveness in safety and ride comfort, fuel economy and environmental compatibility. We have always opted for long-term model replacement cycles so as to be able to incorporate a significant range of innovative features, which have to come up to our own exacting standards, in a new product. This policy we will continue to pursue in the future, especially with regard to those features which are to safeguard our competitive edge in the segment of technologically sophisticated vehicles.

We will continue to concentrate on this market segment and are not planning to introduce a model below the compact series. To be able to offer advanced engineering at fair market prices, we are striving for moderate quantitative growth oriented towards the long-term trend in demand.

Where commercial vehicles are concerned, our aim is to continue in our efforts to offer a product range which meets all our customers' requirements. In the foreseeable future, it will hardly be possible to markedly increase deliveries to our traditional markets. Yet here, too, there are good opportunities for qualitative growth, because new technologies and microelectronics in particular open up new, hitherto unenvisaged, possibilities of considerably improving economy, safety and utility value.

It is our aim to standardize components for the whole range of products in the sense of a modular systems approach to flexible and low-cost production. Our all-encompassing corporate commercial vehicle concept will in future provide the basis on which prospects in the individual markets can be exploited more effectively.

Future Tasks of the New Corporate Divisions

AEG, Dornier and MTU will maintain their independence within the extended group and further develop their respective company identities. Both the competition and the cooperation between the individual sectors will go a long way towards promoting the staff's motivation and creativity for the benefit of the whole group.

AEG will concentrate its research and development activities on long-term technological projects, the emphasis being on information, energy, process and materials technology and, to a growing extent, on the fundamentals of systems technology.

Dornier plans to restructure its aircraft production capacity in Munich, and to extend the facilities in Immenstaat on Lake Constance. In the field of medical engineering, the company will endeavor to maintain its internationally leading position

in lithotripsy despite the launch of competing systems. Dornier's involvement in the development of the European space glider HERMES, the further development of the European launcher ARIANE, and of the COLUMBUS space station opens up favorable long-term prospects for the division engaged in space and systems technology.

MTU expects the replacement demand for aircraft engines to rise in the years to come. Due to the noticeable upward trend in the commercial aircraft sector, the production capacity at the Munich plant can be fully utilized. Employment in the high-performance diesel engine sector in Friedrichshafen is expected to develop favorably.

Continuity and Stability Within the Group

Daimler-Benz will continue to pursue its proven corporate policy of continuity and stability. On the basis of comprehensive research and development, we will endeavor to incorporate technical progress in all the products of the group, and in an economically viable way. With our qualitatively advanced range of products and comprehensive services, we will continue to strive for our customers' confidence. Over and beyond maintaining the success once achieved, we wish to open up new spheres of activity for ourselves.

In order to safeguard growth on a long-term basis, considerable funds are invested in all sectors - in consolidating and extending existing markets, as well as in opening up new ones. Our sound financial basis enables us time and again to substantiate the good reputation enjoyed by the products and services of all companies in the Daimler-Benz group.

The group's significance and sphere of influence in state and society are on a par with its responsibility, which we fully accept. Consequently, we always pay attention to the effects our entrepreneurial decisions may have on the economic structure, the labor market and the environment. In view of the worldwide activities of the group, we consider it absolutely essential to remain politically neutral vis-a-vis the most varied social and constitutional structures.

We will continue to place our confidence in the qualification and commitment of our staff and on the broad experience the group has gained in the course of many decades. Our sense of responsibility encompasses all our employees throughout the world, irrespective of their nationality, race, colour or religion. Likewise, the Daimler-Benz group endeavors to offer appropriate working conditions oriented to the employees' individual and social needs, and to ensuring their social security as far as this is economically viable.

New Management Structure of the Daimler-Benz Group

The vigorous growth of our traditional automobile business within the last few years and the extension of the group have substantially increased the technical and organizational demands made on the group's management. This has been taken into account in the design of the new management structure and the redistribution of tasks within the Board of Management.

The Board of Management of Daimler-Benz AG bears responsibility for directing the whole group, in particular for

business policy,
corporate strategy,
overall planning, and
results.

The five product divisions - Commercial Vehicles, Cars, AEG, Dornier and MTU - bear responsibility for their respective entrepreneurial activities worldwide, in particular for

strategic concepts,
operations, and
achieving planned results.

Within the framework of the allocation of tasks within the Board of Management, the central divisions perform strategic and operational tasks within their respective spheres of competence. Their responsibilities include functions which are of relevance for the whole of the group and to this extent they have the authority to set guidelines for the product divisions; in the case of the independent subsidiaries, this is governed by the applicable company bylaws. By perform-

Allocation of Tasks within the Board of Management

Chairman of the Board of Management	Finance and Business Administration Deputy chairman of the Board of Management	Research and Technology	Materials	Personnel	Sales
Direction of the group's overall management and corporate policy	Treasury	Synergy concepts and technological strategies	Materials purchasing	Communication with Labor Council	Sales organisation, domestic market
Coordination of the Board of Management's task	Business administration and general accounting	Research	Materials management	Communication with Representatives' Committee	Sales organisation, export markets
Communication with the Supervisory Board	Project Accounting and controlling	Styling	Materials administration	Personnel relations	Sales subsidiaries
Communication with the Labor Council on all important issues	Annual Financial Statements	Central functions		Training	Sales controlling
Communication with the Representatives of the Executive Staff on all important issues	Annual Report and Shareholders' Meeting (together with the Chairman of the Board of Management)	Central technical planning		Executive staff development (with the Chairman of the Board of Management)	Marketing communication
Personnel matters of senior executives	Financial accounting	Quality assurance		Labor and social welfare law	Service
Basic questions concerning public transportation, traffic and economic policies	Taxes, customs, duties and insurance	Information processing		Work economics and working conditions	Spare parts
Supervisory Board chairmanship and intercorporate investments AEG, Dornier, MTU	Investment, finance, holding, and realty companies			Employee communication	
Corporate Planning				General administration	
Corporate Auditing					
Public Relations					
Law					
Head office organisation					

ing fundamental, overall planning, coordination and control functions, the central divisions form a kind of "functional bracket", promoting the increased cooperation between the product divisions, safeguarding the uniformity and consistency of corporate policy and ensuring integration within the group.

In particular, the central divisions are responsible for

- the provision of specific know-how for the product divisions;
- the transfer of knowledge with the objective of optimally utilizing the existing potential;
- rendering specific services for the product divisions.

This new management structure is the basis for the work of the new product divisions and the central divisions, on which we report on the following pages.

Commercial Vehicle Division	**Passenger Car Division**	**AEG *)**	**Dornier *)**	**MTU *)**
Development	Development	Chairman	Chairman	Chairman
Production	Production	Finance	Research and development	Production
Business administration	Business administration	Controlling	Production, maintenance and support Dornier Reparatur-Werft GmbH	Research and development
Sales	Sales	Personnel	Support and consulting Dornier System GmbH	Materials management/ purchasing
Mannheim, Gaggenau, Woerth, Duesseldorf, Kassel plants	Untertuerkheim, Berlin, Sindelfingen, Bremen, Hamburg, Bad Homburg plants	In addition, 6 divisions represented on the Board of Management, with 16 sections	Sales and business administration Dornier plants, Munich	Finance and business management
Bus, Unimog and vehicle components	Cross-country vehicles		Finance and business administration	Personnel administration/ law
Foreign production and assembly subsidiaries			Personnel administration and social welfare	Sales

*) Functions according to the companies' allocation of tasks.

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The Group's Divisions

High Demand for Cars Worldwide

The demand for cars rose once again in 1986, with increases in the major market regions of North America, Japan and Western Europe. Output went up for the fourth year in succession, reaching its highest level to date at 33.3 million cars.

In the U.S.A., the largest national market by far, 11.1 million cars were sold (+ 2%). This renewed growth was partly due to the fact that many people bought cars earlier than otherwise, in the face of new fiscal legislation which came into force in January 1987. While sales by American manufacturers stagnated (output was even reduced by 4% to 7.8 million cars) foreign companies succeeded in further improving their position, despite the sharp drop in the dollar exchange rate, and boosting their market share to 28.3% (25.7% in 1985). This benefited primarily the Japanese, who exported 2.4 million cars to the U.S.A. - more than ever before. For the first time, the budding South Korean automotive industry also achieved a higher sales volume in this market. The German manufacturers, whose success lay chiefly with high-quality cars, exported a total of 443,700 units to the U.S.A. (+ 4.7%).

In Japan, 3.1 million cars were sold (+ 1.4%). While vehicle imports rose sharply, their share of the market as a whole remained comparatively small at 2.2% (1.6% in 1985).

German manufacturers were particularly successful, accounting for nearly 80% of car imports. Car output in Japan rose 2% to 7.8 million; 4.6 million of these went for export. Exports to Europe alone went up one-fifth to 1.3 million vehicles.

In Western Europe, 11.6 million cars were sold, 10% more than the previous year. High growth rates were registered above all by the Federal Republic of Germany, France and Italy. Net exports from Western Europe - output minus new registrations - amounted to .3 million cars, less than 10% of Japan's net exports. Output in Western Europe went up a total of 6% to 11.9 million cars, thereby breaking the previous record set in 1973. This corresponds once again to a share in total world output of 35%.

The compact series was extended by the addition of the 190 E 2.3 and 190 E 2.6. These models combine excellent performance and stress-relieving comfort with exemplary economy and environmental compatibility.

Best-Ever Year for Cars in the Federal Republic of Germany

For the German car industry, 1986 was the most successful year in the 100-year history of the automobile. Unlike the two preceding years, growth was due entirely to the domestic market. New registrations rose 18.9% to a record 2.8 million cars. The share of foreign makes went up to 30% (27% in 1985), about half of these being accounted for by Japanese makes.

The trend towards environmentally more acceptable cars continued to intensify throughout the year. Among new registrations, the proportion of low-pollutant cars had risen to

The S-class: international leadership in safety, comfort and performance. There is a choice of eight different models. S-class drivers clock up more than double the average mileage of of all drivers.

77% by the end of the year. Customers displayed a greater awareness of environmental considerations when buying; this was due mainly to tax relief, an extended and more attractive product range, and the enlargement of the network of gasoline stations offering lead-free fuel. Towards the end of the year, the fact that maximum tax relief for low-pollutant cars ended in 1986 caused a great surge in demand.

The German car industry almost succeeded in maintaining its high level of exports at 2.5 million vehicles. More than 90%) of these exports went to the Western European countriesand to the U.S.A.. Car output in the Federal Republic of Germany rose 3% to a new high of 4.3 million.

Daimler-Benz: Market Successes in Germany and Abroad

Demand for Mercedes cars remained high; the number of incoming orders continued to exceed our production capacity. On the domestic market, new registrations rose dramatically by 11% to 294,649 cars. Although, despite this rise, our market share fell to 10.9% (11.6% in 1985), this was due to the strong expansion of the market as a whole, which, as a rule, leads to a reduction in market share for us since we are a company which is active in the upper segment of the market.

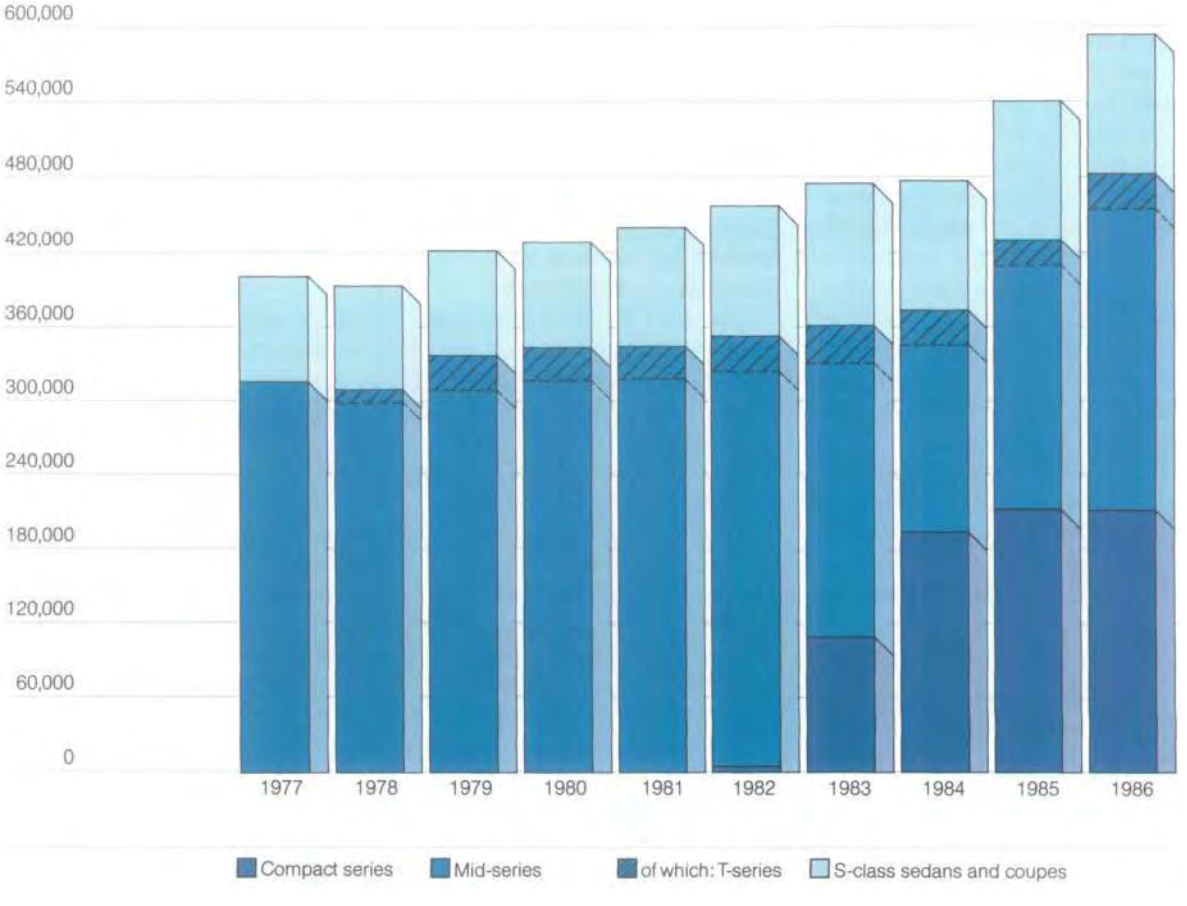
The growth in sales was largely due to the success of our mid-series models, the 200 D to 300 E. The popularity which this series developed on the market was retained in its second year of production. The new T-series models added even more appeal. Sales of our S-class sedans and coupes also improved. New registrations among our compact-series models, on the other hand, fell 4% to 118,749. This was not due to demand, but to the fact that we adjusted production at the Sindelfingen plant even further in favor of the mid-series cars. In addition, 1,932 Mercedes cross-country vehicles (+ 4%) were sold in Germany; this sector now comes under the Passenger Car Division.

Of the gasoline-engined models sold on the domestic market, 45% were equipped with an emission control system, more than twice the percentage for the industry as a whole. Once the closed-loop three-way catalytic converter had been made part of standard equipment, by the end of the year nine out of ten customers were choosing low-pollutant gasoline or diesel-engined Mercedes cars.

By contrast with the German car industry as a whole, Daimler-Benz succeeded in increasing exports once again in 1986, by 6.5% to 296,225 units. Nearly 50% of these went to European countries. Above-average growth rates were achieved particularly in Italy, the United Kingdom, the Netherlands, Austria and Spain. In the U.S.A., sales rose 14% to 99,314 cars. This included a sharp improvement with regard to S-class sedans and coupes - by nearly one-third. The new mid-series models, which were launched in the U.S.A. at the beginning of model year 1986, and which are for the first time also available as gasoline-engined versions, were also

Passenger Car Production

(Vehicles)	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Total Cars	**401,255**	**393,203**	**422,159**	**429,078**	**440,778**	**458,345**	**476,183**	**478,349**	**541,039**	**594,080**
of which:										
S-class	85,108	83,107	84,957	84,993	95,804	105,093	114,589	104,646	108,896	111,757
Mid-series	316,147	310,096	337,202	344,085	344,974	348,602	251,757	178,357	220,339	271,314
of which: T-series	5	10,581	28,405	27,230	26,251	29,620	30,370	28,055	20,612	28,063
Compact series	–	–	–	–	–	4,650	109,837	195,346	211,804	211,009
Plus cross country vehicles	–	–	*2,508*	*6,667*	*6,455*	*6,566*	*5,662*	*5,532*	*6,303*	*5,945*



successful. In Japan, where we have had our own sales company since the beginning of 1986,13,820 new Mercedes cars were registered, about 50% more than the previous year.

Our production output rose 9.8% to 594,080 cars. This growth was made possible by extending the facilities in the Bremen works. In addition to the production start-up of the new T-series, output of the 190 models was raised. Due to the flexibility permitted by close coordination with the Bremen works, production of the compact models was reduced at the Sindelfingen factory, while output of the mid-series sedans was raised 22% to 243,251.

In Sindelfingen and Bremen together, 211,009 190-series cars were made, roughly the same number as in the year before. Since output of S-class sedans and coupes rose 2.6% to 111,757 units, both the higher level of equipment and the model mix were better for employment and revenue. At Steyr-Daimler-Puch in Graz, Austria, 5,945 Mercedes cross-country vehicles were made on a commission order basis.

In addition to the increase in output, the year under review saw a record number of new start-ups in production, due especially to the inclusion of closed-loop catalytic converters as standard equipment for all gasoline-engined models.

New Models Successfully Launched

Since the beginning of 1986, the new top models 560 SEL/SEC and the T-series have been available. We have added two new and particularly powerful models to the compact-series range, the 4-cylinder 190 E 2.3 and the 6-cylinder 190 E 2.6. The 2.6-liter engine is now available in all three series of our overall car range.

At the Geneva Motor Show in March 1987, we presented the new mid-series coupes, the 230 CE and the 300 CE. The market response is highly encouraging.

Safety and ride comfort have been further improved. The au-

Our T-series models have successfully established themselves in the market. They combine the comfort and performance of the sedans with considerably increased transport capacity for professional and leisure-time use.

tomatic locking differential (ASD), one of a comprehensive range of driving-dynamics systems, has now entered series production. It improves traction on road surfaces with varying degrees of grip. As from September 1986, all 6-cylinder gasoline-engined models have been equipped with the anti-lock braking system (ABS) as standard. The airbag, which supplements the seat belt, is being ordered more and more often; over 250,000 Mercedes cars have now been fitted with it.

Over DM 1 Billion Invested in Car Sector

In our car plants we have invested a total of DM 11 billion for directly product-related measures, the further enlargement of capacity and the use of modern production technologies.

With more sophisticated production facilities, we are aiming for improved, consistently high production quality. At the same time, we want to further reduce the stress on personnel at their work stations. For the planning and programing of systems, simulation models and CAD/CAM technology are acquiring more and more importance. At the Sindelfingen plant, for instance, movement sequences for industrial robots are simulated by means of CAD/CAM even at the planning stage. This greatly improves planning accuracy. Since the beginning of 1986, in Hamburg, we have been producing electrically adjustable steering columns for the mid-series and S-class models on a new system consisting almost entirely of CNC machines.

At the Bremen plant, we have completely reorganized the production sequence in one area; cable harnesses and other lines are now no longer installed on a conveyor belt, but in special work bays with the vehicles stationary.

Innovative production methods also serve environmental protection and energy conservation. Through the application of modern environmental engineering principles, we

Assembly shop with 18 double workbays for the stationary installation of cable harnesses in passenger cars. Battery-powered driverless trolleys transport the cars to and from the assembly line. Economically designed wooden platforms of different heights are optimally adapted to the different jobs.

have considerably improved our exhaust-air systems, especially in the paint shops. New treatment systems for waste water, e.g. from the galvanizing and hardening shops, reduce the amount of pollutants and ensure that concentration limits are complied with.

In order to enlarge capacity, work was begun in Sindelfingen on the setting-up of a new tool-making facility and a pressing plant. In Bremen and Hamburg, production buildings were constructed and/or extended. At the Berlin plant, investment went into production facilities for reconditioned car engines and exhaust manifolds, which used to be in the Untertuerkheim plant.

Our successful 190 series comprises seven different models. In 1986, more than 211,000 units were produced in the Sindelfingen and Bremen plants.

Further Growth for Mercedes Cars

Due to the general economic prospects in the Federal Republic of Germany, 1987 can be expected to be another good year for car sales. The slight drop in sales in the first few months of the year did not signify a change in the trend, but was directly linked with the purchases which customers made earlier than otherwise at the end of last year. The healthy order situation means we can expect a further increase in the sales of Mercedes cars.

Car exports from the Federal Republic have been made more difficult in 1987 following the revaluation of the D-mark. This applies to exports to most European countries, and especially to the U.S.A.. Even though demand on the American car market as a whole is expected to fall, both the U.S. market and the European countries will remain receptive to top-quality vehicles. Daimler-Benz therefore assumes that its exports can be raised even further.

Using the available capacity to the full, we are planning a slight increase in output in 1987, to over 600,000 cars.

Third Car Plant in Rastatt

In the face of the general trend towards higher-quality, more sophisticated cars, we expect a further rise in the demand for Mercedes cars the both medium term and long term. At the same time, our policy is geared above all towards qualitative growth. However, the ever more complex engineering in our vehicles and the application of new production technology mean that we need both more production space and more employees. For this reason, we plan to enlarge our capacity with a new plant in Rastatt. We aim to start phasing in production there as from 1990. Provided the expected market and demand situation does not change, we expect to be able to create about 7,000 jobs at the Rastatt plant by 1995.

Car Production Plants in Germany

	Area of Activity, Main Products
Sindelfingen	Body and assembly plant, central parts depot
Untertuerkheim	Production of engines, axles and gearboxes; foundry and forge
Bremen	Body and assembly plant
Berlin-Marienfelde	Production of reconditioned car engines and commercial vehicle engines; manufacture of parts for car and commercial vehicle engines; production of small assemblies
Hamburg	Manufacture of chassis parts and small assemblies for cars and commercial vehicles
Bad Homburg	Production of engine timing parts for cars and commercial vehicles

Mercedes-Benz Throughout the World

Germany	
Headquarter	
Research, development, testing	
Manufacturing plants	11
Sales and services outlets	1,147
of which:	
Retail branches	95
Main agents	28
Agents	428
Franchised service workshops	596

Abroad	
Manufacturing plants	18
Assembly plants	24
Licensees	6
Sales and service outlets	4,766
of which:	
Sales companies	25
Retail branches	440
General distributors	117
Representatives	40
Dealers/agents	3,443
Franchised service workshops	701

Manufacturing

Assembly

Sales

Freightliner

Licensees


Brussels
Utrecht
London
Paris
Arbon
Zürich
Wetzikon
Vitoria
Madrid
Barcelona
Salzburg
Graz
Belgrade
Rome
Thessaloniki
Athens
Istanbul
Aksaray
Tabriz
Teheran
Tokyo
Dakar
Abidjan
Accra
Enugu
Jeddah
Jamshedpur
Bombay
Poona
Taipeh
Hongkong
Bangkok
Manila/Pasig
Nairobi
Colombo
Dar-es-Salaam
Petaling Jaya
Luanda
Lusaka
Harare
Pretoria
Maputo
Antananarivo
Jakarta/
Wanaherang
East London
Cape Town
Atlantis
Melbourne/
Mulgrave
Wellington

Higher Demand for Light Commercial Vehicles

In 1986, the commercial vehicle markets continued to trail behind the generally positive economic trend. On the world market, demand only picked up in the lighter vehicle categories. Sales of heavy-duty trucks remained disappointing. Due to the increase among small delivery vehicles, which are largely derived from passenger cars, worldwide output reached 12.1 million units, nearly the same number of commercial vehicles as in the previous year.

The new large van series with permissible gross weights from 3.5 to 7.5 tonnes includes a large variety of different platforms, load compartments, payloads and body versions to meet the most diversified transport requirements.

On the largest commercial vehicle market, the U.S.A., new registrations rose 3% to 4.8 million vehicles. As in 1985, 3.5 million of these were manufactured in the U.S.A.; the share of world output remained steady at 29%.

In Japan, domestic sales went up 4% to 2.6 million commercial vehicles. However, since exports fell by 12% (2.0 million vehicles), output had to be reduced 4% to 4.5 million. This meant that, in turn, Japan's share of world output fell once again, to 37% (38% in 1985).

In Western Europe, commercial vehicle sales rose 10% to 1.5 million units. High growth rates were achieved in France, the Federal Republic of Germany and in Spain. Altogether, 1.5 million vehicles were produced, representing 13% of world output. At the same time, however, the output of trucks of over 6 tonnes was 2% down on the previous year's figure at 293,000. The reason for this was the continued fall in demand from the Near and Middle East. In Western Europe this resulted in capacity utilization and employment problems. The fierce competition with regard to prices and conditions continued unabated.

German Commercial Vehicle Industry: Growth in Sales only on Domestic Market

In the Federal Republic of Germany, 143,340 new commercial vehicles were registered. The 7.1% increase involved mainly vans and light trucks. The demand for medium-heavy and heavy-duty trucks recovered somewhat in 1986, but from a comparatively low level. The share of foreign makes on the German market increased further to 25% (24% in 1985).

The German commercial vehicle industry sold 173,332 vehicles to customers abroad, 2.5% fewer than in the previous year. While an increase in the number of medium-heavy vans and light trucks was achieved, exports of lightweight vans and medium and heavy trucks decreased. Among trucks of 16 tonnes and over - which accounted for one-fifth of German commercial vehicle exports in terms of numbers, but one-half in terms of value - the drop in demand from the countries of the Near and Middle East could not be compensated for on the European markets.

Output in the Federal Republic of Germany rose 2.5% in 1986, to 286,135 commercial vehicles.

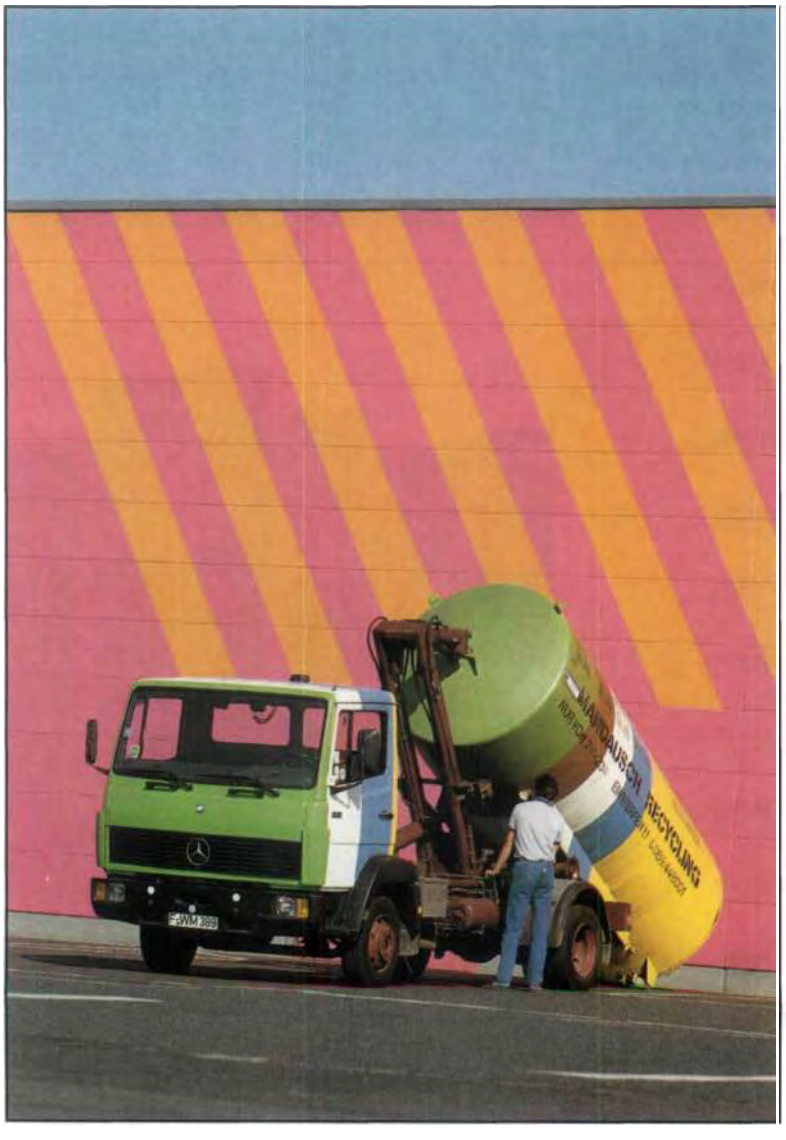
Daimler-Benz:
Difficult Commercial Vehicle Business

On the domestic market, Daimler-Benz sold 58,311 commercial vehicles (58,114 in 1985), due above all to the higher demand for vans and light trucks.

While our truck sales in the category of 6 tonnes and over rose slightly less than the average for the entire industry, by 1.8% to 27,773 units, we still succeeded in maintaining our leading position in this highly competitive market, with a share of nearly 60%. Sales of our light Woerth trucks, which rose dramatically the previous year after the introduction of a new 13-tonne version, returned to a normal level in 1986. In the case of our heavy-duty trucks, which are so important to revenue and employment at our domestic plants, we succeeded in increasing domestic sales by 2.7% to 12,299 vehicles.

The recovery in demand which became manifest in Western Europe in 1986 also benefited us. Considerable growth was achieved above all in France, the United Kingdom and Italy. Our T1 range of small vans was particularly successful. Among trucks of over 6 tonnes, we retained our market share of 25% in Western Europe. As the biggest supplier of trucks in the Near and Middle East, Daimler-Benz was particularly affected by the further deterioration in the economic situation of these countries. Despite the large number of trucks actually required to develop this region, our exports fell by two-thirds, as compared with 1985, to 7,234 vehicles. This is over 35,000 units fewer than in the boom year of 1982. Depite this, we managed to keep our total exports, at 78,959 units, at almost the same level as 1985 (79,993). The supply of vehicle kits for manufacture and assembly abroad, especially in Saudi Arabia, Nigeria, Iran and South Africa, has been greatly reduced, and that had a negative effect on employment and capacity utilization.

In the year under review, we manufactured 145,757 commercial vehicles (+ 1.7%) in our German plants. An increase in the case of vans and light trucks contrasted with a drop in the number of medium and heavy trucks. The production of vehicle kits had to be reduced to 8,838 units (26,402 in 1985). In 1986 as in previous years, employees from commercial vehicle plants worked temporarily in the car plants, which were working to full capacity. In addition to this, we transferred certain tasks from the car sector to the commercial vehicle plants as a longer-term job-securing measure.



The light Woerth trucks with permissible gross weights from 6.5 to 13 tonnes - ideally suited to special applications as well.

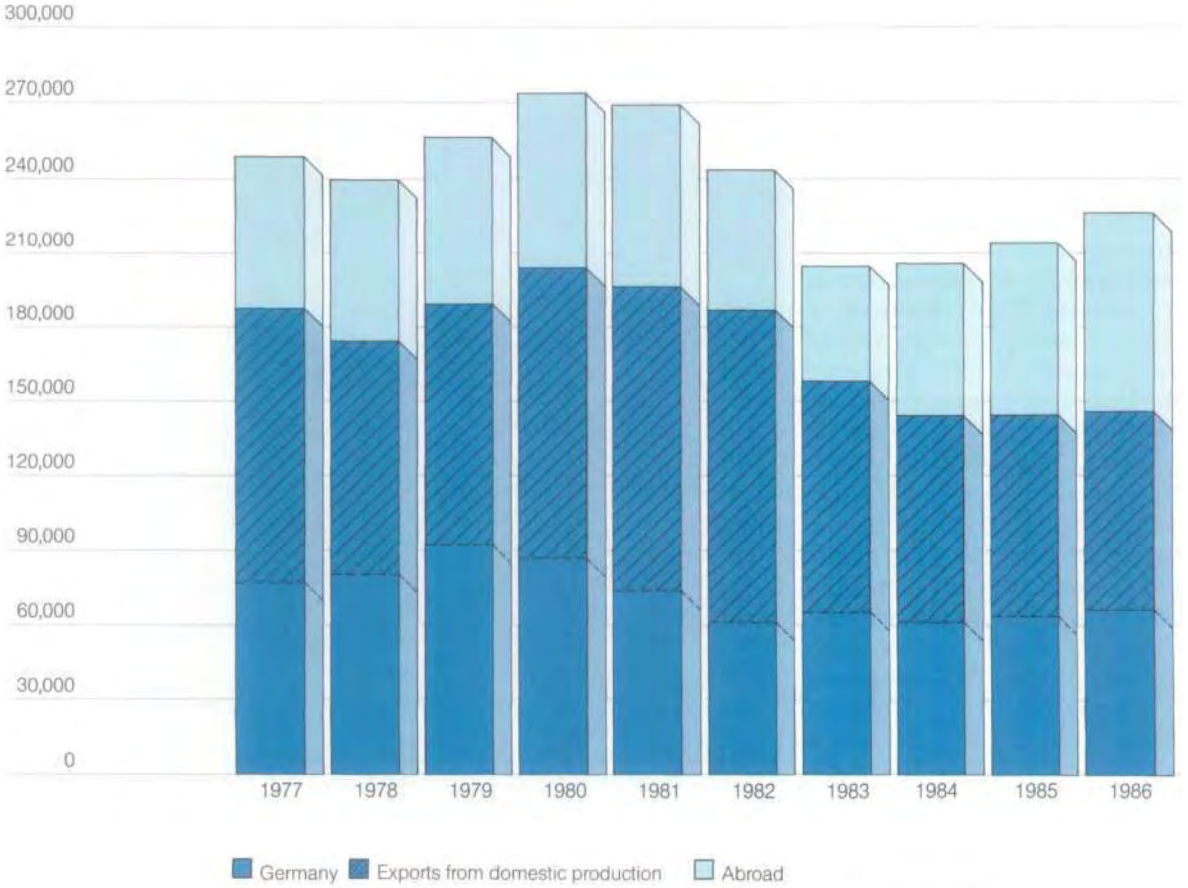
Buses: Fierce Competition

The bus business remained difficult both in Germany and abroad. Sales of Mercedes buses on the domestic market rose just under 1% to 2,022 units. While sales of regular-service buses exhibited a positive trend with the introduction of the O 405, demand for touring buses continued to fall. Moreover, the growth in the market share of almost 5 percentage points achieved in 1985 could not be fully maintained; our market share decreased from 49.7% to 47.5%.

On the export side, German bus manufacturers suffered a decline of over 10% in 1986. The number of buses we supplied dropped 5.6% to 2,693 units. Domestic output of Mercedes buses and bus chassis fell 4.9% to 5,084 units.

Commercial Vehicle Production

(Vehicles)	1977	1978	1979	1980	1981	1982	1983*)	1984	1985	1986
Total Commercial Vehicles	**248,100**	**239,702**	**256,467**	**272,868**	**268,925**	**243,513**	**204,619**	**205,397**	**213,910**	**226,344**
Germany	187,298	173,101	188,772	203,041	196,076	187,044	157,418	143,101	143,387	145,757
of which: vans	70,615	73,814	80,085	83,977	69,357	64,473	63,050	60,717	62,385	69,485
Trucks										
over 6 to 15.9 tons	47,168	42,467	41,383	46,260	45,185	37,933	29,677	32,690	34,080	30,864
from 16 tons	48,375	39,310	48,625	53,241	61,957	63,513	46,168	35,318	31,327	31,114
Buses	11,595	8,210	8,529	9,643	9,647	7,925	7,723	5,186	5,345	5,084
Unimog and MB-trac	9,545	9,300	10,150	9,920	9,930	13,200	10,800	9,190	10,250	9,210
*plus vehicle kits *)*	–	–	–	–	–	–	*27,332*	*18,122*	*26,402*	*8,838*
Abroad	60,802	66,601	67,695	69,827	72,849	56,469	47,201	62,296	70,523	80,587



*) Vehicle kits for production abroad are not included in overall production figures since 1983.

Unimog and MB-trac Exports Down

The market for agricultural and other tractors continues to be characterized by fierce competition with regard to prices and conditions. On the domestic market we sold 5,616 Unimogs and MB-tracs, matching the level of 1985. The decrease in exports from 4,924 to 3,415 was partly due to the fact that a number of major orders had been completed the year before. Output was reduced 10% to 9,210 Unimogs and MB-tracs.

Due to the changing situation with regard to competition on the international markets, Daimler-Benz and Kloeckner-Humboldt-Deutz have decided to combine their activities in the area of Trac-tractors used mainly for agriculture. This move is designed to ensure the future continuation and development of this well-proven tractor design (four-wheel drive via equal-sized wheels), in the interest of the customers.

The aim of this cooperation, in a new company in which KHD has a 60% share and Daimler-Benz 40%, is the joint development of a homogeneous family of all-wheel-drive tractors for the 90s. The sales of all-wheel-drive tractors from Daimler-Benz and KHD are to be the responsibility of a joint sales company.

Higher Output of Commercial Vehicles by Foreign Subsidiaries

Taken as a whole, our foreign subsidiaries succeeded in raising the output and sales of commercial vehicles.

In South America, the economic and currency reforms carried out in 1986 led to a surge in demand. Our Brazilian subsidiary increased its domestic sales by nearly a quarter to over 34,000 commercial vehicles, maintaining or even enlarging market shares of 40% with trucks and more than 80% with buses. Exports rose 38% to 7,496 units, most of these going to our assembly companies in the U.S.A. and Indonesia. Production output by Mercedes-Benz do Brasil increased 32% to 43,444 commercial vehicles.

As a result of the economic upturn in Argentina, our subsidiary there increased sales by 43% to 5,002 commercial vehicles, improving its market share from 38% to 58%. Using the existing capacity, manufacturing output was raised by about half to 4,969 trucks and buses.

In the U.S.A. and Canada, our subsidiary Freightliner sold 20,602 heavy-duty trucks (20,809 in 1985). The company's share of the recessive U.S. heavy truck market went up from 13.5% to 15.5%. Freightliner now ranks third among American heavy-duty truck manufacturers. The new conventionals launched in 1985 have proved especially successful; their cabs include a number of parts supplied from our Woerth plant. Output in the three North American plants fell 1.8% to 20,564 heavy trucks.

Sales of medium-heavy Mercedes trucks increased to 4,721 (4,516 the previous year). Their market share amounted to 2.8% in the U.S.A. (2.9% in 1985) and 5.6% in Canada (3.3% in 1985). These vehicles are assembled in Hampton, Virginia, from parts supplied by our Brazilian subsidiary and by our plants in Germany.

In Spain, 10,667 Mercedes vans were sold in the year under review (+ 1.3%). Due to the production changeover for the new van range launched at the beginning of 1987, Mercedes-Benz Espana had to reduce output 13% to 9,448 vehicles. With the new van series, the company is expecting an increase in both output and sales in the years to come.

Due to the political and economic difficulties in South Africa, the commercial vehicle market declined sharply in 1986. Mercedes-Benz of South Africa succeeded in selling 2,775 vehicles (3,647 in 1985).

Taken together, our commercial vehicle companies abroad raised output 14% to 80,587 vehicles. This means that, for the whole group, output amounted to 226,344 commercial vehicles, 5.8% more than in 1985.

Spheroidal graphite casting at a molding facility in the Mannheim plant.

Sales of Industrial Engines up

Throughout the world, there are excess production capacities in the case of industrial engines. Shrinking markets make competition even keener. Despite this, Daimler-Benz managed to consolidate its market position in this sector and to raise sales for the group as a whole - including the companies in Argentina, Brazil and Spain - to 32,929 industrial engines (28,547 in 1985). In the output category of 200-500 kW, we are the biggest supplier of engines for industrial use on the domestic market.

At the beginning of 1987, MTU took over the sales for some of the areas of application - marine, railbound and stationary engines - thereby rounding off the bottom end of its own range. Within the Commercial Vehicle Division at Daimler-Benz AG, activities will be intensified for the sale of engines to Original Equipment Manufacturers (O.E.M's) in the special-purpose vehicle industry, in the machinery industry and in the equipment industry.

Commercial Vehicle Range Offers Wider Spectrum of Applications

In the year under review, we introduced a series of new developments which allow our customers more efficient use of commercial vehicles.

In the spring of 1986 we replaced the "Duesseldorf van", which we had been making for over 20 years, by the newly-designed large van series. Compared with the previous series, the choice of models was enlarged and now extends right up to a gross vehicle weight of 7.5 tonnes. Our range of "light trucks", in the 6.5 to 13-tonne category, was extended by the addition of all-wheel-drive versions. The better traction provided by these vehicles is highly advantageous in the construction industry, in forestry, in municipal and winter service, and in fire-brigade and rescue operations.

In addition, various export versions, special chassis for buses, and air-suspension vehicles have been incorporated into the range. Among the heavy trucks, the main innovation was the introduction of the 260 kW (354 hp) models, offering optimized power and engine speed characteristics. In Mannheim, production of the standard regular-service inter-urban bus was started up.

To improve active safety even further, we presented the electronically actuated acceleration skid control system (ASR), which supplements the anti-lock braking system (ABS) on commercial vehicles. ASR prevents the wheels from spinning in difficult road conditions, making for much better road-holding. All the new and further-developed commercial vehicle engines are designed so that their exhaust emission values are 20% below the European limits laid down in ECE Directive 49. With regard to nitrous oxide emissions, the new engines already comply with the strict U.S. exhaust emission limits.

New Production Processes Assure and Improve Quality

The efficient use of a commercial vehicle presupposes not only innovative engineering and its incorporation into products which can be manufactured on a large scale, but also constant high quality. By setting up so-called "workshop circles", we have created additional ways in which employees who are directly involved

can submit their ideas on how to improve work sequences and quality control. Greater use of industrial robots and automated machinery is helping to remove monotonous and ergonomically difficult jobs from the manual sector. This is a further contribution towards making our factories more pleasant to work in. In the Gaggenau plant, for instance, a five-axis inert-gas arc welding robot has been installed for Unimog and truck chassis parts.

Investments for Efficiency Improvements and Environmental Protection

In the year under review, we invested DM 489 million in our domestic commercial vehicle plants, and DM 329 million in our foreign companies with their own manufacturing facilities. The main areas of emphasis were product-related measures and the relocation of manufacturing tasks. In Mannheim, for instance, facilities for higher-output engines and for the production of passenger car components made of spheroidal graphite cast iron were installed. In Gaggenau, we invested in a central system for the auxiliary transmission section; this system controls water supply, electricity, waste water etc. and optimizes energy costs. As a job-securing measure, a number of manufacturing tasks from the car sector were moved to Gaggenau (gearbox components, automatic transmission parts, pressed parts for the SL Roadster), as was the production of engine parts for MTU. In Woerth the first phase of construction work on the central plastic manufacturing facility was completed, and a new vehicle delivery section was built.

We have contributed towards environmental protection by means of lower gaseous and waste water emissions, and by saving energy and raw materials. We converted our power plant in Gaggenau from oil to gas operation, for in-

The new 1935 heavy-duty truck with integrated power train; optimally matched major components ensure higher average speeds at lower fuel consumption.

There are more than 150 versions of the Mercedes vans with gross weights from 2.5 to 4.6 tonnes - the right vehicle for every purpose.

stance; in Mannheim we installed a water recooling plant, and a waste water treatment plant in Kassel. In Duesseldorf, paint waste can now be incinerated without any problems following special processing. With a new boiler system in the Woerth plant, which can operate on either heating oil or natural gas, sulphur dioxide emissions can be reduced by 90%, nitrous oxides by 70%, on a long-term basis.

Commercial Vehicle Business Remains Difficult

On the international commercial vehicle markets, the situation continues to be marked by excess capacities, fierce competition and structural changes in transport requirements. A recovery of the market, both in Germany and abroad, can only be expected in the case of small delivery vehicles. In the Federal Republic of Germany, with continued economic growth, the low interest rates can be expected to have a positive effect on demand for commercial vehicles. This year, new stimuli will also be coming from the construction industry.

In 1987, Daimler-Benz expects output in the domestic plants to approximately match the previous year's level. Our subsidiaries in Brazil, Argentina and Spain plan to increase their output. Freightliner is also expecting business to pick up in the U.S.A.. For the group as a whole, commercial vehicle output will rise once more.

The results achieved to date from setting up a worldwide interdependent production system encourage us to continue coordinating our international commercial vehicle activities on a worldwide scale. We will make increased use of the potential this creates.

Commercial Vehicle Production Plants in Germany

	Area of Activity, Main Products
Mannheim	Production of commercial vehicle and industrial engines; body and assembly plant for buses; foundry; fabric production for cars
Woerth	Truck assembly including cab manufacture; production of plastic parts for cars and commercial vehicles; central spare parts depot for commercial vehicles
Gaggenau	Body and assembly plant for Unimog and MB-trac; production of gearboxes and planetary axles
Duesseldorf	Body and assembly plant for vans and small buses; manufacture of steering systems for cars and commercial vehicles
Kassel	Production of axles

Traveling by bus is becoming more and more popular. Mercedes-Benz buses contribute to this. Pictured here is the O 303 RHS coach.

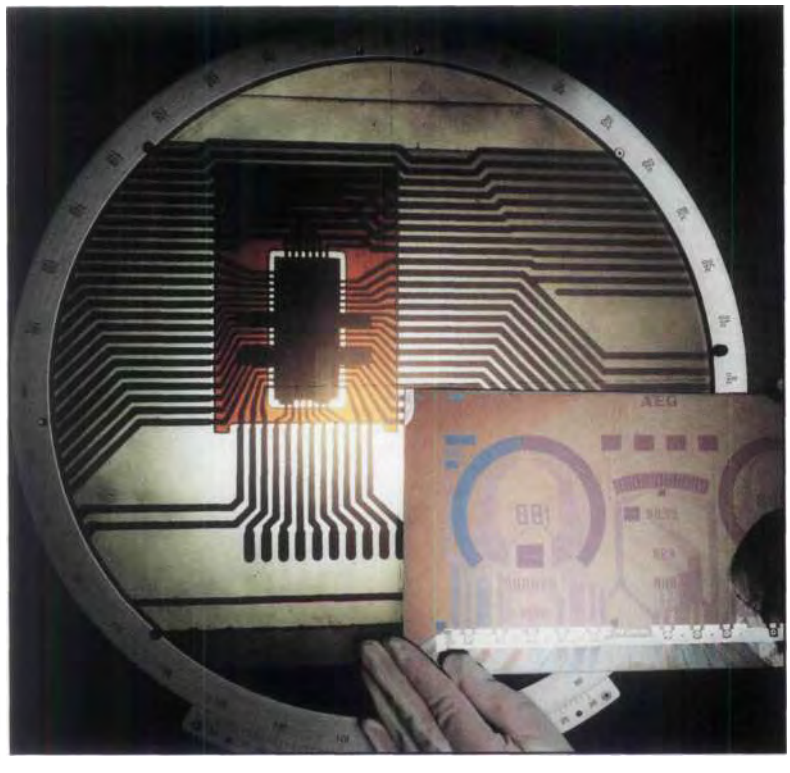
AEG Division

Increased Demand for AEG Products in Germany and Abroad

The upward trend of the German electrical and electronic industry continued in 1986, although the rate of growth was slower, due to the decline in export demand. The upward trend in the domestic market was driven by the demand for high-quality electrical consumer goods and for industrial machinery and equipment.

Consolidated sales worldwide rose 3% to DM 11.2 billion. This growth resulted exclusively from improved domestic business which rose by 8% to DM 6.4 billion. Export sales were 2% below the level of the previous year, primarily due to changes in the dollar parity.

At the year end, AEG employed 78,199 people, 64,284 of these in Germany. The 6% increase is primarily attributable to the first-time inclusion of new group companies.



AEG liquid crystal display, chip-on-glass technology; by attaching the electronic control elements on the narrow strip along the edges of the display unit, only few contact points are required, thus ensuring maximum operational reliability. The rear of the display unit remains free for backlighting.

Orders received by the AEG group rose in 1986 by 7% to DM 12.1 billion. The domestic demand for AEG products and services rose at an above-average rate by 11 % to DM 7.4 billion, while export orders were 2% up on the previous year at DM 4.7 billion.

1,000 apprentices were taken on during the year in Germany, bringing the total of young people currently receiving professional training at AEG to 3,200.

Further Increase in Investment

Additions to plant and equipment increased by half in 1986 to DM 559 million. Substantial funds were invested in the radio and radar systems, standard products, household appliances and office technology divisions.

AEG increased its research and development expenditure to DM 900 million, or 8% of sales. Every tenth employee works in research and development for the company. The three research institutes in Berlin, Frankfurt am Main and Ulm alone comprise 550 employees.

One focus of research is digital communication, where work has begun on developing a video telephone which the German Post Office proposes to introduce in the mid-1990s. A voice recognition system for operating a car telephone is presently being tested/Pattern recognition and image processing have increasingly become the focus of attention in the light of recent progress in industrial automation. AEG emphasizes expert systems in its major drive toward its introduction of artificial intelligence to production processes. For the manufacture of microelectronic circuits, a new manufacturing process, X-ray lithography, was used successfully for the first time. ESPRIT and RACE, projects of the European Community, are being intensively pursued at AEG's Ulm Integrated Development Center.

Power Distribution

Orders increased considerably in the AEG power distribution division, which comprises high and medium-voltage distribution equipment, utility networks and switchgear equipment, power transformers, instrument transformers and transmission-line construction. Among the larger orders is a contract for the complete power distribution equipment of a new hydro-electric power station in Nepal. Domestic business improved slightly; orders for the design of electrical supply networks came from power utilities and consulting companies. Due to the lower billings of foreign projects, sales declined in 1986.

AEG KANIS

The overall results for AEG KANIS, which manufactures gas and steam turbines and electrical systems for power stations, were less than satisfactory, due to the unfavorable market situation for gas turbines.

Marine and Special Systems

While domestic business in this field was influenced by the continuing weakness of the merchant shipbuilding market, exports increased. There was further expansion in areas such as image processing, photoelectronics, TV studio technology and infrastructure systems for airports. AEG received orders for solar generators for various satellites and for power supply and distribution systems.

Automation Systems and Industrial Systems

The two AEG divisions, automation systems and industrial systems, benefited from the growth in the domestic market for industrial automation products. These divisions play a leading role in environmental protection. AEG is a technology leader in water purification and polluted gas emission control. The new U.S. acquisition MODCOMP is affiliated with AEG's automation systems division. MODCOMP technology is playing an essential role in the implementation of the expanded TOPIC information system on the London Stock Exchange. At present, nine MODCOMP computers with over 7,000 terminals control the largest private videotext network in the world.

Railway Systems

The domestic demand for railroad equipment was stagnant in 1986 but in the longer term is expected to rise. This AEG division has further expanded its leading position in the application of three-phase current traction equipment for mass transit systems. Subway cars with three-phase current traction equipment have been supplied to Berlin, Munich and Madrid. From the outset, AEG played a leading role in the development of the Intercity Experimental (train). This experience is now being applied to the design of new high-speed intercity trains for the 1990s.

Electrophotographic image drums from AEG are used not only for copying machines but also for modern, high-capacity laser and LED printers. Together with the customers, testing methods are developed to ensure the reproduction reliability and efficiency of the image drums.

Built-in household appliances from AEG for greater creativity in the kitchen and more leisure time. Innovative technology and attractive design; with the VARIO decor system, the front colors can be matched to all kitchen designs.

Components

Orders in the AEG components division rose at an above-average rate. Efforts by utility companies to reduce sulphur and nitrogen emission have led to a rise in the demand for electrical machinery and low-voltage distribution equipment. For the world's first industrial-scale battery storage installation, located in Berlin, AEG supplied the electrical part, in the form of converter equipment and DC switchgear plant.

AEG KABEL

The power cable sector of AEG KABEL reported good capacity utilization. Deliveries of cable harnesses for the automobile industry and of optical fiber cables were increased. Sales of coaxial long-distance cables however recorded a drop.

Standard Products

There was an overall rise in sales of standard products. Especially successful were electronic tubes and fractional horsepower motors. Two large orders to equip communication satellites with traveling-wave tubes were received from the U.S.A..

Radio and Radar Systems

Orders and sales of AEG's radio and radar systems division continued its positive trend. This development was led by domestic business. Several orders for mobile ground and airborne radar systems and for radio reconnaissance and intelligence systems were received.

Communication

The trend for the AEG communication division was positive. Two 500 kW short-wave transmitters were supplied to Radio Japan, one to Voice of America and one to Norway. In the area of mobile voice and data communications, emphasis was on car telephones, cordless phones and handheld portable radio telephones. Three experimental systems for a digital car telephone for the future (CD 900) were supplied to the French Post Office and have undergone successful trials.

Information Systems

Orders and sales increased considerably in 1986. The international market position of AEG in the field of letter sorting systems was further expanded with orders from the United Kingdom, Denmark, the Netherlands and the U.S.A..

OLYMPIA

The consolidated worldwide sales of Olympia for 1986 were below the level of the previous year due to the change in the dollar parity. Electronic typewriters and word-processing systems continue to be the mainstay of business. In 1986, the word-processing system Olytext 20 and the Olystar 60 microcomputer were successfully launched on the market.

Household Appliances

The domestic growth of the AEG household appliances division was well above the average for this industry. A decisive factor was the successful introduction of a new automatic washing machine series; with the OEKO-LAVAMAT, detergent consumption is reduced by 20%.

Power Tools

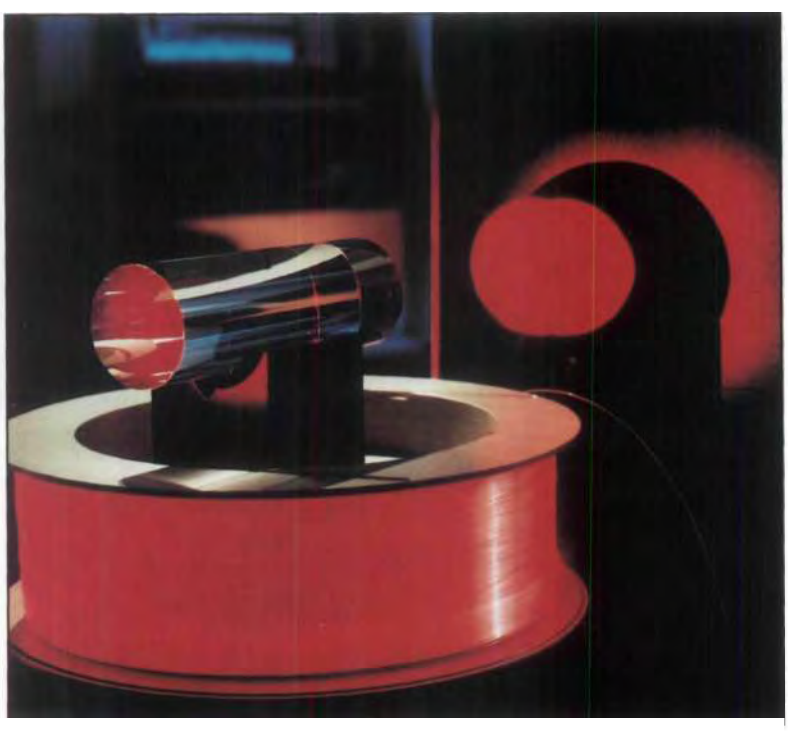
The AEG power tools division, which was fully taken over by AEG at the beginning of 1986, had a successful year despite generally difficult market conditions. Exports accounted for almost two-thirds of sales, which remained unchanged from the previous year.

AEG Worldwide

The AEG sales organization comprises 40 sales branches and outlets, and a staff of 7,000. Outside of Germany, AEG is represented by its own subsidiaries, affiliated companies, representative offices and agencies in 110 countries. Orders received by the foreign sales organization increased by 5%, with significant increases in Belgium, Denmark and Greece. Also, the sales of MODCOMP U.S.A. are included in this figure. Sales of the consolidated foreign companies declined by 7% to DM 2.8 billion - primarily affected by currency changes.

Outlook

The strategic objectives remained unchanged, i.e. to strengthen and expand, on an international basis, AEG as an electrical and electronics company. The structure of the company, its financial basis and the broad range of products offer excellent possibilities to seize the market potential. In the significant fields of electrical and electronics technologies, the AEG group reflects a century of knowledge and experience and offers well-balanced, progressive product lines in capital, producer and consumer goods.



A glass fiber up to 800 metres long is wound onto a rotary fiber coil and screened on both sides by means of red laser light. On the coil is the blank mold from which the glass fiber is drawn.

Dornier Division

Dornier Sales Again Top DM 2 Billion

Sales of the Dornier group, whose range of products and services is geared heavily towards exports, were influenced by the high value of the D-mark and by the restrictive purchasing policy of public customers. Fewer orders were received from some major foreign markets. Nonetheless it was possible in 1986 to stabilize sales at the high level of DM 2.1 billion, following a 40% increase in the previous year. Domestic sales totaled DM 669 million (DM 667 million in 1985). Nearly a third of the Dornier group's business was with public clients.

Total output rose by 5.7% to DM 2.16 billion. Development work carried out for third parties was invoiced at DM 411 million. DM 103 million was spent on the group's own research and development projects, an increase of two thirds.

Investment by the Dornier group amounted to DM 79 million (DM 73 million in 1985). During the course of 1986, 785 new jobs were created; employment at the end of the year stood at 9,557.

Aviation

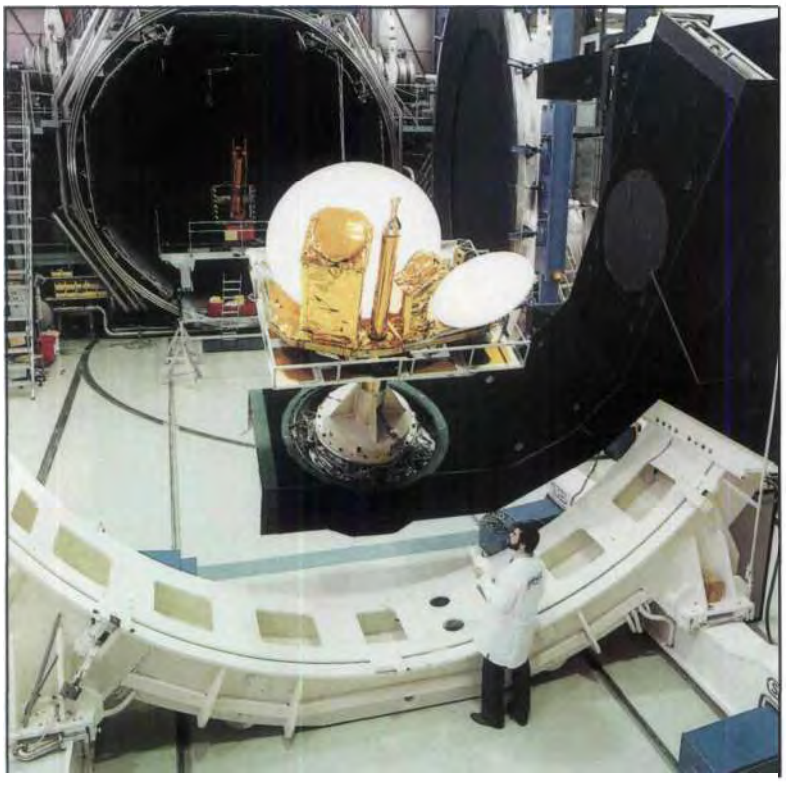
During 1986,31 DORNIER 228 aircraft were supplied to customers; 94 such models are now being used as utility and commuter aircraft by 42 different customers. Due to the weakness of the U.S. dollar and the market situation thus created in the U.S.A., this number is smaller than had been anticipated originally. Both the German and the American authorities have now approved a further-developed version with a 220 kg higher maximum take-off weight of 6,200 kg.

Within the framework of German-Indian collaboration for the production in India of up to 150 DORNIER 228s under license, the first five aircraft, whose components were still being built in Germany, were completed and flight-tested by the Indian partner. In the second phase of the program now commencing, the vast majority of the components too will be made in India.

Completion of a Cessna Citation cockpit at Dornier Reparaturwerft in Oberpfaffenhofen

Dornier is producing various assemblies for the Airbus A 310. It is also developing and producing assemblies for the Airbus A 320. This new model made its maiden flight in February 1987. Dornier has supplied to date 510 Alpha Jets and the assemblies for them. This project was developed and produced in collaboration between France and Germany. Work at Dornier proceeded according to schedule on the planning and definition study, begun last year, for the European fighter plane of the 1990s, the JF 90, and on the technological tasks assigned to the Federal Republic of Germany on certain aspects of overall design, structure, materials, construction methods and avionics.

On the servicing side, the Dornier Reparaturwerft is the chief contractor for depot maintenance and repair of the NATO Airborne Early Warning Systems (AWACS), coordinating a multinational team of 22 firms from eight NATO countries. In the framework of the outfitting program, the first five of seven Challenger CL601 s ordered by the Federal Defense Minister have been delivered and taken into service.



Dornier is responsible for the antennae, the power supply system and the ground station of the German "Copernicus" research satellite.

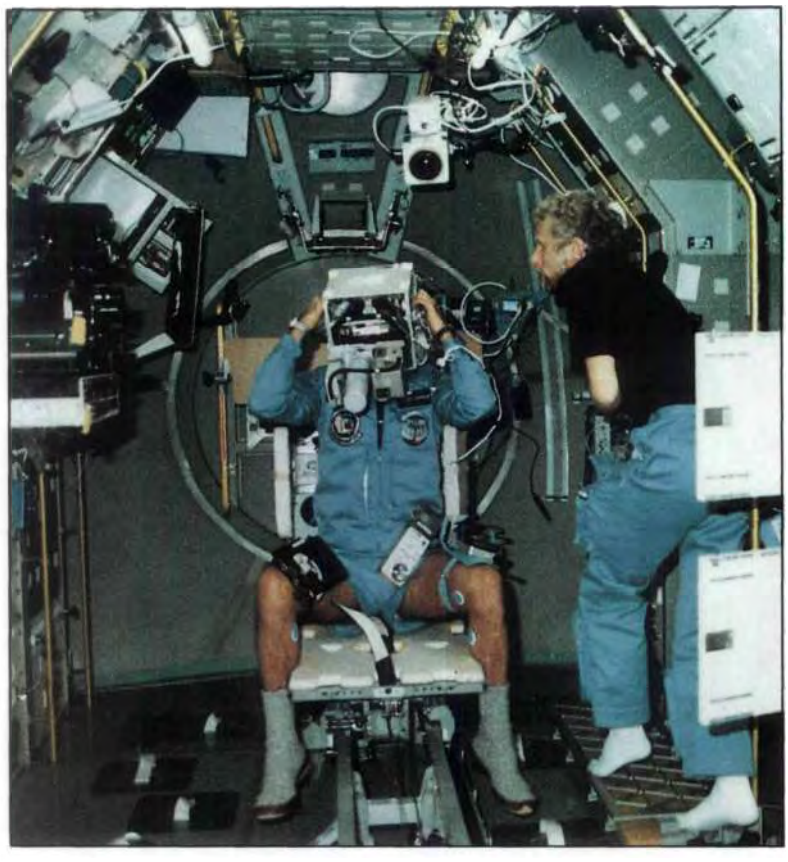
Defense Technology

Remotely-piloted reconnaissance vehicles were again a central aspect of operations in the field of defense technology. Work included servicing of short-range reconnaissance systems already in operation and preparation for standard production of longer-range systems. In the field of computer-assisted command and fire control systems, the company continued its development work as general contractor for the command, control and information system of the German air force. Further activities included training systems, the quick-mount mobile antenna mast, the rapidly launched, foldable dry support bridge and mobile workshop equipment.

Space Technology

Development in the field of space technology was shaped by the decision of the Federal government to take part in the international programs ARIANE 5, HERMES and COLUMBUS. Dornier is trying to participate in some of these programs and in some of the preliminary development work.

Work on the most important current projects, the European Remote Sensing Satellite ERS-1 and the National X-ray Satellite ROSAT, for which Dornier is chief contractor, proceeded according to schedule.



With the development of the Spacelab Environmental Control and Life Support System, Dornier rendered a significant contribution towards the success of the German D1 mission.

The GIOTTO space probe, in the development of which Dornier had a major share, completed a highly successful scientific mission to Halley's comet.

Among the most important tasks in the field of ground stations were the completion and installation of seven earth stations for the French TELECOM 1 Satellite System. Further projects concerned the development of ground control systems for the German telecommunication satellites DFS-Copernicus and TV-SAT. Development also began on six mobile communications stations for transmitting television signals. Considerable activity was also devoted to systems and experiments concerning the utilization of microgravity.

Medical Systems

93 DORNIER kidney lithotripters, for the non-invasive destruction of kidneystones by means of Shockwaves, were supplied during the year. This brought the number of such systems in use throughout the world at the end of 1986 to 204. A total of 250,000 patients have so far been successfully treated in this way. In the course of the year the DORNIER kidney lithotripter HM 4 was presented, a system incorporating the latest technology in the field.

After intensive research work, the technique of gallstone disintegration was successfully tested in clinical application. By means of pilot installations in Munich and, since November, in Wuppertal, nearly 200 patients with gallstones had been successfully cured by the end of 1986 without having to undergo surgery.

Outlook for 1987

In all probability the business of the Dornier group in 1987 will not equal the high level of the two preceding years. The reasons for this are the continued low value of the U.S. dollar, with its adverse effect on aircraft sales, and a certain slackening in the demand for kidneystone disintegrators.

MTU Division

Further Increase in Sales

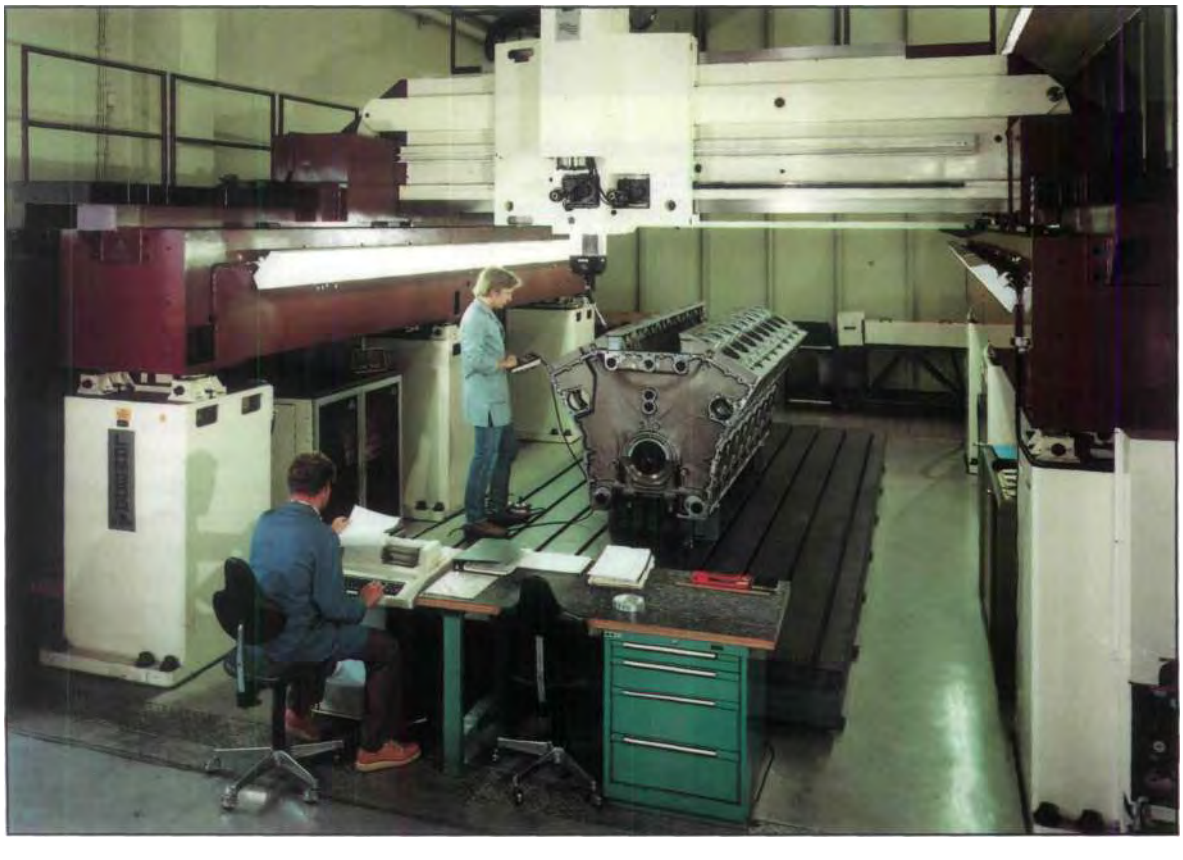
The products of the companies which make up MTU Motoren- und Turbinen-Union Muenchen and MTU Motoren- und Turbinen-Union Friedrichshafen compete in markets characterized by innovation and high technology as well as by fluctuating demand and in some cases excess capacity. Due to the many years of high outlay in financial, technological and personnel resources for the development and refinement of its products, MTU was able to maintain and expand its good competitive position. This was particularly true of the aero-engines, high-performance diesel engines, turbochargers for vehicle engines and large fans.

In 1986, the MTU group companies continued the steady growth of many years. Consolidated sales rose, particularly exports, by 7.8% to just under DM 3.0 billion. The level of employment and capacity utilization was high throughout. DM 3.6 billion of orders were received and the order backlog at the end of 1986 amounted to DM 4.9 billion; this will guarantee employment through the year 1988. By the end of the year the number of employees had increased to 16,912 (15,987 in 1985).

A total DM 302 million was spent on research and development, about half of this on the company's own projects and half on development work contracted for by third parties. Capital spending, at DM 211 million, was well above depreciation charges totaling DM 162 million. Investment outlays centered on modernizing of production and of research and development facilities, and on the expansion of production capacity.

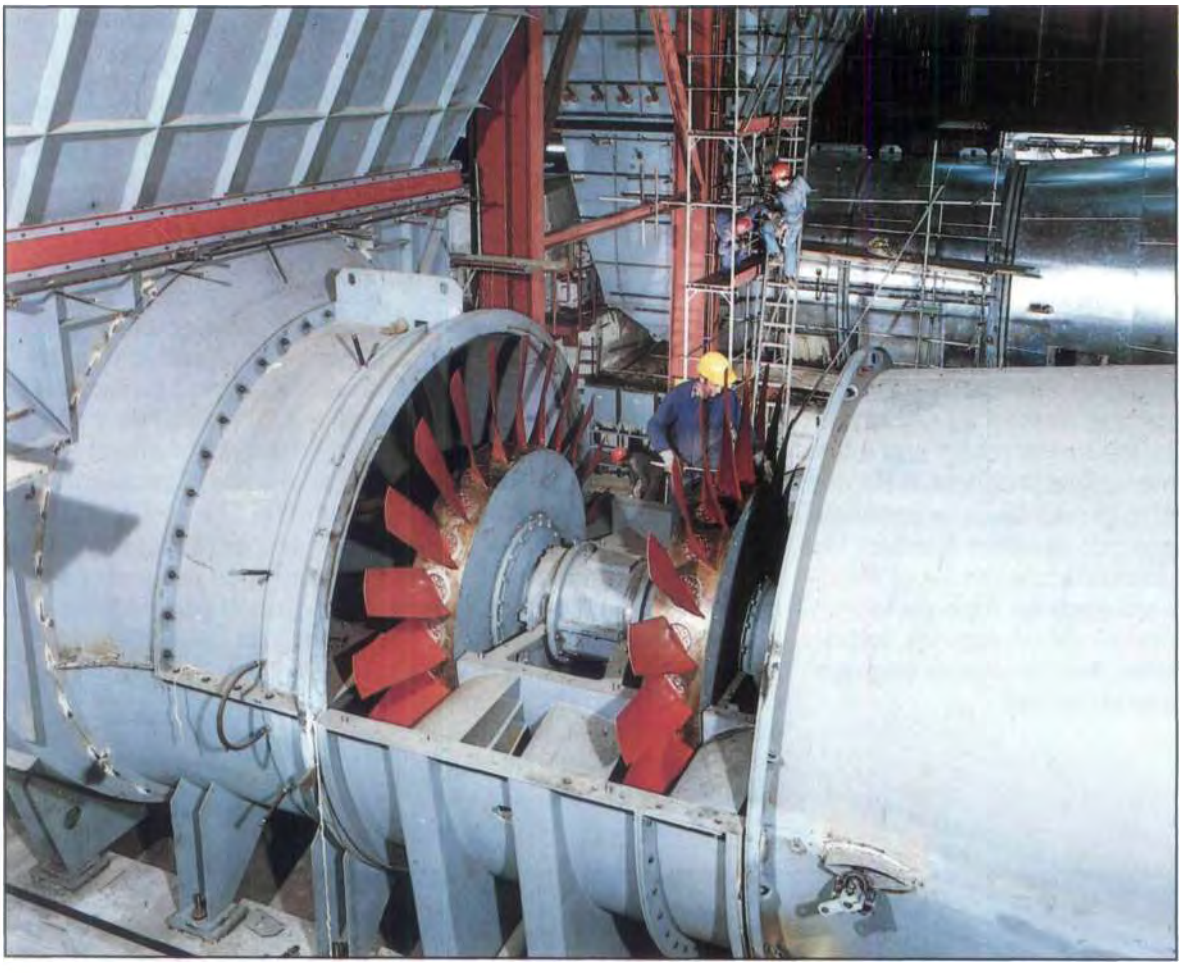
MTU Muenchen: Aero-Engines

Through international cooperation agreements, MTU plays a successful role in the development and production of engines for military and commercial aircraft in a broad range of sizes. Besides production for the Tornado program, an increasing amount of capacity is being devoted to production of components for commercial aircraft engines.



Numerically controlled coordinate measuring equipment is used to monitor the production quality of large MTU diesel engine components, e.g. the cylinder crankcase. The laser measuring systems have an accuracy of max. ± .04 mm with objects approx. 5 meters long.

Technology being used to reduce the strain on the environment, from MTU's subsidiary Kuehnle, Kopp & Kausch Aktiengesellschaft: two-stage axial fans used for the desulphurization of coal-fired power plants.



This area of activity will continue expanding into the medium term. Development work concentrates on components for still more efficient engines, the emphasis in the commercial aircraft sector being on improvement of propulsive efficiency and hence consumption.

MTU Friedrichshafen: Diesel Engines

MTU Friedrichshafen enjoys - despite a fiercely competitive market - continued success in the fields of high-performance diesel engines for ships, heavy vehicles, railway locomotives, generators and other equipment. The advanced range of engines is designed for special applications. The spectrum of outputs has been widened with the inclusion of Mercedes diesel engines suitably modified for the markets served by MTU. The range now includes high-speed diesel engines from 30 kW (40 hp) to 7,400 kW (10,000 hp) for a wide range of applications.

Current development activity is centered on new engine series, electronic control and governing systems and turbochargers. Co-operation with foreign firms under license agreements assists in the opening up of new markets and has the simultaneous effect of safeguarding employment. A major success which will help to ensure full-capacity operation in the medium term was achieved with the signing of agreements with the Soviet Union on the license manufacture and supply of engines.

MTU Maintenance: Aero-Engine Maintenance

Sales of MTU Maintenance GmbH, which maintains and repairs large aero-engines for domestic and foreign airlines, declined in 1986 from the previous year predominantly owing to the fall in the value of the dollar. But thanks to a healthy order backlog, the workforce could be further expanded.

Kühnle, Kopp & Kausch (KKK) Turbochargers, Fans

Selling mainly to markets in Western Europe, Kuehnle, Kopp & Kausch is the second largest manufacturer in the world in the expanding field of turbochargers for vehicle engines. As in the previous year, large orders for the manufacture of fans and compressors were accepted; for the most part these orders were connected with desulphurization measures at coal-fired power stations in the cause of environmental protection.

L'Orange and Other MTU Companies

L'Orange GmbH increased its sales of injection pumps for large diesel engines. The company supplies injection systems chiefly to diesel-engine manufacturers in the Federal Republic of Germany and in the neighboring West European countries.

The generally successful performance of the other domestic and foreign companies within the MTU group was mainly in the fields of marketing and servicing of MTU products, software design and consultancy as well as leasing of data processing equipment.

Prospects for 1987

High levels of capacity utilization and employment will be achieved by the MTU companies in 1987 and a further moderate growth in sales can be expected. However the exchange rate of the dollar has a considerable influence on business, particularly given that important competitors and joint venture partners operate on a dollar basis. The growth prospects depend amongst other things on how receptive the MTU markets, which include the financially weak newly industrializing countries, remain to high-technology products.

Assembly of a low-pressure turbine from MTU for the jet engine of a modern commercial aircraft.

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Research and Technology

New Central Division for Research and Technology

The newly formed central Research and Technology division will have three main areas of activity:

- research relating to both the product and production,
- centralized information technology, e.g. to activate and exploit the scope for rationalization within the group,
- centralized coordination of technical facilities with the aim of economical utilization in the group.

Close Group-Wide Exchange of Experience on Research

Collaboration with the new group companies was intensified in 1986 and a close exchange of experience was initiated. In this enlarged framework it will be possible to identify and define possible synergetic effects more quickly and to implement concrete projects.

In some fields of cooperation, work already underway was continued, in other fields new initiatives were taken. For example, our Research and Technology division has developed additional projects connected with the AEG plans for the setting up of a high-frequency technology institute in cooperation with the University of Ulm. These projects should, together with those of AEG, provide an overall framework for future research and training activities throughout the group. Though the research center in Ulm will play a primary role, research and development will also continue to be carried out decentrally at a variety of sites.

Future Emphases of Research

In order to ensure the availability of basic technical capabilities for existing and future fields of activity - including the relevant scientific bases - further research activities have been defined, namely information technology, energy and chemical conversions and research into the consequences of technology.

The field of information technology comprises both product-related research and a group-level concept for the future use of electronic data processing.

In the field of energy and chemical conversions, we shall be concerning ourselves with energy sources of the future, not least those relevant for road transport, and with the resources situation generally, including the environmental implications of the relevant energy and chemical conversion processes. We see in such research a key to overcoming the potential conflict between an efficiently functioning industrial society generating a high level of prosperity and an intact environment. These activities should be concentrated amongst other things on regenerative energy sources in conjunction with hydrogen as an energy carrier.

These projects will also investigate technological consequences, e.g. environmental pollution and effects on the working environment and quality of life. In view of this, the research sector dealing with technology-related consequences has been expanded.

These and other synergy projects still to be defined should allow our present-day products to be further refined and new markets to be opened up for new products.

TOPAS is a project jointly developed by Daimler-Benz, Fahrzeugbau Haller GmbH and Raab Karcher AG, and promoted by the Federal German Ministry for Research and Technology. The result is a prototype tank truck with optimized active and passive safety features. Particular significance has to be attached to the lower center of gravity which, compared to conventional designs, reduces the tendency to tilt.

Car of the Future

A central aspect of research work in the enlarged group is concerned with the application of the latest technology, particularly for the automobile. In the year under review, automobile-related activities were concentrated particularly on the areas safety, emission and consumption reduction, alternative energies and propulsion systems, and the use of new information and control systems based on microelectronics.

Electronics will play an increasing role in the automobile and traffic systems of the future. It should be used wherever it can function faster and better than human beings.

PROMETHEUS
A Vision for the Traffic of the Future

An example is PROMETHEUS (Program for a European Traffic with Highest Efficiency and Unprecedented Safety), a program for smooth-flowing road traffic with a high level of environmental compatibility, economy and unprecedented safety. Our aim is to utilize the existing and still undeveloped possibilities of modern information and communication technology for the system "road traffic". This work continues a course already successfully underway with the modern safety technologies such as the anti-lock braking system, acceleration skid control, the automatic locking differential and 4MATIC.

Daimler-Benz brings to PROMETHEUS above all its experience in the field of safety electronics and vehicle cybernetics, including our efficient driving simulator in Berlin. The project aims at international traffic compatibility, with cross-frontier coordination not only of vehicles but also of roadside installations and communication networks. Thus PROMETHEUS has been conceived as a European project and integrated in the Eureka program. At the present time 14 European motor firms and some 40 research institutes are participating in the definition phase.

Information-Processing - of Central Importance in the Group

The importance of information technology as a means for integrating organizational systems and production processes within the group grew further in the year under review. Advances were made chiefly in data communication, with the establishment of communica-

tion channels between the domestic and foreign sales companies, the central sales departments and the production sites, and in the supply of technical data from the development departments to production. Purchasing and logistics of production materials and capital goods have been integrated in these information channels, as also have the Personnel, Finance and Controlling divisions. The aim is integrated information processing with continuous information channels.

In 1986, DM 500 million (+ 14%) was spent on the designing of information systems and on the operation of the corresponding hardware and network components.

In research and development, as well as in production, increased use was made of computer-aided design (CAD) and computer-aided calculation (CAC/CAE).

Microelectronics Not Only in Vehicles

Development and production of "application-specific integrated circuits" (ASICS) continued at the electronics testing center, in close collaboration with other group companies. ASICS has a key role in the applications-specific miniaturization of micro-electronics. The aim is to develop new, improved technologies by combining know-how from the fields of vehicle technology, design and integrated circuit production, resulting in optimized electronic control systems for use in the vehicle. At the same time, the prospect is opened up of further applications outside the vehicle.

Daimler-Benz - Pioneer in Environmental Protection

At Daimler-Benz, the environmental compatibility of the Mercedes car and commercial vehicle ranges has long been a central element in research and development work. We have consistently pursued a forward-looking environmental policy, drawing on the latest technological advances. Our progressive car emission control concept fulfils the demands of the environment and of our customers to equal degrees.

As far as diesel vehicles are concerned, improvements inside the engine in recent years led to substantial progress in reducing particulate emission. Particularly in the case of the commercial vehicle, further major improvement is only possible with the help of soot-removal systems. Trap oxidizers are currently being developed at Daimler-Benz for this purpose. Experimental trap-oxidizer systems are currently being tested in commercial vehicles (city buses and refuse collection vehicles).

The main problem remaining unsolved, particularly for the commercial vehicle, is that of finding a satisfactory practical method of regenerating the trap oxidizer by burning off the soot. The German commercial vehicle industry has promised the Federal government annual reports on the progress in trap oxidizer development. The first report was published in December 1986.

Together with Mahle GmbH, Daimler-Benz is developing a piston with variable compression height to improve the degree of efficiency especially of spark-ignition engines. In operation, compression height is automatically controlled so that the engine always runs at the optimum compression ratio. This reduces fuel consumption by up to 10% at part-load.

The solar generator installed on the sunroof is one result of a joint research project of AEG and Daimler-Benz. The generator supplies electricity for the ventilation blower which considerably reduces the temperature inside stationary cars exposed to the sun.

Harmonization Within EC Still Problematic

In many fields of automobile technology, the variety of different legal regulations within the European Community continues to impede development work and to raise costs. Thus the results are usually considerably more expensive than is actually necessary and lesseffective, for example in environmental measures, than would be possible. Greater harmonization would not only allow scarce development capacity to be set aside for other tasks, it would avoid high development and production costs.

It is thus greatly to be welcomed that after many years, the European Community has finally achieved a compromise on dimensions and weights for commercial vehicles. In June 1986, the member states agreed on a drive axle load within the EC of 11.5 tonnes, to become effective in 1992, thus removing a long-standing obstacle to transportation within the EC. On the basis of this agreement, the German legislators approved in mid-1986 a provisional solution allowing drive axle load and vehicle weights to be raised. This reduces some of the hardships caused by the previous regulation and improves the conditions for competing in international haulage.

It was still not possible in 1986 to translate the EC Luxembourg compromise of June 1985 on car emission control into an EC directive, so that it still does not have the force of law. Moreover, no agreement could so far be achieved on the limiting of particulate emissions for diesel cars. The ideas of the member states concerning such limits still differ widely.

There is greater agreement between the EC member states regarding reduction of gaseous emissions for commercial vehicles. An EC directive adopting the Geneva resolution ECE-R49 will probably be passed in spring 1987. Following a voluntary promise to the Federal government, all new and further-developed Daimler-Benz commercial vehicle engines have since the 1985 Frankfurt Motor Show complied with Geneva resolution ECE-R 49 and undercut the limits it sets by at least 20%. This means that these vehicles also comply with or undercut the U.S.-NOx levels which will be in effect there until 1990.

Planned Test Site

Following the decision of the Federal Constitutional Court in March 1987 regarding the planned test site in Boxberg, other possibilities must now be looked at. We believe that to build a site on the basis of a law specially passed for this project is not the right way. At the present time we are checking various alternatives both in Germany and elsewhere.

A suitable test site is still an urgent priority. Practical trials are indispensable for the development, testing and product compliance of operationally reliable and technically ever more demanding vehicles. The broad product spectrum our company offers and the increasingly stringent demands in the fields of safety, environmental compatibility and comfort call for new and expanded test facilities.

Materials Management

Close Cooperation With Suppliers

In 1986 the Daimler-Benz group purchased approximately DM 38 billion worth of goods and services in international markets. In placing orders on such a scale, which is significant even in terms of the economy as a whole, we are aware of the responsibility this entails.

In the enlarged group, we are now being faced with a broader spectrum of tasks with regard to cooperation with our many suppliers - cooperation which has proved its value over a number of years. All areas of business will be sending out new technological and economic stimuli, and these will also affect the supply industry. Modern communication and information technology also provides us with ways to consolidate and develop our long-standing ties in the interest of all concerned. We will also pursue our commitment to structurally weak regions and institutions worthy of support.

The main task of Materials Management was to provide a secure basis for vehicle production through the acquisition of parts from external suppliers at the required quality, at the correct time and for the optimum price. The Daimler-Benz AG purchasing volume of raw materials, factory supplies, capital goods and services increased in 1986 from DM 21.2 billion to DM 22.7 billion. This increase was due both to a growth in quantity and to price rises of the materials involved. Since, like our suppliers, we only use high-quality materials and processing methods, the price trends for our materials did not run parallel to those of commercially available raw materials on the world market.

Materials Flow Further Improved

In close cooperation with our various partners, the continuous supply of externally manufactured parts to our production plants was made even more efficient. We also improved conventional transport ^and storage engineering, and

Rationalized flow of materials in the new, fully automated high stacker for small parts in the Untertuerkheim plant.

made increased use of modern data technology. As part of materials flow planning, our central purchasing departments worked in coordination with those areas directly involved with the control of materials flow to further improve the logistical efficiency of deliveries to our car and commercial vehicle plants.

In order to utilize the know-how available in the company, we reorganized the supply departments for materials and parts in the various plants in such a way so that the jobs of storage, transport and determining optimal order quantities can now be performed more uniformly and thus more efficiently.

Optimization of Information Flow

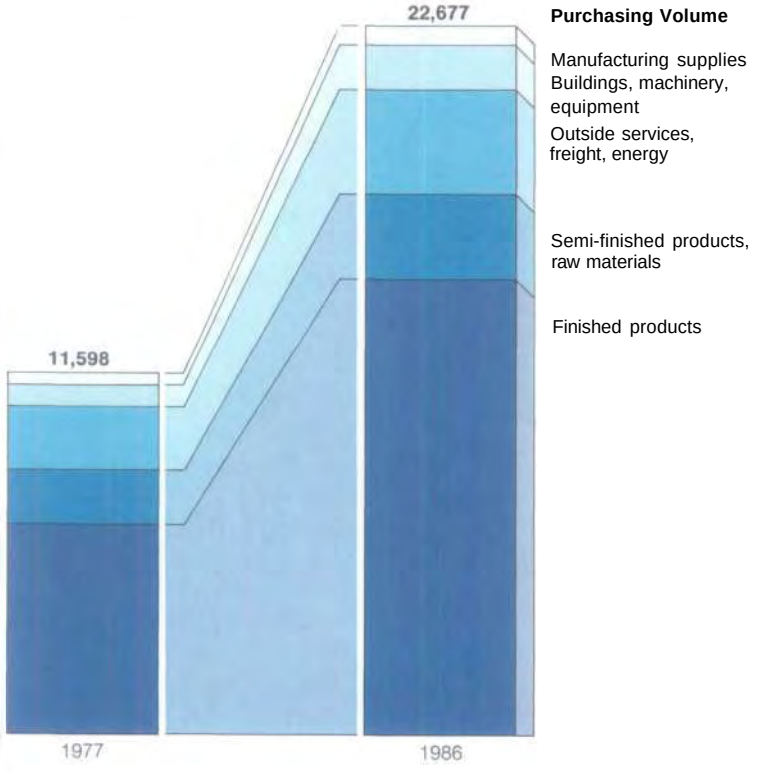
Development work on methods and processes concerned with the information transfer and the control of materials flow has always been performed with a view to their usefulness for our partners, too. In this way, we have made it possible for our many small and medium-sized suppliers, especially, to introduce efficient electronic data processing for the exchange of ordering, delivery, call-up and invoicing data. In close cooperation with the automotive and supply industries, we have therefore now taken up the matter of standardizing interfaces on a Europe-wide scale with project ODETTE (Organization for Data Exchange through Tele Transmission in Europe). This includes clarification of the legal parameters at the same time.

To aid materials flow control in our eleven domestic plants, modern computers for telecommunicating data were installed. Via a certain number of interfaces determined by the Verband der Automobilindustrie (Association of the Automotive Industry), the mutual exchange of data with virtually every data processing system is possible. This ensures fast and efficient communication with supply firms, irrespective of their data processing systems. The supply companies have displayed a great deal of willingness to jointly optimize materials flow costs, and have shown keen interest in the application of modern communication technology.

We would like to express our appreciation and our thanks to all the supply, transport and service companies concerned. Their efforts represent a major contribution toward the successful production start-up of so many new products and features, the management of various projects, and the carrying out of our ambitious production and investment program.

Purchasing Volume Daimler-Benz AG

(in millions of DM)



Extended Range of Services for our customers

In 1986, a large number of measures were introduced in both the car and commercial vehicle sectors so as to further improve the responsiveness of our worldwide sales organization to the marketplace and to the customers. This process included our broad range of services and their high quality across the board. Our activities in the sales financing and leasing business were intensified and extended to other markets (see also page 76). Giving our customers comprehensive information and advice helped the low-pollutant Mercedes car to make the breakthrough on the domestic market. The new heavy-duty trucks with the integrated power train, the new van series and the all-wheel-drive versions of the light Woerth trucks were all successfully launched.

With a worldwide total of 125,000 well qualified, properly trained staff at 5,900 sales and service outlets in 173 different countries, Daimler-Benz has a comprehensive and efficient sales network at its disposal. In the year under review, we conducted "quality tests" in the European markets to assess the work of our outlets from the customer's point of view, and ran a number of "dealer competitions". These measures were designed to raise the efficiency of sales and service still further.

We further improved our service along the long-distance haulage routes in Europe. There are now 370 Mercedes-Benz commercial vehicle outlets providing a round-the-clock breakdown service to companies engaged in international haulage.

The Mercedes-Benz Sports Service goes into action at large international events. At the 1987 Nordic World Championships in Oberstdorf, 65 vehicles were provided for the transport of more than 4,000 competitors, officials, media representatives and voluntary helpers.

More Service Training

Training is given to the personnel of our worldwide organization both centrally and locally. To this end, we set up in 1986 new training centers in the U.S.A., the United Kingdom, Denmark, Japan, Singapore and Switzerland. By running more training schools in the individual countries, we are better able to meet the demands of particular markets and the wishes of customers in specific regions. A total of 270 service instructors are in action throughout the world.

Dealer Management Systems Extended

The constant refinement of our dealer management systems is designed to ensure that sales activities are more fully geared to the customer and to maximize market penetration. Our aim is both to further increase the efficiency and flexibility of the sales organization on any market, and to raise the profitability and investment potential of the dealerships. We particularly set great store by the further development of information processing systems. We provide a variety of supporting measures for our sales companies and contractual partners, so that they can adapt to the rapidly changing conditions of the marketplace and meet the growing demands of our customers more fully.

Strengthening the Retail Trade Function Abroad

Following our sales policy for export markets of not conducting our retail business directly but via independent dealers, we have restructured our Dutch sales organization. Early in 1986, of the existing 10 branches and their 12 sub-branches, 16 outlets were transferred to independent dealers. This means that the Mercedes sales network in the Netherlands will in future consist of six company-owned retail branches and 119 independent dealerships and workshops. In France, we raised the number of pilot dealerships to 28; these dealerships are testing a number of specific measures such as longer opening hours, to improve the quality of service. The 480 French outlets in the Mercedes-Benz sales and service organization employ over 8,500 people, approximately 2,300 of whom work for our sales company Mercedes-Benz France.

High-Quality Service on U.S. Market

In the U.S.A., our car customers have 432 sales and service outlets at their disposal. With the opening of a new dealership in Hollywood - one of two outlets under the direct control of Mercedes-Benz of North America - the quality of service in this important sales area has been further improved.

Due to the constant rise in car sales on the U.S. market, we have invested considerable sums in extending and modernizing our six vehicle preparation centers. At the same time, our training centers were adapted to handle the increased requirements of the entire sales and service organization for continuing employee training.

Improved Service in Mercedes-Benz Commercial Vehicle Sector

In the commercial vehicle sector, it is the efficiency and economy of the package as a whole which determine whether or not the customer decides to buy - roughly 85% of all costs which occur during the service life of a commercial vehicle are follow-up costs. We take this basic rule into account by offering our customers a package consisting of the product on the one hand and optimal service on the other. This includes our comprehensive Transport Consultancy Service, with profitability calculations, fleet information systems, calculation of the optimum power train, and route planning.

A second way of reducing follow-up costs is servicing. Here, Daimler-Benz provides even more convenient engineering and equipment. The amount of servicing work needed by the new large T2 van series, for instance, has been cut down considerably as compared with the previous models, while service intervals have been made longer. This saves customers an average of 35% on costs.

The malfunction indicator and the malfunction storage computer of an on-board diagnosis system, used in some of our heavy trucks, allow our workshops to correct any defects more quickly and at lower costs.

Spare Parts Service Extended

The Daimler-Benz logistics system for spare parts is based on a three-tier distribution system: the central depots, regional supply depots, which have gradually taken over the duties of wholesaling from the branches, and the retail level. Transferring the function of wholesaling to the regional supply depots raised both the economy and efficiency of service. For our workshops and customers, this means that required parts are available even more rapidly.

In view of the fact that the range of parts will rise from approximately 310,000 items at present to over 400,000 by 1990, an economical and efficient inventory control system is becoming more and more important. This can only be realized by the phased extension of electronic data processing.

During the year under review, the second regional supply depot - the first was in Hanover - started operating in Pulheim-Brauweiler near Cologne. All seven retail branches, plus 180 authorized workshops in the Rhine-Ruhr region are supplied by this depot. Twelve articulated trucks and six vans are in operation day and night, on 12 major express routes.

In the Federal Republic of Germany, three further regional supply depots are planned, in addition to the central parts depot in Germersheim.

"Mobile World" Exhibition Meets With Positive Response

To celebrate the 100th anniversary of the automobile, we presented the historical development of our company and its products to a broad sector of the public in a large number of different events. The big centennial exhibition "Mobile World" attracted a total of 560,000 visitors in Stuttgart, Hanover, Berlin, Duesseldorf, Mannheim and Munich. We took part in 20 international motor shows and 48 international exhibitions and trade fairs, as well as holding 94 special events of our own throughout the world.

The new Corporate Identity Program of Daimler-Benz is being introduced on a greater scale. The photo shows the newly-built showrooms of an authorized dealer in Switzerland.

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Employment

Personnel Policy Continues on Course

The success of Daimler-Benz is inseparably linked with the skill and willingness of its employees. The company's future is determined by their commitment, their level of training and the extent to which they are involved in company affairs.

Personnel policy at Daimler-Benz AG continued on its course of improvement in 1986. In the various personnel sectors, the basis for better care of the employees was consolidated even more. We made considerable efforts to help our personnel and training staff to become even better qualified, thereby helping them to perform a job which is becoming increasingly difficult in that tense area where people, engineering and economic efficiency meet. Activities such as further training, advice on social matters, and providing the employees with information, have all been extended.

Planning in new spheres of activity has also advanced, e.g. with regard to qualitative planning and job design. In view of technological developments, we regard it as very important for the personnel departments to take part in the planning of investment projects.

Constructive and Close Cooperation With the Labor Councils

Cooperation with the general labor council at the corporate level and with the individual labor councils at local levels as well as with the committees representing our company's senior managerial staff continued to be constructive.

As in the previous year, agreements were also reached in 1986 with the general labor council which took into account the interests of both the workforce and the company.

After extensive negotiations lasting nearly two years, an agreement was reached concerning the restructuring of the company's pension plan. The new plan was necessary, among other things, because of changes in the social security system which had been occurring since the mid-seventies.

An agreement concerning the execution and implementation of the project "Optimizing Overheads" became effective April 1, 1986. This goes a long way towards safeguarding the employees from possible consequences caused by the implementation of the project.

Employment Situation Remains Positive

At the end of 1986, the Daimler-Benz group employed 319,965 people (231,077 in 1985). This includes, for the first time, the 78,199 people working for AEG. While there was full-time employment at Daimler-Benz AG, Dornier and MTU, certain parts of AEG were forced to introduce short-time work for economic reasons.

At Daimler-Benz AG, the workforce rose by 5,005 to 166,523. The new jobs were created mainly in the car plants and the research and development sectors. Due to the continued difficulties on the commercial vehicle markets, an average of 484 employees (327 in 1985) were temporarily reassigned from the commercial vehicle plants and from some of the retail branches to the passenger car plants, which were working to full capacity.

This practice of reassignment, which has proved to be a useful job-securing instrument, will continue to be used in future to create an employment balance between the plants.

Employee Structure of Daimler-Benz

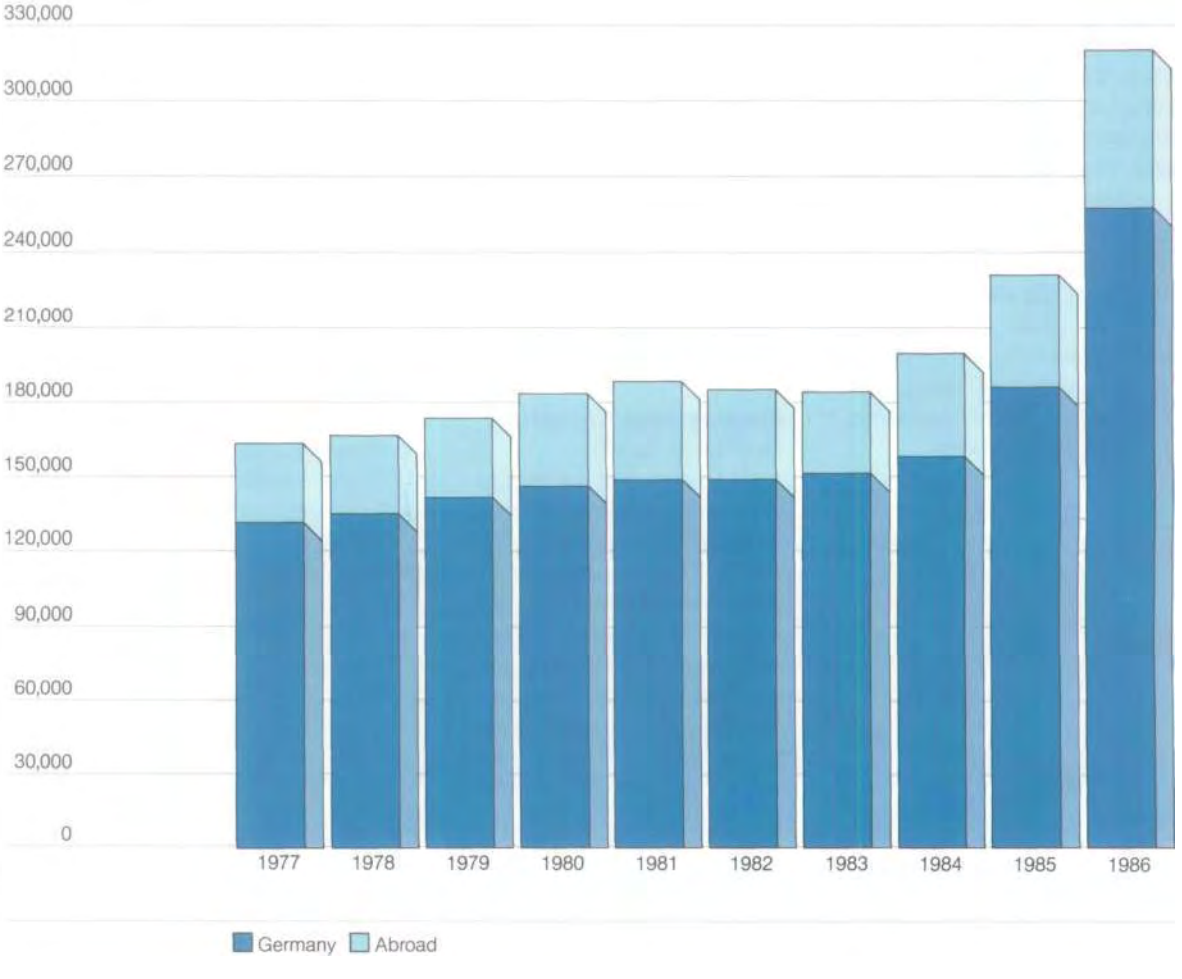
Of the 166,523 employees of Daimler-Benz AG at the end of 1986, 115,181 were wage earners, 41,892 were salary earners, and 9,450 were trainees and apprentices. The number of foreign employees dropped 1.5% to 26,793; the proportion of foreign workers to total workforce fell 1 percentage point to 22.3%. The proportion of women to total number of employees was 11.9%. The average age was 38.5 years, while the average length of service with the company was 12.3 years.

A total of 20,707 employees had been working for Daimler-Benz for more than 25 years. In the year under review, 1,906 employees were honored for 25 years of service, 249 for 40 years and 4 employees for 50 years.

At the end of 1986,6,882 severely handicapped people were employed by the company. This means that the legally prescribed quota of 6% was not fully achieved. This is probably due mainly to stricter examination standards which social agencies apply in determining severe handicaps. As in previous years, since we awarded orders valued at DM 12.7 million to workshops for the handicapped, we did not have to make a compensatory payment.

Employees

(at year-end)	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Daimler-Benz group	**163,302**	**167,165**	**174,431**	**183,532**	**188,039**	**185,687**	**184,877**	**199,872**	**231,077**	**319,965**
Germany	132,214	135,275	142,164	146,323	149,096	149,118	151,273	158,043	186,652	257,538
Abroad	31,088	31,890	32,267	37,209	38,943	36,569	33,604	41,829	44,425	62,427
Daimler-Benz AG	**131,807**	**134,437**	**141,401**	**145,532**	**148,361**	**148,411**	**150,601**	**157,249**	**161,518**	**166,523**
of wich: Wage earners	93,461	94,420	98,708	100,777	102,388	101,819	103,342	108,905	112,125	115,181
Salary earners	32,219	33,190	35,029	36,753	37,713	38,102	38,435	39,210	40,022	41,892
Trainees	6,127	6,827	7,664	8,002	8,260	8,490	8,824	9,134	9,371	9,450
Main Office	5,458	5,762	6,144	6,628	7,191	7,217	7,192	7,415	7,628	7,735
Research and Development	7,756	8,225	8,744	9,419	9,762	9,961	9,953	10,114	10,442	11,040
Production plants	103,436	104,723	109,840	112,303	114,436	114,700	117,113	123,345	126,846	130,502
Retail branches	15,157	15,727	16,673	17,182	16,972	16,533	16,343	16,375	16,602	17,246



Further Increase in Personnel Expenditures and Company Benefits at Daimler-Benz AG

The structure of personnel expenditure at Daimler-Benz is shown in the table (page 66). Personnel expenditures exclusive of old-age pensions amounted to 25.9% of total sales. Wages, salaries and social security levies rose 9.1% to DM 10.6 billion.

In keeping with the labor agreement, wages and salaries were increased effective April 1st 1986 by 4.4%; for the month of April the employees received a lump-sum payment of DM 230 as agreed by the parties in the labor agreement.

The contribution rate for the national pension insurance system remained constant at 19.2%. The rate for unemployment insurance was lowered slightly, from 4.1% to 4.0%. Despite this, the tendency of rising social insurance contributions continued, due to increases in the taxable wage base for pension, unemployment and health insurance. The contribution rate for health insurance was also above that for 1985, at an average of 12.2%.

The average Christmas bonus and special remuneration for each eligible employee (excluding trainees) rose to DM 3,438 in 1986. Total payments amounted to DM 555 million.

Greater personal responsibility for one's work: assembly teams install the complete electric equipment in the stationary vehicle.

To celebrate "100 years of the automobile", all wage and salary earners who had been with the company for at least one year received a basic remuneration of DM 1,000, plus an additional DM 75 for every five years of service. This resulted in an average sum per employee (excluding trainees) of DM 1,362. Total expenditure for this centennial bonus came to DM 230 million.

For capital-forming investment purposes, employees received DM 624 in keeping with the labor agreement. In addition, the company offered employees the option of buying a tax-favored Daimler-Benz share or a tax-favored Mercedes-Automobil-Holding AG share at preferential rates. Each employee was also allowed to put DM 312 into company debt certificates. In 1986, a total of 37,702 employees each purchased one Daimler-Benz share and 2,254 employees each purchased one MAH share. 32,138 employees bought company debt certificates.

Loans totaling DM 50 million were extended to employees for the purchase of 2,116 apartments or homes in 1986.

Company Pension System: Centerpiece of Social Benefits at Daimler-Benz AG

The company pension system is the most important of the social benefits provided by the company. The Daimler-Benz pension is intended as a contribution to the financial security of our employees once they have retired or are no longer able to work, and should be regarded as a supplement to the national pension system and any private arrangements made by the employee.

The company pension system was completely restructured with the pension agreement approved on February 6, 1987 by Daimler-Benz AG and the Daimler-Benz Provident Fund. This amendment became effective January 1st, 1987.

The newly introduced system safeguards the long-term controllability of the pension system. For the employees, it is a fair and easily understood system in which the pension amount depends on the length of service with the company and the actual income of the employee.

In the year under review, DM 201 million was paid in current benefits to pensioners, widows and children. Moreover, and in accordance with the Company Pensions Law, we raised the pensions for those who started receiving pension benefits in the years 1977, 1980 and 1983 by a total of DM 1.8 million.

We helped around 5,600 employees with one-time assistance payments. In order to cover future pension benefits, we allocated DM 680 million to pension reserves and the Daimler-Benz Provident Fund.

Structure of Personnel Expenses – Daimler-Benz AG

	1985		1986		
	in millions of DM	in % of wages and salaries (base expenditure)	in millions of DM	in % of wages and salaries (base expenditure)	Change in %
Wages and Salaries (base expenditure)	**5,270**	**100.0**	**5,777**	**100.0**	**+ 9.6**
Paid Vacation and Time Off	**2,140**	**40.6**	**2,293**	**39.7**	**+ 7.1**
Normal paid vacation (union contract)	851		903		
Additional paid vacation	417		440		
Holiday pay	293		308		
Wage and salary continuation pay during illness	391		433		
Other time off and convalescence	188		209		
Social Levies	**1,329**	**25.2**	**1,434**	**24.8**	**+ 7.9**
Medical and social security contributions	1,240		1,345		
Contributions to employee trade associations	81		82		
Contributions to Pension Insurance Association	8		7		
Special Payments	**606**	**11.5**	**870**	**15.1**	**+43.6**
Christmas and special remuneration	494		547		
Payments related to company jubilee "100 years of the automobile"	–		230		
Formation of personal capital	112		93		
Pay During Training Periods*)	**285**	**5.4**	**319**	**5.5**	**+11.9**
Social Services*)	**218**	**4.1**	**223**	**3.9**	**+ 2.3**
Less amounts included twice	–213	–4.0	–230	–4.0	+ 8.0
Personnel Expenses (without old-age pensions and pre-retirement)	**9,635**	**182.8**	**10,686**	**185.0**	**+10.9**
Old-Age Pensions	**677**	**12.8**	**680**	**11.8**	**+ 0.4**
Payments for Pre-Retirement (net)	**72**	**1.4**	**120**	**2.0**	**+66.7**
Total Personnel Expenses	**10,384**	**197.0**	**11,486**	**198.8**	**+10.6**
of which: shown under "other expenses"	33		251		
Personnel Expenses as Shown in "Statement of Income"	**10,351**		**11,235**		**+ 8.5**

*) Without allocated overhead.

Continued High Interest in the Early Retirement Agreement

By the end of 1986, a total of 4,030 employees of Daimler-Benz AG had gone into early retirement within the framework of the early retirement agreement in force since January 1985. Further early retirement contracts were concluded for 1987. Of the vacancies caused by early retirement, 79% were re-filled. This agreement thus had an a remarkable impact on unemployment.

Preventive Health Care for our Employees

Medical care at Daimler-Benz was provided by 33 plant doctors and 147 qualified medical workers. As well as conducting prophylactic examinations and providing first aid in the case of injuries and acute illnesses occurring in the plants, the company medical service was also active in de-

termining whether employees were suitable for certain jobs, and in the ergonomic planning of work stations.

A total of 616 foremen and group foremen took advantage of the three-week preventive stay at a health spa offered by the company, while 651 employees took advantage of a similar program available for shift workers.

The number of industrial accidents per million productive man-hours was reduced to 63.5 (68.2 in 1985). A variety of special measures were introduced so that employees became more aware of potential sources of danger at their places of work, and of accidents in the working environment.

The average absentee rate due to illness - based on nominal man-hours - was 7.7%. Among wage earners, the figure was 9.1 % (8.9% in 1985), and 3.9% (3.8% in 1985) among salaried employees.

Lively Interest in Open Days

The interest shown by the dependents of our employees on the open days organized at most of our domestic plants and retail branches during the Centennial Year was exceptionally large. To give the visitors as realistic an impression as possible, work at the production plants continued on these days. At the two main plants of Sindelfingen and Untertuerkheim alone, there were altogether 200,000 visitors.

Company Sports Accorded Greater Importance

With a policy decision, we have redefined the emphasis given to company sports at Daimler-Benz AG. We support company sports for health and social reasons. The company sports association "Sportgemeinschaft Stern" seeks to complement the sport in individual clubs by promoting a sense of community among all the groups of employees within the company.

A particular opportunity to do this was provided by the sports festival organized by SG Stern at the end of May 1986 in Untertuerkheim. This was attended by 1,600 active participants from all the domestic production plants and retail branches, and involved a large number of different disciplines. On September 13th 1986, the sportsmen and sportswomen of the company took part in their first international event. This also included sports groups from AEG, Dornier and MTU.

In staff matters, great significance is attributed to one-to-one discussions with the employees.

More Suggestions Submitted

The interest our employees have in their work and the thoughts they devote to improving work processes, tools and products are clearly shown by the 22,665 suggestions for improvement that were submitted in the year under review. A total of DM 5.2 million was paid out in the form of bonuses and awards.

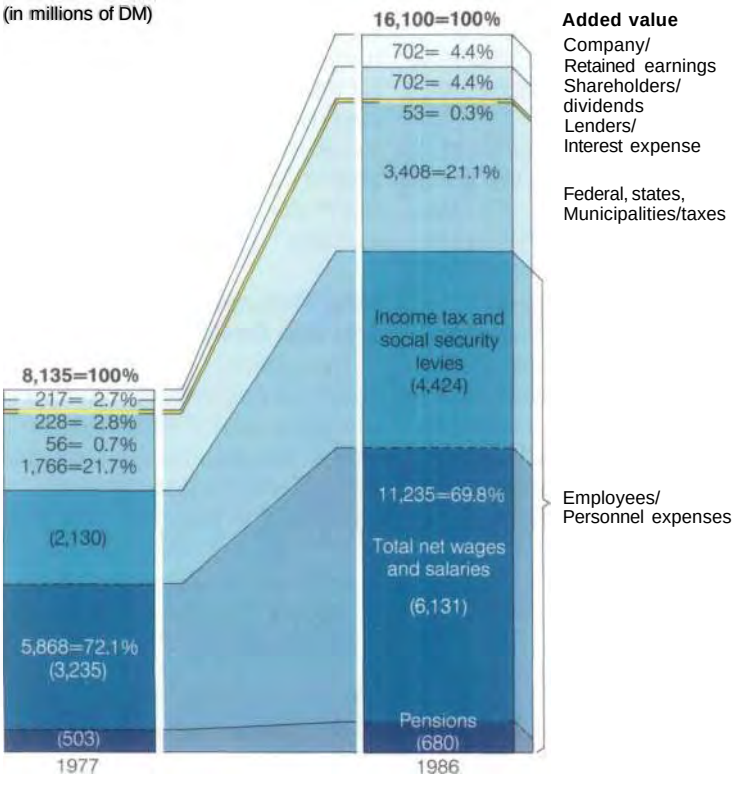
New Technologies and Job Design

The effects of new technologies on people and their work are subjected to close observation and careful analysis, so that any errors can be recognized before they become too serious and, where necessary, counter-measures can be introduced. The main focus lies in giving more consideration,

Future-oriented vocational training; here, training on the fundamentals of NC technology at one of our training centers.

even at the planning stage, to employee-related factors, as well as technical and economic factors. The conditions for including the personnel sector in the technical planning processes at a very early stage have been improved. The aim is to take into account aspects relating to personnel policy and ergonomics, as well as more recent forms of cooperation, as early as possible.

Added Value Statement of Daimler-Benz AG



High Priority Given to Training

Changes in job content and increasing use of modern technologies in all commercial and technical areas, have caused us to modify the aims and structures of our educational and training work. Training in 1986 centered mainly on giving employees the skills needed to keep up with changing technology.

With 9,450 apprentices and trainees, Daimler-Benz AG retained the high training level of the year before, corresponding to 5.7% of the workforce. More than 7,200 young people were preparing themselves for their future jobs in one of the 35 technical trade vocations and about 1,500 were apprenticed in the 12 business occupations. The German-based companies in the Daimler-Benz group provided training for a total of 13,300 young people. Of these, 3,200 were accounted for by AEG, 430 by Dornier and 860 by MTU.

With the restructuring of the metal-working and electrical workers' training programs, which were officially introduced on January 15th 1987, the direction for future vocational training has been set.

As from the beginning of the training year 1987, vocational training contracts will be concluded in accordance with the new training directives. The preparations necessary centered on the training of our instructors, on equipping the training centers appropriately and on working out new training material.

Within the framework of the vocational college system, Daimler-Benz has been involved, since 1986, in providing engineering degree courses in Technical Informatics for high-school graduates. Together with Bosch and the Wuerttemberg Academy for Administration and Economics, Daimler-Benz is also taking part in an 18-month retraining program giving unemployed teachers the chance to become applied information technologists.

High priority was also accorded to intermediate and advanced training for our managerial staff in 1986. Over 71,000 employees took part in 9,700 internal and external training courses.

The increasing use of new technologies has given us cause to include unskilled workers in our measures to improve the qualifications of our workforce. A number of special courses were designed and held for this purpose. This training work was geared specifically to the qualitative and quantitative requirements of the individual departments concerned.

In the same way, the increasing application of CAD/CAM caused us to develop a comprehensive training program for the managers and employees affected by this new technique - in close cooperation with the technical departments involved.

With the growing use of numerically controlled machine tools, a more systematic and comprehensive approach to training in this sector, too, has become necessary. A project group called "NC Technology for Users" has devised a special training strategy for this. Target groups include trainees, instructors, employees and managers in manufacturing, in indirect departments and in planning.

Thanks to Our Workforce

We would like to express to our employees and their representatives in the various labor councils and committees our thanks for their dedication and hard work. Cooperative effort and mutual understanding helped 1986 to become another successful business year.

SG Stern sports festival on May 31,1986: start of the marathon.

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Subsidiaries and Affiliated Companies

In this section we report on sales, operating results and events of special interest at the major subsidiaries and affiliated companies of Daimler-Benz AG. The situation and performance of the foreign companies in the automobile divisions and the AEG, Dornier and MTU sub-groups have already been described in the business review and in the sections on the different divisions of the group.

For the first time, we feature a table (p. 74) summarizing for selected companies and subgroups, apart from Daimler-Benz AG's stock ownership therein, their net equity and results of operations. This information is based on the annual financial statements prepared in compliance with the laws of the respective countries; the figures were converted using the exchange rate prevailing at the end of the year. The results are given both in the national currency and in D-marks.

*

Our business policies at home and abroad in 1986 conformed once again with the "OECD Rules for Multinational Companies".

CONSOLIDATED COMPANIES

AUTOMOTIVE SECTOR

Companies with Their Own Manufacturing Facilities

Mercedes-Benz do Brasil

Against the background of a continuing economic upturn, Mercedes-Benz do Brasil SA, Sao Bernardo do Campo, increased its sales substantially. Converted to D-marks, however, the volume of sales declined by 21% to DM 1.9 billion as a result of the sharp fall in the value of the Brazilian Cruzado. The investment of DM 194 million was concentrated on modernization of the product range and measures to remove production bottlenecks. The improved capacity utilization and the high interest income from the internally-generated liquidity led, despite the hampering effect of state price controls, to satisfactory results of operations.

The economic situation in Brazil deteriorated markedly at the beginning of 1987. The economic and currency reform failed to bring the hoped for success and the target of monetary stability was not achieved. Nevertheless, our subsidiary expects a further increase in business due to continuing high export demand.

SOFUNGE

SOFUNGE SA, Sao Paulo, a subsidiary of Mercedes-Benz do Brasil SA, produces castings for the Brazilian automotive industry. In 1986, the company produced 63,804 tonnes of castings (+ 24%) and was operating at near to full capacity. Sales and operating results were hampered by the price controls on the company's products and by coinciding increases in the price of materials. Investments, e.g. for new products of the parent company, proceeded according to schedule.

Mercedes-Benz Argentina

Mercedes-Benz Argentina S.A., Buenos Aires, consolidated its position as market leader for trucks and buses and increased sales considerably. Converted to D-marks however, changes in the exchange rate meant that sales were almost one third less than the previous year. The improved capacity utilization and the earnings from increased liquidity led to positive results of operations, satisfactory even when taking into account the inflationary profits contained therein.

The construction site vehicles launched by Freightliner in 1986 round off our U.S. affiliate's truck range.

Freightliner/U.SA

The dollar sales of the Freightliner group remained virtually unchanged from the previous year. In DM terms, there was a 28% decline to DM 2.8 billion due to the fall in the value of the dollar. Earnings were impaired by the fiercer price competition in the U.S. heavy truck market. For 1987, Freightliner expects an increase in business due to the presently satisfactory order book situation.

Mercedes-Benz Espana

Mercedes-Benz Espana S.A. modified its van range at the end of 1986. With a modernized and expanded product range, our Spanish subsidiary expects an improvement of its unsatisfactory results. Net equity, which had been impaired through losses, was balanced again through capital contributions in 1986.

Sales of imported Mercedes vehicles rose in 1986 very gratifyingly by 42% and 47% respectively to 5,039 cars and 1,732 commercial vehicles. The company's sales in D-marks increased by 11% to DM 753 million, due particularly to the improved import business.

Mercedes-Benz of South Africa

The continuing decline in the South African currency raised the cost of imports for the automotive industry, which is dependent on buying parts from abroad. In the rapidly shrinking motor vehicle market, Mercedes-Benz of South Africa recorded a drop in sales but was nevertheless able to expand its market shares.

Sales in D-marks declined further, by 22% to DM 878 million. Results were impaired by an unfavorable economic backdrop. The prospects of the company will depend on future political and economic developments. The present level of orders and employment is generally satisfactory.

Marketing Companies

Mercedes-Benz of North America and Mercedes-Benz Canada

Our marketing companies, Mercedes-Benz of North America and Mercedes-Benz Canada, achieved a further increase in their sales to dealers of 18% to 104,670 cars, with a disproportionate increase for vehicles at the upper end of the range. Sales in local currency increased by 40% in the U.S.A. to $ 3.7 billion and by 36% in Canada to $271 million. Due to currency factors however, the U.S. subsidiary's sales in D-marks rose by only 4% to DM 8.1 billion, and those of the Canadian subsidiary dropped by 2% to DM 423 million. With the considerable increase in unit and dollar sales in North America it was possible to keep the effects of the currency-related cost increases on the companies' earnings within reasonable bounds. We expect a further increase in sales for 1987.

Mercedes-Benz France

Our marketing company increased its sales of cars and commercial vehicles in France's expanding vehicle market, in some fields at an above-average rate. We expanded our position in the car market and maintained our position in the commercial vehicle market. The company's sales increased in D-mark terms by a further 14% to DM 2.3 billion. Results of operations were adversely affected by the fierce competition in price and terms in the commercial vehicle market.

Mercedes-Benz United Kingdom

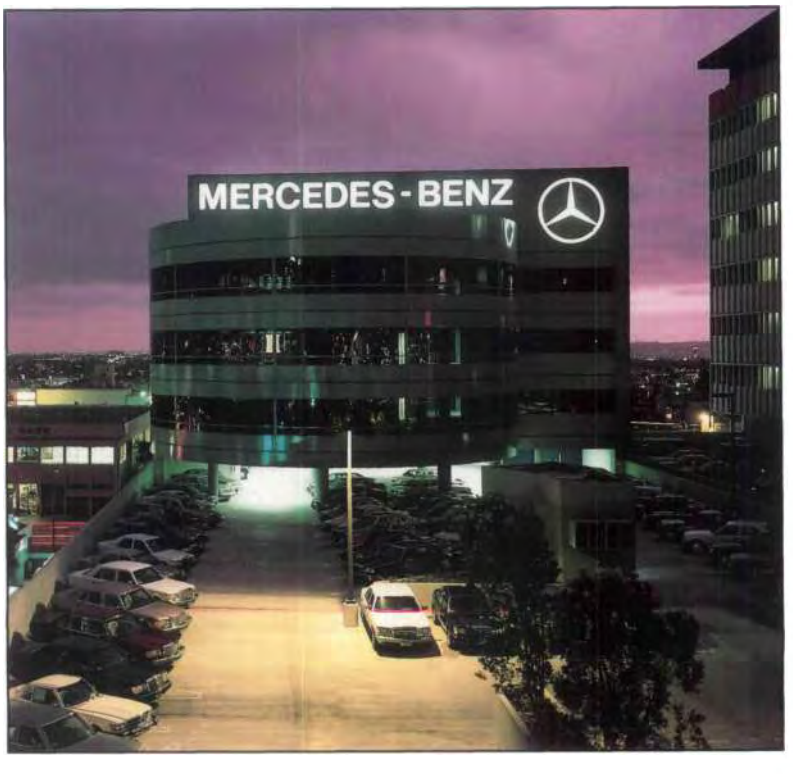
In the United Kingdom the recovery in the car and commercial vehicle market continued in 1986. With a continuing high level of demand, in particular for our mid-series, Mercedes-Benz (United Kingdom) increased its car sales by 19% to 21,766 vehicles, and its commercial vehicle sales from 15,135 units in 1985 to 15,296 units in 1986. Due to the fall in the value of the pound, sales converted to DM increased by only 4% to DM 1.7 billion. The exchange rate adversely affected the company's results of operations.

Mercedes-Benz Nederland

Mercedes-Benz Nederland increased its car sales by 19% to 13,998 vehicles, which was substantially above the 10% market growth. In the truck market, which also expanded, inability to meet the demand for vans meant that sales increased at a below-average rate, by 6% to 7,807 vehicles. Converted to D-marks, sales increased 21% to DM 1.2 billion. There was a further improvement in the company's results of operations. In order to restructure our corporate interests and to round off our range of marketing instruments, we founded a leasing company of our own in the Netherlands in 1986 under the umbrella of a holding company.

Mercedes-Benz Belgium

Our marketing company in Belgium was unable to exploit all the opportunities offered by the market, due to delivery bottlenecks. With a growth in sales of 8% to 12,873 cars, a strong position was nevertheless maintained. A total of 3,646 commercial vehicles (3,929 in 1985) were sold, under fiercer competition. Sales - converted to D-marks - increased 8% to DM 833 million. Results of operations were again satisfactory.



The Mercedes Benz retail outlet in Hollywood has been in existence since the mid-50's. This facility, so rich in tradition, was relocated to these new premises early in 1986 in order to fully meet the high expectations of our customers in this important market.

Key Figures of Consolidated Companies of Daimler-Benz AG

	Ownership in %	National Currency NC	Net Equity[1] million DM	Income[1] million NC	Income[1] million DM	Sales[2] 1985 million DM	Sales[2] 1986 million DM	Employment at Year-End 1985	Employment at Year-End 1986
Fed. Republic of Germany									
AEG, Berlin und Frankfurt am Main[3]	56.0	DM	2,250	.	–	(10,843)[4]	11,220	(73,760)[4]	78,143
Dornier, Friedrichshafen[3]	65.6	DM	185	.	42.4	2,118[5]	2,123	8,760	9,557
MTU, Muenchen[3]	100.0	DM	358	.	21.7	2,740[5]	2,953	15,987	16,912
Mercedes-Leasing-GmbH, Stuttgart	100.0	DM	71	.	5.0	371[7]	465[7]	104	109
Europe									
Mercedes-Benz España, Madrid	80.7	Ptas	181	−3,948.8	−58.3	680	753	3,110	3,028
Mercedes-Benz (United Kingdom), Milton Keynes[3]	100.0	£	180	1.7	4.8	1,617	1,675	1,092	1,092
Mercedes-Benz Nederland, Utrecht[3]	100.0	hfl	96	18.0	15.9	966	1,167	1,119	1,168
Mercedes-Benz Belgium, Bruessel[3]	100.0	bfrs	139	433.4	20.8	774	833	1,022	958
Mercedes-Benz France, Rocquencourt	99.5	FF	177	26.8	8.1	2,057	2,349	2,319	2,304
Mercedes-Benz Italia, Rom	88.5	Lit	113	22,512.1	32.3	1,101	1,375	612	634
Mercedes-Benz (Schweiz), Zuerich	51.0	sfr	63	11.7	14.0	616	771	234	249
Daimler-Benz Holding Nederland, Utrecht[3]	100.0	hfl	122	2.2	2.0	–	–	–	–
Daimler-Benz International Finance, Utrecht	100.0	hfl	1.4	0.5	0.5	–	–	–	–
Daimler-Benz Holding, Belgium, Bruessel	100.0	bfrs	155	319.4	15.3	–	–	–	–
Mercedes-Benz Finance, Belgium, Bruessel	100.0	bfrs	13	36.2	1.7	50[7]	59[7]	30	31
Merfina, Rome	85.0	Lit	17	802.7	1.2	130[7]	203[7]	64	70
Daimler-Benz Holding, Zuerich	100.0	sfr	311	23.2	27.8	–	–	–	–
Mercedes-Benz Credit, Zuerich	70.0	sfr	11	− 0.4	− 0.5	46[7]	71[7]	7	9
North America									
Freightliner, Portland[3]	100.0	US $	.[6]	.[6]	.[6]	3,834	2,770	5,439	5,788
Mercedes-Benz of North America, Montvale[3]	100.0	US $	.[6]	.[6]	.[6]	7,829	8,104	1,617	1,705
Daimler-Benz of North America Holding, New York[3]	100.0	US $	2,425	60.6	117.5	–	–	6	6
Mercedes-Benz Credit, Norwalk[3]	83.0	US $	223	11.1	21.5	1,457[7]	1,104[7]	191	222
Latin America									
Mercedes-Benz do Brasil, São Bernardo do Campo[3]	100.0	Cz $	1,173	1,044.2	136.9	2,359	1,857	15,827	18,981
Sofunge, São Paulo	100.0	Cz $	40	−11.2	− 1.5	118	96	2,487	2,854
Mercedes-Benz Argentina, Buenos Aires	100.0	A	200	33.3	51.7	479	330	1,948	2,352
Africa, Asia, Australia									
Mercedes-Benz of South Africa, Pretoria[3]	50.1	R	159	−46.6	−41.3	1,132	878	5,135	4,644
Mercedes-Benz Japan, Tokyo	100.0	¥	52	322.3	3.9	–	–	–	30
Daimler-Benz (Australia), Mulgrave/Melbourne[3]	100.0	$A	44	− 6.4	− 8.2	746	591	987	883

1) Figures taken from national financial statements for 1986, converted at year-end exchange rates.
2) Converted at average annual rates.
3) Consolidated.
4) Figures in brackets for information purposes.
5) Dornier included in consolidation from July 1, 1985 with DM 1,223 million; MTU included in consolidation from April 1, 1985 with DM 1,982 million.
6) Included in financial statements of Daimler-Benz of North America Holding Company Inc..
7) New business.

Mercedes-Benz Italia

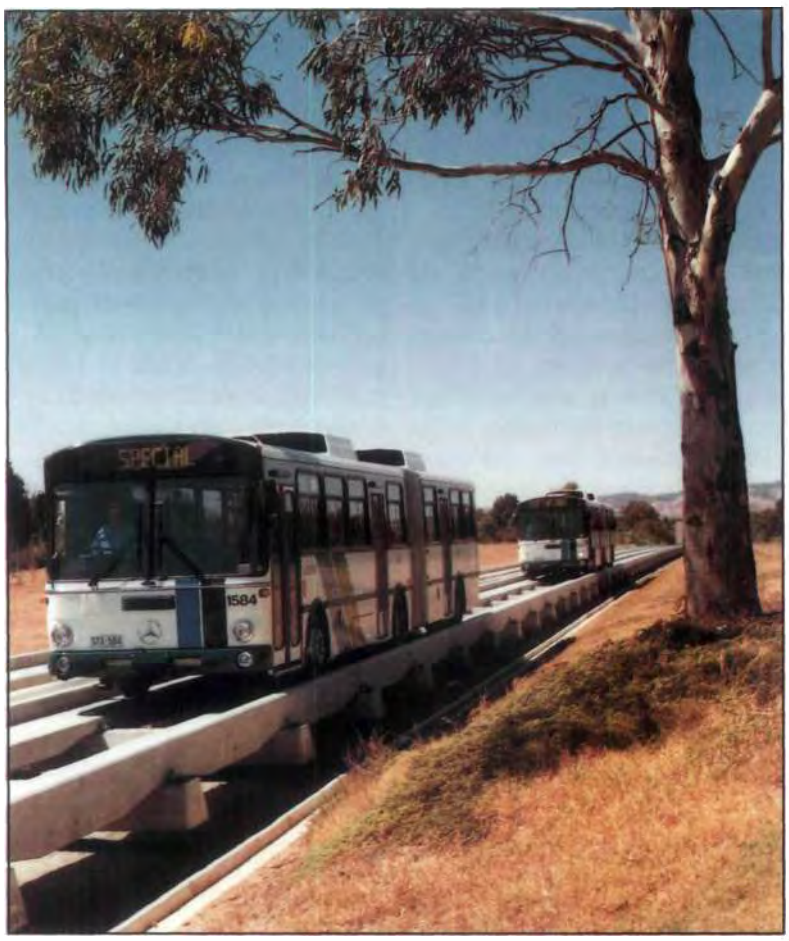
Mercedes-Benz Italia sharply increased its car sales by 13% to 21,988 units and further expanded its market share. A total of 6,012 (5,138 in 1985) commercial vehicles were sold; the sharp rise, by 40%, in sales of trucks upwards of 6 tonnes gross weight, was particularly gratifying. Converted to D-marks, sales increased by 25% to DM 1.4 billion. The company's results of operations were satisfactory.

Mercedes-Benz (Schweiz)

The car sales of Mercedes-Benz (Schweiz), Zuerich, increased at an above-average rate of 20% to 8,646 vehicles. Sales of commercial vehicles on the other hand, at 3,031 units (+ 3%), did not keep pace with the growth in the market as a whole. Sales - converted to D-marks - increased by 25% to DM 771 million. Earnings were once again gratifying.

Mercedes-Benz Hellas

Mercedes-Benz Hellas SA, Athens, suffered a further decline in sales to 143 (179 in 1985) cars and 144 (232 in 1985) commercial vehicles, due to the still difficult economic situation in Greece. Sales in local currency increased by 17%; in D-marks they decreased by 15% to DM 48 million. Results of operations remained unsatisfactory.



The O-Bahn system developed by Daimler-Benz is also used in Adelaide, Australia. The track-guided buses are among the most modern means of local public transport and excel above all in outstanding economy.

Mercedes-Benz Australia

Contrary to the market trend in Australia, our subsidiary was able to maintain its sales at the level of the previous year, with 3,655 cars sold. Sales of commercial vehicles on the other hand dropped to 1,318 (1,736 in 1985) vehicles, in parallel with the trend for the market as a whole. D-mark sales declined by 21 % to DM 591 million due to the drastic fall in the value of the Australian dollar. This had a negative effect on results of operations.

Mercedes-Benz Japan

With the founding of the new company Mercedes-Benz Japan Co. Ltd., Tokyo, at the beginning of 1986, we have taken account of the increasing importance of the Japanese market for our entire product range. At the beginning of 1987, the company took over as general distributor for all Mercedes vehicles in Japan. Our long-standing partner Yanase Co., Ltd., continues to be responsible for retail sales and service. A joint enterprise in which both partners have a 50% share interest is to be set up to handle matters relating to vehicle imports.

Mercedes-Benz China

With a view to intensifying our activities in the People's Republic of China, 1986 saw the setting up of a subsidiary company, Mercedes-Benz China Ltd., based in Hong Kong. The Southern Star Motors Company, Hong Kong, set up at the beginning of 1987, in which Mercedes-Benz China (with a 51% holding), and the leading Chinese trading company, Jardine, Matheson & Co. Ltd. are shareholders, will open up the southern Chinese provinces for our products.

Financing and Leasing Companies

Mercedes-Leasing-GmbH

Our domestic leasing company for cars and commercial vehicles, Mercedes-Leasing-GmbH, Stuttgart, again increased its leasing and vehicle sales revenue, which rose by 20% to DM 489 million. A total of 10,676 (9,392 in 1985) contracts were concluded, equivalent to an investment of DM 465 million (DM 371 million in 1985). Cars accounted for 73% of new leasing business. Net income of DM 5 million was fully allocated to retained earnings.

Mercedes-Benz Credit, U.S.A.

Our sales financing company Mercedes-Benz Credit Corporation, Norwalk/Connecticut, operating in the U.S.A. and in Canada, again expanded its revenue in 1986. Its loan and leasing business amounted to $ 1.1 billion (+ 23%) or DM 2.2 billion. As in previous years, car leasing was the main growth area. Results showed a further improvement.

Other companies

To assist our sales abroad we have expanded our sales financing activities by setting up the new subsidiary company Mercedes-Benz Leasing Nederland and a joint venture with a Spanish bank. Since autumn 1985, Mercedes-Benz Credit AG has represented us in Switzerland and has got off to a successful start. The Italian Merfina S.p.A., Mercedes-Benz Finance Belgium S.A. and Mercedes-Benz Financement in France also continued their positive performance during 1986.

The new van series from Mercedes-Benz Espana, comprising a large number of vehicle versions with payloads from 1.0 to 1.8 tonnes. 1

OTHER DIVISIONS

AEG Companies

AEG has been a member of the Daimler-Benz group since the beginning of 1986, when Daimler-Benz AG increased its holding from 24.9% to 56%. The AEG companies recorded consolidated sales in 1986 of DM 11.2 billion (+3%). Earnings, which improved in comparison to the previous year, were once again used entirely for the internal strengthening of the company.

With the acquisition of the remaining capital stock, and thus the imposition of direct managerial control of AEG Elektrowerkzeuge GmbH (AEW), Winnenden, AEW took up its place at the beginning of 1986 as the 15th division in the AEG group. At the same time, AEG Aktiengesellschaft increased the capital of AEW by DM 40 million.

The share interest in Feinmechanische Werke Mainz GmbH was increased to 99%) to complement the hydraulic servo product line.

AEG has also acquired all the shares in Modular Computer Systems Inc. (MODCOMP), Fort Lauderdale, suppliers of high-performance real-time computer systems and the related know-how. This will be a valuable asset for the expansion of AEG activities in the U.S.A..

There was further domestic investment in AEG affiliates at OLYMPIA Aktiengesellschaft, whose capital was increased by DM 40 million.

Abroad, the capital of AEG ETI Elektrik Endustrisi A.S., Istanbul, was increased by DM 18 million.

Dornier Companies

Business at the Dornier companies stabilized in 1986 at the high level of the previous year. With consolidated sales again totaling DM 2.1 billion, net income amounted to DM 42.4 million (DM 33.1 million in 1985); the major part of this will be used to strengthen retained earnings.

In the U.S.A., two new Dornier subsidiaries were founded, whose activities consist of aircraft sales and leasing. In Japan, a sales and service company for medical equipment began operation.

MTU Companies

Consolidated sales of the MTU companies rose by 7.8% to some DM 3.0 billion. Apart from the minority interest, the net income of DM 21.7 million was entirely allocated to retained earnings to strengthen stockholders' equity.

In 1986, two joint enterprises involving MTU and various partners were set up. The companies are concerned with the co-ordination of development and production of a new engine for the JF 90 European fighter of the 1990s and with the development of advanced materials technologies.

OTHER AFFILIATED COMPANIES

Deutsche Automobilgesellschaft

At the Deutsche Automobilgesellschaft mbH, Hanover, in which Volkswagen AG and Daimler-Benz AG have equal holdings, research and development work in the fields of electrotechnology and electrotechnical storage systems proceeded according to schedule. Earnings were divided equally among the proprietors in accordance with the profit and loss transfer agreement.

HWT - Gesellschaft fuer Hydrid- und Wasserstofftechnik

The company was founded in 1985. Mannesmann-Roehrenwerke AG and Daimler-Benz AG each hold 50% of the capital stock. Operations in the fields of rare-gas and hydrogen storage and purification, and of insulation technology proceeded according to schedule. In the year under review, the first hydride-based industrial gas-purification plants in the world for the manufacture of semiconductors were supplied.

NAW/Switzerland

NAW - Nutzfahrzeuggesellschaft Arbon & Wetzikon AG - transferred the emphasis of its production to the conversion of heavy Mercedes trucks and to the production of bus chassis, after having completed the orders for the assembly of heavy off-road Saurer trucks. In 1986, the company almost equalled the high production volume of the previous year with 1,720 units. Due to the changed production range, D-mark sales fell to DM 85 million (DM 103 million in 1985). Nonetheless, results of operations were break-even.

FAMSA/Mexico

Despite the difficult overall economic situation in Mexico, Fabrica de Autotransportes Mexicana S.A. (FAMSA) sold 1,455 (1,552 in 1985) commercial vehicles. The market share rose to 25% (8% in 1985). Due to the sharp fall in the value of the Peso, D-mark sales fell to DM 80 million (DM 204 million in 1985).

ANAMMCO/Nigeria

A lack of import licenses for supplied parts compelled the Anambra Motor Manufacturing Company Ltd. (ANAMMCO) to resort to drastic measures. Production of commercial vehicles was halted for six months. Only 249 commercial vehicles (2,092 in 1985) had been assembled and 122 sold (2,261 in 1985) by the year end. Sales in D-marks fell to DM 54 million (DM 374 million in 1985). For the first time in the company's history, the annual results of operations were negative.

NAI/Saudi Arabia

Due to market conditions and a large number of unsold vehicles, the National Automobile Industry Company Ltd. (NAI) had to halt its assembly of Mercedes commercial vehicles for six months. Sales declined by 75% to 459 vehicles, with a D-mark value of only DM 42 million (DM 203 million in 1985). Accordingly, results of operations deteriorated once again. In January 1987 truck assembly was resumed.

OTOMARSAN/Turkey

Otobus ve Motorlu Araclar Sanayii A.S. (OTOMARSAN), Istanbul, increased its sales of Mercedes buses by 8% to 1,216 units despite the decline in the Turkish commercial vehicle market. In October, the company opened a new commercial vehicle plant in Aksaray, work on which had started two years earlier. The plant will produce heavy-duty trucks. The product range will be extended, in step with a staggered expansion of capacity, to include medium-sized trucks, Unimogs and cross-country vehicles; moreover, the assembly of diesel engines is contemplated. In conjunction with this project, the company's basic share capital was increased from TL 12 billion to TL 16 billion (approx. DM 41 million). The holding of Daimler-Benz AG remained at 36%.

D-mark sales rose by 4% to DM 253 million. Considering the gratifying situation in previous years, results of operations were unsatisfactory.

IDEM/Iran

Reduced materials imports to Iran, due to the political and economic situation, led to a sharp drop in sales for the two licensees for Mercedes commercial vehicles and for our affiliate Iranian Diesel Engine Manufacturing Company (IDEM), Tabriz. As a result, sales of diesel engines fell by 54% to 9,025 units. D-mark sales fell by 49% to DM 169 million and results of operations again worsened.

The opening of a new commercial vehicle assembly plant in Aksaray marks the successful course pursued by our Turkish affiliated company OTOMARSAN.

German Motor, Star Motors and Star Engines/Indonesia

Despite a further fall in the price of almost all raw materials produced in Indonesia, the vehicle market initially experienced a marked recovery. Only after the drastic 45% currency devaluation against the U.S.-dollar in the autumn did the market start to decline again. The Indonesian affiliates P.T. German Motor Manufacturing, Wanaherang and P.T. Star Motors Indonesia, Jakarta sold 1,932 commercial vehicles (1,866 in 1985) and 1,119 cars (805 in 1985). For buses, the limits of production capacity were reached. A correspondingly high number of commercial vehicle engines were assembled at P.T. Star Engines Indonesia. The volume of business rose in national currency by 50%. Converted to D-marks, it fell to DM 220 million (DM 221 million in 1985).
The results of operations were satisfactory.

FAP FAMOS/Yugoslavia

Our Belgrade-based Yugoslav partner FAP FAMOS increased its sales by 4% to 5,556 commercial vehicles despite a further deterioration in the market. Sales - converted to D-marks - amounted to DM 776 million (697 million in 1985). Results of operations were once again positive.

In conjunction with the extension of the commercial vehicle range manufactured under license, it was agreed to increase the Daimler-Benz holding from DM 28 million to DM 33 million.

Daimler-Benz Oesterreich

The Salzburg-based company, in which we have a 50% holding, is responsible for coordinating the sales of Mercedes cars and commercial vehicles in Austria. Our exports rose steeply once again, by 19%, to 10,241 cars. Our market share increased to 4.0% (3.8% in 1985). In the stagnating commercial vehicle market upwards of 2 tonnes gross weight, the company was just able to maintain its market share at 14%. A total of 3,125 commercial vehicles (3,135 in 1985) were supplied by Daimler-Benz AG.

Principal Subsidiaries and Affiliated Companies of Daimler-Benz AG

Subsidiaries

Mercedes-Benz Argentina S.A.
Buenos Aires/Argentina
A 45,000,000
(DM 69.8 million)
100% owned

Mercedes-Benz España S.A.
Madrid/Spain
Ptas 17,514,911,000
(DM 258.7 million)
80.7% owned

Mercedes-Benz (Australia) Pty. Ltd.
Mulgrave, Melbourne/ Australia
$A 20,000,000
(DM 25.7 million) 100% owned

Mercedes-Benz Hellas S.A.
Athens/Greece
Dr 800,000,000
(DM 11.2 million)
100% owned

Mercedes-Benz China Ltd.
Hongkong
HK $ 6,000,000
(DM 12.4 million)
100% owned

Mercedes-Benz of South Africa (Pty.) Ltd. Pretoria/ Republic of South Africa
R 22,500,000
(DM 19.9 million)
50.1% owned

Star Auto S.A.
Abidjan/Ivory Coast
FCFA 1,400,000,000
(DM 8.5 million)
84.3% owned

Holzindustrie Bruchsal GmbH
Bruchsal
DM 10,000,000
100% owned

Maschinenfabrik Esslingen AG
Esslingen a. N.
DM 42,515,000
97.3% owned

Industriehandel Handels- und Industrieaus-rüstungsgesellschaft mbH
Stuttgart
DM 5,000,000
100% owned

Mercedes-Leasing-GmbH
Stuttgart
DM 40,000,000
100% owned

Daimler-Benz-Wohnungsbau GmbH
Stuttgart
DM 26,000,000
100% owned

Daimler-Benz of North America Holding Comp., Inc.
New York/U.S.A.
US $ 35,932,628
(DM 69.7 million)
100% owned

Mercedes-Benz of North America, Inc.
Montvale, N.J./U.S.A.
US $ 60,000,000
(DM 116.4 million)
100% owned

Mercedes-Benz Canada, Inc.
Toronto/Canada
Can $ 5,000,000
(DM 7.0 million)
100% owned

Freightliner Corp.
Portland, Oregon/U.S.A.
US $ 180,000,000
(DM 349.3 million)
100% owned

Mercedes-Benz Credit Corp.
Norwalk, Connecticut/U.S.A.
US $ 84,681,800
(DM 164.4 million)
83% owned

SOFIDEL S.A.
Rocquencourt/France
FF 90,000,000
(DM 27.2 million)
99.5% owned

Mercedes-Benz France S.A.
Rocquencourt/France
FF 230,000,000
(DM 69.4 million)
100% owned

Daimler-Benz Holding Belgium S.A./N.V.
Brussels/Belgium
bfrs 2,420,000,000
(DM 116.2 million)
100% owned

Mercedes-Benz Belgium S.A./N.V.
Brussels/Belgium
bfrs 1,800,050,000
(DM 86.4 million)
100% owned

Mercedes-Benz Finance Belgium S.A./N.V.
Brussels/Belgium
bfrs 181,000,000
(DM 8.7 million)
100% owned

P.T. Star Engines Indonesia
Jakarta/Indonesia
Rp 3,784,406,250
(DM 4.5 million)
60% owned

Mercedes-Benz Japan Co. Ltd. Tokio/Japan
Y 4,000,000,000
(DM 48.5 million)
100% owned

Mercedes-Benz (United Kingdom) Ltd. Milton Keynes/United Kingdom
£ 30,000,000
(DM 86.0 million)
100% owned

Daimler-Benz Holding AG
Zurich/Switzerland
sfr 147,000,000
(DM 175.9 million)
100% owned

Daimler-Benz Finanz AG
Zurich/Switzerland
sfr 30,000,000
(DM 35.9 million)
100% owned

Daimler-Benz Finanz-Holding S.A.
Luxemburg
sfr 8,000,000
(DM 9.6 million)
100% owned

Merfina S.p.A.
Rome/Italy
Lit 6,000,000,000
(DM 8.6 million)
85% owned

Mercedes-Benz (Schweiz) AG
Zurich/Switzerland
sfr 6,000,000
(DM 7.2 million)
51% owned

Mercedes-Benz Credit AG
Zurich/Switzerland
sfr 9,000,000
(DM 10.8 million)
70% owned

Mercedes-Benz do Brasil S.A.
São Bernardo do Campo/ Brasil
Cz $ 6,550,000,000
(DM 858.5 million) 100% owned

Sociedade Técnica de Fundições Gerais S.A. (SOFUNGE)
São Paulo/Brasil
Cz $ 220,000,000
(DM 28.8 million) 100% owned

Daimler-Benz Holding Nederland B.V.
Utrecht/Netherlands
hfl 135,200,000
(DM 119.7 million)
100% owned

Mercedes-Benz Nederland B.V.
Utrecht/Netherlands
hfl 57,000,000
(DM 50.5 million)
100% owned

Mercedes-Benz Leasing Nederland B.V.
Utrecht/Netherlands
hfl 16,000,000
(DM 14.2 million)
100% owned

Daimler-Benz International Finance BV.
Utrecht/Netherlands
hfl 1,000,000
(DM 0.9 million)
100% owned

Mercedes-Benz Italia S.p.A.
Rome/Italy
Lit 65,000,000,000
(DM 93.3 million)
88.5% owned

AEG Aktiengesellschaft
Berlin und Frankfurt am Main
DM 931,171,700
56% owned

OLYMPIA Aktiengesellschaft
Wilhelmshaven
DM 170,000,000
99.2% owned

AEG KABEL Aktiengesellschaft
Moenchengladbach
DM 57,600,000
98.3% owned

AEG KANIS GmbH
Nuernberg
DM 55,000,000
100% owned

AEG Elektrowerkzeuge GmbH, Winnenden
DM 80,000,000
99.75% owned

Modular Computer Systems Inc.
Fort Lauderdale/U.S.A.
US $ 42,986,000 1)
(DM 83.4 million)
100% owned

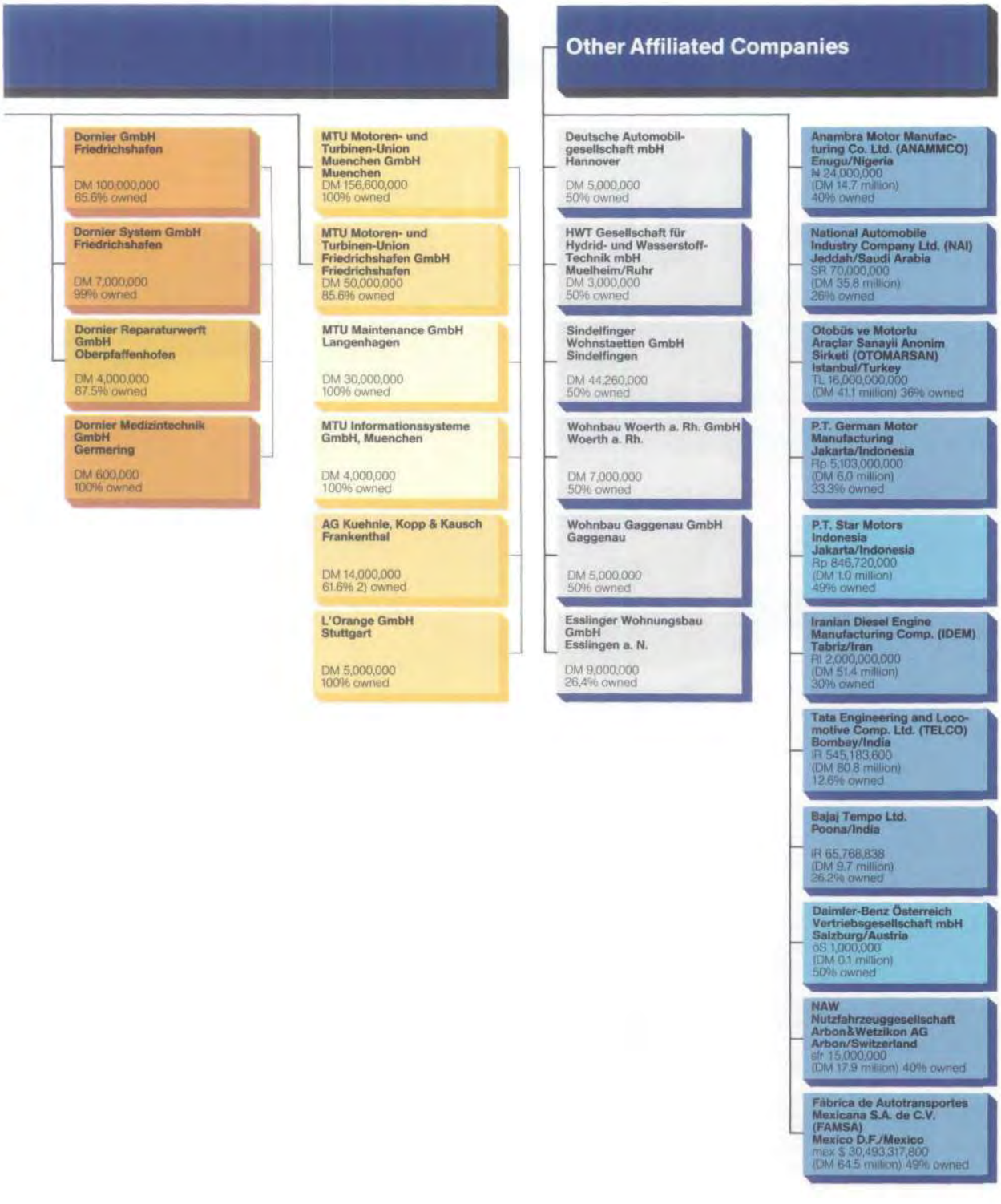
AEG International AG
Zurich/Switzerland
sfr 203,000,000
(DM 242.9 million)
100% owned

AEG do Brasil S.A.
São Paulo/Brasil
Cz $ 352,252,000
(DM 46.0 million)
100% owned

AEG Ibérica de Electricidad S.A.
Madrid/Spain
Ptas 2,600,000,000
(DM 38.4 million)
100% owned

AEG Fábrica de Motores S.A.
Terrassa/Spain
Ptas 2,012,700,000
(DM 29.7 million)
100% owned

AEG Italiana S.p.A.
Mailand/Italy
Lit 19,000,000,000
(DM 27.3 million)
100% owned



Manufacturing or assembly companies

Distribution and service companies

Real estate, finance and holding companies

Other companies

() Capital converted into D-marks at year-end exchange rates

1) Equity
(Capital stock U.S. $ 1,000)
(DM 7,000,000)

As of March 31, 1987

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Es wurde in der PDF-Datei weggelassen, um eine nutzerfreundliche Dateigröße zu erreichen.

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Financial Statements

Consolidated Financial Statements

Consolidated Balance Sheet as at December 31, 1986

ASSETS

	Balance Jan. 1, 1986	Additions *)	Transfers	Disposals	Depreciation allowances	Balance Dec. 31, 1986
	DM	DM	DM	DM	DM	DM
Fixed and Financial Assets						
Property, Plant, Equipment and Intangible Assets						
Land and equivalent titles						
with office, factory and other buildings	3,803,400,488	1,014,527,235 [1]	+ 198,828,131	31,371,145	474,917,718	4,510,466,991
with residential buildings	73,987,216	9,233,805	– 387,385	2,597,539	6,256,847	73,979,250
without buildings	40,008,486	8,261,714 [2]	– 291,275	501,404	–	47,477,521
Buildings on land owned by others	52,914,425	38,873,196	– 388,996	887,390	13,194,671	77,316,564
Machinery and plant	1,344,205,809	1,058,896,432 [3]	+ 231,216,628	19,739,551	1,058,255,590	1,556,323,728
Factory and office equipment	2,179,693,350	2,247,751,619 [4]	+ 108,818,623	244,382,175	1,655,542,116	2,636,339,301
Construction in progress and advance payments relating to buildings and plants	599,371,824	1,030,040,609	– 537,795,726	3,851,705	30,577,088	1,057,187,914
Franchises, trademarks, licenses and similar rights	1,054,846	66,074	–	–	450,920	670,000
	8,094,636,444	5,407,650,684	–	303,330,909	3,239,194,950	9,959,761,269
Financial Assets						
Investments in affiliated companies	1,042,478,333	461,483,529	–	981,354,639	106,275,915	416,331,308
Investments in long-term securities	203,994,084	45,065,902	–	17,186,740	15,091,519	216,781,727
Loans made for a term of at least four years	205,636,732	98,672,030	–	65,834,908	364,392	238,109,462
of which secured by mortgage DM 140,398,768 (last year DM 122,033,546)						
	1,452,109,149	605,221,461	–	1,064,376,287	121,731,826	871,222,497
	9,546,745,593	**6,012,872,145**	**–**	**1,367,707,196**	**3,360,926,776**	**10,830,983,766**
Cost of Investments in Consolidated Subsidiaries in Excess of Book Value at Acquisition						**1,317,048,228**
						12,148,031,994
Current Assets						
Inventories						**10,116,503,861**
Other Current Assets						
Advance payments to suppliers other than for fixed assets						922,124,158
Receivables for goods sold and services rendered						7,288,372,157
of which receivables maturing in more than one year		DM 852,473,905 (last year DM 827,278,287)				
Notes receivable						374,527,525
of which from affiliated companies		DM 23,353,575 (last year DM 27,348,737)				
discountable at German Federal Reserve Bank and maturing in more than one year		DM 78,980,034 (last year DM 116,768,208)				
Checks						49,074,834
Cash on hand, in German Federal Reserve Bank and in post office checking accounts						28,197,239
Cash in banks						4,258,153,859
Temporary investments in securities						5,003,892,651
Treasury stock of the parent company		par value DM 2,664,900 (last year DM 2,783,100)				35,645,881
Receivables from affiliated companies						6,172,394
Receivables from members of the Board of Management (Section 89 of the Company Act)						38,396,930
Receivables from members of the Supervisory Board (Section 115 of the Company Act)						2,611,518
Other current assets						6,669,706,555
						24,676,875,701
Prepaid and Deferred Charges						
Debt discount						14,834,810
Other						54,469,298
						69,304,108
Total Assets						**47,010,715,664**

*) inclusive of revaluations of
[1] DM 11,896,000 [2] DM 1,247,000 [3] DM 250,000 [4] DM 9,590,000

STOCKHOLDERS' EQUITY AND LIABILITIES

		Balance Dec. 31, 1986	
		DM	
Basic Share Capital of Daimler-Benz AG			
Common stock	42,313,132 votes	2,115,656,600	
Preferred stock	43,920 votes	2,196,000	
in special cases of Section 17 of the bylaws	1,317,600 votes		
		2,117,852,600	1,698,695
Surplus and Retained Earnings			
Paid-in surplus [1]		367,753,519	
Retained earnings [2]		8,428,342,471	
		8,796,095,990	7,539,148
Minority Interests for Shares Held by Outsiders		**1,250,818,231**	330,409
of which: share in profits	DM 33,121,470 (last year DM 19,331,219)		
share in losses	DM 71,372,125 (last year DM 71,756,809)		
Special Equity Reserves		**393,986,416**	502,108
Reserves pursuant to Section 3 of the Foreign Investment Law, Section 1 of the Tax Act with respect to Developing Countries, Section 6b of the Income Tax Act, Section 52 Subsection 5 of the Income Tax Act, Section 74 of the Income Tax Regulations, Subsection 34 of the Income Tax Guidelines, Subsection 35 of the Income Tax Guidelines, and Belgian, French, Italian, Dutch and Austrian regulations			
Lump-Sum Allowance for Doubtful Accounts		**281,713,597**	207,871
Provisions			
Old-age pensions		9,283,369,548	
Deferred maintenance		193,429,132	
Other		8,640,773,409	
		18,117,572,089	13,671,570
Liabilities With a Term of at Least Four Years			
Bonds		895,703,231	
Liabilities to banks		754,300,099	
of which secured by mortgage	DM 384,928,715 (last year DM 257,205,692)		
Other liabilities		257,327,209	
of which secured by mortgage	DM 71,672,256 (last year DM 92,367,273)		
Due within four years	DM 487,901,693 (last year DM 450,122,848)		
		1,907,330,539	938,806
Liabilities to Provident Funds (parent and subsidiary companies)		**58,482,140**	47,047
Other Liabilities			
Accounts payable-trade		3,997,383,035	
Notes payable		382,534,911	
Bank loans		1,053,980,946	
Advance payments received		3,938,072,886	
Liabilities to affiliated companies		68,278,288	
Other liabilities		3,862,351,327	
		13,302,601,393	10,128,306
Deferred Credits		**82,259,269**	72,534
Unappropriated Surplus		**702,003,400**	643,948

	1986	1985
	DM	DM
Contingent liabilities:		
Trade acceptances	224,058,125	123,297,262
Assignment of trade receivalbes	–	1,066,120
Payment guarantees	177,975,032	512,763,260
Product warranties	4,014,101	8,858,326
Payment guarantees for outside indebtedness	5,953,835	–

Non-estimatible product warranties are explained in the Annual Report

Total Stockholders' Equity and Liabilities	**47,010,715,664**	35,780,442

1) Corresponds to capital contributed for shares in excess of par value; it is included at DBAG in "retained earnings allocated under statute".
2) Inclusive of "retained earnings allocated under statute" (without capital contributed for shares in excess of par value) of DM 160,561,007 (last year DM 160,561,007) and retained earnings allocated for treasury stock of DM 35,645,881 (last year DM 34,510,440) of DBAG.

Consolidated Statement of Income for the Year ended December 31, 1986

		1986	
		DM	DM
Sales		65,498,184,388	
Increase of work in process and finished goods inventories including spare parts		414,635,965	65,912,820,353
Other capitalized in-house output			502,379,165
Total Output			66,415,199,518
Cost of raw materials and manufacturing supplies and of goods purchased for resale			33,348,959,052
Excess of Total Output Over Cost of Raw Materials etc.			33,066,240,466
Income transferred from affiliated companies under profit and loss pooling agreements		2,561,000	
Income from investments in unconsolidated companies		129,356,578	
Income from other financial investments		46,397,607	
Other interest and similar income		1,332,218,224	
Gain from disposal of fixed assets and from revaluations of fixed assets		118,707,969	
Gain from dissolution of provisions		567,704,802	
Gain from dissolution of special equity reserves		208,513,416	
Other income		1,051,232,440	
of which extraordinary DM 108,432,534 (last year DM 84,640,406)			3,456,692,036
			36,522,932,502
Wages and salaries		15,533,024,265	
Social security levies		2,544,515,067	
Expenditures for old-age pension and support payments to dependents		1,280,745,119	
Depreciation of fixed assets and amortization of intangible assets		3,239,194,950	
Write-down of financial assets		121,731,826	
Amortization of cost of investments in consolidated subsidiaries in excess of book value at acquisition		42,883	
Losses from reduction in value of or from sale of current assets, excluding inventories and addition to lump-sum allowance for doubtful accounts		405,961,959	
Losses from disposal of fixed assets		108,838,168	
Interest and similar charges		477,431,784	
Taxes			
a) on income and on net assets	DM 4.233.353.104		
of which payments for prior years covered by other provisions	DM 198,889,384		
	DM 4,034,463,720		
b) other	DM 77,646,576	4,112,110,296	
Expenditures in connection with pooling of losses for companies not included in consolidation		15,229,859	
Additions to special equity reserves		91,578,825	
Other expenses		6,825,311,326	34,755,716,327
Net Income			1,767,216,175
Prior year profit-carry-forward of Daimler-Benz AG			–
Transfer from net income to retained earnings			1,103,463,430
Income applicable to minority shareholders		33,121,470	
Losses applicable to minority shareholders		71,372,125	38,250,655
Unappropriated Surplus			**702,003,400**

Stuttgart-Untertuerkheim, March 27, 1987

Daimler-Benz Aktiengesellschaft
Board of Management

Breitschwerdt Reuter
Dinger Dürr Gentz Hinrichs
Hörnig Liener Niefer
Schäffler Sanner

The consolidated financial statements and the reports relating thereto, which we have examined with due care, comply with the statutory requirements.

Frankfurt (Main), April 15, 1987

Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftspruefungsgesellschaft

Schnicke Wirtschaftspruefer
Dr. Koschinsky Wirtschaftspruefer
(independent auditors)

Notes to Consolidated Financial Statements

COMPANIES INCLUDED IN CONSOLIDATION

The consolidated financial statements basically include all domestic and foreign subsidiaries in which Daimler-Benz AG (hereinafter referred to as DBAG) has a direct or indirect stock ownership of more than 50%. The consolidated financial statements, as submitted, and including DBAG, comprise 74 (last year 34) domestic companies and 178 (last year 102) foreign companies.

Through the acquisition of a majority interest in AEG Aktiengesellschaft, the number of companies included in consolidation has been enlarged by 40 domestic and 66 foreign companies. (Additional changes and a synopsis of consolidated companies can be seen on page 94).

PRINCIPLES OF CONSOLIDATION

Classification and Valuation

The individual domestic financial statements included in the consolidation were classified in compliance with the statutory requirements of the Company Act and were certified by our outside auditors. As in prior years, the individual foreign financial statements - which were prepared and certified in accordance with the laws of the respective countries - have, for consolidation purposes, been reclassified and revalued to conform to the presentation requirements of the Company Act.

The valuation methods followed by the Group were, within the vehicle sector, uniformly applied according to the principles and methods of DBAG (which we have explained in detail in the notes to financial statements of DBAG) and uniformly within the subgroup companies AEG, Dornier and MTU, according to the valuation methods of the respective parent company. Valuation adjustments made with respect to foreign financial statements resulted in changes to the respective national statement of income.

Currency Translation

The accounts of our foreign subsidiaries are translated into D-marks on the basis of historical exchange rates for fixed assets at the time of acquisition, and at year-end exchange rates for current assets, borrowed capital and unappropriated surplus. Stockholders' equity in D-marks is the remaining difference between translated assets less translated liabilities and appropriated surplus.

Because of foreign exchange fluctuations of individual local currencies vis-a-vis the D-mark between balance sheet dates, changes in the D-mark net equity occur when its amount differs from the amount of fixed assets translated at historical exchange rates. Particularly as a result of the exchange rate drop of the British, the Australian and the North and South American currencies vis-a-vis the D-mark, we had negative translation differences at these companies where portions of current assets are also financed through equity capital.Positive translation differences result from balance sheets in which portions of fixed assets and intercorporate investments are financed through outside borrowings. The net balance was a negative translation difference which was (with the exception of the foreign subsidiaries of AEG) charged to profit and loss. It thus neutralizes the inflationary profits, notably those of our South American companies. The translation difference from balance sheet items of the foreign subsidiaries of AEG has been charged to retained earnings.

Revenues and expenses are basically translated at average annual exchange rates (exception: historical rates for fixed asset depreciation charges, gains and losses from fixed asset disposals). Net income, additions to retained earnings and appropriated surplus, on the other hand, are converted and shown at year-end rates.At all our foreign subsidiaries, we have reflected the resulting translation difference in the income statement.

Capital Consolidation

Capital consolidation was effected according to the principle of "First Consolidation": the parent's acquisition costs are eliminated against the relevant share capital and retained earnings at acquisition.The differences resulting from this elimination are shown in the balance sheet as "Cost of Investments in Consolidated Subsidiaries in Excess of or Below Book Value at Acquisition".

Profits earned by foreign subsidiaries after date of acquisition, plus the unappropriated surplus for 1986 - excluding minority interests - are added to retained earnings. The result is that the unappropriated surplus of DM 702 million (last year DM 644 million), as shown in the consolidated financial statements, is identical to the unappropriated surplus of DBAG.

Other Eliminations

Inter-company receivables and payables of consolidated companies were eliminated; inter-company profits in fixed assets and in inventories were likewise eliminated. Write-downs for the decline in asset values of subsidiaries and inter-company valuation adjustments and provisions were eliminated in consolidation. Overall, these income effecting elimination measures have increased retained earnings.

The consolidated income statements are presented on a fully consolidated, detailed basis pursuant to Section 332 of the Company Act; i.e. inter-company sales and inter-company earnings were eliminated against the relevant cost of sales and expenses, respectively.

CONSOLIDATED BALANCE SHEET

Asset and Capital Structure

The Group's balance sheet total rose - largely as a result of the first-time inclusion of AEG - by one-third to DM 47.0 billion. DBAG is still accounting for one half of the Group's assets, even in the enlarged group.

Fixed assets, including "Cost of Investments in Excess of Book Value at Acquisition", rose by DM 1.9 billion to DM 12.1 billion. Its share in terms of the balance sheet total nevertheless declined to 26% (last year 29%) because AEG is less property intensive.

Stockholders' equity (capital stock, retained earnings, minority interests and special equity reserves) increased to DM 12.3 billion (last year DM 9.8 billion). Its share of total capitalization declined slightly to 26% (last year 27%). In 1986, fixed assets were fully financed by equity (last year 96%).

Borrowed capital rose to DM 34.4 billion (last year DM 25.8 billion). As in the previous year, about half pertained to provisions.

Assets

Property, Plant and Equipment

The increase of property, plant and equipment by DM 1,865 million to DM 9,960 million was based on additions of DM 5,408 million, less depreciation and disposals totaling DM 3,543 million.DBAG and the first-time inclusion of AEG in consolidation accounted for DM 1,803 million and DM 1,892 million respectively of total additions.

Investments in Affiliated Companies

The book value of non-consolidated companies of DM 416 million pertains largely to ownership in TELENORMA Beteiligungsgesellschaft mbH & Co., Frankfurt am Main, and to Telefunken electronic GmbH, Heilbronn, both of which are held by AEG.The year-earlier amount of DM 1,042 million was still inclusive of the nearly 25% ownership in AEG Aktiengesellschaft.

Cost of Investments in Excess of Book Value at Acquisition

This amount represents the difference between the cost of investments in subsidiaries and their book value at the time of acquisition.Netting DM 1,432 million (last year DM 778 million) of excess purchase price over net assets and DM 115 million (last year DM 115 million) of purchase price below net assets resulted in a net debit of DM 1,317 million (last year DM 663 million).

The increase in this balance sheet caption by DM 654 million during the reporting year was almost exclusively due to the first-time inclusion in consolidation of AEG.

The debit amounts represented acquisition costs in excess of book value; they resulted from the purchase of goodwill and the differences between the depreciated replacement costs and the book value of assets at the time of acquisition.The credit amounts arose largely from the purchase of our South American subsidiaries in the 1950's when portions of the contractual capital stock increase were paid for with tangible fixed assets (particularly machinery and equipment).

Inventories

The Group's inventories rose DM 2,940 million to DM 10,117 million. About one half of inventories pertained to the vehicle sector, the other half to other sectors of the Group.

Advance Payments to Suppliers other than for Fixed Assets

The increase in advance payments to DM 922 million (last year DM 479 million) was largely due to Dornier and the first-time inclusion in consolidation of AEG. Advance payments were made chiefly to subcontractors for long-term projects of AEG, Dornier and MTU.

Receivables

The increase in trade and notes receivable by DM 2,562 million to DM 7,663 million was above all due to the enlargement of the Group by AEG. Of this total, DM 4,223 million pertains to the car sector and DM 1,206 million to finance and leasing companies.

Cash and Temporary Investments

The increase in cash and temporary investments by DM 1,909 million to DM 9,339 million is largely due to DBAG and the first-time consolidation of AEG. Further liquid funds were invested in short- and medium-term debt instruments which, as in prior years, are shown under "other assets"; there, they represent by far the single largest individual item amounting to DM 5,329 million (last year DM 4,183 million).

Stockholders' Equity and Liabilities

Capital Stock and Retained Earnings

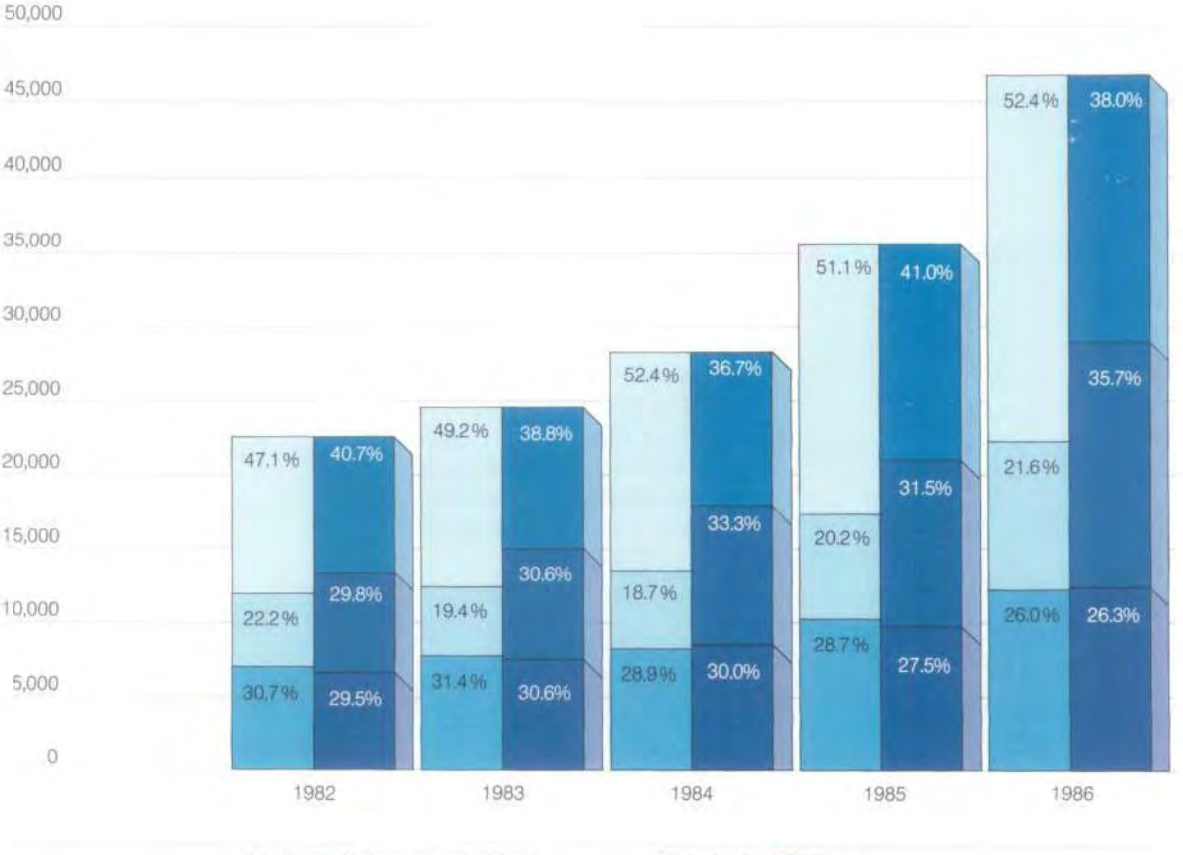
The consolidated balance sheet shows the basic share capital which is identical to the common and preferred share capital of DBAG totaling DM 2,118 million, an increase of DM 419 million over last year.

Paid-in surplus was increased by DM 358 million to DM 368 million as a result of the amounts received in excess of par value in connection with the 1986 capital stock increase.

Consolidated retained earnings of DM 8,428 million comprise the retained earnings of DBAG and proportionate retained earnings, unappropriated surplus or deficits earned or incurred by subsidiaries from the dates of their acquisition. Moreover, elimination amounts affecting income are debited or credited here.

Balance Sheet Structure Daimler-Benz Group

(in millions of DM)	1982	1983	1984	1985	1986
Balance Sheet Total*)	**22,696**	**24,635**	**28,418**	**35,572**	**46,729**
Assets					
Cash and receivables*)	10,698	12,114	14,880	18,186	24,464
Inventories	5,040	4,778	5,310	7,177	10,117
Fixed assets	6,958	7,743	8,228	10,209	12,148
Stockholders' Equity and Liabilities					
Short-term liabilities	9,225	9,554	10,436	14,602	17,772
Medium and long-term liabilities	6,768	7,534	9,452	11,201	16,663
Stockholders' equity	6,703	7,547	8,530	9,769	12,294



*) Reduced by the lump-sum allowance for doubtful accounts.

Minority Interest in Subsidiaries

This balance sheet caption comprises outside third-party ownership in the net equity and unappropriated surplus/deficit of consolidated companies. The balance sheet amount increased by DM 920 million to DM 1,251 million and pertains largely to AEG.

Special Equity Reserves

Special equity reserves amounted to DM 394 million (last year DM 502 million). DBAG accounted for DM 265 million and Mercedes-Benz France for DM 61 million of the total.

Lump-Sum Allowance for Doubtful Accounts

The lump-sum allowance for doubtful accounts, which is established to cover the general credit risk at home and abroad, ranges from 1% to 10% of total receivables and differs from country to country. This balance sheet caption increased by DM 74 million to DM 282 million.

Provisions

Provisions rose DM 4,446 million to DM 18,118 million. The increase resulted largely from the inclusion of AEG, and increases at DBAG. More than half of the provisions pertained to pension obligations of which again 68% were accounted for by DBAG and 25% by AEG.

Other provisions totaled DM 8,641 million, of which 50% were set up by DBAG alone.

These provisions were set up for worldwide warranty obligations, for liability and litigation risks, and for possible losses inherent in pending business transactions. Moreover, this caption includes obligations in the social benefit area and obligations arising from outstanding tax assessments.

Long-Term Liabilities

Long-term liabilities maturing in more than four years rose DM 969 million to DM 1,907 million. The increase was, to a large extent, attributable to the issuance of a foreign DM debenture in the amount of DM 500 million by our Netherlands finance company; an additional DM 270 million was attributable to the inclusion in consolidation of AEG.

Other Liabilities

The increase in these liabilities by DM 3,174 million to DM 13,303 million is largely attributable to the inclusion in consolidation of AEG. Particularly the increase by DM 1,555 million in "advance payments received" was of consequence here. These advance payments are given by contractors for orders which are executed over a longer timeframe. Of the balance sheet caption "other liabilities", 56% pertains to the automotive sector, and about 44% to other sectors in the Group.

*

Contingent Liabilities

The obligations from the endorsement and assignment of notes receivable amounted to DM 224 million. Pledges amounted to DM 178 million. Guarantees, totaling DM 4 million, which are similar to surety-type obligations, have been given essentially by one domestic subsidiary to foreign banks. Payment guarantees for outside indebtedness amounted to DM 6 million.

There existed liabilities in the amount of DM 15 million arising from stock subscriptions, from capital subscriptions in "Close Corporations" (Section 24 of the GmbH Act), and from guarantees of cooperatives owned by consolidated companies. Pledges totaling DM 50 million were made for liabilities of consolidated companies.

One foreign subsidiary has given customary payment guarantees within the scope of its sales financing activities. At one domestic subsidiary, there existed a possible liability, the amount for which is not determinable, for the completion of contractual obligations in connection with a joint production program entered into with foreign business partners.

CONSOLIDATED STATEMENT OF INCOME

Total Output

Total Group output (net sales plus increase in inventories and other capitalized in-house output) rose by 24% to DM 66,415 million, net sales by 25% to DM 65,498 million (last year DM 52,409 million). Of this DM 13,089 million increase - after elimination of inter-company sales - DM 11,070 million pertains to AEG alone. Sales of Dornier and MTU are, for the first time, included for the full year, while last year, they were included from the date of acquisition.

Cost of Materials, etc.

The increase in cost of materials, etc. by 22% to DM 33,349 million (last year DM 27,245 million) was - when measured against total output - slightly disproportional since the production at AEG is less material intensive in comparison to the automotive sector.

Net Interest Income

The business year just ended showed net interest income of DM 855 million (last year DM 1,017 million). It is derived from interest income of DM 1,332 million (last year DM 1,522 million), and interest expense of DM 477 million (last year DM 505 million). The decrease in net interest income was largely due to lower interest levels worldwide. The increase in liquid assets, particularly at year end, could not fully offset this decline.

In the automotive sector, as in the previous year, we offset the inflationary profits inherent in the interest income earned in the high-inflation countries of Argentina and Brazil with the charges resulting from the currency translation of equity financed liquidity of our subsidiaries there.The largest portion of inflationary profits was thus eliminated from interest income.

Other Income

The income summarized under this caption rose to DM 1,051 million (last year DM 868 million). The increase was largely due to the first-time inclusion of AEG. Other income is inclusive of exchange profits from export sales by our South American subsidiaries, income from leases and rentals, profits from sales of securities and the dissolution of individual valuation reserves.

Personnel Expenses Including Old-Age Pension

Wages, salaries and social security levies increased - particularly due to the inclusion of AEG-to DM 18,077 million (last year DM 12,794 million).

The expenses for old-age pension increased DM 417 million to DM 1,281 million.The increase also occurred mostly at AEG.

Taxes on Income and on Net Assets

Taxes on income and on net assets declined DM 307 million to DM 4,034 million (last year DM 4,341 million) due to contrary trends. Higher tax expenses at DBAG are contrasted with, to some extent, exchange-related reductions in tax expenses at foreign automotive subsidiaries.

Other Expenses

This summary caption rose, particularly as a result of the inclusion of AEG, by DM 1,122 million to DM 6,825 million. It encompasses mainly administrative and selling expenses including sales commissions, additions to provisions, freight out, packaging, rental and lease expenses, and charges resulting from currency translations inasmuch as they are not netted with the inflationary portion comprised in interest income, or are not netted with retained earnings.

Consolidated Net Income

Consolidated net income rose to DM 1,767 million (last year DM 1,682 million). DBAG's net income of DM 1,404 million (last year DM 1,252 million) represented a substantial portion thereof.

FINANCIAL POSITION

The financial position of the Daimler-Benz Group improved further in 1986. Net liquidity rose - also as a result of the first-time inclusion of AEG - by DM 3.0 billion (last year DM 2.2 billion) to DM 13.6 billion. DBAG alone accounted for DM 1.9 billion of the increase.

Funds applied, and amounting to DM 12.4 billion, were more than one-third higher than in the previous year. Nearly 60% thereof could be financed through the cash flow of DM 7.1 billion earned during the reporting year; the year-end 1985 balance sheet amounts of AEG have been excluded from this calculation.

The cash flow was DM 1.5 billion higher than the net expenditures for investments in property, plant and equipment, and in long-term financial assets. Without that portion of fixed and financial assets, which were on the book of AEG at the end of 1985, and which had already been financed there, the excess cash flow amounted to DM 2.9 billion.

Within the financing and investment activities, "advance payments received" increased strongly. The DM 1.6 billion increase resulted primarily from the first-time inclusion in consolidation of AEG.

Consolidated Statement of Changes in Financial Position 1986 (in millions of DM)

Sources of Funds		
From business activities		
Net income	+1,767	
Reduction of the equity portion included in special equity reserves	– 77	
Depreciation of fixed assets (reduced by revaluations)	+3,338	
Fixed asset disposals	+ 303	
Increase in pension provisions	+ 953	
Increase in medium-term and long-term other provisions	+ 776	
Cash Flow [1]		**+ 7,060**
From external financing activities		
Increase in balance sheet captions related to equity	+1,433 [2]	
Increase in long-term liabilities	+ 969	
Increase in other medium and long-term liability items	+2,801	
Increase in short-term liabilities	+1,522	
Increase in advance payments received	+1,555	
		+ 8,280
Application of Funds		
Additions to property, plant and equipment (reduced by revaluations)	–5,385	
Net additions to financial assets (including cost of investments in consolidated subsidiaries below book value at acquisition)	– 195	
Increase in inventories	–2,940	
Increase in advance payments to suppliers	– 443	
Net increase in other current assets	–2,780	
Reduction in special equity reserves	– 38	
Reduction in short-term provisions	– 84	
Dividend 1985	– 491	
		–12,356
Change in Net Liquidity		**+ 2,984**

Analysis of Change in Net Liquidity

	12/31/85	12/31/86	Change
Cash	3,567	4,335	+ 768
Marketable securities	3,864	5,004	+ 1,140
Other liquidity	4,183	5,329	+ 1,146
Decrease in short-term liabilities to financial institutions	– 984	–1,054	– 70
	10,630	**13,614**	**+ 2,984**

1) Excluding the balance sheet amounts of AEG shown there at 12/31/85.
2) Of which, capital contribution DM 534 million.

COMPANIES INCLUDED IN CONSOLIDATION[1])

The additions of companies included in consolidation have been noted at the respective companies. Deletions occurred through the mergers of Frankenthaler Wohnungsbau-GmbH with Kuehnle, Kopp und Kausch AG, and a retail store in Belgium with Mercedes-Benz Belgium.

Companies with no or only negligible business activities were not consolidated. These companies had no transactions which would have had a material effect on the corporation's consolidated financial statements.

The following companies (Provident Funds), which are providing old-age pension benefits to our employees, were not included in consolidation because they are not considered subsidiaries under the law (Section 18, Sub-Section 1, Clause 1, of the Company Act), or, due to the insignificant amounts involved, would not have any material effect on the consolidated financial statements:

Daimler-Benz Unterstuetzungskasse GmbH, Stuttgart

Holzindustrie Bruchsal Unterstuetzungskasse GmbH, Bruchsal

Bruehler Unterstuetzungsgesellschaft mbH der Wuerttembergischen Baumwoll-Spinnerei und -Weberei bei Esslingen a.N., Esslingen a.N.

AIK Versorgungseinrichtung GmbH, Kassel

DEBEG Versorgungseinrichtung GmbH, Hamburg

ELEKLUFT Versorgungseinrichtung GmbH, Bonn

TELEFUNKEN Versorgungseinrichtung GmbH, Berlin

Domier-Hilfe GmbH, Friedrichshafen.

MTU Muenchen Unterstuetzungskasse GmbH, Muenchen

Karl Maybach-Hilfe GmbH, Friedrichshafen

L'Orange Unterstuetzungskasse GmbH, Glatten

Consolidated Companies of the Automotive Sector

Daimler-Benz Aktiengesellschaft, Stuttgart

Maschinenfabrik Esslingen AG, Esslingen a.N.

- Motoren- und Aggregatewartung GmbH, Stuttgart

Mercedes-Leasing-GmbH, Stuttgart

Porcher & Meffert GmbH, Stuttgart

Daimler-Benz-Wohnungsbau GmbH, Stuttgart

Daimler-Benz Project Consult GmbH, Stuttgart

Holzindustrie Bruchsal GmbH, Bruchsal

Industriehandel Handels- und Industrieausruestungsgesellschaft mbH, Stuttgart

Industrie- und Handelsbeteiligungen GmbH, Stuttgart

- Mercedes-EDV-Beratung GmbH, Weinheim

Hanomag-Henschel GmbH, Hannover

IMH-Institut fuer Motorenbau Prof. Huber GmbH, Muenchen[2)]

Daimler-Benz Grundstuecksgesellschaft Hamburg mbH, Sitz Stuttgart

Daimler-Benz Grundstuecksgesellschaft Bremen mbH, Sitz Suttgart

Daimler-Benz Services GmbH, Stuttgart

Hans Braun GmbH, Nuernberg

Mercedes-Versicherungsdienst GmbH, Stuttgart

Mercedes-Benz do Brasil S.A., Sao Bernardo do Campo/Brasil

- Sociedade Tecnica de Fundicoes Gerais S.A., Sao Paulo/Brasil
- as well as one sales company and one property company

Mercedes-Benz Argentina S.A, Buenos Aires/Argentina

- and one finance company and one property company.

Mercedes-Benz Espana S.A., Madrid/Spain

- Comercial Mercedes-Benz S.A., Madrid/Spain
- Importacion y Comercializacion de Automoviles S.A., Madrid/Spain.[2)]
- and two dealerships

Daimler-Benz of North America Holding Company, Inc., New York/U.S.A.

- Freightliner Corporation, Portland/U.S.A.
  - Mercedes-Benz Truck Company, Inc., Portland/U.S.A.
  - Consolidated Metco, Inc., Portland/U.S.A.
  - Freightliner of Canada, Ltd., Burnaby/Canada
  - and a finance company
- Mercedes-Benz of North America, Inc., Montvale/U.S.A.
  - and a service company, one property company and two dealerships
- Mercedes-Benz Credit Corporation, Norwalk/U.S.A.
  - Mercedes-Benz Credit of Canada Inc., Norwalk/U.S.A.
- Mercedes-Benz Canada Inc., Toronto/Canada

Mercedes-Benz of South Africa (Pty.) Ltd., Pretoria/Republic of South Africa

- Car Distributors Assembly (Pty.) Ltd., East London/Republic of South Africa
- Mercedes-Benz Exchange Unit Services (Pty.) Ltd., Johannesburg/Republic of South Africa
- and eleven property companies

Star Auto S.A., Abidjan/Ivory Coast[2)]

P.T. Star Engines Indonesia, Jakarta/Indonesia

1) Some Group companies have been included on the basis of preconsolidated statements.
2) Added to consolidation in 1986.

SOFIDEL SA, Rocquencourt/France

Mercedes-Benz France S.A., Rocquencourt/France

and eight dealerships and seven property companies

Mercedes-Benz (United Kingdom) Ltd., Milton Keynes/United Kingdom

and one property company and four dealerships

Daimler-Benz Holding Belgium S.A./N.V., Brussels/Belgium

Mercedes-Benz Belgium S.A./N.V., Brussels/Belgium

and two dealerships

Mercedes-Benz Finance Belgium S.A./N.V.. Brussels/Belgium

Mercedes-Benz Italia S.pA, Rome/Italy

Immobiliare Finanziaria Campo nell' Elba S.r.L, Milan/Italy[1)]

Mercedes-Benz Japan Co. Ltd., Tokyo/Japan[1)]

Daimler-Benz Holding Nederland B.V., Utrecht/Netherlands[1)]

Mercedes-Benz Leasing Nederland B.V., Utrecht/Netherlands[1)]

AGAM Financiering B.V, Utrecht/Netherlands

and one finance and two service companies

Daimler-Benz International Finance B.V. Utrecht/Netherlands[1)]

Daimler-Benz (Australia) Pty. Ltd., Mulgrave/Australia

Mercedes-Benz (Australia) Pty. Ltd., Mulgrave/Australia

and one property company and two dealerships

Mercedes-Benz Hellas S.A., Athens/Greece

Daimler-Benz Holding AG, Zuerich/Switzerland

Mercedes-Benz Nederland B.V., Utrecht/Netherlands

and one dealership and one property company

Mercedes-Benz (Schweiz) AG, Zuerich/Switzerland

Mercedes-Benz Credit AG, Zuerich/Switzerland

FBW-Fahrzeug AG, Wetzikon/Switzerland[1)]

and one property company and four finance companies

Automercantil Venezolana SA, Caracas/Venezuela

UBG-Beratungsgesellschaft mbH, Graz/Austria

Consolidated Companies of the AEG Sub-Group[1])

AEG Aktiengesellschaft, Berlin and Frankfurt am Main

OLYMPIA Aktiengesellschaft, Wilhelmshaven

Olympia (Aust.) Pty. Ltd., Artarmon/Australia

Olympia N.V. - SA, Groot-Bijgaarden/Belgium

Olympia Business Machines Canada Ltd., Don Mills/Canada

Olympia (Chile) Ltda. Santiago de Chile/Chile

Olympia Kontormaskiner A/S, Kopenhagen/Denmark

Olympia France S.A., Clamart/France

Olympia Business Machines Co. Ltd., London/United Kingdom

Olympia Office Machines (H.K.) Ltd., Hongkong/Hongkong

Olympia Italiana S.pA, Milan/Italy

Olympia Machines de Bureau S.A., Luxembourg/Luxembourg

Olympia Maquinas de Oficina S.A., Madrid/Spain

Olympia Cataluna S.A, Barcelona/Spain

Olympia de Mexico S.A., Los Reyes/Mexico

Olympia Bueromaschinen Ges. mbH, Vienna/Austria

Olympia Bueromaschinen AG, Ruemlang/Switzerland

Olympia (South Africa) (Pty.) Ltd., Johannesburg/Republic of South Africa

Olympia USA Inc., Somerville/U.SA

Tinzenhorn AG, Chur/Switzerland

Olympia Mexicana S.A, Mexico D.F./Mexico

AEG Elektrowerkzeuge GmbH, Winnenden

AEG Power Tool Corporation, New London/U.SA

Modular Computer Systems, Inc., Fort Lauderdale/U.S.A.

MODCOMP Canada Ltd, Mississauga/Canada

MODCOMP France S.A.R.L, Rungis/France

Modular Computer Systems Nederland B.V, Utrecht/Netherlands

Modular Computer Services, Inc., Wokingham/United Kingdom

MODCOMP Service Corporation, Fort Lauderdale/U.S.A.

Communications Maintenance, Inc., Houston, U.S.A.

Modular Computer Systems Holding Ltd, Hamilton/Bermuda

Modular Computer Systems Ireland Ltd, Cork/Ireland

International Systems Ventures, Inc., Fort Lauderdale/U.S.A.

Modular Computer Systems GmbH, Hamburg

AEG KABEL Aktiengesellschaft, Moenchengladbach

AEG Isolier- und Kunststoff GmbH, Kassel

Kupfer-Walzwerk Berlin GmbH, Berlin

Dekatra Transportgesellschaft mbH, Moenchengladbach

"HIRSCH" Kupfer- und Messingwerke GmbH, Moenchengladbach

Betefa Berliner Telefonschnur- und Spezialkabel-Fabrik GmbH, Berlin

KWR Kabelwerk Rheydt GmbH, Moenchengladbach

VDK Vereinigte Draht- und Kabelwerke GmbH, Duisburg

AEG KANIS GmbH, Nuernberg

DUOFROST Kuehl- und Gefriergeraete GmbH, Wiesbaden

Eltro GmbH Gesellschaft fuer Strahlungstechnik, Heidelberg

Sachsenwerk Aktiengesellschaft, Regensburg

Feinmechanische Werke Mainz GmbH, Mainz

ELEKLUFT Elektronik- und Luftfahrtgeraete GmbH, Bonn

Lloyd Dynamowerke GmbH, Bremen

DEBEG GmbH, Hamburg and Berlin

Marine Elektronik Schiffselektronische Anlagen GmbH, Hamburg

1) Added to consolidation in 1986.

Elektro-Mechanik GmbH, Wenden

BST Servo-Technik GmbH, Bielefeld

AEG Electrotecnica Construction GmbH, Frankfurt am Main

Electrotecnica Construction GmbH, Frankfurt am Main

Elektron Versorgungsverwaltung GmbH, Frankfurt am Main

ATM Computer GmbH, Constance

Hydra Vermoegensverwaltung GmbH, Berlin

AEG Software-Technik GmbH & Co. KG, Berlin

IFM Internationale Fluggeraete und Motoren GmbH, Weinheim

AEG Aniagenexportgesellschaft mbH, Frankfurt am Main

PGS Planungsgesellschaft mbH Architekten Ingenieure, Frankfurt am Main

FABEG GmbH, Bretten

EAS Assekuranz Vermittlungs-GmbH, Frankfurt am Main

BRV Beratungsgesellschaft fuer Risikovorsorge im industriellen Bereich mbH, Frankfurt am Main

Werbeagentur Dr. Kuhl GmbH, Frankfurt am Main

Elektrochemie GmbH, Frankfurt am Main

AEG Software-Technik Verwaltungsgesellschaft mbH, Berlin

TELEFUNKEN Patentverwertungsgesellschaft mbH, Ulm

AEG International AG, Zuerich/Switzerland

AEG Iberica de Electricidad S.A., Madrid/Spain

OTEMA S.A., Madrid/Spain

AEG Finanz-Holding S.A, Luxembourg/Luxembourg

S.A. beige AEG, Brussels/ Belgium

AEG Fabrica de Motores S.A., Terrassa/Spain

AEG Industriemotoren-Vertriebs-GmbH, Stuttgart

AEG Austria Gesellschaft mbH, Vienna/Austria

AEG do Brasil S.A., Sao Paulo/ Brazil

TELEFUNKEN Radio e Televisao Ltda. Sao Paulo/Brazil

TELEFUNKEN da Amazonia S.A., Manaus/Brazil

AEG Sistemas Industrials Ltda., Sao Paulo/Brazil

AEG France S.A., Clamart/France

AEG Italiana S.p.A., Milan/Italy

AEG (U.K.) Ltd., Slough/ United Kingdom

AEG Interfinanz AG, Zuerich/ Switzerland

AEG ETI Elektrik Enduestrisi A.S., Istanbul/Turkey

AEG Nederland N.V., Amsterdam/ Netherlands

AEG Norge A/S, Oslo/Norway

AEG Bayly Inc., Ajax/Canada

AEG Dansk Aktieselskab, Kopenhagen/Denmark

TELAEG A/S; Oslo/Norway

AEG (Pty.) Ltd., Johannesburg/ Republic of South Africa

AEG Hellas Viomichania llektrikon Kataskevon A.E., Athens/Greece

AEG Argentina S.A.I.y.C, Buenos Aires/Argentina

AEG Venezolana S.A., Caracas/ Venezuela

AEG Luxembourg S.a.r.L, Luxembourg/Luxembourg

AEG Portuguesa S.A.R.L, Lisboa/ Portugal

AEG Pakistan (Private) Limited, Karachi/Pakistan

AEG Hausgeraete AG, Zuerich/ Switzerland

AEG Mexicana S.A. de C.V., Mexico, D.F./Mexico

Montajes y Reparaciones S.A., Mexico, DF/Mexico

AEG Genet Elektrik T.A.S., Istanbul/ Turkey

Robotecnica S.r.L, Sesto San Giovanni /Italy

AEG Corporation, Somerville/U.S.A.

Officine Galileo di Sicilia S.p.A., Milazzo/Italy

Compagnia Generale Contatori Co.Ge.S.pA, Milan/Italy

Consolidated Companies of the Dornier Sub-Group

Dornier GmbH, Friedrichshafen

Dornier System GmbH, Friedrichshafen

Dornier Reparaturwerft GmbH, Oberpfaffenhofen

Dornier International GmbH, Munich/Oberpfaffenhofen

Dornier Medizintechnik GmbH, Munich

Dornier Medical Systems, Company Ltd., Tokyo/Japan[1])

and one sales company

Art & Media Werbeagentur GmbH, Friedrichshafen

DIV Dornier Industrie Versicherungsvermittlung GmbH, Friedrichshafen

Dornier Aviation (North America), Inc., Arlington/U.S.A.[1])

Dornier Aviation Marketing Support, Inc., Arlington/U.S.A.[1])

Consolidated Companies of the MTU Sub-Group

MTU Motoren und Turbinen-Union Muenchen GmbH, Munich

MTU Motoren- und Turbinen-Union Friedrichshafen GmbH, Friedrichshafen

and five production and sales companies

Aktiengesellschaft Kuehnle, Kopp & Kausch, Frankenthal/Pfalz

FVG Frankenthaler Versicherungs-Vermittlungs-Gesellschaft mbH, Frankenthal/Pfalz

and one sales company

MTU Maintenance GmbH, Langenhagen bei Hannover

L'Orange GmbH, Stuttgart

MTU Informationssystems GmbH Beratung - Software - Computerservice - Anlagenvermietung, Munich

Entwicklungsgesellschaft fuer Turbomotoren mbH, Munich

MTU-Versicherungsvermittlungs- und Wirtschaftsdienst-GmbH, Munich

and one property company and one manufacturing company

1) Added to consolidation in 1986.

Financial Statements Daimler-Benz AG

Balance Sheet of Daimler-Benz AG as at December 31, 1986

ASSETS

	Balance Jan. 1, 1986	Additions	Transfers	Disposals	Depreciation allowances	Balance Dec. 31, 1986	Balance Dec. 31, 1985 in thousands of DM
	DM	DM	DM	DM	DM	DM	
Fixed and Financial Assets							
Property, Plant and Equipment							
Land and equivalent titles							
with office, factory and other buildings	2,281,175,855	195,537,984	+ 68,383,423	10,343,875	327,082,810	2,207,670,577	2,281,176
with residential buildings	14,726,724	2,514,949	– 2,949,600	857,998	2,997,550	10,436,525	14,727
without buildings	1,381,963	–	– 19,610	–	–	1,362,353	1,382
Buildings on land owned by others	22,787,551	2,092,136	– 67,965	3,170	3,629,072	21,179,480	22,787
Machinery and plant	1,051,199,876	413,490,876	+ 136,022,278	7,674,264	805,543,293	787,495,473	1,051,200
Factory and office equipment	442,063,578	603,573,886	+ 25,166,036	17,362,861	708,093,214	345,347,425	442,064
Construction in progress and advance payments relating to buildings and plants	394,565,006	586,095,120	– 226,534,562	–	26,631,030	727,494,534	394,565
	4,207,900,553	1,803,304,951	–	36,242,168	1,873,976,969	4,100,986,367	4,207,901
Financial Assets							
Investments in subsidiaries and affiliated companies	2,867,699,307	1,304,922,514	–	105,281,730	438,551,685	3,628,788,406	2,867,699
Investments in long-term securities	172,091,990	28,296,124	–	2,055,166	12,655,288	185,677,660	172,092
Loans made for a term of at least four years	1,957,296	1,238,467	–	270,448	50,000	2,875,315	1,957
of which secured by mortgage DM 1,527,394 (last year DM 645,345)							
	3,041,748,593	1,334,457,105	–	107,607,344	451,256,973	3,817,341,381	3,041,748
	7,249,649,146	**3,137,762,056**	**–**	**143,849,512**	**2,325,233,942**	**7,918,327,748**	7,249,649
Current Assets							
Inventories							
Raw materials and manufacturing supplies						795,825,923	620,156
Work in process						874,057,396	823,193
Finished goods, and goods purchased for resale						1,097,764,029	1,008,684
Spare parts						582,563,470	596,003
						3,350,210,818	3,248,036
Other Current Assets							
Advance payments to suppliers other than for fixed assets						50,433,468	44,090
Receivables for goods sold and services rendered						1,702,528,805	1,652,970
of which receivables maturing in more than one year	DM 23,096,487 (last year DM 30,978,260)						
Notes receivable						908,709,279	881,731
of which: from affiliated companies	DM 762,845,197 (last year DM 711,352,279)						
discountable at German Federal Reserve Bank	DM 21,039,345 (last year DM 27,083,926)						
maturing in more than one year	DM 53,129,111 (last year DM 67,747,993)						
Checks						309,552	1
Cash on hand, in German Federal Reserve Bank and in post office checking accounts						4,109,676	3,988
Cash in banks						1,074,927,306	1,042,977
Temporary investments in securities						3,194,145,623	3,099,563
Treasury stock	par value DM 2,664,900 (last year DM 2,783,100)					35,645,881	34,511
Receivables from affiliated companies						1,197,687,490	1,161,939
Receivables from members of the Board of Management etc. (Section 89 of the Company Act)						31,157,086	11,831
Other current assets						4,741,151,847	3,481,407
						12,940,806,013	11,534,029
Prepaid and Deferred Charges						**9,024,972**	9,805
Total Assets						**24,218,369,551**	22,041,519

STOCKHOLDERS' EQUITY AND LIABILITIES

			Balance Dec. 31, 1986	
		DM	DM	
Basic Share Capital				
Common stock	42,313,132 votes		2,115,656,600	
Preferred stock	43,920 votes		2,196,000	
in special cases of Section 17 of the bylaws	1,317,600 votes			
			2,117,852,600	1,698,695
Retained Earnings, as Allocated				
Allocated under statute				
Balance at beginning of period		170,557,916		
Amount received in excess of par value		357,756,610	528,314,526	
Allocated for treasury stock				
Balance at beginning of period		34,510,440		
Transfer from unallocated retained earnings		1,135,441	35,645,881	
Unallocated				
Balance at beginning of period		4,196,071,565		
Transfer from 1985 unappropriated surplus as approved by shareholders July 2, 1986		104,797,313		
Transfer to basic share capital for stock dividend		– 242,670,600		
Transfer from net income		702,003,000		
Transfer to retained earnings allocated for treasury stock		– 1,135,441	4,759,065,837	
			5,323,026,244	4,401,140
Special Equity Reserves			**264,781,726**	391,613
Reserves pursuant to Section 3 of the Foreign Investment Law, Section 1 of the Tax Act with respect to Developing Countries, Section 6b of the Income Tax Act, Section 74 of the Income Tax Regulations, Subsection 35 of the Income Tax Guidelines				
Lump-Sum Allowance for Doubtful Accounts			**135,350,000**	147,500
Provisions				
Old-age pensions			6,295,754,970	
Deferred maintenance			165,500,000	
Other			4,294,120,000	
			10,755,374,970	9,973,474
Liabilities With a Term of at Least Four Years				
Liabilities to banks			137,797,784	
of which secured by mortgage	DM 137,797,784 (last year DM 150,886,036)			
Other liabilities			23,457,149	
Due within four years	DM 94,666,361 (last year DM 93,341,619)			
			161,254,933	165,987
Liabilities to the Daimler-Benz Unterstuetzungskasse (Provident Fund) GmbH, Stuttgart			**15,104,874**	3,968
Other Liabilities				
Accounts payable-trade			2,013,316,234	
Notes payable			–	
Bank loans			–	
Advance payments received			146,644,815	
Accounts payable to affiliated companies			123,514,794	
Other liabilities			2,420,812,181	
			4,704,288,024	4,577,860
Deferred Credits			**39,332,780**	37,334
Unappropriated Surplus			**702,003,400**	643,948

	1986	1985
	DM	DM
Contingent liabilities:		
Trade acceptances	17,866,715	17,866,781
Guarantees	336,460,480	380,423,251
Payment guarantees for the bonds of		
Daimler-Benz International Finance B.V., Utrecht, Netherlands, DM-bond	500,000,000	–
Daimler-Benz Finanz-Holding S.A., Luxemburg, lfr-bond – lfr 250,000,000 –	–	12,240,000

Total Stockholders' Equity and Liabilities	**24.218.369.551**	22.041.519

Statement of Income of Daimler-Benz AG for the Year Ended December 31, 1986

		1986		
		DM	DM	
Sales		40,589,740,562		
Increase of work in process and finished goods inventories including spare parts		113,817,408	40,703,557,970	
Other capitalized in-house output			94,776,307	
Total Output			40,798,334,277	
Cost of raw materials and manufacturing supplies and of goods purchased for resale			20,706,460,489	
Excess of Total Output Over Cost of Raw Materials etc.			20,091,873,788	
Income transferred from affiliated companies under profit and loss pooling agreements		4,910,472		
Income from investments in affiliated companies		180,474,235		
Income from other financial investments		17,137,458		
Other interest and similar income		658,992,636		
Gain from disposal of fixed assets		35,925,615		
Gain from reduction of lump-sum allowance for doubtful accounts		12,150,000		
Gain from dissolution of provisions		314,507,491		
Gain from dissolution of special equity reserves		193,359,680		
Other income		217,616,753		
of which extraordinary DM 44,256,847 (last year DM 36,282,823)			1,635,074,340	
			21,726,948,128	
Wages and salaries		9,121,404,546		
Social security levies		1,433,946,513		
Expenditures for old-age pension and support payments to dependents		680,058,145		
Depreciation of fixed assets		1,873,976,969		
Write-down of financial assets		451,256,973		
Losses from reduction in value of or from sale of current assets, excluding inventories		154,295,704		
Losses from disposal or fixed assets		84,128,836		
Interest and similar charges		53,365,428		
Taxes				
a) on income and on net assets	DM 3,606,637,218			
of which payments for prior years which were covered by other provisions	DM 198,889,384			
	DM 3,407,747,834			
of which charged to controlled subsidiary companies	DM 12,686,696			
	DM 3,395,061,138			
b) other	DM 12,695,706	3,407,756,844		
Losses transferred from affiliates under profit and loss pooling agreements		1,846,985		
Additions to special equity reserves		66,528,418		
Other expenses		2,994,376,367	20,322,941,728	
Net Income			1,404,006,400	
Profit carried forward from last year			–	
			1,404,006,400	
Withdrawal from "retained earnings allocated for treasury stock"			–	
			1,404,006,400	
Transfer from net income to "retained earnings allocated under statute"			702,003,000	
Unappropriated Surplus			**702,003,400**	

In 1986, pension payments to retirees and payments to the Daimler-Benz Provident Fund GmbH for current obligations amounted to DM 161,263,787. In the following five years, payments-not considering adjustment obligations pursuant to Section 16 of the Corporation Pension Law-will in all likelihood be made amounting to 115%, 120%, 125%, 136%, 147% of this amount.

Stuttgart-Untertuerkheim, March 27,1987

Daimler-Benz Aktiengesellschaft
Board of Management

Breitschwerdt Reuter
Dinger Dürr Gentz Hinrichs
Hörnig Liener Niefer
Schäffler Sanner

The accounting, the annual financial statements and the management report, which we have examined with due care, comply with the law and the Company's bylaws.

Frankfurt (Main), April 15,1987

Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftspruefungsgesellschaft

Dr. Mueller Wirtschaftspruefer
Dr. Koschinsky Wirtschaftspruefer
(independent auditors)

Notes to Financial Statements of Daimler-Benz AG

BALANCE SHEET

Asset and Capital Structure

The increase of fixed and financial assets by DM .7 billion to DM 7.9 billion was due to additions of DM 3.1 billion - of which DM 1.8 billion pertained to property, plant and equipment and DM 1.3 billion to intercorporate investments, and deductions for depreciation allowances and disposals totaling DM 2.4 billion. The ratio of "property, plant and equipment, and intercorporate investments" to total assets remained unchanged at 33%. Current assets increased DM 1.5 billion to DM 16.3 billion. The DM 1.9 billion increase pertained to "other assets", "temporary investments in securities" and "inventories", while receivables - particularly from affiliated companies - declined by DM .4 billion.

Stockholders' equity (basic share capital, retained earnings and special equity reserves) rose DM 1.3 billion to DM 7.5 billion.Transfers were made from net income 1986 to "unallocated retained earnings" and from "profits carried forward from last year" to "retained earnings allocated for treasury stock" in the amount of DM.7 billion and DM.1 billion, respectively; a further DM .5 billion was derived from the 1986 capital stock increase representing capital contributed in excess of par value. Net equity in terms of total capitalization thus rose to 31 % (last year 28%).

Within borrowed capital, only the provisions rose substantially, i.e. by DM .8 billion to DM 10.8 billion; of this increase, DM .6 billion pertained to pension provisions and DM .2 billion to other provisions. The provisions now account for 44% (last year 45%) of total capitalization.

Fixed Asset Coverage

As a result of the noticeable increase of net equity, the ratio of "stockholders' equity" to "property plant and equipment, and intercorporate investments" has improved to 95% (last year 86%). The remaining fixed assets and substantial portions of current assets are financed by long and medium-term borrowed capital.

Assets

Property, Plant and Equipment

Property, plant and equipment decreased DM 107 million to DM 4,101 million, after fixed asset additions, and allowance for depreciation and disposals totaling DM 1,803 million and DM 1,910 million respectively. As in the previous year, property, plant and equipment was valued at acquisition or manufacturing costs, reduced by accumulated depreciation. The manufacturing costs of in-house produced property, plant and equipment comprise the costs for direct materials and labor plus applicable manufacturing overhead. Acquisition or manufacturing costs, respectively, are reduced by the investment tax credits earned. The opportunities for special tax-deductible depreciation allowances were fully utilized, mostly in connection with Section 7d of the Income Tax Act and Section 82d of the Income Tax Regulation(environmental protection and research and development investments), Section 14 of the Berlin Development Law, Section 3 of the Zonal Border Area Development Law and Section 6b of the Income Tax Act. We recorded unscheduled depreciation allowances totaling DM 90 million because of the expectations of sustained underutilization of individual production facilities in the truck sector.

Scheduled depreciation allowances were calculated generally using the following useful lives: 17 to 25 years for buildings, 10 to 17 years for site improvements, 3 to 10 years for machinery and plant, 2 to 10 years for factory and office equipment. Machinery used for multishift operations was depreciated using correspondingly lower useful lives.

Movable property with a useful life of 4 years or more is depreciated using the declining balance method. We change from the declining-balance method to the straight-line method of calculating depreciation when the equal distribution of the remaining net book value over the remaining useful life leads to higher depreciation amounts. Assets of small value are expensed in the year of acquisition.

Depreciation on 1986 additions, including transfers from construction in progress and advance payments relating to property, plant and equipment, and capitalized in prior years, was as follows:

	Additions including transfers in millions of DM	Depreciation in millions of DM
Land with office, factory and other buildings and leasehold rights	264	72
Buildings on land owned by others	2	1
Machinery and equipment	549	262
Factory and office equipment	629	420
Construction in progress and advance payments relating to buildings and plants	359	27
	1,803	**782**

Daimler-Benz has recorded leasehold rights in favor of third parties who have built factory and office buildings for our manufacturing plants and retail branches on land owned by the company. As of December 31, 1986, and unchanged from last year, there were 16 leasing agreements for buildings and improvements; payments for such leases amounted to DM 21.9 million (last year DM 20.2 million).

Intercorporate Investments

The balance sheet amount of intercorporate investments rose DM 761 million to DM 3,629 million.

The addition, amounting to DM 1,305 million, pertained with DM 1,058 million to domestic companies, i.e. primarily for added capital stock purchases in AEG Aktiengesellschaft, Berlin and Frankfurt am Main, in which we increased our share interest to 56%. Abroad, the additions amounted to DM 247 million. They pertained to the newly founded companies Daimler-Benz Holding Nederland B.V., Utrecht, Mercedes-Benz Japan Co., Ltd. Tokyo and to capital stock increases at Mercedes-Benz Espaha S.A., Madrid.

Deletions totaling DM 105 million were mainly due to the sale of our share interest in Allgemeine Verwaltungsgesellschaft fuer Industriebeteiligung mbH, Muenchen, which, after we had acquired a majority interest in AEG, was sold in accordance with the directives imposed by the Antitrust Department.

As in the previous year, intercorporate investments were valued according to the lower-of-cost-or-market principle.This lead to investment write-downs of DM 439 million (of which DM 70 million on acquisitions made in 1986). These write-downs were contrasted by gains of DM 193 million resulting from the dissolution of special equity reserves. The write-downs were made mainly at our companies in Spain, South Africa, Argentina, Mexico, Turkey and Nigeria because of the difficult economic situation - which at times was politically influenced - and unfavorable earnings prospects.

Inventories

Inventories increased DM 102 million to DM 3,350 million. Raw materials, manufacturing supplies and work in process inventories remained nearly unchanged, while finished goods and parts inventories increased slightly due to a higher car output and improvement in parts availability.

The methods of inventory valuation remained unchanged. Raw materials and manufacturing supplies were valued at the lower of cost or market. The valuation of finished goods included direct materials, direct labor and applicable manufacturing overhead. Reasonable deductions were made especially for obsolescence resulting from design changes or after longer storage periods.

Receivables

Receivables declined by DM 407 million to DM 3,809 million. While trade and notes receivables, at DM 69 million, increased only slightly, receivables from subsidiaries and affiliates decreased noticeably by DM 476 million. This was largely due to the debt repayment by Mercedes-Leasing-GmbH, which refinanced itself from funds received through a Dutch DM debenture issue.

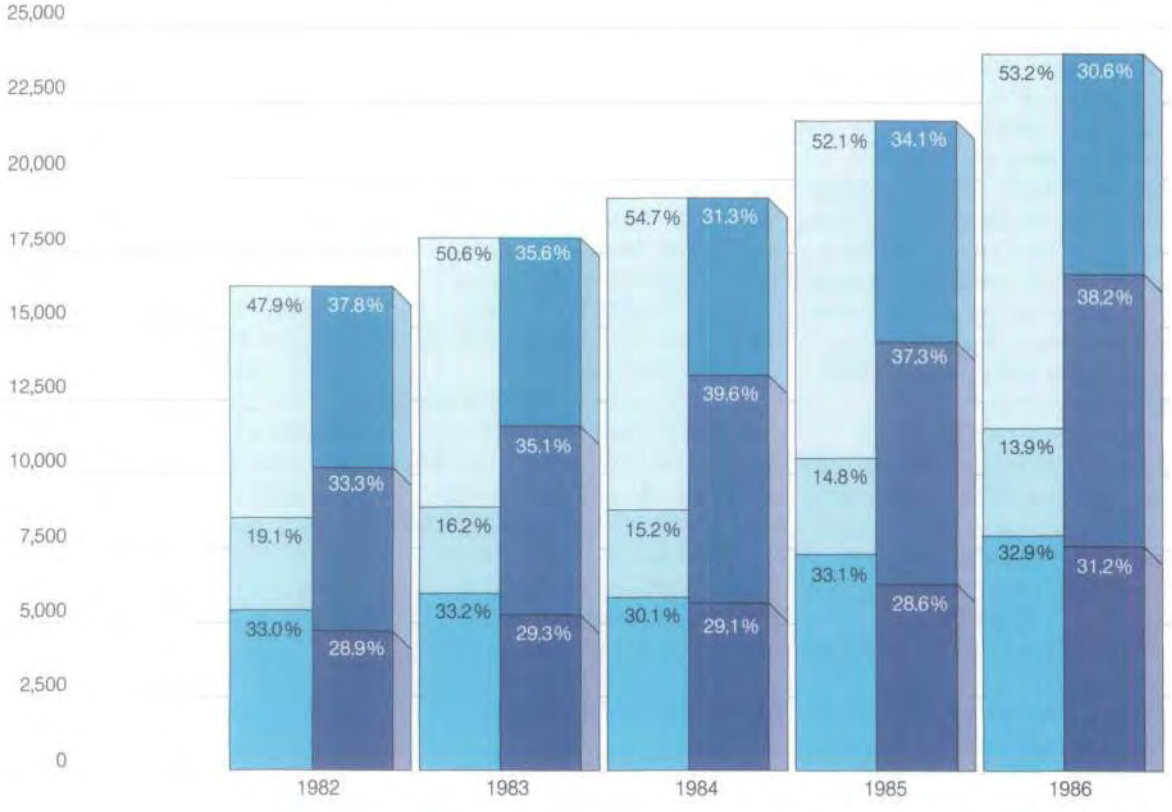
We reduced the amount of non-interest-bearing receivables by discounting them to maturity. In valuing our receivables, we have again made allowance for all known risks.

Cash and Temporary Investments in Marketable Securities

Cash and temporary investments amounted to DM 4,273 million as compared to DM 3,736 million in the previous year. Included therein is an amount of about DM 530 million resulting from cash con-

Balance Sheet Structure Daimler-Benz AG

(in millions of DM)	1982	1983	1984	1985	1986
Balance Sheet Total*)	**16,324**	**17,933**	**19,339**	**21,894**	**24,083**
Assets					
Cash and receivables*)	7,824	9,078	10,578	11,396	12,815
Inventories	3,121	2,898	2,934	3,248	3,350
Fixed assets	5,379	5,957	5,827	7,250	7,918
Stockholders' Equity and Liabilities					
Short-term liabilities	6,173	6,387	6,063	7,458	7,362
Medium and long-term liabilities	5,429	6,292	7,658	8,179	9,204
Stockholders' equity	4,722	5,254	5,618	6,257	7,517



*) Reduced by the lump-sum allowance for doubtful accounts.

tributions received in connection with the capital stock increase at the end of 1986. Additional liquid funds of DM 4,405 million (last year DM 3,079) million were invested in short and medium-term debt instruments, which represent by far the single largest item in the balance sheet caption "other assets."

Other Assets

This balance sheet caption increased DM 1,250 million to DM 4,741 million. It includes, apart from the liquid assets which have to be classified here, interest receivables, refund claims for added value tax, and receivables from leasing customers, etc.

Treasury Stock

For the purpose of issuing shares under the employee stock purchase plan, a total of 29,300 common shares (with a par value of DM 1.5 million = .07% of total common stock) was purchased during the year, at an average price of DM 1,439 a share, i.e. 14,300 shares in April, 10,000 in May and 5,000 in December. Treasury stock was increased by a further 6,038 common shares (with a par value of DM .3 million = .01 % of total common stock) as a result of the 1986 stock dividend.

In June of 1986,37,702 shares (with a par value of DM 1.9 million = .09% of total common stock) were sold to our employees at a preferential purchase price of DM 899 a share. As of December 31, 1986, we held 53,298 shares (with a par value of DM 2.7 million = .13% of total common stock) which had been purchased in 1985 and 1986, respectively. The shares were valued at DM 36 million.

Stockholders' Equity and Liabilities

Basic Share Capital and Retained Earnings

During the reporting year, basic share capital increased by DM 419 million from DM 1,699 million to DM 2,118 million. At the stockholders' meeting of July 2, 1986, the shareholders approved an increase of the basic share capital by DM 243 million to DM 1,942 million through the issuance of a stock dividend in the ratio of 1 share for 7 shares held. Moreover, it approved an authorized share capital of DM 500 million. In December, a partial amount of DM 176 million was used through the issuance of stock for cash pursuant to a rights offering on the basis of 1 share for 11 shares held, at an issue price of DM 150 per share. Authorized share capital has thus been reduced to DM 324 million, and is available until June 30,1991.

According to the information received by us under Section 20, Sub-Section 1, of the Company Act, "Deutsche Bank Aktiengesellschaft", Frankfurt am Main, and "Mercedes-Automobil-Holding Aktiengesellschaft" Frankfurt am Main, each own more than 25% of our capital stock.

The increase of basic share capital for cash resulted in an "agio" (net proceeds in excess of par value) of DM 353 million, which - together with DM 5 million for shares not taken up through the rights issue - was transferred to retained earnings allocated under statute. This balance sheet caption thus amounts to DM 528 million.

In adjusting the value of treasury stocks on hand, retained earnings allocated for treasury stock was increased by DM 1 million to DM 36 million through transfer from unallocated retained earnings.

Unallocated retained earnings rose by DM 563 million to DM 4,759 million. DM 702 million was allocated from 1986 net income and DM 105 million from 1985 unappropriated surplus. The latter in accordance with the shareholders' approval of July 2, 1986. These credits were offset by the above-mentioned DM 243 million conversion of retained earnings to liable basic share capital.

Special Equity Reserve

Of the special equity reserve totaling DM 265 million, DM 159 million pertains to reserves allowed under Section 3, Sub-Section 1, of the Foreign Investment Act (losses from foreign subsidiaries), and DM 88 million to reserves allowed under Section 1, Sub-Section 1, of the Income Tax Act for Developing Countries.

Lump-Sum Allowance For Doubtful Accounts

The general credit risk at home and abroad has been considered on a country-specific scale of 4% to 10%. The lump-sum allowance for doubtful accounts had to be reduced by DM 12 million to DM 135 million on account of the more favorable risk structure of our receivables.

Provisions For Old-Age Pensions

The obligations for old-age pension benefits are actuarially determined on the basis of an actuarial interest rate of 3.5% using the Entry Age Actuarial Cost Method. We have included in our calculation all eligible employees having attained age 30. The amount thus calculated, after making allowance for current pension payments, resulted in an increase in provisions for old-age pensions of DM 562 million to DM 6,296 million.

Together with the assets of the Daimler-Benz Provident Fund GmbH of about DM 2.9 billion, the accumulated capital available for pension benefits to our employees amounted to DM 9.2 billion (last year DM 8.6 billion).

Provisions For Deferred Maintenance

For maintenance planned in the reporting year but not carried out, we have made a provision of DM 166 million.

Other Provisions

These provisions, which rose DM 205 million to DM 4,294 million, take into account our worldwide warranty obligations, legal and litigation risks, our obligations in the social benefit area, obligations from outstanding tax assessments and possible losses inherent in pending business transactions and in intercorporate investments.

The obligations in the social area are reflected in the financial statements at non-discounted values expected to be paid in the future, or proportionate in accordance with the pension rights acquired in each instance.

Long-Term Liabilities

Long-term liabilities, maturing in more than four years, declined DM 5 million to DM 161 million. New borrowings of DM 22 million (pertaining to low interest loans which are available under the Berlin Tax Incentive Laws) and borrowings from employees, in the interest of employee capital formation, were contrasted with repayments of DM 27 million. Scheduled repayments in 1987 will amount to DM 25 million.

Other Liabilities

The DM 127 million increase to DM 4,704 million was due, on the one hand, to an increase in payables for goods and services caused by the production-related higher purchasing volume, and on the other hand, to miscellaneous liabilities, particulary liabilities for sales commissions.

*

Contingent Liabilities

Discounted notes receivable totaled DM 18 million. Pledges given for domestic and foreign affiliated companies amounted to DM 336 million.

Existing payment guarantees of DM 500 million were given in favor of creditors in connection with the 1986 DM-bond issue of Daimler-Benz International Finance B.V., Utrecht, Netherlands.

The obligations arising from stock subscriptions and from capital subscriptions in "Close Corporations" (Section 24 of GmbH Act) as well as from guarantees of cooperatives owned by consolidated companies amounted to DM 10 million.

We are jointly and severally liable for two non-incorporated companies which have profit and loss pooling agreements with controlling companies.

A minimum dividend guarantee was given to co-owners of a subsidiary, the amount of which is not ascertainable.

*

Under the assumption that the proposed dividend is ratified by the shareholders at the annual meeting, the remunerations of the members of the Board of Management amounted to DM 11,811,508. In addition, the Board of Management received DM 137,973 from affiliated companies. Disbursements to former members of the Board of Management or their survivors totaled DM 4,247,301. Disbursements to members of the Supervisory Board totaled DM 1,347,758.

STATEMENT OF INCOME

Total Output

Total output (sales and increases in inventories and other capitalized in-house output) rose DM 3,348 million to DM 40,798 million. On account of the strong expansion of car deliveries, sales rose DM 3,511 million, while the amount for increases in inventories and other in-house output that had to be capitalized was DM 163 million lower than in the previous year.

Cost of Materials etc.

Cost of raw materials, manufacturing supplies and of goods purchased for resale rose DM 1,997 million to DM 20,706 million. This was largely due to the increased car production along with higher-value options.

Excess Income Over Losses From Affiliated Companies

The composition of this net income item has changed as follows:

	1985 in millions of DM	1986 in millions of DM
Dividends Received		
Allgemeine Verwaltungsgesellschaft fuer Industriebeteiligungen mbH, Muenchen	–	106
Mercedes-Benz do Brasil S.A., São Paulo do Campo	47	24
Dornier GmbH, Friedrichshafen	–	12
Mercedes-Benz (United Kingdom) Ltd., Milton Keynes	–	10
Dornier Reparaturwerft GmbH, Oberpfaffenhofen	–	8
Maschinenfabrik Esslingen AG, Esslingen a.N.	8	8
OTOMARSAN Otobues ve Motorlu Araçlar Sanayii A.S., Istanbul	3	3
Tata Engineering and Locomotive Company Ltd., Bombay	4	2
Daimler-Benz of North America Holding Company, Inc., New York	118	–
Other companies	11	8
	+191	**+181**
Income Transferred from Affiliated Companies under Profit Pooling Agreements	**+ 6**	**+ 5**
Losses Transferred from Affiliated Companies under Loss Pooling Agreements	**– 1**	**– 2**
Net Income	**+196**	**+184**

Net Interest Income

Interest income of DM 659 million (last year DM 709 million) less interest expense of DM 53 million (last year DM 47 million) resulted in net interest income of DM 606 million (last year DM 662 million). This decline is reflective of the lower interest level; the higher liquidity was, to a large extent, only available toward the end of the year.

Income from Dissolution of Reserves

This income caption in the amount of DM 315 million (last year DM 394 million) pertains principally to the elimination of or to the lower valuation of litigation and intercorporate investments risks.

Other Income

This summary item totaling DM 218 million (last year DM 127 million) comprises income from allocations of administrative expenses, gains from the sale of securities, income from rentals and leases etc.

Personnel Expense Including Old-Age Pensions

Personnel expenses including old-age pensions rose DM 882 million to DM 10,555 million as a result of an increase in the number of employees by about 5,000, a 4.4% union-negotiated wage and salary increase, and an increase in the taxable wage base for medical and social security contributions.

Expenses for old-age pension and support payments at DM 680 million were on about the same level as in the previous year.

Taxes on Income and on Net Assets

Taxes on income and on net assets rose DM 438 million to DM 3,395 million because of the favorable income trend overall.

Other Expenses

This summary expense item - which decreased DM 215 million to DM 2,994 million - comprises above all, as heretofore, administrative and selling expenses including sales commissions, rental and lease expenses, freight out, packaging, and additions to provisions which, by law, must be classified here.

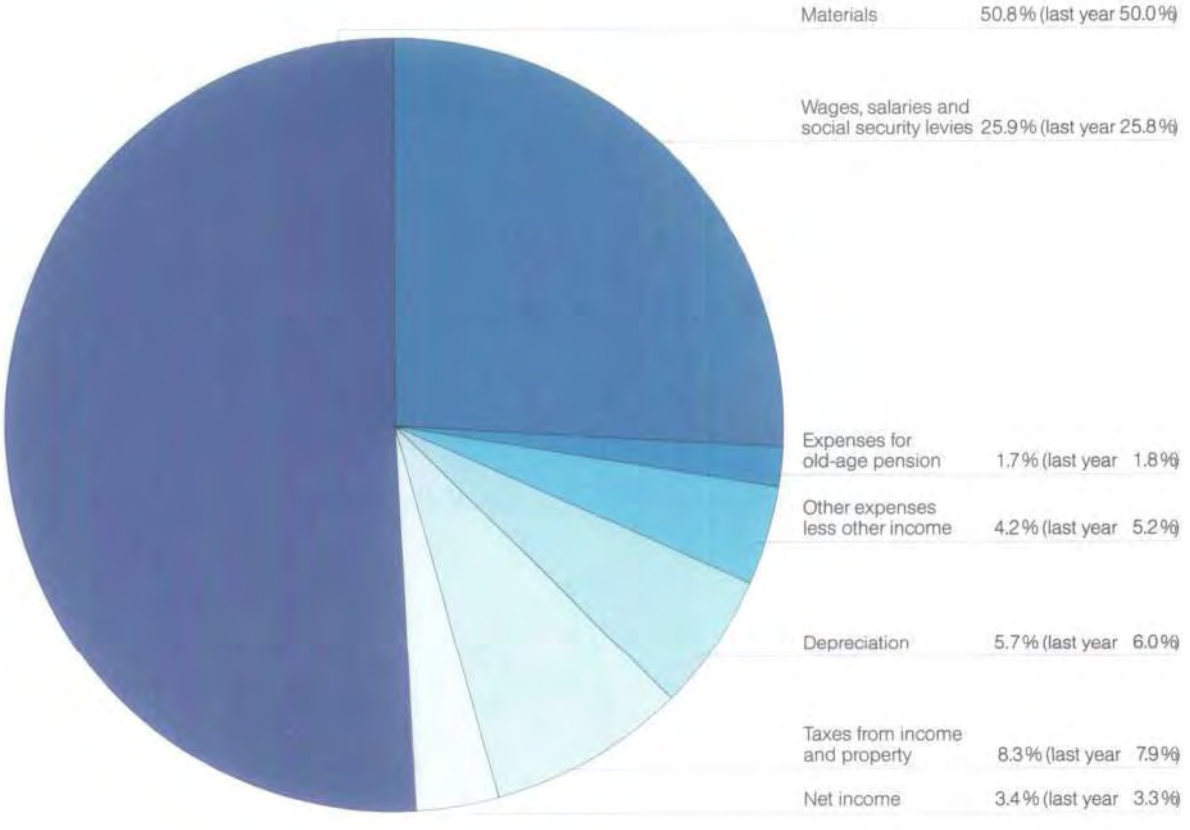
Net Income and Unappropriated Surplus

Net income for the year reached DM 1,404 million (last year DM 1,252 million); it includes no "inflationary profits" according to our computations. DM 702 million (one half of net income) was transferred to unallocated retained earnings. As proposed by the Board of Management, DM 507 million (last year DM 491

million) are to be distributed to the shareholders out of the unappropriated surplus of DM 702 million. Moreover, at the annual meeting, the shareholders will pass a resolution for the transfer of the remaining DM 195 million to unallocated retained earnings. The additional allocation to retained earnings has been done to further strengthen net equity, but also in the interest of the longer-term policy to maintain purchasing power in an inflationary environment.

Changes in 1986 in the valuation of pension and social provisions and in the valuation of tools lead to a difference of DM 211 million pursuant to Section 160 Subsection 2 Clause 5 of the Company Act, resulting in a reduction in net income.

Expense Structure Total Revenue Daimler-Benz AG



(in millions of DM)	1982	1983	1984	1985	1986
Total Output	**31,410**	**32,139**	**32,092**	**37,450**	**40,798**
Material expense	15,957	16,000	15,922	18,709	20,706
Wages, salaries and social security levies	8,108	8,468	8,548	9,674	10,555
Expenses for old-age pension	742	770	990	677	680
Other expenses less other income	1,361	1,488	1,620	1,941	1,733
Depreciation allowances	1,907	2,202	2,178	2,240	2,325
Taxes based on income and on net assets	2,648	2,501	2,123	2,957	3,395
Net income	687	710	711	1,252	1,404
of which: Additions to retained earnings	(337)	(355)	(355)	(626)	(702)
Dividends	(350)	(355)	(356)	(491)	(507)

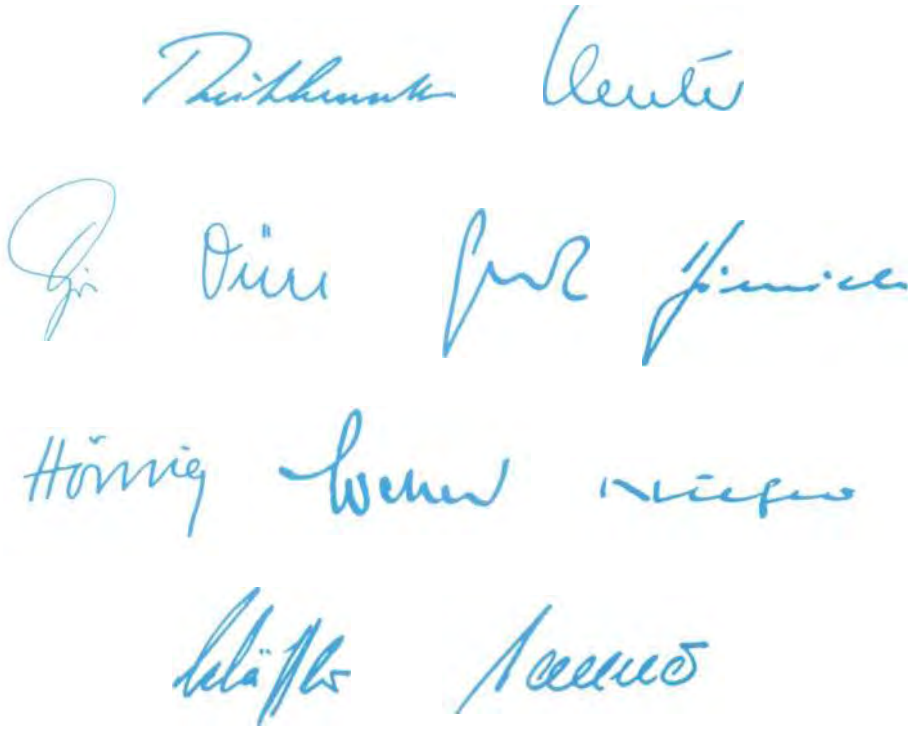
Proposal for the Allocation of Unappropriated Surplus

The annual financial statements, as of December 31, 1986, show an unappropriated surplus of DM 702,003,400.—.
It is proposed to the annual meeting of shareholders that the unappropriated surplus be applied as follows:

3 1/3 %	dividend on the eligible preferred share capital of DM 2,196,000.—	DM	73,200.—
DM 12.—	dividend for each elgible preferred share of DM 50.— par value	DM	506,505,384.—
Dividend amount		DM	506,578,584.—
Transfer to unallocated retained earnings		DM	134,354,561.—
Additional expense after ratification of this proposal		DM	61,070,255.—
Unappopriated surplus		DM	702,003,400.—

Stuttgart-Untertuerkheim, March 27, 1987

The Board of Management



Report of the Supervisory Board

In the Supervisory Board meetings of the past year, in numerous individual meetings, and by means of written and verbal reports, we have been informed in detail and have consulted with the Board of Management on the state of the corporation and on principal matters of corporate policy. In particular, these discussions centered on employment trends, results of operations and on medium and long-range corporate plans including capital spending policy. Furthermore, we discussed important business transactions and made business decisions which, by law or by-laws, had to be submitted to us for approval. This includes the capital stock increase carried out at the end of 1986.

We have examined the financial statements, the annual report, and the recommendations for the payment of dividends. The financial statements as of December 31, 1986, the annual report and the accounting principles used were verified by the Deutsche Treuhand-Gesellschaft AG, Wirtschaftspruefungsgesellschaft, Frankfurt am Main, and have been found to be in accordance with the books and with the pertinent legal requirements. The Supervisory Board has noted the result of the audit with approval.

The result of the examinations made by the Supervisory Board and the auditors has shown no cause for question. The Supervisory Board has reviewed the consolidated financial statements, the consolidated annual report and the report of the auditors. The financial statements of the corporation, as submitted by the Board of Management, are hereby ratified and approved, and we concur with the recommendations of the Board of Management regarding the application of the unappropriated surplus.

Concurrent with the conclusion of the annual stockholder's meeting on July 2, 1986, Dr. Marcus Bierich, Dr. Friedrich Karl Flick and Dr. Heribald Naerger resigned from the Supervisory Board. In their place Messrs. Hans-Georg Pohl, Den Haag, President, Shell Europe, Hermann-Josef Strenger, Leverkusen, Chairman of the Management Board of Bayer AG, and Dr. Gerhard Tremer, Chairman of the Supervisory Board of Mercedes-Automobil-Holding AG, Member of the Management Board of Bayerische Landesbank Girozentrale, were newly elected to the Supervisory Board.

Dr. Flick had been a member of the Supervisory Board since 1957, and during the time from 1970 to 1975, as deputy chairman. Dr. Naerger was elected to the Supervisory Board in July 1975. Dr. Bierich had belonged to the Supervisory Board of our company since 1982. In this report we wish to express our special thanks to these gentlemen for their judicious and trustworthy cooperation.

Mr. Franz Heinrich Ulrich passed away after a long illness. He had been Chairman of our Supervisory Board from 1970 to 1976. Through great personal dedication and farsightedness, Mr. Ulrich earned lasting merit on behalf of our company. During his tenure as Chairman of the Supervisory Board, he had given considerable stimulus to the development of Daimler-Benz. We shall remember him in gratitude as a person of great distinction.

During the year, the Supervisory Board has dealt in depth with the Board of Management's proposal concerning the new management structure which takes into account the substantially broadened business activities.

Effective July 1, 1986, Messrs. Heinz Duerr, Chairman of the Board of Management of AEG Aktiengesellschaft, Dr.-Ing. E.h. Johann Schaeffler, Chairman of the Board of Management of Dornier GmbH, and Dr.-Ing. Hans Dinger, Chairman of the Executive Management of MTU Motoren- und Turbinen-Union Muenchen und Friedrichshafen GmbH, were appointed members of the parent's Board of Management.

In the meeting of March 11, 1987, the Supervisory Board appointed Mr. Edzard Reuter, in charge of "Finance and Administration", to the position of Deputy Chairman of the Board of Management. This decision takes into account the greatly increased technical and organizational requirements which the parent's management is confronted with in view of the size and complexity the Daimler-Benz Group has reached.

Effective December 31, 1986, Mr. Walter Ulsamer retired after having worked for the company for 40 years. He had been a member of the Board of Management since 1979. With a high degree of personal commitment, he established a network of excellent connections to the many efficient suppliers at home and abroad. In his responsibility for the entire materials procurement, he firmly and successfully pursued the strategy of future-oriented logistic optimization of the materials flow. In this report, we wish to express our appriciation of his accomplishments and our gratitude.

Stuttgart- Untertuerkheim,
May 1987

The Supervisory Board

Chairman

Tables and Graphs

Daimler-Benz Highlights

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Number of employees (at year-end)										
Daimler-Benz Group	**163,302**	**167,165**	**174,431**	**183,532**	**188,039**	**185,687**	**184,877**	**199,872**	**231,077**	**319,965**
of which: domestic	132,214	135,275	142,164	146,323	149,096	149,118	151,273	158,043	186,652	257,538
foreign	31,088	31,890	32,267	37,209	38,943	36,569	33,604	41,829	44,425	62,427
Daimler-Benz AG	**131,807**	**134,437**	**141,401**	**145,532**	**148,361**	**148,411**	**150,601**	**157,249**	**161,518**	**166,523**
Main office	5,458	5,762	6,144	6,628	7,191	7,217	7,192	7,415	7,628	7,735
Research and development	7,756	8,225	8,744	9,419	9,762	9,961	9,953	10,114	10,442	11,040
of which: Untertuerkheim	6,094	6,442	6,860	7,463	7,735	7,848	7,842	7,959	8,238	8,742
Sindelfingen	1,292	1,423	1,513	1,573	1,632	1,723	1,724	1,766	1,816	1,911
Gaggenau	370	360	371	383	395	390	387	389	388	387
Plants	103,436	104,723	109,840	112,303	114,436	114,700	117,113	123,345	126,846	130,502
of which: Sindelfingen	33,067	33,135	35,038	35,621	36,721	36,971	37,488	39,534	41,806	43,339
Untertuerkheim	19,783	19,940	20,230	20,284	20,134	20,274	20,901	21,772	22,804	23,402
Bremen	4,727	5,994	6,571	6,515	6,309	6,567	7,884	10,254	10,716	12,315
Berlin	3,065	3,054	3,191	3,252	3,473	3,435	3,442	3,302	3,294	3,397
Hamburg	2,265	2,385	2,475	2,535	2,613	2,557	2,513	2,479	2,625	2,629
Bad Homburg	736	767	814	855	881	882	864	893	953	967
Mannheim	13,383	13,584	14,053	14,619	14,521	14,243	14,152	14,494	14,043	13,878
Woerth	8,853	8,774	9,622	10,192	11,055	10,891	10,767	10,743	10,633	10,564
Gaggenau	8,326	8,500	8,806	8,971	9,312	9,432	9,352	9,293	9,011	8,823
Duesseldorf	4,664	4,621	4,954	5,118	5,058	5,151	5,488	6,404	6,718	7,022
Kassel	4,089	3,969	4,086	4,341	4,359	4,297	4,262	4,177	4,243	4,166
Retail branches	15,157	15,727	16,673	17,182	16,972	16,533	16,343	16,375	16,602	17,246
Production (units)										
Cars	**401,255**	**393,203**	**422,159**	**429,078**	**440,778**	**458,345**	**476,183**	**478,349**	**541,039**	**594,080**
of which: diesels	165,818	175,915	201,854	207,781	200,480	206,188	146,300	167,671	181,357	209,999
share of total production in %	41.3	44.7	47.8	48.4	45.5	45.0	30.7	35.1	33.5	35.3
plus cross-country vehicles	–	–	2,508	6,667	6,455	6,566	5,662	5,532	6,303	5,945
Commercial vehicles (without kits) [1]	**248,100**	**239,702**	**256,467**	**272,868**	**268,925**	**243,513**	**204,619**	**205,397**	**213,910**	**226,344**
of which: domestic [1]	187,298	173,101	188,772	203,041	196,076	187,044	157,418	143,101	143,387	145,757
plus kits	–	–	–	–	–	–	27,332	18,122	26,402	8,838
foreign	60,802	66,601	67,695	69,827	72,849	56,469	47,201	62,296	70,523	80,587
Sales (in millions of DM)										
Daimler-Benz Group	**23,496**	**24,236**	**27,367**	**31,054**	**36,661**	**38,905**	**40,005**	**43,505**	**52,409**	**65,498**
of which: domestic	10,336	11,539	12,938	13,855	13,577	13,316	15,177	14,682	18,706	27,838
foreign	13,160	12,697	14,429	17,199	23,084	25,589	24,828	28,823	33,703	37,660
foreign share in %	56.0	52.4	52.7	55.4	63.0	65.8	62.1	66.3	64.3	57.5
of which: cars	10,882	11,082	12,285	14,088	16,572	18,722	21,012	23,245	28,549	31,300 [3]
commercial vehicles	11,662	12,109	13,984	15,818	18,862	18,859	17,653	18,367	20,204	17,747 [3]
AEG	–	–	–	–	–	–	–	–	–	11,069
Dornier	–	–	–	–	–	–	–	–	1,223 [2]	2,112
MTU	–	–	–	–	–	–	–	–	1,971 [2]	2,766
Daimler-Benz AG	**20,012**	**20,584**	**23,454**	**26,472**	**29,084**	**31,124**	**32,179**	**31,972**	**37,079**	**40,590**
of which: domestic	10,321	11,522	12,987	13,845	13,579	13,300	15,311	14,591	17,220	19,625
export	9,691	9,062	10,467	12,627	15,505	17,824	16,868	17,381	19,859	20,965
export share in %	48.4	44.0	44.6	47.7	53.3	57.3	52.4	54.4	53.6	51.7
of which: cars	10,363	10,622	11,775	13,136	14,396	16,121	18,133	19,298	24,818	28,956 [3]
commercial vehicles	8,956	9,208	10,818	12,393	13,737	13,983	13,067	11,636	12,261	11,634 [3]

Note: "Daimler-Benz Group" comprises Daimler-Benz AG plus domestic and foreign companies in which Daimler-Benz's direct or indirect investment is more than 50% and which are consolidated.
1) Kits destined for assembly abroad, from 1983 no longer included in total production.
2) Dornier included in consolidation effective July 1, 1985, MTU effective April 1, 1985.
3) Newly defined since 1986; previous year's figures correspondingly adjusted.

Major Balance Sheet and Income Figures Daimler-Benz Group

(in millions of DM)	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Fixed assets and financial assets	2,873	3,298	3,846	4,480	5,791	6,958	7,743	8,228	10,209	12,148
Current assets	9,035	9,563	10,271	12,999	14,637	15,996	17,084	20,398	25,571	34,863
Basic share capital	1,359	1,359	1,359	1,359	1,529	1,529	1,699	1,699	1,699	2,118
Retained earnings	2,502	2,829	3,216	3,837	4,546	5,173	5,848	6,831	8,070	10,176
Stockholders' Equity	**3,861**	**4,188**	**4,575**	**5,196**	**6,075**	**6,703**	**7,547**	**8,530**	**9,769**	**12,294**
in % of fixed assets	134.4	127.0	119.0	116.0	104.9	96.3	97.5	103.7	95.7	101.2
Long and medium-term liabilities [1]	2,883	3,244	3,614	4,933	5,710	6,768	7,534	9,452	11,201	16,663
Stockholders' Equity Plus Long and Medium-Term Liabilities	**6,744**	**7,432**	**8,189**	**10,129**	**11,785**	**13,471**	**15,081**	**17,982**	**20,970**	**28,957**
in % of fixed assets	234.7	225.3	212.9	226.1	203.5	193.6	194.8	218.5	205.4	238.4
Balance Sheet Total	**11,908**	**12,861**	**14,117**	**17,479**	**20,428**	**22,954**	**24,827**	**28,626**	**35,780**	**47,011**
Total Investments [2]	**1,140**	**1,483**	**1,949**	**2,110**	**3,076**	**3,598**	**3,519**	**3,523**	**5,492**	**5,580**
of which: in property, plant and equipment	1,087	1,446	1,905	2,057	3,033	3,427	3,464	3,374	4,014	5,385
domestic	892	1,239	1,718	1,663	2,233	3,004	3,047	2,166	2,753	3,891
foreign	195	207	187	394	800	423	417	1,208	1,261	1,494
in financial assets (net)	53	37	44	53	43	171	55	149	1,478	195
Total Depreciation Expense	**918**	**1,013**	**1,342**	**1,447**	**1,688**	**2,273**	**2,574**	**2,828**	**3,275**	**3,361**
of which: of property, plant and equipment	901	1,001	1,313	1,434	1,633	2,265	2,567	2,825	3,242	3,239
domestic	772	850	1,162	1,272	1,379	1,975	2,292	2,342	2,514	2.575
foreign	129	151	151	162	254	290	275	483	728	664
financial assets write-down	17	12	29	13	55	8	7	3	33	122
Total Output	**23,922**	**24,550**	**28,148**	**32,127**	**37,553**	**39,730**	**40,527**	**44,078**	**53,775**	**66,415**
Total average annual output per employee (in DM)	148,967	147,844	163,609	176,116	197,949	211,526	219,808	225,572	235,648	207,750
Cost of raw materials etc.	12,280	12,212	14,177	16,556	19,497	20,047	20,299	22,707	27,245	33,349
Personnel Expenses	**6,550**	**6,722**	**7,574**	**9,816**	**9,993**	**10,712**	**10,941**	**11,598**	**13,657**	**19,358**
Average annual expense per employee (in DM)	40,787	40,479	44,025	53,809	52,677	57,030	59,344	59,355	59,846	60,553
Taxes on income and on net assets	1,927	2,101	2,378	1,693	3,091	3,310	3,263	3,027	4,341	4,034
Net income	587	593	638	1,102	826	921	988	1,104	1,682	1,767
in % of total output	2.5	2.4	2.3	3.4	2.2	2.3	2.4	2.5	3.1	2.7

1) Long and medium-term provisions and long-term liabilities.
2) Additions to property, plant and equipment, additions to financial assets (net) and cost of investments in excess of book value at acquisition.

Major Balance Sheet and Income Figures Daimler-Benz AG

(in millions of DM)	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Fixed assets and financial assets	2,397	2,757	3,216	3,623	4,341	5,379	5,957	5,827	7,250	7,918
Current assets	6,882	7,344	7,933	9,415	10,708	11,110	12,133	13,662	14,792	16,300
Basic share capital	1,359	1,359	1,359	1,359	1,529	1,529	1,699	1,699	1,699	2,118
Retained earnings [1]	1,360	1,595	1,874	2,361	2,843	3,193	3,555	3,919	4,558	5,399
Stockholders' Equity	**2,719**	**2,954**	**3,233**	**3,720**	**4,372**	**4,722**	**5,254**	**5,618**	**6,257**	**7,517**
in % of fixed assets	113.4	107.2	100.5	102.7	100.7	87.8	88.2	96.4	86.3	94.9
Long and medium-term liabilities [2]	2,454	2,771	3,131	4,210	4,819	5,429	6,292	7,658	8,179	9,204
Stockholders' Equity Plus Long and Medium-Term Liabilities	**5,173**	**5,725**	**6,364**	**7,930**	**9,191**	**10,151**	**11,546**	**13,276**	**14,436**	**16,721**
in % of fixed assets	215.8	207.7	197.9	218.9	211.7	188.7	193.8	227.8	199.1	211.2
Balance Sheet Total	**9,279**	**10,101**	**11,149**	**13,038**	**15,049**	**16,489**	**18,090**	**19,489**	**22,042**	**24,218**
Investments in Property, Plant and Equipment	**832**	**1,133**	**1,560**	**1,520**	**1,954**	**2,701**	**2,517**	**1,871**	**1,778**	**1,803**
Intercorporate investments (net)	104	48	47	100	120	271	305	172	1,925	1,200
Depreciation Expense	**726**	**804**	**1,094**	**1,189**	**1,259**	**1,823**	**2,093**	**2,081**	**2,121**	**1,874**
Total Output	**20,407**	**20,645**	**23,736**	**26,714**	**29,461**	**31,410**	**32,139**	**32,092**	**37,450**	**40,798**
Total average annual output per employee (in DM)	157,133	161,659	172,430	185,231	200,958	212,916	216,895	209,624	232,808	245,558
Cost of raw materials etc.	10,278	10,055	11,748	13,462	15,216	15,957	16,000	15,922	18,709	20,706
Personnel Expenses	**5,868**	**5,972**	**6,701**	**7,297 [3]**	**8,260**	**8,850**	**9,238**	**9,539**	**10,351**	**11,235**
Average annual expense per employee (in DM)	45,183	46,765	48,679	50,596	56,343	59,991	62,344	62,308	64,347	67,622
Included in personnel expenses: Christmas and special remuneration	213	232	280	328	364	396	420	447	503	555
Formation of personal capital	73	77	79	102	105	108	120	106	112	93
Expenses for old-age pension	503	435	439	1,680 [4]	688	742	770	990	677	680
Total employee expenditure for special social purposes	789	744	798	2,110 [4]	1,157	1,246	1,310	1,543	1,283	1,320
Taxes on income and on net assets	1,715	1,840	2,130	1,345 [4]	2,476	2,648	2,501	2,123	2,957	3,395
Net Income	**445**	**474**	**540**	**570 [5]**	**608**	**687**	**710**	**711**	**1,252**	**1,404**
in % of total output of Daimler-Benz AG	2.2	2.3	2.3	2.1	2.1	2.2	2.2	2.2	3.3	3.4
Dividends (paid or proposed)	**228**	**243**	**270**	**297**	**304**	**350**	**355**	**356**	**491**	**507**
in % of total output of Daimler-Benz AG	1.1	1.2	1.1	1.1	1.0	1.1	1.1	1.1	1.3	1.2
Dividend per share of DM 50 par value (in DM)	9.--	9.--	10.--	10.--+1.-[6]	10.-	10.50+1.-[6]	10.50	10.50	12.-+2.50[6]	12.--
Tax credit per share of DM 50 par value (in DM) [7]	5.06	5.06	5.62	6.19	5.62	6.47	5.91	5.91	8.16	6.75
Dividend per share of DM 50 par value as adjusted (in DM) [8]	5.67	5.99	6.66	7.32	7.35	8.45	8.51	8.51	11.75	12.--

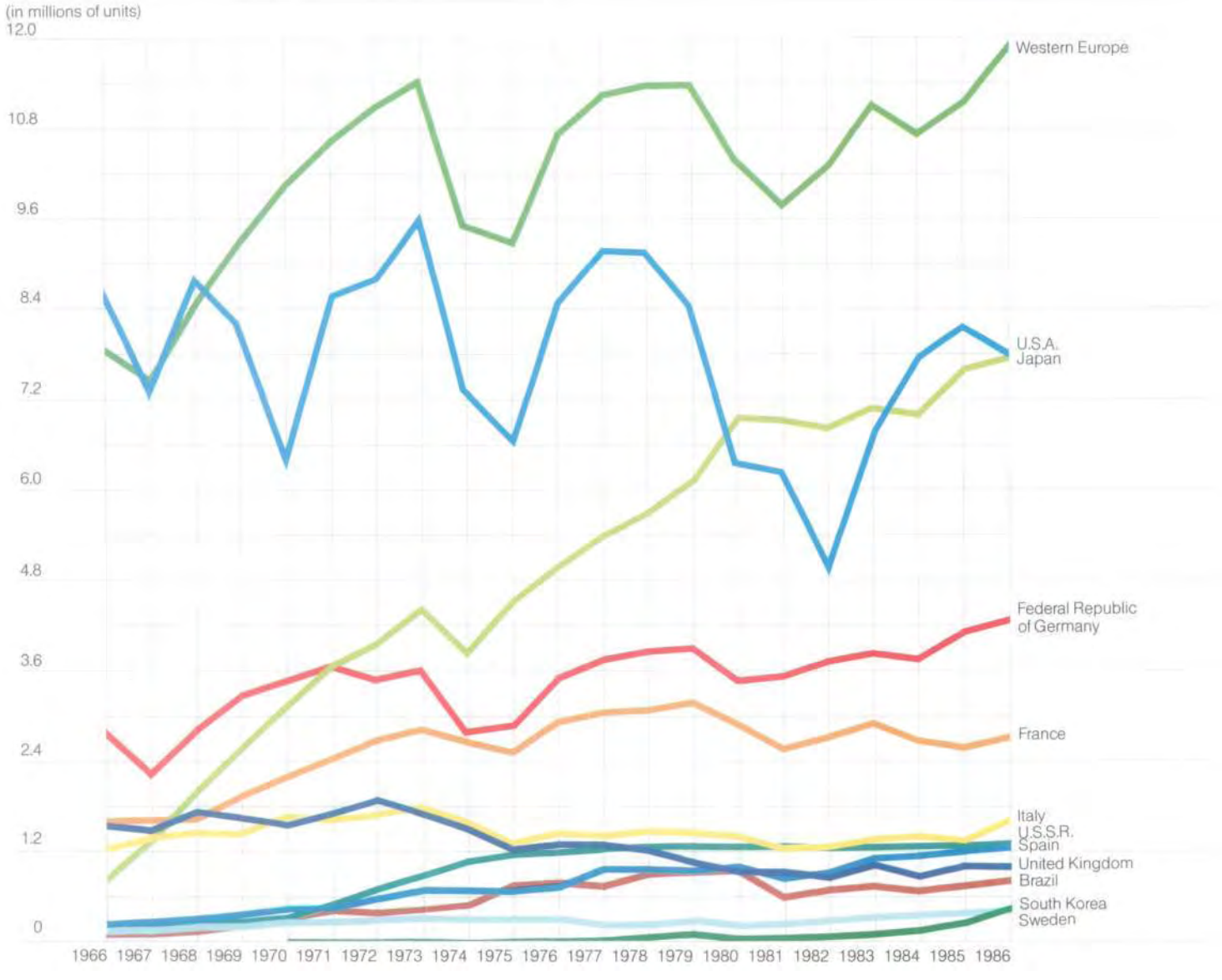
1) Inclusive of equity portion in special reserves.
2) Long and medium-term provisions and long-term liabilities.
3) Exclusive of extraordinary expense for old-age pension in the amount of DM 1,408 million.
4) Restructuring of old-age pension with tax-deductible extraordinary addition to pension reserves.
5) Excluding dissolution of provision in the amount of DM 391 million. This amount was previously set up for underfunding in the Provident Fund.
6) Dividend and bonus.
7) For our stockholders who are liable for income taxes in the Federal Republic of Germany.
8) Allowing for capital stock increase (dividend retroactively adjusted).

Sales and Production

	in thousands of units										Change in %
	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	86:85
Cars											
New Car Registrations											
Federal Republic of Germany	2,561	2,664	2,623	2,426	2,330	2,156	2,427	2,394	2,379	2,829	+ 18.9
of which: Domestic products	2,019	2,079	2,016	1,787	1,740	1,636	1,835	1,755	1,731	1,989	+ 14.9
Daimler-Benz AG	214	214	234	241	239	225	237	225	266	295	+ 10.9
Foreign products	542	585	607	639	590	520	592	639	648	840	+ 29.7
Share in %	21.1	21.9	23.2	26.3	25.3	24.1	24.4	26.7	27.2	29.7	
Exports											
Federal Republic of Germany	1,939	1,904	1,997	1,873	1,949	2,194	2,189	2,233	2,568	2,520	− 1.9
Daimler-Benz AG	185	177	183	188	200	226	238	251	278	296	+ 6.5
Production											
Federal Republic of Germany	3,791	3,890	3,933	3,521	3,578	3,761	3,878	3,790	4,167	4,311	+ 3.5
Daimler-Benz AG	401	393	422	429	441	458	476	478	541	594	+ 9.8
Export Share of Production in %											
Federal Republic of Germany	51.2	49.0	50.8	53.2	54.5	58.3	56.4	58.9	61.6	58.5	
Daimler-Benz AG	46.0	44.9	43.4	43.8	45.4	49.3	50.0	52.5	51.4	49.9	
Commercial Vehicles [1]											
New Commercial Vehicle Registrations											
Federal Republic of Germany	138	156	170	176	149	124	144	130	134	143	+ 7.1
Daimler-Benz AG	69	80	87	82	66	55	64	56	58	58	+ 0.3
Exports [2]											
Federal Republic of Germany	189	169	178	211	204	204	166	156	178	173	− 2.5
Daimler-Benz AG	110	93	97	116	122	126	92	82	80	79	− 1.3
Production [2]											
Federal Republic of Germany	314	296	317	358	319	301	277	255	279	286	+ 2.5
Daimler-Benz AG	187	173	189	203	196	187	157	143	143	146	+ 1.7
Daimler-Benz Group	248	240	256	273	269	244	205	205	214	226	+ 5.8
Export Share of Production in % [2]											
Federal Republic of Germany	60.1	57.1	56.2	58.9	63.9	67.6	59.9	61.0	63.7	60.6	
Daimler-Benz AG	58.8	53.8	51.4	57.3	62.0	67.1	58.7	57.5	55.8	54.2	

1) Figures of Daimler-Benz are inclusive of Unimog vehicles and MB-trac.
2) Kits destined for assembly abroad, from 1983 on, no longer included in total production.

Car Production of Leading Countries



Share of world production in %

1965	1970	1975	1980	1982	1983	1984	1985	1986	
14.2	15.6	11.5	12.0	13.8	12.8	12.2	12.7	12.9	Fed. Rep. of Germany
7.1	9.9	10.1	10.0	10.2	9.8	8.8	8.0	8.3	France
8.9	7.0	5.0	3.3	3.3	3.5	2.9	3.2	3.1	United Kingdom
5.7	7.5	5.4	4.9	4.8	4.6	4.6	4.2	5.0	Italy
0.9	1.2	1.2	0.8	1.1	1.1	1.2	1.2	1.3	Sweden
0.8	2.0	2.8	3.6	3.4	3.8	3.8	3.8	3.8	Spain
1.1	1.5	4.8	4.5	4.8	4.4	4.3	4.1	4.1	U.S.S.R.
3.6	14.0	18.1	24.0	25.3	23.7	22.8	23.4	23.4	Japan
48.6	28.9	26.6	21.8	18.6	22.4	25.1	25.0	23.0	U.S.A.
0.5	1.5	3.1	3.4	2.6	2.6	2.3	2.4	2.5	Brazil
.	.	.	.	0.0	0.0	1.0	0.8	1.4	South Korea

Export share of production in %

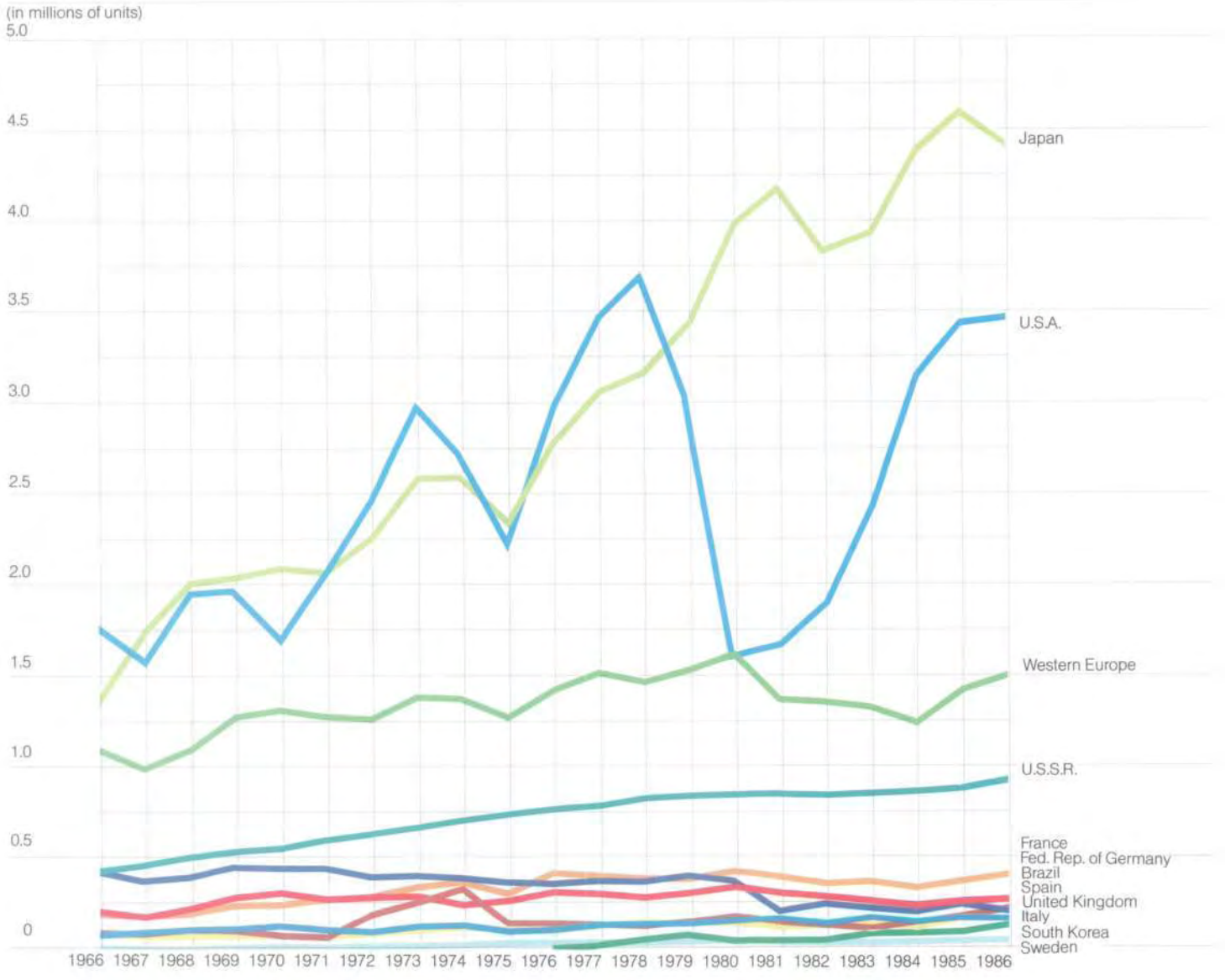
1965	1970	1975	1980	1982	1983	1984	1985	1986	
51.9	55.2	50.8	53.2	58.3	56.4	58.9	61.6	58.5	Fed. Rep. of Germany
37.0	52.6	53.5	52.1	52.7	54.5	56.4	58.5	55.9	France
36.4	43.3	40.7	37.5	35.3	26.2	24.1	22.9	19.7	United Kingdom
28.2	37.0	49.0	35.4	33.7	35.2	33.4	32.4	36.5	Italy
48.5	65.5	68.7	80.2	79.0	79.5	80.7	76.6	81.7	Sweden
.	8.2	22.1	47.8	53.4	56.1	60.1	64.0	59.7	Spain
.	.	.	.	.	.	.	.	.	U.S.S.R.
14.5	22.8	40.0	56.1	54.8	53.2	56.2	57.9	58.6	Japan
2.2	5.5	9.5	8.8	7.0	7.9	7.6	8.1	8.3	U.S.A.
.	.	6.8	11.8	16.7	17.2	21.5	20.7	17.2	Brazil
.	.	.	.	.	.	.	45.1	65.4	South Korea

Car Industry of Leading Countries

	In thousands of units						Percentage changes as compared to prior year					
	1977	1982	1983	1984	1985	1986[1]	1977	1982	1983	1984	1985	1986[1]
Worldwide Production	30,906	27,252	30,236	30,971	32,738	33,343	+ 6	− 3	+11	+ 2	+ 6	+ 2
Federal Republic of Germany												
New car registrations	2,561	2,156	2,427	2,394	2,379	2,829	+11	− 8	+13	− 1	− 1	+ 19
Imports	949	824	1,056	1,091	1,066	1,295	+12	−12	+28	+ 3	− 2	+ 22
Exports	1,939	2,194	2,189	2,233	2,568	2,520	+ 6	+13	− 0	+ 2	+15	− 2
of which: to Europe	1,303	1,785	1,748	1,696	1,934	1,953	− 1	+16	− 2	− 3	+14	+ 1
to U.S.A.	466	257	278	366	439	446	+35	+ 6	+ 8	+32	+20	+ 2
Production	3,791	3,761	3,878	3,790	4,167	4,311	+ 7	+ 5	+ 3	− 2	+10	+ 3
France												
New car registrations	1,907	2,056	2,018	1,758	1,766	1,912	+ 3	+12	− 2	−13	+ 0	+ 8
Imports	582	992	975	898	978	1,004	− 4	+26	− 2	− 8	+ 9	+ 3
Exports	1,621	1,464	1,614	1,530	1,539	1,551	+ 8	+ 5	+10	− 5	+ 1	+ 1
of which: to Europe	1,330	1,095	1,100	1,066	1,159	1,323	+ 7	+ 6	+ 1	− 3	+ 9	+ 14
Production	3,092	2,777	2,961	2,713	2,632	2,773	+ 4	+ 6	+ 7	− 8	− 3	+ 5
United Kingdom												
New car registrations	1,326	1,557	1,794	1,751	1,834	1,885	+ 3	+ 5	+15	− 2	+ 5	+ 3
Imports	698	934	1,076	1,020	1,072	1,072	+31	+16	+15	− 5	+ 5	− 0
Exports	475	313	274	219	240	201	− 4	+ 1	−13	− 9	+10	− 16
of which: to Europe	183	140	111	99	138	149	− 1	+ 4	−20	−11	+40	+ 8
Production	1,328	888	1,045	909	1,048	1,019	− 0	− 7	+18	−13	+15	− 3
Italy												
New car registrations	1,219	1,851	1,452	1,592	1,746	1,819	+ 3	+ 2	−22	+10	+ 7	+ 4
Imports	464	853	639	758	846	814	− 5	+ 0	−25	+19	+12	− 4
Exports	644	437	492	481	450	603	− 7	+ 3	+12	− 2	− 6	+ 34
of which: to Europe	512	383	449	433	408	541	− 4	+11	−17	− 4	− 6	+ 33
Production	1,440	1,297	1,396	1,439	1,389	1,652	− 2	+ 3	+ 8	+ 3	− 4	+ 19
Sweden												
New car registrations	241	218	217	231	263	270	−23	+16	− 1	+ 6	+14	+ 3
Imports	173	158	163	178	190	200	−29	+19	− 3	+ 9	+ 7	+ 5
Exports	181	233	274	301	307	344	−10	+11	+18	+10	+ 2	+ 12
of which: to Europe	105	103	116	126	123	142	−18	+ 2	+13	+ 8	− 2	+ 15
Production	235	295	345	373	401	421	−26	+14	+17	+ 8	+ 8	+ 5
Spain												
Exports	314	495	613	708	762	765	+89	+14	+24	+15	+ 8	+ 0
Production	989	928	1,142	1,177	1,230	1,282	+31	+ 8	+23	+ 3	+ 5	+ 4
U.S.S.R.												
Production	1,280	1,307	1,315	1,327	1,332	1,360	+ 3	− 1	+ 1	+ 1	+ 0	+ 2
Japan												
New car registrations	2,500	3,038	3,136	3,095	3,104	3,146	+ 2	+ 6	+ 3	− 1	+ 0	+ 1
Imports	41	35	37	44	52	73	+ 3	+14	+ 6	+18	+18	+ 41
Exports	2,959	3,770	3,806	3,981	4,427	4,574	+17	− 4	+ 1	+ 5	+11	+ 3
of which: to Europe	661	896	1,037	1,037	1,086	1,320	+ 4	− 5	+16	− 0	+ 5	+ 22
to U.S.A.	1,375	1,741	1,772	1,939	2,216	2,348	+27	− 4	+ 2	+ 9	+14	+ 6
Production	5,431	6,882	7,152	7,073	7,647	7,810	+ 8	− 1	+ 4	− 1	+ 8	+ 2
U.S.A.												
New car registrations	10,826	7,754	8,924	10,118	10,889	11,140	+11	− 8	+15	+13	+ 8	+ 2
Imports	2,791	3,067	3,667	4,880	5,300	5,400	+10	+ 2	+20	+33	+ 9	+ 2
Exports	688	353	538	591	665	648	+ 4	−30	+53	+10	+13	− 3
Production	9,214	5,074	6,781	7,773	8,185	7,829	+ 8	−19	+34	+15	+ 5	− 4
Brazil												
New car registrations	678	557	610	533	603	673	− 3	+24	+10	−13	+13	+ 11
Exports	55	121	133	152	161	145	−10	−23	+10	+14	+ 6	− 10
Production	729	721	774	707	777	832	−12	+16	+ 7	− 9	+10	+ 7
South Korea												
Exports	.	.	.	.	119	299	.	.	.	.	.	+151
Production	42	94	122	159	264	457	+58	+37	+29	+30	+67	+ 73

[1]) Some figures are partly estimated.

Commercial Vehicle Production of Leading Countries



Share of production in %

1965	1970	1975	1980	1982	1983	1984	1985	1986
4.9	4.9	3.6	3.8	3.3	2.8	2.3	2.3	2.4
3.8	4.0	4.0	4.6	4.0	3.8	3.1	3.2	3.5
9.2	7.1	4.9	4.1	2.9	2.5	2.0	2.2	1.9
1.4	2.1	1.4	1.7	1.7	1.8	1.4	1.5	1.5
0.5	0.5	0.6	0.7	0.6	0.5	0.5	0.5	0.5
1.5	1.4	1.5	1.6	1.5	1.5	1.2	1.5	2.1
8.4	8.9	9.8	9.2	9.4	8.9	7.9	7.4	7.7
23.8	32.7	30.4	42.0	41.8	40.3	39.0	38.1	36.8
36.4	26.8	29.1	17.2	20.8	24.8	28.1	28.5	28.8
1.7	1.3	1.9	1.9	1.5	1.2	1.4	1.6	2.0
.	.	.	.	0.8	1.0	1.0	0.9	1.2

Export share of production in %

1965	1970	1975	1980	1982	1983	1984	1985	1986	
44.5	50.1	63.8	58.9	67.6	59.9	61.0	63.8	60.5	Fed. Rep. of Germany
22.7	37.6	43.4	40.5	37.6	38.1	42.1	41.9	42.7	France
36.5	37.7	47.2	31.3	33.8	37.5	34.0	19.5	19.2	United Kingdom
26.8	28.9	44.7	48.7	58.2	60.9	63.6	63.0	64.2	Italy
55.9	72.3	79.2	84.1	96.2	88.0	93.6	78.3	92.4	Sweden
.	11.3	14.5	29.8	33.7	25.0	31.5	36.7	31.9	Spain
.	.	.	.	.	.	.	.	.	U.S.S.R.
7.9	17.1	35.8	50.4	47.3	47.1	48.5	49.8	45.7	Japan
7.5	7.3	11.9	12.4	6.7	6.3	6.0	6.7	7.2	U.S.A.
.	.	13.3	22.8	38.0	29.3	28.2	21.1	17.4	Brazil
.	.	.	.	.	.	.	3.5	4.9	South Korea

Commercial Vehicle Industry of Leading Countries

	In thousands of units						Percentage changes as compared to prior year					
	1977	1982	1983	1984	1985	1986[1]	1977	1982	1983	1984	1985	1986[1]
Worldwide Production	10,231	9,204	9,838	11,267	12,136	12,062	+ 11	− 3	+ 7	+15	+ 8	− 1
Federal Republic of Germany[2]												
New vehicle registrations	138	124	144	130	134	143	+ 0	−17	+17	−10	+ 3	+ 7
Imports	29	36	49	48	54	64	+ 10	−21	+33	− 2	+ 13	+18
Exports	189	204	166	156	178	173	− 9	− 0	−19	− 6	+ 14	− 3
of which: to Europe	110	113	119	121	150	156	+ 2	+11	+ 5	+ 2	+ 25	+ 4
Production	314	301	277	255	279	286	− 2	− 6	− 8	− 8	+ 9	+ 3
France												
New vehicle registrations	298	363	346	316	342	391	+ 2	+ 8	− 5	− 9	+ 8	+14
Imports	99	127	132	122	170	172	+ 7	+ 9	+ 4	− 8	+ 39	+ 2
Exports	148	140	143	147	161	180	+ 3	−11	+ 2	+ 3	+ 10	+12
of which: to Europe	71	70	79	83	106	135	+ 3	− 1	+13	+ 5	+ 27	+27
Production	415	372	375	349	384	422	− 2	− 9	+ 1	− 7	+ 10	+10
United Kingdom												
New vehicle registrations	231	231	268	269	287	291	+ 8	+ 6	+16	+ 0	+ 7	+ 2
Imports	37	71	97	103	109	122	+ 35	+53	+37	+ 6	+ 6	+12
Exports	192	91	92	77	52	44	+ 2	+ 1	+ 1	−17	− 33	−15
of which: to Europe	92	40	32	28	30	41	+ 10	−33	−20	−13	+ 7	+37
Production	386	269	245	225	266	229	+ 4	+17	− 9	− 8	+ 18	−14
Italy												
New vehicle registrations	112	152	112	122	114	119	+ 18	+ 9	−26	+ 9	− 7	+ 4
Imports	59	61	49	61	66	76	+ 7	−20	−20	+24	+ 8	+14
Exports	70	91	109	103	116	115	+ 43	− 1	+21	− 6	+ 13	− 1
of which: to Europe	50	79	96	90	101	109	+ 46	+12	+21	− 5	+ 12	+ 8
Production	144	156	180	162	184	179	+ 21	−12	+16	−10	+ 14	− 3
Sweden												
New vehicle registrations	20	19	18	20	23	25	+ 4	− 0	− 4	+12	+ 13	+ 7
Imports	21	15	16	17	19	21	+ 2	+ 6	+ 1	+ 6	+ 12	+13
Exports	41	52	46	55	47	61	− 4	+ 7	−12	+21	− 15	+30
of which: to Europe	27	30	30	34	35	40	+ 14	+18	+ 0	+13	+ 5	+14
Production	52	54	52	59	60	66	+ 2	− 3	− 4	+14	+ 2	+10
Spain												
Exports	29	42	26	33	69	80	+190	+20	−37	+27	+106	+16
Production	141	142	147	132	188	251	+ 24	+ 7	+ 4	−10	+ 42	+34
U.S.S.R.												
Production	800	866	874	887	900	930	+ 2	− 1	+ 1	+ 1	+ 1	+ 3
Japan												
New vehicle registrations	1,694	2,223	2,247	2,341	2,453	2,562	+ 2	− 2	+ 2	+ 4	+ 5	+ 4
Imports	1	1	1	1	1	1	+ 44	−45	−53	+ 6	− 0	−14
Exports	1,394	1,820	1,863	2,129	2,304	2,032	+ 19	−13	+ 2	+14	+ 8	−12
of which: to Europe	95	214	224	220	266	244	+ 32	− 9	+ 5	− 2	+ 21	− 8
to U.S.A.	373	414	537	728	917	1,085	+ 18	−24	+30	+36	+ 26	+18
Production	3,083	3,850	3,960	4,392	4,624	4,450	+ 10	− 8	+ 3	+11	+ 5	− 4
U.S.A.												
New vehicle registrations	3,509	2,430	2,977	4,049	4,675	4,801	+ 15	+11	+22	+36	+ 16	+ 3
Imports	226	699	785	1,025	1,275	1,310	+ 38	+ 5	+12	+31	+ 24	+ 3
Exports	263	127	154	191	231	250	+ 7	−32	+21	+24	+ 21	+ 8
Production	3,489	1,910	2,441	3,161	3,463	3,486	+ 16	+13	+28	+30	+ 10	+ 1
Brazil												
New vehicle registrations	172	135	119	143	160	193	− 12	+ 2	−12	+21	+ 12	+21
Exports	13	53	36	44	40	42	− 28	− 5	−32	+24	− 10	+ 5
Production	187	139	122	158	190	224	− 14	−11	−12	+29	+ 20	+18
South Korea												
Exports	.	.	.	.	4	7	.	.	.	.	.	+92
Production	.	69	99	107	114	144	.	+ 8	+43	+ 8	+ 7	+26

Note: Comparability is limited because of strongly varying definitions of "commercial vehicles" from country to country, and the differing structure of model offerings.

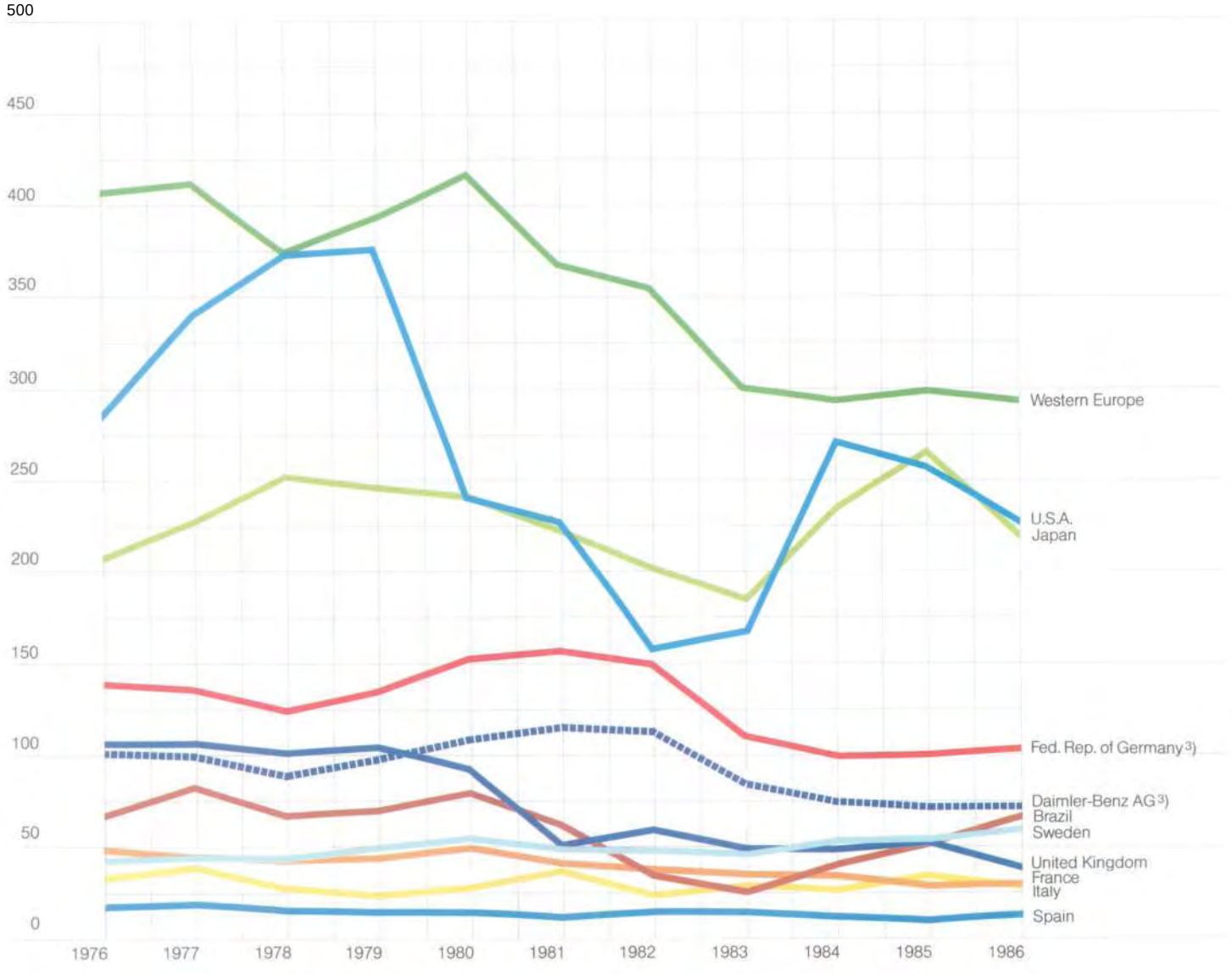
[1]) 1986 figures are partly estimated.

[2]) Kits destined for assembly abroad, from 1983 on, no longer included in total production.

Truck Production of Leading Countries

(over 6 tonnes gross vehicle weight)

(in thousands of units)



Share of production 1) in %					Export sharfe of production in %					
1982	1983	1984	1985	1986	1982	1983	1984	1985	1986	
42.4	40.6	32.1	34.1	36.0	.	.	.	.	.	Western Europe
18.9	22.6	29.8	29.3	28.0	6.9	2.5	1.2	1.0	1.1	U.S.A.
24.2	24.9	25.6	30.3	27.0	39.6	38.2	35.5	46.5	44.5	Japan
18.0	15.0	11.0	11.5	12.8	72.5	59.6	59.8	55.7	53.0	Fed. Rep. of Germany 3)
13.6	11.4	8.3	8.2	8.8	74.4	64.6	60.9	55.1	52.4	*of which: Daimler-Benz 3)*
4.1	3.5	3.9	5.8	8.3	.	.	.	.	.	Brazil
2.2	1.8	2.1	2.4	3.3	15.2	14.6	31.5	18.8	21.8	*of which: MBB 2)*
7.1	6.6	5.3	6.0	4.7	54.0	41.6	33.5	31.4	37.5	United Kingdom
5.8	6.3	5.9	6.2	7.3	96.5	89.1	94.7	92.2	93.1	Sweden
4.6	4.8	3.8	3.3	3.7	49.0	48.2	53.0	50.4	45.8	France
2.9	4.0	3.1	3.9	3.5	62.6	66.0	60.6	60.5	71.5	Italy
1.8	1.9	1.3	1.1	1.6	33.4	35.5	29.2	14.1	8.5	Spain

1) Countries included: Western Europe, U.S.A., Japan, Argentina, Brazil.
2) Mercedes-Benz do Brasil.
3) Kits destined for assembly abroad, from 1983 on, no longer included in total production.

Truck Industry of Leading Countries

(over 6 tons gross vehicle weight)

	In thousands of units						Percentage changes as compared to prior year					
	1977	1982	1983	1984	1985	1986[1]	1977	1982	1983	1984	1985	1986[1]
Western Europe												
Production	412	355	301	293	300	293	+ 1	− 3	−15	− 3	+ 2	− 2
Federal Republic of Germany[2]												
New vehicle registrations	48	39	47	43	45	47	− 2	−18	+26	− 7	+ 3	+ 5
Exports	82	109	66	60	56	55	−13	+ 0	−27	− 9	− 6	− 2
Production	136	151	111	101	101	105	− 2	− 4	−16	−10	+ 1	+ 3
of which: Daimler-Benz AG	100	114	85	76	73	72	− 2	− 2	−12	−11	− 4	− 1
France												
New vehicle registrations	42	38	39	40	34	39	− 4	+ 4	+ 1	+ 3	−15	+15
Exports	22	19	17	18	15	14	+ 3	−19	−10	+ 7	−20	− 5
Production	46	39	35	34	29	30	− 7	− 7	− 9	− 3	−16	+ 5
United Kingdom												
New vehicle registrations	55	40	45	49	51	49	+ 9	+ 1	+12	+ 7	+ 5	− 4
Exports	62	32	21	16	16	14	− 8	− 1	−34	−22	+ 2	−13
Production[3]	108	60	49	48	52	38	+ 0	+15	−18	− 3	+ 9	−27
Italy												
New vehicle registrations	26	19	17	17	18	20	+28	−35	−11	+ 1	+10	+ 6
Exports	28	15	19	19	21	21	+39	−33	+27	− 3	+11	− 1
Production	40	24	30	28	34	29	+19	−36	+23	− 6	+22	−16
Sweden												
New vehicle registrations	7	5	5	5	6	5	− 8	−15	+ 5	+ 1	+17	− 5
Exports	36	47	42	51	50	55	− 2	+ 7	−11	+22	− 2	+11
Production	45	48	47	54	54	59	+ 3	− 2	− 4	+15	+ 1	+ 9
Spain												
Exports	.	5	5	3	1	1	.	+92	− 0	−34	−57	−20
Production	19	15	14	12	10	13	+ 8	+29	− 6	−16	−16	+34
Japan												
Exports	79	80	71	83	124	98	+15	−23	−12	+18	+49	−21
Production	227	203	185	234	266	220	+10	− 9	− 9	+27	+14	−17
U.S.A.												
New vehicle registrations	323	173	177	255	284	258	+18	−20	+ 2	+44	+11	− 9
Exports[4]	42	12	4	3	3	3	−15	−62	−63	−22	−21	− 4
Production	340	158	168	272	258	228	+19	−30	+ 6	+62	− 5	−12
Brazil												
New vehicle registrations	90	41	34	42	55	70	+20	−25	−16	+23	+30	+28
Production	83	34	26	36	51	68	+23	−45	−24	+37	+44	+32
of which: Mercedes-Benz do Brasil	34	19	14	19	21	27	+ 6	−39	−28	+37	+14	+29

1) 1986 figures partly estimated.
2) Kits destined for assembly abroad, from 1983 on, no longer included in total production.
3) 7 tons and above.
4) 6.35 tons and above (factory sales) including Canada.

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