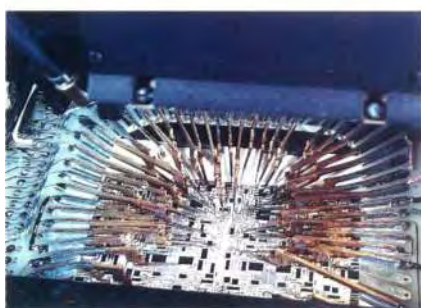


DAIMLERBENZ



Annual Report
1988

Highlights

	1988	1987	Change in %
Daimler-Benz Group			
Sales	73,495	67,475	+ 8.9
Domestic	29,094	28,064	+ 3.7
Foreign	44,401	39,411	+12.7
Employees (at year-end)	338,749	326,288	+ 3.8
Domestic	268,277	262,658	+ 2.1
Foreign	70,472	63,630	+10.8
Personnel Expenses	22,371	20,670	+ 8.2
Depreciation Allowances	3,086	2,560	+20.6
Cash Flow	6,130	6,626	– 7.5
Investments	7,007	3,736	+87.6
Net Income	1,702	1,782	– 4.5
Daimler-Benz AG			
Capital Stock	2,118	2,118	
Net Income	1,382	1,403	
Total Dividend Amount	502	503	
Dividend per DM 50–Share (in D-marks)	12.00	12.00	

(Figures in millions of D-marks)

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Supervisory Board (Aufsichtsrat)

2

HERMANN J. ABS
Frankfurt am Main
Honorary Chairman, Deutsche Bank AG
Honorary Chairman

DR. RER. POL. ALFRED HERRHAUSEN
Frankfurt am Main
Member of the Board of Management,
Deutsche Bank AG
Chairman

HERBERT LUCY*)
Mannheim
Chairman of the Labor Council,
Daimler-Benz AG
Deputy Chairman

WILLI BÖHM*)
Kandel
Member of the Labor Council, Worth Plant

PROF. DR.-ING. E. h. WERNER BREITSCHWERDT
Stuttgart

DR. RER. POL. HORST J. BURGARD
Frankfurt am Main
Member of the Board of Management,
Deutsche Bank AG

HELMUT FUNK*)
Stuttgart
Chairman of the Labor Council,
Unterturkheim Plant and Main Office

RICHARD HELKEN*)
Achim-Bierden
Chairman of the Labor Council,
Bremen Plant

ERICH KLEMM*)
Calw
Member of the Labor Council,
Sindelfingen 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

DIPL.-ING. HANS-GEORG POHL
Hamburg
Chairman of the Board of Management,
Deutsche Shell AG

DR. RER. POL. WOLFGANG RÖLLER
Frankfurt am Main
Speaker for the Board of Management,
Dresdner Bank AG

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 STEINKÜHLER*)
Frankfurt am Main
First Chairman, Metal-Workers' Union

HERMANN-JOSEF STRENGER
Leverkusen
Chairman of the Board of Management,
Bayer AG

PROF. DR. JUR. GERHARD TREMER
Gräfelfing near Munich
Member of the Board of Management,
Bayerische Landesbank Girozentrale
Deputy Chairman of the Supervisory Board,
Mercedes-Automobil-Holding AG

DIPL.-ING.
MARIA-CHRISTINE FÜRSTIN VON URACH*)
Stuttgart
Director

BERNHARD WURL*)
Mainz
Departmental Manager within the Board
of Management, Metal-Workers' Union

Retired from the Supervisory Board
on 1st July 1988

DR. RER. POL. KLAUS MERTIN
Frankfurt am Main
Member of the Board of Management,
Deutsche Bank AG

ALFRED SCHAIBLE*)
Renningen
Chairman of the Labor Council,
Sindelfingen Plant

DIPLOM-KAUFMANN GÜNTER VOGELSANG
Düsseldorf

*) Elected by the employees

Board of Management (Vorstand)

EDZARD REUTER
Stuttgart
Chairman

PROF. DR.-ING. E. h. DR. h. c. WERNER NIEFER
Stuttgart
Deputy Chairman
Passenger Car Division

DR.-ING. DR.-ING. E. h. HANS DINGER
Friedrichshafen
MTU

HEINZ DÜRR
Frankfurt am Main
AEG

DR. JUR. MANFRED GENTZ
Stuttgart
Employment

DR.-ING. RUDOLF HÖRNIG
Stuttgart
Research and Technology

DR. RER. POL. GERHARD LIENER
Stuttgart
Finance and Materials Management

DR.-ING. E. h. JOHANN SCHÄFFLER
Friedrichshafen
Dornier

HELMUT WERNER
Stuttgart
Commercial Vehicle Division

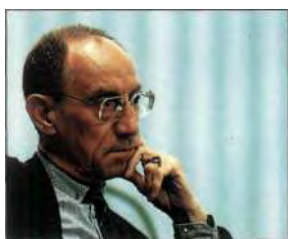
JÜRGEN HUBBERT (deputy member)
Stuttgart
Passenger Car Division

JÜRGEN E. SCHREMPP (deputy member)
Stuttgart
Deutsche Aerospace

Retired from the Board of Management

HANS-JÜRGEN HINRICHS
Stuttgart
Sales
(to 9th November 1988)

To the Stockholders and Friends of our Company



Dear Madam, Dear Sir,

4

From the beginning, competition, technology and changes in human values have determined business activity; since then, phases of new productive energy and of consolidation have represented the two poles between which we operate.

Over the last few years, much that is basically new has come into being. A series of new basic technologies, especially information technology, has been finding increasing and varied use in industry. An equally important factor is the rapidly spreading globalization of competition, in which the development of the Single European Market plays an important part.

Countless German and foreign companies are reacting to these challenges by redirecting their traditional strategies. Daimler-Benz is no exception.

The change which we have initiated, from a purely automotive company to a high-technology group with its main focus of activity on automobiles, presupposes the willingness to accept risks and a certain amount of unpleasantness. In our opinion, however, it is not so much the expansion of the Group which of itself involves risk. The size of the company as a whole is determined automatically by the nature of its products, which can no longer be developed, manufactured and sold in smaller dimensions. At the same time, the phase of restructuring in which we currently find ourselves necessitates particular care.

In a transitional phase of this kind, certain risks inevitably arise from the fact that the necessary homogeneity of the individual company units, and thus also of the decision-making process throughout the Group, is negatively affected. The organizational decisions which we are asking you, as stockholders, to make, will greatly help to cre-

ate this homogeneity. We think that we will then have a considerable part of the most difficult phase behind us.

We have been introducing further measures, such as adapting managerial structures and reporting to the new requirements, since January 1st 1989, and here increasing progress is being made. A growing number of our employees are coming to realize that the shape of the new Group will provide them with new prospects in their work. We are convinced that it is in this - as it has always been - that the actual reason for the Group's success is to be found.

Yet we do not imagine that we have more talented people working for us than other companies. We are optimistic that we will continue to be successful because we nurture our particular tradition. The pride of being able to work in the Daimler-Benz Group is based not least on the cooperation of all and the willingness to work towards a common goal. This is why the Board of Management considered it a responsible step to initiate a process which demands much of many people. This is balanced out by major opportunities of strategic importance.

Primarily, the expansion of the Group secures us maximum growth potential in the automotive sector. At the same time, though, it makes us less dependent on our core source of business in case, at some time, the era of growth in automotive production - which has now been going on for four decades - should come to an end. As things stand at present, however, the automotive industry can definitely count on the continued stimuli emanating from the new technologies. The field of microelectronics, in particular, is becoming indispensable in motor vehicle design and manufacturing. This is re-

suited, in some cases, in completely new tasks, eg for systems technology, which in principle has for a long time been a routine component in the aerospace sector. Microelectronics are gaining in importance because vehicles are being equipped with "eyes" and "ears" which link them with traffic systems. Since our expanded Group puts all such technological capabilities at our disposal, we will be able to maintain our role as a pacemaker and a pioneer despite fiercer competition.

The Group's expansion is no less important for those sections not involved with the automotive business. From the coordinated collaboration within the Group, these sections reap a large number of benefits.

We have succeeded in advancing the development of the Group successfully in this direction. Our goals have not changed since 1985, they have become more clearly defined. In addition to the two fields of automotive business and the broad area of microelectronics and systems technology, with their many applications for products and industrial manufacturing systems, we have decided to build up a third major focus of activity. This is to be an aerospace division which will be efficient not only on a national, but also on an international scale.

The action that needs to be taken to do this in any case coincides with the necessity of reacting to the inevitable structural changes in the German and Western European aerospace industry. Conventional-sized units have for a long time no longer been capable of guaranteeing a competitive production output Western Europe as a whole, and especially our country, with its efficient yet too-small and fragmented aerospace industry, requires two things in equal measure. These are the

reduction of duplicated capacities and the creation of larger, more effective units, so that growth potential, which is far above average, can be properly exploited.

It is therefore only logical if, in order to aid this structural streamlining, efforts are made to make a private industrial company responsible both for the performance and the managerial control of Messerschmitt-Bölkow-Blohm GmbH. Such a move is essential if the subsidies which were needed to allow the Airbus to be built are to be gradually removed.

Without two decisions made in 1988, the negotiations on the setting up of our aerospace division would not have been possible. The company-interlinking contract with AEG and the agreements made between the proprietors concerning managerial control of Dornier GmbH by Daimler-Benz enable the Group member-companies to devise a clear and, above all, uniform managerial structure for those areas of business activity which in each case belong together.

In future, Daimler-Benz AG is to be a holding company with overall managerial responsibility for the three divisions of Mercedes-Benz, AEG and Deutsche Aerospace, coordinating, controlling and monitoring them in all strategic matters of interest to the Group as a whole. This also involves developing new fields of activity, for which the Research and Technology Sector in the holding company will supply the necessary preliminary work and impetus. Surveys to date have identified just under 100 projects for which it would be advantageous if the synergetic potential of the whole Group were brought to bear.

The three corporate divisions are to be run as operatively independent com-

panies, responsible for their own results. This is why we are proposing to you, our stockholders, the foundation of Mercedes-Benz AG, which will be responsible purely for the motor vehicle side of business. Our trademark, the Mercedes star, is to be reserved exclusively for the core of our product range, the Mercedes-Benz cars and commercial vehicles.

Our subsidiaries, affiliates, joint ventures and other Group activities in the aerospace field, including defense technology, are to be concentrated in Deutsche Aerospace AG. This will also operate as a holding company with overall managerial responsibility. The relevant sectors separated from AEG, together with Dornier, MTU and MBB once that affiliation is complete, will be developed within this framework to units capable, when taken together, of competing on a worldwide basis.

It is a matter of principle that, for us, such extensive initiatives are only feasible if they rest on a foundation of solid financial management.

What this means, primarily, is that all the companies in which we have an interest meet strict economic criteria. Either they are profitable, have above-average growth potential, master technologies which show promise for the future or boast a combination of these factors. One particular aspect is that all the Group member-companies have well qualified and acknowledged personnel.

Equally essential is the earnings and financial power of the parent company. Retained post-tax earnings for the Group amounting to DM 7.5 billion and stockholders' equity totaling DM 10.8 billion represent a reliable collateral for our expanded entrepreneurial activities.

The strength of the equally important financing basis is revealed especially by two balance-sheet items. A to-

tal of nearly DM 17 billion now covers the company's pension and other long-term obligations. As internally bound provisions, these resources are also available for financing purposes. A liquidity cushion equating to two months' sales revenue, or over DM 14 billion, guarantees us independence and effectiveness of action.

Those who recognize the significance of these factors will understand how wrong it would be to think that an "honorable" automobile manufacturer was engaged in wasting the proceeds from its traditional field of activity on alien fields of activity or on subsidizing other companies. Instead, the task of Daimler-Benz AG as a holding company will consist of channelling the resources of the whole Group to ensure they are used to best effect.

We will certainly not be smug or lethargic when tackling this task. Even if there were nothing else, the tough competition in the world's automobile markets - which of course require maximum attention on our part - would itself be enough to prevent such an attitude. Mercedes-Benz vehicles account for three-fourths of consolidated sales, and this will remain so for the foreseeable future.

Against this background, it can be no surprise to hear how vehemently we fought against the unjust discrimination against the diesel throughout 1988. We have yet to achieve our aims in this battle, but we are optimistic that our new engines, which lower particulate emissions by 40%, will go a long way towards making up for the decline in our output of diesel cars.

At the same time, we are working with maximum effort to shorten our product cycle times. The recent introduction of new models has in fact already begun to rectify many over-quick

judgements made of late. In March we presented the new roadster, which was enthusiastically acclaimed by the motor press. This car emphasizes the high standards which Daimler-Benz has set itself for all its products.

In the commercial vehicle sector, too, we have embarked on an equally powerful offensive. The new heavy-duty trucks launched in 1988 met all our expectations and contributed to the improvement in our commercial vehicle business. Despite this, we have had to observe how the already fierce competition in this sector has been driven, by a structurally caused over-supply situation, to extremes which still make it impossible to achieve satisfactory conditions.

Partly for this reason, but also with a view to the keener competition which the Single European Market will bring about, we have consistently carried on the work of improving our cost structure. We do not regard the successes

we have met with so far as the last word in this intense effort, which will take several years altogether. The progress made in this context with regard to productivity must be enlarged upon by means of flexible utilization of manufacturing facilities.

The sum of all these activities, which I can only give in outline here, allows the owners of Daimler-Benz to draw the conclusion, quite rightly, that a positive result has been achieved.

In the next five years we will be investing about DM 30 billion in fixed assets and nearly the same again in research and development. At the same time, we are convinced that our present dividend situation will continue - we are expecting the result for 1989 to match the previous year's level.

When the time is right we intend to invite you, our stockholders, to support a capital increase and participate in the company's growth with the resultant broader basis of stockholders' equity.

Sincerely,

E. G. Bente



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Report of the Board of Management

Business Review

In the industrialized countries of the West, economic trends in 1988 were more favorable than expected. World trade increased even more than in the previous year. By contrast with initial fears, the turbulence in the international finance and foreign exchange markets only affected the trend toward growth to a minor extent. In most countries, the forces for expansion took full effect. This gave the upturn a broader basis.

In the Federal Republic of Germany the economy was once again stimulated by private consumers, but also by a higher demand for capital goods both from Germany and abroad. The gross national product achieved the highest growth in ten years, at 3.4%. The surplus in the balance of trade rose to a new high, although imports of goods and services - partly as a result of continued revaluation of the D-mark - rose more, in real terms, than exports.

Daimler-Benz: Group Sales Rise to Over DM 73 billion

In the 1988 business year, Daimler-Benz was again able to increase sales and employment. Consolidated sales went up by 8.9% to DM 73.5 billion; about two-thirds of the DM 6 billion increase was accounted for by the automotive sector. As in the previous year, approximately 60% of Group sales were made in the European Community. Within Germany, sales rose by 3.7% to DM 29.1 billion and by 13% to DM 44.4 billion abroad.

Worldwide, our automotive business increased by 7.8% to DM 54.9 billion. As in the previous year, the growth came for the most part from the commercial vehicle side, where sales - counting all markets - went up by 19% to DM 23.1 billion. In the passenger car division, sales reached the same high volume as the previous year, at DM 31.8 billion (1987: DM 31.5 billion).

After deducting sales of goods and services between Group member-companies, AEG contributed DM 13.2 billion (DM 11.5 billion in 1987) and MTU DM 3.1 billion (DM 2.8 billion in 1987) to consolidated sales. Sales of Dornier, which suffered a sharp decline in 1987, rose again significantly in 1988, by 19% to DM 1.9 billion.

Sales of Daimler-Benz AG amounted to DM 41.7 billion, slightly above the previous year's level; this applied both in Germany (DM 19.9 billion) and in the export markets (DM 21.8 billion). The neighboring countries of the European Community gained in significance here; the volume of sales to these countries rose by 12.5% to DM 8.8 billion.

560,000 Passenger Cars Made

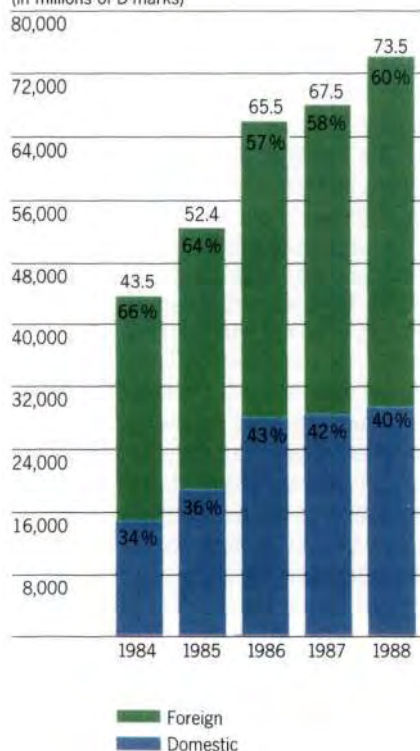
In international terms, 1988 was again a good year for passenger cars. Sales in a number of major markets rose once more, one exception, however, being the Federal Republic of Germany. As a result of the public debate concerning the environmental acceptability of particulate emissions, the demand for diesel cars declined considerably.

With their traditionally large share of diesels, Mercedes-Benz cars were particularly hard hit by this development, although the drop in sales was less than for the industry as a whole. Altogether, new registrations in Germany of Mercedes-Benz cars went down by 3.9% to 270,843, the fall being greatest for the 190 series. Despite this, our market share improved slightly to 10.2% (10.1% in 1987). In the countries of the European Community other than the Federal Republic of Germany, we sold 128,600 cars, 10% more than in 1987. Our sales achieved two-figure growth rates in Italy, Spain and the United Kingdom.

In the U.S.A., our 6.9% fall in sales to 83,700 cars was considerably lower than for most other European import makes. This decline was partially offset by a further vigorous rise in sales in Japan; here, new registrations of Mercedes-Benz cars climbed another 21% (1987: + 36%) to 22,600.

Consolidated Sales

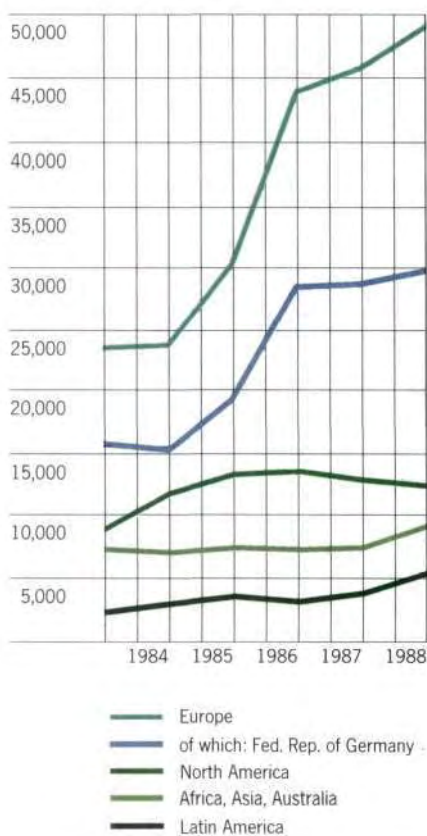
(in millions of D-marks)



Note: The business review is combined for Daimler Benz AG and the Group as a whole.

In 1988 we cut down production output, which had been expanded by one-fourth between 1984 and 1987, by 6.4% to 559,713 Mercedes-Benz cars. While the total output of gasoline-engined models rose slightly, this was due entirely to the unjustified discrimination against diesels mentioned above; for these, output was lowered by 21%. The diesel share of total car output thus fell further to 28.2% (1987: 33.5%). As recently as 1980, every second Mercedes-Benz car was still a diesel.

Consolidated Sales by Regions
(in millions of D-Marks)



Commercial Vehicle Output up 10%

Unit sales in the international commercial vehicle markets continued to be good in 1988. Our company was able to take advantage of the lively demand and consolidate its position as the world's largest manufacturer of trucks over 6 tonnes GWW. In the European Community, Mercedes-Benz commercial vehicles in all weight categories exhibited considerable improvement. In the Federal Republic of Germany, new registrations of our commercial vehicles rose by a total of 10% to 66,157. Due to the great market success of our new MB 100 D van, which is manufactured by our Spanish subsidiary, we increased our sales in the 2 - 6 tonne GWW van segment by 23% to 31,854 units, thereby improving our market share. In the truck class of over 6 tonnes GWW, we sold 29,919 units, thereby matching the previous year's high level (1987: 29,653). Of the countries in the European Community, the United Kingdom and France were particularly important customers, especially for our trucks of over 16 tonnes GWW. After a market decline lasting several years, demand from a number of Middle East countries again began to revive.

Capacity was utilized to the full in our German plants, and output rose by 6.7% to 154,319 commercial vehicles, of which 95,336 were exported (+ 14%). The number of vehicle kits for production abroad went up by 6.4% to 10,734 units.

In the year under review, our foreign commercial vehicle companies manufactured a record number of units, at 103,632 vans, trucks and buses (+ 16%). Due to the high demand for the MB 100 D, Mercedes-Benz Espana more than doubled its output of vans (23,140). A similarly high growth rate for commercial vehicles was achieved by Mercedes-Benz of South Africa (+ 92%), following a powerful revival of the domestic market there. In North America, despite switching over production to a new generation of vehicles, Freightliner's output was only just

below the very high level of the previous year, with an output of 26,832 trucks of over 16 tonnes GWW. Mercedes-Benz do Brasil once again succeeded in increasing output, by 5.3% to 45,791 trucks and buses. For Mercedes-Benz Argentina, on the other hand, developments continued to be affected by the difficult economic situation.

Throughout the Group as a whole, 257,951 commercial vehicles were manufactured in 1988, 10% more than in 1987.

Positive Development of our Subsidiaries AEG, Dornier and MTU

In 1988 AEG benefitted from positive developments affecting its foreign business which occurred in the course of the year. High growth rates were achieved especially in Spain, Turkey and Italy. Encouraging progress was made by the Transport Systems, Standard Products and Components, and Household Appliances divisions. Incoming orders totaled DM 13.4 billion, 11% above the figure for the previous year. Through the acquisition of new companies and the consolidation of companies in which it already had an interest, AEG incorporated new activities into the company: TELEFUNKEN electronic GmbH (TEG), of Heilbronn, in the field of microelectronics, and the Industrial Automation Systems Group (MODICON), U.S.A., in the field of automation technology. In the area of track-bound transport systems, a joint venture has been agreed between AEG and Westinghouse, U.S.A. This is to be based in Berlin.

With the approval of their annual general meetings, AEG and Daimler-Benz concluded a company-interlinking contract in which AEG subordinates its company management to Daimler-Benz. Within the framework of the compensation payment offered, and of the voluntary purchase offer made to AEG stockholders, Daimler-Benz raised its stake in AEG to 80.2%. In accordance with the agreement, those

AEG stockholders who did not avail themselves of the offer will, for the 1988 business year for the first time, receive, for each share with a par value of DM 50, 20% of the amount paid for the same year for a Daimler-Benz share of the same par value (guaranteed dividend).

The Dornier Group can look back on an encouraging 1988 business year. A major contribution to this was made by the field of space technology, in which invoices for a number of important large-scale projects were settled. New kidney and biliary lithotripters stimulated business in the medical technology sector. Demand for the Do 228 aircraft declined as expected. Altogether, incoming orders fell slightly to DM 2.5 billion. Further growth in the volume of business is expected again in the next few years.

In final negotiations with the inheritors of Claudius Dornier's estate and with Silvius Dornier, the company-law questions relating to ownership within the Dornier Group were clarified and sole industrial management passed to Daimler-Benz AG. By the new arrangement, Daimler-Benz holds 57.6% of the common share capital of Dornier GmbH.

In 1988, the MTU Group was able to continue the constant growth of the preceding years. Employment was at a high level, rising particularly in the aero-engines sector. In order to strengthen its competitive position and gain entry to new markets in the heavy-duty diesel engine sector, MTU acquired a 25.5% holding in the French diesel engine manufacturer S.E.M.T. Pielstick. The order backlog at year-end amounted to DM 6.1 billion (+ 34%), guaranteeing employment until well into 1990.

339,000 Employees in the Group

At year-end, the companies of the Daimler-Benz Group had 338,749 people in their employ (326,288 in 1987), a good fifth of these abroad. The increase is primarily due to acquiring and absorbing new subsidiaries and affiliates.

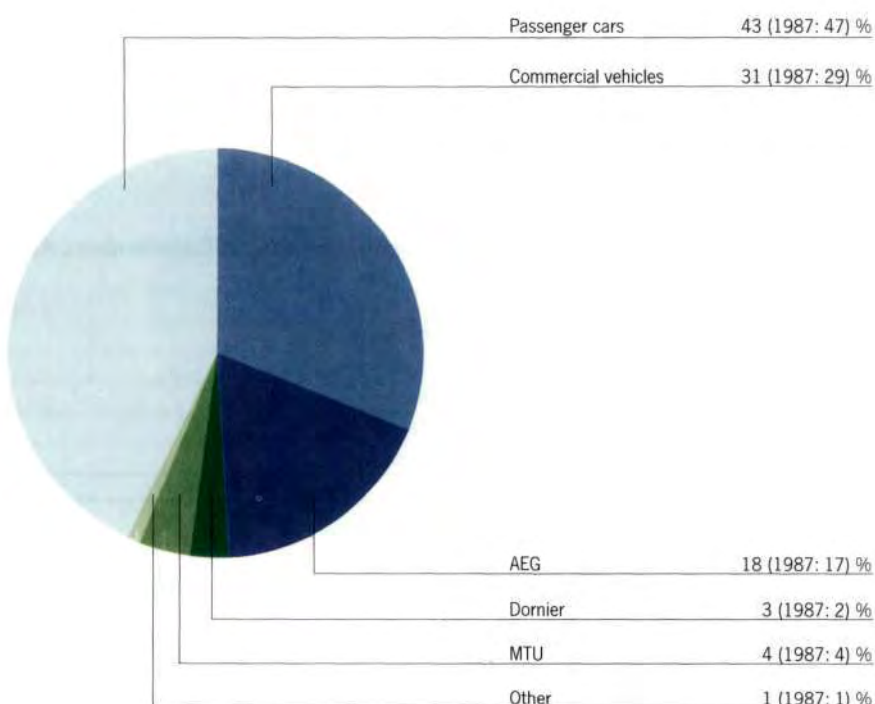
The workforce of Daimler-Benz AG totaled 170,577, only a little higher than in 1987. The number of trainees and apprentices again increased; at the end of 1988, a total of 9,805 young people were in training.

At year-end AEG had 89,585 (1987: 80,499), Dornier 9,786 (1987: 9,683) and MTU 17,267 (1987: 17,284) employees.

Further Increase in Group Purchasing Volume

In the year under review, the companies of the Daimler-Benz Group worldwide purchased goods and services to the total value of DM 43 billion (1987: DM 40 billion); just under one-third of this was accounted for by spending abroad. The purchasing volume of Daimler-Benz AG amounted to DM 25.4 billion (DM 23.8 billion in 1987).

Consolidated Sales by Sectors



In the Federal Republic of Germany, about 90% of our suppliers consist of small and medium-sized companies. These will continue to be indispensable partners for us in the future. The high efficiency demanded of the automotive suppliers has become even more imperative as the result of keener competition in the international vehicle markets, and the emergence of new companies on the procurement side. Above all, the variety of our vehicle range, the rapid introduction of new products and the growing use of new technologies in vehicle design make it necessary to intensify cooperation with suppliers in research and development. Here, we expect such companies to initiate innovative activities of their own, and acquire the ability to master complex systems and turn these rapidly into applications which are suitable for large-scale production. Changes in exchange rates and the lower cost levels experienced in foreign procurement markets leave German suppliers with little room for maneuver when it comes to prices. By cooperating right from the development stage, however, they can secure sufficient quantity, and sufficient share, of goods to be supplied for the long term. The automobile manufacturers and the supply industry are fully aware of the fact that they can only maintain their place at the forefront of progress by means of joint effort. At this point we would like to thank all our supply, transport and service companies for their close cooperation.

Investments Considerably Increased

To secure the future existence and further growth of the companies in the Daimler-Benz Group, considerable sums were again invested in the year under review. Additions to fixed assets in the Group amounted to DM 5.1 billion (DM 3.8 billion in 1987). Daimler-Benz AG alone invested DM 2.7 billion in fixed assets, 14% more than in the previous year. The main focus again lay in the passenger car division, for additions and further

improvements to the product range, and for the introduction of new technologies. Investments in fixed assets by our subsidiaries engaged in the automotive business came to a total of DM 0.6 billion (DM 0.4 billion in 1987). Investments in fixed assets by AEG, Dornier and MTU totaled DM 1.9 billion (DM 1.0 billion in 1987). Investments in financial assets throughout the Group amounted to DM 4 billion. A further DM 1.5 billion was bound up by intangible assets for goodwill.

Although the cash flow within the Group dropped from DM 6.6 billion to DM 6.1 billion, this was enough, as in the previous year, to fully finance the considerably increased investments in fixed and financial assets. The additions for goodwill of DM 1.5 billion are not included in that figure.

The investment in vehicle leasing of DM 2.5 billion (1987: DM 1.4 billion) is financed from the depreciation and retirement of fixed assets offset against this, and by phased borrowing. In the year under review, we issued Euro-bonds to a total value of \$ U.S. 250 million to finance our North American leasing business.

Higher Investment in Research and Development

Our expenditure on research and development is accorded a very high priority in our financial investment for the future. In 1988, this expenditure rose to DM 4.8 billion (DM 4.1 billion in 1987) for the Group as a whole. Worldwide, 24,000 people are employed in these areas (1987: 22,000). Within the Group, we continued and intensified the exchange of ideas and transfer of technology. Both in areas of activity that had already been defined and in new or further-extended areas, we were able to derive benefit from synergetic effects. For the close technological cooperation for which we are aiming within the Group, we developed new research strategies and agreed on specific projects between Mercedes-Benz, AEG, Dornier and MTU. Examples of these include the research programs into electro-traction, information technology and the application of electronics in vehicles and traffic systems (TRAFFONIC).

In the Research, Development and Testing sectors of Daimler-Benz AG, a total of DM 2.6 billion (DM 2.2 billion in 1987) was invested in the further devel-

Capital spending at Daimler-Benz AG by sectors:

	1988		1987	
	in millions of DM	in %	in millions of DM	in %
Passenger cars	1,805	67	1,511	64
Commercial vehicles	436	16	472	20
Research and technology	108	4	95	4
Sales/retail branches	151	6	142	6
Headquarters	194	7	142	6
	2,694	100	2,362	100

opment and improvement of the vehicle ranges. In this area there are 12,700 employees (1987:12,100).

The Passenger Car and Commercial Vehicle divisions presented new models and model versions, and introduced a large number of product features into current series production.

Four, six and eight-cylinder engines with four-valve technology were developed for our passenger cars. We refined the exterior of our compact series, which was introduced in 1983, redesigned the interior and further improved its passive safety. The new 200 E and 200 TE versions enlarge our range of cars with fuel-injection engines in the mid-series. The

250 D Turbo, with its powerful engine, adds to the broad range of diesels. The anti-lock brake system (ABS) is now standard equipment in all the mid-series cars, as well as in the S-class sedans and coupes; for the 190 series, the price of this optional feature was reduced. Our aim here is to enhance the utility value of our cars, and above all their active safety, in the interest of our customers. With the new 560 SE, we now offer another top model in the category of particularly high-quality passenger cars. Modifications to the design of diesel car engines enabled us to reduce particulate emissions even further. An optimized combustion system decreases the emission of particulates by another 40%, as well as improving power output and fuel consumption. As of February 1989, all new Mercedes-Benz diesel cars have incorporated this new environmentally acceptable engine technology.

At the Geneva Motor Show in March 1989 the newly developed Mercedes-Benz sports car was presented to a wide cross-section of the public. The response was exceptionally good.

The Commercial Vehicle Division successfully launched the new heavy-duty trucks; again, the customers' response was gratifying. The range available comprises dropsiders, tractor units, tippers and all-wheel-drive dumpers with two, three or four axles, in the weight category of 17 tonnes and above. All versions can be fitted with the further-developed six and eight-cylinder turbocharged engines (243 and 353 kW or 330 and 480 hp, respectively), two V-8 naturally aspirated engines with 191 and 213 kW (260 and 290 hp), and with range-change gearboxes developed by Daimler-Benz. Due to a broad basic range with a rich choice of cabs, wheelbases and different power train variants, customers are able to pick the truck that is best-suited to the particular application planned. The vehicles are distinguished by low fuel consumption, light weight despite high robustness

throughout, and short downtimes for maintenance and repairs. With the new heavy-duty truck series we have taken a major step towards strengthening and improving our position in the European commercial vehicle market for a long time to come.

In 1988 AEG spent DM 1,090 million (1987: DM 929 million) on research and development. Points of emphasis included consolidating and expanding the divisions of Automation Technology, Transport Systems, Office and Communication Technology and the new Microelectronics division at TEG in Heilbronn. At Dornier expenditure on research and development, including work commissioned by third parties, amounted to DM 653 million (DM 528 million in 1987), due especially to strong expansion in the space technology sector. Of this figure, DM 130 million was accounted for by own-account projects (DM 125 million in 1987). MTU's expenditure on research and development in the year under review totaled DM 445 million (1987: DM 435 million), about half of this being for own-account and half for commissioned development work.

Altogether, Satisfactory Group Earnings

Despite some areas in which earnings were considerably down, Daimler-Benz achieved a generally satisfactory result. The mean rate of exchange for the dollar was again lower than in the previous year, and therefore continued to affect the competitiveness of our products in a number of markets for price reasons. Particularly hard hit was our passenger car business in the U.S.A., where market trends only permitted price adjustments to a limited extent. The significant drop in demand for diesel cars in Germany also had a negative effect. This contrasted with an encouraging reversal in the earnings trend in the commercial vehicle division. This is due in part to higher demand for trucks in Western Europe, but

Financing of capital spending and financial investments

(in millions of DMarks)



also to successful cost-reducing measures introduced in our domestic plants. The contribution of our foreign commercial vehicle companies has as a whole risen further. The earnings of Mercedes-Benz Espana - positive for the first time in many years - and the much better results achieved by Mercedes-Benz of South Africa and Mercedes-Benz do Brasil are especially worthy of mention here.

While Dornier registered a net loss for the year, MTU again succeeded in achieving better earnings than in the previous year. After deduction of the guaranteed dividend to be paid to minority stockholders for the first time this year, AEG earnings are once again to be used to strengthen the company from within.

In the non-operating area, the Group's interest income rose to DM 1,017 million (DM 777 in 1987), DM 722 million of this being accounted for by Daimler-Benz alone (DM 669 million in 1987). For subsidiaries in high-inflation countries, a monetary adjustment was made on the consolidated balance sheet, as in previous years, which to some extent eliminates apparent profits. Consolidated net income amounted to DM 1,702 million (1987: DM 1,782 million).

Continued Favorable Structure of the Consolidated Balance Sheet

The growth in the volume of business to DM 73.5 billion resulted in a further rise in the balance sheet total to DM 51.9 billion (DM 46.5 billion in 1987). Due to the showing of DM 1.5 billion in goodwill as an asset on the balance sheet, mainly due to changes in our holding in AEG and changes in the newly acquired companies within AEG - in turn resulting in an increase in fixed assets - the assets side

of the balance sheet shows a greater proportion of non-current assets. The current assets, which are of approximately the same value as in 1987, now only make up 67% (74% in 1987) of total assets. Since the structure on the liabilities side remained virtually unchanged, the rise in non-current assets resulted in a fall in the coverage of these assets by stockholders' equity from 98% to 79%. This does not include the larger inventory of vehicles belonging to the vigorously expanding leasing business, which is mainly financed by borrowing. Including medium and long-term provisions, especially pension provisions (assessed uniformly at a calculated interest rate of 3.5%), the proportion of long and medium-term capital to the balance sheet total amounted to 68% (1987: 70%).

Allocation of Earnings

The net income of Daimler-Benz AG remained virtually unchanged as compared with 1987, at DM 1,382 million. In accordance with § 58 of the German Company Act, half of this sum, DM 691 million, was allocated to reserves from income.

To the Annual General Meeting of Stockholders on June 28, 1989, we propose the paying out of a dividend of DM 12 per ordinary DM-50-share. The dividend amount therefore totals DM 502 million. To further strengthen stockholders' equity and secure the basic substance of the company, we propose that the Annual Stockholders' Meeting pass a resolution allocating an additional sum of DM 189 million from the unallocated income to retained earnings.

New Group Structure

We will also be proposing to the Stockholders' Meeting to agree to the forming of Mercedes-Benz AG, as the next stage in our restructuring of the Group. Our aim in doing this is to reinforce, and secure in the long term, the competitiveness of the expanded Daimler-Benz Group.

Daimler-Benz AG is in future to operate as a holding company with overall managerial control. The planned companies of Mercedes-Benz AG and Deutsche Aerospace AG, together with the already existent AEG AG, are to be subordinate to Daimler-Benz AG as legally independent companies.

Mercedes-Benz AG will consist of the Passenger Car and Commercial Vehicle divisions hived off the old Daimler-Benz AG. Under the terms of a control and profit transfer agreement between the two companies, Mercedes-Benz will subordinate its management to Daimler-Benz AG. AEG AG, which is already subject to the overall managerial control of Daimler-Benz, is in future to encompass the divisions of Automation Technology, Transport Systems, Microelectronics, Electro-technical Systems and Components, Electrical Consumer Goods, and Office and Communication Technology. Our subsidiaries, affiliates, joint ventures and other Group activities in the aerospace field, including AEG's defense technology, are to be concentrated in Deutsche Aerospace AG. Here, too, we propose making the company subject to the overall managerial control of Daimler-Benz AG by means of a control and profit transfer agreement. In preparation for this, Dornier has adopted a modified structure with effect from January 1st, 1989. Dornier GmbH of Friedrichshafen, as the parent company, has now the direct control of Dornier Luftfahrt GmbH and Dornier Medizintechnik GmbH as subsidiaries based in Munich. Messerschmitt-Bölkow-Blohm GmbH (MBB), once the planned holding is complete, is also to be included in Deutsche Aerospace AG.

Outlook

The economic prospects, worldwide, remain favorable for 1989, although less growth and higher inflation rates must be expected. In the big international passenger car markets of the U.S.A., Japan and Western Europe, a cyclical decline is beginning to take shape, and this is being reinforced by particular market conditions applying in specific countries. Despite this we are confident that we will be able to keep the sales of Mercedes-Benz cars abroad at the same high level as in the previous years, or even slightly raise them. How successful we will be in doing this in the domestic market depends very much on trends in the demand for diesel cars. With our new engines, however, we expect to convince our customers of the advantages of our particularly economical, environmentally acceptable diesel engines. At the same time, though, this would require the politicians to acknowledge the virtues of diesel cars without reservation. We are certain that the market's positive response to our new sports car will have an increasingly positive spin-off effect on the entire car range.

The international commercial vehicle markets will continue at a high level, although a certain decline must be expected in the course of the year, particularly in Western Europe. By contrast with market trends as a whole, we expect the out-

put and sales of Mercedes-Benz commercial vehicles to be slightly increased once again. As things stand at present, a decline in the domestic market could be balanced out by higher exports. Abroad, our largest commercial vehicle company, Mercedes-Benz do Brasil, must count on a fall in output and sales due to the country's generally difficult economic situation. Our productivity-raising, cost-reducing measures, together with the high degree of innovation displayed by our products, make us optimistic about our ability to further improve our position as world market leader for trucks over 6 tonnes GWW. Due to the development of our international integrated production set-up, we can make increased use of the advantages of specific countries as locations for manufacturing, and open up additional sales potential by being closer to the market.

AEG is expecting further growth in sales and incoming orders, with the new acquisitions in automation technology, transport systems and microelectronics having a more and more important effect.

In the current business year, the Dornier Group is expecting another improvement in sales and overall performance, especially in the aerospace sector. Despite the difficult market situation, sales of the DORNIER 228 aircraft are expected to match the previous year's level. Following the powerful growth in the volume of business in 1988, the Medical Systems Division is expecting a phase of consolidation. On the medical equipment side, the share of biliary lithotripters will rise further.

At MTU, the international joint ventures that have been entered into, backed by the technologically advanced and high-quality range of products, will provide a solid foundation on which to increase sales and employment again. The development of the dollar exchange rate, however, remains a major factor of uncertainty.

For the next five years, higher investments in fixed assets are planned in all areas of the Group. The expenditure of approximately DM 30 billion represents by far the biggest investment program ever planned by our company for such a period of time. About 75% of the total is earmarked for the automotive sector. At the same time, we will be spending a sum of the same order of magnitude on research and development, to meet the growing demands of the market. We expect additional stimulus for all areas of the Group to come from the abolition of still-existing barriers within Europe as from 1993.

As things stand, for the current business year we can expect a result of the same general level as in 1988.



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The Group's Divisions

Mercedes-Benz Division

Passenger Cars

Millions of D-marks	1988	1987
Sales	31,833	31,472
Investments	1,906	1,542
R+D expense	1,225	1,022
Output (units)	559,713	598,079
Employees	92,813	92,727

18

Internationally Strong Car Market

Internationally, the demand for passenger cars did not lose momentum in 1988. For the sixth year in succession, output reached a new record mark. Worldwide, 34.8 million cars were produced (33.5 million in 1987).

In the U.S.A. sales again increased to 10.6 million cars after the strong drop in the previous year (10.3 in 1987). In addition to the unexpectedly buoyant demand for consumer goods, the considerable price concessions were a decisive factor, given in particular by American manufacturers to their customers. Sales of cars manufactured in the U.S.A. increased by 6.5% to 7.5 million. Production output only reached the level of the previous year with in total 7.1 million cars because

the manufacturers decreased their high level of stocks. Imported makes were not able to participate in the favorable market development. Their sales dropped by 3.0% to 3.1 million units; the market share fell to 29.1% (31.1% in 1987). Whereas European importers had to accept a clear drop in sales, the aspiring South Korean automobile industry was able to sell considerably more of its vehicles in the lower price range (+21% to 419,000 units). Japanese manufacturers cut exports to the U.S.A. by 3.7% to 2.1 million cars. Due to a monetary parity unfavorable to Japan, they increasingly supplied the U.S. market via production plants in the country itself. The overall sales of Japanese makes in the U.S.A. increased by 1.0% to 2.7 million cars.

The low exchange rate of the U.S. dollar further impaired the price competitiveness of the West German suppliers; sales of their for the main part high-value cars decreased by 18% to 285,000 units. The American manufacturers, favored by the exchange rate, made great efforts to penetrate markets outside the U.S.A. Up to date notable sales or market shares have not been achieved in Europe or Japan.

On the Japanese market new registrations increased again radically by 13% to 3.7 million cars as a result of a lively internal economic situation. These included imported vehicles showing an increase of 37% to 133,600 units; approximately 92,000 of the cars were made in Germany. The market share of non-Japanese products continues to be, however, at 3.2% (6.6% in 1987) extremely low when compared internationally. The trend towards cars above 2 liters displacement remains in Japan; sales in this category rose by almost 50% to 166,000 units. The domestic car manufacturers are now making every effort to extend their position in this prestigious market sector which is looking towards growth in the future. The decline in Japanese car exports to the U.S.A. is compensated by an increase of 3.3% (6.8% in 1987) of supplies to Europe. Exports thus almost reached the level of the previous year (4.5 million cars) and are again only just below the previous highest export volume of 1986. Production increased by 3.9% to a new record level of 8.2 million vehicles.

In Western Europe, new registrations increased in 1988 by 4.7% to 13 million cars. High growth rates in the volume markets in France, Italy and the United



Once more in 1988, within their category, more Mercedes-Benz S-class cars were produced than any other make. This car was classified as the "safest car in the world" by an insurance analysis in the U.S.A.

Kingdom were contrasted by a drop in new registrations in the Federal Republic of Germany. Sales in Spain have almost doubled in the last four years; in 1988 the 1 million mark was exceeded for the first time in new car registrations. The favorable economic situation in most West European countries for passenger cars allowed an increase in production again by 4.2% to a level of 13.2 million cars which had previously not been reached. Western Europe's share in world production remained unchanged at 38%; net export, i.e. production output less new registrations, was at .6 million cars in 1988, as in the previous year.

Car Sales in the Federal Republic of Germany Continue at a High Level

1988 was clearly more successful for the German car industry than could have been expected at the beginning of the year. On the home market new registrations remained at 2.8 million vehicles, just 3.7% below the previous best car year of 1987. The higher real income and low level of interest rates prevented a more pronounced drop. The domestic car producers showed a good performance in comparison with importers; the market share of products from abroad, at 29.1%, was just below the value of the previous year. Japanese cars achieved a share of 15.2% (15.1% in 1987).

The trend towards more environmentally acceptable cars continued in Ger-

many. By the end of 1988, 95% of all new registrations (92% in 1987) were classified as "pollutant-reduced". Demand continued to move from diesel to gasoline engines with catalytic converters. The three-way catalytic converter was installed in 44% of all newly registered vehicles with gasoline engines (33% in 1987). In the top market sector almost exclusively cars with three-way catalytic converters were supplied.

New registrations of diesel cars went down by 33% to 382,500, and their market share from 19.5% to 13.6%. The drop in sales of diesel cars was above all due to the emotional discussion on particulate emissions. Although the diesel engine is still recognized as being low in pollutants, the tax exemption for die-



The S-class coupe is counted among the best-looking cars in the world.



Envied for their appearance and exclusivity: the 230 CE and 300 CE coupes.



Even with the top down, the new roadster meets the highest demands in terms of safety and comfort.

sel cars below 2 liters displacement, originally scheduled 1991 was stopped already at the end of 1988. In addition, the increase in vehicle tax and the ban on driving in the case of a smog alarm were negative influences. This situation is extremely unsatisfactory both from an energy and environmental point of view, as the diesel engine, which is particularly low in consumption and is energy-saving, achieves gaseous emission values which are in the same range as the values for gasoline engines with three-way catalytic converters.

The sales losses in car exports to the U.S. market contrasted with increased supplies mainly to other foreign West European countries and to Japan. In total exports of German cars increased by 2.3% to 2.51 million units. Over

80% went to Western Europe, and 64% to other member countries of the EC.

Due to the good export trade, the German car industry in 1988 was almost able to achieve again with 4.3 million cars the previously highest output level of 1987. The number of cars made by German manufacturers increased by 13.1% to 1.5 million units. Every fourth car with a German trademark is thus manufactured outside the Federal Republic of Germany.

Daimler-Benz: Decline in Diesel Cars

In the Federal Republic of Germany in 1988, new registrations of Mercedes-Benz cars fell from 281,941 to 270,843 as a result of the diminished market for diesel cars. Our market share, by contrast, improved slightly to 10.2% (10.1% in 1987).

One factor contributing to this was the fact that sales of Mercedes-Benz diesel cars only fell by 17% as against 33% for the diesel market as a whole. Another fact was that demand for our mid-series models remained high. New registrations increased by 6.0% to 156,300 units. Further growth was achieved, in particular, by the T-series with 21,900 vehicles sold (20,500 in 1987) and by the coupes introduced into the market in May 1987 (+142% to 11,322 units). Higher sales of gasoline-engined 190 models could not make up for the 25% decline in sales of the diesel models. In total, new registrations of this series dropped by 13% to 96,750 units. Sales of the S-class sedans and coupes, at 17,790 units were 21% below the figure for the previous year.

In the countries of the European Community, new registrations of Mercedes-Benz cars totaled 399,500 (1987: 398,700). Outside Germany, Italy was again our largest market in Europe with an increase of 20% to 33,300 vehicles. In France we increased our sales volume by 2.2% to 25,000 cars. In the U.K. market we achieved our best sales results yet parallel to the development in the overall market with 23,450 cars (+9.8%). A shrinking overall market and altered registration conditions for our T-series in the Netherlands reduced our sales by 5.9% to 12,700 cars. In Belgium we approximately maintained the result of the previous year with 12,100 new car registrations. The Spanish market increased by approximately a third to 17,500 Mercedes-Benz cars.

Outside the EC we also made welcome increases in sales with 9,500 Mercedes-Benz cars in Austria (+4.5%), 9,800 in Switzerland (+9.3%) and 10,100 in Sweden (+27%). In the U.S. market, our sales organization sold 83,700 of our cars. Although sales were 6.9% below those of the previous year, we consider it to be a very good result if compared to total German car sales in the U.S.



Proven Mercedes quality and new engine technology which is less stressful on the environment safeguard the future of diesel cars.

(-21%) and in view of exchange-related burdens. Following the previous year's increase of 36%, new registrations of Mercedes-Benz cars in the Japanese market rose in 1988 by a further 21% to 22,600. For the S-class sedans and coupes, Japan was once again the most important market after the U.S.A.

After the strong expansion in the previous years, we adjusted our production output in 1988, at 559,713 cars, (598,079 in 1987) to the developments in individual markets. A total of 178,600 units (213,800 in 1987) were manufactured in the compact series made in Sindelfingen

and Bremen in the year under review.

In addition to the T-series models manufactured in Bremen (+8.4% to 35,900 units), we produced 261,700 (+3.1%) sedans and coupes in 1988. Due to market conditions, we reduced production of the S-class sedans and coupes by 14% to 83,500 vehicles, but nevertheless remained the largest manufacturer, by far, in the sector of particularly high-quality and technically sophisticated luxury cars.

In 1988, 5,555 Mercedes-Benz cross-country vehicles (6,368 in 1987) were manufactured for our account at Steyr-Daimler-Puch AG in Graz, Austria.

New Models and Better Diesel Engines

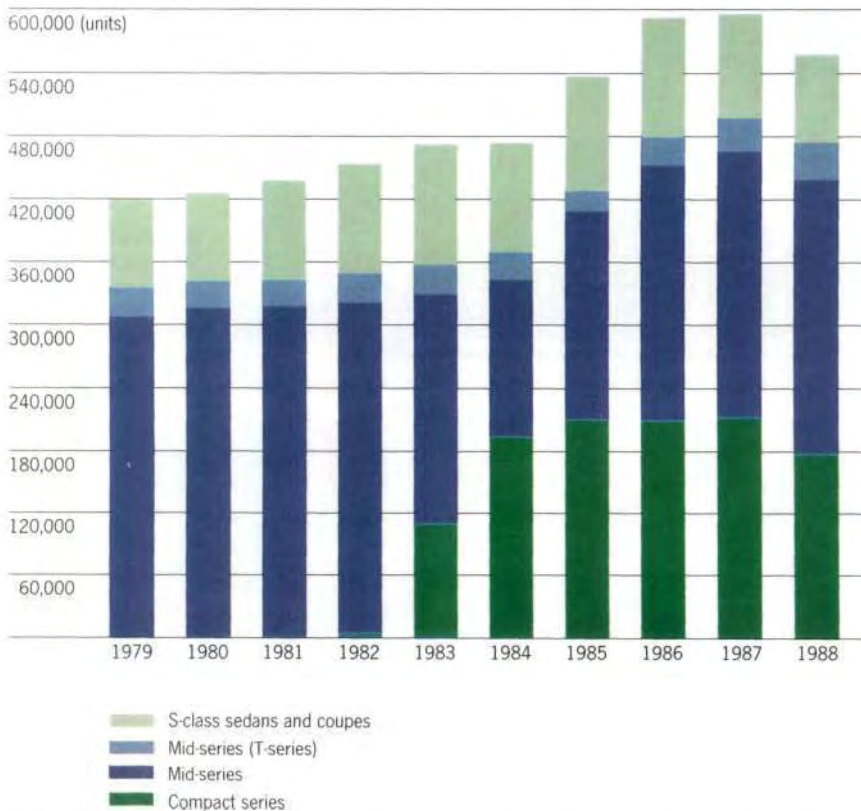
In 1988 we made the Mercedes-Benz car range more attractive by implementing a number of different measures. The compact models were refined, both visually and technically. By lowering the price of the anti-lock brake system (ABS), we helped to improve the active safety of these models. The new top model in the series is the 190 E 2.5-16, with four valves per cylinder. In the mid-series, the new 200 E and 200 TE extend our range of cars with fuel-injection engines. Among the diesel models, the 250 D Turbo was added. The utility value, and above all the levels of safety, were raised even further by the inclusion of ABS as standard equipment for the mid-series cars.

The standard equipment of the S-class cars was again upgraded. With the new 560 SE, we have now enlarged this category of particularly high-quality models. Within the four series we offer 49 different models of sedans, coupes and sport cars.

By making intensive use of electronic application systems (CAD, CAE, CAM), we have further improved and extended the data network between the individual divisions of Design, Development and Production. In the areas of active and passive safety, environmental acceptability and overall economy, we have set important standards in automotive engineering. As supplements to the three-point inertia-reel seat belt, for example, the belt tensioner and the airbag for the driver and front passenger provide considerably more protection for occupants. The belt tensioner has to date been a standard feature of approximately 2 million cars. More than half a million of our vehicles are equipped with a driver airbag. The front-seat passenger airbag has been optionally available for the mid-series and S-class models since 1988 and can also be fitted in the new sports car.

We succeeded in taking a major step forward in reducing particulate emissions

Passenger Car Output



with a new generation of diesel engines. An improved combustion system reduces particulate emissions by a further 40%. A level is thus achieved which in previous years still required a particulate trap. The new diesel engines, which went into production in February 1989, already meet the EC's particulate limits planned for the 90s, which are the same as the strict limits applying in the U.S.A. The modifications to internal engine features which we have made have clear advantages with respect to length of life and costs as against filter technology. The emission of hydrocarbons and carbon monoxide has been further reduced by the new generation of engines. Specific reannealing

improves the cold running behavior and reduces the low noise level of the engine even further. As already the case in the turbo-engine, the naturally aspirated engines now have an injection pump with automatic altitude adjustment. A reduction in the full-load injection quantity prevents increasing smoke formation from the diesel engine.

New Roadster

At the Geneva Motor Show in March 1989, we presented our new Mercedes-Benz SL (R 129 series) for the first time. It succeeds its successful predecessor (the R 107 series), which has achieved worldwide recognition since 1971 with sales of more than 236,000. The new SL models will be launched in June 1989, with models 300 SL (with the proven but further refined 3-liter, 6-cylinder injection engine, developing 140 kW/190 hp), 300 SL-24 (6-cylinder engine with 4-valve technology, 170 kW/231 hp) and 500 SL (8-cylinder engine, also with four valves per cylinder, 240 kW/326 hp). The newly developed Mercedes-Benz four-valve



190 E 2.5-16:
The sporty top model
in the compact series.

The 190 in its new
form: distinctive lines,
more space and
further-refined
appointments.



A variable interior
within an exclusive
shape: the secret of
success of the
Mercedes T-model.



Mercedes G:
"The best cross-
country vehicle in the
world" according to
the results of a survey
by the magazine
"auto motor sport".



engines achieve a higher torque in the lower engine speed range due to inlet camshafts which are adjustable during operation. Smooth running has been further improved in all engine speed ranges.

In the new series we continue the concept of the open roadster in the exclusive sports car class. We have achieved in the process an optimum synthesis of properties which provide the vehicle with a maximum degree of safety, handling and ride comfort in addition to outstanding drive performance.

These features include:

- fully automatic, electro-hydraulically activated soft top operation
- the automatic, sensor-controlled roll-over bar
- the adaptive damping system (ADS)
- all-round level adjustment and control
- the integral seats with restraint system.

The new SL-series is even more clearly located in the top market sector than its predecessor due to its sophisticated engineering. It appeals to a group of buyers whose reasons for purchase and personal requirements target an exclusive vehicle in many respects.

DM 2 Billion Invested in the Passenger Car Division

We have invested DM 1.9 billion (DM 1.5 billion in 1987) in our passenger car plants for new products and more efficient, innovative manufacturing equipment as well as for preparation towards future work. New, flexible processes and techniques, ensuring the highest possible product quality and further improving work-places as well as placing less strain on the environment, have been introduced in the manufacture of major components and in assembly.

In engine manufacture at the Untertürkheim plant we have started production of new engine versions, and at the

same time installed production facilities for the new six and eight-cylinder engines with four-valve technology. Together with the Sindelfingen works, an impulse-controlled engine call-up system, which considerably reduces stock held, has been introduced. At the Berlin plant we have set up production equipment for camshaft adjustment systems of the new four-valve engines.

Difficult assembly work such as the installation of the soft-top hydraulics of the R129 is no longer carried out on the production line in Bremen, but in what are known as star-shaped assembly stations. Here our employees are able to assemble complex parts at economically optimized work-places.



Star-shaped assembly stations for the new roadster allow economically favorable fitting of the hydraulic lines, cable harnesses and folding soft-top.

At present, laser welding for application in castings such as planetary gear carriers is being tested by the production engineering department at the Untertürkheim plant. Another point of emphasis is the introduction of image processing which allows the quality of safety-related parts to be continually monitored and recorded. In Sindelfingen we are examining the ways of automating the installation of the sun-roof frame into the bodywork and also off-line programing of industrial robots.

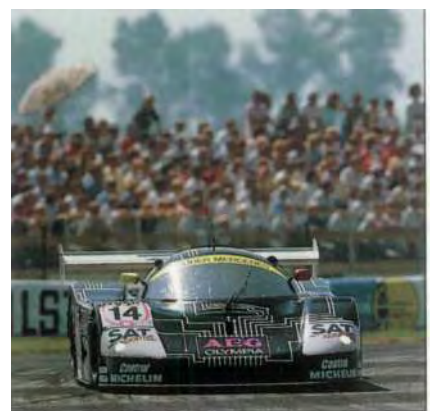
Involvement in Motor Sports

In 1988, Mercedes-Benz again participated successfully in motor sports, in Group A races of the International German Touring Car Championship and in Group C sports car prototype races of the World Championship and the German SUPERCUP.

In Group C Mercedes-Benz is intensifying collaboration with the PP Sauber AG team; in particular, development of engines and transmissions is the responsibility of Mercedes-Benz. In the sports car prototype races of the World Championship in 1988 the Sauber-Mercedes team achieved five clear overall victories in 10 races and thus became runner-up

world champion in the team and driver assessment at the first attempt. The Frenchman Jean-Louis Schlesser's victory in the German SUPERCUP 1988 emphasizes the competitiveness of the C9 Sauber-Mercedes, which was able to outmatch all of the competitors.

The engine of the C9 has to date been the standard light-alloy five-liter eight-cylinder unit from the Mercedes 500 SE/SEL/SEC. The new V8 four-valve engine is being used in the 1989 Sports Car World Championship.



In the top group right from the start: in its very first year of racing, the Sauber-Mercedes achieved impressive victories in the World Championship for sports car prototypes (Group C).

The 190 E 2.3-16 gained second place on its first attempt in the International German Touring Car Championship (Group A).



In 1988 Roland Asch became runner-up in the International German Touring Car Championship due to his consistent performance with the Mercedes-Benz 190 E 2.3-16. In order to meet the enormous public interest in this touring car championship, Mercedes-Benz is in 1989 supporting the three teams of AMG, Snoeck-Racing-Service and Mass-Schons Racing; in 1989 the new 190 E 2.5-16 with improved performance and torque will make its first public appearance in competition.

Prospects for 1989

The outlook for the German car industry in 1989 is highly favorable, although the tax exemption for pollutant-reduced cars and other influences supporting purchasing power, which have led to the notable growth phase over the last few years, will partially come to an end. In a number of important Western European export markets we expect a normalization of the very good business conditions.

We are optimistic that we will be able to maintain the sales of Mercedes-Benz cars abroad at the same high level as in the previous years, or even slightly increase them. On the domestic market, we expect sales to be stimulated above all by our new generation of diesel engines. The highly positive reaction to the recently presented new SL will also have its effect on car sales as a whole.

Passenger Car Production Plants in Germany

	Area of Activity/Main Products
Sindelfingen	Bodywork and assembly plant, central depot for spare parts
Untertürkheim	Manufacture of engines, axles and transmissions; foundry, forge
<u>Bremen</u>	<u>Bodywork and assembly plant</u>
Berlin	Car and commercial vehicle engine reconditioning, parts manufacture for car and commercial vehicle engines as well as small components
Hamburg	Manufacture of chassis parts and small components for cars and commercial vehicles
Bad Homburg	Manufacture of engine timing parts for cars and commercial vehicles



"Welcome to Mercedes-Benz".
The new showroom of our authorized Finnish dealer OY VEHO in Helsinki provides the appropriate atmosphere.

Mercedes-Benz throughout the World

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Germany

Headquarters	
Research and development	
Manufacturing plants	11
Sales and service outlets	1,307
of which:	
Retail branches	97
Main agents	27
Agents	421
Franchised service workshops	762

Abroad

Manufacturing plants	18
Assembly plants	25
Licensees	5
Sales and service outlets	4,664
of which:	
Sales companies	25
Retail branches	362
General distributors	121
Representatives	40
Dealers/agents	3,602
Franchised service workshops	514

	Manufacturing
	Assembly
	Sales
	Freightliner
	Licensees





28 | **High Demand for Commercial Vehicles**

The continued cyclical upturn in the industrialized countries and growing quantities of cargo determined demand for commercial vehicles in 1988. As in 1987, this trend benefitted medium-heavy and heavy-duty trucks more than average. Worldwide commercial vehicle output rose by 7.2% to 13.8 million units.

With 5.2 million new commercial vehicle registrations in the U.S.A. (+ 4.9%), the 5-million mark was passed for the first time. Market growth extended to almost all vehicle categories, but only benefitted U.S. manufacturers. A total of 331,200 trucks over 6 tonnes GWW were sold, representing an increase of 18%. Commercial vehicle output in the U.S.A.

increased by 7.1% to 4.1 million units; the share of worldwide production remained unchanged at 30%.

The Japanese commercial vehicle market, consisting almost entirely of local manufacturers, benefitted from lively activity in the construction sector. Sales reached a record 3 million units (+ 8.4%). Because of the continuing rise in value of the Yen, however, exports fell further to 1.7 million (- 6.3%) commercial vehicles.

Output rose by 3.3% to 4.5 million units. Despite its further reduced share of 33% (1987: 34%) of worldwide production, Japan remains the largest producer country, although principally because of the large share of pick-ups and cross-country vehicles which are based on the passenger car.

Millions of D-marks	1988	1987
Sales	23,063	19,454
Investments	881	802
R+D expense	700	654
Output (units)	257,951	234,141
Employees	89,318	89,712

In Western Europe, commercial vehicle sales developed more favorably than those of capital goods generally because of the high backlog demand. However, prices and conditions were still subject to keen competition. New commercial vehicle registrations in Western Europe rose by 8.0% in 1988 to a record of 1.8 million units. In the truck sector over 6 tonnes GWW, sales increased by no less than 12% to just under 290,000 units. The United Kingdom and Spain experienced a veritable commercial vehicle boom. Western European manufacturers increased their output by 15% to 1.8 million units. In the sector over 6 tonnes GWW alone, production rose by 13% to 352,000 trucks. In this segment, Western Europe has a share of one-third of worldwide production as opposed to only 13% in the case of all commercial vehicles.



The MB 100 D van:
a likable vehicle for
all-round applications.

The German Commercial Vehicle Industry: Increased Sales in Germany and Abroad

In the Federal Republic of Germany, the demand for commercial vehicles continued at a high level. Stimuli came from the transport and road haulage trade, the service sector and the construction industry. New registrations rose by 5.1% overall to 161,000 commercial vehicles. While van sales continued to rise, there were only slightly more heavy-duty trucks over 16 tonnes GWW registered than in 1987. The market share of foreign manufacturers continued to grow to 27% (1987: 26%), largely because of a rise in sales in the lighter categories.

Due to lively demand for heavy-duty trucks in the rest of Western Europe and in a number of non-European markets, the German commercial vehicle industry was able to raise exports by a total of 8.8% to 170,000 units. Exports of trucks over 6 tonnes GWW rose by 16% to 72,300 units, in the range over 16 tonnes GWW by as much as 19% to 44,300 units. German production of commercial vehicles rose by 7.1% to 279,000 units.

Daimler-Benz: Significant Rise in Commercial Vehicle Sales

Daimler-Benz utilized to the full the opportunities provided by the market in 1988, maintaining its position as the world's leading truck manufacturer. On the domestic market we sold a total of 66,200 commercial vehicles (+ 9.7%). We were particularly successful with our newly launched MB 100 D van. Following the major increase the previous year, however, we were also able to slightly increase sales of trucks over 6 tonnes GVW again, to 29,900 units. Our market share of 58.6% in this segment remained virtually unchanged as compared with the previous year.

Commercial vehicle exports from our domestic plants rose by 15% to a total of 95,300 vehicles. Exports of heavy-duty trucks rose by 14% to 25,000 units. We exported 81,154 commercial vehicles (+ 13%) to other European countries, 85% of these to the countries of the European Community. In the truck sector over 6 tonnes GVW, we remained the largest producer in Western Europe with a market share of 23%, against the background of an increasing market volume.

The same was the case with the heavy-duty segment in excess of 16 tonnes GVW, in which Mercedes-Benz commercial vehicles accounted for just under one-fifth of all new registrations.

Within the European Community, we sold 19,150 Mercedes-Benz trucks in France - our largest commercial vehicle market after the Federal Republic of Germany - representing a rise of 7.2%. In the United Kingdom, our sales rose by 21%, with 18,600 trucks. A total of 7,900 (1987: 7,950) Mercedes-Benz trucks were sold in the Netherlands. Our sales in Italy increased by 4% to 6,250 units. In Spain, we were able to increase our new registrations by 20% to 13,900 units; these included 9,900 vans (+ 16%) from our plant in Vitoria.

Outside the European Community, we sold from our domestic production 3,300 trucks (+ 19%) in Austria, 3,000 (+ 6.8%) in Switzerland, 1,600 (+ 3.4%) in Finland and 1,150 (+ 2.7%) in Sweden. The Middle East experienced a rise in demand for commercial vehicles for the first time in several years. Our sales in this region rose by 40% from a low level to 7,900 units.



Successful in Germany and abroad: the light trucks (6.5 to 13 tonnes GVW) from our production plant in Wörth.

The Mercedes vans with 2.55 to 4.6 tonnes GVW have proven their worth thousands of times over - universally useable, sturdy and reliable.



Many lines of business would be unthinkable without the Mercedes range of large vans, which have firmly established themselves on the market.

Difficult Environment for Bus Business

In 1988, market activity in the bus sector both in Germany and abroad continued to be characterized by insufficient demand on the one hand and production overcapacities on the other. The growing significance of fleet customers and special orders has made competition increasingly keen.

In the Federal Republic of Germany, new registrations of touring and regular service buses, numbering just under 4,800, remained 2.1% below the figure for the previous year. Mercedes-Benz, however, sold 2,331 buses (+ 9.8%) in the year under review. On the foreign markets, the downward trend of the past few years could be stopped. While exports of the industry increased by 6,000

units, representing a rise of 20%, we were able to increase sales disproportionately by 37% to 3,100 Mercedes-Benz buses. In our domestic plants we manufactured 4,900 complete buses and chassis in 1988, 8.2% more than in 1987.

Decline in Unimog and MB-trac Sales

Sales of the Unimog and the MB-trac dropped in 1988 by 15% to 8,100 units. In Germany, following completion of a large order for Unimogs and due to a further decline in demand for agricultural tractors, sales of the Unimog and the MB-trac fell by 39% to 3,250 units. Abroad, on the other hand, sales increased by 15% to 4,850 units. Output was reduced to 7,961 (1987: 9,450) Unimogs and MB-tracs.

Rise in Sales of Industrial Engines

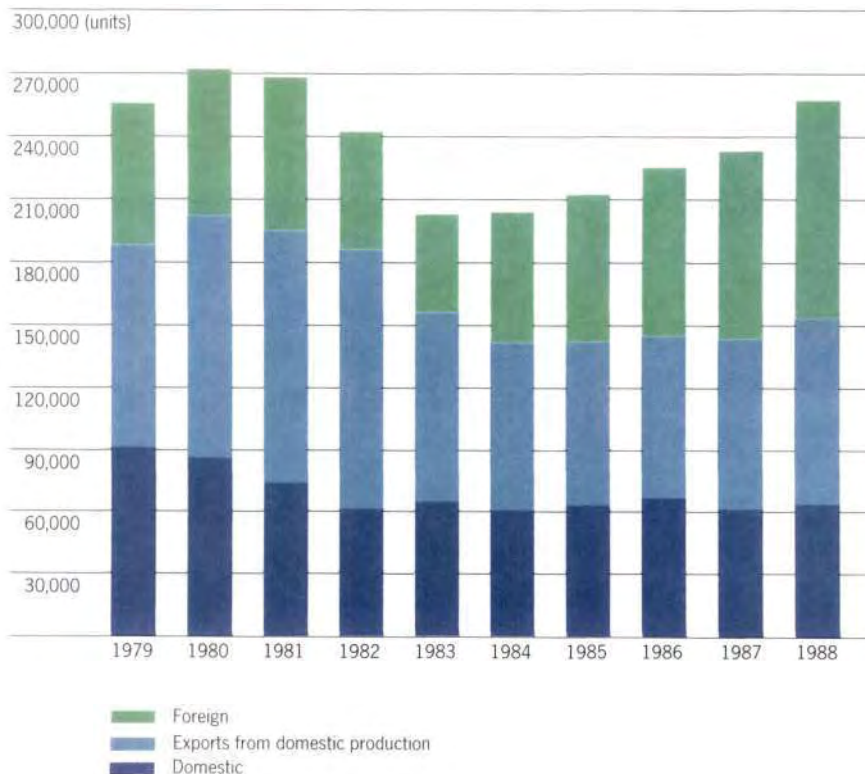
Due to the continuing favorable situation regarding capital goods, there was once more a marked rise in sales of industrial and OEM engines to manufacturers of agricultural and construction machinery, industrial lift trucks, buses and special-purpose vehicles. Sales of domestically produced engines rose to 13,700 units (1987:12,700); in particular, the high-performance 400 series engines were marked by a strong rise in sales of 20%. Sales of major vehicle components - axles and transmissions - fell to 6,200 (1987: 8,000) units. Our foreign subsidiaries in Argentina, Brazil and Spain produced a total of 14,100 (1987:16,300) industrial engines.

Commercial Vehicle Output Up in Germany

Output at our domestic plants amounted to 154,319 commercial vehicles, 6.7% more than in 1987. The increase was spread among all categories of commercial vehicles, but especially benefited the labor-intensive medium and heavy-duty trucks. The output of vehicle kits rose by 6.4% to 10,734 units.

Full capacity utilization was achieved for our manufacturing facilities in Germany. The fall in Unimog and MB-trac production at the Gaggenau plant was compensated for by a strong rise in production of truck axles and transmissions. At Worth, we worked to the limits of technical capacity in order to cope with the large volume of orders, especially for heavy-duty trucks.

Commercial Vehicle Output



Further Increase in Commercial Vehicle Output Abroad

Our commercial vehicle companies abroad were able to raise their output by a total of 16% to 103,632 vans, trucks and buses. We thus manufactured over 100,000 commercial vehicles at our foreign production plants for the first time. Taken together with domestic production, this amounts to a total Group output of 257,951 commercial vehicles (+ 10%).

Our largest foreign subsidiary, Mercedes-Benz do Brasil, succeeded in boosting its sales in Brazil by 7.3% to just under 35,000 commercial vehicles despite the continuing decline in the domestic economy. While truck sales remained at last year's level, more buses were sold. The company's strong position on the market, with shares of 49% once more for trucks over 6 tonnes GWW

and 83% (1987: 84%) for buses, remained undisputed. The fall in commercial vehicle exports to 10,200 (1987: 11,800) units was accounted for by a decline in orders from our assembly companies in the U.S.A.; this could only partly be compensated for by an increase in deliveries to the Latin American countries. At 45,791 units, Mercedes-Benz do Brasil's output exceeded the previous year's mark by 5.3%.

The commercial vehicle market was not spared the effects of a further drastic deterioration in the economic situation in Argentina, especially over the latter half of the year. Due to the major slump in demand, Mercedes-Benz Argentina suffered a 26% drop in sales, to 4,000 units. The market share of trucks over 6 tonnes GWW fell to 51% (1987: 54%). Production output only amounted

to 4,168 units (5,370 in 1987). The number of employees, too, had to be adapted accordingly.

In North America, the favorable economic situation led to further growth in demand for commercial vehicles. Our subsidiary Freightliner could not fully benefit from this because of the production start-up of its new generation Class 8 heavy-duty trucks. Despite this, sales reached 24,164 units, even more than the already high figure of 23,350 recorded the previous year. Its market share, however, fell slightly to 16.3% (1987: 17.8%). The production output at the two U.S. plants and in Canada, amounting to 26,800 units (1987: 27,100), was affected by capacity bottlenecks connected with new production start-ups. In the medium-heavy class of trucks assembled from Mercedes-Benz parts delivered from Brazil and Germany, sales dropped to 3,200 (1987: 4,200) units.

Mercedes-Benz Espana more than doubled sales of its Spanish-made vans in 1988, to 22,900 units. Output, limited solely by production capacity, increased by 102% to 23,140 units.

The Unimog provides reliable all-year-round services for municipal authorities



A future-oriented alternative in local public transport: the O-Bahn from Mercedes-Benz

The new four-axle models from the range of heavy-duty trucks: highly maneuverable specialty vehicles for heavy payloads.



Despite a fall in demand for motor vehicles, Mercedes-Benz of South Africa was able to sell 3,700 commercial vehicles (+ 23%). Output was boosted to 3,600 vehicles (1,880 in 1987).

Affiliated Commercial Vehicle Companies Register Varying Performances

The foreign commercial vehicle companies in which Daimler-Benz has a minority holding and which appear in the consolidated financial statements as associated companies, registered differing performances for 1988. Their production outputs are not included in the Group output figure.

The commercial vehicle market in Indonesia exhibited a sharp rise of 27%. Our Indonesian affiliated companies P.T. German Motor Manufacturing, Wanaherang, and P.T. Star Motors Indonesia, Jakarta, contributed to this upswing with sales of 2,212 (1987:1,932) commercial vehicles in the year under review. Full capacity production was reached in the bus sector. There was a correspondingly positive development in the assembly of commercial vehicle engines at P.T. Star Engines.

In Turkey, Otobus ve Motorlu Araclar Sanayii A.S. (OTOMARSAN) felt the effects of the increasingly difficult conditions in the bus and heavy-duty truck markets.

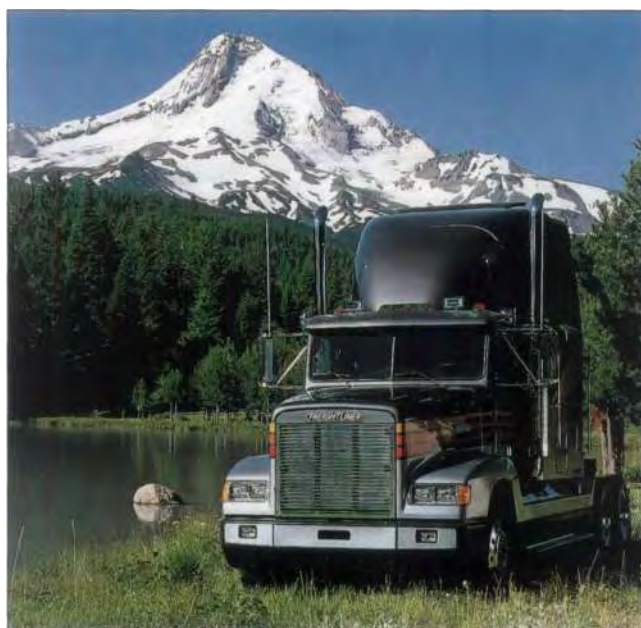
Bus sales fell to 700 (1987: 900) units. Production output and the strength of the workforce had to be adapted to these conditions. Truck assembly, with an output of 240 units, remained at a low level. With its recently extended range of trucks, this company has established a sound basis for further improving its position on the Turkish market. Its capital stock doubled in 1988 to TL 64 billion (the equivalent of DM 62.7 billion), thus strengthening its financial basis.

The demand for commercial vehicles in Mexico was higher than in the previous year. Benefitting from this, our affiliated company Fabrica de Autotransportes Mexicana S.A. (FAMSA) was able to boost its sales from 1,350 to over 2,350 units. Particularly through the success of its medium-heavy vehicles powered by Mercedes-Benz diesel engines, its market share of trucks over 6 tonnes GWW rose sharply to 35% (1987: 25%).

The Swiss-based NAW Nutzfahrzeug-gesellschaft Arbon & Wetzikon AG, which converts and assembles Mercedes-Benz commercial vehicles according to specific customer requirements, increased its output to 2,035 (1987:1,720) units. Sales nearly doubled to an equivalent of DM 204 million.

Cooperation Project China

After four years of negotiations, Daimler-Benz AG and the Chinese engineering group North Industries Corporation (NORINCO) signed the contracts in September 1988 for the manufacture of Mercedes-Benz heavy-duty trucks in Baotou, Mongolia. Production of a broad range of heavy-duty trucks from 16 tonnes GWW is to commence in the first half of 1990. Over the space of six years, 15,000 ckd kits will be delivered to China and assembled there. Following this industrialization process, annual production is expected to reach 6,000 units, with a local content of 90%. We regard this project as an important step in our strategy for East Asia and a significant breakthrough on the Chinese market.



One of the new generation USF-1E trucks from Freightliner.

Broad Commercial Vehicle Range to Meet a Wide Variety of Customer Requirements

We have further extended our broad range of commercial vehicles with new products and product improvements. The rigids, tractor units, tippers and all-wheel-drive dumpers of the new heavy-duty truck series from 16 tonnes GVW, which we presented in July 1988, are designed to consolidate our position in the European markets in the long term. These trucks are distinguished by low fuel consumption, a long overall service life, low curb weight, short downtimes for maintenance and repairs, combined with even higher transport capacity and considerably reduced operating costs. The range of engines includes the first turbo-

charged V6 diesel engine with inter-cooler to be used in a commercial vehicle, the OM 441 LA. The new heavy-duty truck is also exemplary in terms of safety: all models with a rated output of 213 kW (290 hp) or more are fitted with Electronic Power Shifting (EPS) as standard.

We have further optimized our T1 van series. A new power train and improved aerodynamics provide for fuel savings amounting to 20%. This was largely made possible by new higher-performance OM 601/602 series engines with reduced fuel consumption. We expect the sharp improvement in overall economy of this series of vans to further strengthen our position on the market.

The O 303 touring bus can be fitted with further engine variants incorporating the integrated power train. Electronic Power Shifting (EPS) is also available as an optional extra for buses with the new OM 441/441 A V6 diesel engines. Innovative features such as Acceleration Skid Control (ASR) for trucks to supplement the Anti-lock Braking System (ABS) ensure the highest possible level of safety in all Mercedes-Benz commercial vehicles.

After more than twenty years of development work, we have achieved a breakthrough in emission control for urban buses and municipal vehicles, in the form of the particulate trap. This represents an effective contribution to the environmental acceptability of inner city traffic. Our particulate trap, consisting of a ceramic candle-type filter and a catalytic regeneration system, complies with the strict particulate emission limits valid from 1991 in the U.S.A. for urban buses. In 1989, we shall already be delivering 400 of these units as an optional extra for city buses and municipal vehicles.



The LN1 - the basis of a new generation of trucks introduced in the Brazilian market in 1988.



Mercedes-Benz do Brasil is the country's foremost producer of bus chassis.

Mercedes-Benz do Brasil has successfully launched a vehicle comparable with the Düsseldorf van. The chassis design is completely new, as are the OM 300 series engines. This generation of trucks will be extended in 1989 to include medium-heavy conventionals. In Argentina, the OH 1315 G bus with particularly environmentally acceptable gas-driven engines was presented. In the U.S.A., Freightliner started delivering the new Class 8 heavy-duty trucks in several different versions.

High Investments in New Production Technology

During the year under review, we invested DM 436 million in our German production plants and DM 445 million in our plants abroad. The main points of emphasis in our domestic plants, as in previous years, were preparations for new production start-ups, rationalisation of manufacturing processes and optimization of our range of products. Technical preparation for the start-up of the new heavy-duty trucks affected not only the Worth assembly plant, but all component-supplying plants. In Gaggenau, for instance, production was commenced of a range-change gearbox matched to the characteristics of the new generation of engines. The new aluminum transmission

casings are manufactured in a fully versatile production system. The cable harnesses for the new heavy-duty trucks are prepared and tested individually for each vehicle by means of a CAD/CAM process chain in Mannheim for just-in-time delivery to Worth, where the entire electrical systems are tested in the completed vehicle by computer-aided equipment.

Good Basis for Commercial Vehicle Business in Europe

As things stand, we expect 1989 to be a good year for commercial vehicles, although a slight decline in business must be expected in the course of the year. By contrast with this general trend, our company with its broad, highly competitive range and worldwide presence will be able to slightly increase production output and sales. We intend to compensate for a possible decline in demand in Germany with increased exports. We shall also be able to increase our entire Group output once more. Our subsidiaries in Spain and South Africa are expecting a further rise in output. In view of the overall economic situation, we are expecting risks for our two South American commercial vehicle companies.

The growth in the exchange of goods to be expected from 1993 with the introduction of the single European market should also provide a powerful stimulus to transport requirements in the Community. The truck will only benefit from this development if we meet the growing government demands with respect to the emissions of our vehicles with new, innovative ideas, thereby raising their level of environmental compatibility. An ecologically oriented transport system incorporating the commercial vehicle as a significant element also requires new forms of management in collaboration between road and rail transport, a development which we are assigning high priority.



At home throughout Europe: the O 303 RHD high-deck touring bus.

At the Mannheim plant, we also prepared the production start-up of the new-generation OM 601/602 diesel engines in mid-1988. A significant contribution to industrial environmental protection was made in Rastatt with the newly installed collection point for service products. Using state-of-the-art waste disposal technology, this facility provides environmentally compatible interim storage and reprocessing of service fluids and other waste material. In Dusseldorf, we opened a depot for paint and related materials, complying with the latest safety regulations. The investments of our subsidiary companies abroad were primarily concerned with product range revision and measures relating to capacity and rationalization.

Commercial Vehicle Production Plants in Germany

	Area of Activity/Main Products
Mannheim	Manufacture of commercial vehicle and industrial engines; body and assembly plant for buses; foundry; fabric manufacturing for cars
Wörth	Truck assembly including cab manufacture; manufacture of plastic parts for cars and commercial vehicles; central parts depot for commercial vehicles
Gaggenau	Body and assembly plant for Unimogs and MB-tracs; manufacture of transmissions and planetary axles
Düsseldorf	Body and assembly plant for vans and small buses; manufacture of steering systems for cars and commercial vehicles
Kassel	Manufacture of axles

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Shielded arc welding in cab shell manufacture (Wörth plant).

The "Mercedes-Benz Assistant" - a modular information, communication and management system for the preparation, implementation and assessment of transport operations.



The hand terminal of the on-board computer assists the driver by automating business execution to a considerable extent.

AEG Division

Millions of D-marks	1988	1987
Sales	13,380	11,660
Incoming orders	13,427	12,091
Investments	1,847	671
R+D expense	1,090	929
Employees	89,585	80,499

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Encouraging Growth in Sales

In the year under review, the German electrical and electronic industry benefitted from the favorable economic climate at home and increased demand from abroad. The trend in the sales of electro-technical capital goods and domestic appliances was particularly gratifying.

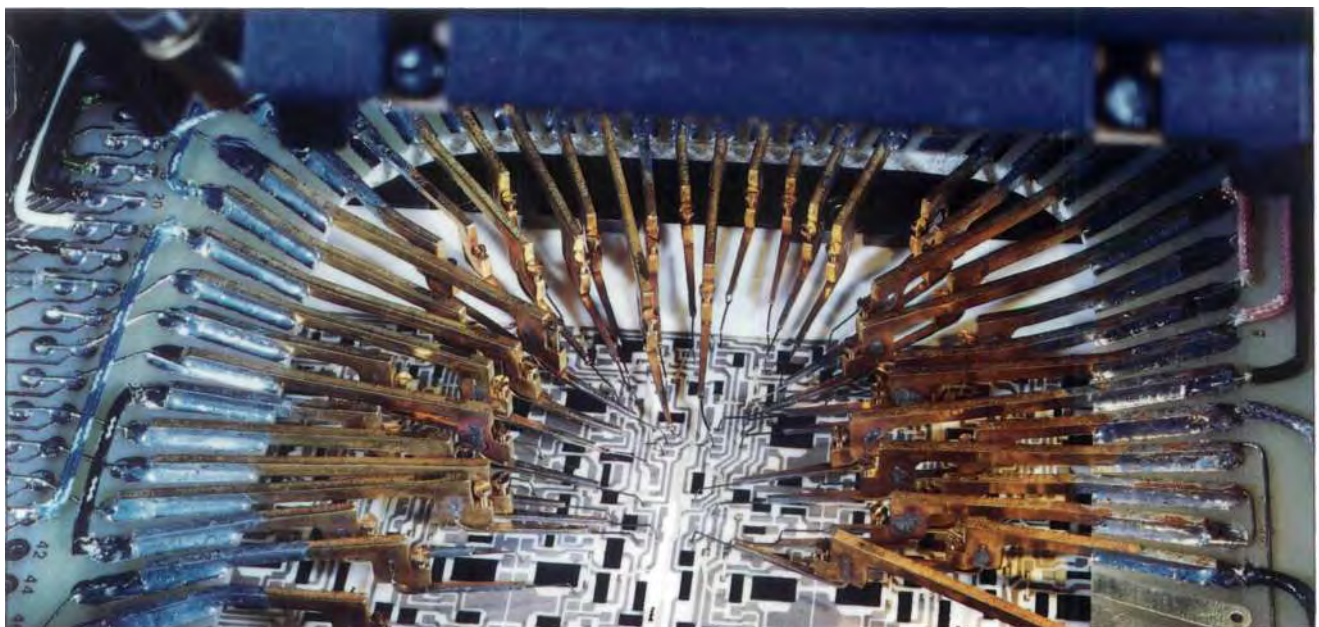
Sales of the AEG Group rose by 15% to DM 13.4 billion. Roughly half of the DM 1.7 billion increase came from subsidiaries acquired in 1988. Sales in the domestic market amounted to DM 7.8 billion (+12%) and abroad to DM 5.6 billion (+18%). The foreign sales ratio thus rose from 40 to 41%.

Incoming orders, at DM 13.4 billion, exceeded the previous year's by 11%. Here a 7% increase in domestic orders to DM 7.8 billion contrasted to an above-average rise in orders from foreign customers, by 17% to DM 5.6 billion.

At year-end, AEG employed 89,585 people worldwide, 9,086 more than in the previous year. Employment in Germany rose by 3,752 to 69,844, this increase being continued for the fourth year in succession.

Further Increase in Investments

In the year under review, AEG invested DM 1,847 million (DM 671 million in 1987) in non-current and intangible assets and the acquisition of affiliates, far more than in the previous years. In the main areas of activity, DM 824 million (DM 575 million in 1987) was spent on fixed and intangible assets. This mainly involved the divisions of Radio and Radar Systems, Household Appliances, Opto and Vacuum Electronics, AEG Kabel and Modular Computer Systems Inc. (MODCOMP), U.S.A. By acquiring selected subsidiaries, AEG has become engaged in new fields of activity, thus strengthening its position in traditional fields of activity and gaining access to new markets. Additions to non-current assets resulting from the first-time



Resistor alignment on thick-film hybrid integrated circuits. The latter are used in all areas of electronics because of their reliability and long-term stability. The photo

shows the silk-screen printing of resistors which subsequently have to be correctly aligned.

inclusion of subsidiaries in consolidation amounted to DM 825 million (1987: DM 58 million). Having repurchased the holding in TELEFUNKEN electronic GmbH (TEG), Heilbronn, from United Technologies, AEG now holds 98% of this company's capital which forms the nucleus of microelectronics, a new field of activity. In the year under review, TEG was for the first time included in the consolidated financial statements. Acquisitions abroad were geared to the further extension of the fields of activity of Automation Systems, Transport Systems and Office, Information and Communication Systems. In the year under review, this included first and foremost Industrial Automation System Group (MODICON) acquired from the U.S. electronics manufacturer Gould Inc., and Westinghouse Transportation Systems and Support Division acquired from Westinghouse Electric Corp.. To expand its position in the rapidly growing motor vehicle electronics sector, AEG acquired a 39% stake in Siliconix Corp., Santa Clara, California. AEG's acquisition of an option for a 26% share in the capital of ElectroCom Automation Inc., Arlington, U.S.A., serves the purpose of safeguarding its leading position in the sector of letter sorting and distribution systems in the U.S. market.

Worldwide, DM 1.1 billion (+17%) was spent on research and development; this amounted to 8% of sales. There are more than 7,600 employees in this sector. We are participating in a number of joint national and international research projects investigating environmentally compatible solar and wind-generated energy, the automation of production and assembly processes and programs for information processing and communication connected with advanced local public transport systems.

In one of the major areas of research, pattern recognition, the work on image analysis for industrial applications is complemented by the interpretation of mov-

ing images such as those perceived from a motor vehicle in motion. This also includes traffic sign recognition, a research task AEG is undertaking for the PROMETHEUS program as part of the EUREKA project. After intensive testing in the field of speech recognition, we presented a voice-controlled washing machine, a voice-controlled car telephone and an office workstation with voice data entry to the public - all projects which significantly improve the utility value of the relevant systems.

In digital communications, another major area of research, we have continued preparing the introduction of the video telephone. AEG Olympia has supplied the German Post Office with a functional model of a video telephone which is based on many years' research into



The new Lavatherm spin dryer from AEG, with extra large door. The spacious drum has a capacity for up to 5 kg of dry laundry.

picture encoding processes. Favorable research results in the microelectronics sector have led us to begin development work on monolithic integrated microwave circuits for application in radio and radar systems. In opto-electronics, we are investigating possibilities of combining the processor and storage chips required for signal processing by optical means.

AEG is contributing major basic research work on radio and radar applications towards the Daimler-Benz research program on high-temperature superconductors. We are also designing parallel processors for cybernetic applications in motor vehicles.

Power Engineering

AEG's Power Engineering activities comprise the Power Transmission and Distribution Division and AEG KANIS. In Power Transmission and Distribution, incoming orders and sales were clearly above the previous year's level. In particular, several major orders for fully-insulated high-voltage switchgear were received from the domestic and foreign markets. AEG will supply the complete medium-voltage system for Munich's new Erdinger Moos airport.

By selling AEG KANIS' steam turbine sector to Asea Brown Boveri AG (ABB), Mannheim, at the beginning of 1988, AEG has taken a first step in taking the trend in the power plant sector towards mergers and cooperations into account.

Industrial and Automation Systems

The highlights in this field of activity were the takeover of MODICON's worldwide activities, the extension of the GEAMATICS automation system and the implementation of several large-scale automation projects in different fields of technology. The division's sales experienced a further increase. After extensive development work, MODCOMP, U.S.A., AEG's real-time computer systems house, has introduced the first 3D high-speed computer. GEI in Aachen, AEG's

systems and software house, has significantly increased the number of its employees, thus taking into account the growth in the automation systems business as well as the growing importance of software and systems engineering services. In addition to this, GEI founded a subsidiary in Austria. Over and above this, several process automation equipment projects were implemented in key-technology sectors. We received follow-up orders from leading motor manufacturers for control systems for paint lines and test rig equipment; both are based on the GEAMATICS automation system, the MODNET communication system and the direct control systems from MODICON.

In the environmental technology sector, AEG has continued the projects

on gas recovery in tank loading plants and on flue-gas desulphurization. For the first time, the complete electro-technical equipment for a denitrification plant for drinking-water processing was supplied to a waterworks in North-Rhine-Westphalia.

Transport Systems

This field of activity comprises AEG's previous Railway Systems Division, Magnetbahn GmbH and Westinghouse Transportation System's activities. The joint venture, with AEG having industrial control, is operating under the name of AEG Westinghouse Transport-Systeme Beteiligungsgesellschaft mbH, Berlin. Sales of this field of activity increased as compared to the previous year. In Germany, activities were predominantly

related to orders received from the German Federal Railways. We will supply important components for the electrical equipment of the high-speed trains scheduled to go into service at the beginning of the 1990s. Test operation of the first electronic switch tower developed by us has proved to be successful. In 1988, we supplied electrical equipment for local public transport systems in Germany, Italy, Hong Kong and Australia. The worldwide marketing of the new, automatic, track-bound M-Train local public transport system has been further intensified.

Office and Communication Systems

The activities in the field of office and communication technology concentrated under AEG Olympia AG were further intensified in 1988. Sales did not quite reach the previous year's level. Domestic sales of electronic semi-professional typewriters and typewriters for private use increased. Foreign business continued to be adversely affected by the fierce price war especially in the dollar area.

AEG Olympia's "mobile office" project comprises the new "Roadfax" mobile telefax communication system as well as a portable workstation with personal computer and printer for installation in cars. These systems help significantly improve the communication between car and office. In the mobile communication sector, production of the new Telecar 1C car telephone was begun. The Federal Institution for Air Traffic Control has decided to use the DAKOS data communication system for the exchange of air traffic control data on an international scale. Hence, within the next few years, the system will be installed at all air traffic control stations in the Federal Republic of Germany to form a network.

This large, highly flexible and mobile robot, which performs a wide range of complex operations, was developed by Putzmeister, a construction machinery manufacturer, in collaboration with AEG and Fraunhofer Institute. It is mounted on a Mercedes-Benz DB 3535 K/8x4/45.



To date, AEG Olympia has installed fully automatic letter sorting and distribution systems at 56 domestic and 450 foreign post offices. ElectroCom Automation Inc., Arlington, Texas, the U.S. licensee, has been receiving large-scale orders for letter distribution equipment from the U.S. Postal Service since 1984.

Aerospace and Defense Systems

In the field of radio and radar systems, a high order backlog accounted for an expansion of business volume. Major orders from Germany and abroad were received above all for radio monitoring and reconnaissance systems as well as for portable radio equipment.

Sales rose once again in the Marine and Special Systems sector. The Marine Systems subdivision, newly founded in 1987 to comprise all marine activities,

recorded a marked increase in incoming orders. Further container and research vessels were equipped with automation and energy supply systems. AEG was able to further expand its international lead in the field of power supply systems for satellites. To date, French, Swedish and U.S. American satellites are being powered by AEG solar generators.

Under the new management structure for the Daimler-Benz Group, it is planned to concentrate all of AEG's aerospace and defense activities in TELEFUNKEN System Technik GmbH and to transfer this division to Deutsche Aerospace AG, retroactively effective as of January 1, 1989.

Microelectronics

An above-average rise in the exports to non-European markets has been recorded in microelectronics, a new field

of activity pursued by TELEFUNKEN electronic GmbH. Sales increased despite a considerable fall in sales revenue. In the year under review, the range of integrated circuits for in-car electronic and telecommunication systems, in particular, has been extended. To meet the growing demand especially for anti-lock braking systems, the production of electronic assemblies using thick-film and printed circuit board technology has been significantly expanded.

Standard Products and Components

The vigorous growth in sales recorded in previous years in the field of opto and vacuum electronics could not be continued in 1988. Business was impaired by the lasting weakness of the dollar as well as delays in the placing of orders for major projects. However, higher growth rates are expected again in the near future. Due to its leading position in the field of traveling-wave tubes for use in satellites, AEG has received an order for the INTELSAT VII program against tough competition. Large-scale production facilities for liquid-crystal displays are currently under construction.

The M-Train developed by AEG is a fully automatic local public transport system.



Roadfax, a mobile telefax communication system from AEG Olympia. The portable unit is connected to the car telephone (network C) via an adapter box.



All Standard Products sectors have been able to expand their business volumes, special stimuli being the demand for motors for large domestic appliances and office machinery as well as orders from the German automotive industry.

AEG Kabel was able to vigorously expand its sales of optical fiber cables and systems. New facilities for the production of cable harnesses for motor vehicles went into service.

The Components sector recorded satisfactory growth in sales and incoming orders despite the price fall in the case of some products. This result was above all accounted for by foreign business. AEG's internationally sound market position in the field of photoreceptors for office copiers and non-impact printers has been further expanded. To promote business in the field of servo technology systems, an 80% stake in Kollmorgen (Ireland) Ltd., Ennis, was acquired, operating as AEG Servo Systems Ltd. since January 1, 1989.

Consumer Products

The domestic boom in the demand for electric domestic appliances continued in 1988. Growth was exclusively accounted for by large appliances. Thanks to its innovative product policy, AEG's Consumer Products Division did better than the respective branch of industry as a whole, both in Germany and abroad. Sales of AEG's power tools sector increased once again, with exports continuing to account for a high proportion (over 60%). The product lines for the trades and for industry as well as for do-it-yourselfers have been further extended, mainly in the area of rotary hammers and battery-operated cordless tools, the Accu-System 2000.

Successful Performance of AEG's Foreign Companies

Total sales of AEG's foreign companies were once again higher than in the previous year. The subsidiaries in Spain, Greece and Turkey achieved two-figure growth rates.

In the U.S.A., AEG has during the last two years doubled both sales and employment by acquiring new subsidiaries in the sectors of automation technology and track-bound transport systems. Activities in the promising Far East market have been intensified with the foundation of AEG Japan Ltd., Tokyo.

Outlook

For the 1989 business year we are expecting further increases in AEG's sales and incoming orders. Following the strategic objectives of the Daimler-Benz Group, the divisions of Automation and Transport Systems and Microelectronics are to be greatly expanded. In this connection, investments in plant and equipment for major projects which are planned or already under way will be raised further.

Thanks to its comprehensive and technically advanced line of capital and consumer goods, a sound financial basis and intensified activities in important growth sectors, AEG is in a good position to take advantage of the opportunities arising from the Single European Market from 1993.

Deutsche Aerospace Division

Millions of D-marks	1988	1987
Sales	1,920	1,608
Incoming orders	2,534	2,618
Investments	170	124
R+D expense	653	500
Employees	9,786	9,683

Dornier

In the current business year, Deutsche Aerospace is to incorporate the Dornier and MTU divisions, together with the aviation, space technology and defense technology sectors of AEG, these sectors being included in TELEFUNKEN System Technik GmbH. It is also to include the activities of Messerschmitt-Bolkow-Blohm GmbH, provided the holding envisaged by Daimler-Benz AG comes about as planned.

As previously, our report on the 1988 business year refers to the two separate subsidiaries of Dornier and MTU.

Business Volume up Again

Following the expected decline of the previous year, the Dornier Group was once again able to raise sales, by 19% to DM 1.9 billion. The space technology sector was a major factor in this due to the invoicing of several major projects. The Medical Systems Division also contributed to the growth in business, with the introduction of new kidney and biliary lithotripsy equipment. A fall in sales on the aviation side, however, was not to be avoided. The share of exports to total sales amounted to 55% (60% in 1987). Incoming orders totaled DM 2.5 billion, not quite equaling the previous year's high level of DM 2.6 billion.

Expenditure on research and development, at DM 653 million, was considerably higher than in the previous year (DM 500 million). The increase was accounted for purely by commissioned projects which were invoiced to external customers. For own-account research and development work, a total of DM 130 million (DM 125 million in 1987) was spent. Investments in fixed assets reached DM 170 million (last year DM 124 million); these have doubled since 1986. The major share of investments went into the extension of halls, laboratories and offices, of technical facilities and the plants' infrastructure. Employment at the end of the year stood at 9,786 (9,683 in 1987).



DORNIER 328, the commuter aircraft for the 1990s.

Aviation

In the year under review, 20 DORNIER 228 aircraft (33 in 1987) were supplied to customers, most of them to the U.S.A. Worldwide, 147 aircraft of this type are now in use. Due to good results in scheduled flight testing, the further developed DO 228-212 with a maximum take-off weight of 6,400 kg obtained certification. Within the framework of German-Indian collaboration for production in India of up to 150 DORNIER 228s under license, our Indian partner completed 10 aircrafts from assemblies supplied from Germany in the year under review (5 in 1987). Dornier is participating in the Airbus program with the production of various assemblies



Wind tunnel testing of a model of the DORNIER 328.

which in 1988 were installed in 23 models A 310 aircraft and in 16 models 320 aircraft. Development work on several assemblies for the new Airbus models A 330/340 was begun in 1988.

Development work also started on the DORNIER 328, a thirty-seat commuter aircraft. We have continued work on the JF 90/EFA, the European fighter plane of the 1990s and a joint project of the Federal Republic of Germany, the United Kingdom, Italy and Spain, with MTU being involved in engine development.

In the aircraft support, maintenance and completion sector, activities concentrated on business jets and aircraft of the German Air Force - Breguet 1150 Atlantic, Alpha Jet, DORNIER 128 and 228. We have prepared a new program aimed at extending the useful life of the Bell UH-1D helicopter. Acting as prime contractor in cooperation with international partners, Dornier furnishes support and maintenance services for the E-3A airborne warning and control system (AWACS).

Space Technology

In the space technology sector, the first part payment for the ERS-1 European Remote Sensing Satellite project was received and recorded under sales. As prime contractor, Dornier is responsible for overall development of the satellite. An important milestone was reached in this program with the successful unfolding test of the Synthetic Aperture Radar antenna (SAR) for remote sensing.

Part payments for the COLUMBUS space station, the ARIANE satellite launcher, the HERMES spaceplane and the German telecommunications satellite (DFS) have also contributed to the vigorous growth in sales in the year under review. In the COLUMBUS project, Dornier's responsibility covers the resource module for the orbiting space laboratory; in the year under review, orders were received for new definitions of the environmental control and life support system and the resource module.

We have integrated the flight unit in the ROSAT satellite which is planned to be launched early in 1990 to scan X-ray sources in space. Commissioned by a U.S. company, at the end of 1988, we completed the test unit of the PCA satellite carrier structure to be developed and manufactured for the TITAN III rocket.

Defense Technology

A central aspect of operations in the defense technology sector is work on reconnaissance and orientation vehicles. In addition to the servicing of short-range reconnaissance systems already in operation, this work includes the development and preparation for full-scale production of longer-range systems. Development of the CL 289 reconnaissance drone system, a joint venture with Canadian and French partners, has been largely concluded; the project now enters the pre-production stage. Various components of this system were supplied to the Federal Armed Forces for testing and training purposes. Dornier also supplied the Federal Armed Forces with comprehensive workshop equipment for the ROLAND air defense system. Acting as prime contractor, Dornier has conducted negotiations with its contracting parties on the "Fliegerfaust 2" (STINGER) project and continued preparatory work. In the year under review, a contract covering Dornier's contribution to the project was concluded with the purchaser.

Medical Systems

In 1988, Dornier Medizintechnik GmbH, Munich, supplied more than twice as many kidney and biliary lithotripters as in 1987. Now that the HM3 kidney lithotripter has been replaced by the further developed HM4 model and the MPL 9000 biliary lithotripter as well as the MFL 5000 multi-functional urological workstation have been launched in the market, Dornier offers a complete range of equipment for the non-surgical removal of kidney stones and gallstones. A larger number of MPL 9000 systems were supplied in the year under review, and the first MFL 5000 systems installed. At the end of 1988, some 370 Dornier lithotripters were in use worldwide, together providing capacity for the treatment of some 300,000 patients per year.

Research and development among other things centered on innovative methods which are to open up new therapeutical applications of shock wave technology.

New Corporate Structure

The Dornier Division has been given a new structure effective January 1, 1989. This has prepared the ground for better meeting the challenges of the aviation sector as well as for more efficiently utilizing the experience gained in various sectors of space and defense technology. At the end of 1988, Dornier Reparaturwerft GmbH was renamed Dornier Luftfahrt GmbH. At the beginning of 1989, the aviation activities of Dornier GmbH were incorporated in Dornier Luftfahrt GmbH. Thus, all aviation-related activities of the Dornier Group are comprised in this subsidiary. At the beginning of 1989 and effective as from July 1, 1988, Dornier System GmbH was integrated in Dornier GmbH, the latter now being responsible for the space technology, defense technology and special markets sectors. Dornier Medizintechnik GmbH has not been affected by the restructuring process.

Outlook

In the current business year, the Dornier Group is expecting a further rise in sales and overall performance, especially in the aviation and space technology sectors. Here, production is concentrated on the DORNIER 228 aircraft and assemblies for the Airbus. Development work on the DORNIER 328 is proceeding according to plan. In the JF 90/EFA European fighter program we will be carrying on the design and construction of prototypes begun in 1987. In the field of space technology, Dornier is preparing for being awarded additional work packages. In this context, outstanding significance is attached to the scientific CLUSTER/Sot-

to program for solar research. In the field of defense technology, Dornier is expecting two additional major orders in the shape of the general contract for the "Fliegerfaust 2" (STINGER) program and development of an anti-radar drone. The Medical Systems Division is expecting a period of consolidation following the big expansion of business volume the previous year. The proportion of biliary lithotripters in medical equipment sales is expected to rise further because of growing demand especially from the U.S.A.



Zeolite-coated ceramic particulate trap for passenger car diesel engines.

mtu Motoren- und Turbinen-Union

Further Growth in Sales

In the year under review, business once again developed gratifyingly for the MTU Group whose main fields of activity - aero-engines, high-performance diesel engines and turbomachinery - are strongly oriented towards the international market. Sales increased by 8.5% to DM 3.3 billion; of this, 60.9% (59.1% in 1987) was accounted for by foreign business. The 78% jump in incoming orders to DM 4.8 billion comprises not only orders from the civil aviation sector, but also a long-running development order for the "Jäger 90" fighter's EJ 200 engine. The order backlog of DM 6.1 billion (DM 4.6 billion in 1987) secures employment until into 1990 and, in some sectors, far beyond that. Production capacity of the MTU companies was fully utilized in 1988, requiring three-shift work in some sectors. Employment, at 17,267, changed insignificantly.

Once again, MTU invested considerable sums in modern production systems, the development of new products and adapting technical facilities and processes to planned changes in the structure of the range. A total of DM 445 million (DM 435 million in 1987) was spent on research and development, DM 244 million (DM 192 million in 1987) of this being accounted for by externally commissioned development orders. Investments in fixed assets, totaling DM 217 million (DM 237 million in 1987), again exceeded depreciation.

Aero-engines

Business volume in the aero-engine sector again increased in 1988. In development and production, MTU Munich has for years been successfully collaborating with leading European and transatlantic manufacturers. In the military sector, MTU bears overall responsibility for all jointly produced aero-engines which are supplied to German purchasers. In the sector of commercial aircraft engines, which by now account for more than half

of production capacity, MTU is involved in the development, production and servicing of aircraft from all the major power categories, the emphasis in development and production being on sophisticated assemblies such as high and low-pressure turbines and high-pressure compressors.

In the year under review, two important decisions were taken at the political level in favor of new developments which have far-reaching significance for MTU. These are the "Jäger 90" European fighter plane with its EJ 200 engine and the engine for the Franco-German PAH-2/HAC helicopter.

Diesel engines

MTU Friedrichshafen, offering a wide range of high-speed diesel engines with output ratings between 30 kW (40 hp) and 7,400 kW (10,000 hp) for ships, heavy-duty vehicles, rail-bound vehicles, generators and other equipment, can once again look back on a year of good business in the sector of ship propulsion systems. A major contribution to sales



Millions of D-marks	1988	1987
Sales	3,276	3,018
Incoming orders	4,811	2,704
Investments	217	237
R+D expense	445	435
Employees	17,267	17,284

and employment was also rendered by the supply of series 396 engines for heavy-duty earth-moving equipment in fulfilment of an order awarded by the Soviet Union in 1986. Despite increasingly fierce international competition in diesel engine manufacture, MTU Friedrichshafen has succeeded in retaining, and in some sectors even expanding, its market position and employment level.

On an international scale, the trend towards concentration in the diesel engine industry continued due to still existing excess capacity. MTU Friedrichshafen and MAN B&W Diesel GmbH, Augsburg, have acquired equal shares of a 51% holding in the French engine manufacturer S.E.M.T. Pielstick; this enables MTU Friedrichshafen not only to tap the potential



RB 199 engines for the Tornado are assembled in vertical position. Hydraulic lift platforms allow working at the ergonomically favorable level.

Connecting of measuring cables to a test engine.



of the French market more effectively but also to more effectively serve the sales areas to be reached via France.

Research and development activities were aimed at improving the operating characteristics and service life of MTU diesel engines. We have also developed and tested new diesel engines.

Aero-engine Maintenance

MTU Maintenance GmbH in Langenhagen, near Hanover, specializing on the servicing and repair of large engines and engine components, again increased sales in 1988, its capacity being fully utilized. In 1989, the maintenance and overhaul program will be extended to include additional types of engine.

Turbochargers, Fans/Compressors, Steam Turbines

In the year under review, Aktiengesellschaft Kühnle, Kopp & Kausch, Frankenthal, against strong competition again succeeded in increasing its sales of exhaust-gas turbochargers for vehicle engines. However, the 3.5% rise in sales was mainly accounted for by the business with fans for installation in desulphurization systems in coal-fired power plants.

L'Orange and Other MTU Companies

As a specialized manufacturer of injection pumps for large diesel engines, whose business is crucially dependent on the demand from the West European diesel engine industry, L'Orange GmbH, Stuttgart, successfully maintained its position, again recording increases in production and sales. Incoming orders rose by 31% to DM 46.1 million.

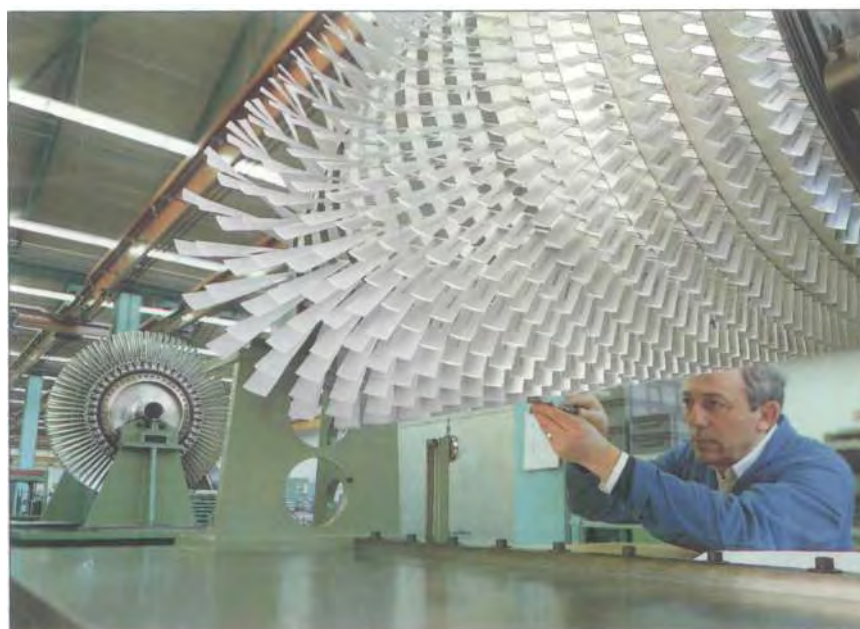
Overall, operations of the other domestic and foreign companies of the MTU Group, chiefly involved in the sales and servicing of MTU products and EDP services, were again gratifying.

Outlook

Due to the large backlog of orders in the aero-engine sector, the MTU Group can expect its positive development to continue in the next few years. Business in the other areas will depend on the extent to which existing market positions can be maintained and new market segments penetrated. Cooperation with foreign partners in the diesel engine sector, the high quality of MTU products and the efficiency of its employees provide an excellent basis for this. The dollar exchange

rate will continue to be a crucial factor for the trend in sales and revenue, especially since the sales markets in the dollar area are growing in importance and major competitors and partners are producing and selling in these countries. Another factor of uncertainty continues to be presented by the question of whether the newly industrializing countries, in particular, will resume the ability to finance their planned infrastructure projects.

For 1989, MTU expects a further rise in sales, with full capacity utilization and a high level of employment.



On this 17-stage axial compressor rotor of an aero-engine, the tip clearance of every blade is measured and documented.



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Research and Technology

Cooperation within the Group Intensified

The tasks facing the central division of Research and Technology in 1988 mainly involved concentrating knowledge and experience spread throughout the Group into joint projects and developing research strategies. The aim of this is to derive more effective benefit from the know-how within the Group, and help mesh different areas together. In the course of these activities we devised the research programs dealing with electro-traction, information technology and the application of electronics in vehicles and traffic systems (TRAFFONIC). Both within our traditional areas of activity in automotive engineering and in the new and expanded fields of business, we initiated synergetic projects for the development and application of new technologies. In order to intensify technological cooperation with research facilities in Japan, we set up a special office attached to Mercedes-Benz Japan in 1988. We plan to be involved in Japanese programs on traffic systems and in the MITI programs concerned with high-temperature superconductors and ceramics.

Researching Technological Potential

Growing international competition in the high-technology sector necessitates new methods and instruments for assessing technologies and therefore the future chances of certain products. The

research program DENT is designed to identify the development potential of technology to this end. This involves not only identifying the opportunities offered by new technologies and ways of creating innovative products, but also the degree of acceptance to be expected in society as a whole.

Development of Resource-Conserving Technology

Our chances of success in the marketplace with new products will increasingly depend on how well we master, apply and utilize technologies that save energy and raw materials, and on protecting health and the environment. For this reason, our work is concentrated, among other things, on new energy, material and information technologies, including electronics and information processing.

A long-term, Group-wide program centers around exploiting solar and hydrogen technology, wind-generated power and the development and marketing of integrated systems.

Our large-scale experiment in Berlin, which involved powering standard Mercedes-Benz vehicles by hydrogen drive, was concluded successfully. New projects using hydrogen energy in vehicles are in preparation. In cooperation with a number of Canadian and Norwegian institutions, we aim to convert excess hydro-electric energy into hydrogen, transport the latter to Germany via tankers and then use it to power bus fleets, for instance.

Work on the projects of Hot Elly (which uses superheated steam electrolysis to produce hydrogen), the Darrieus wind generator, the solar roof for motor vehicles and a number of solar energy systems was continued. A photovoltaic generator, a wind generator and a biogas system (MOEWE) were installed to form a regenerative power supply system in Burg on the island of Fehmarn; the foundation stone was laid in mid-1988.

Synergy Program for New Materials Technologies

In our synergy program (SYNWERK) we gathered all the activities throughout the Group concerning materials technology during the course of the year and worked out a concept for concentrating materials developments in what are known as "Centers of Competence". The collaboration introduced throughout the Group in the meantime in the fields of plastics, ceramics, fibre-reinforced carbons, new metal materials, surface technology and function materials has indicated a comprehensive package of possible uses. We are working on a program for high temperature super-conductors, which is due to be incorporated into a joint project with other companies.

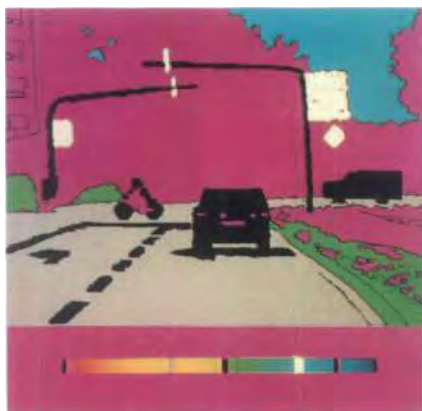


The crystalline structure of a shape memory alloy (magnified by 270:1). The possibilities of using alloys which can "remember" their original form are being researched. For example: spiral springs.

Information Technologies and Electronics

The evaluations and analyses, commissioned by the Federal Ministry for Research and Technology concerning progress made in traffic engineering within the PROMETHEUS project, have already provided important results. The possibility exists of practically eliminating accidents in traffic, and increasing environmental compatibility, efficiency and economy of road transport with respect to the present situation by up to 20% in each case.

Daimler-Benz's research within this program concentrates on fully recording all information important for safe driving through the use of "intelligent" sensors. This includes obstacle recognition, registering all other elements of traffic and their movements, the road's line of direction and condition as well as early recognition of disruptive influences such as crosswind. The work on traffic management systems for improving the quality of road transport and for increasing its efficiency began in 1988 with participation in the LISB project (a traffic management and information system based in Berlin) and with new digital road maps for computer-controlled destination guidance systems.



The research project on computer vision for comprehensive recognition of the traffic situation combines conventional control technology with the new methods of symbolic information processing (artificial intelligence).

We would like to apply the results obtained in the PROMETHEUS project in Daimler-Benz Group products using the synergy program TRAFFONIC (Traffic and Electronics). TRAFFONIC projects also concern mobile satellite communication and navigation, mobile telecommunications, system control technology and traffic recording and control systems.

The program DRIVE (Dedicated Road Infrastructure for Vehicle safety in Europe) has been designed by the European Community with the aim of creating a uniformly shaped traffic infrastructure for Europe - the "intelligent" road. The EC Commission has given the companies and institutes participating in PROMETHEUS both management of the project and also the task of developing elaborate solutions, for example management and information systems for individual traffic and goods transport

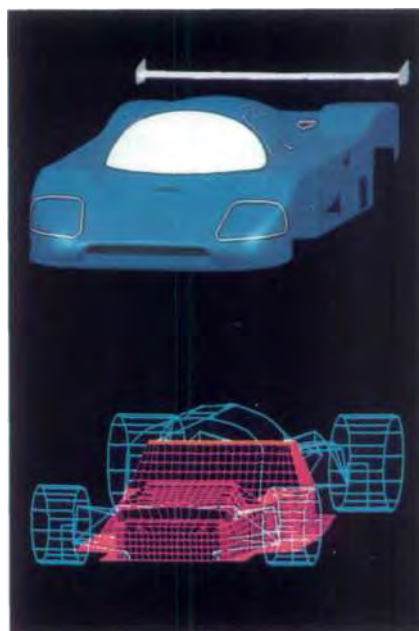
Our participation in the research institute for application-orientated knowledge processing in Ulm, which is concerned, amongst other things, with artificial intelligence, is also part of this technological framework. The construction plans for the Daimler-Benz Institute in the research city of Ulm are almost complete.

Transfer of Research Within the Group

Technology and innovations in research are converted into the appropriate projects via transfer programs with the company divisions. Important transfer work in 1988 concerned in particular the fields of:

Active vehicle safety. Here we presented active suspension and cybernetic rear-axle steering to the public within the car safety workshop.

Engines, motor racing. We applied new materials, supercharging and electronic systems for engines in our 5-liter V8 standard production engine. They enabled fuel consumption to be lowered and output to be further improved. The engine is successfully used in motor racing (Group C).



The C 11 Sauber-Mercedes: the computer graph shows the structure of the new racing sports prototype in Group C with CFC monocoque, further developed wheel suspension and improved aerodynamics.

Service. The MB-CASE project (information and diagnostic system for vehicle service) has been continued, jointly working with the Passenger Car and Commercial Vehicle Divisions. This system is due to come into operation at the beginning of the 1990s.

Traffic. The 0-Bahn and MB Assistant projects have been transferred to the Commercial Vehicle Division. In the largest traffic consultancy project at present, China, which involves German-Chinese collaboration, the development of road transport and the automotive industry in China are to be analyzed, and future models formulated.

Investigating the effects of technology. The key subjects in this field of work were research in the field of diesel emissions and research on recycling plastic parts in vehicles. Comprehensive research programs on both subjects were commenced with other vehicle manufacturers (within the framework of FAT, the research group for automotive technology) and the sectors of industry concerned (the plastics, steel and shredder industries).

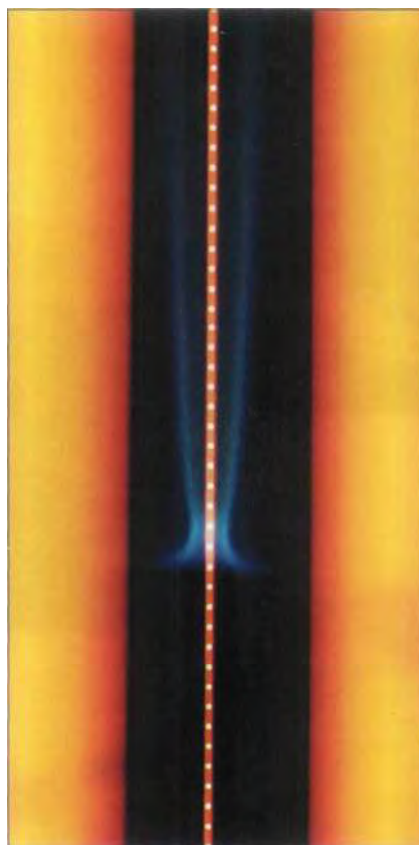


Milling pathways for NC manufacture of a turbocharger-turbine wheel: the turbine wheels are developed via a closed data transfer, which extends from the aerodynamic design right up to manufacture.

Computer-Aided Research and Development

In the electronics measurement centre, electronics modules are simulated in the computer and then converted into hardware when the desired function has definitely been confirmed. This reduces expenditure, accelerates many stages of work and shortens development times.

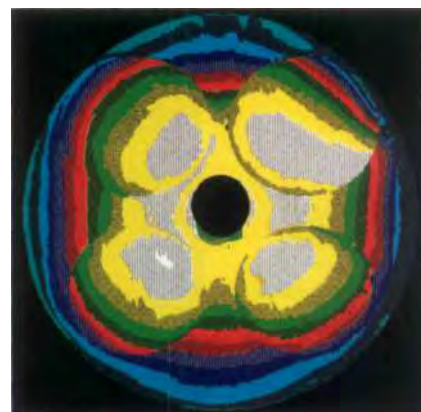
Use of electronic data processing in the latest design processes sequences presupposes that the component geometry can be described mathematically. Due to a newly developed process, empirically calculated surfaces can now be transferred to a CAD model. Conversely, it can also calculate deviations in a work piece which has been manufactured using CAD specified geometry. All conceivable possibilities are available for designing on the screen.



Information as a Competitive Factor

Rapid information on all management levels is becoming an increasingly important competitive factor in addition to product, price and service.

Data on one's own products and those of competitors can be called up with MAPIS, the marketing, planning and information system. The latest information on sales, prices and production, and also overall economic data, currencies, market forecasts and the company's own sales plans are always available in tables and graphs.



Holographically measured deformations, due to the internal pressure in the combustion chamber of a 4-valve cylinder head.

An ethanol drop chain with burning steam cladding. Taken from the basic study on reducing the formation of pollutants in a diesel engine.

Employees

50

Personnel Policy in the Light of Keener International Competition

Against a background of increasing globalization of markets, faster technological change and greater international cooperation, jobs in an internationally operating company like Daimler-Benz can only be secured in the long term if personnel costs and productivity are in economically sensible relation to one another. To continue being able to manufacture successfully in the Federal Republic of Germany, we are intensifying our efforts on the personnel side as well as to create appropriate conditions for this. We are therefore attempting, for instance, to counteract further rises in personnel costs by introducing such measures as worktime models which guarantee better capacity utilization of capital-intensive

production systems. We have also devoted even more time and resources towards adapting the training and qualifications of our employees to the changing demands of work. In the next few years, too, we will be devoting special attention to the aspects of cost limitation and employee training and qualifications.

Constructive Cooperation with Employees' Representatives

Cooperation with the general labor council at the corporate level and the individual labor councils at the local levels, as well as with the committees representing our company's senior managerial staff, continued to be constructive in 1988. It was distinguished by mutual efforts not only to demand rights but also to accept duties. As in previous years,

agreements were reached which reflected an acceptable balance between the interests of the employees and those of the company.

Development of Employment and Employee Structure

At the end of 1988, the Daimler-Benz Group employed 338,749 people worldwide (as compared to 326,288 in the previous year), of whom 268,277 worked in domestic plants and facilities (1988: 262,658).

During the year under review, the workforce of Daimler-Benz AG alone rose by 1,343 to 170,577 employees. The employment-securing practice of temporarily reassigning employees proved successful last year, too. This short-term balancing of employment between individual domestic plants allowed us to react flexibly to fluctuations in the production programs. The costs that this entails, however, should not be underestimated.

AEG employed 89,585 people at the end of 1988 (1987: 80,499), of whom 69,844 (1987: 66,092) worked in Ger-

In the CAD/CAM sector especially, life-long learning is an indispensable investment for securing the future. In 1988, there were more than 1,000 CAD work stations.



Metal cutting engineer
- one of many
technical vocations
attracting a lot of
female trainees.



In 1988, 120 special
working group meet-
ings were organized.
They are gaining
increasing importance
for in-company labor
relations.

many. This rise was above all due to the first-time inclusion of TELEFUNKEN electronic GmbH with a workforce of 6,180. Another factor pushing the employment figures up was the extension of activities in the Radio and Radar Systems, Industrial Systems, Automation Systems and Domestic Appliances sectors.

In the Dornier Group, a total of 9,786 (1987: 9,683) people was employed, 9,579 (1987: 9,512) of them in Germany. Employment was characterized by the varying capacity utilization in the individual plants. In Munich, the workforce of Dornier GmbH and Dornier Reparaturwerk GmbH together fell to 3,791 (1987: 4,147), particularly due to the non-replacement of employees who had left the company as well as to the expiration of limited contracts and to the early retirement schemes. In Friedrichshafen, the workforce of Dornier GmbH and Dornier System GmbH rose to a total of 5,263 (1987: 4,913). Dornier Medizintechnik GmbH increased their staff to 525 people (1987: 452).

The MTU companies employed a total of 17,267 people at year-end (1987: 17,284), of whom 16,984 worked in Germany (1987: 16,935). At MTU in Munich, the workforce rose to 7,787 people (1987: 7,616). The salary-earners accounted for the bulk of the new employees. At MTU in Friedrichshafen, the workforce dropped to 6,251 (1987: 6,341).

The proportion of foreign workers to the total workforce at domestic plants was approximately 10% - with slight variations between the different corporate units.

The proportion of women to the total workforce within the Daimler-Benz Group varies greatly, a fact which is primarily due to the different manufacturing structures: at Daimler-Benz AG, they make up 12%, at AEG 29%, at Dornier 18% and at MTU 14%. At the moment, measures are being implemented in large sections of the Group, in order to make it easier for women to start work and to further

develop their opportunities. In addition, we are trying to find new employment schemes which give our male and female employees even more liberty with respect to their family life.

The average age of the domestic workforce stood at 39 years in 1988, and the average time spent in the companies of the Group was between 10 and 15 years (Daimler-Benz AG 12.6; AEG 14.3; Dornier 10.6; MTU 13.4 years).

Employment of the Severely Handicapped

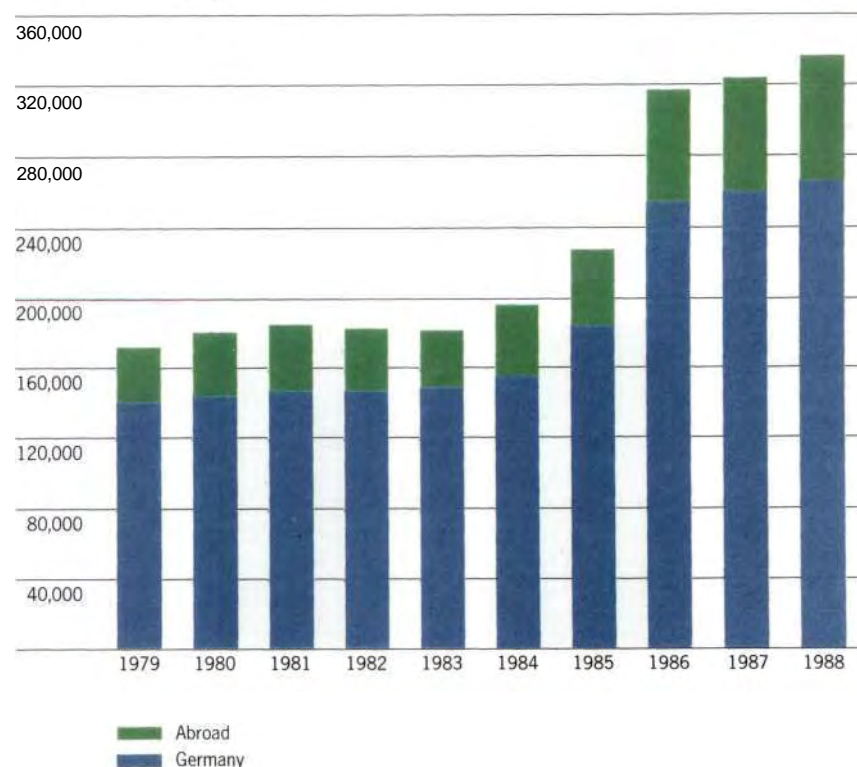
At year-end, 11,305 severely handicapped people were employed by the Group in Germany (Daimler-Benz AG 6,800, AEG 3,625, Dornier 282, MTU

598). The legally prescribed employment quota of 6% could not be reached, as many of our severely handicapped employees took advantage of the early retirement scheme. On top of that, the social agencies have adopted stricter criteria in determining severe handicaps. Nevertheless, we once again did not have to make a compensatory payment in 1988, as a considerable number of orders were awarded to outside workshops for the handicapped.

Personnel Expenditure

In the year under review, the personnel expenditure of Daimler-Benz AG rose by .8% to DM 12.3 billion. Effective April 1, 1988, wages and salaries were in-

Number of Employees



creased by 2.0%, and the average weekly working time was reduced to 37.5 hours. On April 1, 1989, a further reduction in working time to 37 hours came into force, while wages and salaries rose by 2.5%.

In the negotiations about a reduction in working time, the contracting parties in the metal industries agreed upon a monthly wage for workers, finally replacing the traditional pay on an hourly basis as the customary form of payment in the salary-earning sector. In some collective bargaining areas, these agreements were adopted on a voluntary basis. At Daimler-Benz AG, Dornier and MTU, the

monthly wage scheme was introduced, although it is not compulsory for all sites. Most of the workers at AEG, too, are paid on a monthly basis now.

With increasing reduction in working time, it is crucial to optimize the utilization of complex and capital-intensive production facilities. For Daimler-Benz AG we have concluded a general agreement which allows us to launch pilot projects in order to explore the possibility of more favorable machinery utilization and permit new forms of payment. In this connection, new forms of work organization and planning are tried out on the basis of the latest ergonomic findings.

Company Pensions

In the year under review, Daimler-Benz AG paid a total of DM 240 million to approximately 41,000 pensioners, widows and children within the framework of the company pension system. As provided by the Company Pension Law, the yearly expenditure for adjusting the payments to pensioners and widows who started receiving pension benefits from us in the years 1976, 1979, 1982 and 1985, amounted to DM .4 million. Approximately 6,400 employees received one-time assistance payments. In order to cover future payments, we allocated DM 713 million to pension reserves.

Within the framework of the company pension system, AEG paid a total of DM 118 million to approximately 39,500 pensioners, widows and orphans in the year under review. At Dornier, the number of former employees or their dependents receiving old-age and other regular pensions rose from 1,625 to 1,712. In the year under review, those payments amounted to DM 8.1 million. At MTU, expenditure for 3,110 pensioners, widows and orphans stood at DM 7.9 million.

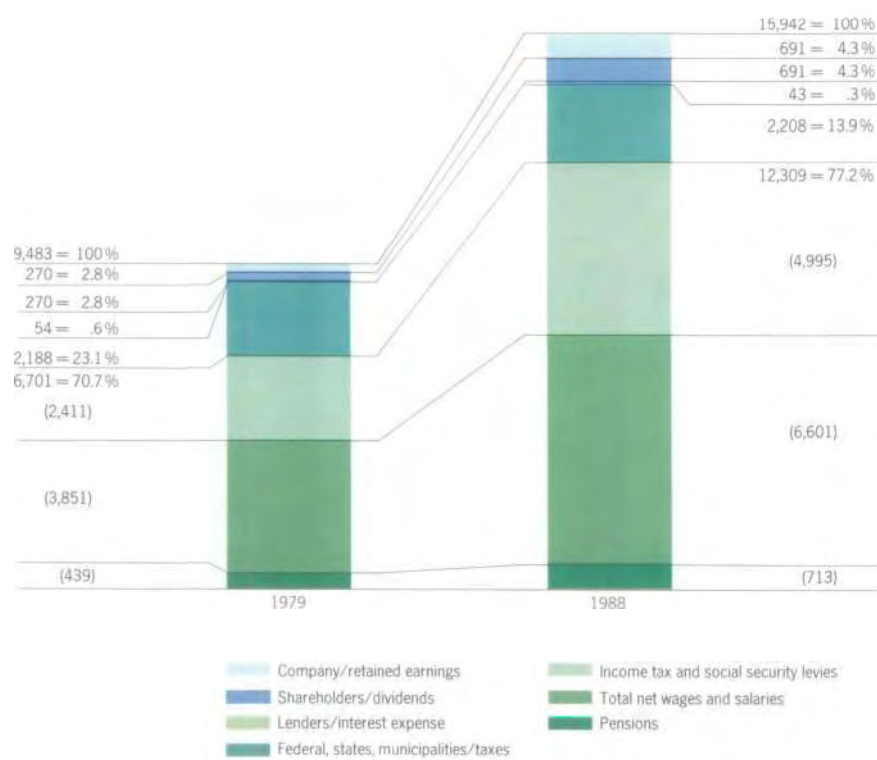
Special Payments

The Christmas bonus and special remuneration within Daimler-Benz AG was on the same level as in the previous year and totaled DM 606.3 million. Dornier spent DM 47.0 million and MTU DM 52.8 million on these items. At AEG, the contractually agreed and company special payments, including bonuses for specific lengths of time spent with the company, amounted to DM 117 million.

As laid down in the labor agreement, every employee at Daimler-Benz AG received DM 52 monthly plus a voluntary payment of DM 156 towards the formation of private capital. In accordance with the 5th Capital Formation Law, employees were offered the opportunity to effect the purchase of either one or two Daimler-Benz AG or Mercedes-Automobil-Holding AG shares for a preferential price

Added Value Statement of Daimler-Benz AG

(in millions of DM)



and at a reduced tax rate. Each employee was also allowed to put DM 312 into company debt certificates at an annual interest rate of 7%. Last year, a total of 91,175 employees purchased either one or two Daimler-Benz shares and 3,050 either one or two Mercedes-Automobil-Holding shares. Company debt certificates were subscribed to by 27,675 employees.

AEG, Dornier and MTU also granted each employee DM 52 per month for the formation of personal capital. In addition, Dornier offered its employees, for the second time now, the opportunity to acquire a share in the company equity by subscribing to special long-term dividend rights. A total of 4,092 of such profit-

sharing certificates bought at DM 600 and DM 1,000 - this corresponds to over 50% of the workforce entitled to the purchase - furnishes proof of the lively interest of the employees in this form of capital formation.

Many employees have exploited the opportunity to take out company loans promoting the acquisition of residential property. In 1988, loans totaling DM 64 million were extended to employees by Daimler-Benz alone for the construction or purchase of 2,499 apartments and homes. At Dornier, 339 projects were supported with loans totaling DM 2.9 million. MTU granted its employees loans worth DM 4 million for the acquisition of residential property.

More Early Retirement Contracts

By the end of 1988, 8,100 employees of the Group working in Germany had taken advantage of the early retirement offer. At Daimler-Benz AG, more than 60% of the 7,745 vacancies created by early retirement since 1985 have been re-filled. The scheme thereby achieved its main labor market objective, but the costs incurred must not be underestimated. With the expiry at the end of 1988 of the Early Retirement Law and the Early Retirement Labor Agreement, the early retirement scheme is officially terminated and all agreements made in this respect are no longer valid.

Structure of Personnel Expenses - Daimler-Benz AG

	1988				change in %
	in millions of D-marks	in % of wages and salaries (basic expenditure)	in millions of D-marks	in % of wages and salaries (basic expenditure)	
Wages and salaries (basic expenditure)	6,285	100.0	6,041	100.0	+ 4.0
Paid time absent	2,463	39.2	2,392	39.6	+ 3.0
Paid (collectively agreed) vacation	993		945		
Additional paid vacation (collectively agreed)	484		463		
Holiday pay	314		305		
Wage and salary continuation pay during illness	462		456		
Other time off and convalescence	210		223		
Social levies	1,613	25.7	1,513	25.0	+ 6.6
Social insurance contributions	1,519		1,418		
Contributions to employee trade associations	84		80		
Contributions to Pension Insurance Association	10		15		
Special payments	730	11.6	716	11.9	+ 2.0
Christmas and special remuneration	606		595		
Formation of personal capital	124		121		
Expenditure for vocational and further training*)	384	6.1	354	5.8	+ 8.5
Social services*)	257	4.1	240	4.0	+ 7.1
less amounts included twice	-271	- 4.3	-243	- 4.0	+ 11.5
Personnel expenditure (without pensions and early retirement payments)	11,461	182.4	11,013	182.3	+ 4.1
Old-age pensions	713	11.3	1,074	17.8	-33.6
Early retirement payments (net)	178	2.8	150	2.5	+18.7
Total personnel expenditure	12,352	196.5	12,237	202.6	+ .9
of which shown under "other company expenses"	43		32		
Personnel expenditure as shown in income statement	12,309		12,205		+ .9

*) Excluding allocated expenses.

Preventive Health Care

In 1988, the Group employed approximately 50 full-time company doctors - 38 at Daimler-Benz AG alone - together with a large number of part-time medical personnel. Their work focused on rendering first-aid services, carrying out preventive check-ups and helping to minimize health risks at the place of work.

Safety at Work and Job Design

The number of industrial accidents was even further reduced in all sectors of the company. At Daimler-Benz AG, the number of industrial accidents per one million productive man-hours stood at 57 (-3.1%). This success is due to the increased commitment of our managerial staff and the safety specialists to improve

training in the field of job safety and the consistent work of the safety advisors in the individual plants.

In order to offer our staff jobs which challenge their personal capabilities and meet their expectations, we take into consideration a whole variety of social and ergonomic aspects as early as the planning phase of production facilities.

New forms of work organization such as work in groups facilitate the interplay between the human being and technology.

Simulation procedures offer the opportunity at an early planning stage to consider personal and ergonomic aspects to the same extent as technological and economic requirements.

Social Advisory Service

It is the task of the social advisors to assist our employees in the case of personal problems such as alcohol addiction, psychological problems, hardship incurred through no fault of their own, difficulties due to serious illness or other personal crisis situations. In the plants of Daimler-Benz AG, there are 20 qualified social advisors.

Time Absent Due to Illness

Compared to the previous business year, Daimler-Benz AG and MTU registered a slight increase in the total absence time due to illness, whereas it was decreasing at Dornier and remained unchanged at AEG. In relation to the nominal working hours, the average absence time amounted to:

- in % -	total	wage- earners	salary- earners
Daimler-Benz AG	7.4	9.1	3.5
AEG	6.0	8.4	3.4
Dornier	3.8	6.4	3.0
MTU	5.9	7.6	3.7



In 1988, almost 4,000 men and women were employed in the service of safety at work, e.g. specialists in the field of industrial safety - our picture shows an optician in the Sindelfingen plant.

More and more of our employees wish to select their meals individually, with an increasing trend towards wholesome food. In 1988, a total of 13 million meals were served.



Due to the different workforce and managerial structure, a direct comparison between the corporate units is not always possible.

Suggestions for Improvement

In the year under review, our employees submitted more than 30,000 suggestions for improvements - 24,000 at Daimler-Benz AG, 4,500 at AEG, 500 at Dornier and 1,400 at MTU. This participation clearly demonstrates how much the employees identify themselves with the company and the quality of its products, and the extent to which they care about the efficiency of their work. A total of DM 8.4 million was paid out in bonuses and awards.

Vocational Training and Further Education

In Germany, 13,381 young people were in vocational training at the end of the year - 9,805 at Daimler-Benz AG, 3,506 at AEG, 431 at Dornier and 881 at MTU. At Daimler-Benz AG, 2,995 young people began training in 1988 - 2,354 in 39 technical trades and 641 in 11 business vocations. Of the 2,832 trainees and apprentices who finished their training in 1988, 2,021 from the technical and 509 from the commercial sector were given employment by Daimler-Benz AG.

In addition, a large number of students were given the opportunity to gain vocational experience during a practical qualification period.

Our investment in the vocational training sector focused on the extension of NC technology, control technology and CAD. It is our aim to acquaint the trainees as closely as possible with the qualitative requirements of the modern production equipment.

In the year under review, an integrated training program was initiated by Daimler-Benz AG and AEG. Within the framework of this system, young people of both companies are trained as electronic technicians for energy plants in the Bad Homburg plant of Daimler-Benz AG.

Our further training program was comprehensively extended to comprise even

more qualification measures. The focus continues to be on the technological changes in the areas of production, development and administration. Group-wide, a total of 138,700 employees - 85,000 of whom employed by Daimler-Benz AG - took part in further training courses.

During the past two years, our efforts were directed especially towards promoting further education among wage-earners. In this connection, comprehensive pilot projects were carried out in the Daimler-Benz plants of Untertürkheim, Mannheim and Worth. More than 3,400 workers participated in these additional training courses.

In the special working groups, the problems arising in the different areas are

discussed and a constructive solution is sought for a great variety of job-related and personnel questions. On the basis of the agreement concluded in 1985 with the general labor council, these meetings have come to play a crucial role in improving labor relations.

Thanks to Our Workforce

We would like to express to all our employees and their representatives in the various labor councils and committees and the committees representing the group's senior managerial staff our thanks for their commitment and hard work. Cooperative effort and mutual understanding helped to make 1988 another successful business year, despite the more difficult general conditions.



In 1988, the training centre of Haus Lammerbuckel on the Schwabische (Swabian) Alb was extended by the building at top left of the picture. Last year, over 600 training courses were held, with a total of 11,000 participants.



The auditorium fitted with the most up-to-date media technology in the annex of Haus Lammerbuckel. Here, meetings with up to 400 people can be held.

Consolidated Net Income About Equal to Previous Year

Consolidated sales revenue increased in 1988 by 8.9% to DM 73.5 billion. The larger growth of total output¹⁾ by 9.5% to DM 75.6 billion was due to inventory increases in connection with the appreciably higher level of commercial vehicle production both at home and abroad. Furthermore, in-house produced capital equipment increased noticeably on account of the strong expansion of the vehicle leasing business. In terms of the output increase, cost of materials rose

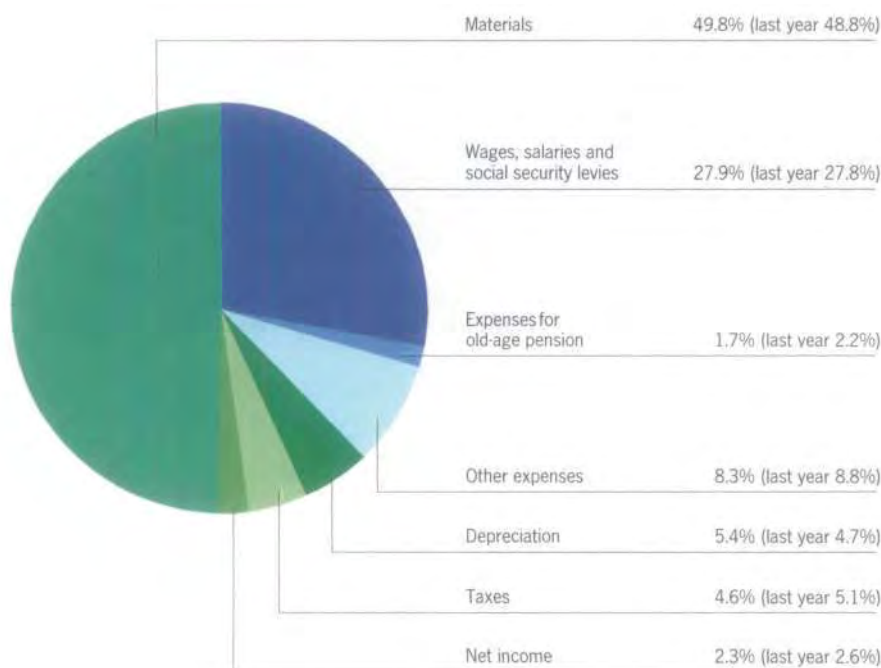
disproportionately by 11.7%. Its share of total output increased from 48.8% to 49.8% even though price changes were negligible overall. The main reason for the disproportionate increase in cost of materials were sales declines, on account of the continuing drop of the dollar exchange rate, and a shift to the production of more material-intensive vehicles. The continuing growth in personnel expenditures, by DM 1.7 billion, was due to collective bargaining wage and salary increases and higher total employment. Expenditures for old-age pensions have

again normalized after the restructuring of the pension system last year. In terms of total output, personnel expenditures remained unchanged overall. Depreciation expenses - including those on leased vehicles, and write-down of financial assets and of securities included in current assets - increased noticeably, namely by 29% to DM 4.1 billion, after a temporary decline last year. The rising investment activities by all divisions will lead to higher depreciation charges in the coming years.

In the non-operating area, net interest income increased from DM 777 million to DM 1,017 million despite declining liquidity. We profited from the fact that our subsidiaries, in countries with high interest levels, have substantial cash resources. As in previous years, we have again eliminated the inflationary profit from interest income in the high-inflation countries of Brazil and Argentina. The results from ordinary business activities fell by DM 100 million to DM 5.2 billion. After deducting income taxes, which declined by DM 155 million to DM 3.0 billion, and other taxes, which declined by DM 135 million to DM 514 million, net income for the Group was DM 1,702 million (last year DM 1,782 million).

Expense Structure in Relation to Output of Daimler-Benz AG

DM 75.6 billion (last year DM 69.1 billion)



¹⁾ Total output comprises net sales, changes in inventories and in-house manufactured capital equipment

Unchanged Sound Balance Sheet Relationships

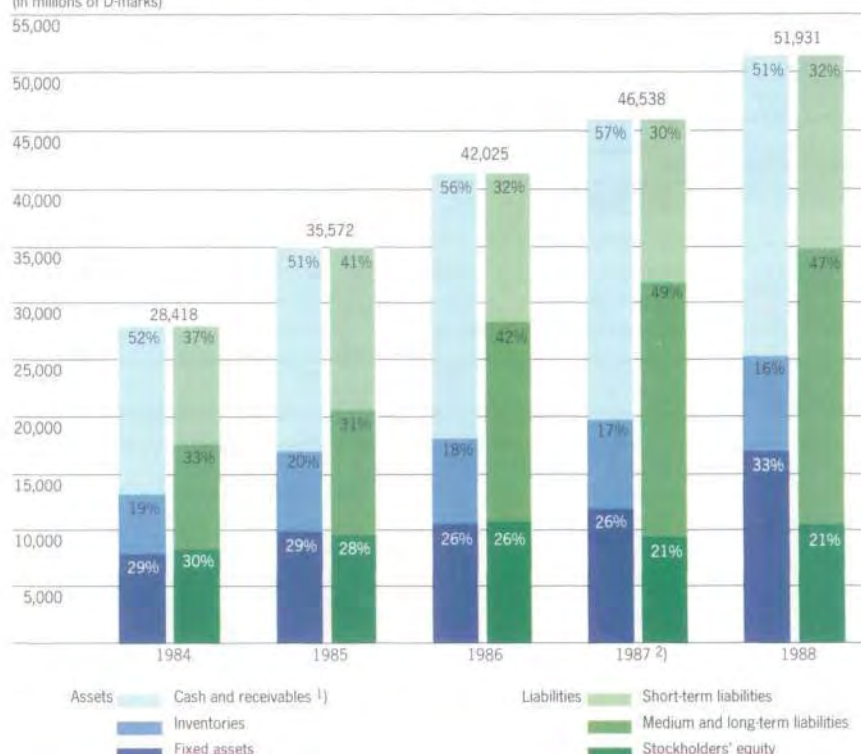
The Group's balance sheet total increased by DM 5.4 billion to DM 51.9 billion over last year, on account of the strong expansion of business volume. Fixed assets (property, plant and equipment) including leased vehicles rose DM 5.1 billion to DM 17.3 billion. Among intangible assets, good-will increased DM 1.5 billion. This increase is largely due to the changes in our share holdings in AEG and its new subsidiaries. They represent primarily acquired know-how in promising high-tech business fields. Fixed assets showed additions of DM 5.1 billion which were partly due to the first-time inclusion in consolidation of new subsidiaries. Depreciation and disposals, in contrast, amounted to DM 3.2 billion. Financial assets increased .4 billion of which more than half is accounted for by equity investments. On account of the special character of the vehicle leasing business which, for business reasons, should be classified under current assets rather than fixed assets, we were for the first time showing "Leased Vehicles" separately below the balance sheet caption "Financial Assets". The change of these balance sheet amounts alone amounted to DM 1.4 billion. Excluding vehicle leasing, the share of non-current assets to total assets increased from 21.3% to 26.3%. Inventories amounted to DM 12.9 billion. About one-third of which was again financed through advance payments received from customers. The ratio of inventories to total assets declined further from 17.1% to 16.1%. Liquid assets fell from DM 16.1 billion to DM 14.2 billion as a result of the strong expansion in other asset categories. The liquidity comprising the balance sheet captions securities, cash, accounts receivable and other assets amounted to 27.3% of total assets (last year 34.9%).

On the other side of the balance sheet, stockholder's equity - excluding the amount provided for dividend payments (unappropriated profit) - rose DM 12 billion to DM 10.8 billion. The equity ratio, at 20.8% of total assets, remained unchanged. The ratio of equity to non-current assets declined from 98% to 79% because of sharply higher non-current assets. The inventories of leased vehicles, for which finance obligations totaling DM 3.5 billion have been entered into, has not been considered in the above ratio.

Provisions which increased DM 1.6 billion to DM 25.9 billion accounted for 49.9% of the balance sheet total (last year 52.3%). Both non-current assets, net inventories and 22.2% of the remaining assets (last year 34.3%) are financed by equity and long-and medium-term provisions.

Balance Sheet Structure Daimler-Benz Group

(In millions of D-marks)



1) The years 1984 to 1986 were reduced by the lump-sum allowance for doubtful accounts.

2) Starting in 1987, figures pursuant to new accounting rules; last year correspondingly adjusted.

Consolidated Statement of Changes in Financial Position 1988 (in millions of DM)

Sources of Funds from business activities

Net income	+ 1,702
Depreciation, fixed and intangible assets disposals	+ 3,223
Depreciation of financial assets	+ 12
Increase in pension provisions	+ 883
Increase in medium-term and long-term other provisions	+ 310

Cash Flow + 6,130

From external financing activities

Increase in short-term other provisions	+ 387
Increase in medium- and long-term liabilities	+ 517
Increase of short-term liabilities and deferred items	+ 2,052
Decrease of receivables from sale of foods and services	+ 275

+ 3,231

Application of Funds

Increase of intangible assets	- 1,571
Increase of fixed assets	- 5,057
Increase of financial assets (net)	- 379
Additions of leased vehicles (reduced by depreciations)	- 1,368
Increase in inventories (net)	- 856
Increase of other current and non-current assets	- 1,868
Change in stockholders' equity	- 42
Dividend 1987	- 503

-11,644

Change in Net Liquidity - 2,283

Analysis of Change in Net Liquidity

	12/31/88	12/31/87	
Cash	3,179	4,460	- 1,281
Marketable securities	5,113	5,167	- 54
Other liquidity	5,910	6,479	- 569
	14,202	16,106	
Short-term liabilities to financial institutions	- 1,553	- 1,174	- 379
	12,649	14,932	- 2,283

Investments in Fixed Assets and Financial Assets Continue to be Fully Financed by Cash Flow

The sharply higher investments in fixed assets and the net additions to financial assets totaling DM 5.4 billion (DM 3.7 billion in the prior year) were again fully financed through cash flow which amounted to DM 6.1 billion (DM 6.6 billion in the prior year). The amount exceeding investments covers the dividend payout for the year 1987. The intangible assets of DM 1.6 billion, acquired in 1988, and the net increase in inventories are contrasted by a decline in liquid funds. The inventory increase by DM 1.4 billion in leased vehicles is connected with the increase of outside borrowings. The strong expansion of the other items on the asset side of the balance sheet matches the decline in receivables and, on the liability side, the increased short-term liabilities.

Financing Principles

Liquid assets - DM 14.2 billion (DM 16.1 billion in prior year) - are invested with the objective of the company being able to meet all its operational requirements on a short-term basis. The investment in securities is done with an eye to maturities, and dovetails, therefore, with our medium-term finance plan. The resulting portfolio for our domestic companies analogously consists of fixed-interest bearing securities of first-class borrowers with an average portfolio life of two to three years.

It is a matter of policy of the Group that strategic fiscal decisions are made centrally, while operational financial measures are made on a decentralized basis. This concept has proven itself of value especially for our foreign operations, since it allows us to take into consideration the many characteristics and opportunities of the various capital markets.

We try to mitigate and limit the currency exposures inherent in the ongoing delivery programs to the foreign opera-

tions by a consistent corporate currency hedging policy. It is our general strategy, depending on exchange rate developments for risk-prone currencies, and varying from country to country, to hedge about one half of the delivery volume for the next six to twelve months.

Sales and Project Financing

Taking care of our customers when questions of financing arise - particularly when larger projects are involved - requires more and more individual solutions even in industrialized countries. The sales trend in emerging and developing countries show a gratifying trend reversal particularly on account of the resurgence in business volume in the Near East. Currency hedging in connection therewith was costly.

Traditionally, we endeavor to hedge to a large extent the risks inherent in the export business. We have continued this policy during the year under review.

The difficult financial situation of numerous countries in the Third World confronted us again with unfavorable conditions. The dependence of these markets on foreign assistance payments continued unabated. Nevertheless in most cases we were able to meet the increasingly more complex financing needs of our customers and our domestic and foreign production centers in international financial markets, often with the help of our partners.

Continuously Increasing Importance of the Leasing and Finance Companies

A comprehensive finance offering from one source is becoming more and more important as an effective instrument for safeguarding and promoting sales in all markets. Because the strength of the producer not only consists in making available a competitive financial offering but also in the individual reconciliation of product-related requirements and financing alternatives. Additional important benefits of a producer-related financing are the customer-related, uncomplicated and speedy processing. Moreover, company-owned leasing and finance companies are able to make an individual contribution to achieve sales-strategic goals through specific financing concepts.

In important countries, we have at our disposal instruments which offer all current forms of financing, particularly also fullservice-programs, and which thus considerably enhance our competitive capabilities. We were thus able to increasingly meet the trend towards more individuality in leasing and finance offerings.

Following the dynamic development of the previous years, we have expanded the new business of our leasing and financing companies by 40% to DM 4.7 billion. More than two-thirds thereof pertain to cars. The number of contracts on hand rose by 60% to DM 7.6 billion. They pertain to 165,000 vehicles of which half were either leased or financed by us.

The car leasing business of our U.S. company Mercedes-Benz Credit Corporation has had particularly strong growth. In 1988, this finance company financed every third Mercedes car sold by our dealers, and has thus contributed significantly to the stabilization of our passenger car sales in North America. With respect to commercial vehicles, our U.S. company was able to increase new vehicle sales by 35%. Total sales volume of the company amounted to DM 3.8 billion as compared to DM 2.3 billion in the previous year.

The European leasing and finance companies also continued their growth pattern. In Italy, Mercedes-Benz Finanziaria continued the branch concept started in 1987 by establishing five new branches. Largely through this instrument, which is geared more to customer proximity, was the company able to increase sales volume by one-third to DM 500 million. The Dutch leasing company, in its second year, is already offering all the financing methods customary in the market-place. Mercedes-Benz Credit AG, Switzerland, which is mainly active in leasing, increased its business by 35%. Our joint venture with Societe Generale was converted into an independent company under the name of Mercedes-Benz Financement, and has continued its success in the French market. In Spain, the joint venture with Banco Hispano Americano founded in 1987 has shown a gratifying trend already in its first year of operations.

Key Figures of Major Subsidiaries of Daimler-Benz AG

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	Owner- ship in %	Net Equity ¹⁾ million DM	Net Income ¹⁾ 1988 million DM	1987 million DM	Sales ²⁾ 1988 million DM	1987 million DM	Number of Employees at year-end	1988	1987
Federal Republic of Germany									
AEG, Berlin and Frankfurt am Main ³⁾	80.2	1,989	26.7	—	13,380	11,660	89,585	80,499	
Dornier, Friedrichshafen ³⁾	57.6	222	— 4.9	10.6	1,920	1,608	9,786	9,683	
MTU, Munich ³⁾	100.0	332	31.0	23.3	3,276	3,018	17,267	17,284	
Mercedes-Benz Finanz GmbH, Stuttgart ³⁾	100.0	171	8.8	5.5	1,014 ⁵⁾	582 ⁵⁾	232	131	
Europe									
Mercedes-Benz España, Madrid	80.7	171	25.6	—43.7	1,517	1,068	3,577	3,307	
Mercedes-Benz (United Kingdom), Milton Keynes ³⁾	100.0	303	94.8	6.2	2,517	1,918	1,158	1,085	
Mercedes-Benz Nederland, Utrecht	100.0	. ⁴⁾	. ⁴⁾	. ⁴⁾	1,083	1,159	712	677	
Mercedes-Benz Belgium, Brussels ³⁾	100.0	113	31.6	30.0	929	880	938	947	
Mercedes-Benz France, Rocquencourt	99.7	233	55.3	22.2	2,737	2,612	2,265	2,222	
Mercedes-Benz Italia, Rome	88.5	215	41.3	36.8	1,971	1,672	716	678	
Mercedes-Benz (Schweiz), Zurich	51.0	91	13.7	15.2	1,024	872	272	262	
Daimler-Benz Holding Nederland, Utrecht ³⁾	100.0	122	.3	.2	—	—	—	—	
Mercedes-Benz Leasing Nederland, Utrecht	100.0	. ⁴⁾	. ⁴⁾	. ⁴⁾	85 ⁵⁾	36 ⁵⁾	22	14	
Daimler-Benz Holding Belgium, Brussels	100.0	247	76.4	16.9	—	—	—	—	
Mercedes-Benz Finance Belgium, Brussels	100.0	15	2.6	2.2	70 ⁵⁾	70 ⁵⁾	34	32	
Mercedes-Benz Finanziaria, Rome	85.0	33	1.6	1.5	351 ⁵⁾	280 ⁵⁾	95	81	
Daimler-Benz Holding, Zurich	100.0	305	89.3	33.6	—	—	—	—	
Mercedes-Benz Credit, Zurich	70.0	17	.8	.6	150 ⁵⁾	108 ⁵⁾	21	18	
North America									
Freightliner, Portland ³⁾	100.0	. ⁴⁾	. ⁴⁾	. ⁴⁾	3,004	2,947	6,101	6,043	
Mercedes-Benz of North America, Montvale ³⁾	100.0	. ⁴⁾	. ⁴⁾	. ⁴⁾	6,221	7,089	1,752	1,769	
Daimler-Benz of North America Holding, New York ³⁾	100.0	2,408	79.9	73.7	—	—	7	6	
Mercedes-Benz Credit, Norwalk ³⁾	100.0	. ⁴⁾	. ⁴⁾	23.4	2,372 ⁵⁾	1,570 ⁵⁾	299	265	
Latin America									
Mercedes-Benz do Brasil, São Bernardo do Campo ³⁾	100.0	1,090	257.2	248.0	4,385	2,919	20,260	19,776	
Sofunge, São Paulo	100.0	55	17.1	8.8	183	116	2,398	2,484	
Mercedes-Benz Argentina, Buenos Aires ³⁾	100.0	280	1.5	33.0	265	167	2,021	2,372	
Africa, Asia, Australia									
Mercedes-Benz of South Africa, Pretoria ³⁾	50.1	222	65.4	24.1	1,438	1,082	5,179	4,798	
Mercedes-Benz Japan, Tokyo	100.0	124	32.0	29.3	1,431	1,165	191	90	
Daimler-Benz (Australia), Mulgrave/Melbourne ³⁾	100.0	159	30.6	4.4	728	534	934	901	

1) Figures from national financial statements for 1988/87, converted at applicable year-end exchange rates.

2) Converted at applicable average annual rates.

3) Consolidated.

4) Included in financial statements of Daimler-Benz Holding Nederland and Daimler-Benz of North America Holding Comp., Inc., respectively.

5) New business.

In Germany at the middle of the year, Mercedes-Benz Finanz GmbH commenced business as planned and was instantly able to obtain a remarkable share of all financed Mercedes-Benz vehicles. After the merger of Mercedes-Benz Leasing GmbH into Mercedes-Benz Finanz GmbH, and through joint action in the marketplace under the product name "Mercedes-Benz Lease Finanz", the Group was able to achieve above-average growth already in the first year. Consolidated business volume was increased by 50% to DM 12 billion.

We believe that our leasing and financing companies will be able to continue their positive trend also in 1989.

Employment of Capital and Refinancing of Wholly-Owned Leasing and Finance Companies

Providing our leasing and finance companies with equity capital is done according to local custom. The ratio of equity capital to total capitalization is noticeably below the level required for manufacturing and distribution companies. Despite the favorable trend during the last years and the above-average growth of the companies, we were able to keep additional equity capital financing by the Group within narrow boundaries. We make sure in each case that our leasing and finance activities yield a reasonable return on investment.

The increased business volume of our leasing and finance companies were largely financed through borrowings. Already last year, we availed ourselves of the opportunity to refinance not only locally but also via international money and capital markets at first rate conditions. This has increased our competitiveness further. During the reporting year, Mercedes-Benz Credit Corp., U.S.A., has successfully issued Eurobonds totaling \$ 250 million.

*

Our business policies at home and abroad were again in 1988 in conformity with the "OECD guidelines for international enterprises".

Principal Subsidiaries and Affiliated Companies of Daimler-Benz AG

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Subsidiaries

Mercedes-Benz España S.A. Madrid/Spain Plas 17,514,911,000 (DM 274.6 million) 80.7% owned	Daimler-Benz of North America Holding Corp., Inc. New York/U.S.A. US \$ 35,932,628 (DM 64.0 million) 100% owned	Daimler-Benz Holding AG Zurich/Switzerland sfr 147,000,000 (DM 173.5 million) 100% owned	AEG Aktiengesellschaft Berlin und Frankfurt am Main DM 931,171,700 80.2% owned
Daimler-Benz (Australia) Pty. Ltd. Mulgrave, Melbourne/Australia SA 50,000,010 (DM 75.8 million) 100% owned	Mercedes-Benz of North America, Inc. Montvale, N.J./U.S.A. US \$ 60,000,000 (DM 106.8 million) 100% owned	Daimler-Benz Finanz AG Zurich/Switzerland sfr 30,000,000 (DM 35.4 million) 100% owned	AEG Anlagenvermietung GmbH & Co. Frankf. oHG Frankfurt am Main DM 1,801,000,000 100% owned
Mercedes-Benz (Australia) Pty. Ltd. Mulgrave, Melbourne/Australia SA 70,000,000 (DM 106.1 million) 100% owned	Mercedes-Benz Canada, Inc. Toronto/Canada Can. \$ 5,000,000 (DM 7.5 million) 100% owned	Daimler-Benz Finanz-Holding S.A. Luxemburg sfr 8,000,000 (DM 9.4 million) 100% owned	AEG Olympia Aktiengesellschaft Wilhelmshaven DM 170,000,000 99.2% owned
Mercedes-Benz Hellas S.A. Athens/Greece Dr 800,000,000 (DM 9.6 million) 100% owned	Freightliner Corp. Portland, Oregon/U.S.A. US \$ 180,000,000 (DM 320.5 million) 100% owned	Mercedes-Benz Finanziaria S.p.A. Rome/Italy Lit 16,000,000,000 (DM 21.7 million) 85% owned	AEG Westinghouse Transport-Systeme Bet. gesellsch. mbH Berlin Berlin DM 131,000,000 80.9% owned
Mercedes-Benz China Ltd. Hongkong HK \$ 6,000,000 (DM 1.4 million) 100% owned	Mercedes-Benz Credit Corp. Norwalk, Connecticut/U.S.A. US \$ 209,970,000 (DM 373.8 million) 100% owned	Mercedes-Benz (Schweiz) AG Zurich/Switzerland sfr 6,000,000 (DM 7.1 million) 51% owned	AEG Westinghouse Transport-Systeme GmbH Berlin Berlin DM 90,000,000 80.9% owned
Mercedes-Benz of South Africa (Pty.) Ltd. Pretoria/Republic of South Africa R 22,500,000 (DM 16.9 million) 50.1% owned	Daimler-Benz Holding France S.A. Rocquencourt/France FF 120,000,000 (DM 35.1 million) 99.7% owned	Mercedes-Benz Credit AG Zurich/Switzerland sfr 13,000,000 (DM 15.3 million) 70% owned	Telefunken electronic GmbH Heilbronn Heilbronn DM 93,750,000 98% owned
Star Auto S.A. Abidjan/Ivory Coast FCFA 1,400,000,000 (DM 8.2 million) 84.3% owned	Mercedes-Benz France S.A. Rocquencourt/France FF 230,000,000 (DM 67.3 million) 100% owned	Mercedes-Benz do Brasil S.A. São Bernardo do Campo/Brazil Cz \$ 263,000,000,000 (DM 622.3 million) 100% owned	AEG Elektrowerkzeuge GmbH Winnenden Winnenden DM 80,000,000 99.75% owned
Holzindustrie Bruchsal GmbH Bruchsal DM 10,000,000 100% owned	Daimler-Benz Holding Belgium S.A./N.V. Brussels/Belgium bfrs 2,420,000,000 (DM 115.4 million) 100% owned	Sociedade Técnica de Fundições Gerais S.A. (SOFUNGE) São Paulo/Brazil Cz \$ 8,900,000,000 (DM 21.1 million) 100% owned	AEG KABEL Aktiengesellschaft Mönchengladbach DM 57,600,000 98.3% owned
Maschinenfabrik Esslingen AG Esslingen a.N. DM 42,515,000 97.9% owned	Mercedes-Benz Belgium S.A./N.V. Brussels/Belgium bfrs 1,800,050,000 (DM 85.8 million) 100% owned	Mercedes-Benz Argentina S.A. Buenos Aires/Argentina A 550,000,000 (DM 59.3 million) 100% owned	AEG KANIS GmbH Nürnberg DM 55,000,000 100% owned
Mercedes-Benz Finanz GmbH Stuttgart DM 100,000,000 100% owned	Mercedes-Benz Finance Belgium S.A./N.V. Brussels/Belgium bfrs 181,000,000 (DM 8.6 million) 100% owned	Daimler-Benz Holding Nederland B.V. Utrecht/Netherlands hfl 135,200,000 (DM 119.7 million) 100% owned	AEG Capital Corporation New York/U.S.A. US \$ 157,842,000,113 (DM 281.0 million) 100% owned
Mercedes-Benz Leasing GmbH Stuttgart DM 66,000,000 100% owned	P.T. Star Engines Indonesia Jakarta/Indonesia Rp 3,784,406,250 (DM 3.9 million) 60% owned	Mercedes-Benz Nederland B.V. Utrecht/Netherlands hfl 57,000,000 (DM 50.5 million) 100% owned	Modular Computer Systems Inc. Fort Lauderdale/U.S.A. US \$ 55,716,000.1) (DM 99.2 million) 100% owned
Daimler-Benz-Wohnungsbau GmbH Stuttgart DM 26,000,000 100% owned	Mercedes-Benz Japan Co. Ltd. Tokyo/Japan Y 4,000,000,000 (DM 56.7 million) 100% owned	Mercedes-Benz Leasing Nederland B.V. Utrecht/Netherlands hfl 25,000,000 (DM 22.1 million) 100% owned	Siliconix incorporated Santa Clara, CA/U.S.A. US \$ 27,472,000 (DM 48.9 million) 39% owned
	Mercedes-Benz (United Kingdom) Ltd. Milton Keynes/United Kingdom £ 30,000,000 (DM 96.2 million) 100% owned	Daimler-Benz International Finance B.V. Utrecht/Netherlands hfl 1,000,000 (DM .9 million) 100% owned	MODICON, Inc. No. Andover, MA/U.S.A. US \$ 137,432,000 (DM 244.7 million) 100% owned
		Mercedes-Benz Italia S.p.A. Rome/Italy Lit 65,000,000,000 (DM 88.2 million) 88.5% owned	AEG International AG Zurich/Switzerland sfr 203,000,000 (DM 239.6 million) 100% owned

Dornier GmbH Friedrichshafen	MTU Motoren- und Turbinen- Union München GmbH Munich
DM 150,402,800 57.6 % owned	DM 156,600,000 100 % owned
Dornier Luftfahrt GmbH Oberpfaffenhofen	MTU Motoren- und Turbinen- Union Friedrichshafen GmbH Friedrichshafen
DM 44,000,000 100 % owned	DM 50,000,000 85.6 % owned
Dornier Medizintechnik GmbH Germering	S. E. M. T. Pielstick S.A. St. Denis
DM 10,000,000 100 % owned	FF 51,380,000 (DM 15.0 million) 25.5 % owned
	MTU Maintenance GmbH Langenhagen
	DM 30,000,000 100 % owned
	MTU Informationssysteme GmbH, Munich
	DM 4,000,000 100 % owned
	AG Kühnle, Kopp & Kausch Frankenthal
	DM 14,000,000 61.6 % owned 2)
	L'Orange GmbH Stuttgart
	DM 5,000,000 100 % owned

Other Affiliated Companies

Industriehandel Handels- und Industriearüstungsgesellschaft mbH Stuttgart	Anambra Motor Manufacturing Co. Ltd. (ANAMMCO) Enugu/Nigeria
DM 10,000,000 50 % owned	N 24,000,000 (DM 7.9 million) 40 % owned
Deutsche Automobil- gesellschaft mbH Hannover	National Automobile Industry Company Ltd. (NAI) Jeddah/Saudi Arabia
DM 5,000,000 50 % owned	SR 70,000,000 (DM 33.0 million) 26 % owned
HWT Gesellschaft für Hydrid- und Wassertechnik mbH Mülheim/Ruhr	Otobüs ve Motorlu Araçlar Sanayii Anonim Sirketi (OTOMARSAN) Istanbul/Turkey
DM 3,000,000 50 % owned	TL 64,000,000,000 (DM 62.7 million) 43.3 % owned
Sindelfinger Wohnstätten GmbH Sindelfingen	P. T. German Motor Manufacturing Jakarta/Indonesia
DM 49,000,000 50 % owned	Rp 5,103,000,000 (DM 5.2 million) 33.3 % owned
Wohnbau Wörth a. Rh. GmbH Wörth a. Rh.	P. T. Star Motors Indonesia Jakarta/Indonesia
DM 7,000,000 50 % owned	Rp 846,720,000 (DM .9 million) 49 % owned
Wohnbau Gaggenau GmbH Gaggenau	Iranian Diesel Engine Manufacturing Comp. (IDEM) Tabriz/Iran
DM 5,000,000 50 % owned	RI 5,000,000,000 (DM 129.7 million) 30 % owned
Esslinger Wohnungsbau GmbH Esslingen a.N.	Tata Engineering and Locomotive Comp. Ltd. (TELCO) Bombay/India
DM 9,000,000 26.6 % owned	IR 1,036,264,500 (DM 123.1 million) 10.6 % owned
	Bajaj Tempo Ltd. Poona/India
	IR 66,013,338 (DM 7.8 million) 25.2 % owned
	Daimler-Benz Österreich Vertriebsgesellschaft mbH Salzburg/Austria
	OS 5,000,000 (DM .7 million) 50 % owned
	NAW Nutzfahrzeuggesellschaft Arbon & Wetzikon AG Arbon/Switzerland
	Sfr 15,000,000 (DM 17.7 million) 40 % owned
	Fábrica de Autotransportes Mexicana S.A. de C.V. (FAMSA) Mexico D.F./Mexico
	mex \$ 66,449,591,200 (DM 52.3 million) 49 % 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
Equity (Capital stock U.S. \$ 1,000)
Of eligible voting stock (DM 7,000,000)



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Financial Statements

Consolidated Balance Sheet

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ASSETS	Notes	December 31, 1988 in millions of DM	December 31, 1987 in millions of DM
Non-Current Assets			
Intangible Assets	(1)	1,575	49
Fixed Assets	(2)	10,984	9,105
Financial Assets	(3)	1,105	738
Leased Vehicles	(4)	3,678	2,310
		<u>17,342</u>	<u>12,202</u>
Current Assets			
Inventories	(5)	12,923	11,802
Advance Payments Received	(6)	(4,538)	(3,860)
		<u>8,385</u>	<u>7,942</u>
Accounts Receivable	(7)	8,523	8,530
Other Assets	(8)	8,179	7,299
Securities	(9)	5,279	5,207
Cash	(10)	3,179	4,460
		<u>33,545</u>	<u>33,438</u>
Prepaid Expenses and Deferred Income Taxes	(11)	1,044	898
		<u>51,931</u>	<u>46,538</u>
STOCKHOLDERS' EQUITY AND LIABILITIES			
Stockholders' Equity	(12)		
Capital Stock	(13)	2,118	2,118
Paid-in Capital	(13)	370	370
Retained Earnings	(14)	7,518	6,209
Minority Interests in Subsidiaries	(15)	626	767
Unappropriated Profit of Daimler-Benz AG		691	702
		<u>11,323</u>	<u>10,166</u>
Provisions			
Provision for Old-Age Pensions and Similar Obligations	(16)	13,624	12,741
Other Provisions	(17)	12,287	11,590
		<u>25,911</u>	<u>24,331</u>
Liabilities			
Accounts Payable Trade	(18)	4,837	4,181
Other Liabilities	(19)	9,732	7,771
		<u>14,569</u>	<u>11,952</u>
Deferred Credits		128	89
		<u>51,931</u>	<u>46,538</u>

Consolidated Statement of Income

	Notes	1988 in millions of DM	1987 in millions of DM
Sales Revenue	(20)	73,495	67,475
Increase in Work in Process and Finished Goods and Other Capitalized In-House Output	(21)	2,142	1,586
Total Output		75,637	69,061
Other Operating Income	(22)	2,871	2,412
Cost of Materials	(23)	(37,646)	(33,701)
Personnel Expenses of which Old-Age Pension DM 1,247 million (last year DM 1,484 million)	(24)	(22,371)	(20,670)
Depreciation	(25)	(4,138)	(3,207)
Other Operating Expenses	(26)	(10,187)	(9,393)
Net Income from Investments in Affiliates	(27)	14	18
Net Interest Income	(28)	1,017	777
Results from Ordinary Business Activities		5,197	5,297
Income Taxes	(29)	(2,981)	(3,136)
Other Taxes	(29)	(514)	(379)
Net Income	(30)	1,702	1,782
Transfer to Retained Earnings		(984)	(1,085)
Minority Interests in Net Income of Subsidiaries		(56)	(33)
Minority Interests in Net Losses of Subsidiaries		29	38
Unappropriated Profit of Daimler-Benz AG		691	702

Balance Sheet of Daimler-Benz AG

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ASSETS	Notes	December 31, 1988	December 31, 1987
		in millions of DM	in millions of DM
Non-Current Assets			
Intangible Assets	(31)	15	13
Fixed Assets	(32)	5,665	4,857
Financial Assets	(33)	5,254	4,156
		<u>10,934</u>	<u>9,026</u>
Current Assets			
Inventories	(34)	3,947	3,688
Accounts Receivable	(35)	5,654	5,190
Other Assets	(36)	4,206	4,653
Securities	(37)	3,675	3,966
Cash	(38)	722	869
		<u>18,204</u>	<u>18,366</u>
Prepaid Expenses		10	6
		<u>29,148</u>	<u>27,398</u>
STOCKHOLDERS' EQUITY AND LIABILITIES			
Stockholders' Equity			
Capital Stock	(39)	2,118	2,118
Paid-in Capital	(40)	370	370
Retained Earnings	(41)	6,755	5,865
Unappropriated Profit		691	702
		<u>9,934</u>	<u>9,055</u>
Special Equity Reserve	(42)	–	2
Provisions			
Provision for Old-Age Pensions and Similar Obligations	(43)	8,026	7,503
Other Provisions	(44)	6,744	6,581
		<u>14,770</u>	<u>14,084</u>
Liabilities			
Accounts Payable Trade	(45)	2,502	2,362
Other Liabilities	(46)	1,922	1,867
		<u>4,424</u>	<u>4,229</u>
Deferred Credits		20	28
		<u>29,148</u>	<u>27,398</u>

Statement of Income of Daimler-Benz AG

	Notes	1988 in millions of DM	1987 in millions of DM
Sales Revenue	(47)	41,729	41,332
Increase in Work in Process and Finished Goods and Other Capitalized In-House Output	(48)	251	112
Total Output	(49)	41,980	41,444
Other Operating Income	(50)	636	838
Cost of Materials	(51)	(21,897)	(20,679)
Personnel Expenses of which Old-Age Pension DM 713 million (last year DM 1,074 million)	(52)	(12,309)	(12,205)
Depreciation	(53)	(1,944)	(1,693)
Other Operating Expenses	(54)	(3,877)	(4,263)
Net Income from Investments in Affiliates	(55)	279	60
Net Interest Income	(56)	722	669
Results from Ordinary Business Activities		3,590	4,171
Income Taxes	(57)	(1,979)	(2,535)
Other Taxes	(57)	(229)	(233)
Net Income	(58)	1,382	1,403
Transfer to Retained Earnings		(691)	(701)
Unappropriated Profit		691	702

Consolidated Non-Current Assets

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	Acquisition/Self-Construction Costs				Depreciation		Net Book Value	
	1/1/88 ¹⁾	Additions ¹⁾	Transfers	Deductions	Accumulated ¹⁾	Current Year	12/31/88	12/31/87
In millions of D-marks								
Intangible Assets	161	1,571	2	10	149	46	1,575	49
Fixed Assets								
Land, Land Equipment Titles and Buildings, Including Buildings on Land owned by Others	10,237	754	349	133	5,831	506	5,376	4,859
Technical Equipment and Machinery	14,959	1,362	494	328	14,458	1,288	2,029	1,483
Other Equipment, Factory and Office Equipment	10,065	1,345	209	411	9,751	1,206	1,457	1,162
Advance Payments Relating to Plant and Equipment, and Construction in Progress	1,651	1,596	(1,057)	7	61	28	2,122	1,601
	36,912	5,057	(5)	879	30,101	3,028	10,984	9,105
Financial Assets								
Investments in Nonconsolidated Subsidiaries, at Cost	63	12	1	2	12	–	62	51
Long-term Receivables from Nonconsolidated Subsidiaries	2	2	(1)	–	2	2	1	2
Investments in Associated Companies, at Equity	281	149	–	73	108	–	249	123
Investments in Affiliated Companies, at Cost less Write-Downs	322	114	–	8	168	4	260	157
Long-Term Receivables from Affiliated Companies	12	2	–	3	2	1	9	11
Investments in Debt Instruments	265	53	–	30	62	1	226	202
Other Long-Term Receivables	288	156	–	49	97	4	298	192
	1,233	488	–	165	451	12	1,105	738
	38,306	7,116	(3)	1,054	30,701	3,086	13,664	9,892
Leased Vehicles	3,464	2,538	3	820	1,507	877	3,678	2,310
							17,342	12,202

1) including carry-forward amounts of companies consolidated for the first time.

Non-Current Assets of Daimler-Benz AG

	Acquisition/Self-Construction Costs				Depreciation		Net Book Value	
	1/1/88	Addi- tions	Transfers	Deduc- tions	Accu- mu- lated	Cur- rent Year	12/31/88	12/31/87
In millions of D-marks								
Intangible Assets	41	14	2	4	38	13	15	13
Fixed Assets								
Land, Land Equipment Titles and Buildings, Including Buildings on Land owned by Others	5,750	373	139	199	3,553	283	2,510	2,337
Technical Equipment and Machinery	9,996	811	324	549	9,420	841	1,162	890
Other Equipment, Factory and Office Equipment	6,269	646	142	285	6,097	615	675	536
Advance Payments Relating to Plant and Equipment, and Construction in Progress	1,139	850	(607)	44	20	20	1,318	1,094
	23,154	2,680	(2)	1,077	19,090	1,759	5,665	4,857
Financial Assets								
Investments in Nonconsolidated Subsidiaries, at Cost	4,720	1,166	(5)	191	991	–	4,699	3,727
Long-Term Receivables from Nonconsolidated Subsidiaries	295	55	–	9	151	12	190	155
Investment in Affiliated Companies, at Cost	332	51	5	.	242	.	146	91
Long-Term Receivables from Affiliated Companies	10	–	–	3	.	–	7	10
Investments in Debt Instruments	225	50	–	12	56	–	207	168
Other Long-Term Receivables	14	.	–	2	7	.	5	5
	5,596	1,322	–	217	1,447	12	5,254	4,156
Total Non-Current Assets	28,791	4,016	–	1,298	20,575	1,784	10,934	9,026

Supplemental Information for Group and for Daimler-Benz AG

Accounting Principles and Methods

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The consolidated financial statements have voluntarily been prepared since 1987 in accordance with the regulations set forth in the Accounting Standards Act.

The summarized balance sheet and the statement of income captions are shown separately in the appendix. Deviating from last year, we have separately shown leased vehicles both in the consolidated balance sheet and in the statement of non-current assets, recognizing the growing importance of the leasing business.

Accounting Standards and Valuation Methods

Accounting standards and valuation methods were unchanged from last year. Assets and liabilities presented in the consolidated balance sheet were uniformly valued in accordance with the methods used by Daimler-Benz AG.

Intangible Assets are valued at acquisition costs, fixed assets at acquisition costs or self-construction costs. The self-constructed facilities include direct labor, direct materials and applicable manufacturing overhead.

The acquisition costs or self-construction costs, respectively, are reduced by investment tax credits earned and then depreciated. The opportunities for special tax-deductible depreciation allowances were fully utilized, i. e. 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 Zone Border Area Development Law, Section 6b of the Income Tax Act and Paragraph 35 of the Income Tax Guidelines.

Scheduled depreciation allowances at Daimler-Benz AG 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 technical equipment and machinery, 2 to 10 years for other factory and office equipment. Facilities used for multishift operations were depreciated using correspondingly lower useful lives. Depreciation allowances at subsidiaries were sometimes based on longer useful lives.

Movable property with a useful life of four years or more is depreciated using the declining-balance method. We change from the declining-balance method to the straightline 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 little value are expensed in the year of acquisition.

Investments in consolidated subsidiaries, at cost and investments in affiliated companies, at cost are valued according to the lower-of-cost-or-market principle; interest-free or low interest long-term receivables are shown at their present value.

The major investments in affiliated companies, at equity, as shown in the consolidated balance sheet, are increased or decreased by the company's proportionate share of earnings, losses and dividends (equity method).

Raw materials, manufacturing supplies and goods purchased for resale are valued at the lower of cost or market. Manufactured goods at Daimler-Benz are valued at manufacturing costs which include direct materials, direct labor and applicable manufacturing overhead. At subsidiaries, manufactured goods from large-scale production are also valued at manufacturing costs; the remaining manufactured goods are valued at manufacturing costs as prescribed by

tax law. Reasonable deductions are made for inherent inventory risks, e.g. for reduced usability after prolonged storage or after design changes.

Receivables - if non-interest bearing - are reduced to their present value at the balance sheet date, and are valued taking into account all known risks. A lump-sum allowance for doubtful accounts on a country-specific scale of 1% to 10% is deducted from the receivables in recognition of the general credit risk inherent in receivables.

Treasury stock is valued at the prospective issue price to employees.

Securities are valued at the lower of cost or market.

Provisions for old-age pensions and similar obligations in the Daimler-Benz AG and in the consolidated financial statements, respectively, are actuarially determined on the basis of an interest rate assumption of 3.5% using the Entry Age Actuarial Cost Method. We have included in our calculations of current pension expenses all eligible employees, taking into account company-specific-fluctuation probabilities (actuarial gains/losses). Pension accrual starts with entry age and ends with expected age of retirement.

Provisions for taxes and other provisions are determined on the basis of fair and reasonable business judgment. The obligations in the personnel and social area are reflected in the financial statements at non-discounted values expected to be paid in the future, or proportionately as benefits are vested.

Liabilities are shown at their repayment amount.

Companies Included in Consolidation

The consolidated financial statements basically include - apart from Daimler-Benz AG - all domestic and foreign subsidiaries.

Not included are 14 domestic and 66 foreign subsidiaries, whose effect on the consolidated financial statements is not material, and 11 companies administering pension (provident) funds whose assets are solely used for pension purposes.

The companies included in consolidation encompass - apart from Daimler-Benz AG - 90 domestic and 205 foreign subsidiaries. A complete listing of our ownership interests will be deposited with the commercial registry office at the county court in Stuttgart (Dept B No. 173).

During the year, 35 companies have been added to and 13 companies deleted from consolidation.

Comparability with last year's consolidated financial statements was not impaired by changes within the Group.

Principles of Consolidation

Capital consolidation was effected according to the "book value method" where the parent's acquisition costs are eliminated against the relevant share capital and retained earnings at the time of acquisition or first-time inclusion in consolidation. The difference resulting from this elimination (goodwill) for 1988 additions is shown under intangible assets.

Profits earned by subsidiaries after date of acquisition are added to consolidated retained earnings. The unappropriated profit as shown in the financial statements of Daimler-Benz AG and in the consolidated financial statements is thus the same.

In the consolidated financial statements we have included 60 associated companies. These will be registered with the commercial registry office at the county court in Stuttgart. Of these, 42 companies are shown under investments in affiliated companies, at cost less write-downs as they are not material to the consolidated balance sheet, financial position and results of operations. The remaining 18 associated companies are included in consolidation according to the equity method.

Intercompany receivables and payables have been eliminated; the differences resulting from debt consolidation have been charged to or credited to income.

All material intercompany profits resulting from intercompany sales of goods and services have been eliminated. The same holds true for sales of goods and services by associated companies to companies included in consolidation.

Intercompany sales and other intercompany earnings have been eliminated against the relevant costs, or reclassified to "capitalized in-house output" or "increase in inventories", respectively.

Deferred taxes shown in the consolidated balance sheet result from income-affecting consolidation adjustments.

Currency Translation

Foreign currency receivables are translated in the financial statements of Daimler-Benz AG at the bid price on the day they are recorded or at spot rate on the balance sheet date if lower; foreign currency payables are translated at the asked price on the day they are recorded or the spot rate on the balance sheet date if higher.

The accounts of all foreign subsidiaries are translated to D-marks on the basis of historical exchange rates for noncurrent assets, and at year-end exchange rates for current assets, borrowed capital and unappropriated profit. Stockholders' equity in D-marks is the remaining difference between translated assets less translated liabilities and unappropriated profit. The difference resulting from the translation of balance sheet items is recorded in consolidated retained earnings.

The adjustments made in the income statements by our subsidiaries in Brazil for monetary devaluations have been taken into the consolidated income statements without change, effectively preventing reflection of inflationary profits.

Expense and income items are translated at average exchange rates, items from inflation-adjusted earning statements of our Argentinian companies at year-end exchange rates. If they relate to fixed assets (depreciation, profit or loss from disposal of fixed assets), they are translated at historical costs. Net income, additions to retained earnings, and unappropriated profit are translated at year-end rates. The resulting difference has been reflected in other operating expenses.

Notes to Consolidated Financial Statements

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(1) Intangible Assets

Intangible assets amounting to DM 1,575 million are inclusive of goodwill in the amount of DM 1,496 million resulting mainly from the acquisition by AEG of more subsidiaries, and the purchase by Daimler-Benz AG of additional shares in AEG Aktiengesellschaft, respectively. Shown under this caption, moreover, are purchased software, as well as patents and similar rights.

(2) Fixed Assets

The DM 1,879 million increase in fixed assets is the result of investments totaling DM 5,057 million less disposals and depreciation of DM 3,178 million. About one-half of the balance sheet amount pertains to Daimler-Benz AG.

Depreciation charges solely on the basis of tax regulations amounted to DM 187 million; depreciation in excess of scheduled depreciation amounted to DM 92 million.

(3) Financial Assets

The increase in equity investment was due primarily to the acquisition of shares in Matra S.A., Paris, to the capital stock increase at I.D.E.M. Tabriz/Iran, and to the conversion of convertible bonds of Tata Engineering and Locomotive Company Ltd., Bombay/India.

The additions to associated companies totaling DM 149 million pertain, apart from the acquisition by AEG of shares in Siliconix Inc., Santa Clara/U.S.A, mostly to capital stock increases and proportionate earnings for the year. The 1988 acquisition of shares was shown at book value; it comprises a goodwill of DM 51 million determined at the time of acquisition. Deductions are the result of losses for the year and - after the acquisition of the majority ownership by AEG - the first-time inclusion in consolidation of TELEFUNKEN electronic GmbH, Heilbronn. Also shown here are the conversion-related changes of pro rata DM equity capital of foreign companies, and the income-affecting elimination of intercompany profits.

Investments in debt instruments amounting to DM 226 million were mostly held by Daimler-Benz AG.

Unscheduled write-downs of investments in debt instruments, long-term receivables and investments in affiliated companies amounted to DM 12 million. Debts instruments should have been written up by DM 11 million on account of higher bond prices. This write-up was not made for tax reasons.

(4) Leased Vehicles

For the first time we are showing leased vehicles separately, in order to make the consolidated statements more meaningful. About three-quarters of the balance sheet amount pertains to Mercedes-Benz Credit Corporation, Norwalk/U.S.A.

(5) Inventories

The increase in inventories by DM 1,121 million to DM 12,923 million is caused by higher inventories of raw materials and manufacturing and maintenance supplies, work in process and finished goods at Daimler-Benz AG and its foreign sales subsidiaries due to expanding business volume; also there was an increase of inventories manufactured under long-term contracts at Dornier for which progress billing could not as yet be made. About one-half of the Group's inventories are accounted for by DBAG and its subsidiaries.

(6) Advance Payments Received

Advance payments amounting to DM 4,538 million (DM 3,860 million in the previous year) were received from customers almost exclusively for projects and long-term contracts at AEG, Dornier and MTU; they were deducted from inventories.

(7) Receivables and

(8) Other Assets

	1988 in millions of DM	of which maturing after one year in millions of DM	1987 in millions of DM
Receivables from sale of goods and services	7,273	415	7,548
Receivables from related companies	13	-	7
Receivables from associated and affiliated companies	1,237	347	975
Total receivables	8,523		8,530
Other assets	8,179	4,384	7,299

Other assets include investments of liquid funds in debt instruments not traded on stock exchanges. They amount to DM 4,997 million (last year DM 5,738 million). Also shown here are receivables derived from activities of our finance and leasing companies.

(9) Securities

	1988 in millions of DM	1987 in millions of DM
Treasury stock	166	40
Other securities	5,113	5,167
	5,279	5,207

Daimler-Benz AG is holding 449,758 shares of treasury stock with a par value of DM 22 million (= 1.1% of total outstanding common share capital). Other securities largely pertain to interest-bearing debt instruments.

(10) Cash

Cash amounting to DM 3,179 million consisted of deposits in banking institutions, cash on hand, deposits in the Deutsche Bundesbank (German Federal Reserve Bank) and in post office accounts, and checks on hand.

(11) Prepaid Expenses and Deferred Income Taxes

Deferred income taxes on income-effecting elimination entries amounted to DM 960 million. Deferred income taxes - a net benefit overall - as shown in the individual balance sheets of consolidated companies were not included.

(12) Stockholders' Equity

The changes in stockholders' equity were as follows: ' in millions of DM

	in millions of DM
Balance 12/31/87	10,166
Dividends paid by DBAG for 1987	(503)
Transfer from 1988 net income to retained earnings	984
Unappropriated profit of DBAG	691
Other changes	(15)
Balance 12/31/88	11,323

(13) Capital Stock and Paid-in Capital

Capital stock and paid-in capital pertain to Daimler-Benz AG.

(14) Retained Earnings

Retained earnings comprise retained earnings allocated under statute of DM 160 million, retained earnings allocated for treasury stock of DM 166 million at Daimler-Benz AG and retained earnings allocated from net income of Group companies. The amount allocated from net income to retained earnings was DM 984 million (DM 1,085 million in the previous year).

(15) Minority Interests

The stock ownership of outside third parties in the net equity and unappropriated income/loss of subsidiaries included in consolidation pertains mostly to AEG, Mercedes-Benz South Africa S.A., Dornier and to MTU. The reduction in the balance sheet amount was due to the acquisition of more shares in AEG.

(16) Provisions for Old-Age Pensions and Similar Obligations

The provisions for old-age pensions together with the assets of the Provident Funds fully cover the actuarially computed pension obligations. The calculation is based on the method used by Daimler-Benz AG.

(17) Other Provisions

	1988 in millions of DM	1987 in millions of DM
Provision for taxes	1,897	1,440
Other provisions	10,390	10,150
	12,287	11,590

The provision for taxes included DM 1,193 million (DM 885 million in the previous year) relating to Daimler-Benz AG for open years pending final assessment.

Apart from existing worldwide warranty obligations, other provisions include obligations in the personnel and social area, risks for losses inherent in pending business transactions, and risks arising from contractual liabilities and pending litigation.

Additional provisions exist for expenditures which are based on approved projects for change-over, alteration and maintenance, for possible additional costs in connection with completed contracts, and for maintenance which had been planned for the reporting but which had to be deferred until the following year.

(18) **Accounts Payable Trade**
and(19) **Other
Liabilities**

	1988	Of which maturing		1987
	in millions of DM	in less than 1 year in millions of DM	in more than 5 years in millions of DM	in millions of DM
Accounts payable trade	4,837	4,731	1	4,181
Financial liabilities				
Bonds	1,482	3	678	979
Liabilities to banking institutions	3,180	1,553	429	2,276
Notes payable	1,086	1,071	9	609
Other liabilities				
Advance payments received	–	–	–	413
Liabilities to related companies	121	73	4	106
Liabilities to affiliated and associated companies	453	252	59	218
Miscellaneous liabilities	3,410	3,115	21	3,170
of which for taxes DM 670 million (last yr. DM 616 million)				
of which for social benefits DM 566 million (last yr. DM 503 million)				
Remaining liabilities	9,732			7,771

Financial liabilities included DM 3.5 billion in connection with the refinancing of the strongly expanding leasing and sales financing activities for cars and commercial vehicles.

Miscellaneous liabilities mostly comprised December accruals for wages and salaries as well as tax liabilities.

Liabilities to banking institutions, notes payable, liabilities to related and associated companies are secured through mortgages or through assignment of receivables totaling DM 920 million.

*

Commitments and Contingencies

	1988 in millions of DM	1987 in millions of DM
Collaterals	688	575
Discounted notes payable	188	152
Contractual warranties	149	22
Pledges for indebtedness of others	18	33
Other pledges	–	54

A minimum dividend guaranty in favor of co-owners in two subsidiaries and contractual performance guarantees could not reasonably be estimated.

One foreign subsidiary has given customary payment guarantees within the scope of its sales financing activities.

Other Financial Commitments

Obligations arising from rental, land lease and leasing contracts, in order of maturity, were as follows:

	1988 in millions of DM
maturing in 1989	649
maturing 1990 – 1993	1,435
maturing after 1993	1,065

The other financial commitments, particularly purchase order commitments for capital investments, amounted to DM 2,109 million.

For companies not included in consolidation, financial commitments amounted to DM 564 million.

The obligations arising from stock subscriptions and from capital subscriptions in "Closed Corporation" (Section 24 of the GmbH Act) amounted to DM 2 million.

We are jointly and severally liable for some non-incorporated companies, which have profit and loss pooling agreements with controlling entities, and for some joint ventures.

Notes to Consolidated Statement of Income

(20) Sales Revenue	1988 in millions of DM	1987 in millions of DM
Sales revenue by divisions:		
Cars	31,833	31,472
Commercial Vehicles	23,063	19,454
AEG	13,152	11,480
Dornier	1,889	1,589
MTU	3,087	2,832
Others	471	648
	73,495	67,475

Sales revenue by regions:		
Domestic	29,094	28,064
Foreign	44,401	39,411
	73,495	67,475

Breakdown of foreign sales:		
EEC countries	14,821	12,483
Other European countries	4,240	4,072
North America	11,817	12,135
Latin America	4,899	3,610
Other countries	8,624	7,111

(21) Increase in Inventories and Other Capitalized In-house Output	1988 in millions of DM	1987 in millions of DM
Increase in inventories of finished goods and of work in process, including parts	1,290	1,021
Other capitalized in-house output	852	565
	2,142	1,586

(22) Other Operating Income

Included herein were dissolutions of reserves of DM 635 million (DM 558 million in the previous year) resulting from the deletion of potential losses, and the reduction of planned capital projects for change-over, alterations and maintenance. Further income was derived from foreign exchange profits in connection with ongoing purchase and payment transactions, mostly earned abroad, from costs charged to third parties, from tax refunds, from sales revenues of materials and scrap, from security sales and from rental income. The lump-sum allowance for doubtful accounts was reduced by DM 8 million. Profits from sale of fixed assets amounted to DM 158 million.

DM 1,061 million of other operating income is attributable to prior years.

(23) Cost of Materials	1988 in millions of DM	1987 in millions of DM
Cost of raw materials and manufacturing supplies, and of goods purchased for resale	34,859	31,772
Cost of services purchased	2,787	1,929
	37,646	33,701

When measured against total output of DM 75,637 million (last year DM 69,061 million), the cost of materials amounted to 50% (49% in the previous year).

(24) Personnel Expenses/Employment	1988 in millions of DM	1987 in millions of DM
Wages and salaries	17,846	16,421
Social levies and expenses for old-age pensions and assistance payments	4,525	4,249
	22,371	20,670

Employment (average for the year)	number	number
Wage earners	201,380	197,539
Salaried employees	121,022	113,531
Trainees/apprentices	14,573	14,695
	336,975	325,765

The increased number of employees as well as collective bargaining wage and salary increases were the main reasons for the higher wages and salaries, and the social benefits.

(25) Depreciation	1988 in millions of DM	1987 in millions of DM
Depreciation of intangible long-term assets	46	28
Depreciation of fixed assets	3,028	2,477
Write-down of long-term financial assets	12	55
Depreciation of leased vehicles	877	541
Write-down of securities included in current assets	175	106
	4,138	3,207

The depreciation on fixed assets pertain 50% to Daimler-Benz AG. The increase of the depreciation on leased vehicles results from the growing leasing business of the German and foreign sales finance companies.

Write-downs of marketable securities pertain mostly to the write-down of treasury stock to the estimated value at which they will be issued to employees.

(26) Other Operating Expenses

This caption comprises additions to provisions, maintenance expenses, administrative and selling expenses including sales commissions, rental and lease expenses, freight out, packaging, and charges resulting from currency translations of income statements of foreign subsidiaries. Losses from valuation adjustments and losses from disposal of fixed and current assets amounted to DM 459 million.

DM 121 million of other operating expenses is attributable to prior years.

(27) Net Income from Investments in Affiliates	1988 in millions of DM	1987 in millions of DM
Dividends received	11	18
of which from affiliated companies	1	1
Income from pooling agreements	2	2
Income from associated companies	2	(1)
Losses from pooling agreements	(1)	(1)
	14	18

(28) Net Interest Income	1988 in millions of DM	1987 in millions of DM
Income from other securities, and from long-term financial assets	28	29
Other interest and similar income	1,626	1,237
Interest and similar expenses	(637)	(489)
of which from related companies	(.)	(1)
	1,017	777

The favorable interest levels, in countries where investments were made, led to higher interest income despite lower liquidity.

(29) Taxes	1988 in millions of DM	1987 in millions of DM
Income Taxes	2,981	3,136
Other taxes	514	379
	3,495	3,515

The decline in income taxes at Daimler-Benz AG was largely compensated for by higher other tax expenses at foreign subsidiaries.

(30) Net income

The consolidated net income of DM 1,702 million (DM 1,782 million in the previous year) has been minimally affected by tax depreciation of fixed and current assets. Prospective charges to net income will likewise be minimal.

Other Informations

Under the assumption that the proposed dividend is ratified by the shareholders at the annual meeting on June 28, 1989, the remunerations paid by the Group companies to the members of the Board of Management and the Supervisory Board of Daimler-Benz AG amounted to DM 15,904,758 and DM 1,334,103, respectively. Disbursements for former members of the Board of Management of Daimler-Benz AG or their survivors totaled DM 7,669,159. Pension obligations to former members of the Management Board of Daimler-Benz AG or their survivors, amounting to DM 75,454,204 have been provided for. As at December 31, 1988, advances and loans to members of the Board of Management of Daimler-Benz AG amounted to DM 401,233; during the year DM 507,145 was repaid. Interest averaging 4% was charged on such advances and loans; the stipulated maturities did not exceed one year.

Notes to Financial Statement of Daimler-Benz AG

(31) Intangible Assets

Intangible assets totaling DM 15 million mostly comprised purchased EDP-software.

(32) Fixed Assets

The increase of fixed assets by DM 808 million to DM 5,665 million was in connection with the augmented capital investment activities.

Scheduled depreciation charges amounted to DM 1,662 million, tax depreciation in addition thereto, amounted to DM 91 million. Unscheduled depreciation for technical equipment, no longer in use, totaled DM 6 million.

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, 1988, there were 16 leasing agreements for buildings and improvements; payments for such leases amounted to DM 27 million.

(33) Financial Assets

Investments in associated and in affiliated companies rose to DM 4,845 million. Additions amounting to DM 1,217 million pertained largely to AEG Aktiengesellschaft Berlin and Frankfurt am Main, also to capital stock increases at Mercedes-Benz Finanz GmbH, Stuttgart and at Daimler-Benz Holding France SA, Rocquencourt.

A tabulation of Daimler-Benz AG's stockholders has been recorded in the commercial register at the Stuttgart Courthouse.

Investments in debt instrument should have been written up by DM 11 million on account of higher market values which were, however, not made for tax reasons.

Unscheduled write-downs of DM 12 million pertained to present value adjustments for interest-free loans to Daimler-Benz Employee Home Financing GmbH, Stuttgart.

(34) Inventories

	1988 in millions of DM	1987 in millions of DM
Raw materials and manufacturing supplies	962	894
Work in process	1,039	926
Finished goods, and goods purchased for resale	1,946	1,868
	3,947	3,688

The rise in inventories was largely due to production increases in commercial vehicles, particularly in heavy-duty trucks.

Tax depreciation, on account of the allowance for imported goods pursuant to Section 80 of the Income Tax Regulations, amounted to less than DM 1 million.

(35) Receivables and (36) Other Assets

	1988 in millions of DM	of which maturing in less than one year in millions of DM	1987 in millions of DM
Receivables from sale of goods and services	2,199	128	1,703
Receivables from affiliated companies	2,790	952	2,960
Receivables from companies in which we have stock ownership	665	348	527
Total receivables	5,654		5,190
Other assets	4,206	3,182	4,653

The increase in receivables from sale of goods and services resulted from higher commercial vehicles deliveries to overseas countries.

Other assets included liquidity investments in non-exchange-traded debt instruments in the amount of DM 3,507 million (DM 3,986 million in the previous year). Also included here were tax refund claims and interest receivables.

(37) Securities

	1988 in millions of DM	1987 in millions of DM
Treasury stock	166	40
Other securities	3,509	3,926
	3,675	3,966

For the purpose of issuing shares under the employee stock purchase plan and the fulfillment of the management agreement entered into with AEG, a total of 459,650 common shares (with a par value of DM 23 million = 1.1% of total common stock) with an average price of DM 654 a share, had been purchased during the reporting year; i.e. 273,500 shares in February, 143,800 shares in March and 42,350 shares in April.

In June of 1988, 147,803 common shares (with a par value of DM 7 million = .3% of total common stock) were sold to our employees at a preferential purchase price of DM 283 a share (when purchasing one share) or DM 315 a share (when purchasing two shares), respectively. In 1988 moreover, 597 Daimler shares were exchanged for AEG shares in connection with the exchange offer to AEG shareholders. As of December 31, 1988 we held 449,758 common shares (with a par value of DM 22 million = 1.1% of total common stock) which had been purchased during the reporting year.

(38) Cash

Cash consisted of deposits in banking institutions, cash on hand, checks on hand, and deposits in the German Federal Reserve Bank and in post office accounts.

(39) Outstanding Share Capital

		1988 in millions of DM
Common stocks	42,313,132 votes	2,116
Preferred stocks	43,920 votes	2
in special cases of Section 17 of the bylaws	1,317,600 votes	
		2,118

Outstanding share capital did not change vs. 1987.

On July 2, 1986, the shareholders approved an authorized share capital of DM 500 million. Of this amount, a partial amount of DM 176 million was used toward the end of 1986, still leaving an amount of DM 324 million which 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.

(40) Paid-in Capital

Paid-in capital include the "agio" derived from stock increases for cash (net proceeds in excess of par value), less rights issues not taken up by shareholders.

(41) Retained Earnings

	in millions of DM	in millions of DM
Statutory retained earnings, balance 12/31/88, unchanged vs. last year		160
Allocated for treasury stock, balance 12/31/87	40	
Transfer from unallocated retained earnings	126	
Balance 12/31/88		166
Unallocated retained earnings, balance 12/31/87	5,665	
Transfer from 1987 unallocated profit as approved by stockholders July 1, 1988	199	
Transfer from net profit 1988	691	
Reclassification to retained earnings allocated for treasury stock	(126)	
Balance 12/31/88		6,429
		6,755

(42) Special Equity Reserve

The special equity reserve allowed under Section 6b of the Income Tax Act and Subsection 35 of the Income Tax Guidelines, as shown in the Dec. 31, 1987 balance sheet, was transferred during the reporting year to the relevant asset categories.

(43) Provisions for Old-Age Pensions and Similar Obligations

The direct and indirect pension obligations of Daimler-Benz AG - actuarially determined on the basis of the pension rules in effect since January 1, 1987 - are fully funded by the pension provisions and the assets of the Daimler-Benz Provident Fund.

(44) Other Provisions

	1988 in millions of DM	1987 in millions of DM
Tax provisions	1,193	885
Other provisions	5,551	5,696
	6,744	6,581

Tax provisions pertained to income tax liabilities for which final tax determination letters had not been received, and to the income tax portion of the special equity reserve which was reclassified in 1987.

The other provisions mostly take into account our worldwide warranty, legal liability and litigation risks, also obligations arising in the personnel and social benefit area, and potential losses inherent in pending business transactions. Moreover, provisions were made for maintenance work scheduled for 1988 but which cannot be carried out until the succeeding year. The provisions for change-over, alteration and maintenance programs established in 1987 were continued according to plan; further provisions were not made.

(45) Accounts Payable Trade

and

(46) Other

Liabilities

	1988	of which maturing		1987
	in millions	in less	in more	in millions
	of DM	than	than	of DM
		1 year	5 years	
		of DM	of DM	
Trade payables	2,502	2,502	-	2,362
Liabilities to banking institutions	29	4	9	159
Advance payments received	122	122	-	144
Liabilities to related companies	221	221	-	110
Liabilities to companies in which we have a stock ownership	15	15	-	17
Remaining other liabilities	1,535	1,461	-	1,437
of which for taxes DM 147 million (I.y. DM 168 million)				
of which for social benefits DM 311 million (I.y. DM 303 million)				
Other liabilities	1,922			1,867

The liabilities to banking institutions decreased DM 130 million as a result of the transfer to an affiliated company of funds borrowed under the Berlin Development Act, and of scheduled principal repayment. The remaining DM 29 million are secured by mortgage. Scheduled principal repayment will amount to DM 4 million in 1989.

Other liabilities by and large included obligations arising from December 1988 wage and salary payments, particularly for amounts withheld from employees for taxes and social security.

Contingent Liabilities

	1988	1987
	in millions	in millions
	of DM	of DM
Payment guarantees in favor of creditors in connection with the 1986 DM-bond issue of Daimler-Benz International Finance B.V., Utrecht, Netherlands	500	500
Other payment guarantees	23	30
Pledges for domestic and foreign subsidiaries and affiliates	337	311
Discounted notes	12	10

A minimum dividend guaranty was given to co-owners of Dornier GmbH for 1989 and later, the amount for which cannot be estimated.

A dividend guaranty was assumed for outside shareholders of AEG Aktiengesellschaft, Berlin and Frankfurt am Main, the amount for which cannot be estimated.

Other Financial Commitments

The obligations arising from rental, land lease and leasing agreements, in order of maturity, were as follows:

	1988
	in millions of DM
maturing 1989	559
maturing 1990 - 1993	1,583
maturing after 1993	1,705

Other financial commitments, among others the purchase order commitments for capital investments amounted to DM 1,758 million. Financial commitments to affiliated companies totaled DM 2,680 million.

The obligation arising from stock subscriptions and from capital subscriptions in "Close corporations" pursuant to Section 24 of the GmbH Act, amounted to DM 3 million. We are jointly and severally liable for participation in two non-incorporated companies, which have profit and loss pooling agreements with controlling companies, and for participation in two partnerships.

Notes to Statement of Income of Daimler-Benz AG

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(47) Sales Revenue

	1988 in millions of DM	1987 in millions of DM
Sales revenue by divisions:		
Cars	27,929	29,327
Commercial vehicles	13,800	12,005
	41,729	41,332
Sales revenue by regions:		
Domestic	19,881	19,665
Foreign	21,848	21,667
	41,729	41,332
of which:		
EEC-countries	8,832	7,853
Remaining Europe	2,736	2,489
North America	5,260	7,303
Asia	3,028	2,523
Africa	1,447	951
Australia	294	286
Latin America	251	262

(48) Increase in Inventories and Other Capitalized In-house Output

	1988 in millions of DM	1987 in millions of DM
Increase in inventories of finished goods and of work in process, including parts	153	12
Other capitalized in-house output	98	100
	251	112

(49) Total Output

The increase in total output by DM 536 million was due to a DM 397 million rise in sales revenue on the one hand, and on the other, to an DM 141 million increase in inventories as a consequence of higher commercial vehicle production.

(50) Other Operating Income

The amount credited to income from the dissolution of provisions and shown under this caption amounted to DM 242 million (DM 265 million in the previous year). They were primarily due to the reduction of projected change-over, alteration and maintenance programs and to the drop in business risks at foreign subsidiaries. Further income was derived from costs charged to third parties, from the sale of fixed assets, from lease and rental income, and - with DM 2 million - from the dissolution of equity reserves.

A total of DM 476 million pertained to prior years.

(51) Cost of Materials

	1988 in millions of DM	1987 in millions of DM
Cost of raw materials and manufacturing supplies, and of goods purchased for resale	20,655	19,610
Cost of services purchased	1,242	1,069
	21,897	20,679

The increase in cost of materials was attributable to a shift in the production structure to more material-intensive vehicles, and to higher materials purchases, particularly in connection with the market introduction of the new MB 100 D van by our Spanish company.

(52) Personnel Costs/Employment

	1988 in millions of DM	1987 in millions of DM
Wages and salaries	9,983	9,618
Social levies	1,613	1,512
Old-age pension	713	1,074
	12,309	12,204
Employees (yearly average)	Number	Number
Wage earners	115,891	117,995
Salaried employees	45,741	43,678
Apprentices/trainees	9,070	8,838
	170,702	170,511

The main reason for the rising wages and salaries was the 2% Union-negotiated increase, while the higher social levies were also due to the increase in the taxable wage base. After the introduction of the new pension rules effective January 1, 1987, expenses for old-age pensions were back again to normal levels during 1988.

(53) Depreciation

	1988 in millions of DM	1987 in millions of DM
Write-down of intangible assets and depreciation of fixed assets	1,772	1,558
Write-down of long-term financial assets and of marketable securities	172	135
	1,944	1,693

The increased volume of capital investments has correspondingly led to higher depreciation charges of fixed assets.

Write-downs of long-term financial assets and of marketable securities pertained mostly to the write-down of treasury stock to the estimated value at which they are issued to employees.

(54) Other Operating Expenses

The caption comprises - apart from additions to accrual provisions which by law, must be classified here - above all, plant maintenance expenses, administrative and selling expenses including sales commissions, rental and lease expenses, freight out, packaging, losses from the decline in assets values, and losses from the sales of fixed and current assets.

A total of DM 92 million pertained to prior years.

(55) Net Income from Investments in Affiliates	1988 in millions of DM	1987 in millions of DM
Income from non-consolidated subsidiaries	264	51
of which:		
Daimler-Benz Holding AG, Zurich	123	-
Mercedes-Benz do Brasil S.A. São Bernardo do Campo	108	26
Dornier GmbH, Friedrichshafen	15	14
Maschinenfabrik Esslingen AG, Esslingen a.N.	9	9
Income from affiliated companies	4	4
Income from profit sharing agreements	3	4
Income from associated companies	9	2
Losses from loss-sharing agreements	(1)	(1)
	279	60

Daimler-Benz Holding AG, Zurich passed on to Daimler-Benz AG its portion of the dividend received from Mercedes-Benz do Brasil.

(56) Net Interest Income	1988 in millions of DM	1987 in millions of DM
Income from other securities and long-term receivables	23	28
of which from affiliated companies	6	7
Other interest and similar income	742	679
of which from affiliated companies	111	19
Interest and similar expenses	(43)	(38)
of which from affiliated companies	(18)	(8)
	722	669

The increase in net interest income was mainly due to higher interest income from loans to subsidiaries.

(57) Taxes

	1988 in millions of DM	1987 in millions of DM
Income taxes	1,991	2,545
of which charged to other companies	12	10
	1,979	2,535
Other taxes	231	233
of which charged to other companies	2	-
	2,208	2,768

The decline in earnings from the production and selling processes led to correspondingly lower income taxes.

(58) Net Income

The lower earnings from operating activities were largely offset by higher interest and dividend income, so that net income of DM 1,382 million for the year was nearly unchanged from the 1987 figure of DM 1,403 million.

Tax depreciation of fixed and current assets had hardly any influence on net income. The impact on future earnings will also be of little consequence.

Other Informations/Boards

Under the assumption that the proposed dividend is ratified by the shareholders at the Annual Meeting on June 28, 1989, the remunerations paid to the members of the Board of Management and the Supervisory Board of Daimler-Benz AG amounted to DM 12,842,442 and DM 1,334,103 respectively. Disbursements to former members of the Board of Management of Daimler-Benz AG or their survivors totaled DM 6,409,450. Pension obligations for former members of the Management Board of Daimler-Benz AG or their survivors, amounting to DM 75,454,204 have been provided for. As at December 31, 1988, advances and loans to members of the Board of Management of Daimler-Benz AG amounted to DM 401,233; during the year DM 507,145 was repaid. Interest averaging 4% was charged on such advances and loans; the stipulated maturities did not exceed one year.

The names of the members of the Supervisory Board and the Board of Management are listed on pages 2 and 3.

Proposal for the Allocation of Unappropriated Profit

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The annual financial statements of Daimler-Benz AG as of December 31, 1988, show an unappropriated profit of DM 691,030,400. It is proposed to the Annual Meeting of Shareholders that the unappropriated profit be applied as follows:

	DM
3 1/3 % dividend on the eligible preferred share capital of DM 2,196,000	73,200
DM 12 dividend for each eligible preferred share of DM 50 par value	502,360,560
Dividend amount	502,433,760
Transfer to unallocated retained earnings	188,596,640
Unappropriated profit	691,030,400

Stuttgart-Untertuerkheim, March 29, 1989

The Board of Management

Genevieve Hönig
für Hönig & Co.
betreffe ~~den~~ den Hönig

Auditors Reports

Based on an audit performed in accordance with our professional duties, the accounting records and the consolidated financial statements comply with the legal regulations. The consolidated financial statements present, in compliance with required accounting principles, a true and fair view of the net worth, financial position and results of the Group. The business review report, summarized for Daimler-Benz AG and for the Group, is in agreement with the financial statements of Daimler-Benz AG and the consolidated financial statements.

Frankfurt am Main, April 6, 1989

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft



Zielke
Wirtschaftsprüfer
(Certified Public Accountant)



Dr. Koschinsky
Wirtschaftsprüfer
(Certified Public Accountant)

Based on an audit performed in accordance with our professional duties, the accounting records and the financial statements comply with the legal regulations. The financial statements present, in compliance with required accounting principles, a true and fair view of the net worth, financial position and results of Daimler-Benz AG. The business review report summarized for Daimler-Benz AG, and for the Group is in agreement with the financial statements of Daimler-Benz AG and the consolidated financial statements.

Frankfurt am Main, April 6, 1989

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft



Dr. Müller
Wirtschaftsprüfer
(Certified Public Accountant)



Dr. Koschinsky
Wirtschaftsprüfer
(Certified Public Accountant)



In the five Supervisory Board meetings of the past year 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 questions in connection with the continuing development of the company from an automobile to a technology concern and the restructuring of the Group organization. Moreover, we have dealt with employment trends, results of operations and medium- and long-range corporate plans including capital spending policy. Furthermore, we have discussed important individual business transactions and made business decisions which, by law or bylaws, had to be submitted to us for approval.

We have examined the financial statements and the business review report, both of which were combined for Daimler-Benz AG and the Group, and the recommendations for the payment of dividends. The financial statements of Daimler-Benz AG and of the Group as of December 31, 1988, including the business review report and the accounting principles used

were verified by KPMG Deutsche Treuhand-Gesellschaft AG, Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, and have been found to be in accordance with the books and with the pertinent legal requirements. The Supervisory Board, in a joint meeting with the Board of Management on April 19, 1989, 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 questioning. We have approved the financial statements of Daimler-Benz AG as prepared by the Board of Management; they are hereby ratified. We concur with the recommendations of the Board of Management regarding the application of the unappropriated profit. Furthermore, we support the Board of Management's proposal to the Annual Shareholders' Meeting arising from the changes of the Group's organization. The financial statements, the business review report and the external auditor's report had been available to the Supervisory Board.

Mr. Hans-Jürgen Hinrichs, after seven years of participation on the Board of Management of Daimler-Benz AG, retired from office effective November 9, 1988 and requested the Supervisory Board to prematurely release him from his duties. The Supervisory Board has, with due respect, taken notice and accepted his request. During his tenure, Mr. Hinrichs had earned great merits particularly in connection with the continuing expansion of our world-wide sales organization, had advanced our interests and contacts world-wide and had enhanced the reputation of the Mercedes-Benz marquee. The Supervisory Board wishes here to express its gratitude.

At the rotational Supervisory Board election taking place at the shareholders' meeting on July 1, 1988, Mr. Günter Vogelsang and Dr. Klaus Mertin did not seek reelection. In their place were elected to the Supervisory Board Prof. Dr.-Ing. E. h. Werner Breitschwerdt, Stuttgart, chairman of the Board of Management of Daimler-Benz AG until 1987, and Dr. Horst J. Burgard, Frankfurt am Main, member of the Board of Management of Deutsche Bank AG.

Mr. Vogelsang had been a member of the Supervisory Board since March of 1975, and was until mid-1978 its deputy chairman. Thereafter he had served on the mediation and personnel committee. During his 13-year tenure on the Supervisory Board he participated in numerous decisions which have shaped our company. We thank Mr. Vogelsang for his prudent advice, marked by experience and knowledge, and his unfaltering interest in our company. He had helped shape our company during an important period.

Dr. Mertin had belonged to the Supervisory Board since 1985, and during this time of reorientation, had accompanied the development of the company. His advice had always been most valuable because of his entrepreneurial foresightedness, his experience and his knowledge about managerial controls. We wish to express here our gratitude as well.

With the conclusion of the shareholders' meeting on July 1, 1988, Mr. Alfred Schaible retired, too. Since 1975 he had been a member of the Supervisory Board representing employees. During his tenure, he actively shaped the practical application of the codetermination law in our company. We thank Mr. Schaible for his dedicated work. An assembly of the electoral body, on May 3, 1988, voted in his place to the Supervisory Board Mr. Erich Klemm, Calw, member of the labor council at the Sindelfingen plant.

Stuttgart-Untertürkheim,
April 1989

The Supervisory Board



Chairman

Tables and Graphs

Daimler-Benz Highlights

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	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Number of employees (at year-end)										
Daimler-Benz Group	174,431	183,532	188,039	185,687	184,877	199,872	231,082	319,965	326,288	338,749
of which: domestic	142,164	146,323	149,096	149,118	151,273	158,043	186,652	257,538	262,658	268,277
foreign	32,267	37,209	38,943	36,569	33,604	41,829	44,430	62,427	63,630	70,472
Automotive Division	174,431	183,532	188,039	185,687	184,877	199,872	206,335	215,297	218,822	222,111
AEG Division	-	-	-	-	-	-	-	78,199	80,499	89,585
Dornier Division	-	-	-	-	-	-	8,760	9,557	9,683	9,786
MTU Division	-	-	-	-	-	-	15,987	16,912	17,284	17,267
Daimler-Benz AG	141,401	145,532	148,361	148,411	150,601	157,249	161,518	166,523	169,234	170,577
Main office	6,144	6,628	7,191	7,217	7,192	7,415	7,628	7,735	8,075	8,844
Research and development	8,744	9,419	9,762	9,961	9,953	10,114	10,442	11,040	12,143	12,665
of which: Untertuerkheim	6,860	7,463	7,735	7,848	7,842	7,959	8,238	8,742	9,633	9,955
Sindelfingen	1,513	1,573	1,632	1,723	1,724	1,766	1,816	1,911	2,127	2,333
Gaggenau	371	383	395	390	387	389	388	387	383	377
Plants	109,840	112,303	114,436	114,700	117,113	123,345	126,846	130,502	131,146	130,748
of which: Sindelfingen	35,038	35,621	36,721	36,971	37,488	39,534	41,806	43,339	43,566	42,460
Untertuerkheim	20,230	20,284	20,134	20,274	20,901	21,772	22,804	23,402	23,622	22,787
Bremen	6,571	6,515	6,309	6,567	7,884	10,254	10,716	12,315	13,006	13,616
Berlin	3,191	3,252	3,473	3,435	3,442	3,302	3,294	3,397	3,531	3,499
Hamburg	2,475	2,535	2,613	2,557	2,513	2,479	2,625	2,629	2,633	2,770
Bad Homburg	814	855	881	882	864	893	953	967	997	1,014
Mannheim	14,053	14,619	14,521	14,243	14,152	14,494	14,043	13,878	13,537	13,438
Woerth	9,622	10,192	11,055	10,891	10,767	10,743	10,633	10,564	10,628	11,429
Gaggenau	8,806	8,971	9,312	9,432	9,352	9,293	9,011	8,823	8,665	8,989
Duesseldorf	4,954	5,118	5,058	5,151	5,488	6,404	6,718	7,022	6,919	6,816
Kassel	4,086	4,341	4,359	4,297	4,262	4,177	4,243	4,166	4,042	3,930
Retail branches	16,673	17,182	16,972	16,533	16,343	16,375	16,602	17,246	17,870	18,320
Production (units)										
Cars	422,159	429,078	440,778	458,345	476,183	478,349	541,039	594,080	598,079	559,713
of which: diesels	201,854	207,781	200,480	206,188	146,300	167,671	181,357	209,999	200,522	157,890
share of total production in %	47.8	48.4	45.5	45.0	30.7	35.1	33.5	35.3	33.5	28.2
S- and special class	84,957	84,993	95,804	105,093	114,589	104,646	108,896	111,757	97,437	83,460
Mid-series	337,202	344,085	344,974	348,602	251,757	178,357	220,339	271,314	286,875	297,638
of which: T-series	28,405	27,230	26,251	29,620	30,370	28,055	20,612	28,063	33,133	35,924
Compact series	-	-	-	4,650	109,837	195,346	211,804	211,009	213,767	178,615
plus cross-country vehicles	2,508	6,667	6,455	6,566	5,662	5,532	6,303	5,945	6,368	5,555
Commercial Vehicles	256,467	272,868	268,925	243,513	204,619	205,397	213,910	226,344	234,141	257,951
Domestic *)	188,772	203,041	196,076	187,044	157,418	143,101	143,387	145,757	144,648	154,319
of which: vans	80,085	83,977	69,357	64,473	63,050	60,717	62,385	69,485	68,526	69,837
trucks										
over 6 to 15.9 tonnes	41,383	46,260	45,185	37,933	29,677	32,690	34,080	30,864	27,812	32,134
from 16 tonnes	48,625	53,241	61,957	63,513	46,168	35,318	31,327	31,114	34,295	39,448
buses	8,529	9,643	9,647	7,925	7,723	5,186	5,345	5,084	4,565	4,939
Unimog and MB-trac	10,150	9,920	9,930	13,200	10,800	9,190	10,250	9,210	9,450	7,961
plus vehicle kits *)	-	-	-	-	27,332	18,122	26,402	8,838	10,085	10,734
Foreign	67,695	69,827	72,849	56,469	47,201	62,296	70,523	80,587	89,493	103,632

Note: "Daimler-Benz Group" comprises Daimler-Benz AG plus domestic and foreign companies in which Daimler-Benz AG, directly or indirectly, has majority voting rights.

*) Kits destined for assembly abroad, from 1983 no longer included in total production.

Daimler-Benz Group

	1979	1980	1981	1982	1983	1984	1985	1986	1987 ¹⁾	1988
(In millions of DM)										
Major Balance Sheet and Income Figures										
Sales	27,367	31,054	36,661	38,905	40,005	43,505	52,409	65,498	67,475	73,495
of which: domestic	12,938	13,855	13,577	13,316	15,177	14,682	18,706	27,838	28,064	29,094
foreign	14,429	17,199	23,084	25,589	24,828	28,823	33,703	37,660	39,411	44,401
foreign share in %	52.7	55.4	63.0	65.8	62.1	66.3	64.3	57.5	58.4	60.4
of which: cars	12,285	14,088	16,572	18,722	21,012	23,245	28,509 ²⁾	31,405	31,472	31,833
commercial vehicles	13,984	15,818	18,862	18,859	17,653	18,367	20,239 ²⁾	17,755	19,454	23,063
AEG	-	-	-	-	-	-	-	11,070	11,480	13,152
Dornier	-	-	-	-	-	-	1,223 ³⁾	2,112	1,589	1,889
MTU	-	-	-	-	-	-	1,982 ³⁾	2,770	2,832	3,087
Fixed assets and financial assets	3,846	4,480	5,791	6,958	7,743	8,228	10,209	10,857	12,202	17,342
Current assets	10,271	12,999	14,637	15,996	17,084	20,398	25,571	31,168	34,336	34,589
Share capital	1,359	1,359	1,529	1,529	1,699	1,699	1,699	2,118	2,118	2,118
Retained earnings ⁴⁾	3,216	3,837	4,546	5,173	5,848	6,831	8,070	7,742	6,779	8,077
of which: capital in excess of par value	-	-	-	-	-	-	-	368	370	370
retained earnings ⁴⁾	-	-	-	-	-	-	-	7,374	6,409	7,707
Minority shareholders	10	44	50	59	76	143	330	1,251	767	626
Stockholders' Equity ⁵⁾	4,575	5,196	6,075	6,703	7,547	8,530	9,769	11,111	9,663	10,821
in % of fixed assets ⁶⁾	119.0	116.0	104.9	96.3	97.5	103.7	95.7	102.3	97.7	79.2
Long and medium-term liabilities ⁶⁾	3,614	4,933	5,710	6,768	7,534	9,452	11,201	17,696	22,744	24,485
Stockholders' Equity Plus Long and Medium-Term Liabilities	8,189	10,129	11,785	13,471	15,081	17,982	20,970	28,807	32,407	35,306
in % of fixed assets ⁶⁾	212.9	226.1	203.5	193.6	194.8	218.5	205.4	265.3	327.6	258.4
Balance Sheet Total	14,117	17,479	20,428	22,954	24,827	28,626	35,780	42,025	46,538	51,931
Total Investments ^{7) 8)}	1,949	2,110	3,076	3,598	3,519	3,523	5,492	5,580	3,736	7,007
of which: in property, plant and equipment	1,905	2,057	3,033	3,427	3,464	3,374	4,014	5,385	3,834	6,628
domestic	1,718	1,663	2,233	3,004	3,047	2,166	2,753	3,891	3,392	6,038
foreign	187	394	800	423	417	1,208	1,261	1,494	442	590
in financial assets (net)	44	53	43	171	55	149	1,478	195	- 98	379
Total Depreciation Expense ⁸⁾	1,342	1,447	1,688	2,273	2,574	2,828	3,275	3,361	2,560	3,086
of which: property, plant and equipment	1,313	1,434	1,633	2,265	2,567	2,825	3,242	3,239	2,505	3,074
domestic	1,162	1,272	1,379	1,975	2,292	2,342	2,514	2,575	2,192	2,708
foreign	151	162	254	290	275	483	728	664	313	366
financial assets write-down	29	13	55	8	7	3	33	122	55	12
Total Output	28,148	32,127	37,553	39,730	40,527	44,078	53,775	66,418	69,061	75,637
Total average annual output per employee (in DM)	163,609	176,116	197,949	211,526	219,808	225,572	235,648	207,759	211,996	224,459
Cost of Materials	14,177	16,556	19,497	20,047	20,299	22,707	27,245	32,467	33,701	37,646
Personnel Expenses	7,574	9,816	9,993	10,712	10,941	11,598	13,657	19,367	20,670	22,371
Average annual expense per employee (in DM)	44,025	53,809	52,677	57,030	59,344	59,355	59,846	60,581	63,451	66,388
Operating Profit	-	-	-	-	-	-	-	5,880	5,297	5,197
in % of total output	-	-	-	-	-	-	-	8.9	7.7	6.9
Taxes	2,378	1,693	3,091	3,310	3,263	3,027	4,341	4,113	3,515	3,495
Net Income	638	1,102	826	921	988	1,104	1,682	1,767	1,782	1,702
in % of total output	2.3	3.4	2.2	2.3	2.4	2.5	3.1	2.7	2.6	2.3

¹⁾ Figures in accordance with the Accounting Standards Act; prior year adjusted accordingly.

²⁾ From 1985 on newly defined.

³⁾ Dornier consolidated from 7/1/1985 on, MTU from 4/1/1985 on.

⁴⁾ Including allocations authorized by the shareholders at the Annual Meeting.

⁵⁾ Excluding dividend including equity portion contained in equity reserve.

⁶⁾ Long and medium-term provisions and long-term liabilities.

⁷⁾ Intangible assets, fixed assets, financial assets (net) and cost of investments in excess of book value at acquisition (to 1986).

⁸⁾ Excluding leased vehicles (from 1987 on).

Daimler-Benz AG

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	1979	1980	1981	1982	1983	1984	1985	1986	1987 ¹⁾	1988
(In millions of DM)										
Major Balance Sheet and Income Figures										
Sales	23,454	26,472	29,084	31,124	32,179	31,972	37,079	40,590	41,332	41,729
of which: domestic	12,987	13,845	13,579	13,300	15,311	14,591	17,220	19,625	19,665	19,881
export	10,467	12,627	15,505	17,824	16,868	17,381	19,859	20,965	21,667	21,848
export share in %	44.6	47.7	53.3	57.3	52.4	54.4	53.6	51.7	52.4	52.4
of which: cars	11,775	13,136	14,396	16,121	18,133	19,298	24,818 ²⁾	28,956	29,327	27,929
commercial vehicles	10,818	12,393	13,737	13,983	13,067	11,636	12,261 ²⁾	11,634	12,005	13,800
Fixed assets and financial assets	3,216	3,623	4,341	5,379	5,957	5,827	7,250	8,064	9,026	10,934
Current assets	7,933	9,415	10,708	11,110	12,133	13,662	14,792	16,019	18,372	18,214
Share capital	1,359	1,359	1,529	1,529	1,699	1,699	1,699	2,118	2,118	2,118
Retained earnings ³⁾	1,874	2,361	2,843	3,193	3,555	3,919	4,558	5,457	6,435	7,314
of which: Capital in excess of par value	–	–	–	–	–	–	–	368	370	370
Retained earnings ³⁾	–	–	–	–	–	–	–	5,089	6,065	6,944
Stockholders'Equity⁴⁾	3,233	3,720	4,372	4,722	5,254	5,618	6,257	7,651	8,553	9,432
in % of fixed assets	100.5	102.7	100.7	87.8	88.2	96.4	86.3	94.9	94.8	86.3
Long and medium-term liabilities ⁵⁾	3,131	4,210	4,819	5,429	6,292	7,658	8,179	9,737	11,554	12,211
Stockholders'Equity Plus Long and Medium-Term Liabilities	6,364	7,930	9,191	10,151	11,546	13,279	14,440	17,386	20,107	21,643
in % of fixed assets	197.9	218.9	211.7	188.7	193.8	225.3	199.2	215.6	222.8	197.9
Balance Sheet Total	11,149	13,038	15,049	16,489	18,090	19,489	22,042	24,083	27,398	29,148
Investments in Property, Plant and Equipment	1,560	1,520	1,954	2,701	2,517	1,871	1,778	1,803	2,362	2,694
Intercompany investments (net) ⁶⁾	47	100	120	271	305	172	1,925	1,200	190	1,026
Depreciation Expense of Property Plant and Equipment, and of Intangibles	1,094	1,189	1,259	1,823	2,093	2,081	2,121	1,874	1,558	1,772
Total Output	23,736	26,714	29,461	31,410	32,139	32,092	37,450	40,798	41,444	41,980
Total average output per employee (in DM)	172,430	185,231	200,958	212,916	216,895	209,624	232,808	245,558	243,052	245,926
Cost of Materials	11,748	13,462	15,216	15,957	16,000	15,922	18,709	19,803	20,679	21,897
Personnel Expenses	6,701	7,297⁷⁾	8,260	8,850	9,238	9,539	10,351	11,235	12,205	12,309
Average annual expense per employee (in DM)	48,679	50,596	56,343	59,991	62,344	62,308	64,347	67,622	71,577	72,108
Personnel expenses inclusive of: Christmas bonus and special remuneration	280	328	364	396	420	447	494	547	595	606
Contributions for employee capital formation	79	102	105	108	120	106	112	93	121	124
Old-age pension expense	439	1,680 ⁸⁾	688	742	770	990	677	680	1,074	713
Payments to employees for special social purposes	798	2,110 ⁸⁾	1,157	1,246	1,310	1,543	1,283	1,320	1,790	1,443
Operating Profit	–	–	–	–	–	–	–	4,812	4,171	3,590
in % of total output	–	–	–	–	–	–	–	11.8	10.1	8.6
Taxes	2,130	1,345 ⁸⁾	2,476	2,648	2,501	2,123	2,957	3,408	2,768	2,208
Net Income	540	570⁹⁾	608	687	710	711	1,252	1,404	1,403	1,382
in % of total output	2.3	2.1	2.1	2.2	2.2	2.2	3.3	3.4	3.4	3.4
Total Dividends	270	297	304	350	355	356	491	507	503	502
in % of total output	1.1	1.1	1.0	1.1	1.1	1.1	1.3	1.2	1.2	1.2
Dividend for each DM 50 par value share (in DM)	10.–	10.–+1.– ¹⁰⁾	10.–	10.50+1.– ¹⁰⁾	10.50	10.50	12.–+2.50 ¹⁰⁾	12.–	12.–	12.–
Tax credit for each DM 50 par value share (in DM) ¹¹⁾	5.62	6.19	5.62	6.47	5.91	5.91	8.16	6.75	6.75	6.75
Dividend for each adjusted DM 50 share (in DM) ¹²⁾	6.66	7.32	7.35	8.45	8.51	8.51	11.75	12.–	12.–	12.–
Tax credit for each adjusted DM 50 share (in DM) ¹²⁾	3.74	4.12	4.13	4.76	4.79	4.79	6.61	6.75	6.75	6.75

¹⁾ Figures in accordance with Accounting Standards Act; prior year adjusted accordingly.

²⁾ From 1985 on newly defined.

³⁾ Including allocations authorized by the shareholders at the Annual Meeting.

⁴⁾ Excluding dividend; including equity portion contained in equity reserve.

⁵⁾ Long and medium-term provisions and long-term liabilities.

⁶⁾ Investments in affiliated and subsidiary companies.

⁷⁾ Excluding extraordinary expense of DM 1,408 million for old-age pension.

⁸⁾ Restructuring of old-age pension with tax-deductible, extraordinary addition to pension provisions.

⁹⁾ Excluding overprovisions credited back to income on account of Provident Fund underfunding in the amount of DM 391 million.

¹⁰⁾ Dividend plus bonus.

¹¹⁾ For our stockholders who are liable for income taxes in the Federal Republic of Germany.

¹²⁾ Allowing for capital stock increase (dividend retroactively adjusted).

Sales and Production

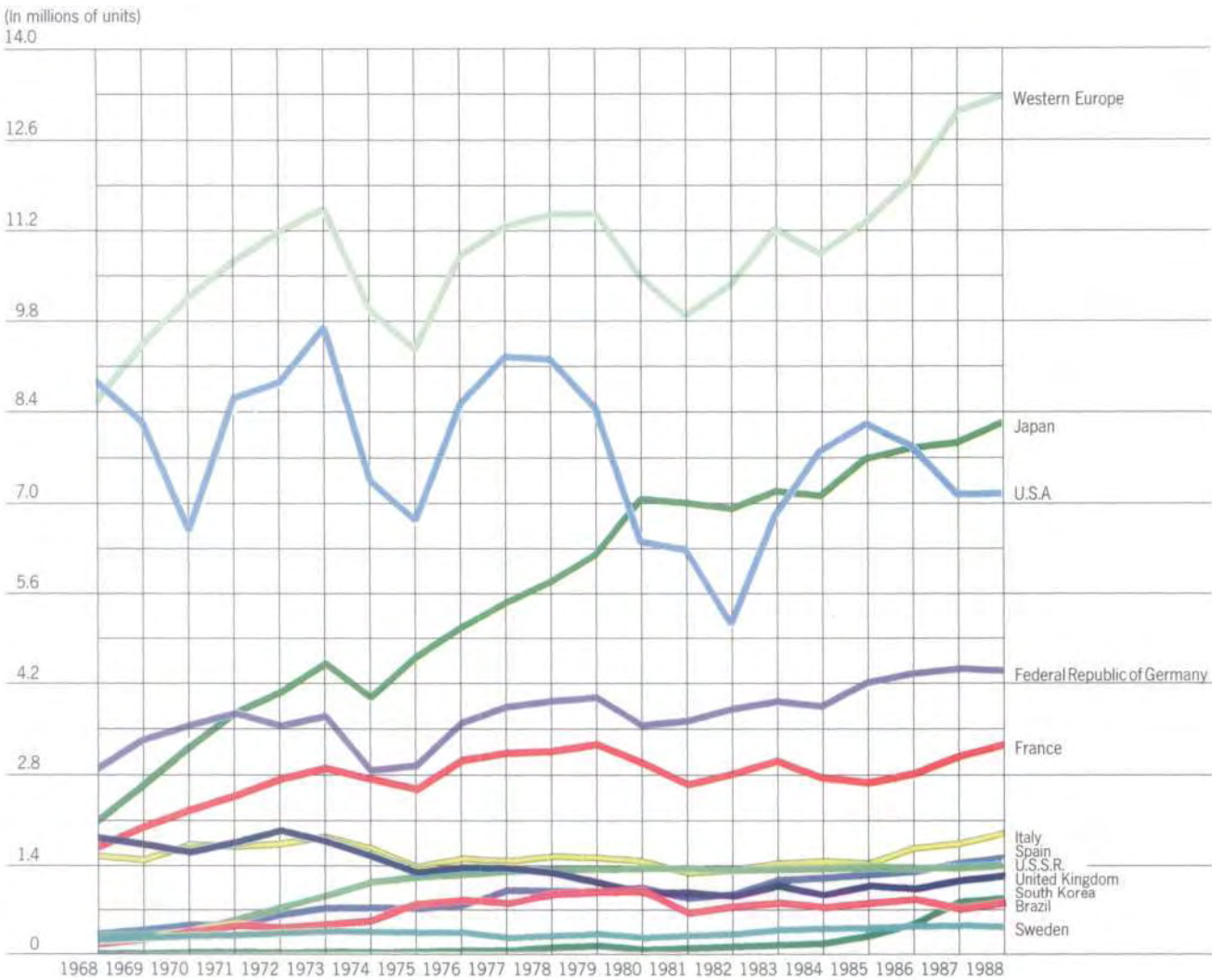
	In thousands of units										Change in % 88:87
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	
Cars											
New Car Registrations											
Federal Republic of Germany	2,623	2,426	2,330	2,156	2,427	2,394	2,379	2,829	2,916	2,808	− 3.7
of which: Domestic products	2,016	1,787	1,740	1,636	1,835	1,755	1,731	1,989	2,064	1,991	− 3.5
Daimler-Benz AG	234	241	239	225	237	225	266	295	282	271	− 3.9
Foreign products	607	639	590	520	592	639	648	840	852	817	− 4.1
Share in %	23.2	26.3	25.3	24.1	24.4	26.7	27.2	29.7	29.2	29.1	
Exports											
Federal Republic of Germany	1,997	1,873	1,949	2,194	2,189	2,233	2,568	2,520	2,451	2,507	+ 2.3
Daimler-Benz AG	183	188	200	226	238	251	278	296	306	289	− 5.4
Production											
Federal Republic of Germany	3,933	3,521	3,578	3,761	3,878	3,790	4,167	4,311	4,374	4,346	− .6
Daimler-Benz AG	422	429	441	458	476	478	541	594	598	560	− 6.4
Export Share of Production in %											
Federal Republic of Germany	50.8	53.2	54.5	58.3	56.4	58.9	61.6	58.5	56.0	57.7	
Daimler-Benz AG	43.4	43.8	45.4	49.3	50.0	52.5	51.4	49.9	51.1	51.7	
Commercial Vehicles ¹⁾											
New Commercial Vehicle Registrations											
Federal Republic of Germany	170	176	149	124	144	130	134	143	153	161	+ 5.1
Daimler-Benz AG	87	82	66	55	64	55	58	58	60	66	+ 9.7
Exports ²⁾											
Federal Republic of Germany	178	211	204	204	166	156	178	173	156	170	+ 8.8
Daimler-Benz AG	97	116	122	126	92	82	80	79	83	95	+ 14.5
Production ²⁾											
Federal Republic of Germany	317	358	319	301	277	255	279	286	260	279	+ 7.1
Daimler-Benz AG	189	203	196	187	157	143	143	146	145	154	+ 6.7
Daimler-Benz Group	256	273	269	244	205	205	214	226	234	258	+ 10.2
Export Share of Production in % ²⁾											
Federal Republic of Germany	56.2	58.9	63.9	67.6	59.9	61.0	63.7	60.6	59.9	60.9	
Daimler-Benz AG	51.4	57.3	62.0	67.1	58.7	57.5	55.8	54.1	57.4	58.5	

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

94



Share of World Production in %												Export Share of Production in %											
1965	1970	1975	1980	1984	1985	1986	1987	1988	1965	1970	1975	1980	1984	1985	1986	1987	1988						
14.2	15.6	11.5	12.0	12.2	12.7	12.9	13.0	12.5	51.9	55.2	50.8	53.2	58.9	61.6	58.5	56.0	57.7						
7.1	9.9	10.1	10.0	8.8	8.0	8.3	9.1	9.3	37.0	52.6	53.5	52.1	56.4	58.5	55.9	55.1	56.8						
8.9	7.0	5.0	3.3	2.9	3.2	3.1	3.4	3.5	36.4	43.3	40.7	37.5	24.1	22.9	19.8	21.4	19.7						
5.7	7.5	5.4	4.9	4.6	4.2	5.0	5.1	5.4	28.2	37.0	49.0	35.4	33.4	32.4	36.5	37.4	36.4						
.8	2.0	2.8	3.6	3.8	3.8	3.8	4.2	4.3		8.2	22.1	47.8	60.1	64.0	55.9	53.5	52.5						
.9	1.2	1.2	.8	1.2	1.2	1.3	1.3	1.2	48.5	65.5	68.7	80.2	80.7	76.6	81.7	79.2	76.3						
1.1	1.5	4.8	4.5	4.3	4.1	4.0	4.0	4.0	14.5	22.8	40.0	56.1	56.2	57.9	58.6	57.1	54.1						
3.6	14.0	18.1	24.0	22.8	23.4	23.4	23.5	23.5						45.1	65.4	67.5	64.7						
			1.0	.8	1.4	2.4	2.5																
48.6	28.9	26.6	21.8	25.1	25.0	23.5	21.2	20.4	2.2	5.5	9.5	8.8	7.6	8.1	8.3	8.9	9.4						
.5	1.5	3.1	3.4	2.3	2.4	2.5	2.0	2.2			6.8	11.8	21.5	20.7	16.6	41.1	30.4						

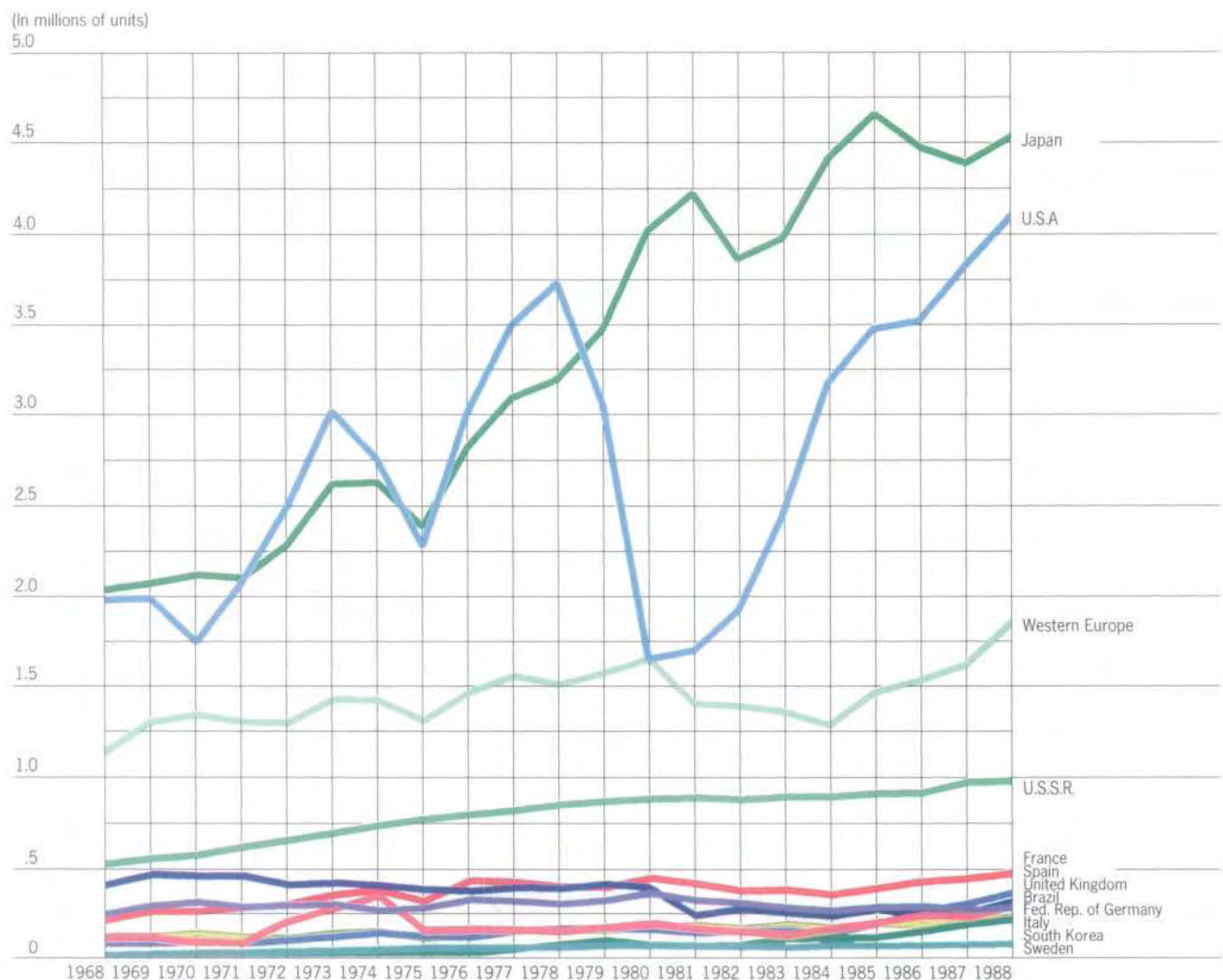
Car Industry of Leading Countries

	In thousands of units						Percentage changes as compared to prior year											
	1979	1984	1985	1986	1987	1988 ¹⁾	1979	1984	1985	1986	1987	1988 ¹⁾						
Worldwide Production	31,560	30,991	32,742	33,306	33,524	34,834	-	1	+	3	+	6	+	2	+	1	+	4
Federal Republic of Germany																		
New car registrations	2,623	2,394	2,379	2,829	2,916	2,808	-	2	-	1	-	1	+	19	+	3	-	4
Imports	1,041	1,091	1,066	1,288	1,339	1,267	-	1	+	3	-	2	+	21	+	4	-	5
Exports	1,997	2,233	2,568	2,520	2,451	2,507	+	5	+	2	+	15	-	2	-	3	+	2
of which: to Europe	1,491	1,696	1,934	1,888	1,891	2,028	+	16	-	3	+	14	+	1	+	0	+	7
to U.S.A.	331	366	439	446	376	254	-	20	+	32	+	20	+	2	-	16	-	33
Production	3,933	3,790	4,167	4,311	4,374	4,346	+	1	-	2	+	10	+	3	+	1	-	1
France																		
New car registrations	1,976	1,758	1,766	1,912	2,105	2,217	+	2	-	13	+	0	+	8	+	10	+	5
Imports	604	898	978	1,001	1,134	1,058	+	6	-	8	+	9	+	1	+	13	-	7
Exports	1,698	1,530	1,539	1,551	1,681	1,833	+	8	-	5	+	1	+	1	+	8	+	9
of which: to Europe	1,407	1,066	1,159	1,323	1,476	1,616	+	9	-	3	+	9	+	14	+	12	+	9
Production	3,220	2,713	2,632	2,773	3,052	3,224	+	4	-	8	-	3	+	5	+	10	+	6
United Kingdom																		
New car registrations	1,718	1,750	1,832	1,882	2,014	2,216	+	8	-	2	+	5	+	3	+	7	+	10
Imports	1,061	1,020	1,072	1,072	1,047	1,357	+	33	-	5	+	5	-	0	-	2	+	30
Exports	410	219	240	201	245	261	-	12	-	9	+	10	-	16	+	22	+	7
of which: to Europe	164	99	138	143	162	173	+	9	-	11	+	40	+	3	+	13	+	7
Production	1,102	909	1,048	1,020	1,143	1,227	-	12	-	13	+	15	-	3	+	12	+	7
Italy																		
New car registrations	1,397	1,592	1,746	1,796	1,971	2,169	+	17	+	10	+	7	+	3	+	10	+	10
Imports	626	758	846	805	942	.	+	21	+	19	+	12	-	5	+	17	.	.
Exports	647	481	450	603	641	686	+	1	-	2	-	6	+	34	+	6	+	7
of which: to Europe	480	433	408	540	591	627	-	1	-	4	-	6	+	33	+	7	+	6
Production	1,481	1,439	1,389	1,652	1,713	1,884	-	2	+	3	-	4	+	19	+	4	+	10
Sweden																		
New car registrations	215	231	263	270	316	344	+	7	+	6	+	14	+	3	+	17	+	9
Imports	162	178	190	183	223	.	+	23	+	9	+	7	-	4	+	22	.	.
Exports	238	301	307	344	342	311	+	15	+	10	+	2	+	12	-	1	-	9
of which: to Europe	131	126	123	142	138	134	+	19	+	8	-	2	+	15	-	3	-	3
Production	297	373	401	421	432	407	+	17	+	8	+	8	+	5	+	2	-	6
Spain																		
Exports	397	708	762	717	707	787	+	6	+	15	+	8	-	5	-	1	+	11
Production	966	1,177	1,230	1,282	1,403	1,498	-	2	+	3	+	5	+	4	+	9	+	7
U.S.S.R.																		
Production	1,314	1,327	1,332	1,326	1,333	1,380	+	0	+	1	+	0	-	0	+	1	+	4
Japan																		
New car registrations	3,037	3,096	3,104	3,146	3,275	3,717	+	6	-	1	+	0	+	1	+	4	+	14
Imports	65	44	52	73	108	151	+	19	+	18	+	18	+	41	+	47	+	39
Exports	3,102	3,981	4,427	4,573	4,508	4,432	+	10	+	5	+	11	+	3	-	1	-	2
of which: to Europe	806	1,037	1,086	1,315	1,402	1,447	+	25	-	0	+	5	+	22	+	7	+	3
to U.S.A.	1,588	1,939	2,216	2,438	2,261	2,101	+	10	+	9	+	14	+	6	-	7	-	7
Production	6,176	7,073	7,647	7,810	7,891	8,198	+	7	-	1	+	8	+	2	+	1	+	4
South Korea																		
Exports	19	49	119	299	535	565	+	14	+	197	+	144	+	151	+	79	+	5
Production	114	159	264	457	793	872	+	31	+	30	+	67	+	73	+	73	+	10
U.S.A.																		
New car registrations	10,357	10,129	10,889	11,140	10,166	10,478	-	5	+	13	+	8	+	2	-	9	+	3
Imports	3,006	2,439	2,838	3,328	3,197	.	-	1	+	2	+	16	+	17	-	4	.	.
Exports	741	616	704	673	633	780	+	10	+	11	+	14	-	4	-	6	+	23
Production	8,434	7,773	8,185	7,829	7,099	7,111	-	8	+	15	+	5	-	4	-	9	+	0
Brazil																		
New car registrations	836	533	603	673	412	558	+	5	-	13	+	13	+	12	-	39	+	35
Exports	78	152	161	138	280	226	-	1	+	14	+	6	-	14	+	102	-	19
Production	912	679	759	815	683	783	+	5	-	9	+	12	+	7	-	16	+	15

¹⁾ Partially estimated.

Commercial Vehicle Production of Leading Countries

96



Share of World Production in %										Export Share of Production in %									
1965	1970	1975	1980	1984	1985	1986	1987	1988		1965	1970	1975	1980	1984	1985	1986	1987	1988	
4.9	4.9	3.6	3.8	2.3	2.3	2.3	2.0	2.0		44.5	50.1	63.8	58.9	61.0	63.8	60.5	59.9	60.9	Fed. Rep. of Germany
3.8	4.0	4.0	4.6	3.1	3.2	3.4	3.4	3.4		22.7	37.6	43.4	40.5	42.1	41.9	42.7	38.7	42.6	France
9.2	7.1	4.9	4.1	2.0	2.2	1.9	1.9	2.3		36.5	37.7	47.2	31.3	34.0	19.5	19.2	22.2	20.4	United Kingdom
1.4	2.1	1.4	1.7	1.4	1.5	1.4	1.5	1.6		26.8	28.9	44.7	48.7	63.6	63.0	64.3	62.7	62.2	Italy
1.5	1.4	1.5	1.6	1.2	1.5	2.0	2.3	2.7			11.3	14.5	29.8	31.5	36.7	38.6	24.1	29.1	Spain
.5	.5	.6	.7	.5	.5	.5	.5	.6		55.9	72.3	79.2	84.1	93.6	78.3	75.9	90.9	90.6	Sweden
8.4	8.9	9.8	9.2	7.9	7.4	7.3	7.4	7.0											U.S.S.R.
23.8	32.7	30.4	42.0	39.0	38.1	35.9	33.8	32.6		7.9	17.1	35.8	50.4	48.5	49.8	45.7	41.2	37.1	Japan
				1.0	.9	1.2	1.4	1.5							3.5	4.9	5.9	5.5	South Korea
36.4	26.8	29.1	17.2	28.1	28.5	28.2	29.5	29.5		7.5	7.3	11.9	12.4	6.0	6.7	7.5	8.2	8.0	U.S.A.
1.7	1.3	1.9	1.9	1.4	1.6	1.8	1.8	2.1				13.3	22.8	28.2	25.9	20.1	27.9	32.8	Brazil

Commercial Vehicle Industry of Leading Countries

	In thousands of units						Percentage changes as compared to prior year					
	1979	1984	1985	1986	1987	1988 ¹⁾	1979	1984	1985	1986	1987	1988 ¹⁾
Worldwide Production	10,481	11,598	12,600	12,451	12,904	13,819	- 2	+ 15	+ 9	- 1	+ 4	+ 7
Federal Republic of Germany²⁾												
New vehicle registrations	170	130	134	143	153	161	+ 9	- 10	+ 3	+ 7	+ 7	+ 5
Imports	42	48	54	63	67	85	+ 19	- 2	+ 13	+ 17	+ 6	+ 27
Exports	178	156	178	173	156	170	+ 5	- 6	+ 14	- 3	- 10	+ 9
of which: to Europe	119	121	150	156	140	152	+ 20	+ 2	+ 25	+ 4	- 10	+ 9
Production	317	255	279	286	260	279	+ 7	- 8	+ 9	+ 3	- 9	+ 7
France												
New vehicle registrations	315	316	342	391	418	429	+ 5	- 9	+ 8	+ 14	+ 7	+ 3
Imports	108	122	170	176	200	222	+ 24	- 8	+ 39	+ 2	+ 14	+ 11
Exports	162	147	161	180	171	202	+ 6	+ 3	+ 10	+ 12	- 5	+ 18
of which: to Europe	87	83	106	135	135	166	+ 9	+ 5	+ 27	+ 27	- 0	+ 23
Production	393	349	384	422	441	474	- 1	- 7	+ 10	+ 10	+ 5	+ 7
United Kingdom												
New vehicle registrations	306	269	287	291	315	360	+ 17	+ 0	+ 7	+ 2	+ 8	+ 14
Imports	68	103	109	122	109	145	+ 45	+ 6	+ 6	- 6	- 11	+ 34
Exports	141	77	52	44	55	71	- 1	- 17	- 33	- 15	+ 24	+ 29
of which: to Europe	75	28	30	37	46	59	+ 1	- 13	+ 7	+ 23	+ 26	+ 29
Production	408	225	266	229	247	318	+ 6	- 8	+ 18	- 14	+ 8	+ 29
Italy												
New vehicle registrations	113	122	114	137	169	195	+ 21	+ 9	- 7	+ 21	+ 23	+ 15
Imports	63	61	66	47	59		+ 9	+ 24	+ 8	- 29	+ 26	
Exports	78	103	116	115	125	141	+ 5	- 6	+ 13	- 1	+ 8	+ 13
of which: to Europe	68	90	101	107	117	132	+ 14	- 5	+ 12	+ 6	+ 9	+ 12
Production	151	162	184	179	199	227	+ 2	- 10	+ 14	- 3	+ 11	+ 14
Sweden												
New vehicle registrations	17	20	23	25	31	37	+ 1	+ 12	+ 13	+ 7	+ 24	+ 25
Imports	23	17	19	21	27		+ 29	+ 6	+ 12	+ 13	+ 29	
Exports	51	55	47	61	63	69	+ 22	+ 21	- 15	+ 6	+ 4	+ 9
of which: to Europe	32	34	35	42	46	50	+ 14	+ 13	+ 5	+ 20	+ 10	+ 8
Production	58	59	60	66	70	77	+ 14	+ 14	+ 2	+ 10	+ 6	+ 9
Spain												
Exports	49	33	69	97	130	165	+ 9	+ 27	+ 106	+ 2	+ 34	+ 26
Production	157	132	188	251	302	368	- 0	- 10	+ 42	+ 34	+ 20	+ 22
U.S.S.R.												
Production	859	902	927	954	960	970	+ 2	+ 3	+ 3	+ 3	+ 1	+ 1
Japan												
New vehicle registrations	2,117	2,341	2,453	2,562	2,744	3,014	+ 16	+ 4	+ 5	+ 4	+ 7	+ 10
Imports	2	1	1	1	2	4	+ 69	+ 6	- 0	- 14	+ 206	+ 70
Exports	1,461	2,129	2,304	2,032	1,797	1,672	+ 1	+ 14	+ 8	- 12	- 12	- 7
of which: to Europe	146	220	266	241	230	243	+ 54	- 2	+ 21	- 9	- 5	+ 6
to U.S.A	467	728	917	1,103	897	655	- 3	+ 36	+ 26	+ 18	- 19	- 27
Production	3,460	4,392	4,624	4,450	4,358	4,501	+ 9	+ 11	+ 5	- 4	- 2	+ 3
South Korea												
Exports	13	4	4	7	11	12	+ 28	- 56	+ 9	+ 92	+ 48	+ 5
Production	91	107	114	144	187	212	+ 26	+ 8	+ 7	+ 26	+ 29	+ 13
U.S.A												
New vehicle registrations	3,472	4,049	4,675	4,801	4,964	5,209	- 12	+ 36	+ 16	+ 3	+ 3	+ 5
Imports	276	1,025	1,275	1,310	1,226		- 27	+ 31	+ 24	+ 3	- 7	
Exports	296	191	231	263	312	325	+ 2	+ 24	+ 21	+ 14	+ 19	+ 4
Production	3,047	3,161	3,463	3,502	3,806	4,076	- 18	+ 30	+ 10	+ 1	+ 9	+ 7
Brazil												
New vehicle registrations	175	143	160	193	168	189	+ 3	+ 21	+ 12	+ 21	- 13	+ 13
Exports	27	44	49	45	66	94	+ 54	+ 24	+ 12	- 9	+ 47	+ 42
Production	216	185	208	241	237	286	+ 12	+ 25	+ 12	+ 16	- 2	+ 21

Note: Because of, oftentimes, substantial deviations in the definition of the term "commercial vehicle", and of the varying product offerings, comparability is restricted:

¹⁾ Partially estimated.

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

Truck Production of Leading Countries

98

(In thousands of units)
500



Share of Production of Countries Shown ¹⁾ in %

Export Share of Production in %

1984	1985	1986	1987	1988	1984	1985	1986	1987	1988	
32.1	34.1	36.0	35.8	35.4						Western Europe
11.0	11.5	12.8	12.3	12.1	59.8	55.7	53.0	58.1	60.2	Fed. Rep. of Germany ³⁾
8.3	8.2	8.8	8.5	8.2	60.9	55.1	52.4	57.5	59.5	of which: Daimler-Benz ³⁾
3.8	3.3	3.7	3.7	4.0	53.0	50.4	44.2	44.2	41.6	France
5.3	6.0	4.7	4.8	5.0	33.5	31.4	27.1	21.6	18.9	United Kingdom
3.1	3.9	3.7	3.6	3.6	60.6	60.5	71.7	62.0	56.5	Italy
1.3	1.1	1.6	1.8	1.9	29.2	14.1	9.2	14.7	16.5	Spain
5.9	6.2	7.3	7.2	6.7	94.7	92.2	93.0	89.8	89.3	Sweden
25.6	30.3	27.0	27.3	30.0	35.5	46.5	42.0	29.8	27.1	Japan
29.8	29.3	28.0	29.4	27.8	1.2	1.0	1.3	1.6	1.5	U.S.A.
3.9	5.8	8.3	7.1	6.5				27.3	24.2	Brazil
2.1	2.4	3.4	3.0	3.0	31.5	18.8	21.8	29.7	18.0	of which: MBBras ²⁾

Note: Trucks over 6 tonnes GWW.

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

	In thousands of units						Percentage changes as compared to prior year					
	1979	1984	1985	1986	1987	1988 ¹⁾	1979	1984	1985	1986	1987	1988 ¹⁾
Western Europe												
Production	394	293	300	293	312	352	+ 5	- 3	+ 2	- 2	+ 6	+ 13
Federal Republic of Germany²⁾												
New vehicle registrations	66	43	45	47	50	51	+ 11	- 7	+ 3	+ 5	+ 7	+ 2
Exports	72	60	56	55	62	72	+ 1	- 9	- 6	- 2	+ 12	+ 16
Production	135	101	101	105	107	120	+ 8	- 10	+ 1	+ 3	+ 2	+ 12
of which: Daimler-Benz AG	98	76	73	72	74	82	+ 9	- 11	- 4	- 1	+ 3	+ 11
France												
New vehicle registrations	39	40	34	39	45	49	+ 2	+ 3	- 15	+ 15	+ 16	+ 10
Exports	24	18	15	14	15	17	+ 9	+ 7	- 20	- 8	+ 11	+ 13
Production	44	34	29	30	32	40	+ 3	- 3	- 16	+ 5	+ 7	+ 23
United Kingdom												
New vehicle registrations	71	49	51	50	54	64	+ 13	+ 7	+ 5	- 3	+ 9	+ 18
Exports	47	16	16	12	9	8	+ 0	- 22	+ 2	- 29	- 24	- 14
Production ³⁾	106	48	52	38	42	50	+ 3	- 3	+ 9	- 27	+ 9	+ 19
Italy												
New vehicle registrations	22	17	18	22	27	27	+ 24	+ 1	+ 10	+ 18	+ 24	- 2
Exports	19	19	21	20	20	21	- 17	- 3	+ 11	- 2	- 1	+ 4
Production	24	28	35	30	32	36	- 13	- 6	+ 24	- 14	+ 7	+ 12
Sweden												
New vehicle registrations	6	5	6	5	7	6	+ 2	+ 1	+ 17	- 5	+ 20	- 4
Exports	45	51	50	55	56	62	+ 19	+ 22	- 2	+ 11	+ 2	+ 10
Production	50	54	54	59	63	68	+ 14	+ 15	+ 1	+ 10	+ 6	+ 9
Spain												
Exports	3	3	1	1	2	3		- 34	- 57	- 14	+ 99	+ 37
Production	15	12	10	13	16	19	- 4	- 16	- 16	+ 32	+ 25	+ 17
Japan												
Exports	60	83	124	92	71	81	- 25	+ 18	+ 49	- 25	- 23	+ 14
Production	247	234	265	219	237	299	- 3	+ 27	+ 14	- 17	+ 8	+ 26
U.S.A.												
New vehicle registrations	365	255	284	258	281	331	+ 2	+ 44	+ 11	- 9	+ 9	+ 18
Exports ⁴⁾	35	3	3	3	4	4	- 10	- 22	- 21	+ 6	+ 48	+ 2
Production	377	272	258	228	256	277	+ 1	+ 62	- 5	- 12	+ 12	+ 8
Brazil												
New vehicle registrations	79	42	55	70	39	39	- 0	+ 23	+ 30	+ 28	- 44	- 1
Exports	14	6	7	11	17	15	+ 42	+ 129	+ 5	+ 66	+ 45	- 7
Production	70	36	50	68	62	64	+ 3	+ 37	+ 38	+ 32	- 10	+ 5
of which: Mercedes-Benz do Brasil	38	19	21	27	26	30	+ 2	+ 36	+ 13	+ 29	- 3	+ 14

Note: Trucks over 6 tonnes GWW

¹⁾ Partially estimated.

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

³⁾ 7 tonnes and above.

⁴⁾ 6.35 tonnes and above (factory sales) including Canada.

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